

Risk Management Policy



The Sundargarh District Central Co-operative Bank Ltd.,
AT - REGENT MARKET, PO/DIST. - SUNDARGARH
PIN - 770001, ODISHA





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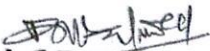
The Sundargarh District Central Co-operative Bank Ltd.,
SUNDARGARH – 770 001
Regd. No. 90/ SG / Dt.1.6.1955

RESOLUTION BY CIRCULATION OF THE PROCEEDINGS OF THE COMMITTEE OF MANAGEMENT MEETING OF THE SUNDARGARH DISTRICT CENTRAL COOPERATIVE BANK LTD., SUNDARGARH HELD ON DTD 08.07.2025.

Venue : Office Chamber
Date: 08.07.2025


Agenda No 1

To consider approval of the draft policy of 1. Grievance Redressal Policy 2. Risk Management Policy 3. Asset Liability Management Policy and 4.Compliance Policy as per prescribed guidelines of RBI/ NABARD / RCS (O).


Chief Executive Officer
Sundargarh DCC Bank Ltd.

Resolution

Discussed and approved the draft policy of 1. Grievance Redressal Policy 2. Risk Management Policy 3. Asset Liability Management Policy and 4.Compliance Policy as per prescribed guidelines of RBI/ NABARD / RCS (O) for execution.


PRESIDENT
Sundargarh DCC Bank Ltd.

Copy circulated to all members of the Committee of Management of the Bank for information and necessary action.


Chief Executive Officer



1. BACKGROUND

1.1. Need for Risk Management in the Bank

Banks and Financial institutions assume risk due to the very nature of business and in normal day-to-day functions. As such, management of risk is critical to a bank or financial institution's survival more particularly in today's volatile financial markets and uncertain macroeconomic outlook. Among various types of banks Cooperative Banks in particular will find it more difficult to manage risk due to overall higher exposure to rural economy. This is further accentuated by complex operating environment, public-service mission and the cooperative nature of the institution. Cooperative banks have more restrictions in the business mix they can adopt.

Distict Central Cooperative Banks (DCCBs) are member driven organizations and do not have access to market for equity funds. Given the limited capital resources available to support operations, a strong, agreed-upon and well communicated risk management policy and framework is critical to the efficient execution of the institution's business strategy and fulfillment of its objectives.

The Sundargarh District Cental Cooperative Bank is the Cooperative Bank for the State of Odisha. The bank recognizes the fact that the long-term interests of its members should be the guiding factor in all its decision-making. The Board believes that a formal, robust risk management policy supported by appropriate procedures, process and rules is required.

1.2 Challenges in Risk Management

In Risk Management, the Bank is faced with several challenges in ensuring that:

- 1) capital funds are sufficient to (a) support and manage the probable risk on account of activities taken to maximize the development related objectives of the Bank and (b) comply with the stipulations and guidelines of the regulators on maintaining capital adequacy;
- 2) the Bank's risk exposures are well within the limits established by the Board of Directors and/or management, as appropriate;
- 3) the risk decisions are aligned to the Bank's business strategy and objectives set by the Board;
- 4) the bank is able to generate adequate or reasonable return/compensation for the risks taken; and
- 5) officials/individuals of the bank who take or manage risks understand them clearly and are held accountable for the risks assumed.

1.3 How Policy Documents differ from Procedural Manuals

Policy documents and Procedural Manuals are distinct from each other. Policy document delineates guiding principles while the procedural manuals/circulars describe how, what, when and who will take the step by step operational activities to be performed to accomplish those principles. The mere existence of a Procedural Manual in any area cannot be deemed a substitute for the Policy Document. As such the Bank will develop procedural manuals and issue operational instructions for important areas of the bank's functioning based on the policy pronouncements.

2. NABARD/RBI GUIDELINES ON RISK MANAGEMENT IN STATE COOPERATIVE BANKS



In developing the risk management policy the bank has fully factored the guidelines on Risk Management, maintenance of CRAR, Income Recognition, Asset Classification norms, issuing of Long Term (subordinated) Deposits (LTD) and Innovative Perpetual Debt Instruments (IPDI) and subsequent amendments as announced by RBI/NABARD from time to time.

The Bank will ensure compliance with the above guidelines and regulatory requirements.

3. PURPOSE AND AIM OF BANK'S RISK MANAGEMENT POLICY

3.1 Objectives

This policy provides direction on matters relating to the identification, analysis, response and ongoing monitoring of risks as would apply to a State Cooperative Bank. It provides details on the system, standards, resources and processes associated with risk management. This policy aims to:

- Adhere to best practices in the area of risk management;
- Protect the financial assets, physical assets, reputation and interest of the members of the Bank
- Assist in fulfilling the cooperative principles.

4. OBJECTIVES OF RISK MANAGEMENT POLICY

4.1 Bank's Policy Aligned to Risk Policy

The Bank will align all its policies viz., Investment, ALM, KYC, IT., Product wise Loan policies to Risk Management policy. Further the Bank will put in place the following policies also **in due course**.

- I. Comprehensive loan policy
- II. I.T. Security Policy
- III. Internal Control (with IT based Risk controls) and Audit Policy
- IV. Accounting and disclosure policy
- V. Compliance policy
- VI. All policies including the Bank's risk management policy shall be reviewed/ updated once in two years.

4.2 Coverage of the Risk Policy

This Risk Policy covers the following risk categories:

a) Credit risk in general and more particularly major exposure to

- DCCBs,
- Borrowers covered under CMA (as per NABARD guidelines), State level cooperatives/Companies and
- Loans to other societies.
- Retail loans

b) Operational risk-Major Operational Risk being:

- IT risk-Security risk, Implementation risk
- Non-IT Risk-Loss due to Frauds, HR risks, Damage to Physical assets. Operational processes,
- KYC-AML-Money laundering risks





- e) Market risk including Interest rate risk
- d) Liquidity risk
- e) Capital risk and
- f) Compliance risk

5. RISK CONCEPTS DEFINED

Risk could be defined as the possibility of a financial loss to the bank on account of the probability of the happening or not happening of an event or an outcome. Risk will impact the income of the bank and in the process the financial stability and financial viability of the bank.

5.1 Credit Risk

Credit risk is the risk that money which is lent by the bank in the form of a loans and advances in any form is not repaid by the customer/member. In the case of investments, credit risk is the probability of default by the issuer of a bond or deposit in which the bank has invested. In other words credit risk is the probability of non-payment of interest and/or repayment of loans by borrowers on due date/s. Credit risk can be small or big depending on the size of the portfolio and volume of exposure to the segment by the bank.

5.2 Recovery Risk

Recovery has to be viewed in the angle of banks credit and investment function. That poor recovery leads to credit risk as mentioned above. The efficiency with which recovery function is carried out contributes hugely to containing of credit risk. Recovery (risk) has three components:

- a) **Collateral Risk:** Credit risk is minimized if the collateral can be easily taken over (repossessed) and sold at some significant value. The ease with which collateral can be made use for recovery is very important to manage credit risk. If the collateral is not used in time there could be loss of credit due to change of value or price of collateral. Thus, inefficiency in the use of collateral to mitigate credit risk transforms the credit risk into a recovery risk, plus an asset value risk. The collateral risk is zero only with cash.
- b) **Third Party Guarantee Risk:** Third Party guarantee turns the credit risk on the borrower into a credit risk on the guarantor. This is not a simple transfer of risk because there is a possibility that the guarantor may also default.
- c) **Legal Risk:** This refers to the risk of the bank not being able to sell the collateral or enforce the guarantee due to legal issues such as poor title to the collateral, change in the laws etc.

5.3 Operational Risk

Another critical risk area for a cooperative bank is operational risk. Operational risk is where damage or financial loss to a bank occurs due to inadequate or failed internal processes, people, systems or an external event. In other words operational risk happens when in the day-to-day operations damage or financial loss is incurred because of human error (deliberate or otherwise), IT failures, fraud, accidents or external events (such as robbery, flooding or fire).

Impact of operational risk could be financial loss, loss of reputation, compensations to the aggrieved party, loss of business and penalties.



5.3 Liquidity Risk

Liquidity risk is the potential inability to generate cash or have access to liquid assets to cope with deposit withdrawals, payment commitments or fund increase in business. This risk arises due to mismatches in maturity pattern of assets and liabilities, particularly in the short term. Such mismatches could also be due to failure of assets to mature according to plan, unexpected calls for repayment of due deposits and requests for premature payment of liabilities.

Impact of liquidity risk could be in the form of penalties, loss of funds, loss of business and reputational damage due to the bank being unable to meet the funding requirements of its customers.

The liquidity risk in banks manifest in different dimensions as under:

- Funding risk - need to arrange funds for meeting outflows due to unanticipated withdrawal/non-renewal of deposits (wholesale and retail);
- Time risk - need to compensate for non-receipt of expected inflows of funds, Le., performing assets turning into non-performing assets; and
- Call risk - due to crystallisation of contingent liabilities and being unable to undertake profitable business opportunities when desirable

5.5 Market Risk

Market risk is the risk to bank's financial condition as a result of adverse movements in the market rates and prices. Banks investments are market related and banks will have to deal with market volatility if it has to manage the investments. Markets impact the value (price) of investments. Often value of investments and collaterals offered may get depreciated due to adverse movement of rates and/or prices. Market could also impact the liquidity in a bank when it becomes difficult to exit an investment in time due to adverse market movement/forces. Banks are expected to have expertise in managing investments and are expected to anticipate market movement/changes and take action to protect the value of bank's assets.

The sub-components of market risk in terms of relevant assets held by the bank include:

- Price risk/Equity risk: adverse changes in the value of bonds/stocks, shares and other Investment products
- Currency risk: adverse changes in the value of a country's currency
- Commodity risk: adverse changes in the value of traded commodities such as gold and oil

5.6 Interest Rate Risk

Interest risk is one of the major risks faced by financial institutions and is defined as probability of reduction in the interest income or value of assets held due to adverse changes in the rate of interest. Change in interest rate could occur due to changes in the interest rates effected by the RBI or due to market forces or changes in market values of assets/Investments/bonds due to competition. The bank has invested in SLR and Non SLR bonds and these are largely fixed income securities. As such understanding and managing interest risk is an important element of risk management of the bank.





5.7 Capital Risk

Banks need Capital to:

- Maintain growth and expand business
- Act as a cushion to absorb losses arising from business risk/operations and continue as going concern
- Remain solvent under challenging conditions.

In sum banks will have to maintain capital or own funds of such volume that it is able to maintain CRAR as per RBI guidelines.

In this background Capital risk arises mainly as a result of the quantity of capital available vis a vis, the sensitivity of bank's exposures to internal external shocks. Cooperatives are member driven organizations and face certain constraints in their ability to raise capital as and when wanted. Capital risk management therefore calls for efficient capital planning and management process.

5.8. Compliance Risk

Banks have to comply with all legal provisions and regulatory rules and guidelines that are applicable to its functioning. Laws are general in nature and not addressed to any particular institution. Yet it applies to all those are covered by the provisions. Regulation could be general or specific to the bank. It is generally expected that the bank will know all the legal and regulatory provision applicable to it and comply with them. Noncompliance with the legal and regulatory and other orders could result in financial losses on account of penalties etc. There could also be attendant loss of reputation. Therefore, Compliance risk is the probability of financial and other losses on account of non-compliance.

5.9 Exposure

Diversification in loans and advances and investments is a known risk mitigant. By containing exposure to a single individual, group or activity or geographical area the bank is able to diversify its investment and credit portfolio thereby reducing the concentration of risk and the probability that default by one individual or group or geography does not impact its stability or sustainability.

The definition of exposure, as given by NABARD is as follows:

- a) Exposure shall include funded credit limits like working capital limits, short term/temporary loans and block capital facilities like term loans, interim /bridge loans granted by the banks either from out of their own resources or out of the refinance assistance availed of by them. It also includes non-funded financial accommodations like guarantees, letter of credit etc.
- b) The sanctioned limit or loan outstanding whichever is higher shall be reckoned for arriving at the exposure in the case of cash credit limits. In the case of term loan, outstanding amount may be reckoned for the purpose of exposure. However in the case of non-funded credit limits, only 50% of such limits or the outstanding amount whichever is higher may be taken into account for the purpose.
- c) Borrowers whose credit limits are allocated directly by RBI, for purposes like food credit limits, will be outside the purview of exposure limit.



6. RISK MANAGEMENT STRUCTURE/Framework in the Bank

6.1 Risk Management Committee

For overseeing the effective Risk Management function in the Bank, the Bank has constituted "Risk Management Committee" with the following members:

1. Sri Pradyumna Kumar Tripathy, President	Chairman
2. Smt Kamini Mohapatra	Member
3. Sri Pancha Barla	Member
4 Sri Jatia Munda	Member
5. Sri Mahesh Nag	Member
6. Sri Sudhir Ranjan Patel	Member
7 Sri Amrit Kumar Lakra	Member
8. Smt Sushama Sarojini Tete	Member
9. Chief Executive Officer	Member Convenor

6.2 Members, Quorum & Mandatory Members

Quorum will be a minimum of four members with Chairman, one elected Director, Chief Executive Officer/ Manager(GAD) being mandatory.

The committee shall be assisted by the staff possessing requisite skills and they would be trained periodically.

6.3 Periodicity of meetings

The Committee will meet at quarterly or more frequent intervals to review the progress and implementation of the risk management systems and procedures besides studying and taking corrective steps regarding the various risks impacting the bank. Structured agenda covering Credit risk, Market Risk, Operational risk, Capital risk and other risks impacting the bank will be placed before the committee for deliberations and follow-up action. The committee will also monitor compliance.

7. MANAGEMENT INFORMATION SYSTEM (MIS)

7.1 Pre-requisites of Good MIS

A robust MIS is a pre-requisite for an efficient and effective risk management system and its successful implementation. The MIS should be:

- Complete, reliable, with integrity of data.
- Cover all critical parameters and functions for effective risk management. It would be appropriate to have value based and volume based parameters (ABC analysis) for reporting and review purposes.
- Easy to access and available to the relevant staff and As real time as possible.

7.2 Bank's Proposed Action Plan for MIS

The Bank will put in place a robust IT based MIS system in due course, to capture all important data and information such as:

- Large credit exposures and sectoral exposures in terms of (a) size, (b) rate of interest, (c) geography, (d) type of security, (e) extent of security, (f) constitution of borrower and (g) industry.
- Generate daily, weekly, monthly, quarterly, half-yearly, yearly control returns and exception reports
- Details of ALM, liquidity management, deposit breakup based on size rates/age of account/customer age/geography/contractual maturity, residual maturity and CASA
- Composition
- Data on NPA, CRAR
- Compliance reports etc.

The above will not be possible if the systems are not IT driven. IT driven information system is an important facet of risk management. Bank will therefore take steps to make most of the underlying activities automated, so as to enable

- Off-site surveillance at centralized level and system based Inspection audit of branches, checking on critical compliances such as KYC, AMI, reporting
- System driven compilation of NPA, CRAR, Profit and Loss and Balance sheet,
- Automation of data and information on
 - Funds management
 - CRR/SLR maintenance,
 - Different types of reconciliations, TDS and Service Tax payments
 - Providing credit information of borrowers to Credit Information Bureau (CIB)

8. RISK IDENTIFICATION AND ASSESSMENT METHODOLOGY

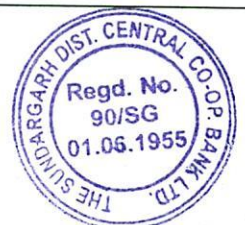
8.1 Risk Identification and Risk Mapping

Risk identification will be based on risk mapping to be done by the bank. The Bank will undertake Risk Mapping of the various business lines on a yearly basis. Risk mapping helps the Board to focus on risks which would have a larger impact.

Chart on Risk (heat) Mapping:

Event	Will have impact on	Probability	Type of impact
Reduction in refinance %	Liquidity Business growth	High	Red
DCCBs Defaulting	Liquidity Business growth	Low	Yellow
Reduction in deposits due to DCCBs SLR.	Liquidity and NIM	High	Red
Receipt of capital from State Government.	Liquidity	Medium	Green
Failure in KYC	Penalty	Low	Yellow
Increase in NPA	NIM, CRAR	Medium	Red

(Red indicates high negative impact, yellow is cautionary and green is positive)



Bank will carry this exercise annually based on market information. This exercise will enable the Board to focus on important possibilities and develop appropriate risk management policies. A critical input for risk mapping will come from risk assessment exercise.

- Risk assessment will be done by focusing on business lines which
 - Account for the bulk of banks assets
 - Generate major revenue for the bank
 - Are major cost centers and expenditure centers
 - Are likely to cause major losses for the bank

8.2 Inputs for Risk Assessment

The bank shall undertake risk assessment based on the inputs from the following sources:

- i. Internal audit reports and compliance reports.
- ii. Proposed changes, if any in loan policy or change in focus.
- iii. Significant change in management/key personnel
- iv. Latest inspection report of NABARD.
- v. Reports of external auditors,
- vi. Volume of business and risk, prone credit,
- vii. Sectoral trends and other environmental factors.
- viii. Substantial performance variations, if any from the budgeted levels in terms of revenue and business.

8.3. Risk Events

Ast understanding of risk events helps in risk assessment. A risk event can be defined as an event where by:

- a) An internal control fails, or is breached:
- b) The absence of a significant control is identified;
- c) A new risk (internal or external) is identified which poses significant threat to the bank:

Should a risk event occur, it shall be reported in writing and in a timely manner to the appropriate officer, more particularly the risk management officer for placing in the risk management committee/board and request immediate remedial action if deemed necessary to protect the bank's interests.

MD/CEO will ensure that appropriate remedial action is initiated which will include:

- possible system corrections, updating of policy/procedures or processes;
- training if required;
- tracking of progress and documented completion of the remedial action;

Examples of External Risk events impacting the bank:

- Change in refinance policy



- Failure of monsoon or crop failure in parts where the bank or DCCBS operate Crash in agriculture commodity prices
- Opening of new branches by competitors where the bank operates Introduction of new product or service by competitors
- Major changes in economic indices
- Introduction of higher CRAR norms for cooperative banks Change in base rates of competitor banks
- Increase/decrease in CRR/SLR ratios
- Arrival of new types of banks in the financial system

Examples of Internal Risk events impacting the bank

- Fraud by staff or customer
- Major IT failure or detection of flaw in IT hardware/software
- AML alert not reported to FIU
- Non-compliance of critical compliance such as CRR/SLR
- Detection of forged currency notes in currency chest
- Major credit exposure showing weak tendencies or turning NPA

8.4 Risk taking ability or appetite

Risk appetite is a function of risk taking ability of the bank and its willingness to take risk. The bank will decide up on the level of appetite by reckoning its capacity to manage the risk taken and the possible impact if the risk were to turn true. The level of risk appetite and what it means in terms of banks' exposure can be seen in the following table.

Risk Appetite and its Meaning

Level of Risk appetite	What it means
Zero risk appetite	The bank has no appetite for any exposure in this area as such bank will not take up such business
Low risk appetite	The Bank will have low level of exposure in this area and will have controls in place to manage the risk
Moderate risk appetite	The bank will have moderate level of exposure in this area and will have good s controls in place to manage the risk
High risk appetite	The bank will not have any exposure to this area. High risk appetite is not appropriate due to the prudential obligation to member.

Example of Risk Appetite Applied

In the context of risk appetite and meaning mentioned earlier, the table below details the risk appetite of the bank (SCB) under the broad categories of risk. The risk appetite under each category will be reviewed and revised by the board following material changes to the internal or external environment of the bank.

Broad Categories of Risks and Acceptable Level of Risk Appetite in Banks

Risk Category	Risk Appetite	Details
Credit Risk	Moderate risk	As lending is a core service and is the main source of



	appetite	income for the bank, it is proposed to accept a moderate level of risk exposure in this area.
Operational Risk a. Internal and external fraud	Zero risk appetite	Due to the potential for significant financial loss and reputational damage, the bank will not accept any exposure to risk in this area. Bank will therefore have good systems and procedures to avoid and manage fraud proactively.
b. Money Laundering	Zero risk appetite	Due to potential damage to the reputation, the bank will not take on any exposure to risk in this area. Bank will have strict systems and procedures which will ensure that KYC is implemented correctly and that money laundering is avoided.
c. Employment practices and workplace safety	Low risk appetite	As the bank must employ officers it cannot avoid the fact that it will have some degree of exposure in this risk area. HR policies will be designed to reduce the risk as much as possible.
d. Damage to physical assets	Low risk appetite	The assets required to operate the business are subject to damage, the bank cannot avoid accepting a low level of exposure to risk in this area. Insurance of assets will be one of the primary means of managing risk. The administration will effectively supervise the assets.
e.IT systems and software failures	Low risk Appetite	Due to its larger reliance on the IT infrastructure for the continued operation of the business, the bank will only accept a minimal level of risk in this area.
f. Organizational processes	Moderate Risk appetite	The board is willing to accept exposure to a moderate level of risk in this area. The processes will however be reviewed frequently to keep it up to date and effective.
Liquidity Risk	Zero risk Appetite	The bank will not accept any risk which jeopardizes the short-term or long-term funding requirements of the organization.
Market Risk	Low risk Appetite	The bank places the safety and security of investments ahead of the potential for return; as such it is only willing to take on a low level of exposure to market risk.

8.5 Risk Management Exercise

In the above background, the Risk Management exercise will be primarily based on the principles enunciated by Basel viz.

- Pro-active Capital Management and Profit/Loss management
- Risk based supervision of branches/offices based on Probability of risk event happening
- Frequency of risk events
- Criticality and the Intensity of impact of risk events
- Status of compliance with mandated disclosures and compliances
- Policy formulation, Exposure management and tracking concentration of risks

9. MANAGING CREDIT RISK IN THE BANK

9.1 Components of Credit Delivery Chain



Credit accounts for a major chunk of banks business. The Credit Risk Management process involves the identification, management and monitoring of the entire credit delivery chain including:

- Credit origination
- Credit processing
- Credit sanction.
- Credit documentation & disbursement
- Credit monitoring, reschedulement, restructuring.
- Credit recovery, settlement, write-off
- Credit risk mitigation

Some of the above aspects are covered in the product wise Loan policies approved by the Board. These policies have been communicated across the bank to officers and offices in the form of product based circulars and updates from time to time. The following are the Important aspects

9.2 General Credit Risk Management Measures

The general credit risk management measures that the bank will undertake on an ongoing basis include:

- a) Having well defined and clear eligibility norms and processes for credit appraisal
- b) Identifying and placement of competent officers with requisite qualifications and experience for the credit function
- c) Imparting training to the Credit officers of the Bank
- d) Review and updating the product specifications/details of loans and advances of the Bank from time to time
- e) Maintaining independence of the Credit Risk Management function from the Credit Operations Function
- f) Subscribing to important databases and Research reports of CMIE, CRISIL, etc for getting overview of the country's economic position and changes happenings in the field of Agriculture, Industry, and Services Sector etc.
- g) Relying on external expertise if required for matters' such as Techno-Economic Viability studies on big projects to be financed, if any
- h) Periodically and comprehensively reviewing the bank's Loan Policy and loan products covering all critical aspects and changes from time to time.
- i) Reviewing the Loan pricing-Le, rates of interest charged on loans and advances are (a) based on cost of funds, administrative costs, margins and (b) factors the rates offered by competitors so as to avoid losing out on business etc.

9.3 Exposure limits



9.3.1 In terms of NABARD guidelines vide Department of Supervision circular dated 12 May 2008, the exposure norms given hereunder shall not apply to the loan sanctioned/outstanding to:

- PACS
- DCCBs and other credit societies
- agriculture advances

9.3.2 The exposure ceiling limits for borrowers/sector other than above categories comprising: Individuals, Units, Sectors will be as follows:

Credit Exposure Limits (as stipulated by NABARD)

Sr No	Type of Credit exposure Risk limit to	Exposure ceiling limit In Rupees lakh			
		Bank with Inspection rating "A"	Bank with Inspection rating "B"	Bank with Inspection rating "C"	Bank with Inspection rating "D"
1.	Financing of Individuals \$	60	40	25	25
2.	Unit-wise exposure	60% of bank's capital funds@	50% of bank's capital funds	45% of bank's capital funds	40% of bank's capital funds
3.	Sector-wise exposure	50% of bank's Lendable resources#	40% of bank's Lendable resources	35% of bank's Lendable resources	30% of bank's Lendable resources

@Capital fund: shall comprise paid up capital and free reserves. Reserves created by way of revaluation of fixed assets etc. shall not be included for the purpose.

#Lendable resources: shall be computed as the sum of share capital, reserves including provisions and excluding the balance under Agricultural Credit Stabilization fund (ACSF), deposits and borrowings less sum of optimum liquid assets (35% of DTL), Fixed assets, accumulated losses and any other commitments except loans and advances.

\$ Individuals: shall include individual, partners, sole proprietors, partnership firms and unincorporated bodies.

Inspection ratings are given by NABARD/Auditors and for the purpose of this policy the banks rating given by the immediate preceding inspection report shall apply. The bank will advise changes in the limits on account of change in the inspection ratings by NABARD to all concerned offices and officials of the bank within 30 days of receipt of ratings from NABARD

The bank will consider these exposures or the exposure norms as revised by NABARD from time to time and monitor the exposure levels carefully such that the limits are not breached. An appropriate MIS about this issue will be created for the board review



9.4 Sanction of Limits beyond the Exposure Limit:

The Credit department will have an on-going monitoring process such that the overall exposures are not violated. In case of the need for granting assistance to certain units /sectors in excess of the exposure ceiling, the bank shall approach NABARD for approval with relevant details seeking specific relaxations.

9.5. Prior Authorization from NABARD for Lending by the Bank beyond Certain Limits and to Certain Categories of Borrowers

A. The bank shall obtain prior authorization of NABARD for sanction of credit limits by the bank on its own or in consortium with other banks to the following categories of borrowers, where the aggregate amount of sanction is beyond the prescribed cutoff limits:

(i) Cooperative marketing societies

(ii) Consumer stores societies

(iii) State level cooperative federations in respect of purchase/procurement schemes of the State Government/Union territory outside PDS (other than food credit)

B. The bank shall obtain prior authorization of NABARD for financing State level Marketing Federations for procurement of food grains at Government support price on commercial basis outside PDS where the aggregate amount of sanction is beyond the cut-off limits detailed below or as revised by NABARD from time to time.

Credit Monitoring Arrangements (CMA) Limits

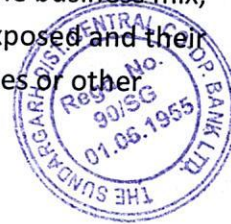
Sr No.	Type of financing	Amount (Rs.in crores)
1	Pledge/Hypothecation limits against commodities not covered by RBI's directives (other than food grains)	35
2	Pledge/Hypothecation limits against commodities covered by RBI's directives (other than food grains)	7.5
3	Procurement/Purchase of food grains outside PDS	7.5

9.6 Inter-Bank Exposure limit:

The interbank exposure is applicable in terms of market operations, investments and treasury operations. These aspects are covered in detail in the Investment Policy approved by the Board.

9.7 Credit Concentration Risk Limits

The bank will fix Credit concentration risk limits depending upon the composition of the business mix, area of operations, total exposure to large borrowers, industries & sectors to which exposed and their risk levels. Credit concentration risk limits will be fixed as a percentage of total advances or other variables. This could include:



- i. Exposure to Real estate-Bank will not finance real estate developers ii) Non-Banking Financial Companies (NBFCs) Bank will not finance NBFCs
- ii. Exposure to Housing finance in the form of home loans subject to regulatory limits
- iii. Exposure to Sugar, Cotton, Jute, etc- Bank will finance units in cooperative sector with individual unit exposure subject to overall sector exposures as a percentage of Internal lendable resources
- iv. Substantial exposure ie, the sum total of all large borrower exposure (size of large borrowal exposure to be defined) to not exceed say of Bank's capital funds.
- v. Unsecured exposure of the Bank.

9.8 Managing Credit Risk at Origination

Improving credit origination standards and processes will help in containing credit risk. This will be addressed by:

- a) Prescribing standardized information (papers) and documents to be obtained from different types of borrowers for different types of loans and different types of credit facilities
- b) Pre-sanction visit to the unit/office of the borrower and report compliance
- c) Obtaining Credit Report on the applicant from existing bankers if applicable and checking negative database of Credit information bureau such as CIBIL so as to avoid NPA accounts, suit filed accounts, Settled accounts, fraudulent accounts.
- d) Undertaking field or on-location investigation for KYC and due diligence of the e) King field or on-location investigation for KYC and due diligence of the borro

9.9 Managing Credit Risk at Processing and Sanction Stage

The bank will address the credit risk at processing and sanction stage with the following measures

- 1) Delegated powers will be risk based. Seniority of the officer, branch size, security/collateral etc will be the basis for deciding risk based delegation. The risk based delegated powers for lending to different functionaries in the bank will be reviewed periodically.
- 2) Having standardised process notes to capture all vital information to assess borrower's capacity to repay and willingness to repay and cross checking veracity of documents submitted.
- 3) Prescribing benchmark financial ratios for borrowers seeking higher credit limits
- 4) Stipulating covenants as well as terms and conditions of sanction covering:
 - Minimum margins to be obtained/prescribed
 - Personal guarantees to be obtained (types of loan, types of guarantor, etc)
 - Type and extent of collateral to be obtained
- 5) Lending on consortium basis in case of larger projects where larger limits are required
- 6) Complying with NABARD norms of prior approval in applicable CMA cases
- 7) Compliance with Loan exposure limits fixed by the bank
- 8) Compliance with takeover norms in case of takeover of Loans from other banks
- 9) Loan to Value Ratios is proposed as under.



Loan to Value Ratios

Sr. No.	Loan to Value Ratio for	Proposed Loan to Value Ratio
1	Housing Loans including registration charges	80%
2	Vehicle Loans	80%
3	Loan against property	75%
4	Loan against gold Jewelry	75%
5	Immoveable property taken as collateral	75%

9.10 Managing Credit Risk at Documentation and Disbursement Stage:

The credit risk at documentation and disbursement stage will be managed by:

- Legal vetting of mortgages and documentation
- Reviewing the documentation requirements for different types of loans/facilities periodically and prescribing standardised documents Valuation of securities prior to disbursement from approved valuers whose list and performance will be reviewed by the bank
- CERSAI check for immoveable properties to be mortgaged to the bank
- Phased disbursement in line with the project progress by making payment directly to vendors as applicable
- Reporting the sanction to higher authorities within prescribed time limit

9.11 Managing Credit Risk at Credit Monitoring Stage:

This will include:

- ✦ Credit audit/Loan review mechanism to be undertaken within three months of sanction
- ✦ Post sanction unit visit
- ✦ Tracking the repayments due and servicing of interest/installments.
- ✦ Compliance with terms and conditions of sanction
- ✦ Annual review of credit limits and half-yearly review in case of weaker accounts
- ✦ Portfolio analysis for deciding on thrust areas and restricted areas of lending
- ✦ Stock audit in applicable cases
- ✦ Exchange of information in case of multiple/consortium lending
- ✦ Tracking and monitoring un availed limits and expired limits
- ✦ Tracking and monitoring accounts showing early warning signals
- ✦ Undertaking reschedulement /restructuring wherever warranted.

9.12 Managing Credit Risk at Recovery stage:

This would involve initiating recovery action as and when the installment/interest is due.

Some of the steps are:

- Obtaining post-dated cheques or mandate for recovery of instalments/interest
- Liquidating the paper securities after giving requisite notice if any
- Initiating legal recourse as available to cooperative banks



- Rescheduling/restructuring of dues where warranted for valid reasons
- Negotiating settlement and waivers as permissible

In case of higher NPA levels bank will tighten the entry level norms for taking up exposures in that segment.

- Reporting and Review of quick mortality cases, with identified reasons and corrective action required.

9.13 Risk Limits for Recovery Risk

Stipulating NPA level for risk management enables the board and bank to monitor NPA and take timely action. Achieving a low NPA can be possible if NPA is proactively tackled. For this purpose

- ❖ Gross NPA of the Bank shall be less than 5%
- ❖ Net NPA of the Bank shall be less than 1%

10. LOAN REVIEW MECHANISM/CREDIT AUDIT

10.1 Objectives of Loan Review Mechanism/Credit Audit

Credit Audit examines compliance with sanction and post-sanction processes/procedures laid down by the bank from time to time with the objective of

- Improvement in the quality of credit portfolio
- Review sanction process and compliance status of large loans
- Feedback on regulatory compliance
- Independent review of Credit Risk Assessment
- Pick-up early warning signals and suggests remedial measures
- Recommend corrective action to improve credit quality, credit administration and credit skills of staff, etc.

10.2 Coverage of the Credit Audit

The bank proposes to start Loan Review/Credit audit for review of the sanction process and status of post sanction processes/ procedures. This will be undertaken by Inspection department of the Bank with initial coverage of borrowal accounts as follows:

Coverage of Credit Audit

Sr. No.	Type of Sanction	Cut-off credit limit (Fund based Non-fund based limit)	Time limit by which the credit audit should be done
1	Fresh proposals	Rs. 10 lacs and above	Within 3 months of sanction
2	Renewal proposals	Rs. 20 lacs and above	Within 3 months of sanction
3	Randomly selected existing cases coverage 10% of portfolio amount	Rs. 25 lacs and above	During the financial year

Accounts of sister concerns/group/associate concerns of borrowal account included in the above will be subject to credit audit even if limit is less than the cut-off.



10.3 Procedure to be Followed for Credit Audit

Credit Audit is conducted on site, i.e. at the branch which has appraised the advance and where the main operative credit limits are made available

- Report on conduct of accounts of allocated limits is to be called fresh the concerned branches.
- Credit auditors are not required to visit borrowers' factory/office premises
- Maintain database of advances subjected to Credit Audit

10.4 Format of the Credit Audit Report

The bank shall develop a format of credit audit report. The format shall cover the following objectives of credit audit:

- Verify compliance of bank's laid down policies and regulatory compliance with regard to sanction
- Examine adequacy of documentation, policies, procedures and practices.
- Conduct the credit risk assessment and review the Credit Risk Assessment methodology
- Examine the conduct of account and follow up looked at by line functionaries
- Oversee action taken by line functionaries in respect of serious irregularities
- Detect early warning signals and suggest remedial measures thereof
- Examine reporting system and exceptions thereof.
- Recommend corrective action for credit administration and credit skills of staff.

10.5 Credit Audit of Loans Portfolio

This will involve:

- Examining the quality of Credit & Investment (Quasi Credit) Portfolio
- Quantitative analysis and trend analysis of credit portfolio is periodically carried out in terms of geographical spread/Industry/Sector/Activity/NPAs, etc., to study and monitor the trends and emerging warning signals
- Reporting on weaknesses in the credit process being followed
- Suggesting measures for improvement, including reduction of concentrations in certain sectors to levels indicated in the Loan Policy and Prudential Limits suggested by NABARD/RBL

However, the above Loan review Mechanism/Credit Audit system will be put in place in due course.

11. MANAGING MARKET RISK IN THE BANK

11.1 Components of Market Risk

Market risk is the possibility of adverse movements in the market rates impacting the values of the trading portfolio during the period required to liquidate the same. More precisely; it is the probability that changes in prices/rates in markets i.e. Equities and Fixed interest markets and other external factors will negatively impact the market value on the bank's investment/trading portfolio, resulting in a loss reduced profit, once the investments mature are liquidated.

Market risk management of a bank involves management of

- interest rate risk,
- liquidity risk,



Since liquidity risk is a major risk and vital for effective operations to reduce the probability of an adverse situation developing, the same is dealt with in a separate chapter in this policy.

11.2 Managing Interest Rate Risk in the Bank

The immediate impact of changes in market interest rates will be felt on the:

Net Interest Income (NII)-Earnings perspective

The measurement of bank's exposure to interest rate risk in terms of sensitivity of its NII to interest rate movements over the horizon of analysis (usually one year) involves bucketing of all Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL) and off-balance sheet items as per residual maturity/re-pricing date in various time bands.

In order to contain the impact of changes in interest rates on bank's earning, the bank shall monitor the RSA and RSL positions in various time buckets by preparing a gap report. The gap report indicate whether the Bank is in a position to benefit from the rising interest rates by having a positive gap ($RSA > RSL$) or from declining rates by having a negative gap ($RSL > RSA$). The bank should have a forecast regarding the interest rates in the market and accordingly fix up & gap limits for various time buckets. The ALCO is authorized for the same.

11.3 Interest rate risk in Trading Book

Presently the bank is not doing any trading in the securities. Therefore the modified Duration analysis, earnings at risk analysis for measuring and monitoring of interest rate risk will be taken up in due course.

11.4 Risk/Exposure Limits for Investments

The risk/exposure limits for Investments shall be as per the Investment policy of the Bank. All deviations shall be reported to the Risk Committee of the Bank.

12. MANAGING LIQUIDITY RISK IN THE BANK

12.1 Need for Liquidity and Available Sources to Meet Liquidity

Being Liquid is the ability of the bank to manage or accommodate decrease in liability with or without a simultaneous increase in assets. The Bank needs liquidity to fund loan demands and to meet deposit withdrawals. The bank's liquidity will be determined by variability of loan demands and deposits and ability to borrow/raise funds in the market. The bank is said to have adequate liquidity if it can obtain sufficient funds either by increasing its liabilities or by liquidating assets promptly at reasonable cost. If the bank is unable to meet the liquidity needs through liquid assets/holdings, bank may be constrained to acquire additional liabilities under adverse terms. Liquidity Management is the process of generating funds meet contractual obligations or relationship obligations at reasonable price at all times.

The bank recognizes that the market liquidity which varies over time and the liquidity of the bank interact to determine the conditions of funding. Monitoring of economic and money market trends will therefore be the key to liquidity planning.

12.2 Measuring and Managing Liquidity

Measuring & managing funds requirement will be done by the bank through flow approach



- Flow Approach: This is a method of using Structural Liquidity Gap report for assessing the net funding requirement calculated on the basis of residual maturities of assets and liabilities with a maturity ladder. The bank will prepare cash flow analysis i. e. outgoing commitments compared with inflow of funds, construction of maturity ladder identifying net position or mismatch, determine acceptable level of mismatches, etc. and take necessary measures to overcome liquidity risk. Mismatch in a bucket/Total outflows in a bucket shall be calculated for all buckets and corrective taken wherever required.
- The main focus should be on the short term mismatches i.e. 1-14 days and 15-28days time buckets. The negative gap in the above 2 time buckets should not exceed 20% of the cash outflows of the said time buckets. The ceilings for the other time buckets will be fixed by the ALCO in the due course.

12.3 Analyzing Trends and Conducting Studies of Possible Impact on Liquidity

The Bank shall:

- Analyze seasonal pattern of deposits/loans
- Study economic and money market trends
- Analyze the behavioral maturity profile of various components of on/off-balance sheet items on the basis of assumptions and trend analysis.
- track the impact of prepayments of loans, premature closure of deposits and exercise of embedded options, if any
- monitor flow of high value deposits of Rs.1.00 crore and above to track the volatile liabilities
- review potential liquidity needs for meeting new/seasonal loan demands, un-availed credit limits, potential deposit losses, Investment obligations, statutory obligations

12.4 Prudential/Risk limits

The Bank's ALCO shall fix the prudential/risk limits for:

- 1) Inter-bank deposits
- 2) asset-liability mismatches (to be fixed for each bucket separately by ALCO)

12.5 Funding Strategies and Liquidity Planning under Alternative Scenarios

Funding strategy

The bank will primarily rely on:

- Focus on CASA deposits as a source of stable and cost effective deposits
- Depend on term deposits from large number of small depositors thereby reducing dependence on few large depositors.
- Bank shall take care to minimize the ALM mismatch position
- Bank shall strive to depend on funds with maturities matching with its Assets.
- Bank will strive to get maximum refinance from NABARD

Deployment strategy

The Bank shall deploy the raised funds in various instruments, subject to overall guidelines issued by NABARD in this regard in permitted markets with focus on marketability, liquidity and optimum yield.



- Investments in CD and ST deposits with other Banks.
- Investments in State and Central G-Secs,, T- Bills and Non-SLR bonds
- Lending to Retail Customers
- Lending to Corporates subject to CMA. guidelines
- Lending in Call Money Market
- Investment in other money market instruments

Contingency Funding Plan

The bank will, on an ongoing basis, build up contingency plans leading to most effective funding strategy depending upon the urgency, timing, duration for which funds are required, availability of funds to the bank, business plan, seasonality etc. This will include accessing:

- call money
- refinance based on available limits/to be set up from NABARD/SIDBI/NHB
- Line of credit to be set up with other banks
- Excess SLR to be liquidated or loans to be raised there against
- Loans to be raised against ST Deposits with other Banks

12.6 Liquidity Reporting/Reviewing

While the ALCO will track the liquidity on an ongoing basis the Risk Management Committee shall be kept informed of the deviations and shall review the liquidity position of the bank in all meetings of the Risk Committee.

13. MANAGING OPERATIONAL RISK IN THE BANK

13.1 Operational Risk Events Reporting

Operational Risk events in the bank involving people, process and systems shall be tracked, reported and suitable follow up action will be taken. Some of the illustrative risk events to be reported include:

Illustrative List of Operational Risk Events and Reporting Frequency

Sl.No	Operational Risk Event	Reporting to and Frequency
1	Fraud in the branch/Head office	Immediately to be reported to MD/CEO and to be placed in the subsequent Risk committee meeting
2	Major IT failure in Hardware or software	
3	IT Security breach	
4	Robbery/Theft at the branches/ATM	
5	Fire incident in any of the Bank's premises	
6	Damage to bank's immoveable property due to floods, collapse	
7	Critical technical employee leaving the bank	
8	Loss of blank cheque books, ATM cards to be issued etc.	
9	Bank unable to participate in clearing for any reason	
10	Sexual harassment incident	
11	Forged notes detected at branch or currency chest	
12	Title deeds of property or documents missing from the branch	
13	TDS/ Service not deposited with income tax service tax authorities in	



13.2 Building Loss Database for the Bank

The bank will build up a loss database of the Bank as one of the Operational risk management measures.

13.3 Risk Control & Self-Assessment

For identifying operational risks and improving controls, the bank will, with the help of the functional departmental staff initiate the process of:

- Operational Risk self-assessment
- Operational Risk Control self-assessment

13.4 Fraud Risk Management:

The fraud risk management will encompass the following:

- a. Strong KYC process
- b. Training of staff on preventing and detecting frauds
- c. Deterrent punishment communicating intolerance to frauds
- d. Regular security audits
- e. Process specific fraud risk controls including maker & checker control
- f. Controlling fraud risks in Phishing, skimming, hacking, identity theft, spam mail, virus.
- g. Timely detection and reporting

13.5 Operational Risk limits

Some of the operational Risk limits that is proposed includes the following:

Illustrative List of Operational Risk Limits

Sl.no	Item	Risk TRIGGER limit
1	Excess CRR	If actual CRR of the Bank exceed 15% over the prescribed CRR limit.
2	Cash retention limit	Aggregate cash holding level of branches exceeding the limit prescribed.
3	Non-working ATMs	5% of the total number of ATMs in the Bank
4	Pending reconciliations of ATM etc	Reconciliations pending beyond Six months.
5	Incomplete KYC	KYC incomplete even in one of deposit + loan Account in operation
6	Penalties levied on the bank at the branch by Income tax dept, local authorities.	Even if one, penalty levied in any branch.

The Bank will identify all the operational risk areas and manage the same.

13.6 Managing HR Risk in the Bank

The Bank recognises the role of Human resources in Business Management. Accordingly the Bank shall ensure:



- a) Recruitment of qualified and skilled staff (including specialist officers for specialized functions such as IT, Law, Security, etc) on continuous basis without leaving any gaps
- b) Maintaining a healthy age profile combining young age group with skill competence and experience in the higher age group
- c) Optimal deployment of human resources with the right person for the right job
- d) Training Policy of the bank covering new staff and existing staff will include:
 - knowledge and skills relating to the area of risk management
 - system of internal controls including effectively communicating significant changes to controls to all affected officers Risks in bank's products and processes along with transparent rules and regulations with updated manuals covering different areas of banks working.
 - Job Rotation.

14. MANAGING IT RISK IN THE BANK

14.1 IT-Business Enabler and Major Source of Risk

Banking Technology/Information Technology for banking has emerged as one of the major enabler of business growth and improved delivery while at the same time it can also cause operational risks.

IT could be a major source of risk for the Bank in terms of:

- Security risk to the customer's privacy and funds
- Breakdowns leading to customer dissatisfaction
- Emerging and unknown risks to be tackled 24x7x365
- Investments costs being huge which have to be recovered by high volume levels of transactions and corresponding revenues
- High obsolescence cost

IT risk, more particularly IT Security risk has to be managed proactively.

14.2 NABARD/RBI Guidelines on IT risk

NABARD as well as RBI have issued detailed guidelines to SCBs on IT risks which also include the following:

- Operative guidelines on Mobile Banking and Mobile transactions
- Security issues and risk mitigation for Card Present (CP) transactions as well as Card Not Present (CNP) transactions
- Security measures in CBS environment, IT Policy, IT Security Policy, SMS alert facility for financial transactions, Providing requisite data online to Credit information companies and FILU-IND

14.3 Bank's Approach to IT Risk Management

Bank recognizes the possibility of huge operational risk posed by IT and its strength in reducing cost and generating revenue. Accordingly the IT risk will be pro-actively managed by:

- i) Putting in place a board approved IT Policy and IT Security Policy
- ii) Proactively planning for disaster recovery and business continuity



- iii) Installing checks and balances in terms of maker-checker and password policy
- iv) Implement Virus controls
- v) Carrying out regular vulnerability testing and IT audits
- vi) Controlling obsolescence
- vii) Having SLAs and AMCS
- viii) Monitoring large value transactions
- ix) IT based risk controls

By utilizing IT intensively for business operations, back office operations and MIS across the function bank hopes to improve its efficiency.

15. MANAGING CAPITAL RISK IN THE BANK

15.1 Targeted CRAR, Tier I Capital & Tier II Capital

Capital is a big constraint for the bank. The Bank proposes to have a desired CRAR of the Bank as under:

Desired CRAR, Tier I and Tier II Capital

Sr. No.	Capital Component	Target	Basis of fixing the target for CRAR and its components
1	Total CRAR	within range of 11% to 13%	<ul style="list-style-type: none"> Existing CRAR Current Business mix and growth plans with target mix Market appetite and pricing for Tier 1 Capital and Tier II Capital of the Bank Profitability and plough back
2	Tier I Capital	within range of 9.75% to 11.25 %	
3	Tier II Capital	within range of 1.25% to 1.75%	

15.2 Bank's Action Plan for Capital Raising, Capital Planning, Capital Monitoring

The Bank will:

(i) Review and monitor

- the current status of CRAR
- the projected CRAR requirements for the next two years in line with the Business plan

(ii) Undertake Capital planning on yearly basis and review thereof on quarterly basis for the position prevailing at the end of every quarter and course corrections required if any



(iii) Capital raising plan for raising capital with cost effective mix of Tier I and Tier II capital At appropriate time

(iv) Implementing an ongoing capital optimization program involving correct assignment of risk weights,

having a clause in loan agreements for bank's right to withdraw or cancel the facilities at any time etc.

(v) Endeavour to obtain returns commensurate with capital deployed

(vi) Ensure compliance with RBI guidelines issued from time to time

16. COMPLIANCE RISK, CRITICAL COMPLIANCES AND DISCLOSURES

The Bank recognizes that:

- Compliance Function is one of the key elements in the banks' Corporate Governance Structure and a critical factor of overall risk management
- The critical need for managing compliance risk on account of the reputational risk arising out of compliance failures
- That compliance Function needs to be adequately enabled, made sufficiently independent and sufficiently resourced,
- On account of the need to ensure that there is no potential for any conflict of interest, the Compliance Function and the audit function of the bank shall be kept separate
- Compliance responsibilities should be clearly specified and its activities should be subject to periodic and independent review

16.1 Defining Compliance Risk

Compliance risk is defined as "the probability of legal or regulatory sanctions, material financial loss, or loss to reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organization standards, and codes of conduct applicable to its banking activities".

16.2 Consequences of Non-Compliance

The consequences of certain non-compliances could be critical for the bank. Accordingly the bank will identify the critical compliances failure of which could have implications in terms of

- Imposition of penalties on the bank
- Loss of reputation for the bank

After identification these will be tracked for timely compliance and reported to the Risk committee. Illustratively these could include:

- Maintenance of CRR
- Maintenance of SLR
- KYC compliances
- Recovery and remittance of TDS/service tax as applicable
- AML reporting to FIU



- Complying with court orders failing which contempt of court could arise
- Complying with statutory and regulatory restrictions and ensuring no violation
- Complying with IRAC norms
- Adherence to the prudential norms for classification, valuation, operation of investment portfolio for cooperative banks as prescribed by RBI/NABARD

16.3 Structural Framework for Compliance Risk

The Broad framework for compliance risk would take into account the bank's scale of operations, risk profile and organizational structure and would inter-alia include:

- 1) Designating a senior officer as independent Compliance Officer
- 2) Formulating a Compliance Policy for the Bank
- 3) Progressively developing Compliance manuals
- 4) Monitoring compliance guidelines in consultation with the Audit Committee of the Board

16.4 Implementing Compliance Risk Management

In the process of implementing compliance risk management, the Bank will cover the following:

- 1) At least once a year, identify and assess the main compliance risks facing the bank and formulate plans to manage them
- 2) Develop compliance program to identify, evaluate, and address legal and reputational risks
- 3) Focus of the Compliance Function on regulatory compliance, statutory compliance, compliance with fair practice codes and other codes prescribed/suggested by self-regulatory organizations, government policies, bank's internal policies and prevention of money laundering and funding of illegal activities.
- 4) Compliance risks in all new products and processes shall be thoroughly analyzed and appropriate risk mitigation put in place before launching developing products, services and processes
- 5) Sufficient and representative Compliance testing on periodic basis with outcome to be reported to Risk Committee
- 6) Training of staff and enhancing awareness on Compliance on ongoing basis
- 7) Periodically circulate the instances of compliance failures among staff along with preventive instructions
- 8) Checklist on the compliance aspect shall be made part of the inspection report for the inspectors/concurrent auditors to verify the level of compliance
- 9) Ensure fixing staff accountability. Appropriate remedial or disciplinary action is taken if breaches are identified
- 10) Non-compliance with any regulatory guidelines and administrative actions initiated against the bank and or corrective steps taken to avoid recurrence of the lapses shall be disclosed in the annual report of the bank



11) Ensure that the bank reports promptly to the Board of Directors, Risk Committee and Audit committee of Board on any material, compliance failure (e.g. failure that may attract a significant risk of legal or regulatory sanctions, material financial loss, or loss to reputation).

16.5 Disclosures

The bank will ensure that all mandated disclosures will be made within the time limit as mandated by the regulators NABARD, RBI & RCS. Illustratively the current mandated disclosures include:

- Balance sheet disclosures on various aspects
- CRAR disclosures
- Penalties levied on the bank

CAMELS

Capital Adequacy	It is the ratio of capital to risk-weighted assets. A sound capital adequacy is an indicator that a bank can meet all its customers' obligations when exposed to risk.
Asset Quality	It is a measure of ratio of nonperforming assets to total assets. It is an indicator of a bank's control over its bad debts
Management Quality	Competent management, effective policies and guidelines are some of the founding pillars for successful operation.
Earnings	The total income earned by a bank through various sources in accordance with the guidelines imposed by the regulator
Liquidity	It is the measure of cash reserve/liquid securities level. A high level is perceived positively since it would allow the bank to meet unexpected withdrawals without falling into a crunch
Systems and Control	It is a measure of the bank's sensitivity to market changes

17. RISK BASED SUPERVISION

17.1 Monitoring Bank's CAMELS Rating by NABARD

The Bank's rating is determined annually on CAMELS system by NABARD based on different parameters. The bank's rating is reflective of the risk management quality in the bank and is therefore an important parameter to be tracked by the Risk Management committee. CAMELS rating of the Bank encompass six factors for evaluation which are an expansion of the name itself and are stated as follows:

NABARD communicates its rating and marks to the bank. Based on this the bank will identify the areas where it has scored low and take remedial time bound steps to improve the weak areas of functioning.

17.2 Adoption of Risk-focused Internal Audit of Branches and Business Units

In line with NABARD guidelines, the bank shall progressively plan and move towards risk-based internal audit which will, in addition to selective and appropriate transaction testing, include:

- evaluation of risk management systems and control procedures prevailing in various areas of bank's operations;



- offering suggestions for mitigating current risks and also anticipating areas of potential risks by the internal audit team; and
- internal audit's role in protecting the bank from various risks.

The bank will accordingly take the following steps:

- Identify offices/branches where the business /risk levels are high and which generate larger share of the bank's income and accordingly propose frequency and intensity of audit at these branches;
- Identify loss making and fraud prone branches for risk supervision;
- Re-design the audit/inspection formats to move towards risk focused internal audit but avoid overlapping of audit coverage by different types of audit such as Concurrent, Chartered Accountant and Internal Inspection
- Have IT based controls for centralized monitoring
- Develop a risk rating matrix for branches
- Move towards computerization of the audit function
- Supplement the onsite inspection/audit with offsite surveillance

18. MONITORABLE ACTION PLAN (MAP) FOR ADHERENCE TO RISK MANAGEMENT POLICY (RMP)

18.1 Importance of Proper Implementation and Adherence to the RMP

In view of the critical nature of risk management and taking into account the focus given by NABARD/RBI, the bank recognizes the importance of proper implementation and adherence to its Risk Management Policy. The successful implementation of the policy will undoubtedly result in the following benefits for the bank:

- Optimizing returns commensurate with risks taken
- Encourage responsible risk taking
- Enable the bank to effectively compete in the market
- Develop and spread risk culture among the staff in the bank
- Ensure the long-term viability and sustainability of the institution

18.2 Action plan

In the above context, the Board of the bank recognizes;

- That the responsibility for implementation of the RMP rests with the CEO and all the members of the Board.
- That there is a need to continuously monitor RMP and for that purpose put in place the two main ingredients for ensuring the successful implementation of RMP viz. developing IT-based MIS and training of staff.
- The need to ensure that the bank in its day to day business adheres to the various risk limits approved by the Board.

Accordingly the Board will pro-actively take the following steps:

- a) Review the Risk Management Policy annually



- b) The Boards risk committee will check, in regular periodicity, the adherence to the\ critical risk limits fixed.
- c) Undertake a half-yearly review of the bank's compliance to all risk limits
- d) Carry out Quarterly review of the progress in the MIS system and HR resources required for Risk Management
- e) Ensure structured agenda to be discussed in Risk Committee meeting covering each the major risks applicable te the Bank including the termering of
- External economic changes
 - Changes in technology or introduction of technology
 - Competitors' products and services or rates
- f) In case of Violation/Deviation/Non-adherence to the RMP and/or the Risk limits, the Board will review the:
- Identified reasons which lead to such violation/deviation/non-adherence
 - Propose steps to avoid recurrence and specify trigger points for monitoring
 - Develop and prescribe "time-bound action plan for
- i. bringing back exposures within the limits (which will be monitored by the Board on quarterly basis.
 - ii. strengthening the MIS system
 - iii. provide for appropriate and adequate trained HR resources
 - iv. Bringing about necessary changes to achieve the targeted objectives


Chief Executive Officer
26/12/2013

