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**RISK MANAGEMENT POLICY OF
LIC of India Staff Co-operative Urban Bank Ltd No. 3314**

Approved By: The Board of Directors meeting Resolution No. XIV dated: 24.10.2022

CHAPTER 1

BACKGROUND

1.1 Need for Risk Management in the Bank

Urban Banks are member driven organizations and do not have access to market for equity funds. They accept deposit funds from public, other cooperative institutions and any other institutions as mentioned in the bye-law. But the main business activity of LIC of India Staff Co-operative Bank revolves around accepting deposits from and granting loans to LIC employees. Majority of their lending exposure is to the members. Further they have limited exposure to nonmember business. Only recently some of them have forayed into retail banking on a substantive basis. Against this background and given the limited capital resources available to support operations a strong, agreed-upon and well communicated risk management policy and framework (adopted to the changing operating environment and aligned to best practice) is critical to the efficient execution of the institution's business strategy and fulfillment of its objectives.

LIC of India Staff Co operative Urban Bank is one of the Urban Co-operative Bank in State of Kerala. The Bank recognizes the fact that the long-term interests of its member should be the guiding factor in all its decision-making. Further the Bank acknowledges the fact that due to its long years of existence and continuous growth and expansion of the organization, it has stewardship over a significant amount of members' share capital and deposits from members and non members. These funds must be utilized in such a way that member's needs are met and the Bank is able to generate sufficient income to ensure sustainability as financial entity. As such, the Board believes that a formal, robust risk management policy supported by appropriate procedures, process and rules is required. This policy should be a good fit to the size, complexity, services and nature of the Bank's business mode. The Board also recognizes that a positive risk management culture which permeates across all level of the Bank is essential to the effectiveness of the risk management system.

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 of the Bank and (b) comply with 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.

CHAPTER-2

RBI GUIDELINES ON RISK MANAGEMENT IN URBAN COOPERATIVE BANKS

2.1 Risk Management Guidelines as Applicable to Co-operative Banks

The Bank is conscious of the need to manage various financial risks that it faces in its ordinary course of business. Further, the regulators and supervisors in the financial sector have also given guidelines on risk management and banking business management.

In this connection RBI has issued guidelines (circular) on Risk Management and on managing Investment for Urban Co-operative Banks, details of which are as follows:

Table1 : Circulars on Risk an And other issues by RBI

Circular No.	Dated	Subject
67	06/04/2005	Guidelines on Risk Management
100	27/06/2008	Guidelines on Management of Investments by Urban Cooperative Banks
18	20/01/2010	Guidance note on Credit Risk Management
31	05/02/2010	Guidance note on Operational Risk Management
69	30/03/2010	Operational Risk Management and Business Continuity Planning
68	12/05/2008	Credit Monitoring arrangements – Revision of exposure norms and Monitoring & Reporting procedures

2.2 CRAR Guidelines as Applicable to Co-operative Banks

The Reserve Bank of India (RBI) vide circular dated 4th December 2007 has prescribed capital adequacy standards for the Urban Cooperative Banks and outlined therein definition of capital funds, Tier I \Core capital, Risk adjusted assets & Off-Balance Sheet items as also Risk Weights for calculating CRAR.

Further, RBI vide Circular dated 7th January 2014 have advised Urban Cooperative Banks to maintain a minimum mandated CRAR on an ongoing basis at

7% as on 31st Mach 2015

9% as on 31st Mach 2017

To facilitate raising of capital funds (Tier I and Tier II) for the purpose of compliance with the prescribed CRAR. RBI has also indicated that Urban Co-operative Banks should disclose the level of CRAR in their balance sheets and evolve a road-map for achieving the desired level of CRAR.

2.3 Income Recognition and Asset Classification (IRAC) Norms

RBI has stipulated IRAC norms for commercial banks and has made the same almost fully applicable to the Urban Cooperative Banks. The Bank will adopt asset classification norms and Income recognition norms as applicable to Urban Cooperative Banks.

In developing the risk management policy the Bank has fully factored the above guidelines and subsequent amendments as announced by RBI from time to time.

CHAPTER-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 Urban Co-operative 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

3.2 The policy contains provisions which will ensure compliance with:

RBI guidelines on Risk Management as applicable to cooperative banks

RBI regulatory requirements on CRAR and other matters on risk management as applicable to co-operative banks

CHAPTER-4

OBJECTIVES OF RISK MANAGEMENT POLICY

4.1 Major Activities of Urban Co-operative Banks

The Urban Cooperative Bank is involved in:

- (i) Mobilizing demand and term deposits from the members. In case of emergency the bank from institutions as permitted by the bye-law.
- (ii) Extending finance and refinance to members.
- (iii) Extending personal loans to the extent and as permitted by RBI
- (iv) Investments of funds in deposits and bonds under SLR and Non-SLR categories.

4.2 Bank's Policies Aligned to Risk Policy

The Bank has the following Board approved policies duly aligned to risk policy:

- (a) Loan Policy.
- (b) Investment Policy
- (c) ALM Policy
- (d) KYC-AML Policy including customer acceptance policy
- (e) IT Security Policy
- (f) Internal Control (with IT based Risk controls) and Audit Policy
- (g) Staff Accountability Policy
- (h) Whistle Blower Policy
- (i) Expenditure Policy

The above policies including the Bank's risk management policy shall be reviewed/ updated at regular intervals.

4.3 Coverage of Risk Policy

This Risk Policy covers the following risk categories:

- (a) Credit risk in general and more particularly major exposure to members,

Borrowers covered under CMA (as per RBI guideline)

(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

(c) Market risk including Interest rate risk

(d) Liquidity risk

(e) Capital risk and

(f) Compliance risk

CHAPTER-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. Given that in the process of financial intermediation a bank has to naturally assume risk it is important to understand the types of risk, the probabilities associated with each risk and have a clear plan to manage the risk. Risk cannot be vanished away and hence the need for a well defined policy to manage the same.

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 this case or investments, credit risk is the probability of defaults 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.

Example of high credit risk: The risk of financial loss (non-receipt of interest and principal and the collection charges incurred) through delinquency due to concentration of large (outstanding) loans. Another example of credit risk is the delay or nonpayment of coupon in an investment or default in the repayment of an investment.

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 has been mentioned above. The efficiency with which recovery function is carried out contributes hugely to containing of credit risk. Recovery (risk) has three components:

a) **Surety Risk:** Credit risk is nullified or minimized if the outstanding credit can be recovered from the surety. The ease with which recovery can be effected from surety is very important to manage credit risk. Thus, inefficiency in the recovery from surety transforms the credit risk into a recovery risk, plus an asset value 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.

b) **Legal Risk:** This refers to the risk of the bank not being able to effect recovery from sureties due to legal issues such as changes in the laws etc.

5.3 Operational Risk

Another critical risk area 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).

Table 2 : Illustrative List of Example of Operational Risk:

Sub-category of Operational Risk	Example
Damage to physical assets	The bank's assets are damaged by a fire
IT Systems and software failures	The bank losses financial records because the database is corrupted by a virus. Banks systems' are hacked which resulted in loss of date base and also possible customer litigations against the bank
Organizational processes	Incorrect contact details or member records results in credit officer being unable to follow up on borrower's arrears.
Internal and external fraud	A staff member or outsider embezzling bank or customers funds through fraudulent means or violation of procedures.
Failed systems	The bank unknowingly assisting in money laundering due to poor customer/member identification procedures

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

5.4 Liquidity Risk

A bank should always have sufficient fund to meet its known and committed repayments/ payments and ensure growth. Given this, liquidity is a condition where a bank is neither able to meet its payment and repayment obligations nor expand its business. Therefore, 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 .

Time risk – need to compensate for non-receipt of expected inflows of funds, i.e., performing assets turning into non-performing assets; and

Call risk – due to crystallization 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 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 movements/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 the relevant assets held by the bank include:

Price risk/Equity risk: Adverse changes in the value of investment products like bonds.

Currency risk: Adverse changes in the value of a country's currency.

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 to adverse changes in the rate of interest. Changes 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 Urban Co-operative bank has invested in SLR and No SLR bonds and these are largely fixed income securities. As such understanding and managing interest risk in an important element of risk management of the bank.

5.7 Capital Risk

Stipulation, by the regulator, of Minimum Capital and Owned Fund that a bank must have is a long established practice. It is now well recognized that bank must be well capitalized for managing various risks lest the depositors face default risk. Banks have access to huge amount of deposits and the interest of depositors need to be protected.

In this background 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

Co-operative 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 to maintain CRAR as per RBI guidelines.

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 institutions. Yet it applies to all those are covered by the provisions. Regulations 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. 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 RBI 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 included 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.

CHAPTER-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" which is a sub-committee of the Board with following members:

- 1) Chairman
- 2) Secretary
- 3) Three Directors

CEO and AGM are mandatory in this committee.

Quorum of the meeting is three

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.

CHAPTER-7

MANAGING CREDIT RISK IN THE BANK

7.1 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

7.2 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) Imparting training to the Credit officers of the Bank

(c) Review and updating the product specifications/details of loans and advances of the Bank from time to time

7.3 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. According to that the Bank will adopt a well-defined exposure for each counter party it deals with. The Bank will calculate Inter-Bank exposure limit covering all exposures such as call money lending, CD, Term Deposits etc. on each Bank based on published financial statements or information called for. In this the Bank is guided by the guidelines provided in RBI's circular on Investment the key financial parameters to be evaluated for any counter-party bank will be :

(a) Capital Adequacy

(b) Asset Quality-

(c) Liquidity – and

(d) Profitability

7.4 Credit Concentration Risk Limits

The Bank will fix Credit concentration risk limit 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.

7.5 Managing Credit Risk at Origination

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

(a) 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.

7.6 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) Having standardized process notes to capture all vital information to assess borrowers' capacity to repay and willingness to repay and cross checking veracity of documents submitted.

(2) Prescribing benchmark financial ratios for borrows seeking higher credit limits.

(3) Stipulating covenants as well as terms and conditions of sanction covering:

Minimum margins to be obtained\prescribed

Type and extent of collateral to be obtained

Personal guarantees to be obtained (types of loan, types of guarantor, etc)

7.7 Managing Credit Risk at Documentation and Disbursement Stage:

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

☐☐ Reviewing the documentation requirements for different types of loans/facilities periodically .

7.8 Managing Credit Risk at Credit Monitoring Stage:

This will include:

Compliance with terms and conditions of sanction

Annual review of credit limits and half-yearly review in case of weaker accounts

7.9 Managing Credit Risk at Recovery State:

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

Mandates for recovery of installments/ 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

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.

7.10 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

NPA of the Bank shall be kept minimum preferably 0 with strict and effective monitoring and follow-up.

CHAPTER-8

LOAN REVIEW MECHANISM/CREDIT AUDIT

8.1 Objectives of Loan Review Mechanism/Credit Audit

Credit Audit examines compliance with sanction and post-sanction processes/ procedures laid down by the bank from the 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 skill of staff, etc.

8.2 Credit Audit 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 RBI

CHAPTER-9

MANAGING MARKET RISK IN THE BANK

9.1 Components of Market Risk

Market risk management of a bank involves management of
Interest rate risk,

Liquidity risk

9.2 Managing Interest Rate Risk in the Bank

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

(1) 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 of various time bands.

In order to contain the impact of changes on interest rates on bank’s earning, the bank shall monitor the RSA and RSL positions in various time buckets through various limits

Bank shall also prepare a report on earning at Risk (EAR) i.e. possible loss of income under different interest rate scenarios over a time horizon of one year on monthly basis and report to ALCO. Analysis thereof with action taken shall be placed in the subsequent Risk Committee meeting.

9.3 Risk Limits for Investments

The risk 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.

CHAPTER-10

MANAGING LIQUIDITY RISK IN THE BANK

10.1 Need for Liquidity and Available Sources to Meet Liquidity

Being Liquidity is the ability of the bank to manage or accommodate decrease in liability with or without a simultaneous increase in assets. The Bank need 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 to meet contractual obligations or relationship obligations at reasonable price at all times.

The bank recognizes that the 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

10.2 Measuring and Managing Liquidity

Measuring & managing funds requirements will be done by the bank through

Stock Approach: In this approach the bank will calculate the liquidity ratios and compare them to the bench marks to be set by the bank. The liquidity ratios includes \

Liquid assets to short-term total liabilities

Core deposits to total assets

Loans to total Assets

Loans to Core Deposits

Large Liabilities (minus) Temporary Investments to Earning Assets (minus) Temporary Investments

Loan Losses/Net Loans

Total Liquid Assets to Total **Assets** Ratio (the higher the ratio the more liquid the bank is)

Total Liquid Assets to Total Deposits ratio (this measures the bank's ability to meet withdrawals.

CHAPTER-11

MANAGING OPERATIONAL RISK IN THE BANK

11.1 Operational Risk Events Reporting

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

Table 11: 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 Management Committee meeting.
2	Major IT failure in Hardware or Software	
3	IT Security breach	
4	Robbery / Theft at the branches	
5	Fire incident in any of the Bank's premises	
6	Damage to bank's immovable 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 house	
10	Sexual Harassment incident	
11	Forged notes or Forged documents detected at branch or Head Office	
12	Title deeds of property or documents missing from the branch	
13	TDS / Service Tax not deposited with Income Tax /Service Tax Authorities	

CHAPTER-12

MANAGING IT RISK IN THE BANK

12.1 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 improve delivery while at the same time it can also cause operational risk.

If managed properly, IT can be an excellent enabler by:

Being a toll for development of new products and services

Substantially shortening the delivery time to the customer

Empower the customer to do home banking

Reduce the cost of operations for the Bank

Optimize human resources for deployment in marketing and business development at the same time, 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 Volume levels of transactions and corresponding revenues.

High obsolescence cost

IT risk more particularly IT security risk has to be managed proactively.

12.2 RBI Guidelines on IT Risk

RBI has issued detailed guidelines to Urban Cooperative Banks on IT risks which also include the following

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 FIU-IND

CHAPTER-13

COMPLIANCE RISK, CRITICAL COMPLIANCES AND DISCLOSURES

The bank recognizes that:

Compliance Functions is one of the key elements in the bank's 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

CHAPTER-14

RISK BASED SUPERVISION

14.1 Monitoring Bank's CAMELS Rating by RBI

The Bank's rating is determined annually on CAMELS system by RBI 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 encompasses six factors for evaluation which are an expansion of the name itself and are stated as follows:

Table 14: CAMELS Explained

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 Non-Performing 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

RBI 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

CHAPTER-15

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

15.1 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 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

15.2 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:

- i. Review the Risk Management Policy annually
- ii. The Boards Risk Committee will check, in regular periodicity, the adherence to the critical risk limits fixed.
- iii. Undertake regularly review of the bank's compliance to all risk limits
- iv. Carry out Quarterly review of the progress in the MIS system and HR resources required for Risk Management