



The Karad Urban Co-Operative Bank Ltd., Karad

(Scheduled Bank)

Head Office: 516/2, Shaniwar Peth, Karad - 415 110.

Vigilance & Risk Management Department



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RISK MANAGEMENT POLICY F.Y. 2024-2025

1) INTRODUCTION :

Banks in the process of financial intermediation perform critical functions of maturity and liquidity transformation which result in risk aggregation and significant leverage. Thus risk has become an integral part of banking business. In order to balance between risk and returns well framed policy is needed. Large scale use of technology, ever changing rules and regulations, adoption of new systems and procedures, changed habits and behavior, unpredictable economic and political environments leads to various risks day in and day out. Therefore, robust risk management policy covering all departments and divisions need to be framed and implemented. Risk management is continuous process and preparedness to face it successfully has become urgency. Policy should assess risk at every stage and there should be laid down procedure to minimize it or to nullify it in total.

2) PURPOSE and SCOPE :

The main objective of this policy is to ensure sustainable business growth with stability and to promote a pro-active approach in reporting, evaluating and resolving risks associated with the business. In order to achieve the key objective, the policy establishes a structured and disciplined approach to mitigate the Risk associated to respective departments.

The objectives of the Risk Management Policy are as follows:

- i. To review and evaluate periodically the risk management system of the Bank so that the management controls the risks through properly defined network.
- ii. To ensure that all the current and future material risk exposures of the Bank are identified, assessed, quantified, appropriately mitigated, minimized and managed i.e. to ensure adequate systems for risk management.
- iii. To enable the Bank to proactively manage uncertainty and changes in the internal and external environment to limit negative impacts and capitalize on opportunities.
- iv. To establish a framework for the Bank's risk management process and to ensure its implementation.
- v. To enable compliance with appropriate regulations, wherever applicable, through the adoption of best practices.
- vi. To assure business growth with financial stability.
- vii. To held responsible and accountable to the concern authorities for implementation of the risk management system as & when applicable to their respective areas of functioning.



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3) The Constitution of Risk Management Department will be as under :

DGM → Manager → Officer → Clerk

4) Internal Control Framework process :

The internal control framework process which every business unit will need to adopt across all departments and branches.

- i. Identify - Identify sources of risk, events or sets of circumstances and their potential consequences
- ii. Measure - consider the causes and sources of risk, their positive and negative consequences (impact), and the likelihood that those consequences may occur
- iii. Evaluate - make decisions within the risk appetite, to avoid, accept, reduce or share risk, priorities to take action
- iv. Manage - execution of the control activities from the evaluation step
- v. Monitor - review effectiveness of controls, detect changes in risk environment and communicate risks to stakeholders

5) Applicability :

The Board of directors of the bank will have an oversight of all the risks assumed by the bank with specific committees of the Board constituted to facilitate focused risk management. There will be adequate representation of independent directors on each of these committees. The Board has framed specific mandates for each of these committees. The proceedings and decisions taken by these committees will be reported to the Board. The policies approved by the Board of directors from time to time will constitute the governing framework within which business activities will be undertaken by all the departments. This policy applies to all activities of the Bank's operations which includes all the Departments and Branches.

6) Types of Risks Considered :

There are numerous risks. But we have considered six risks that are faced by most of the banks. We have assigned Risk weightage considering our nature of business, structure, style of working and history of bank. In bank different types of risks relates to financial risk or uncertainty of financial gains resulting in financial loss. Risk management means measures adopted to control risk and creating possibility of gains or minimizing potential loss to bank.

Sr. No.	Type of Risk	% of Weight to Business Area
1	Credit risk	50.00%
2	Interest Rate and Market Risk	10.00%
3	Liquidity risk	10.00%
4	Operational Risk	15.00%
5	Compliance Risk	2.50%
6	Technology and Cyber Security Risk	7.50%
7	Reputational Risk	5.00%



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The bank has put in place best Risk Management practices in Credit, Interest and Market, Liquidity, Compliance, Operations and Technology risks for timely proper identification, measurement, monitoring and mitigation of the risks.

7) Risk Management Practices in KUCB : A Brief note on these practices is given here under:

A) Credit Risk Management for Loan Department -

Credit is the core activity of banks which forms an important source of bank's earnings. Credit risk is found in all activities where success depends on counterparty, issuer, or borrower performance. Credit risk may also arise where the performance of guarantors is required. Asset quality of the bank depends upon proper risk assessment at the beginning of any loan proposal. Banker's task is to identify and assess the risk factors, parameters and manage them on a continuous basis. To manage Credit risk bank has put in place loan policy which focuses on the following points.

1. The Bank has well defined loan policy which is reviewed on a yearly basis based on RBI guidelines and economic conditions.
2. The objectives of loan policy are towards sanctioning process, managing and monitoring the credit risk. The loan policy aims at effective systems, procedures and control measures.
3. The bank has organised the credit process in order to handle large volumes of business by improving the existing processes.
4. The banks presence is in 8 different geographical areas. Each business development centres (BDC) has been headed by different executive. The working of BDC focused on achieving all the targets assigned, create compliance culture, regular monitoring of accounts and ensures maintenance of asset quality.
5. The bank ensures entry check points while sanctioning the credit proposal. Business feasibility, sustainability of business in the long run, quality of management, past track record of performance, adequate security and margins etc has been evaluated during the credit appraisal procedure.
6. Considering the flow of commercial proposals and growing business of bank, it was found necessary to delegate the powers down the line to executives and Loan committee for speedy disposal of credit. It was necessary to build up appropriate credit delivery system with adequate delegation of authority along with responsibility and accountability. Loan committee and Board of Directors committee approach sanction those loans beyond the delegated powers of Hon. CEO and other executives.



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7. Credit appraisal system comprises of thorough assessment of borrower's activity, CMA data analysis, ratio analysis, need based requirement, viability of the project based on well-defined norms for credit assessment.
8. Credit Rating is an evaluation of the creditworthiness of a borrower to fulfil his financial commitments or repayment of debts and other financial obligations. The Risk Management department (RMD) is independently handling credit rating sanctioning approvals for all business loan accounts. The credit rating model is based on financial, Security, Conduct of account, Management and business and other parameters. The Credit Rating concept is presently applicable for only business loan accounts of Rs.50.00 lakhs & above.
9. The RMD is monitoring the credit portfolio in the bank on a monthly and quarterly based reporting to the Hon. CEO.
10. The guidelines issued by RBI in respect of classification and maintenance of priority sector advances are strictly followed by the loan department by issuing various circulars to the branches for implementation.
11. An Analysis of all the Term Loan & Cash Credit accounts with gradation marking as 'SMA-0', 'SMA-1' & 'SMA-2' & NPA Accounts respectively is placed before Hon. Board of Directors meeting.
12. In order to develop credit expert amongst staff, regular training sessions and workshops are arranged inhouse by the bank. External trainings for the selected staff are also arranged.

B) Interest, Market and Liquidity Risk Management for Accounts, Loan and Treasury departments -

- Interest Rate and Market risks arises to asset quality and valuation resulting from adverse movements in market rates or prices, such as interest rates, foreign exchange rates or equity prices.
- Interest rate risk - Potential losses due to fluctuations in interest rate. This risk arises because of a bank's assets usually have a significantly longer maturity than its liabilities. In banking language, management of interest rate risk is also called asset-liability management (or ALM). Legal and Regulatory changes relating to interest rates or market could create risks. Deposits being an important source of funding for banks which were primarily short-term in nature and bank face the risk of asset-liability mismatches if deposits were not rolled over by the depositors.
- Market risk can impair the Bank's liquidity position. It also potentially affects earnings if the Bank is unable to meet its obligations when they become due without incurring unacceptable losses (i.e., liquidating investments that declined in value due to rising interest rates).



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- Liquidity risk is the risk to earnings or capital which arises from a bank's inability to meet its obligations when due without incurring unacceptable losses. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources. Liquidity risk exposure is present in various funding situations, but primarily deposit and lending activities.
- To manage Interest, Market and Liquidity risk bank has put in place loan policy, deposit policy, investment policy, asset liability management policy which focuses on the following points.
 1. As per delegation of Investment powers to bank officials, sale and purchase of government securities transaction will be implemented.
 2. Adhering to the regulatory norms as CRR/SLR.
 3. Ensuring daily adequate liquidity position.
 4. Bank manages interest and market risk to earn additional income while maintaining surplus of assets over liabilities.
 5. Monthly valuation of SLR and Non SLR investments.
 6. Availing CBLO, TREPS & REPO borrowing by pledging of surplus government securities with the RBI.
 7. Borrowing funds under LAF repo, overdraft facility against fixed deposits with other banks in case of liquidity fall back arrangement situation.
 8. The Structural Liquidity Statement will be prepared daily and placed before CEO of the bank.
 9. The short-term dynamic liquidity statement will be prepared daily and placed before CEO of the bank.
 10. Ensuring daily Cash Management of Branches.
 11. Interest-Sensitive GAP Analysis will be prepared for market risk mitigation.
 12. The Executives of bank shall meet once in a month in ALCO & Executive Committee Meeting and discuss the various issues including current market trend of banking and changes in the market due to government policies, competition from commercial, other banking and non-banking industries, Liquidity position of bank etc. The change will be analysed and calculation of the impact on our bank will be done and corrective action if required will be taken.
 13. The Asset Liability Committee comprises CEO, GM and DGM will review on a monthly basis, the bank's business profile and its impact on asset liability management.



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C) Operational Risk Management for All departments -

An Operational risk is a risk arising from execution of a bank's business function. The concept focusses on the risks arising from the people, systems and processes through which a bank operates. Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risk includes both transaction and strategic risk. Transaction risk is the risk to earnings or capital arising from problems with service or product delivery and may include potential financial losses from human error or fraud, incomplete information, and related decision-making or operational disruption. To manage Operational risk bank has put in place loan policy, deposit policy, investment policy, audit, hr and administration, recovery, IT, asset liability management policy which focuses on the following points.

1. Operational Risk will be owned by each business unit and its everyone's responsibility.
2. All departmental heads will be monitoring their departments as primary risk mitigating controls.
3. Bank has strong Internal Control Policy and the monitoring of abnormal transactions will be monitored by the CBS system.
4. Bank has allowed restrictive access of CBS System to staff as per their designation. Concurrent and Internal Audit function ensures that breaches in the policy by the business units will be monitored and corrective actions enforced to contain operational risks.

D) Compliance Risk Management for All departments -

The bank, its directors, management, and staff must operate in compliance with a various different laws, rules and regulations. Compliance risk arises from violations of or non-conformance with those laws on KYC-AML as per RBI guidelines regulations, or prescribed practices which govern the bank's activities. Compliance risk may potentially subject the Bank's and its directors and officers to fines and civil money penalties by regulators which result in lawsuits by customers and others. To manage Compliance risk bank has put in place loan policy, deposit policy, investment policy, audit, hr and administration, recovery, IT, asset liability management policy which focuses on the following points.

1. Concurrent and Internal Audit function ensures that breaches in the policy by the business units will be monitored and corrective actions enforced to contain compliance and legal risks.
2. Bank has strong Internal Control Policy and the monitoring of abnormal transactions will be monitored by the CBS system.
3. All departmental heads will be monitoring their departments as primary risk mitigating controls.
4. Bank has allowed restrictive access of CBS System to staff as per logical access control management tool.
5. Bank having Legal Department for verifying all the policies will be covered for legal issue.



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E) Technology and Cyber Security Risk Management for IT department -

- Rapid technological developments and the increasing dependence on technology, combined with continuous digitisation in banking activities have exposed banks to a host of new risk like obsolescence of IT system, IT resiliency and business continuity, technology vendor/third party risk, incorrect/inadequate data backups, inadequate change management practices, ineffective identity and access management leading to unauthorised access to IT systems, budget over-runs in IT projects, regulatory non-compliance and other relevant matters. Misalignment between business and IT strategies is also a formidable risk.
- Increasing reliance on technology and digitisation increase the risks of cyber-attacks including computer viruses, malicious or destructive code, phishing attacks, denial of service or information, ransomware, unauthorized data access, attacks on personal emails of employees, application vulnerability and other security breaches. This could negatively impact the confidentiality, integrity or availability of data pertaining to the bank and its customers. Given the nature of new digital economy, the bank has business and operational relationship with third parties and these could also be sources of information security risk. To manage Technology and Cyber Security risk bank has put in place IT policy which focuses on the following points.
 1. The bank's Information Technology strategy Committee ensures that Information Technology strategy will be aligned with the business strategy.
 2. Review ongoing IT projects and their schedules.
 3. Major IT incidents, technology risk indicators and status of regulatory compliance.
 4. Policies and control framework on change management. Logical access management, out sourcing and Data Centre process to ensure that the risks were identical and appropriate mitigating controls were put in place.
 5. IS Audit periodically to provide assurance on the effectiveness and efficiency of IT systems and processes.
 6. The bank has done VAPT audit for its hardware, software and networking assets.
 7. The bank's Information Technology Committee oversees cyber security related threat landscape and bank's preparedness to address these from a prevention, detection and response perspective.
 8. The bank has prepared comprehensive Cyber Security policy as per the guidelines of RBI.
 9. The Computer Department will be responsible for tracking the risks. Confidentiality, Integrity and Availability form part of a comprehensive information security framework that the bank has put in place.



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10. The bank will also lay emphasis on customer elements and shall invest in the areas of phishing protection, adaptive authentication, and awareness initiatives and will also take industry-leading initiatives in providing customers with an easy and immediate ability to configure their risks and limits.

F) Reputational Risk -

This is one of the most critical risks. Any reputational impact either in terms of regulatory sanctions, supervisory actions or external market elements may disrupt the operations of the entity. These are sudden risks that may emanate for any unforeseen events and have material financial impact. However, quantifying the same may not be possible.

These may include market related risks due to geo-political issues, interest and liquidity issues due to rumours, etc as well as cyber attack and such incidents.

Although sufficient safeguards and controls have been put in place, yet the probability of such contingent chance of events cannot be predicted and provided for.

G) Monitoring by Risk Management department -

I. Monthly Monitoring in the following manner:

Term Loans		Cash Credit	
Analysis of all Term Loan accounts will be done with OD installment and reporting on the basis of loan limits with marking gradation as 'SMA-0', 'SMA-1' & 'SMA-2' as per below parameters:		Analysis of all Cash Credit Accounts will be done on the basis of - Outstanding balance remains continuously in excess of the sanctioned limit or drawing power, whichever is lower, for a period of:	
Grade 'SMA-0'	Upto 30 days	-----	
Grade 'SMA-1'	More than 30 days and upto 60 days	Grade 'SMA-1'	More than 30 days and upto 60 days.
Grade 'SMA-2'	More than 60 days and upto 90 days	Grade 'SMA-2'	More than 60 days and upto 90 days.
Grade 'N.A.'	For GL No. 265 (FDOD), 267(PIGMY), 308 (LAD), 312 (LARD)	Grade 'N.A.'	For GL No. 106 (FDCC), 130 (AAFD), 133 (AARD), 127 (CCFD), 129 (AAG), 145 (ODAFD)
N.P.A	N.P.A. marked Accounts	N.P.A	N.P.A. marked Accounts



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Out of Order for Cash Credit/Overdraft accounts only-

Cash credit/Overdraft (CC/OD) account will be classified as NPA if it is "out of order". Cash credit account would be treated as out of order if;

- i) the outstanding balance in the CC/OD account remains continuously in excess of the sanctioned limit/drawing power for 90 days, or
- ii) the outstanding balance in the CC/OD account is less than the sanctioned limit/drawing power but there are no credits continuously for 90 days, or the outstanding balance in the CC/OD account is less than the sanctioned limit/drawing power but credits are not enough to cover the interest debited during the previous 90 days period.

II. Monthly Reporting & Follow up in the following manner:

Reporting will be done in the following manner	<ul style="list-style-type: none">• Reporting to Hon. Chief Executive Officer with gradation marking of all accounts as 'SMA-0', 'SMA-1' & 'SMA-2' & NPA Accounts as per above parameters.• Cases of 'SMA-2' Grade Accounts will be informed to concerned branches for regular follow up and monitoring with copy to respective Branch Controlling Executives (BCE's) and Recovery Department (for recovery planning and further action, if any).
Special emphasis	Classification of Borrower and Special Efforts to 'SMA-2' Category borrowers for Loans & Advances of Rs.100 lakhs & above.

III. Quarterly Monitoring in the following manner:

<ul style="list-style-type: none">• An Analysis of all the Term Loan & Cash Credit accounts with gradation marking as 'SMA-0', 'SMA-1' & 'SMA-2' & NPA Accounts respectively to Hon. Board of Directors meeting will be done at quarterly intervals.
<ul style="list-style-type: none">• Quarterly comparison of movement both UPGRADE & DOWNGRADE in existing grades of Term loan & Cash Credit accounts shall be analyzed.
<ul style="list-style-type: none">• Quarterly Review of Credit Rating sanctioned Loans and Advances and reporting the same in Hon. Board of Directors Meeting will additionally be carried out by RMD Department.

IV. Half Yearly Monitoring in the following manner:

<ul style="list-style-type: none">• Follow up for effective implementation of Loan Guardianship (unique approach of KUCB) which has been assigned to all Branch Staff to maintain their delegated loan accounts regular and ensure follow up of irregular accounts.
<ul style="list-style-type: none">• This concept includes regular contact to customer, compliance, visit, reporting to seniors and further necessary actions should be done as early as possible. In case of poor response to particular Guardians, the Recovery Department shall suitably aid them in recovery efforts.



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V. Yearly Monitoring by Risk Management Department will be done in the following manner that will aid the branches in better borrower profile mapping:

- Yearly information regarding all term loan and cash credit accounts will be provided by RMD Dept. This Information will guide Branches for comparison of monthly turnover in last two years. This will aid Branches to have a dialogue with such customers and identify issues, if any.
- This will also help branches to make planning to regularize or recovery of those accounts considering their previous experiences of that particular account, from the beginning of the current year.

VI. Other Monitoring by Risk Management Department:

- The Risk Management department (RMD) is independently handling credit rating sanctioning approvals for all business loan accounts on the basis of financial, Security, Conduct of account, Management & business Administration and other/ Compliance parameters.
- As per this Credit Rating Policy, rating gradation from A+ to C grades which have been allotted to all the rated applicable customers a Quarterly Review of the same shall be taken by RMD Department.
- During such review, if term loan account is Overdue than two months or interest receivable from cash credit account not recovered for more than two months, i.e. SMA-2, the concession in interest rates through "Credit Rating" shall be withdrawn by the respective branches.
- A monthly follow up in this regard shall be taken by the Risk Management Department.
- **High Value Transactions in Large Borrower- Advance Accounts -**
 - In addition to the various monitoring conducted by Vigilance & Risk Management Dept; special monitoring of "high value debit transactions" in large borrowers in Advance Accounts shall be undertaken at regular intervals.
 - This monitoring shall ensure focus on end use utilization so that diversion of funds/ utilization other than the purpose loans sanctioned are detected and suitable corrective action be taken.
 - A consolidated branch wise list of such transactions shall be sent to respective branches for their remarks. These remarks shall be specific with pre-built-in options like sale proceeds/ payment to vendors/ statutory dues payment/ business transactions/ suspected diversion of funds, etc and consolidated by Vigilance & Risk Management Dept.
 - A consolidated monthly report of such high value debit transactions in large advance borrower accounts shall be placed before CEO or whenever suspected diversion of funds/ non-satisfactory end use of borrowed funds is not clear for action to be taken.
 - A quarterly report of such cases shall be placed before Hon. Board of Directors Meeting after the end of the quarter.



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Note:

1. Large borrowers are borrowers with funded limits Rs.1 Crore & above
2. Advance Accounts w.r.t to this monitoring shall be GL base type; 101, 102, 103 & 104.
3. High Value Debit (outward) transactions threshold would be considered as Rs.1 Crore & above.

8) Implementation of the Bank's Risk Appetite :

"Vigilance & Risk Management Dept" will be responsible for the review of Risk Appetite at half yearly interval.

I. Risk Assessments -

Vigilance & Risk Management Dept is required to review and manage their specific risks in a manner which is consistent with this Statement and to manage and address any risks outside appetite or agreed tolerance levels at half yearly intervals.

II. Risk Management Tolerances and Metrics -

- Tolerances and measures are defined in individual Department wise policies, procedures and guidelines. They shall be quantified and a half yearly consolidated "Assurance" report of the same shall be put forth to the Hon. Board of Directors for their insights, suggestions and directions shall be put forth by the Vigilance & Risk Management Dept.
- In case of breach of any of the thresholds in tolerance matrix; the same shall be explained with causes & put forth in the ensuing ALCO meeting. The ALCO shall discuss the same along with breach causes, possible impact outcome and whether there is possibility of such occurrence again. Possible measures for prevention of such breaches as discussed in ALCO shall be put forth to the ensuing Hon. Board Meeting for their remarks/ suggestions/ guidance and plan of action. They shall form a part of the bank's "Risk Appetite Statement".

III. Monitoring & Reporting -

- By monitoring a set of appropriate risk indicators and by checking their actual values and trends against agreed limits/ thresholds each parameter wise and at consolidated level; bank as a whole is able to see whether its operational risk exposures remain within its appetite for risk or exceeds it.
- This reporting provides assurance that the risk appetite is effectively incorporated into management decisions. By embedding risk appetite within the management processes of the Bank, it directly contributes to the maintenance of a robust control environment and sound risk governance.
- The monitoring and reporting aspects shall be conducted at least twice in a year at half yearly intervals by the Vigilance & Risk Management Dept.



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9) Consolidated Review :

This policy will be reviewed as and when required to meet the requirements and needs of organization.

Manager

(Vigilance & Risk Management Dept.)

Dy. General Manager

(Vigilance & Risk Management Dept.)

Chief Executive Officer