THE KASARAGOD CO-OPERATIVE

TOWNBANK

LTD, No.970

RISK MANAGEMENT POLICY

RES No. Dated …………..

PREAMBLE

The purpose of this policy is to address unanticipated and unintended losses to the human resources and financial assets of the Bank without unnecessarily limiting the activities that advance its mission and goals. The Bank has introduced effective risk management systems that address the issues relating to various risks. The effective management of risk is vital to the continued growth of the Bank.

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RISK APPETITE STATEMENT			
Strategic Objective The Kasaragod Co-operative Town Bank aims to become a co-operative bank that is respected and trusted by all its stakeholders providing "concierge banking services for ultimate customer service quality", through: committed people; recognizing that our long term sustainability is dependent on having sufficient capital and liquidity to meet liabilities as they fall due through the cycle; the protection of our reputation; and the integrity of our relationship with our customers and wider stakeholders.			
Target Rating Bank rating ahead of the Bank's closest peers and be among the best UCBs of the country (FSWM)			
Risk Appetite Pillars			
Capital Adequacy	Stable Earnings Growth	Liquidity and Funding	Shareholder confidence
Be an agile, sustainable UCB that maintains its capital adequacy in terms of amount and quality, and hence is able to withstand appropriate capital related stress and to cover existing projected risks in extreme but plausible scenarios.	Be an agile, sustainable UCB that has stability and consistency in earnings over time, which grow at a rate similar or more to the revenue growth.	Be an agile, sustainable UCB that has stable and efficient access to funding and liquidity, and hence is able to withstand appropriate liquidity related stress, with relevant liquid asset holdings.	Be an agile, sustainable UCB that is respected and trusted by all its stakeholders and hence maintains stakeholder confidence at all times.
a) CT1 ratio [Tier-1 / RWA]: >7% b) Leverage ratio [Tier1 / Total Assets] =/>3.5% c) Available capital [Tier1]: > NNPA d) Capital buffer minimum over regulatory requirement [Total Eligible Capital / RWA-12]:=/> 2%	a) Earnings volatility [M-o-M deviation in Yield on Advance]: Not more than 200 bps downside. b) Return on Capital [Net Profit / Share Capital]: =/> Max FD Rate+(YoA-CoD). c) Return on RWA [Net Profit/RWA]: =/> Reverse Repo Rate. d) Cost to income ratio [Net Income/Operating Expenses] >50% e) Net NPA [Net NPA / Gross Advance minus BDDR]: =/<3%	a) Loan to deposit ratio [Loan / Deposit]; <70% b) HQLA buffer minimum: 4.5% c) Concentration risk: Within regulatory framework d) NSFR minimum: =/>100% e) Wholesale funding limits: =/<Rs.1 crore f) Internal funds pricing regime : As per Transfer Price Mechanism to be put in place	a) Employees – Work-Life balanced b) Regulators – 100% compliance c) Investors – Dividend paid d) Customers – Complaint-free e) Ratings agencies Not contemplated now.

RISK MANAGEMENT POLICY 2025-26

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 lead 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.

2.1. 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.

2.2. The Constitution of Risk Management Department will be as under

Chief Compliance Officer

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Manager (RMD)

2.3. **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, defect changes in risk environment and communicate risks to stakeholders

3. 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.

4. 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.

Sl.No	**Particulars**	**% of Weight to Business Area**
1	Credit risk	60.00%
2	Interest Rate and Market Risk	15.00%
3	Liquidity Risk	7.50%
4	Operational Risk	7.50%

5	Compliance Risk	2.50%
6	Technology and Cyber Security Risk	7.50%

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

5. Risk Management Practices in the Bank

A Brief note on these practices is given:

5.1. Credit Risk Management:

Credit is the core activity of the Bank 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.

a. The Bank has well defined loan policy which is reviewed on a yearly basis based on RBI guidelines and economic conditions.
b. 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.
c. The bank has organised the credit process in order to handle large volumes of business by improving the existing processes.
d. 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.
e. 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 Executive 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.
f. Credit appraisal system comprises of thorough assessment of borrower's activity, financial ratio analysis, repayment capacity, need based requirement, viability of the project based on well-defined norms for credit assessment.
g. The Bank has developed credit risk rating models 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 and Yuva car loans and Yuva Home Loans.
h. The RMD shall monitoring the credit portfolio in the bank on a quarterly based reporting to the RMC of the BoD.
i. 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.

j. An Analysis of all the borrowal accounts marking as 'SMA-0' (for non-revolving credits), 'SMA-1' and 'SMA-2' and NPA Accounts respectively is placed before Recovery Committee of the Board of Directors.
k. 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 members are also arranged.

5.2. Interest, Market and Liquidity Risk Management:

a. 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.
b. Interest rate risk - Potential losses due to fluctuations in interest rate. This risk arises because of the 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.
c. 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).
d. 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.
e. To manage Interest, Market and Liquidity risk bank has put in place Investment Policy, ALM Policy, Loan policy and Deposit 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 reserve requirements 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. Quarterly valuation of SLR and Non SLR investments.
6. The Structural Liquidity Statement will be prepared monthly and placed before the CEO of the bank.
7. The short-term dynamic liquidity statement will be prepared monthly and placed before CEO of the bank.
8. Ensuring daily Cash Management of Branches.
9. Interest-Sensitive GAP Analysis will be prepared for market risk mitigation.
10. The Executives of bank shall meet once in a month in ALCO 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.

11. The Asset Liability Committee (ALCO) comprising of CEO, GM,AGM, Chief Accountant, Manager (Investment) and Development Officer will review on a monthly basis, the bank's business profile and its impact on asset liability management.

5.3. Operational Risk Management:

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 it is everyone's responsibility.
2. All departmental heads will be monitoring their departments as primary risk mitigating controls.
3. Bank has various strong internal control policies like Accountability Policy, BCP, Compliance Policy, Cyber Security Policy, Information Security Policy, Job Rotation Policy, KYC AML PMLA CFT Policy, Outsourcing Policy System Access Control Policy and Whistle Blower Policy. 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.

5.4. Compliance Risk Management

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, 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, the 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 policies 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 is having empaneled lawyers for mitigating legal risks.

5.5. Technology and Cyber Security Risk Management:

a. Rapid technological developments and the increasing dependence on technology, combined with continuous digitalization 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.

b. Increasing reliance on technology and digitization increase the risks of cyberattacks 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 Information Security 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 ITS 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.
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.

6. Risk Management Committee of Board of Directors:

6.1. Constitution of Risk Management Committee

The Risk Management Committee of the Board of Directors shall be headed and chaired by a professional director, who do not hold the position of Chairman or Vice Chairman of the Board of Directors nor the Chairman of any other Board level committee.

All professional directors shall be members of the Risk Management Committee. Total number of members in RMC shall be six including non-professional directors. The Managing Director as ex-officio member without voting right. The quorum of the RMC shall be three voting directors. In the absence of permanent chairman, any other professional director can chair the meeting. The frequency of RMC shall be once in a quarter.

6.2. Deliberations in Risk Management Committee

The RMC shall do evaluation of all risk and compliance matters and the agenda shall include amongst other things, invariably the following and find mitigation wherever warranted:

1) Liquidity Risk
2) Credit Risk
3) Interest Rate Risk
4) Exposure Risk
5) Operational Risk
6) Compliance Risk
7) Cyber Security Risk
8) Market Risk
9) Capital Risk
10) Concentration Risk

7. Compliance and Risk Management Committee of Executives

There shall be a Compliance and Risk Management Committee of the executives, which shall look into non-policy aspects of risk management and internal control and compliance. The following officials are the members of the CRMC:

Chairman:	Chief Executive Officer
Members:	Asst.General Manager (Deputy Chairman)
	Manager
	Head of Internal Audit

System Administrator

Manager (Human Resources)

Manager (RMD) – member-convener

The risk ratings and risk related matters found in RBIA of branches shall be presented before CRMC, which shall discuss and resolve resolution strategy. The minutes of the CRMC is to be placed before the RMC of BoD in its next meeting.

8. Review:

This policy will be reviewed annually and also as and when required to meet the requirements and needs of the Bank from practical or regulatory perspectives.

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CHIEF EXECUTIVE OFFICER DIRECTOR DIRECTOR CHAIRMAN