

COMPLIANCE POLICY

(Amended up to March 2021)

**UTTAR BIHAR GRAMIN BANK
HEAD OFFICE, MUZAFFARPUR**

Table of Contents	Page No
1. Introduction	3
2. Compliance Risk & Compliance Function	3
3. Compliance Philosophy and Objective of the Policy	5
4. Coverage	6
5. Organisation Structure for Compliance	7
6. Independence of the Compliance Staff	8
7. Authority for Compliance Function	8
8. Roles & Responsibilities for Compliance Function/ Compliance Cell	9
9. Roles & Responsibilities of Other Functional Units	12
10. Relationship between Compliance, Legal, Risk Management & Business Lines	14
11. Tools for identification of Compliance Risk	15
12. Process for Identification, Measurement, Monitoring & Mitigation of Compliance Risk	15
13. Management of Reputation Risk	17
14. Process of Review of Compliance Risk	17
15. Other Guidelines	18

Bank's Compliance Policy

1) Introduction:

Bank should hold itself to high standards when carrying on business and at all times strive to observe the spirit as well as the letter of the Law, Rules, Regulations laid down by Legislation, Reserve Bank of India, various other Regulators and code of conduct- internal for staff members and codes of practices promoted by Industry Associations.

This may go beyond what is legally binding and embrace broader standards of integrity and ethical conduct. Bank, on its failure on compliance, may expose itself to risk attracting legal or regulatory sanction, material financial loss & loss of reputation. In Banks, Compliance Function has to be fully cognizant of the Compliance Risk and the Reputational Risk arising out of compliance failure causing huge economic costs.

Consequently, there is a critical need for the management of that risk as one of the key facets of integrated risk management or enterprise wide risk management framework. Compliance function in Banks is one of the key elements in bank's Corporate Governance structure.

In view of the foregoing, it is necessary to have a documented policy containing guidelines on Compliance Risk Management, Compliance Function and related aspects which is also mandated by RBI guidelines.

The policy has been framed based on Bank's compliance policy of Central Bank of India our sponsor Bank and keeping in view the following RBI guidelines:

1. RBI circular DBS:CO:PP:BC 1 / 11.01 .005/ 2006-07 dated November 16, 2006.
2. RBI circular DBS.CO.PP.BC/11.01. 005/2006-07 dated 20.04.07.
3. *RBI Circular RBI/2014-15/489A DBS.CO.PPD.10946/ 11.01. 005/2014-15 March 04, 2015.*
4. *RBI Circular RBI/2020-21/35 Ref. No.DoS.CO.PPG. /SEC. 02/11.01.005/2020-21 September 11, 2020*

2) Compliance Risk & significance of Compliance Function:

2.1. Compliance Risk in Banks is defined as “the risk 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 organizational standards and codes of conduct applicable to its banking activities” (together, ”compliance laws, rules and standards”).

Compliance programme could help management and the Board in understanding where the legal and reputational risks in the organization are concentrated, provide comparisons of the level & changing nature of risk and identify those control processes that most need enhancement. The compliance function must therefore ensure that controls and procedures capture the appropriate information to allow the Senior Management and the Board to better perform their risk management functions

Compliance risk can lead to diminished reputation, reduced franchise value, limited business opportunities, reduced expansion potential, and an inability to enforce contracts besides facing penal provisions.

The compliance area is critically important in identifying, evaluating, and addressing legal and reputational risks. Given the significance of these risks, a strong Group /enterprise-wide compliance programme is a necessity for banks. A group/enterprise-wide compliance programme helps the bank to look at and across business lines and activities of the organization as a whole and to consider how activities in one area of the firm may affect the legal and reputational risks of other business lines and the entire group/ enterprise.

2.2 Responsibility of the Board and Senior Management: *Compliance starts at the top. It will be most effective in a corporate culture that emphasizes standards of honesty and integrity and one in which the Board of Directors and Senior Management lead by example.*

2.3 Responsibility of the Board of Directors: *The Board would be responsible for ensuring that an appropriate compliance policy is in place in the bank to manage compliance risk and also overseeing it’s effective management of the Compliance Function and compliance Risk. It has to ensure that compliance issues are resolved effectively and expeditiously by Senior Management with the assistance of compliance staff. If necessary, the Board may delegate these tasks either to the Audit Committee of the Board (ACB) or a specific Board level Committee constituted for the purpose. The Board, ACB or the Board Committee, as the case may be, shall review compliance function on a quarterly basis.*

2.4 Responsibility of Senior Management: *The bank's Senior Management would be responsible for establishing a written*

compliance policy that would contain the basic principles to be followed by the management and staff, and would explain the main process by which Compliance Risk would be identified and managed through all levels of the organization. The senior management should ensure that proper succession planning is ensured so that the position of Compliance Officer is not vacant. The senior management would ensure that appropriate remedial or disciplinary action is taken if breaches are identified.

The Chairman shall ensure the presence of independent compliance function and adherence to the compliance policy of the bank.

3) Compliance Philosophy and Objective of the Policy:

3.1 *Compliance Philosophy: To ensure that all the staff members of the bank are aware of the Rules & Regulations prescribed by the Bank/Regulators and to ensure that they follow these prescribed Rules & Regulations without any deviations while discharging their duties.*

3.2 *Compliance Objective:*

3.2.1 *Compliance function to be developed as a business process down the line to assess the extent of compliance of applicable Laws, Regulations, Supervisory requirements, Code of Conduct and Internal Policies/Procedures in order to take remedial measures, wherever required, to improve the compliance standards of the bank as a whole.*

3.2.2 *To ensure promoting a preventive compliance culture in the bank. It is to be re-emphasized periodically among all the staff in the bank through continuous and mandatory training to them on compliance aspects. Compliance should not be seen as an activity of the compliance department alone but as a culture that should pervade across the bank.*

3.2.3 *To ensure that the staff is aware of their role in managing the compliance risk arising out of their actions during the course of conducting business.*

3.2.4 *To ensure that the staff is aware that they are free to report instances of non-compliance of regulatory guidelines to the Chief Compliance Officer without any fear of reprisal.*

- 3.2.5 To protect the Bank's image and reputation by keeping close watch on Compliance standards & Code of Conduct at various levels.
- 3.2.6 *To manage Compliance Risk effectively by establishing compliance culture down the organization.*
- 3.2.7 To mitigate any significant risk which is brought to notice of the bank by various sources including RBI/NABARD/Bank's internal auditors during on-site or offsite inspection/ Risk Based Supervision.

4) Coverage:

The Policy will cover compliance issues in all areas of banking activities. An illustrative list of various compliance areas is given below:-

- 4.1 *Observance of various Statutory Laws/Acts while carrying out Bank's business activities, viz. B.R. Act 1949, RBI Act of 1934, Income tax Act & related laws/guidelines including tax deduction at source, GST Act of 2017, FEMA of 2000, Consumer Protection Act of 2019, Right to Information Act of 2000, Prevention of Money Laundering Act of 2002, Negotiable Instruments Act of 1881, Insurance Regulatory & Development Authority Act 1999, Securities and Exchange Board of India Act 1992, Payments and Settlements Act 2007, Insolvency and Bankruptcy Code 2016 etc read with amendments from time to time.*
- 4.2 Observance of various Regulatory/RBI guidelines, viz. Exposure Norms, Capital Adequacy Norms, RBI Guidelines on Risk Management System, Master-Circular and other guidelines issued by RBI, Submission of RBI Returns, Maintenance of CRR/SLR etc. besides Bank's internal policies.
- 4.3 *Adherence to Code of Conduct, various guidelines on Customer Service issued from time to time by RBI/IBA viz. Best Practices Code, Fair Practice Code on Lenders' Liability, Redressal of Customers' Grievances etc. as also compliance of directions from IRDA/PDAI/FEDAI/FIMMDA.*

4.4 Observance of guidelines/laws relating to investor's/Shareholder's interest, viz. SEBI guidelines, Corporate Governance etc.

4.5 Observance of guidelines/laws relating to employees/ industrial harmony/Industrial Dispute Act, PF/Gratuity Act, Officer's Service Regulation and Bipartite Settlements etc.

4.6 Operational Risk and related aspects, viz. Customer Due diligence/ Adherence to KYC guidelines/Anti-Money Laundering Guidelines, *National Cyber Security Policy 2013*, Bank's guidelines on internal control systems etc.

5) Organisation Structure for Compliance:

The compliance function will be organized within the Bank in following manner:

Head Office Level:

5.1 "In respect of Regional Rural Bank, the Chairman will designate the officer second in command to perform the role of Compliance Officer for the Bank. The Compliance Officers shall maintain a comprehensive data on rules and regulations pertaining to their operations and prepare Compliance Manual for the guidance of their staff members. They will ensure that all regulations are complied with and will send a quarterly report on the status of compliance to the Chief Compliance Officer at Corporate Office, Central Bank of India besides placing to their respective Boards. Besides, they shall send an Annual Review of Compliance Risk Assessment identifying main compliance risks facing them and steps taken to manage them to CO/Compliance Department under copy to the respective Functional Department at Corporate Office."

5.2 A Compliance Department shall be set up at Head Office to be supervised by *Senior Manager*, (in his absence, the next senior most official of the Department) who will act as "Nodal Compliance Officer" and will report to Compliance Officer of the Bank and assist him with regard to various functions related to compliance.

5.3 The set up & staff complement of the Compliance Cell shall be decided as per the emerging requirements. The department shall be manned with *adequate* staff having fair knowledge of law, accountancy, IT and adequate practical experience in operation/audit

functions .All departmental heads at Head Office shall be responsible for all the matters related to compliance of their departments.

5.4 Compliance Cell will also deal with all matters pertaining to Compliance relating to RBI/NABARD/Statutory/IBA guidelines.

5.5 Assistant Regional Manager shall be designated as Compliance Officer for the Region, Branch Managers shall be designated as Compliance Officer for branches where second Officer is not posted. In all other cases, the second in command shall be designated as Compliance Officer at Branches. The existing Audit Follow-up Cell at these Offices shall act as Compliance Cell since all Inspection Reports are being received and followed up by these Cells. *All Compliance Officers shall be reporting directly to the Compliance Officer of the Bank in the matters of Statutory/Regulatory issues.*

5.6 *The Board Audit Committee of the Board should be kept informed of any change in the chief compliance officer. The RBI shall also be kept informed of the name of the chief compliance officer.*

6. Independence of Compliance Staff:

6.1 *The Compliance Function shall be independent to the Audit Function and both the departments shall strive to avoid any overlapping or conflict of interest in their operations. The activities of Compliance Function shall be subject to independent review.*

6.2 The compliance staff/officials will not be entrusted with the direct business line responsibilities in order to avoid any conflict of interest and to ensure their independence. However, a co-operative working relationship, as detailed in Para 10 of this policy, between compliance function and all business/ functional units (Departments of Head Office/ Regional Office entrusted with such responsibilities and Branches) will be encouraged as it will help to identify and manage compliance risk at an early stage.

6.3 *The staff of Compliance department shall have free access to information on compliance issues for identifying possible failures/breaches in Compliance Policy.*

6.4 *The Compliance Function shall have the freedom to report it's findings to the Board/Committee of the Board.*

7. Authority for Compliance Functions:

7.1 Chief Compliance Officer will be authorized to initiate investigation of the possible breaches of the compliance policy. Staff accountability shall be examined for all compliance

failures. Also, due weightage will be given to record of compliance during Performance Appraisal of staff at various levels.

7.2 Compliance officials will have access to all information/data to carry out their duties. They will be authorized to seek any information from the Branches/Offices/Various Departments at Head Office for this purpose.

8. Roles & Responsibilities for CCO/Compliance Function/Cell:

8.1 Chief Compliance Officer (CCO):

8.1.1 Role:*The Chief Compliance Officer shall be the nodal point of contact between the Bank and the Regulators (RBI). He shall also be a participant in the periodical informal discussion held with RBI & shall interact with General Manager, DoS, RBI to discuss compliance issues. However, directions are also received from other regulators, which are part of other compliance functions of the bank. Such directions shall be sent to the respective designated Officials for compliance. In case of discomfort conveyed to the bank on any issue by other regulators, it shall be the duty of the concerned Compliance/designate Officer to that specific regulator to bring it to the notice of the Reserve Bank of India and Chief Compliance Officer of the Bank.*

8.2 Duties and responsibilities of the Compliance Function: *These shall include the following:*

8.2.1 *To appraise the Board and Senior Management on Regulations, Rules and Standards and any other further developments.*

8.2.2 *To provide clarification on any compliance related issues.*

8.2.3 *To conduct assessment of the Compliance Risk (at least once in a year) and to develop a risk oriented activity plan for compliance assessment. The activity plan should be submitted to the ACB for approval and be made available to the internal audit.*

8.2.4 *To identify the compliance risk associated with Bank's*

business based on reports/information submitted by RBI, NABARD, Bank's Internal Inspection system, Concurrent Audit etc, analyse the same and monitor with the concerned departments at Head Office and Regional Offices, so that remedial actions are taken in time. A report on above aspects will be put up by the Compliance Cell to Compliance Officer and Risk Management Committee (RMC) of the Bank's Board in the manner prescribed in paragraph 14.

- 8.2.5 To report promptly to the Board/ACB/Chairman about any major changes/ observations relating to compliance risk.*
- 8.2.6 Compliance Function/Cell will be required to report separately to the CCO in the matter of any significant compliance failure. The Cell shall also properly diarize, analyse and periodically report on compliance failures/ breaches reported by RBI, NABARD, Bank's Internal Inspection system, Concurrent Audit etc to the Board/ ACB and shall be circulating the report to the concerned functional heads.*
- 8.2.7 To monitor and periodically test compliance by performing sufficient and representative compliance testing in each business lines. The results of the compliance testing should be placed to the Board/ACB/Chairman. Wherever the Compliance Function does not have expertise to conduct sample testing of specialized departments, the CCO shall depute personnel with the requisite experience to conduct such testing.*
- 8.2.8 To ensure that the results of compliance testing is shared with the functional departments.*
- 8.2.9 To examine sustenance of compliance as an integral part of compliance testing and annual compliance assessment exercise.*
- 8.2.10 To ensure compliance of Supervisory observations made by RBI and/or any other directions in both letter and spirit in a time bound and sustainable manner.*

- 8.2.11 *To review the Compliance Manual and Compliance Policy at least once in a year.*
- 8.2.12 *To ensure dissemination of the Circulars/Directions /Guidelines issued by various Regulatory/Other Authorities for the benefit of the functional departments.*
- 8.2.13 *To be the focal point for receipt and dissemination of all regulatory guidelines/instructions among all the operational departments and towards achieving this objective, to work in close coordination with legal department to keep them updated with the compliance laws, rules and standards. It will be ensured by the cell that compliance manuals, internal code of conduct etc is available to the Branches/Offices.*
- 8.2.14 *To collect and compile the information / reports on compliance matters from various Departments of Head Office and Regional Offices. They will make quantitative as well as qualitative assessment of the level of compliance.*
- 8.2.15 *To take suitable steps for implementing various regulatory guidelines/policies/action Points etc on compliance matters finalised/issued by various Regulators/the Bank's Top Management/ Board/ RMC etc.*
- 8.2.16 *To take suitable steps to ensure regular training to the staff of the Compliance Function on products, processes, corporate governance, supervisory directions, risk management and other areas of banking for their effective function.*
- 8.2.17 *To interact with Officials/Staff of the Bank in training Programmes at Training Centres or workshop organized for this purpose from time to time so that adequate awareness on compliance may be created and a compliance culture is developed within the organization.*
- 8.2.18 *For better monitoring and reporting , Bank will go for software-based solutions which regulatory instructions, with regular updates.*

8.3 *Audit: The Compliance Function shall be subject to Internal Audit once in two years.*

9. Roles & Responsibilities of other functional units:

9.1 A Gist of major irregularities brought out in Audit Reports (Internal, Concurrent, Management etc) shall be marked to Chief Compliance Officer/ Compliance Officer by A&ID on monthly basis.

9.2 All Branches/Regional Offices will ensure that compliance of rules/laws and related guidelines are strictly followed in carrying out banking business. Besides, Regional heads while visiting the Branches/Office shall verify the compliance standards and will report to CO, any major failure or breach so that compliance culture may be developed in desired manner within the Bank.

9.3 The Branches/ Regional Offices will also ensure that reporting on various compliance matters is done by them in the manner under para 12.1.

9.4 *Branches/Regional Offices and Head Office departments must ensure that any non-compliance/advisory/ stricture passed and/or penalty imposed by any regulatory/ statutory bodies on any matters related to compliance is immediately brought to the notice of the CCO/CO.*

9.5 *The functional departments shall ensure compliance of the guidelines/circulars/directions disseminated by the Compliance Department and submit status of implementation within 7 days of receipt of the guidelines/circulars/directions in order to enable the compliance department to confirm the same to the Board/ Committee of the Board.*

9.6 *The Compliance Function calls for various data/information from the functional departments which are to be furnished to RBI/NABARD/Other Regulators, as and when called for. It should be ensured by the functional departments that the data/information provided to Compliance Function is passed through the concept of MAKER and CHECKER in order to*

avoid strictures from Regulators for wrong reporting. It should be ensured by the department head that the details of the Maker & Checker are maintained for all the information that is being sent to DFS/RBI/NABARD/Other Regulatory Agencies.

9.7 Various Departments of Head Office will also be responsible for observance / monitoring of compliance laws/rules and related guidelines relating to-their functional area. They will also ensure that reporting on various compliance matters is done by them in prescribed manner and the cases of compliance failure are reported to the Chief Compliance Officer/ Compliance Officer immediately as and when noticed besides, normal periodical reporting.

9.8 *Every department at Head Office shall ensure that the products handled by them are monitored in CBS System and that non-compliances of internal guidelines related to the products and/or extraneous information fed in the system are taken up for rectification on periodical basis.*

9.9 Whenever a new product is developed, the concerned department of Head Office will ensure that no compliance rules have been violated and the concerned department will inform Compliance Officer about the new product.

9.10 Further, whenever a new product/ process is developed, prior to their introduction in the Bank, the concerned department should get clearance from Compliance Department for approval on

- Regulatory Compliance requirements.
- Compliance to Bank's present laid down guidelines.
- Compliance with KYC & Anti Money laundering guidelines.

9.11 It will be responsibility of all functional units within the bank to maintain code of conduct, ethical values, compliance standards and required level of transparency in their functioning to protect the bank from reputation & legal risk.

9.12 A monthly report on the position of compliance risk be put up to the Senior Management by the Chief Compliance Officer,

besides submission of annual report on compliance failure / breaches to be compiled and placed before the ACB and circulated to all functional heads. Non-compliance with any regulatory guidelines and administrative actions initiated against the bank and/or corrective steps taken to avoid recurrence of the lapses should be disclosed in the annual reports of the bank.

- 9.13 The code of conduct for employees should envisage working towards earning the trust of the society by dealing with the customer in a fair manner and conducting business operation consistent with the Rules and Regulations.

10) Relationship between Compliance, Legal, Other Risk Management Functions & Business Line Function:

- 10.1. Legal Department will be responsible for advising the CO on Laws, Rules and Standards (i.e. various laws/acts relating to banking business operations) and for preparing/issuing guidelines for the branches/offices on such matters in consultation with the CO.
- 10.2 In order to establish a relationship between Compliance Function and other Risk Management Functions, CO will be included in various inter departmental committees such as Risk Management Committees functioning at Head office level, viz. Operational Risk Management Committee, Credit Risk Management Committee etc.
- 10.3 The CO shall be an invitee to the meetings of Audit Committee of the Board.
- 10.4 It will be ensured that compliance staff works in co-ordination with the Risk Management staff and business line staffs. For this purpose, a committee of officers from Operation Deptt., IT, Treasury, A&ID, IBR/HK, Legal Deptt., P&D and Credit Deptt. (One from each department) will meet once in two months for exchange of views / information on various matters. Such meetings will be chaired by the CO.

10.5 As incorporated in paragraph no 8.9, Training Centres and workshops will be utilized for increased interaction between compliance function and business line functions.

11 Tools for Identification of Compliance Risk :

11.1. *Observations made in the Risk Assessment Report of the Bank by RBI, compliance of Risk Mitigation Plan within timelines, delay in submission of returns, if any.*

11.2. Risk Based Internal Audit of the Branches.

11.3. Deficiencies on compliance aspects as reported in Internal /Concurrent Audit Reports of Branches/ROs/Departments of Head Office.

11.4. Deficiencies reported by Inspecting Officials in the above reports with regard to various Committee recommendations.

11.5. Calendar of reviews submitted to Board & Board Level Committees by various departments of Head Office.

11.6. Various Guidelines & Circulars received from RBI/NABARD/Govt/IBA vis-à-vis Action Taken Report by concerned departments of Head Office.

11.7. Deficiencies on compliance aspects observed during visit of Branches/ROs by the officials of Regional & Head Offices.

11.8. Control Returns/ Statements submitted by ROs to Head Office and by various departments of Head Office to RBI/NABARD.

11.9. Feedback received from various levels during meeting/ training programme/workshop etc.

11.10. Significant news items relating to Banks, which appears in media.

12) Processes for Identification, Measurement, Monitoring & Mitigation of Compliance Risk:

12.1. Risk Based Internal Audit (RBIA) of branches covers various, aspects relating to Operational Risk and Control Risk including Compliance Risk, which will be a prime source of identification & measurement of Compliance Risk. The report will be thoroughly scrutinized by inspection department at Regional Office & Head Office level and the Branches as also activities/areas will be categorized under Low, Medium and High Risk category based on scores allotted in compliance

matters (i.e. Operational Risk and Control Risk Assessment during Risk Based Internal Audit of the branches). The system for finalizing the risk category will be the same as in Risk Based Internal Audit System, i.e.-

- ❖ **Low risk:** if allotted score is above **70% & more**
- ❖ **Medium Risk:** if allotted score above **45% & upto 70%**
- ❖ **High Risk:** if allotted score is **upto 45%**

The report in this regard will be submitted by the Regional Offices to Compliance Cell, Head Office on structured format every half year/financial year (Annexure-1)

- 12.2. Besides the above, some other sources of information (an illustrative list given in paragraph No.11 above) will supplement the assessment process. Various departments of Head Office will provide feedback based on these matters to Compliance Cell, Head Office on prescribed reporting format every quarter (Annexure-2). The information on these matters has also been incorporated in the reporting format applicable for ROs (i.e. Annexure-1).
- 12.3. The compliance Cell will make overall assessment of the compliance position in various Regions as also Bank as a whole based on feedback received by above reports and will accordingly finalize Compliance Risk Profile of the Bank. The Branches as also activities/areas included under Medium & High Risk Categories of Compliance Risk will be considered to carry significant compliance risk mitigation. Besides, the compliance failure reported by various departments of Head Office and Regional Offices will also be included in the Compliance Risk Profile. An illustrative framework for the same is given in Annexure-III
- 12.4. The compliance Risk Profile of the Bank as at the end of a half year/ financial year will be compared with the compliance Risk Profile of the Bank as at the end of previous half year/ financial year. The changes in the risk profile along with summary of compliance failure/breaches and recommendations for corrective measures including required changes in existing policy/control mechanism will be reported by the compliance cell to higher authorities in the manner prescribed in paragraph 14 below.
- 12.5. The compliance risk profile and report on significant compliance failures etc will be scrutinized and discussed at

higher level (Chief Compliance Officer, Bank's Board/RMC etc) to finalize an Action Point for bringing desired improvement in compliance risk profile. The Compliance Cell will take suitable steps for implementation of the Action Points. In this connection, they will monitor the progress at various levels (Branches/ROs/Various departments of Head Office) and will report back the progress to the higher level.

13) Management of Reputation Risk:

13.1 Any lapses in the compliance risk management may expose the Bank to reputation damage, which in turn adversely affects business of the bank. Hence, it will be responsibility of all functional units within the bank to maintain code of conduct, ethical values, compliance standards and required level of transparency in their functioning to protect the bank from reputation & legal risk.

13.2 Information on products, services and other matters of general public interest is regularly updated by the concerned departments so that bank's image & reputation is strengthened.

13.3 Any adverse publicity regarding the bank will be thoroughly examined by Compliance Cell and concerned departments for necessary action. Publicity Department at Head Office will take necessary steps as and when required to counter any misleading information regarding the bank in the media and will keep the people informed on various aspects of bank's functioning.

14) Process for Review of Compliance Risk:

14.1 Review at the level of Board and various Board Level Committees:

As per the prevailing system, various departments of Head Office submit notes on prescribed calendar of reviews to the Board/various Committees of the Board. The said review note contains information on various regulatory/ statutory requirements and is an important source of information on entire gamut of Bank's operation. The said system will continue to be followed and feedback from such notes including observations made by the Board/Various Committees of the Board will also be utilized by the compliance cell for suggesting action points for compliance risk management.

14.2 Quarterly Review: Compliance Cell will submit, before Risk Management Committee of the Board (RMC), a quarterly review note of *Compliance Risk* containing following aspects:

- Progress in respect of action points finalized by RMC on compliance issues.
- Significant compliance failure/s reported during the quarter, if any.
- Various Guidelines & Circulars received from RBI /NABARD/ GoI / IBA vis-à-vis action taken report by concerned Head Office department.
- Significant news items relating to Banks which appeared in media (News Papers/ Magazines/TV Channels etc) with analysis on adverse reports, if any, and action there against.
- *Pending Public Grievances/Complaint received during the quarter and it's disposal.*
- *Outstanding compliances in respect of various guidelines/circulars received from RBI/NABARD/GoI/IBA, if any and progress there against.*
- *Overview of Legal Risk*
- *Significant Audit findings.*
- *Any other matter having Compliance Risk.*

14.3 The Compliance Cell will submit before Risk Management Committee (RMC) of the Board a half-yearly review note on the compliance risk profile which will also contain report on changes in the risk profile as compared to previous half year/financial year, significant compliance failures, suggestive Strategy/Action Points for Compliance Risk Management & progress in respect of earlier Action Points finalized by RMC,

15) **Other Guidelines:**

15.1. The resources available for compliance functions (viz. experience, qualifications, qualities & skill of compliance staff) will be periodically assessed at the level of CCO so that the resources may be adequate to carry out specific duties. The

compliance staff will be exposed to required training programmes from time to time to keep them up-to-date in knowledge & skill for the job.

- 15.2. Reporting Formats given with the policy are consistent and commensurate with Bank's Compliance Risk activities, However, the format may be suitably modified with approval of the CCO based on feedback, new developments etc to make the information system more effective.
- 15.3. The policy will be reviewed on receipt of guidelines in respect of Compliance Risk Management from the Reserve Bank of India and feedback from the branches/offices.
- 15.4. The compliance functions, which are required to be performed by Regional Office and various Departments at Head Office, will be subject to annual Internal Inspection as per existing system of the Bank. The findings of internal inspection relating to compliance will be reported to the CCO separately.
- 15.5. At present no major compliance function other than concurrent audit has been outsourced. The outsourced audit functions will be allocated to empanelled/ reputed firms of Chartered Accountants as per existing laid down policy/procedure which contains various stipulations/mechanism to ensure that such auditors are not negligent to various regulatory/statutory guidelines/rules. With this purpose, the confidentiality clause are incorporated in terms of agreement executed by auditors, relevant inputs are provided to the concurrent auditors from time to time with a purpose to update their knowledge and quarterly meetings are held with them at Head Office Level. The functioning of Concurrent Auditors will thus continue to be subject to oversight by the Head of Audit& Inspection Department and will report to the CCO any breach noticed by him and/or by any Concurrent Auditor/CA Firm.
- 15.6. *Under Risk Based Supervision (RBS), the bank is subjected to Supervisory Program for Assessment of Risk & Capital (SPARC) Framework. Under Tranche-III of RBS framework, RBI has introduced templates of RBI guidelines for the assessment of standards of compliance. RBI expects Chief Compliance Officer to ensure total compliance with all specified guidelines enlisted in*

the template under Tranche-III. RBI revises these templates on annual basis. Compliance Function shall put in an exhaustive Compliance Testing framework to help identify potential breaches/ failures and take up for remedial measures by respective Head Office Departments.

15.7. Regulatory guidelines forming part of Tranche-III template are neither exhaustive nor static and are expected to be updated on an annual basis. Bank shall, therefore, strive to put in an exhaustive compliance framework encompassing all guidelines emanating from RBI, identify potential breaches and remedy them up-front.

15.8. Compliance Department shall conduct comprehensive compliance testing of all applicable guidelines listed by the RBI in Tranche-III as on 31st March of previous year and those issued by the RBI during current financial year. Compliance Testing shall be conducted at Branch/Regional/ Head Office level with the help of data extracted from the CBS system. The results of compliance testing shall be communicated to the concerned departments for initiating necessary steps to fill the control gaps and avoid breaches/failures in future. Consolidated results of compliance testing shall be placed before Board/ACB on annual basis.

15.9. Compliance with Monitorable Action Plan (MAP)/ Risk Mitigation Plan (RMP): RBI has been placing a lot of emphasis on banks' adherence and compliance with MAP/RMP prescribed pursuant to the Annual Financial Inspection/Risk Based Supervision process. Head Office departments must specifically devise a time-bound strategy to ensure that compliance on all specified points is achieved within the time frame permitted by RBI. RBI expects an adept compliance scenario, where all MAP/RMP points are complied with well before the commencement of the subsequent supervisory cycle and/or within the periods prescribed for fulfilling the requirements of MAP/RMP. In case of failure to comply with the RBI expectations, penal provisions can also be invoked for unsatisfactory compliance with MAP/RMP.

15.10. Submission of Compliance: RBI has observed that the compliance submitted to them has been found to be not complied, partially complied or non-sustainable during inspections of banks at a later date. Such events are treated as submission of incorrect compliance and may attract penal provisions from RBI. Hence, it is the responsibility of the respective Head Office Verticals to ensure that the compliances submitted to RBI are complied in full, monitored periodically and sustained on a continuous basis.
