PRATAP CO-OPERATIVE BANK LTD.

RISK MANAGEMENT POLICY 2023-24

The Bank formulates Risk Management Policy according to guidelines issued by Reserve Bank of India from time to time concerning Risk Management implementation for Pratap Co-operative Bank Ltd.

Objectives

1. Establish the governance of effective Risk Management
2. Identify, measure, mitigate and monitor the Credit Risk, Market Risk, Liquidity Risk & Operational Risk.
3. Set the Risk Appetite and Risk Tolerance limit of the Bank.
4. Ensure the Safety, liquidity and profitability of the Bank.

Responsibilities of Board of Directors

1. The Risk Management Policy of the Bank falls under the authority of the Board of Directors who will frame the Risk Management Committee.
2. The Risk Management Committee shall consist of
   a. Chief Executive Officer
   b. Manager –Credit
   c. Manager – Accounts & Investment
   d. Manager - Information & Technology.
   e. Manager – Recovery
3. The Board will annually review of the policy and six monthly take review of the functions of Risk Management Committee which includes:

a. The policies and procedures of the Bank to identify, measure and mitigate the Risks in various departments.
b. Oversight the risks through Key Risk Indicators and their benchmarks against each type of risk.

Functions of Risk Management Committee

Manage the process of identification, measurement, monitoring and control of risks related to the operational activities,

a. Develop policy, SOP, implementation of manual and limit for operational activities according to the prevailing policy, SOP and limit.
b. Quarterly review of the above procedures
c. Reporting to BOD six monthly and immediately if required.
d. Increase the awareness of every employee through effective communication.

Internal Control framework

a. All operational activities shall be in accordance to the policy and procedures.
b. Continuous refinement and maintenance of operational risk management methodology to ensure the adequacy of risk mitigation.
c. The residual risks are managed according to the approved risk tolerance.

CREDIT RISK

It is the risk of default that may arise from or other party failing to fulfil the obligation to the Bank according to the credit agreement, included in the credit risk of defaulter or debtor, the risk of financing concentration, counter party credit risk and settlement risk.

1. Adequacy of policy, procedure and limit setting

To Provide clear foundation in managing credit risk, the bank develops the Loan policy and procedure as the guidelines in the implementation of financing process which is to be reviewed on periodic basis especially in the situation with changes in the economy and changes in the regulation or business approach. The bank shall set the limit to keep the credit risk exposure within the risk appetite of the bank as well as the norms issued by Reserve Bank of India.

2. Adequacy of Identification, Measurement, Monitoring and Control Process of Risks and the Risk Management Information System.

a. The implementation of Credit Risk framework in Bank is administered in an integrated process of identification, measurement, monitoring and mitigating process.

b. Credit risk identification is the result of the review of credit risk characteristics that are inherent in the financing functional activities and treasury including the financing concentration risk.

c. Credit risk measurement system considers product characteristics, time period, collateral aspect, potential of default and the capability to absorb the potential default.

d. The Bank monitors the actual credit risk explore against the credit risk limit and monitors the policy and the implementation of credit risk management.

3. Comprehensive Internal Control System

The internal control system is to manage the risks that endanger the continuity of the business of the Bank. It also includes the implementation of procedures to manage and resolve problem financing effectively. Controlling credit risk is also administered by means of risk mitigation and actively managing the portfolio position and setting the target of the concentration risk limit.

MARKET RISK

Market risk is the risk in the Balance sheet position and administrative account due to the changes in the market prices that includes the risk of changes in the value of tradable and rentable assets.

1. **Adequacy of Policy, procedures and Limit Setting**
   a. Currently the Bank has already had adequate policy and procedures related to the main principles of market risk management framework.
   b. The bank shall measure and monitor to the changes in benchmark rate in the portfolio banking book.
   c. The management of benchmark rate risk is part of overall Asset and Liabilities Management of the bank.

d. The setting of the limit and the risk tolerance is well documented In Market Risk Management Policy and SOP Market Risk Management and it is reviewed on periodic basis.
e. Emergency Plan

2. Adequacy of Identification, Measurement, Monitoring and Control Process of Risks and the Risk Management Information System.

a. The market risks are identified under the normal and crisis circumstances.
b. The measurement and monitoring to market risk exposure is administered by means of monitoring the changes of the benchmark rate risk banking book.
c. The identification benchmark rate risk starts from the analysis of the sources of benchmark rate risk of the overall rate sensitive instruments of the bank at the position of assets, liabilities and off balance sheet that may create potential loss to the bank from both earning side and economical value.
d. The measurement and monitoring process is also conducted to the Mark to Market performance as a part of the monitoring of the bank market risk to the value of the securities of the bank.

3. Comprehensive Internal Control System

The Bank has already had adequate Internal Control process by measuring the Bank resilience to loss under stress market condition and administering escalation of control and review of the market risk policy and limit according to the prevailing policy and procedures.

LIQUIDITY RISK

Liquidity risk is the risk arises due to the inability of the bank to fulfill the obligations.

1. **Adequacy of Policy, Procedures and Limit Setting**

   The policy implemented by the bank in controlling liquidity risk is by developing the liquidity risk management policy, human resources and risk appetite of the bank.

2.Adequacy of Identification, Measurement, Monitoring and Control Process of Risks and the Risk Management Information System

a. The instruments to measure and monitor the liquidity risk are – liquidity ratio, maturity profile, cash flow projection and stress testing.

b. The monitoring of liquidity position is also performed on daily basis by observing early warning of internal and external indicators.

c. The bank also prepares reports to the regulator that include maturity profile report and consolidated maturity profile report.

3.Comprehensive internal Control System

The bank will set the liquidity risk tolerance limit as per the level of liquidity risk that is acceptable for the management from time to time. The internal Control function is to anticipate the potential of increasing liquidity risk that may create any disruption in the operations of continuity of the business of the bank by implementing Contingency fund approach. It will prevent, minimize and manage potential funding threats.

OPERATIONAL RISK

Operational risk is the risk arises due to inadequate internal process, failure of internal process, human error, and/or occurrence of external events affecting bank operations.

1. Adequacy of Policy, Procedures and Limit setting

a. The bank has the policy and procedures to manage the operational risk by updating Human Resource Management Policy, Operational Policy, IT policy and relat ed procedures. The setting of operational risk limit to cap the minimum risk to be absorbed by the Bank considering the past losses, exposure of operational risk, operational risk tolerance.

2. **Adequacy of Identification, Measurement, Monitoring and Control Process of Risks and the Risk Management Information System**
   a. Operational Risk identification is based on process, products, risk occurrences and information assets owned by bank.
   b. Risk Measurement process is performed through periodic self assessment activities, management of risk event database and calculation of capital adequacy of operational risk.
   c. Risk control process is conducted by Operational Unit, IT department and Risk Management Committee.
   d. Risk Management Information System shall provide information in an accurate, timely and updated manner to support the Management in Planning & Decision making.

3. **Comprehensive Internal Control System**

   Internal Control System is performed by periodic review of procedures, documentation, data processing system, contingency plan, contract and agreement between bank and other parties conducting assurance process to all functional activities and follow up the result of internal/external audit. At the operational level, three layers of defense are established.

   1st layer is established at staff level i.e. Risk Taking Unit in the enforcement of operational risk management on daily basis.

   2nd layer is Risk Management Committee in collaboration with the Risk Taking Unit. It is responsible for refinement and maintenance of Operational Risk Management framework to ensure the adequacy of risk mitigation, policy and procedures and to facilitate the coordination of operational risk management activities.

3rd layer of defense is the Board of Directors which indepedently functions to ensure that the residual risks are managed within the boundaries of risk appetite.

This policy is prepared on the basis of guidelines issued by Reserve Bank of India from time to time and this policy is applicable to our bank only.

This policy is intended to be flexible to deal with rapidly changing conditions; any variation from policy shall be reported at the next board meeting with recommendations for approval and amendment.

For B O D approval

From Risk Management

Approved in the BOD meeting vide Resolution No.---------

Chairman