



COMPLIANCE POLICY

The term “compliance” is defined simply as conformity in fulfilling official requirements. In banking parlance, compliance alludes to adherence to set of laws, regulations, rules, practices, standards issued by self-regulated organization, and code of conduct applicable to the various banking activities. In earlier times this activity in Banks was integrated with other systems and processes within the Banks. However with banking becoming more complex, the compliance has evolved as an independent function in Banks.

The RBI introduced a system of “compliance officer” in Banks way back in August’ 92, based on the recommendations of committee on frauds and malpractices in banks (Ghosh Committee). The role of compliance officers came into sharper focus by RBI since 1995. The need and importance of compliance function received further impetus after Basel Committee on Banking Supervision (BCBS) issued the High Level Paper on compliance risk and the compliance function in Banks in April 2005 prescribing certain principles aimed at strengthening compliance structure in Banks. Based on these principles, RBI has issued comprehensive final guidelines on compliance and compliance function in Banks on April 20, 2007.

Objective

The objective of the Policy is to put in place the Compliance Function in the Bank for effective Compliance Risk Management. The Policy aims at:

- Having a better understanding of Compliance Risk and facilitate its management.
- Establishing proactive Compliance Risk Management culture, which includes measures to identify, monitor and control compliance risk inherent in various business lines and activities of the organization.
- Create group/enterprise-wide compliance programme.
- Developing comprehensive data on various compliances that are required by the Bank in the System.
- Establishing a structured Compliance Risk Management system in the Bank.
- Providing the responsive reporting system of compliance at various levels of the Bank.
- Helping management in understanding where the legal and reputational risks in the organization

are concentrated, provide comparisons of the level and changing nature of risks and identify those control processes that need most enhancements.

- Improving operational and financial integrity by instilling the habit of compliances with regulatory, statutory, Bank's guidelines etc., through training, skill enhancement and enforcement of disciplinary measures, wherever required

Application

The Compliance Policy sets forth the standards and practices for effective and efficient management of compliance risk. The contents of the Policy are applicable to all employees of the Bank and are aimed at making them familiar with compliance risk management.

The Policy shall be reviewed at least once in a year and modified, if necessary, to suit the needs of the Bank and to comply with Revised Guidelines issued by RBI, if any. This Policy will be in force till such time it is reviewed/modified.

Compliance Framework

An effective compliance framework comprises-

- 1) Compliance Policy
- 2) Compliance Function Structure
- 3) Compliance process / procedure
- 4) Compliance Personnel
- 5) Compliance Audit

The compliance process involves identifying the level of compliance risk in each business line, products, and processes, suitably advising the operational functionaries and formulating instructions for mitigation of such risks. The integrity of the compliance process depends upon well-built compliance architecture within the organization and clear identification of responsibility and accountability for the compliance function.

Compliance Philosophy

As a part of the Compliance Philosophy of the Bank, it is envisaged to embed compliance in every department of the Bank in an effective way as a part of the corporate culture that emphasizes standards of honesty and integrity. The Bank shall 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. The key components of the Compliance Philosophy of the bank are as under:

Ownership of Compliance

Compliance starts at the top. The Board of Directors of the Bank are responsible for overseeing the management of compliance risk and implementation of the compliance risk management framework across

the Bank.

Shared Compliance Responsibility

Compliance is the responsibility of every individual in the Bank and it is necessary for all staff to be aware and adhere to the applicable laws and regulations.

Compliance Culture

The Bank shall promote awareness of compliance obligations and ethical values to maintain an appropriate compliance culture throughout its businesses. Compliance shall not be seen as an activity of the Compliance Department alone but as a culture that shall pervade across the Bank.

Independence

The Compliance Department shall be an independent function that has the ability to objectively assess and express its views on the policies and practices of other functions/businesses in relation to compliance.

Communication

The Bank shall have open lines of communication, both upstream and downstream so as to enable the staff to voice their concerns on actual/potential compliance breaches irrespective of the hierarchy.

Coordination with Other Departments

The Compliance Department shall work in close coordination with the Functional and Business Departments in order to efficiently and effectively manage compliance risks.

Compliance Performance Assessment

The Bank shall integrate the parameters related to Compliance risk management in the overall performance management scorecard so that all staff members prioritize compliance.

Compliance Function

The objective of the compliance function is to minimize the deviations; or when they actually occur, to ensure that there is a process to promptly respond to and redress the anomalies.

Scope

Various statutes and regulatory prescriptions governing the banking activity, besides the standards set by self-regulatory agencies, directions / advisory of Government of India, direction of the Board / Committees of the Board, internal policies approved by the Bank's board shall form the scope for operation of the compliance functions. The Compliance function shall monitor adherence to statutory, regulatory provisions, internal Policy prescriptions, standards set by self-regulatory agencies, directions of the Board /

Committees of the Board either through internal departmental communication or vetting of the policies, circulars, new products, SOPs (Standard Operating Procedure) etc. These requirements are broadly divided as under.

Statutory/Legal Compliance: The Bank is required to ensure strict observance of all statutory provisions contained in various legislations as applicable to Banks, such as Banking Regulation Act (BR Act), RBI Act, FEMA, PMLA etc.

Regulatory Compliance: In addition to compliance with various statutes, bank is required to adhere to strict observance of other regulatory guidelines issued from time to time by the regulators viz. RBI, Government, SEBI, IRDA etc.

Other Compliances: Besides above two categories of compliances, the Bank is required to comply with standards and codes prescribed by self-regulatory organizations (SROs) such as IBA, FEDAI, FIMMDA etc. and also Bank's internal policies and fair practice codes.

Thus, the internal compliances, which means adherence to internal policies formulated by the Board based on which an internal Governance framework has been laid down, would be applicable to all employees of the Bank. The legal and regulatory compliances, on the other hand, is applicable to the Bank as a whole the institution itself would be responsible for ensuring adherence to the extant regulatory and legal instructions.

The Compliance Function shall comprise of:

Monitoring strict observance of statutory provisions contained in various legislations such as Banking Regulation Act, Reserve Bank of India Act, Foreign Exchange Management Act and Prevention of Money Laundering Act etc.

Monitoring observance of other regulatory guidelines issued from time to time.

Monitoring observance of standards and codes prescribed by BCSBI, IBA, IRDA, SEBI, FEDAI, FIMMDA, etc.

Monitoring observance of Bank's internal policies and fair practices code.

Compliance function shall also cover matters such as observing proper standards of market conduct, managing conflicts of interest, treating customers fairly and ensuring the suitability of customer advice and may extend to tax laws that are relevant to the structuring of banking products or customer advice.

The programme to monitor the compliance functions shall also cover various departments in the Head Office, Regional Offices and Branches.

The Compliance Function shall:

Assist the Top Management of the Bank in managing effectively the compliance risks faced by the Bank.

Identify statutory and regulatory compliance requirements and other compliance obligations arising out of the fair practices codes and other codes prescribed by self-regulatory organizations, IBA, FEDAI, BCSBI, FIMMDA, IRDA, SEBI etc., Government policies, prevention of money laundering and funding of illegal activities and the Bank's internal policies.

Define the role and structure of the Compliance Department, composition of its staff and their specific responsibilities at H.O., controlling offices and branches.

Provide a mechanism to ensure that regulatory guidelines/instructions are promptly issued/disseminated within the organization and to monitor compliance with the regulatory guidelines/instructions.

Provide a methodology to proactively identify, document, assess the compliance risks associated with bank's business activities and products.

With the coordination of the ORMD, provide procedures to integrate the Compliance Risk Management framework with the Bank's Operational Risk Management framework

Organizational Structure



Roles and Responsibilities

Responsibilities of the Board / Audit Committee of the Board (ACB) - The Board shall be responsible for putting in place an appropriate Compliance Policy to manage Compliance Risk and also to oversee its implementation. The ACB shall review the Compliance Function on a quarterly and annual basis, which includes issues of non-compliance / compliance failure, remedial action,

specific steps taken to improve the level of compliance, availability of resources to mitigate the risks as needed.

Chairman - The Chairman shall be responsible for setting up an effective and independent system for the management of compliance functions of the Bank, for identifying, assessing and mitigation of compliance risk.

Compliance Department at Head Office -

1. The Compliance Department shall be at Head Office, which shall be headed by an official not below the rank of General Manager/Chief Manager as approved by the Board. Accordingly, the Bank has issued order to the Asst. General Manager, as Chief Compliance Officer (CCO). The compliance department will function under the Chief Compliance Officer. The C.C.O should have a minimum qualification of graduate/post-graduate with experience of at least 15 years in the Bank with exposure at branches and administrative offices. Preference would be given for any certificate/diploma course in compliance. The Bank may recruit CCO directly by complying with necessary regulatory, statutory, internal, GOI etc. guidelines, in this regard.
2. The Chief Compliance Officer should be appointed for a fixed tenure, say, three years and during that tenure, he/she may be removed/transferred with the approval of Board and through an internal administrative procedure in which his negligence in discharging compliance function or his serious acts of omission and commissions in other financial or administrative matters is established and recorded in a transparent manner. In case transfer /change in the CCO effected by the Bank, the same shall be informed to the Board of directors, Audit committee of the Board, with reasons for change in the incumbent. RBI shall be kept informed of the name of CCO as also any change thereof as and when it takes place.
3. The C.C.O shall be responsible for implementation of the compliance Policy and keep an oversight on the management of compliance functions across the Bank's business operations to report the status thereof to the Top Management/Board fromtime to time.
4. Compliance Department shall submit quarterly report and Annual Compliance Risk Assessment Report to Audit Committee of the Board to enable Board members to make an informed judgment on the effectiveness of management of Compliance Risk.
5. Reporting promptly to the Board of Directors or the ACB any material compliance failure (e.g. failure that may attract a significant risk of legal or regulatory sanctions, material

financial loss or loss of reputation).

6. Officers in the Compliance Department at H.O shall independently monitor, and test check the various compliance functions and co-ordinate with the field officials.
7. The Compliance Department shall put in place a technology-based system to monitor the compliance functions (and shall use the internally developed software on compliance wherever required) and develop a data base related to Bank's compliance risk. Till such time, the collection of information shall be manual.
8. The CCO shall be nodal point of contacts between the Bank and the RBI/NABARD/the sponsor bank : Bank of Maharashtra.

Functional Departments at Head Office:

1. In respect of functional departments at H.O. shall be assigned with the responsibility of compliance function apart from their normal functions. He/ she shall act as "Compliance Officers" for managing compliance risk pertaining to their functional areas. In case no AGM is posted, senior most CM shall undertake this function apart from their normal functions. The name of such designated executive / officer shall be informed to the Compliance Department, HO and he / she shall report to the Chief Compliance Officer for compliance related issues.
2. Compliance Officers, of the functional departments, are responsible for managing compliance risk pertaining to their functional areas. The Compliance officer shall identify an officer for managing the information system on compliance risk and assist the Compliance officer in coordination with the Compliance Department. The Compliance officer shall maintain a comprehensive data of rules and regulations, derived from various sources, governing the bank's operations in their respective functional areas. Apart from the data on compliances under Regulatory and Statutory, data on internal policies, rules, regulations, guidelines shall be maintained by the Compliance officer.
3. The Compliance officer shall oversee that all regulatory and statutory guidelines are disseminated to field level functionaries for compliance. The Compliance officer shall also update and circulate all the rules, standards and laws that are made applicable relating to their functional area from time to time and endorse copies thereof to Chief Compliance Officer.
4. Each Compliance officer shall prepare function wise compliance manuals as part of the existing operating manuals consisting of compliance issues / checklists duly approved by

the Chief Compliance Officer. The same will be provided to the staff associated with the respective functions and such manuals shall be updated at periodic intervals. These compliance checklists will serve as the basis for the compliance reports to be submitted by Branches / Regional Offices / Functional departments. Each Compliance officers shall also ensure that the checklist / regulatory returns pertaining to their functional areas is updated and a copy is provided to Compliance Department (As per format in *Annex - I*).

5. All the functional departments will ensure on an ongoing basis that all the banking operations undertaken in their respective functional areas strictly conform to all the relevant laws, rules, and guidelines and that the field offices including branches invariably adhere to the processes complying these prescriptions. Compliance officer shall ensure compliances from Regional Offices at periodical intervals apart from having concurrent supervision of compliance by the field functionaries. Proper Management Information System shall be put in place for data collection to ensure submission of report to the Chief Compliance Officer as per *Annex - II* immediately on receipt of information of breaches / non-compliance from Regional Offices and quarterly report on compliance as per *Annex - VII*.
6. Compliance officer at H.O Aurangabad shall report the instances of discomfort, conveyed by regulator/GOI, as per format “*Annex-1A*” and also certify on monthly basis through Compliance certificate format ‘*Annex-1A*’ that instances of discomfort conveyed, if any, from regulator / government agency has been informed to the Compliance department, H.O. immediately.
7. Chief Compliance Officer shall ensure that appropriate remedial or disciplinary action is taken if breaches are identified.
8. Each functional department shall with the assistance of the Compliance Department, once in a year, identify and assess the main compliance risks facing the Bank in their respective functional area and formulate the plans to manage them and enable the Compliance Department at Head Office to place Annual Compliance Risk Assessment Report to the Audit Committee of the Board

Responsibility at Field Level:

1. Branches

- a) The branches play a crucial role in compliance function as the products of the Bank are

delivered and serviced through them. Conflict of interest of managing the compliance Risk and business development cannot be avoided at this level. Therefore, the Branch Manager and other officers are primarily responsible for compliance of rules and regulations in the normal course of their business operations. Second Line Manager / Senior most officer, wherever second line manager is not posted shall be assigned with the responsibility of Compliance functions. In case only one officer i.e. Branch Manager is posted then he / she shall be the Compliance officer.

- b) Compliance officers of Branch shall submit the report on breaches / non compliances immediately to the Regional Compliance Officer as per **Annex – III**.
- c) Compliance officer of Branches shall submit the report on status / extent of compliance to the Regional Compliance officer at quarterly intervals as per **Annex - V**.
- d) Compliance officer of Branches shall inform the instances of ‘discomfort’, conveyed at their end, immediately to Regional offices as per **Annex 1C**. Also Branch Compliance Officer shall certify, on monthly basis through Compliance certificate format Annex-1C, that instances of discomfort, if any, conveyed at the Branch, has been informed to the Regional Compliance Officer immediately.

II. Regional Offices

- a) In case the Region is headed by AGM (senior most CM in case AGM is not posted) shall be assigned with the responsibility of compliance function of the Region apart from their normal functions. In case Region is headed by AGM (senior most CM in case AGM is not posted) and in case Region is headed by AGM senior most CM shall undertake this function apart from their normal functions. Any changes, on account of transfer / resignation / superannuation of the designated compliance officer, the Regional Manager shall ensure to nominate new compliance officer and his / her name shall be communicated to Chief Compliance Officer.
- b) The Regional Compliance Officer shall oversee the compliance function and ensure the implementation of compliance instructions in the Region. He / she shall be the focal point for receipt and dissemination of all instructions received from H.O. related to compliance functions. Regional Compliance Officer shall be responsible for compliance test checking and monitoring along with submission of reports, reviews etc. at prescribed time to Compliance Department, H.O.
- c) Regional Compliance Officer shall submit quarterly consolidated reports functional department-wise (i.e. separate consolidated report for each of the functional HO

department) as per *Annex - VI* to the respective Functional Heads at Head Office, under copy to Compliance Department.

- d) Regional Compliance Officer shall submit the report on breaches / non-compliances immediately to the related functional departments at H.O, as per the *Annex - IV*, under copy to compliance department.
- e) Regional Compliance officers shall inform the details of instances of discomfort, through Branches or directly at R.O, if any, immediately to the Compliance department, H.O. as per **Annex 1B**. Also Regional Offices shall certify, on monthly basis through Compliance certificate format 'Annex-1B' that instances of discomfort, if any, received through Branches and at R.O, has been informed to the Compliance department, H.O. immediately.

Reporting structure appended as Annex – VIII

Process and Procedures

Since all the communications from Govt. of India, RBI, other regulatory bodies such as SEBI, IRDA and institutions such as IBA, FEDAI, FIMMDA, ECGC, BCSBI etc. are generally addressed to the Chairman, Chairman's Secretariat shall forward all regulatory, statutory and other guidelines / compliance requirements to the concerned Functional Department at Head Office under copy to the Compliance Department to enable the Compliance Department to follow up with the respective Functional Department as to its compliance. The communications received at Chairman Secretariat are uploaded on a dedicated web portal indicating the functional department concerned which is expected to act upon. The functional department concerned shall acknowledge the receipt of the communication to the outside agency from which the communication is received by Bank (addressed to Chairman) immediately, through e-mail / letter under the signature of the vertical head. Such acknowledgement shall indicate reasonable likely timeline required for complying with the requirement/s. The functional department shall take immediate steps / actions as per these communications and report appropriately to the outside authorities / agencies within the time frame indicated in the acknowledgement. The functional department concerned shall update the status, immediately, upon compliances made on the portal, including the details of acknowledgement sent to outside agency / authority. Based on the compliances reported / updated on portal, the Compliance Department shall place a note to Chairman on monthly basis.

Compliance Department at H.O. shall follow up on ongoing basis about the compliance

of all such guidelines / Circulars / letters received from RBI/GOI/Other regulatory bodies/SROs by the functional departments and submit a monthly status report on action taken on the same to the Chairman.

Compliance Officers of the Functional Departments at Head Office shall ensure that appropriate instructions / circulars / Policies based on the guidelines of RBI/NABARD / GOI / IBA / Sponsor Bank/ Internal Policies as the case may be, pertaining to their functions is promptly issued to the field level functionaries for compliance. Copies of such circulars / policies / new product, together with covering letter stating that the circular / policy / new product is as per the regulatory, statutory & internal guidelines, shall be sent to Compliance Department at draft stage for vetting before the same is signed by the Asst. General Manager/ Vertical head concerned, with a view to ensuring compliance with the underlying guidelines before issuance / placing to any committee/ uploading on intranet for use of Branches/R.O. In case any non-compliance, compliance department shall inform the Chairman / ACB, for suitable remedial action, through monthly reporting.

The compliance officer shall monitor timely submission of regulatory / mandatory returns pertaining to their functional areas by the controlling offices / branches and report the status of compliance of these submissions across the functional area in the bank to the compliance department through a system of monthly return calendar along with breaches if any.

The compliance department at HO shall monitor timely submission of regulatory returns by the functional departments / branches / controlling offices and place status note to the Chairman on monthly basis.

The Compliance Dept. shall serve as reference point for the Bank's staff from Operational departments /R.O /Branch, for seeking clarifications / interpretations of various regulatory / statutory / internal guidelines. On receipt of the query / doubt on any regulatory / statutory / internal guidelines from the staff member, compliance officer of the functional department shall acknowledge the receipt of the query / doubt immediately. Such acknowledgement shall indicate reasonable likely timeline for clarification. Further, compliance officer shall ensure that clarification on query / doubt shall be given promptly or within 7 working days, after receipt of the query / doubts, with the concurrence of the Asst. General Manager / vertical head concerned. In case no policy / circular / guidelines are available in the Bank for the query /doubt, raised by the staff members, Compliance officer shall ensure to put in place suitable guidelines /

circular / policy and then clarification shall be given (maximum in one month). In case authority to approve the guidelines is Board or any sub-committee of the Board, clarification may be provided maximum in two months, from the date of the receipt of the query / doubt. In such case staff member/R.O./Branch, to be informed suitably, under copy to compliance department.

Bank shall ensure independence of the Chief Compliance Officer and other staff in the Compliance Department to avoid conflict of interest. However, in Branches / Regional Offices / Functional Departments at Head Office, compliance staff / officer may perform business / operation functions in addition to compliance function provided potential conflict of interest is avoided and not allowed to come in the way of Compliance Function.

The Chief Compliance Officer shall be empowered to conduct compliance review investigations whenever required and to request assistance from the specialists within the Bank. The authority to use external experts for the purpose of investigation shall be left to the discretion of the Chief Compliance Officer.

The Chief Compliance Officer shall be free to report to the Chairman on any irregularities or possible breaches disclosed by its investigations, without fear of retaliation or disfavor from the management or other staff members. Although its normal reporting line shall be to Senior Management, the Chief Compliance Officer shall be free to directly access the Audit Committee of the Board.

The Chief Compliance Officer shall have access to all required information and have the right on his own initiative to communicate with any staff member and obtain access to any records or files necessary to carry out his / her responsibilities.

The compliance function should also attend to the compliance of directions from other regulators (IRDA, SEBI etc.) in those cases where the activities of the bank are not limited to the banking operations. For example, our Bank is acting as a corporate agent for distribution of other companies' insurance products and may receive direction from IRDA, which should be a part of the compliance function. Further, instances of discomfort conveyed to the bank on any issue by other regulators, should be brought to the notice of the Reserve Bank of India by the Compliance department. Some illustrative list of discomfort are "Explanation / show cause notice, Strictures / Censure on account of deficiency of services provided or any area related to banking operations, bancassurance etc., Letter informing imposition of penalty or recovery of penalty; Letter

informing imposition of penal interest or recovery of penal interest etc.

2. Compliance Program

Compliance Risk and its Significance

The BCBS paper on Compliance and Compliance Function in Banks defines Compliance Risk as “the risk of legal or regulatory sanctions, material financial loss, or loss of reputation a Bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organization standards and codes of conduct applicable to its banking activities” (together, compliance laws, rules and standards).

The above definition points to the following consequences of compliance failure:

- a) **Regulatory Risk:** Compliance failures can lead to regulatory enforcement and other actions.
- b) **Legal Risk:** Compliance failures can lead to litigation and associated damages or penalties.
- c) **Reputational Risk:** Compliance failures can severely damage reputation, brand and market value.

The compliance function is thus critically important in identifying, evaluating and addressing legal and reputational risks besides regulatory one. Bank has a separate reputation risk policy as advised by RBI. The examples of legal risk may be lack of clarity /awareness of legal provision, covenants of agreement / contracts and omission / inclusion of relevant / irrelevant covenants in the agreement / contracts, action / inaction of counterparty, change in legal environment due to legislative changes and court interpretations etc.

Given the significance of these risks, a strong group/enterprise- wide Compliance Programme is necessary as it helps the bank to look at across business lines and activities of the organization as a whole. RBI/NABARD/Sponsor Bank guidelines prescribe that the Compliance Function must capture the appropriate information on a group-wise basis. As per RBI/NABARD/Sponsor Bank guidelines, banks are also encouraged to promote a similar compliance culture across associates and jointventures.

Compliance Risk Assessment

Compliance risk identification and assessment is a process through which the Bank proactively identifies and assesses the impact of the existing and emerging compliance obligations that its business and operations need to meet and determines how it will deal with them, including understanding any associated risks.

The key steps for compliance risk identification and assessment include:

- a) Understanding business and operating processes / products pertaining to a business.
- b) Undertaking a Compliance Risk Assessment (CRA) to assess the compliance risk in a business
- c) Providing periodic updates on new regulations and amendments

The Compliance Risk Management Programme is dynamic and proactive meaning that risks are assessed whenever new business lines are added or existing activities and processes are altered. The Compliance Dept. shall ensure that Compliance risk in all new products and processes introduced gets identified and appropriate risk mitigation (risk control assessment) are put in place before launching the same. The procedure is as under:

- The Chief Compliance Officer shall be an invitee to the Operational Risk Management Committee of the Bank / New Product / process Committee, where all the existing and new products introduced in the Bank is discussed on the operational risk point of view.
- All new products shall be subjected to intensive monitoring by the functional department concerned for the first six months of introduction to ensure that the indicative parameters of Compliance Risk are adequately monitored.
- Compliance officer of the functional department shall report the status directly to Chief Compliance Officer

The Chief Compliance Officer shall be an invitee to ACB meetings. The Compliance function shall have a right to directly access the Board of Directors.

The Chief Compliance Officer shall necessarily be a participant in the quarterly informal discussions held with RBI. In case no quarterly meeting is held, he / she shall meet the SSM / CGM, DBS RBI, once in every quarter of the year to discuss compliance issues. At present we communicate with CCO of sponsor bank, Bank of Maharashtra regarding compliance functions.

All audit / inspection reports shall contain a separate report on compliance failure.

These reports shall be submitted to the Chief Compliance Officer. The Compliance Dept. shall go through the reports to assess the level of compliance failure in the Bank and direct functional departments to initiate remedial action. A checklist on the compliance aspect may be made part of the inspection report for the

inspectors / concurrent auditors to verify the level of compliance. The audit function should keep the CCO informed of audit findings related to compliance. The Compliance Dept. shall interact at monthly intervals with Legal Dept., Operational Risk Management Dept, Accounts and Audit and Inspection Dept. to take stock of the latest developments.

Staff accountability shall be examined for all compliance failures by Inspection Department at Head Office on receipt of the report on Compliance Failures / Breaches from the Compliance Department. Moreover Bank shall endeavor to design a suitable system to give due weightage to the record of compliance during performance appraisal of the staff.

There should be close co-ordination and partnership between compliance and business operations function. With a view to formalizing the same, the Chief Compliance Officer may be inducted as member of the various inter-departmental committees in the Bank. There would be close cooperation between the compliance function and operational risk function on compliance matters.

The Compliance Department at Head Office shall carry out an annual compliance risk assessment in order to identify and assess major compliance risks faced by the Bank and prepare a plan to manage the same. All Functional Departments shall provide necessary inputs in preparing the Annual Review.

The Annual review shall broadly cover the following aspects:

- ✧ Compliance failures, if any during the preceding year and consequential losses and regulatory action as also steps taken to avoid recurrence.
- ✧ List of all major regulatory guidelines issued during the preceding year and steps taken by the Bank to ensure compliance.
- ✧ Independence of compliance function
- ✧ Scope of compliance procedures and processes.
- ✧ System of Internal Control to minimize compliance risk
- ✧ Compliances with fair practice codes and adherence to the standards set by self-regulatory bodies and accounting standards.
- ✧ Progress in rectification of significant deficiencies pointed out in the internal audit, statutory audit and RBI inspection reports and position of implementation of recommendations made therein.
- ✧ Strategy for the next year including restructuring of Compliance department,

if necessary, posting / transfer / training of staff

The compliance department shall assess the compliance risk by identifying the major inherent risks within a business line, factors in any processes and procedures that are practiced by the bank to control and / or mitigate those risks, resulting in a measurement of the residual risk the business line poses to the bank. It may also consider the performance indicators as a measure of compliance risk.

The Report of this Annual Review shall be placed before the Audit Committee of Board. Apart from the Annual Review a monthly report on the position of compliance Risk shall be put up to the Chairman by the Chief compliance Officer. A brief report on the compliance position shall also be placed before the ACB on quarterly basis.

Instances of all material compliance failures which may attract a significant risk of legal or regulatory sanctions, financial loss and loss of reputation shall be reported to the Audit committee of the Board promptly.

Compliance Risk Mitigation

Compliance risk mitigation is the process of developing and implementing controls, including policies, procedures and systems, to prevent or minimize compliance risks. Based on identification and assessment of compliance risks, appropriate mitigating actions shall be determined to prevent and/or minimize compliance risks. These mitigating actions would then be monitored and tested for efficiency and effectiveness in addressing compliance risks.

Compliance Monitoring and Testing

Compliance Risk Assessment would drive the monitoring and testing of compliance risks. Once compliance risks are identified, it is important to regularly monitor and test these risks to help in the timely detection and mitigation of compliance risk. Compliance monitoring and testing provides reasonable assurance to regulators that key potential regulatory risks are being assessed and appropriately monitored. Thus, a summary of the results of monitoring and testing shall be presented to the Audit Committee on a quarterly basis.

Compliance Testing: As stated above the compliance department is required to play a key role in ensuring compliance to regulatory guidelines. The role of the Compliance department includes dissemination of instructions to the operational departments, assisting in design of suitable internal instructions and controls, maintaining liaison with internal/external audits etc. In term of para 6.9 of RBI circular dated April 20, 2007, ‘The compliance function should monitor and test compliance by performing sufficient and representative compliance testing and the results of such compliance testing should be reported to the senior management. Accordingly, the compliance assessment framework attaches great importance to the inputs furnished by the compliance department on the overall compliance culture in the Bank. Tranche III has been designed to capture the inputs from compliance department.

Compliance staff should be empowered to conduct compliance reviews/ investigations, wherever required. The authority to use external experts for the purpose of investigation, if required, should be left to the Chief Compliance Officer.

Compliance Methodology: The Bank envisages sampling methodology to be used for test checking the compliance with the directives/guidelines. The compliance department shall select up to top 10 items/cases as sample from various parameters for checking (total sample size should be at least 25% of the whole) and place its observations to the competent authority. The observations shall be crisp and relevant. The conclusion shall be Pass or Fail or Not Applicable. If no testing is done, then “none” should be mentioned against the particular parameter. Besides, evaluation of compliance risk in each business line shall be done at periodical intervals and results shall be put up to Audit Committee of the Board.

Compliance Risk Reporting

Compliance breaches are incidents that may lead to legal or regulatory sanctions, financial loss or damage to reputation or impairment of integrity, as a result of a failure to comply with applicable laws, regulations and standards.

An illustrative list of incidents is mentioned below:

- a) Crime or fraud
- b) Regulatory sanctions

- c) Incidents resulting in reputational damage
- d) Breach of applicable laws, regulations and standards, including relevant internal regulations.
- e) Instances of discomfort / strictures passed by judiciary / quasi judiciary / regulatory / government authority.

All compliance breaches need to be reported to the Chief Compliance Officer. Compliance breaches that could have significant legal, regulatory, financial or reputational risk should be promptly reported by the Compliance Officer of each Functional Department to the Chief Compliance Officer, along with action taken / mitigation plan. The consolidated report of breaches together with action taken /mitigation plan shall be placed before Audit Committee of the Board on quarterly basis by Chief Compliance Officer.

3. Compliance Awareness

Training and education build awareness and understanding of compliance risk management policies, procedures and issues. The Compliance personnel should be abreast of the developments in the areas of laws, rules and standards. In order to keep the compliance staff up to date with developments in the areas of banking laws, rules and standard, regular education and training in new products and services introduced in the banking industry as well as in the areas of corporate governance, risk management, supervisory practices etc. may be considered.

To ensure that all employees shall understand their compliance obligations and comply with instructions issued by the Bank meticulously, Bank shall provide continuous and mandatory training on compliance culture and compliance aspects to employees.

4. Compliance Personnel

The Compliance Department shall be provided with adequate staff who shall have specialized knowledge of Law, Accountancy and Information Technology and also adequate practical experience in various business lines and audit / inspection functions.

5. Annual Review by Internal Audit

The activities of the compliance function shall be subject to annual review by the Internal Audit. Compliance Risk shall be included in the risk assessment methodology of the Internal Audit Function of the Bank and the audit programme shall cover the

adequacy and effectiveness of the Bank's compliance function including testing of controls commensurate with the perceived level of risk. The audit function shall keep the head of compliance informed of any audit findings relating to compliance. The report of the Annual Review shall be placed by the Inspection Department before the Board / ACB including compliance failures.

6. Submission of Compliance to RBS Reports

The compliance to RBS reports shall be communicated to RBI through Chief Compliance Officer. At present compliance to RBS reports shall be communicated to CCO of Bank of Maharashtra which is sponsor bank of Maharashtra Gramin Bank through CCO of our bank.

7. Non - Compliance

The Compliance Officer shall be responsible for managing the compliance risk and ensuring adherence to various regulatory requirements. However, compliance is the responsibility of every employee and failure to consider the impact of non-compliances/violations may result in fines, penalties and reputational loss to the Bank. Breach to this Policy may result in disciplinary action against the employee.

8. Disclosures:

Non-compliances with regulatory guidelines, administrative actions taken against the Bank (including penalties imposed) along with the corrective steps taken to avoid recurrence of the lapses, shall be disclosed in the bank's annual reports.

Instances of discomfort / strictures against the Bank, on any issue, by any authority / Govt. / regulator other than RBI, shall be brought to the notice of Reserve Bank of India.

Illustrative list of Compliance checklist/returns to be submitted by functional departments at H.O, Regional offices and Branches to Compliance department.

Annex - I

Department:

Sr. No.	Compliance Category	Compliance Requirement	Reporting to	Periodicity	Due date for Submission	Actual date of Submission

Annex - II

Compliance function-immediate reporting of non-compliance/breaches

From:
Compliance Officer,
..... (Designation),
_____ Department,
H.O. Aurangabad.

To:
Chief Compliance Officer &
Asst. General Manager,
Compliance Dept.
H.O. Aurangabad.

Sr. No.	Region /Branch/Office where non-compliance observed	Compliance Area	Requirements	Cir. No & Date through which communication sent to branches/ office	Details of Non-compliance/ Breaches including penalty imposed, if any	Action taken	Present status of compliance	Suggestions to ensure that such incidence do not recur in future

Place:

Name:

Date:

Designation:

Signature:

Note: For example, Branch fails to remit taxes deducted at source in time to Govt. RO/Functional Department after noticing such non-compliance should report it immediately

to Compliance Department, Head Office.

Annex - III

Compliance function-immediate reporting of non-compliance /breaches

From: Compliance Officer,
_____ Branch

To: Compliance Officer,
_____ Region,

Sr. No.	Compliance Area	Requirements	Cir. No & Date through which communication sent to branches/office	Details of Non-compliance/ Breaches including penalty imposed, if any	Action taken	Present status of compliance	Suggestions to ensure that such incidence do not recur in future

Place:

Name:

Date:

Designation:

Signature:

Annex - IV

Compliance function-immediate reporting of non-compliance/breaches

From: Compliance Officer,
_____ Region.

To: The Compliance Officer,
_____ Department,
H.O. Aurangabad.

Sr. No.	Compliance Area	Requirements	Branch/ Office where non-compliance observed	Circular No.& Date through which communication sent to branches/offices	Details of non-compliance/ Breaches including penalty imposed, if any	Period during which non-compliance /breaches observed	Action Taken	Suggestion to ensure that such incidences do not recur in future

Place:

Name:

Date:

Designation:

Signature:

Copy to: Chief Compliance Officer, Compliance dept., H.O.

Annex - V

Compliance function-reporting of compliance for the quarter ending.

From: Compliance Officer,
..... Branch

To: The Compliance Officer,
.....Region

Sr.No.	Compliance Area	Requirements	Cir. No & Date through which communication sent to branches/ Office	Details of Non-compliance/Breaches including penalty imposed, if any	Action taken	Present status of compliance	Suggestions to ensure that such incidence do not recur in future

Place:
Date:

Name:
Designation:

Signature:

Annex - VI

Compliance function-reporting of compliance for the quarter ending.

From: Compliance Officer,
..... Region

To: The Compliance Officer,
Compliance Dept.
H.O. Aurangabad.

Sr. No.	Branch/ Office where non-compliance observed	Compliance Area	Requirements	Cir. No & Date through which communication sent to branches/ office	Details of Non-compliance/Breaches including penalty imposed, if any	Action taken	Present status of compliance	Suggestions to ensure that such incidence do not recur in future

Place:
Date:

Name:
Designation:

Signature:

Copy to: Chief Compliance Officer, Compliance dept., H.O., Aurangabad.

Annex - VII

Compliance function-reporting of compliance for the quarter ending.

From: Compliance Officer,
..... (Designation)
..... Dept.
H.O. Aurangabad.

To: The Chief Compliance Officer &
Dy. General Manager,
Compliance Dept,
H.O Pune.

Sr. No.	Region/ Branch/ Office where non-compliance observed	Compliance Area	Requirements	Cir. No & Date through which communication sent to branches /office	Details of Non-compliance/ Breaches including penalty imposed, if any	Action taken	Present status of compliance	Suggestions to ensure that such incidence do not recur in future

Place:

Name:

Date:

Designation:

Signature:

Annex - IA

Format of H.O. Compliance Certificate

To,
Chief Compliance Officer &
Dy. General Manager,
Compliance Dept.,
Bank of Maharashtra
H.O. Pune.

Dear Sir,

Sub: Compliance Certificate for the month of _____

1. We hereby certify that we have adhered to all the regulatory/internal guidelines issued by the regulator/Bank from time to time with regard to all the compliance

issues.

2. We also certify that all the regulatory provisions and guidelines of Government, RBI, IBA and other regulatory bodies issued during the month have been complied with.
3. We hereby confirm that all statutory/regulatory/internal returns prescribed as per the calendar of Returns are submitted well within the time schedule.
4. Instances of discomfort/s conveyed by the regulators/government agencies, if any, during the month is/are immediately informed to compliance department

In case of the references/guidelines which are pending for compliance/ not complied, the details are as under,

Sr. No	Particulars of guidelines/references	Date of instance/reference	Reasons or justification for deviation/delay	Follow up action taken	Likely date of compliance

Details of discomfort received from regulator / govt. agency during the month is as under-

Sr. No.	Date of receipt of discomfort at Branch	Date of receipt at R.O	Received from	Letter ref. no & date	Details in brief*	Action taken/initiated

Date:-

Yours faithfully,

Compliance officer
(Designation)
H.O. Aurangabad.

Annex - 1B

Format of Regional Compliance Certificate

To,
Chief Compliance Officer
Compliance Dept.,
H.O., Aurangabad.

Dear Sir,

Sub: Compliance Certificate for the month of _____

1. We hereby confirm having received the monthly compliance certificate from all the branches/operating units functioning under our administrative jurisdiction for the month ending, certifying compliance to various internal guidelines issued by the Bank from time to time relating to compliance issues.
2. We hereby certify that we have adhered to all the internal guidelines issued by the Bank from time to time in all matters applicable to our Regional office.
3. We also certify that all the regulatory provisions and guidelines of Government, RBI, IBA and other regulatory bodies issued from time to time applicable to our Regional office have been adhered to.
4. We hereby confirm that all statutory/regulatory/internal returns prescribed as per the Calendar of Returns are submitted well within the time schedule.
5. Instances of discomfort/s conveyed by the regulators/government agencies, if any, during the month is/are immediately informed to compliance department

In case of the references/guidelines which are pending for compliance, the details are as under,

Sr. No	Particulars of guidelines/references	Date of instance/reference	Reasons or justification for deviation/delay	Follow up action taken	Likely date of compliance

Details of discomfort received from regulator / govt. agency during the month is as under-

Sr. No.	Date of receipt of discomfort at Branch	Date of receipt at R.O	Received from	Letter ref. no & date	Details in brief*	Action taken/initiated

Date:-

Yours faithfully,

Regional Compliance
officer,(Designation),
Regional Office

Annex - 1C

Format of Branch Compliance Certificate

To,
Regional Compliance Officer,
Maharashtra Gramin Bank
.....Region

Dear Sir,

Sub: Compliance Certificate for the month of _____

1. We certify that all the applicable guidelines for our branch/operating units issued from time to time are strictly adhered to by the branches/operating units.
2. We hereby confirm and certify that there are no breaches or deviations permitted by the branch/operating units in any of the applicable guidelines.
3. We hereby confirm that all statutory/regulatory/internal returns prescribed as per the Calendar of Returns are submitted well within the time schedule.
4. Instances of discomfort/s conveyed by the regulators/government agencies, if any, during the month is/are immediately informed to Regional office.

In case of the references/guidelines which are pending for compliance, the details are as under,

Sr. No	Particulars of guidelines/references	Date of instance/reference	Reasons or justification for deviation/delay	Followup action taken	Likely date of compliance

Details of discomfort received from regulator / govt. agency during the month is as under-

Sr. No.	Date of receipt of	Received from	Letter ref. no & date	Details in brief*	Action taken/initiated

Yours faithfully,

Branch Compliance
Officer,(Name & P.F. No.)
..... Branch,
..... Region.

Annex - IX

Consolidated Rectification Statement of RBIA Compliance Failure for the Quarter Ending						
Sr. No.	Branch name where inspection report is closed during last quarter	Branch code	As per RBIA Compliance Failure Report, No of instances where compliance failure was observed(i.e. <75% compliance) by inspector (Please exclude Not Applicable Cases)	Whether rectification report regarding those compliance failure instances as reported by inspector, received at R.O.	While closing the RBIA, whether rectification of Compliance failure report taken into account	If Not, R.O. remarks
1						
2						
3						
4						
5						
6						
7						
8						
9						
10						

Date:

Yours faithfully,

Compliance officer,
(Designation),
(Name & P.F)

.....

Region

