THE MAHAVEER CO-OP. BANK LTD., BELAGAVI

ALM POLICY

POLICIES FOR THE FY
2026-27
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Asset – Liability Management Policy 2026-27

Approved by the Board of Directors at its meeting held on 23/6/2026**, vide Resolution No.** 11.

Introduction

This Asset–Liability Management (ALM) Policy shall be read along with, and is subject to, the guidelines, circulars, and directions issued by the Reserve Bank of India (RBI), as amended from time to time. The Policy has been prepared in accordance with such RBI guidelines and has been duly approved by the Board of Directors.

In recent years, the financial market in India has undergone significant changes, including frequent fluctuations in interest rates. These changes make it necessary for co-operative banks to manage their assets and liabilities in a careful and systematic manner to ensure financial stability, steady income, and long-term sustainability.

This Policy provides a simple and clear framework for measuring, monitoring, and managing the balance between the Bank's assets (such as loans and investments) and liabilities (such as deposits and borrowings). It aims to safeguard the Bank's financial position and support smooth day-to-day operations in a changing banking environment.

Definitions

- **Asset–Liability Management (ALM):** A system used by the Bank to manage its assets and liabilities in a balanced manner to control liquidity and interest rate risks and ensure stable earnings.
- **Assets:** Include loans, investments, cash, and balances with banks.
- **Liabilities:** Include deposits, borrowings, and other financial obligations.
- **Liquidity:** The Bank's ability to meet its financial commitments on time.
- **Liquidity Risk:** The risk that the Bank may fail to meet its financial obligations as they fall due.
- **Interest Rate Risk:** The risk of loss arising due to changes in interest rates.
- **Maturity:** The due period or time frame within which assets and liabilities are repayable.
- **Mismatch:** Occurs when the maturities of assets and liabilities do not align.
- **Gap Analysis:** A method used to identify differences between Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL).
- **Rate Sensitive Assets (RSA):** Assets those are sensitive to changes in interest rates.
- **Rate Sensitive Liabilities (RSL):** Liabilities those are sensitive to changes in interest rates.
- **Structural Liquidity Statement (SLS):** A tool used to monitor and manage liquidity risk.
- **Interest Rate Sensitivity Statement (IRSS):** A tool used to assess and monitor interest rate risk.
- **ALCO (Asset Liability Committee):** The committee responsible for managing ALM function

Objectives of the ALM Policy

The main objectives of the Asset–Liability Management (ALM) Policy are to ensure proper management of the Bank's assets and liabilities so as to maintain adequate liquidity, control risks, and improve profitability. The Policy aims to ensure that the Bank is able to meet its financial obligations on time without difficulty, while also managing maturity mismatches between assets and liabilities within acceptable limits.

It also seeks to control and monitor interest rate risk arising from changes in market conditions, and to maintain a stable and reasonable level of income. The Policy further aims to establish a systematic approach for measuring, monitoring, and reporting liquidity and interest rate risks, in line with the guidelines issued by the Reserve Bank of India (RBI). Additionally, it supports effective decision-making by the management and ensures the overall financial stability and smooth functioning of the Bank.

Main Objectives

1. Asset–Liability Management (ALM)

Asset–Liability Management (ALM) refers to the process of managing the Bank's assets and liabilities in a balanced and coordinated manner to control risks and ensure financial stability. The Bank shall monitor the maturity and interest rate profile of its assets and liabilities to avoid mismatches and maintain proper balance. The Asset Liability Committee (ALCO) shall regularly review the ALM position and take necessary decisions to ensure efficient utilization of resources and compliance with RBI guidelines

2. Liquidity Management & Liquidity Risk

Liquidity Management means ensuring that the Bank has enough funds to meet its payment needs on time. Liquidity Risk is the risk that the Bank may not have sufficient funds when required. The Bank shall regularly monitor its cash inflows and outflows and maintain enough liquid assets to avoid any shortage. The Asset Liability Committee (ALCO) shall review the liquidity position periodically and take necessary steps as per RBI guidelines.

3. Interest Rate Risk Management (IRRBB)

Interest Rate Risk in the Banking Book (IRRBB) is the risk of loss or reduced income due to changes in interest rates. The Bank shall monitor this risk by comparing Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL) through the Interest Rate Sensitivity Statement (IRSS).
The Asset Liability Committee (ALCO) shall review the IRRBB position on a quarterly basis and take necessary actions to maintain stable income and ensure compliance with RBI guidelines.

4. Assets

Assets are the resources owned by the Bank that generate income. These include loans and advances, investments, cash, and balances with other banks. The Bank shall manage its assets properly to ensure safety, liquidity, and regular income, in line with RBI guidelines.

5. Earnings Stability

Earnings Stability refers to maintaining steady and consistent income over time. The Bank shall manage its assets and liabilities effectively to balance interest income and expenses.
The Asset Liability Committee (ALCO) shall review the position on a quarterly basis to ensure stable earnings and overall financial health in compliance with RBI guidelines.

6. Systemic Safety and Soundness

Systemic Safety and Soundness refers to maintaining the overall financial stability and safe functioning of the Bank. The Bank shall follow proper risk management practices and maintain adequate liquidity and capital to withstand financial stress.
The Asset Liability Committee (ALCO) shall review the position on a quarterly basis to ensure the Bank operates safely and in compliance with RBI guidelines.

7. Rate Sensitive Assets (RSA), Rate Sensitive Liabilities (RSL), Structural Liquidity Statement (SLS)

Rate Sensitive Assets (RSA) are those assets whose interest rates can change within a certain period, while Rate Sensitive Liabilities (RSL) are those liabilities whose interest rates can also change within a given period. The Bank shall monitor the balance between RSA and RSL to manage interest rate risk effectively. The Structural Liquidity Statement (SLS) is used to track cash inflows and outflows over different time periods to identify and manage liquidity gaps, as per RBI guidelines.

8. Maturity & Maturity Mismatch

Maturity refers to the time period at which an asset or liability becomes due for payment or repayment. Maturity Mismatch occurs when the maturities of assets and liabilities do not match, which may create liquidity problems for the Bank. The Bank shall monitor such mismatches regularly and take necessary steps to keep them within acceptable limits as per RBI guidelines.

9. Asset–Liability Committee (ALCO) Governance

ALCO Governance refers to the role and functioning of the Asset Liability Committee in managing the Bank's assets and liabilities. The Committee shall review liquidity, interest rate risk, and the overall ALM position and take necessary decisions to ensure financial stability.
ALCO shall meet on a quarterly basis and function in compliance with RBI guidelines to support effective management of the Bank's operations.

ALM Framework

The ALM Framework provides a simple and practical system for co-operative banks to manage their assets and liabilities in a balanced manner. It focuses on identifying, measuring, monitoring, and controlling liquidity risk and interest rate risk in day-to-day operations. The Bank shall use basic tools like the Structural Liquidity Statement (SLS) and Interest Rate Sensitivity Statement (IRSS) for this purpose.

The Asset Liability Committee (ALCO) shall regularly review the ALM position and take necessary decisions to maintain proper balance between assets and liabilities. The framework helps ensure financial stability, smooth functioning of the Bank, and compliance with RBI guidelines.

- **ALM Information System**

An effective Management Information System (MIS) is essential for proper Asset–Liability Management in a co-operative bank. It provides accurate and timely information for decision-making.

The ALM MIS shall ensure that data relating to assets and liabilities is correct, up-to-date, and reliable. It should provide timely reports such as Structural Liquidity Statement (SLS) and Interest Rate Sensitivity Statement (IRSS) for review by ALCO. The system should also help in proper classification of assets and liabilities based on their maturity and expected behaviour, especially for deposits and loans where cash flows are uncertain.

This system helps the Bank to identify liquidity gaps, maturity mismatches, and interest rate risks, and take timely corrective action.

- **ALM Organization**

The Bank shall have a proper system in place for managing Asset–Liability Management (ALM) as part of its overall risk management.

The Board of Directors shall approve the ALM Policy and review the position periodically. The Asset Liability Committee (ALCO), consisting of senior officials, shall be responsible for implementing the policy and monitoring liquidity and interest rate risks.

The main responsibilities include framing policies, fixing risk limits, monitoring liquidity position, reviewing interest rate sensitivity, and ensuring proper balance between assets and liabilities. The Bank shall also have proper internal systems for reporting, monitoring, and audit of ALM activities.

- **ALM Process**

The ALM process is a continuous activity to manage risks arising from mismatch between assets and liabilities. It helps the Bank maintain adequate liquidity and stable income.

The process includes identifying risks such as liquidity risk and interest rate risk, measuring these risks using simple tools like Gap Analysis and SLS/IRSS, and taking necessary steps to control them. The Bank shall also conduct basic stress testing to understand the impact of adverse situations like sudden withdrawal of deposits.

The Bank shall adopt suitable strategies such as adjusting deposit and lending rates, maintaining adequate liquid assets, and diversifying funding sources. Risk limits shall be fixed by ALCO and approved by the Board, and reviewed periodically.

- **Key Steps in the ALM Process:**

1. **Risk_Identification**
   Identifying the sources of balance sheet risks, particularly liquidity and interest rate risks. This involves analyzing cash flow mismatches, asset-liability maturity patterns, and market conditions.
2. **Risk_Measurement**
   Quantifying the level of risk using various tools and techniques such as:
   - **Gap Analysis** – To assess mismatches between rate-sensitive assets and liabilities across different time buckets
   - **Duration Analysis** – To understand the sensitivity of asset and liability values to interest rate changes
   - **Stress Testing and Scenario Analysis** – To evaluate the Bank's resilience under extreme but plausible market conditions
3. **Risk Management Strategies**
   Employing appropriate techniques to manage or mitigate risks, such as:

- Reprising of assets/liabilities
- Diversifying funding sources
- Maintaining adequate high-quality liquid assets (HQLAs)
- Hedging through permissible instruments, if applicable

4. **Setting_Risk_Limits**
   Establishing internal risk tolerance levels and prudential limits approved by the Board/ALCO to ensure exposures remain within acceptable thresholds. These limits are subject to regular review based on changes in the Bank's profile or market conditions.

5. **Policy_Formulation_and_Review**
   Based on ongoing risk assessments, policies governing liquidity and interest rate risk management are formulated and periodically reviewed. These policies align with regulatory requirements and reflect the Bank's strategic objectives and risk appetite.

- **Key Risks Managed under the ALM Framework:**
  - **Liquidity_Risk**
    The risk of the Bank being unable to meet its financial obligations as they fall due, either because of an inability to convert assets into cash or due to insufficient access to funding sources.
  - **Interest_Rate_Risk**
    The risk of negative impact on the Bank's net interest income (NII) or the economic value of equity (EVE) due to adverse movements in market interest rates.

Policy_Formulation_and_Review
Based on ongoing risk assessments, policies governing liquidity and interest rate risk management are formulated and periodically reviewed. These policies align with regulatory requirements and reflect the Bank's strategic objectives and risk appetite.

RBI Prescribed ALM Statements

As per RBI guidelines, co-operative banks are required to prepare basic ALM statements to monitor liquidity and interest rate risks in a simple and systematic manner.

The **Structural Liquidity Statement (SLS)** shall be prepared to show maturity-wise cash inflows and outflows under different time buckets such as 1–14 days, 15–28 days, 1–3 months, etc. This helps the Bank to identify liquidity gaps and manage them within prescribed limits.

The **Interest Rate Sensitivity Statement (IRSS)** shall be prepared to assess the impact of changes in interest rates on the Bank's earnings. It shows the gap between Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL) over different periods.

These statements shall be prepared on a regular basis and placed before the Asset Liability Committee (ALCO) for review. The Bank shall ensure that all limits and reporting requirements are complied with as per RBI guidelines.

Risk Management

Risk Management is an important part of the Bank's Asset–Liability Management (ALM) system. Among all risks, **Liquidity Risk** is very important as it directly affects the Bank's ability to meet its payment obligations and maintain customer confidence.

The Bank shall follow a simple and systematic approach to identify, measure, monitor, and control risks. The Asset Liability Committee (ALCO), under the supervision of the Board of Directors, shall regularly review liquidity and interest rate risks and take necessary actions as per approved policies.

- ### Liquidity Risk

Liquidity Risk means the risk that the Bank may not be able to meet its financial obligations on time without loss. This may arise due to mismatch between cash inflows and outflows or shortage of funds.

Liquidity Risk is broadly classified into:

a) Market / Product Liquidity Risk

This risk arises when the Bank is not able to sell its investments easily at market price.

Example: Difficulty in selling government securities during low market demand.

Mitigation Measures:

1. Diversification of investments
2. Maintaining investment in safe and liquid assets
3. Fixing internal limits for investments

b) Cash Flow / Funding Liquidity Risk

This risk arises when the Bank does not have enough cash to meet withdrawals, loan disbursements, or other payments.

Mitigation Measures:

- Regular monitoring of cash inflows and outflows
- Maintaining sufficient liquid assets
- Diversifying sources of funds (deposits, borrowings, etc.)
- Preparing contingency funding plans
- Conducting basic stress testing

Liquidity Risk Measurement Approaches

The Bank shall measure liquidity risk using the following two methods:

1. Stock Approach

This approach uses simple financial ratios to assess the Bank's overall liquidity position.
Key Ratios:

- Credit-Deposit (CD) Ratio
- Loans to Total Assets Ratio
- Loans to Core Deposits Ratio

These ratios shall be reviewed periodically by ALCO.

2. Flow Approach

This approach analyses cash inflows and outflows over different time periods.
Features:

- Monitoring of cash flows in time buckets (1–14 days, 15–28 days, etc.)
- Identification of liquidity gaps
- Preparation of Structural Liquidity Statement (SLS)

Guidelines for Managing Liquidity

- The Bank shall closely monitor short-term periods like **1–14 days and 15–28 days**
- Negative mismatch in any time bucket shall not exceed **20% of total outflows**
- Structural Liquidity Statement (SLS) shall be prepared regularly
- The Bank shall maintain a forward-looking liquidity position considering business needs and obligations

Interest Rate Risk Management

The Bank shall manage Interest Rate Risk to minimize the impact of changes in interest rates on its income and financial position. Proper monitoring and timely corrective actions shall be taken to ensure stability in earnings, in line with RBI guidelines.

- **Gap Analysis**

The Bank shall carry out Gap Analysis to measure the difference between Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL) across various time buckets. This helps in identifying mismatches and taking necessary steps to manage interest rate risk.

- **Duration Analysis**

The Bank shall monitor the impact of changes in interest rates on its loans, investments, and deposits through Duration Analysis. This helps in understanding the sensitivity of assets and liabilities to interest rate movements.

- **Pricing Strategy**

The Bank shall adopt a proper pricing strategy by periodically reviewing and revising deposit and lending rates based on market conditions. Wherever applicable, lending rates may be linked to appropriate benchmarks to ensure fair pricing, competitiveness, and stable income.

Maturity Profile for Liquidity Measurement

To assess future cash flows and manage liquidity risk effectively, the Bank shall adopt the following maturity profile by classifying all assets and liabilities into appropriate time bands.

A. Outflows (Liabilities)

Head of Account	Classification into Time Bands
1. Capital, Reserves & Surplus	Over 5 years
2. Demand Deposits (Savings & Current Accounts)	Volatile portion: 10% of Savings and 15% of Current Deposits – 1–14 days; Core portion – Over 1–3 years (or based on behavior with ALCO approval)
3. Term Deposits / Tier II Deposits	As per residual maturity; bulk deposits (above ₹15 lakh) strictly as per maturity

Head of Account	Classification into Time Bands
4. Borrowings	As per residual maturity
5. Other Liabilities & Provisions	Bills Payable & Branch Adjustments: 1–14 days; Other liabilities: As per expected payment period; Non-cash items – Over 5 years
6. Refinance / Borrowings from Institutions	Based on repayment schedule

B. Inflows (Assets)

Head of Account	Classification into Time Bands
1. Cash	1–14 days
2. Balances with RBI / Other Banks (CRR/SLR)	Excess balance: 1–14 days; Required reserves: As per regulatory norms
3. Balances with Banks	Current Account: 1–14 days; Other deposits: As per maturity
4. Investments (Net of Provisions)	Government securities: As per maturity; Other investments: Based on residual maturity
5. Advances (Performing)	Bills: As per maturity; CC/OD: Split into short-term (volatile) and long-term (core); Term Loans: As per repayment schedule
6. NPAs (Net of Provisions)	Sub-standard: 3–5 years; Doubtful/Loss: Over 5 years
7. Fixed Assets	Over 5 years
8. Other Assets	Branch Adjustments: 1–14 days; Intangible assets: Over 5 years; Others: As per realization

C. Contingent Liabilities / Commitments

Category	Classification into Time Bands
1. CC/OD Limits (Un-availed)	Based on expected usage within 12 months
2. Refinance Limits (Un-availed)	1–14 days
3. LCs / Guarantees	Based on past trend and expected devolvement
4. Bills Rediscounted / Other Commitments	As per residual maturity
5. Accrued Interest Payable/Receivable	As per relevant time bands

D. General Guidelines

- Overdue liabilities shall be classified under **1–14 days**

- Overdue advances (before NPA):
  - Up to 1 month: **3–6 months**
  - Above 1 month: **6–12 months**
- All items shall be classified based on realistic and practical assumptions
- ALCO may approve behavioral classification wherever required

E. Financing of Liquidity Gaps

If negative mismatch in **1–14 days or 15–28 days** exceeds **20% of outflows**, the Bank shall take corrective action and arrange funds through:

- Borrowings from other banks / institutions
- Bills rediscounting
- Repo / sale of investments
- Refinance from higher financing agencies (if available)

Interest Rate Risk Management

With changing market conditions and fluctuations in interest rates, co-operative banks are exposed to **Interest Rate Risk (IRR)**. This risk can affect the Bank's earnings (Net Interest Income) and overall financial position.

Interest Rate Risk mainly arises due to mismatch in the timing of interest rate changes between assets and liabilities. The main sources are:

- **Term Deposits:** Carry fixed interest rates for a specific period, limiting flexibility
- **Advances (Loans):** Many loans are linked to floating or periodically revised rates, leading to mismatch in repricing

Measuring Interest Rate Risk

Interest Rate Risk can be measured mainly from the **Earnings Perspective**, which focuses on the impact on the Bank's income.

The Bank shall assess the impact on:

- **Net Interest Income (NII)** – Difference between interest earned and paid
- **Net Interest Margin (NIM)** – Ratio of NII to earning assets

Gap Analysis Method

The Bank shall use **Gap Analysis** to measure interest rate risk.

This involves identifying the difference between:

- **Rate Sensitive Assets (RSA)** – Assets whose rates can change
- **Rate Sensitive Liabilities (RSL)** – Liabilities whose rates can change

The difference between RSA and RSL is called the **Gap**:

- Positive Gap → Assets reprise faster
- Negative Gap → Liabilities reprise faster

This helps the Bank understand the impact of interest rate changes.

Standard Gap Buckets

The Bank shall classify assets and liabilities into the following time periods:

- Up to 3 months
- 3 to 6 months
- 6 months to 1 year
- 1 to 3 years
- 3 to 5 years
- Above 5 years

Classification of Rate-Sensitive Items

Liabilities

Head	Classification
Capital, Reserves & Surplus	Non-sensitive
Savings Deposits	Partly sensitive (interest-bearing portion) – 3–6 months
Term Deposits	Sensitive – as per maturity
Borrowings (Fixed)	Sensitive – as per maturity
Borrowings (Floating)	Sensitive – as per reset date
Borrowings from RBI / Refinance	As per repayment / reset terms
Other Liabilities (Bills Payable, Provisions, etc.)	Non-sensitive
Bills Rediscounted / Repos (if applicable)	Sensitive – as per maturity

Assets

Head	Classification
Cash	Non-sensitive
Balances with RBI	Partly sensitive (interest portion)
Balances with Banks	Current: Non-sensitive; Deposits: Sensitive as per maturity
Investments	Fixed rate: Sensitive at maturity; Floating: At reset date
Advances (Performing)	Sensitive – based on repayment / reset terms
NPAs	Sub-standard: 3–5 years; Doubtful/Loss: Above 5 years
Fixed Assets	Non-sensitive
Other Assets	Mostly non-sensitive; classified based on realization

Market Risk

Market Risk means the possibility of loss due to changes in market conditions such as interest rates and value of investments. For co-operative banks, this risk mainly arises from changes in interest rates which affect the value of investments like government securities and other approved investments.

When interest rates increase or decrease, the value of investments may fall or rise, which can impact the Bank's income and financial position. Therefore, it is important for the Bank to monitor market conditions regularly and take safe investment decisions.

Market Risk is classified into:

- **Absolute Risk:**
  The direct loss in money due to changes in market value of investments.
- **Relative Risk:**
  The risk of earning lower returns compared to expected returns or benchmarks.

Sources of Market Risk in Co-operative Banks

- Changes in interest rates affecting investment value
- Changes in returns on government securities
- Improper investment decisions

Management of Market Risk

The Bank shall manage Market Risk by:

- Investing mainly in safe and approved securities as per RBI guidelines
- Regularly reviewing the investment portfolio
- Avoiding high-risk and speculative investments

- Fixing internal limits for investments

Credit Risk

Credit Risk means the possibility of loss to the Bank if a borrower fails to repay the loan or meet their financial obligations on time. This is one of the most important risks for co-operative banks, as lending is the main source of income.

Credit Risk mainly arises from loans, advances, guarantees, and investments. If not properly managed, it can lead to increase in **Non-Performing Assets (NPAs)**, loss of income, higher provisioning, and weak financial position of the Bank.

Credit Risk affects:

- Asset quality
- Profitability
- Liquidity position
- Overall financial stability of the Bank

- **Forms of Credit Risk**

1. **Default Risk:**
   The risk that a borrower fails to repay loan or interest on time. This is the most common type of credit risk.
2. **Credit Migration Risk:**
   The risk that the financial condition of the borrower becomes weak over time, reducing their repayment capacity.
3. **Settlement Risk:**
   The risk of delay or failure in receiving funds in inter-bank or financial transactions.
4. **Concentration Risk:**
   The risk of giving too much loan to a single borrower, group, or sector. This increases the chance of loss if that borrower or sector faces problems.

(Country/Sovereign Risk is generally not applicable to co-operative banks and hence not considered.)

- **Sources of Credit Risk in Co-operative Banks**

- Poor credit appraisal and weak borrower assessment
- Lack of proper documentation
- Over-financing or unsecured lending
- Delay in monitoring and follow-up

- Economic or business failure of borrowers

- **Credit Risk Management Measures**

The Bank shall manage Credit Risk by:

- Following proper **loan appraisal and sanction procedures**
- Verifying borrower's repayment capacity and credit history
- Ensuring **adequate security and documentation**
- Fixing exposure limits for borrowers and sectors
- Monitoring loans regularly and conducting periodic reviews
- Taking timely action for overdue accounts
- Following RBI norms for **NPA classification and provisioning**
- Strengthening recovery systems and legal follow-up

Operational Risk

Operational Risk means the possibility of loss due to failure in the Bank's internal processes, people, systems, or due to external events. This risk is present in all day-to-day activities of a co-operative bank and may arise due to mistakes, frauds, system failures, or unexpected situations.

Operational Risk can affect the Bank's working, customer service, and financial position if not properly controlled.

Sources of Operational Risk

Operational Risk may arise from:

- **Weak Systems and Controls:**
  Outdated or improper systems without proper checks and safeguards
- **Process or Management Failures:**
  Poor supervision, weak decision-making, or lack of proper procedures
- **Fraud and Human Error:**
  Mistakes by staff or fraudulent activities by employees or outsiders
- **Transaction Errors:**
  Errors in data entry, wrong postings, or delays in processing transactions
- **Technology and Cyber Risks:**
  System failure, hacking, data theft, or network issues

Operational Risk Impact

If not controlled, operational risk may lead to:

- Financial loss
- Customer complaints
- Loss of reputation
- Disruption in banking operations

Operational Risk Management Measures

The Bank shall take the following steps to manage operational risk:

- Maintain strong **internal control systems** and proper procedures
- Follow **maker-checker system** for all important transactions
- Clearly define roles and responsibilities of staff
- Conduct **regular internal audits and inspections**
- Maintain proper records and documentation
- Ensure **system backup and data security**
- Implement **Business Continuity Plan (BCP)** and Disaster Recovery (DR)
- Provide **regular training to staff** on operations and risk awareness
- Ensure proper supervision and monitoring at all levels

Monitoring of Operational Risk

Operational Risk shall be monitored by:

- Regular internal audit and inspection
- Review of errors, frauds, and system failures
- Reporting of incidents to higher authorities
- Periodic review by management and Board

The Bank shall take timely corrective action to avoid recurrence of such issues.

Legal Risk

Legal Risk means the possibility of loss to the Bank due to not following laws, rules, or regulatory guidelines properly. It may also arise from wrong interpretation of rules, poor documentation, or legal disputes with customers, employees, or other parties.

For co-operative banks, Legal Risk is very important as it can lead to **penalties, financial loss, and damage to reputation** if not properly managed.

Sources of Legal Risk

Legal Risk may arise from:

- **Non-Compliance with Laws and RBI Guidelines:**
  Failure to follow banking rules, RBI circulars, tax laws, or co-operative laws
- **Poor Documentation:**
  Incomplete or incorrect loan documents, agreements, or records
- **Contractual Disputes:**
  Disputes with customers, borrowers, vendors, or employees due to unclear terms
- **Wrong Interpretation of Rules:**
  Misunderstanding RBI guidelines or legal provisions
- **Unfair Practices:**
  Not following proper disclosure or fair practices while dealing with customers

Impact of Legal Risk

If not controlled, Legal Risk may lead to:

- Financial penalties and fines
- Legal cases and court expenses
- Loss of reputation and customer trust
- Regulatory action by RBI or other authorities

Legal Risk Management Measures

The Bank shall manage Legal Risk by:

- Ensuring strict compliance with **RBI guidelines and applicable laws**
- Using **proper and standard legal documents** for all transactions
- Getting documents verified by legal experts wherever required
- Maintaining proper records and documentation
- Providing training to staff on legal and compliance matters
- Regularly reviewing circulars, rules, and regulatory updates
- Establishing a system for handling legal cases and disputes

Monitoring of Legal Risk

Legal Risk shall be monitored through:

- Internal audit and compliance checks
- Periodic review by management and Board
- Tracking of legal cases and pending matters
- Ensuring timely corrective action

Option Risk

Option Risk means the risk arising when customers change their decisions, which affects the Bank's expected cash flows. In co-operative banks, this mainly happens when customers repay loans early, withdraw deposits before maturity, or suddenly use sanctioned loan limits.

These actions depend on customer needs, interest rate changes, or market conditions, and may affect the Bank's income and liquidity.

Common Situations of Option Risk

- **Loan_Prepayment:**
  Borrowers may repay loans before the due date, especially when interest rates fall. This reduces the Bank's expected interest income.
- **Premature_Withdrawal_of_Deposits:**
  Customers may withdraw fixed deposits before maturity, leading to sudden outflow of funds.
- **Undrawn_Credit_Limits:**
  Customers may suddenly use unused loan limits (CC/OD), creating unexpected demand for funds.

Impact of Option Risk

Option Risk may lead to:

- Reduction in interest income
- Sudden liquidity pressure
- Mismatch between assets and liabilities
- Difficulty in planning cash flows

Option Risk Management Measures

The Bank shall manage Option Risk by:

- Monitoring customer behavior and past trends
- Keeping sufficient liquidity to meet sudden withdrawals or loan demands
- Fixing proper terms for premature withdrawal and prepayment (penalties where applicable)

- Regularly reviewing loan and deposit patterns
- Considering such risks while preparing ALM statements (SLS/IRSS)
- Reviewing position through ALCO periodically

Reputation Risk

Reputation Risk means the risk of loss to the Bank due to negative public image or loss of trust among customers, regulators, and the public. For co-operative banks, maintaining trust is very important, as any negative incident may lead to withdrawal of deposits and loss of business.

Reputation Risk may arise from:

- Non-compliance with RBI guidelines or penalties
- Poor customer service or delay in handling complaints
- Fraud, errors, or operational failures
- System issues or data security problems
- Negative news or publicity in media

Impact of Reputation Risk

If not controlled, Reputation Risk may lead to:

- Loss of customer confidence
- Withdrawal of deposits
- Reduction in new business
- Increased attention from regulators
- Long-term damage to the Bank's image

Reputation Risk Management Measures

The Bank shall manage Reputation Risk by:

- Following **transparent and ethical practices** in all operations
- Ensuring **proper compliance** with RBI guidelines and laws
- Providing **good customer service** and quick complaint resolution
- Maintaining strong **internal controls and systems**
- Ensuring **data safety and system security**
- Maintaining adequate liquidity to handle sudden withdrawals
- Communicating clearly with customers during any issue

Monitoring of Reputation Risk

Reputation Risk shall be monitored through:

- Customer feedback and complaint reports
- Internal audit and inspection
- Review by management and Board
- Monitoring of any adverse incidents or publicity

Asset–Liability Committee (ALCO)

The Asset–Liability Committee (ALCO) is a senior level committee of the Bank responsible for managing the balance sheet in a safe and balanced manner. It ensures proper management of **deposits, loans, investments, liquidity, and risks** so that the Bank remains financially strong and stable.

ALCO works under the overall guidance of the **CEO, Board of Directors, Vice Chairman** and is chaired by the **Chairman**

Key Responsibilities of ALCO

The Asset–Liability Committee (ALCO) is responsible for managing the Bank's funds in a safe and balanced manner. Its main responsibilities are:

- **Following Board Guidelines:**
  Ensuring that all policies, risk limits, and instructions approved by the Board of Directors are strictly followed.
- **Planning Assets and Liabilities:**
  Preparing and reviewing strategies for loans, deposits, investments, pricing of products, maturity pattern, and funding sources.
- **Liquidity and Interest Rate Management:**
  Monitoring and controlling liquidity position and interest rate risk to ensure the Bank can meet all obligations on time.
- **Risk Management Support:**
  Supporting the overall risk management system by balancing safety, liquidity, and profitability in business decisions.
- **Review and Monitoring:**
  Reviewing important reports such as key risk indicators, stress test results, Structural Liquidity Statement (SLS), and Interest Rate Sensitivity reports.

Members of ALCO

The ALCO shall consist of the following members:

- **Chairman of the Bank** – Acts as the Chairperson of ALCO and leads the committee
- **Vice Chairman** – Assists the Chairman and participates in key decisions
- **Directors (as nominated by the Board)** – Provide oversight and strategic inputs
- **Chief Executive Officer (CEO)** - Provides overall guidance and policy direction
- **Senior Officers of the Bank**

Role of Members

The Asset-Liability Committee (ALCO) is a high-level decision-making body tasked with managing the Bank's balance sheet risks and ensuring alignment with overall business and risk management strategies.

- **Chairman / Vice Chairman / Directors:**
  Provides overall leadership, Provide policy guidance, strategic direction, and ensure Board-level oversight.
- **CEO:**
  Ensures implementation of ALM policies, and takes decisions on liquidity and risk management.
- **Senior Officers:**
  Provide data, reports, analysis, and technical support for decision-making in areas like loans, deposits, investments, and risk management

Functions and Responsibilities of ALCO

The Asset–Liability Committee (ALCO) is responsible for managing the Bank's funds in a safe and balanced way. Its main functions are:

- **Monitoring_Liquidity_and_Interest_Rate_Risk:**
  Regularly reviewing the Bank's liquidity position, interest rate risk, and overall funding plan to ensure smooth operations.
- **Risk–Return_Analysis:**
  Studying the balance between risk and return while taking decisions on loans, deposits, and investments, based on market conditions and RBI guidelines.
- **Assumptions_and_Behavioral_Analysis:**
  Reviewing and approving assumptions used for liquidity planning, such as customer behavior in deposits, loan prepayments, and early withdrawals.

- **Setting_Risk_Limits:**
  Fixing internal limits for liquidity risk, interest rate risk, and other market risks as per the Bank's risk capacity.
- **Pricing_and_Asset–Liability_Planning:**
  Suggesting suitable interest rates for deposits and loans, deciding maturity structure, and maintaining a balanced investment portfolio.

Meeting Frequency and Reporting of ALCO

- **Regular_Meetings:**
  The ALCO shall meet at least once every quarter to review the Bank's financial position and take important decisions related to liquidity and risk management.
- **Additional_Meetings:**
  Meetings may be held more frequently if there are changes in market conditions, interest rates, liquidity stress, or new regulatory instructions from RBI.

Reports Reviewed by ALCO

The ALCO shall regularly review the following important reports:

- Structural Liquidity Statement (SLS)
- Interest Rate Sensitivity Report (IRSS)
- Liquidity position and cash flow reports
- Stress testing results
- Future liquidity planning and forecasts

Reporting to Board

- All discussions, decisions, and recommendations of ALCO shall be properly recorded in minutes.
- A summary report shall be submitted to the **Board of Directors every quarter**.
- This ensures proper transparency, control, and supervision of the Bank's financial position.

Reporting

The Asset–Liability Management (ALM) statements and regulatory returns shall be prepared as per RBI guidelines. These are generally compiled as on the last reporting Friday of March, June, September, and December, or on any other date as may be specified by the Reserve Bank of India from time to time.

The reporting process shall be as follows:

- All ALM statements shall be prepared accurately and on time, showing the Bank's liquidity position, maturity profile, and interest rate risk.
- The reports shall be placed before the Board of Directors or the designated committee within one month from the reporting date for review and approval.
- After approval, the statements shall be submitted to the Reserve Bank of India and other regulatory authorities, wherever required.

Revision of Policy

The Asset–Liability Management (ALM) Policy shall be reviewed by the Board of Directors at least once every year.

The policy may be revised whenever required based on:

- Changes in RBI guidelines or instructions
- Changes in market conditions
- Operational needs of the Bank
- Improvements in risk management practices

Any such changes shall be incorporated to ensure that the policy remains updated, effective, and fully compliant with regulatory requirements.

The Mahaveer Co-operative Bank Ltd., Belagavi

Chief Executive Officer/Vice-Chairman/Chairman