



## **COMPLIANCE POLICY**

**VERSION 4.0**

**COMPLIANCE DEPARTMENT**

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## *Policy Certification*

**Title**

**Compliance Policy**

**Version**

**4.0**

<b>Owned By:</b>	<b>Compliance Department</b>
<b>Prepared By:</b>	<b>Compliance Department</b>
<b>Reviewed By:</b>	<b>Board of Directors</b>
<b>Approved By:</b>	<b>Board of Directors</b>
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## **COMPLIANCE POLICY 2023-24**

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## **COMPLIANCE POLICY 2023-24**

### **1. Introduction**

The Compliance Function must ensure strict observance of all statutory, regulatory and other provisions and compliances prescribed by various statutory and other regulators from time to time, fair practice codes prescribed by industry associations and also bank's internal policies. These are likely to go beyond what is legally binding and embrace broader standards of integrity and ethical conduct. When a bank fails to comply with the applicable regulatory / statutory rules and defined code of conduct, it exposes itself to significant compliance risk. Hence it is necessary to have a documented Compliance Policy covering guidelines on compliance and compliance functions in the Bank (Group / enterprise wide) and all its related aspects. Chief Compliance Officer and compliance officials at all levels to effectively assist the management in managing the compliance risks faced by the bank.

### **2. Scope of the Policy:**

The scope of the Compliance Policy relates to assessing compliance risk related laws, regulations and standards which are specific to the financial services and which are issued by legislative and regulatory bodies, Self-Regulatory Organisations, Internal policies that are relevant to Banking businesses.

#### **Types of Compliance:**

The compliance functions in the Bank shall be divided into three broad categories.

#### **2.1 Statutory Compliance:**

The Bank has to ensure strict observance of all statutory provisions contained in various legislations such as Banking Regulation Act, Reserve Bank of India Act, Foreign Exchange Management Act, Prevention of Money Laundering Act etc.

#### **2.2 Regulatory Compliance:**

The Bank has to ensure strict observance of other regulatory guidelines issued from time to time by the regulators such as RBI, SEBI, IRDA etc. Such compliances shall be termed as Regulatory compliance.

#### **2.3 Other Compliances:**

In addition to the statutory and regulatory compliance, the Bank has to comply with standards and codes prescribed by IBA, FEDAI, FIMMDA etc. and also bank's internal policies and fair practices code. Such compliances are termed as other compliances.

### **3. Objectives of the Compliance Policy:**

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 organization 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 Compliance Function is to:**

**3.1** Assess the level of compliance of applicable laws, regulations, supervisory requirements, code of conduct, internal policies and procedures so that remedial measures, wherever required, could be taken to improve the level of compliance.

**3.2** Protect the bank's image and reputation by keeping close watch on compliance standards and codes of conduct at various levels.

**3.3.** Compliance is a shared responsibility of the business units and the compliance function. Therefore, adherence to applicable statutory provisions and regulations needs to be the responsibility of each staff member of the bank and it is the work of the compliance function to ensure the same.

**3.4** Manage compliance risk effectively by establishing compliance culture down the organization.

**3.5** Mitigate any significant risk which is brought to the notice of the Bank by various sources including RBI / Bank's Internal Auditors / On-site or Off-site inspection / Risk Based Supervision (RBS) etc. The compliance laws, rules and standards are likely to go beyond what is legally binding and embrace broader standards of integrity and ethical conduct.

**3.6.** There are individual departments looking after compliance to different statutory and other regulators like SEBI, FIU-IND, IRDA, PFRDA etc. For monitoring compliances with the regulations, Internal policies and procedures and reporting to Management, the concerned departments shall hold the prime responsibility for their respective areas, which should be clearly outlined, while compliance function would need to ensure overall Compliance. If any serious gaps are observed in such compliances, the Compliance function should take necessary action to correct the compliance culture. There should also be appropriate mechanisms for co-ordination among departments and with the Chief Compliance Officer.

**3.7** Effectively assist the management in managing the compliance risk faced by the Bank Compliance officials at all levels.

**3.8** 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, FIMMDA, IRDA, SEBI etc. government policies, prevention of money laundering and funding of illegal activities and the Bank's internal policies.

**3.9** Define the role and structure of the Compliance Department, composition of its staff and their specific responsibilities at Corporate Office, Controlling offices and Branches.

**3.10** 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.

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

**3.12** Provide procedures to integrate the Compliance risk management framework with the Bank's operational risk management framework.

**3.13** Vetting the quality of supervisory / regulatory compliance reports to RBI, by the Top Executives viz., ED / MD & CEO.

**3.14** Create group / enterprise wide compliance program covering its Subsidiaries, Regional Rural Banks (RRBs), Joint ventures etc.

**3.14.1** Group / Enterprise wide compliance functions and program must ensure that controls and procedures capture the appropriate information in accordance with accounting standards IFRS / Ind-AS issued by ICAI, directives of SEBI / RBI / other regulatory and statutory bodies to facilitate Senior Management / Board to perform compliance risk management / governance functions on Group / Enterprise wide effectively. A Group / Enterprise-wide compliance program could help management and the board in understanding where the legal and reputation risks in the organization are concentrated, provide comparisons of the level and changing nature of risks, and identify those control processes which need enhancement. The compliance function must therefore ensure that controls and procedures capture the appropriate information to allow senior management and the board to better perform their risk management functions on a group / enterprise wide basis.

**3.14.2** As per Accounting Standards 21, a group is defined as a parent and its subsidiaries. Moreover, AS23 and AS27 require that compliance culture is promoted across bank's associates and joint ventures. The compliance area is critically important in identifying, evaluating, and addressing legal and reputation risks. Given the significance of these risks, a Group / Enterprise-wide compliance program is a necessity for the Bank.

**3.15** Provide procedures and compliance responsibilities specific to the foreign Branches of the Bank viz., adherence to applicable laws and regulations of the Host countries are duly carried out.

#### **4. Resources:**

**4.1** Reserve Bank of India vide Circular No.DBS.CO.PP.BC.06/11/01.005/2006-07 dated 20.04.2007 has issued comprehensive final guidelines on Compliance and Compliance Function in Banks. RBI has advised that each bank will formulate a Compliance Function for their Bank and put in place a compliance policy to manage compliance risk.

**4.2** RBI has also issued a circular No. DBS.CO.PPD.10946/11/01.005/2014-15 dated 04.03.2015 reiterating the contemporary relevance of the circular issued in 2007 and the additional concerns and other aspects that would need review and testing from the compliance perspective.

**4.3** RBI's FAQ [Ref. No. DoS. CO.PPG/SEC.02/11.01.005/2020-21 dated September 11, 2020](#) reiterating the Compliance functions, Role of Chief Compliance Officers in Bank supplements the guidelines issued by Reserve Bank of India on [April 20, 2007](#) and [March 04, 2015](#). For any common areas of guidance, the prescription of these circulars shall be followed. In accordance with these guidelines, the Compliance Policy aims at establishing a robust Compliance System in our Bank.

#### **5. Functions of Compliance:**

**The Functions of various tiers in the Organizational Structure are detailed below:**

##### **5.1 Board / ACB**

**5.1.1** The Bank recognizes that the compliance starts at the top. In order to inculcate the best corporate compliance culture that emphasizes standards of honesty and integrity, the Board as well as the Top Management will lead by example by setting the right tone for others to emulate.



**5.1.2** The Annual Review of Compliance Policy shall be approved by the Board. The implementation of the Policy and Compliance Function shall be overseen by the ACB / Board / Internal audit and should regularly review compliance functions in strict accordance with extant guidelines on the subject. Compliance failures may be reviewed by ACB / Board and appropriate remedial measures may be taken.

A detailed Annual Review shall be placed before the ACB. The Compliance Activity Plan / Calendar and Compliance audit / testing approved by the ACB in the meeting for the respective financial year shall be implemented and quarterly status shall be placed to ACB through ACE.

## **5.2 CO: Compliance Department and Chief Compliance Officer**

**5.2.1** The Compliance Department at Corporate Office shall be responsible for implementing the Policy. The compliance department should be independent and sufficiently resourced, its responsibilities should be clearly specified, and its activities should be subject to periodic and independent review. The Compliance Department at Corporate Office will be headed by Chief Compliance Officer.

The CCO shall be a senior executive, preferably in the rank of CGM / General Manager or an equivalent position (not below two levels from the CEO). Selection of CCO shall be as per extant regulatory guidelines issued by RBI from time to time.

**5.2.2 Reporting requirements:** A prior intimation to the Department of Supervision, Reserve Bank of India, Central Office, Mumbai, shall be provided before appointment, premature transfer / removal of the CCO. Such information should be supported by a detailed profile of the candidate along with the fit and proper certification by the MD & CEO of the bank, confirming that the person meets the above supervisory requirements, and detailed rationale for changes, if any.

**5.2.3** The Chief Compliance Officer shall be the nodal point of contact between the Bank and the Regulator. However, activities of the Bank are not limited to the banking sector and the directions are also received from other regulators such as IRDA, SEBI etc.

These directions, can constitute part of compliance functions of the Bank. To ensure proper compliance of such other regulators, the Nodal Compliance Officers / Designated Officer for the concerned function shall be appointed to primarily carry out the compliance of their domain and shall report the compliance to Chief Compliance Officer.

**5.2.4** Designated Officers / Principal officer / Compliance Officer for regulators like SEBI, FIU-IND, IRDA, PFRDA etc. and also for Department of currency management, department of information security of RBI etc would be nominated by MD & CEO / ED and they will report to CCO through their respective General Managers / Department Heads.

**5.2.5** In case of discomfort conveyed to the bank on any issue by any regulators, it shall be the duty of the concerned Compliance / Designated Officer to that specific regulator to bring it to the notice of Chief Compliance Officer of the Bank for reporting to RBI.

**5.2.6** The staff of CO: Compliance Department shall have specialized knowledge of Law, Accountancy and Information Technology, FOREX, Treasury and also adequate practical experience in various business lines and Audit / Inspection functions to enable to carry out their duties effectively. Besides they should be provided with suitable training to update them in new products and services as well as in areas of Corporate Governance, Risk Management, Supervisory Practices etc.

**5.2.7** CO: Compliance Department shall be provided with Assistant General Manager / Chief Managers assisted by a team of Officers having exposure in Credit / Credit related matters, Legal issues and documentation, Treasury, Information Technology, Digital Technology, Forex, Risk Management and Banking Operations to take care of compliance and Risk Based Supervision.

**5.2.8** CO: Compliance Department shall submit quarterly report on compliance status to the ACB & Board and Annual Review to ACB to enable the Board members to make an informed judgement on whether the bank is managing its compliance risk effectively.

**5.2.9** CO: Compliance Department shall report promptly to ACB and the Board of Directors on any material Compliance failure. Failure that may attract a significant risk of legal or regulatory sanctions, material financial loss or loss of reputation.

**5.2.10** The Compliance Department shall arrive at comprehensive data based on the Regulatory and Statutory compliances required and also from the data on internal policies, rules and guidelines of rules and regulations derived from various sources for compliance by functional departments. The functional department shall disseminate all such regulatory and statutory guidelines to field level functionaries for compliance. CO: Compliance Department shall also update and circulate all the rules, standards and laws to the functional departments from time to time for compliance.

**5.2.11** CO: Compliance Department shall design the Reporting Formats and update it periodically to enable branches / Zonal Offices/ FGMOs / Corporate Office Departments for reporting compliance to the Department on Monthly / Quarterly basis.

**5.2.12** CO: Compliance Dept, once in a year, to identify & assess the compliance risks faced by the Bank in their respective functional area upon receipt of inputs from all departments on compliance failures if any during the preceding year, scope of compliance procedures and processes, system of internal controls to

minimize compliance risk, progress in rectification of deficiencies pointed out by auditors, inspectors and regulators etc., and place Annual Review to ACB.

**5.2.13** Bank shall ensure independence of the Chief Compliance Officer and the staff in CO: Compliance department to avoid conflict of interest and the compliance staff should primarily focus on the compliance functions. In order to ensure that there is no room for conflict of interest, the activities of the compliance function are subject to independent review, the compliance function and the audit function of the bank should necessarily be kept separate. However, in Branches / Zonal Offices / Functional Departments, the compliance staff may perform some other duties other than Audit / Inspection while ensuring that there is no conflict of interest.

**5.2.14** The Compliance functionary should be looked at as a friend, philosopher and guide by the business units. There should be a close coordination and partnership between compliance and business operations functions. To achieve this purpose, the Chief Compliance Officer will be a member of the various inter-departmental committees in the Bank. Chief Compliance Officer shall be a special invitee to Audit Committee of the Board.

**5.2.15** The Chief Compliance Officer shall have access to all information which may be required and have the right to own initiative to communicate with any staff member of the Bank and obtain access to any records or files necessary to carry out his responsibilities.

**5.2.16** The Chief Compliance Officer shall be empowered:

- i. To conduct compliance review investigations whenever required and to request assistance from the Specialists within the Bank.
- ii. To provide clarification on any compliance-related issues.
- iii. To conduct assessment of the Compliance Risk (at least once a year) and to develop a risk-oriented activity plan for compliance assessment. The activity plan should be submitted to the ACB for approval and be made available for Internal Audit.
- iv. The authority to use external experts for the purpose of investigation shall be left to the discretion of the Chief Compliance Officer.

### **5.2.17 Reporting Line:**

The Chief Compliance Officer shall have direct reporting lines to the MD & CEO and / or ACB /Board. Audit Committee of the Board shall meet the CCO quarterly on one-to-one basis, without the presence of the senior management including MD & CEO. The CCO shall not have any reporting relationship with the business verticals of the Bank and shall not be given any business targets. Further, the performance appraisal of the CCO shall be reviewed by the Board / ACB.

The Chief Compliance Officer shall be free to report to MD & CEO / ED on any irregularities or possible breaches disclosed by its investigations without fear or disfavor from management or other staff members. The Chief Compliance Officer shall also have the right of direct access to the Audit Committee of the Board (ACB).

Communication / Reporting to RBI and other Regulatory / Statutory authorities shall be through CCO / copies of the same shall be marked to CCO.

**5.2.18** The Chief Compliance Officer shall be a participant in the quarterly discussions held with RBI. In case no quarterly meeting is held, CCO shall meet the CGM, DoS / SSM in charge of the Bank at Central Office / Regional Office of RBI once in every quarter of the year to discuss compliance issues.

**5.2.19** All new products & processes shall be approved by the New Product and Process Approval Committee (NPPAC) / Credit Risk Management Committee (CRMC) / Operational Risk Management Committee (ORMC) wherein, compliance risk besides other risk shall be analyzed and appropriate risk mitigating checks and balances if required shall be put in place before launching a product / process. CCO shall be a member in all such committees.

**5.2.20** Once the product / process is approved, Compliance Officer of the concerned Department shall ensure that the operative & regulatory guidelines are disseminated amongst the operational units i.e. Zonal Offices / Branches. The concerned department will monitor the prescribed procedure for initial six months and in case any deviation is found the same should be informed to Chief Compliance Officer / Compliance Department and to CRMC / ORMC along with steps proposed to mitigate the same.

**5.2.21** Compliance Testing of the RBI regulations / Internal guidelines at Corporate Office shall be carried out by the staff of Compliance Department. However, for conducting Compliance Testing of Specialized Areas like Forex, Investment, Risk Management, IT etc. where Compliance Department does not have staff having relevant expertise, the Chief Compliance Officer may depute official(s) having requisite skills & experience in the respective areas.

**5.2.22** There shall not be any 'dual hatting' i.e., the CCO shall not be given any responsibility which brings elements of conflict of interest, especially the role relating to business.

**5.2.23** The Audit of Compliance Department would be conducted independently by the Inspection Department on annual basis by way of Management Audit.

### **5.3 Functional Departments at Corporate Office:**

**5.3.1** Functional General Managers in-charge of departments at Corporate Office will nominate the concerned department head DGM / AGM / CM as the case may be coming under his control as compliance officers for managing compliance risk pertaining to their functional area.

**5.3.2** Such nominated compliance officer of the department will in turn identify an officer, for managing the Compliance Risk in the department to assist him / her for reporting compliance to CO: Compliance Department.

**5.3.3** Each Functional Department shall maintain all 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 quarterly compliance reports to be submitted by Branches / Zones.

**5.3.4** Each Functional Department shall submit a detailed quarterly compliance report relating to their function and monthly compliance certificate duly signed by General Manager / Department Head to CO: Compliance Department.

**5.3.5** The eTHIC tool used by Inspection Department is enabled with compliance audit template wherein the inspectors of branches while conducting RBIA are verifying and reporting the level of compliance to the compliance report submitted. eTHIC will permit closure of branch inspection (RBIA) report only on completion of compliance audit template by the Inspector of Branches. The reports are scrutinized and wrong compliances reported are taken up with the branches for rectification.

**5.3.6** Inspection department to submit on quarterly basis a certificate on total compliance with all specified guidelines enlisted in the specific template oriented towards compliance assessment introduced under RBS framework to CCO.

**5.3.7** General Managers in charge of various functions would ensure that appropriate remedial or disciplinary action is taken if breaches are identified.

**5.3.8** Chief Compliance Officer shall convene a quarterly meeting with the Department Heads and Compliance Officers of the respective departments for exchange of views / information on various matters and to strengthen the compliance culture in the organization.

**5.3.9** Relationship between compliance function, legal function, various other risk management functions & business line functions:

(i) Legal Department will be responsible for advising the Chief Compliance Officer on Compliance Laws, Rules and Standards (i.e. various laws / acts relating to banking business operations) and initiate necessary steps for preparing / issuing guidelines incorporating the aspects related to developments in legal issues.

(ii) In order to establish a relationship between Compliance Function and other Risk Management Functions, the Chief Compliance Officer will be included in various Risk Management Committees functioning at corporate level viz. Credit Risk Management Committee, Asset Liability Management Committee, Operational Risk Management Committee, Risk Management Committee of the Board etc.

(iii) In order to ensure adherence to compliance rules in new business products, Chief Compliance Officer will be included in the New Product and Process Approval Committee (NPPAC).

(iv) It shall be ensured that Compliance Staff work in coordination with the Risk Management staff and Business line staff. For this purpose, a committee of the officers from the Departments at Corporate Office will meet once in Quarter for exchange of views / information on various matters and establishing compliance culture down the organization. Such meetings will be convened by the Compliance Department and chaired by Chief Compliance Officer.

## **5.4 Field Level:**

### **FGMOs / Zonal Offices**

**5.4.1** Each Zonal Office shall designate officer in the rank of not less than Scale-II (Scale II / III) as Compliance Officer at Zonal Office (ZCO). FGMO shall designate officer in the rank of not less than Scale III (Scale III/IV) as compliance officers at FGMO (FGMCO).

ZCO will be under the administrative control of ZM and FGMO Compliance Officer will be under the administrative control of FGM and shall report to CCO. Nominated ZCO and FGMCO shall not be changed without the approval of CCO. CCO shall be part of the annual performance appraisal of the ZCO / FGMCO.

**5.4.2** The Compliance Officers at ZOs / FGMOs will not be entrusted with the direct business line responsibilities and duties of audit and inspection function in order to avoid potential conflict of interest and to ensure their independence. Allocation of additional responsibility if any for ZCO shall be with the concurrence of CCO only.

**5.4.3** Departmental heads and staff of FGMO / Zonal Office are equally responsible for managing the Compliance function pertaining to their functional area and will assist the Compliance Officer by providing inputs relating to their functions to enable the Compliance Officer in FGMO / ZO to report to Chief Compliance Officer.

**5.4.4** The Compliance Officer at FGMO / ZO shall submit on-line compliance report on status / extent of compliance to CO: Compliance Department at quarterly intervals.

**5.4.5** The Compliance Officer at FGMO, in addition to the FGMO level compliance functions, will monitor the proceedings of Zonal Level Compliance Committee (ZLCC) reports of the Zones coming under their jurisdiction.

**5.4.6** The Compliance Officer at FGMO must oversee the function of Zonal Compliance Officers under the span and submission of monthly / quarterly progress at Zones in:

- a) Quarterly Online Compliance Report submission by branches (NICE)
- b) Progress in onsite testing through branch visit of ZCO.
- c) Progress in rectification of Offsite Monitoring – ATOM portal.
- d) Rectification of non-compliances reported during ZCO visit.
- e) Timely conduct of ZLCC & its minutes.
- f) Status of FRC submission.

**5.4.7** The Compliance Officer in the Zonal Office, shall appraise the Zonal Level Compliance Committee the level of Compliance and failures, if any so that the Zonal Level Compliance Committee shall take prompt / corrective action and report to Chief Compliance Officer at Corporate Office.

**5.4.7.1** The Zonal Level Compliance Committee comprises of the following members:

Zonal Manager	Chairman
Deputy Zonal Manager	Member
Zonal Compliance Officer	Convenor
Zonal Security Officer	Member
Zonal Risk Officer	Member
OIC of Inspection and Audit of respective ZO	Member
FGMO Compliance Officer	Member
AGM / CM of CO Compliance Department	Invitee

Mandatory members:

- ZM / DZM
- FGMO Compliance Officer
- Zonal Compliance Officer
- Officer in - charge of Inspection & Audit at Zonal Office.

**Frequency of the meeting** – Immediately after the completion of Onsite testing of all the branches by the respective ZCO within the stipulated time for the quarter.

Quorum is 4.

In the absence of Zonal Manager, Deputy Zonal Manager will chair the committee.

**5.4.7.2** Minutes of Zonal Compliance Meeting are to be placed to ZM and DZM and a copy to be sent to CO: Compliance Department.

**5.4.7.3** ZCO must ensure the following within the timeline stipulated:

- Rectification of non-compliances observed at branches and observed during onsite / offsite testing.
- Submission of Final Rectification Certificate by branches / offices.
- Convening of Zonal Level Compliance Committee, closure of ZCO Compliance visit reports and submission of minutes of ZLCC to CO:Compliance Department.

**Branches (including specialized branches):**

**5.4.8** At Branches (Including specialized branches like service branch, Corporate Credit branches, SAMV, RAPC, MAPC, LCB, MCB, LBC, CPPC, Treasury branch, CO / ZO: Stationery Centres, IMAGE, Zonal Training Centres, FXPCs, Treasury, DAMCs etc.), the ABM / second line official will perform the role of compliance officer. However, in single man branches the BM / Officer in charge of the branch will perform the role of the compliance officer.

**5.4.9** The Individual Officer in each Branch / Specialized branch / Training establishment, Administrative Offices (FGMO/ZO), Inspection Centres etc., shall submit the quarterly online compliance report on compliance / non-compliance of various compliance issues to CO: Compliance Department. In addition, the Compliance Officer in each branch shall submit a Monthly Compliance Certificate to Zonal Office in the prescribed format within the stipulated timeline.



**Compliance Officers at CO departments, FGM Offices, Zonal Offices, Branches (including specialized branches and training establishments) and other offices shall be primarily responsible for all compliance functions and compliance related responsibilities & assignments.**

## **5.5 Foreign Branches:**

**5.5.1** The Bank is having three Foreign branches 1) Singapore Branch 2) Colombo Branch and 3) Jaffna Branch and one IFSCA branch viz., Gift City, Gandhi Nagar, Gujarat. The Compliance Officer for Singapore and Sri Lankan Operations will be designated / recruited by the respective CEOs / Appointing authorities in consultation with Corporate Office and for Gift city branch, ABM shall be designated as Compliance Officer.

**5.5.2** The Overseas Branch Compliance Officer shall ensure that all regulatory guidelines of the Host country and Home country are complied with. The branch shall maintain a comprehensive data of rules and regulations issued by their Host country and Home country and will prepare a Compliance Policy / Compliance Manual for the guidance of staff working in the branches. It shall be ensured that they comply with applicable laws and regulations in the respective jurisdictions and that the organization and structure of the compliance function and its responsibilities are consistent with local legal and regulatory requirements.

**5.5.3** It is the responsibility of the designated Compliance Officers of the respective overseas branches to ensure that individuals with the appropriate local knowledge and expertise to carry out compliance responsibilities specific to each jurisdiction. They shall submit monthly / quarterly report on the status of compliance to CO: International Division in a format prescribed. CO: International Division will oversee functions in coordination with the Foreign Branches and report compliance to CO: Compliance Department. Inspection reports of the Host country regulators and any displeasure conveyed, show-cause notices received and penalties imposed and paid shall be informed to CO: Compliance Department then and there through CO: International Division.

**5.5.4** Foreign Branches shall submit monthly compliance certificate duly signed by CEO & Deputy CEO to CO: International Banking Division.

## **5.6 Subsidiaries:**

**5.6.1.** In respect of Subsidiaries the President / Managing Director of these entities will designate the second in command / suitable officer to perform the role of Compliance Officers for the respective entities. The Compliance Officers shall maintain a comprehensive data on rules and regulations pertaining to their operations and prepare Compliance Manual for the guidance of their staff members. They will ensure that all regulations are complied with and will send a quarterly report on the status of compliance to the Chief Compliance Officer at our Corporate Office besides placing to their Boards. Besides they shall send an Annual Review of Compliance Risk Assessment identifying compliance risks faced by them and steps taken to mitigate them to CO: Compliance Department under copy to the respective Functional Department i.e. CO: Accounts Department. The Compliance Policy & compliance manual of the subsidiaries shall be submitted to CO: Compliance department every year on approval from respective Board / controlling authorities.

**5.6.2.** Subsidiaries shall submit Monthly compliance certificate duly signed by President & Compliance Officer for Indbank Merchant Banking Services Ltd. and Managing Director & Compliance Officer for Indbank Housing Ltd to CO: Accounts Department.

## **5.7 Associates (Regional Rural Banks):**

**5.7.1** In respect of Regional Rural Banks, the Chairman of these entities will designate the second in command / Senior Official to perform the role of Compliance Officer for the respective RRBs. The Compliance Officer shall maintain a comprehensive data on rules and regulations pertaining to their operations and prepare Compliance Manual for the guidance of their staff members. They shall ensure that all regulations are complied with and will send a quarterly report on the status of compliance to the Chief Compliance Officer at Corporate Office besides placing to their respective Boards. Besides they shall send an Annual Review of Compliance Risk Assessment identifying main compliance risks faced by them and steps taken to manage them to their Boards, CO: Compliance Department under copy to the respective Functional Department i.e. CO: Rural Banking Department.

**5.7.2** The Compliance Policy & Compliance Manual of the RRB shall be submitted to CO: Compliance Department every year on approval by respective Board / controlling authorities. Amendments to compliance policy, compliance manual shall be submitted to CO: Compliance Department then and there. Inspection reports of the NABARD and any displeasure conveyed, show-cause notices received and penalties imposed and paid shall be informed to CO: Compliance Department then and there through CO: Rural Banking Department.

**5.7.3** Associates (Regional Rural Banks) shall submit monthly compliance certificate duly signed by General Manager / Compliance Officer to CO: Rural Banking Department.

## **5.8 Joint ventures:**

**5.8.1** In case of Joint ventures, the Head of the Joint venture shall designate the second in command to perform the role of Compliance Officers for the respective JVs. The Compliance Officers shall maintain a comprehensive data on rules and regulations pertaining to their operations and prepare Compliance Manual for the guidance of their staff members. They shall ensure that all regulations are complied with and will send a quarterly report on the status of compliance to the Chief Compliance Officer at Corporate Office besides placing to their Boards.

**5.8.2** Besides they shall send an Annual Review of Compliance Risk Assessment identifying compliance risks facing them and steps taken to manage them to CO: Compliance Department under copy to the respective Functional Department, i.e. CO: Accounts Department. The Compliance Policy & Compliance Manual of the Joint venture shall be submitted to CO: Compliance Department every year on approval by respective Board / controlling authorities. Amendments to compliance policy / compliance manual shall be submitted to CO: Compliance Department then and there.

**5.8.3** Joint Ventures shall submit Monthly compliance certificate duly signed by General Manager / Compliance Officer to CO: Accounts Department.

## **5.9 Disclosures:**

**5.9.1** Non-compliance with any regulatory guidelines and administrative / penal actions initiated against the Bank along with corrective steps taken to avoid recurrence of the lapses should be disclosed in the annual report of the Bank.

**5.9.2** Discomfort conveyed to the Bank on any issue by any regulator other than RBI, shall be brought to the notice of RBI.

## **6. Policy Aspects:**

### **6.1. Compliance Risk**

**6.1.1** The Basel Committee on Banking Supervision (BCBS) has published a 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. The paper defines Compliance Risk as “the risk of legal or regulatory sanctions, material financial loss or loss to reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organization standards and codes of conduct applicable to its banking activities”.

**6.1.2** Compliance functions are one of the key elements in the Bank's Corporate Governance Structure, which have to be adequately enabled and made sufficiently independent so that it is capable of identifying, evaluating & addressing Legal / Reputation Risks.

**6.1.3** Legal Risk is the risk of financial or reputational loss that can result from lack of awareness or misunderstanding of, ambiguity in, or reckless indifference to, the way law and regulation apply to your business, its relationships, processes, products and services.

**6.1.4** Reputational risk refers to the potential for negative publicity, public perception or uncontrollable events to have an adverse impact on a Bank's reputation, thereby affecting its revenue.

## **6.2. Tools for Identification of Compliance Risk:**

- 6.2.1** Deficiencies on compliance aspects as reported in Risk Based Internal Audit of Branches.
- 6.2.2** Deficiencies on compliance aspects as reported in Concurrent Audit reports.
- 6.2.3** Deficiencies on compliance aspects as reported in inspection / audit reports of Zonal Offices / FGMOs / various Departments at Corporate Office.
- 6.2.4** Feedback received from Zonal Level Compliance Committees on quarterly basis.
- 6.2.5** Calendar of reviews submitted to Board and Board Level Committees by various CO Departments.
- 6.2.6** Various guidelines / circulars received from RBI / Govt. / IBA vis-à-vis Action Taken Report by the concerned CO Departments.
- 6.2.7** Monthly feedback report from CO departments on warnings / show-cause Notices / penalties imposed and paid.
- 6.2.8** Deficiencies on compliance aspects observed during visit of Branches / Zonal Offices / FGMOs by the ZO / FGMO / CO officials.
- 6.2.9** Control returns / statements submitted by ZOs to CO and by various Departments of Corporate Office to RBI.

- 6.2.10** Feedback received during meeting / workshop etc.
- 6.2.11** Information collected through online Compliance templates from Branches and Administrative Offices.
- 6.2.12** Control Gaps pointed out by RBI in Risk Assessment Report.
- 6.2.13** Audit findings in statutory audit reports LFAR.
- 6.2.14** Deficiencies / Gaps / Non compliances identified during online compliance report checking by officers from Branch / ZO / FGMO / CO departments.
- 6.2.15** Tranche III – Compliance Testing
- 6.2.16** Offsite testing results.

### **6.3 Compliance Testing**

#### **6.3.1 Online Compliance Certification (NICE – Normalised Individual Compliance Evaluator)**

Bank is monitoring compliance through online Compliance Reporting Portal, which specifies the role-based allocation of compliance parameters (Statutory, Regulatory and Internal) for self-reporting by officers in Branches and Administrative Offices. It also helps in time bound self-reporting and creation of unit and individual level compliance score card to Performance Management System (PMS) and targeted actions for recurring non-compliances, in which all the branches, specialized branches, ZOs, FGMOs, CO: Departments submit compliance report every quarter. As per ACB approved Compliance Policy & Compliance Audit testing plan, compliance verification is carried out in 30% of total number of branches, including 5% repeat testing of High risk category branches.

The operational part of Compliance Policy is by way of SOP which is issued and reviewed periodically by CCO.

#### **6.3.2 Offsite Monitoring Tool (ATOM – Advanced Tool for Offsite Monitoring)**

In order to improve quality of compliances to various regulatory/ statutory / internal policies based guidelines and also to improve data quality & integrity, Offsite Monitoring tool has been developed by Compliance Department to track Non compliances by the branches on month on month basis.

**6.3.3** The key benefits of Offsite Compliance Reporting and Monitoring Portal are as under:

- (i) Rectification of non-compliance / errors on an ongoing process
- (ii) To improve the quality of data in CBS
- (iii) To avoid regulatory / statutory penalties
- (iv) To identify System / Policy-level interventions required to input quality data by field-level functionaries.
- (v) To give a true picture on the data quality / integrity to business heads.

#### **6.4 Risk Based Supervision:**

**6.4.1** Certain very specific templates (data points) oriented towards compliance assessment have been introduced under RBS framework. RBI expects Chief Compliance Officer to ensure total compliance with all specified guidelines enlisted in the said template. It may also be noted that regulatory guidelines forming part of such template are neither exhaustive nor static and are expected to be updated on an annual basis.

Bank may, therefore, strive to put in an exhaustive compliance framework encompassing all guidelines emanating from RBI, identify potential breaches and remedy them up-front.

#### **6.4.2 Compliance with Monitorable Action Plan (MAP) / Risk Mitigation Plan (RMP):**

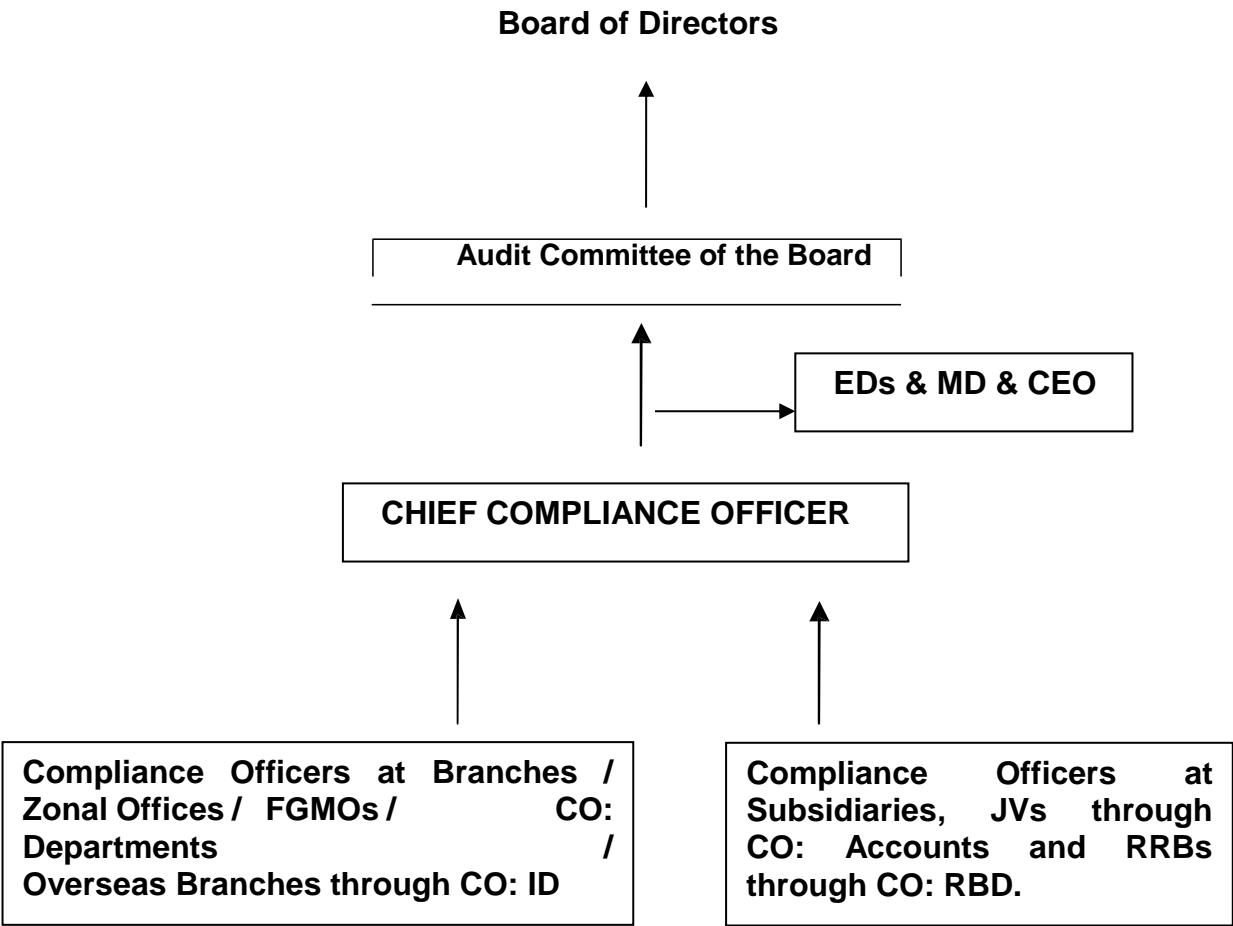
RBI has been placing a lot of emphasis on bank's adherence and compliance with MAP / RMP prescribed pursuant to the Risk Based Supervision process. Compliance units may specifically devise a time bound strategy to ensure that compliance on all specified points is achieved within the time frame. RBI will continue to expect an adept compliance scenario, where all MAP / RMP points are complied with well before the commencement of the subsequent supervisory cycle and / or within the periods prescribed for fulfilling the requirements of MAP / RMP. Penal provisions can also be invoked by RBI for unsatisfactory compliance with MAP/ RMP.

#### **6.5 Training:**

With a view to create awareness and educate staff on the Compliance Function, the training programs conducted by IMAGE/STCs should include suitable sessions on compliance & compliance risk management and to promote Compliance culture. It is important that the need to comply with instructions meticulously is re-emphasized among all the staff in the bank through continuous & mandatory training on compliance aspects, appropriate disciplinary measures through staff accountability framework / policies for non-compliance etc. Compliance should not be seen as an activity of the compliance department alone but as a culture that should pervade across the banks.

**6.6 Organizational Structure:**

The following shall be the Organizational Structure for the Compliance Function:



## **7. Periodical Review :**

**7.1** The activities of the compliance function should be subject to Annual review/ Management Audit by Internal Audit. Compliance Risk shall be included in the Risk Assessment methodology of the internal audit function and the audit program shall cover the adequacy and effectiveness of the bank's compliance function including testing of controls commensurate with the perceived level of risk. The Annual Review / Management Audit shall be done by Senior level officers. The report of the Annual Review shall be communicated to CCO and placed before the ACB.

### **7.2 Relationship between Internal Inspection (audit) function & Compliance Function:**

At the Top-Management / Senior Management level, Supervision of Compliance Function and Internal Audit function will be well-segregated. General Manager (Inspection & Audit) will perform the Senior Management function in the matter of Internal Inspection, whereas Compliance Functions will be carried out by Compliance Department under supervision of CCO in Top-Management grade.

### **7.3 Quality assurance review:**

The Bank shall also develop and maintain a Quality Assurance and Improvement Program covering all aspects of the compliance function. The quality assurance and improvement program shall be subject to independent external review periodically (at least once in three years)

## **8. Policy Modifications and Review:**

The Policy shall be reviewed once in a year and modified, if necessary, to suit the needs of the Bank and to comply with Revised Guidelines issues by RBI from time to time.

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