

BYE MAIL 10/6/16 1555

DIRECTORATE OF COOPERATIVE AUDIT: ODISHA: BHUBANESWAR.

Letter No.VI (4) 122/2013 3915 /Audit-2

Dated. 8/6/16

To

The Chief Executive Officer,
District Central Cooperative Bank Ltd.

Sub: Audit classification of state Cooperative Banks and Central
Cooperative Banks :- Revision in Audit Scale.

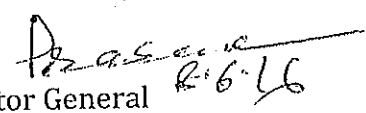
Ref: Circular No.96/DOS 15/2016 dt.5th May, 2016.

Sir,

Please refer to the NABARD Circular No.96 Dt.05.05.2016 regarding the revised rating norm issued to all DCCBs/ OSCB which is self explanatory. It has been decided to adopt the revised supervisory rating norms as revised audit classification scale which will be applicable from the year 2015-16 & onwards. This should be brought to the notice of statutory Auditors of your bank for information and strict compliance.

The previous audit classification scales (Circular No.83 dated. 06.05.2013 of NABARD) shall stands superseded.

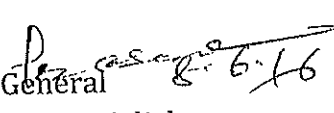
Yours faithfully


Auditor General
Cooperative Societies, Odisha.

Memo No. 3916 /

Dated. 8/6/16 /

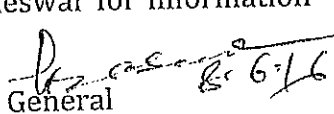
Copy forwarded to Managing Director, OSCB Ltd; Bhubaneswar for information and necessary action.


Auditor General
Cooperative Societies, Odisha.

Memo No. 3917 /

Dated. 8/6/16 /

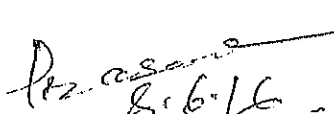
Copy forwarded to CGM, NABARD(RO), Bhubaneswar for information and necessary action.


Auditor General
Cooperative Societies, Odisha.

Memo No. 3918 /

Dated. 8/6/16 /

Copy alongwith the classification norm forwarded to Assistant A.G.C,S of Circles(All) for information and necessary action.


Auditor General
Cooperative Societies, Odisha.

Memo No. 3419 /

Dated. 8/6/16

Copy forwarded to the Registrar of Cooperative Societies, Odisha,
Bhubaneswar for information and necessary action.

Prasanna
8.6.16

Auditor General
Cooperative Societies, Odisha.

AKS
AKS.08.06.2016.



Ref. No. NB. DoS .HO .POL/ 370 /J-1/2016-17

05 May 2016 [Circular No. 96 / DoS - 15 /2016]

CONFIDENTIAL

The Managing Director / Chief Executive Officer
All State Cooperative Banks / Central Cooperative Banks

Madam / Dear Sir,

**Statutory Inspections of State Cooperative Banks / Central Cooperative Banks under
Section 35(6) of the B R Act, 1949 (AACs) - Conveying of Supervisory Ratings**

Please refer to our Circular No. NB. DoS .HO .POL/ 947 /J-1/2007-08 [Circular No. 94 / DoS-
18 / 2007] dated 08 June 2007 on the captioned subject.

2. During the recent period, significant developments have taken place in the overall banking environment, including structural, financial, operational and regulatory changes in respect of Rural Cooperative Banks. Keeping these changes in view, an Internal Working Group (IWG) constituted by NABARD revisited various aspects related to supervision function including existing supervisory rating mechanism and recommended revisions in the supervisory rating parameters for StCBs / CCBs. These revised norms have been approved by the Board of Supervision (BoS) (for StCBs, DCCBs and RRBs) in its 60th Meeting held on 27 November 2015.

3. It has been decided to adopt the revised supervisory rating norms, as detailed in Annexure, from the year 2016-17 i.e. in case of all the Inspections of StCBs / CCBs conducted w.r.t. their financial position as on 31 March 2016 and thereafter.

4. The important features of the revised supervisory rating norms are as follows:-

राष्ट्रीय कृषि और ग्रामीण विकास बैंक

National Bank for Agriculture and Rural Development

पर्यवेक्षण विभाग

प्लॉट अ नं-24, 'जी' ब्लॉक, बान्द्रा-कुर्ला कॉम्प्लेक्स, बान्द्रा (पूर्व), मुंबई - 400 051. टेली: +91 22 2654 1863 • फैक्स: +91 22 26530103 • ई मेल: dos@nabard.org

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(a) The key factors (parameters under CAMELSC) and weightage assigned to each of them is as under :-

Sr. No.	Key Factor (Parameters under CAMELSC)	Weightage assigned (%)
1	Capital Adequacy	15
2	Asset Quality	15
3	Management	10
4	Earnings	10
5	Liquidity	15
6	Systems and Control	20
7	Compliance	15
Total		100

Each key factor is assigned an aggregate mark of 100 and is divided into sub-factors / sub-parameters with different marks depending upon their importance in the rating exercise. The marks obtained for each key factor (out of 100) will be multiplied by the respective weightage assigned to the key factor, for arriving at the composite rating of 100 marks.

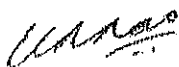
(b) Composite Rating will be awarded on the basis of the total weighted average supervisory marks out of 100 and the serious adverse features observed in the financial position & methods of operation of the bank, if any. Composite rating will be awarded on a five score scale ("A", "B+", "B", "C", "D") and will generally denote the financial position and soundness of the bank as indicated below :-

Total Supervisory Marks	Composite Supervisory Rating	Denotes financial position / soundness of the bank as
75 and above	A	Fundamentally sound bank with sound banking operations
60 to below 75	B+	Sound banking operations but with moderate weaknesses
50 to below 60	B	Financial, operational or compliance weaknesses giving rise to supervisory concerns
40 to below 50	C	Financial, operational or compliance weaknesses likely to culminate into serious supervisory concerns
Below 40	D	Serious financial, operational and managerial weaknesses exist that give rise to the possibility of failure in the near future.



4. We believe that implications of the Supervisory rating awarded would be properly appreciated. The basic purpose of communicating the Rating is to encourage banks to improve their performance. Banks may, therefore, attempt self rating periodically based on these parameters and initiate necessary corrective actions, if required, promptly.
5. We advise that the supervisory ratings are being conveyed to you in strict confidence for the limited information of the Top Management of your bank. The rating may, therefore, be treated as "Secret" and not to be quoted for any other purpose or divulged to others.
6. Please acknowledge receipt.

Yours faithfully



(K R Rao)
Chief General Manager

Encl: - As above

Annexure
Supervisory Rating of StCBs& CCBs

(Effective from 01 April 2016- for inspections to be conducted with reference to 31 March 2016 and onwards)

Supervisory Rating Scale for Cooperative Banks

Sr. No.	Parameters	Marking Scales on		Marks obtained in		Remarks
		Sub-items	Main items	Sub-items	Main items	
	Capital Adequacy					
(i)	Networth as % to Total Assets		25			
	5% and above	25				
	4% & above but less than 5%	18-24				
	2% and above but less than 4%	11-17				
	Networth positive but % to total asset is less than 2%	1-10				
	Negative networth	0				
(ii)	Capital to Risk Weighted assets (CRAR)		20			
	9% & above	20				
	7% & above but less than 9%	16-19				
	6% & above but less than 7%	10-15				
	4% & above but less than 6%	4 -9				
	CRAR below 4%	0				
(iii)	Recapitalisation for Achievement of CRAR		10			
	Compliance with CRAR (of 7%) without recapitalisation from State Government (after 2012 - Post Vaidyanathan)	10				
	Compliance with CRAR (of 7%) with recapitalisation from State Government (after 2012 - Post Vaidyanathan) / Revaluation of Assets	5				

	No marks for banks which did not attain CRAR of 7% with or without recapitalisation from State Government	0				
(iv)	Capital augmentation by		20			(post Vaidyanathan Capital Augmentation)
	(a) Entire capital augmentation through members / Profit / issue of IPDI or LTD only	20				
	(b) Upto 80% of capital augmentation through member share, profit and issue of IPDI or LTD and upto 20% by other means like Revaluation / sale of assets & State Govt. Support	15				
	(c) Upto 50% of capital augmentation through member share, profit and issue of IPDI or LTD and remaining 50% by other means like Revaluation / sale of assets & State Govt. Support	10				
	(d) Upto 30% of capital augmentation through member share, profit and issue of IPDI or LTD and remaining 70% by other means like Revaluation / sale of assets & State Govt. Support	5				
	(e) Capital augmentation more than 70% through State Govt. Assistance	0				
(v)	Quality of Capital - Ratio of Tier-I capital to Tier - II		10			
	150% and above	10				Tier-II capital before applying restrictions (of Tier-II not to exceed 100% of Tier-I) stipulated, to be considered

	125% & above but less than 150%	7-9				
	Above 100% but less than 125%	4-6				
	Less than 100% (i.e., tier I capital is less than Tier II capital)	1-3				
(vi)	Growth rate of capital fund vis-à-vis growth rate of Risk Weighted Assets during the period covered by present inspection.		15			
	Growth rate of capital fund is greater than that of RWA	15				
	Growth rate of capital fund is equal to that of RWA	10				
	Growth rate of capital fund is less than that of RWA	8				
	No growth or negative growth in capital fund but there is growth in RWA	0				
	Total		100			
	Asset Quality					
(i)	Percentage of Gross NPA to total loans and advances		25			
	Upto 5% (5% and below)	25				
	Above 5% but upto 8%	16-24				Lower marks for higher NPA %
	Above 8% but upto 12%	10-15				
	Above 12% but upto 15%	1-9				
	Above 15%	0				
(ii)	Composition / aging of Gross NPAs (Ratio of Substandard NPAs to Total NPAs)		10			
	(a) above 80%	8-10				
	(b) above 60% upto 80%	5-7				
	(C) above 40% upto 60%	3-4				
	(d) Above 20% upto 40%	1-2				
	(e) upto 20%	0				
(iii)	NPA Movement - incremental NPAs (ratio of growth in NPA/growth in loan outstanding)		10			

	Growth in NPA is negative (i.e., NPAs decreased in absolute amount)	10				
	% growth in NPA is less than % growth in Loan outstanding	5				
	% growth in NPA is higher than % growth in Loan outstanding	0				
(iv)	Recovery against total NPA (impaired credit) as on the date of previous inspection		10			Recovery should be actual recovery and not by restructuring
	Recovery above 15%	10				
	Recovery of above 10% to 15%	7-9				
	Recovery of above 5% to 10%	4-6				
	Recovery upto 5%	1-3				
	No recovery	0				
(v)	Percentage of Non-Performing Investments to Total Assets		10			Non-Performing Investment (NPI) as defined by RBI.
	No non-performing investments	10				
	Upto 2%	7-9				
	Above 2% & upto 5%	4-6				
	Above 5% & upto 8%	1-3				
	Above 8%	0				
(vi)	Restructured Advances* during the period covered by the present inspection		10			* - excluding conversion due to natural calamities
	Upto 1% of total loans and advances outstanding	10				
	Above 1% & upto 3% of total loans and advances outstanding	7-9				
	Above 3% and upto 5% of total loans and advances outstanding	4-6				
	Above 5% and upto 7% of total loans and advances outstanding	1-3				
	Above 7% of total loans and advances outstanding	0				
(vii)	Policy and Implementation		10			

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	Existence of Board approved Loan Policy	2				separate marks for each parameter
	Existence of Board approved Investment policy	2				
	Quality of appraisal and review mechanism	1-3				
	Quality of Management of Investment port folio	1-3				
(viii)	Extent of provisioning done vis-à-vis provisioning required for assets (and un-provided for liabilities)		15			
	Fully provided	15				
	90% & above but less than 100%	11-14				
	85% & above but less than 90%	7-10				
	80% & above but less than 85%	3-6				
	75% & above but less than 80%	1-2				
	Total		100			
	Management					
(i)	Board of Directors and various committees of the Board		10			In case of, Administrator appointed by State Government all the committees should exist / be functioning.
	Elected Board compliant to Fit & Proper criteria and 5 Committees (i.e. ALCO, Loan committee, Investment Committee, Risk management Committee and Fraud Prevention and Monitoring Committee) are in place and functioning as per Act/Bye-law/provisions of regulatory instructions	10				
	Elected Board compliant to Fit & Proper criteria and <u>at least four of the 5 Committees</u> (i.e. ALCO, Loan committee,	8				

	Investment Committee, Risk management Committee and Fraud Prevention and Monitoring Committee) are in place and functioning as per Act/Bye-law/provisions of regulatory instructions					
	Elected Board compliant to Fit & Proper criteria and at least three of the 5 Committees (i.e. ALCO, Loan committee, Investment Committee, Risk management Committee and Fraud Prevention and Monitoring Committee) are in place and functioning as per Act/Bye-law/provisions of regulatory instructions	5				
	Elected Board compliant to Fit & Proper criteria. But atleast 2 of the Committees (out of ALCO, Loan committee, Investment Committee, Risk management Committee and Fraud Prevention and Monitoring Committee) are functioning	3				
(ii)	Functioning of Board					
(a)	Meetings of the Board of Directors		10			
	No. of meetings held as per bye-law/act provisions/stipulation.	10				
	Atleast 75% of the stipulated meetings were held.	7-9				
	Atleast 50% of the stipulated meetings were held.	4-6				
	Less than 50% of the stipulated Board meetings held intermittently / irregularly.	1-3				
(b)	Agenda and Discussions in the Meetings of Board		10			
	Calendar of agenda items as indicated by NABARD followed. Discussions on	10				

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	all agenda items were held in every Board Meeting					
	Discussions on <u>most of the agenda items</u> , from out of the calendar of agenda items indicated by NABARD were held in every Board Meeting convened.	07-09				
	Discussions on <u>atleast important agenda items</u> like NPA, profitability, fraud etc., were held in every Board Meeting convened.	4-6				
	No calendar of agenda followed at all but only a few important items covered in discussions	1-3				
(c)	Effectiveness of Management / Board		20			Parameters (i) policy on Loans, Investments, KYC/ AML etc., (ii) monitoring / review of NPAs, fraud, business growth and regulatory compliance, (iii) Effective functions of all committees including Risk Management Committee and Fraud Monitoring committee.
	Performance under all these parameters is good	20				
	Performance under atleast two of these three parameters is good	15				
	Performance under atleast one of these three parameters is good	10				
	Partial Performance under these parameters	5				
(iii)	Chief Executive Officer		10			

	a) Educational/ professional qualifications and experience, of CEO-relevant / useful for working of cooperative bank	2				Separate marks for each parameter
	b) Conformity with Fit & Proper Criteria	2				
	c) Leadership, administrative and timely decision making , innovativeness, etc., of the CEO and other Senior Officers.	2				
	d) Quality, depth and timeliness in putting up various review notes to Boards as per the prescribed calendar of reviews.	2				
	e) Effectiveness in implementation of policies of the Board and overseeing compliance with regulatory requirements, internal policies, etc.	2				
(iv)	Effectiveness of CEO		10			parameters (i) improvement in business levels, (ii) reduction in NPA levels, (iii) profit earning, (iv) compliance with various statutory provisions and regulatory provisions.
	(a) Performance under all these parameters is good	9-10				
	(b) Performance under atleast three of these four parameters is good	7-8				
	(c) Performance under atleast two of these four parameters is good	5-6				
	(d) Performance under atleast one parameter is good	3-4				
	(e) partial performance / compliance on these	1-2				

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	parameters. Reviews etc., on various important parameters not placed before Board for necessary directions on corrective steps.					
(v)	Second line of Management (Department Heads with subordinates, key officials and career path planning)		10			
	Well groomed team with succession planning/long-term career planning. Existence of alternate arrangement.	10				
	Officer manning/heading each department with atleast 2 subordinates with adequate knowledge of work	7-9				
	Potential officers with some/little grooming. Half hearted succession planning but has officer heading each department with atleast one subordinate with adequate knowledge of work	4-6				
	Potential officers without grooming and without succession / career planning. No subordinate with adequate knowledge for each department	1-3				
(vi)	Organisational set-up and job description		10			
	Well defined set up. Duties/tasks determined and monitored	10				
	Well defined set up but differentiation in duties not adhered to strictly	7-9				
	Set up exists but departmentalization is inadequate, job description adhoc	4-6				
	Basic job differentiation done but People are assigned jobs from time to time on adhoc basis.	1-3				
(vii)	Human Resources related policies		10			

	Training needs scientifically assessed and the required training imparted. Well defined and comprehensive training policy and plan existed. Well defined recruitment, transfer etc. policy existed and implemented without violations. Rotation of staff effected.	10				
	Training need assessment made but training requirements were not fully met. HR related policies (Recruitment, Transfer etc.) existed but violations observed in implementation. Rotation of staff at longer intervals.	7-9				
	Training need assessment made was unsatisfactory and training provided on adhoc basis. HR related policies (Recruitment, Transfer etc.) formulated but not being followed. Adhoc rotation of staff.	4-6				
	No training need assessment, training to staff was inadequate and adhoc. HR related policies were absent. Recruitment was being made on adhoc basis. Negligible rotation of staff.	1-3				
	Total		100			
	EARNINGS					
(i)	Operating Profit for the year		20			Operating Profit for the year = [Interest income on loans and advances and investments + other operating income <u>minus</u> Interest expenses on deposits and

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						borrowings + staff cost + other operating cost like rent, postage, stationery etc.]
	If operating profit is equal to or more than the provisions required to be made.	20				
	If operating profit cover only 75% or above upto 99%, of the provisions required to be made.	16-19				
	If operating profit cover only 50% or above upto 74% of the provisions required to be made.	10-15				
	If operating profit cover only upto 49% or less of the provisions required to be made.	1-9				
	If Operating Loss	0				
(ii)	Net Profit for the year (As per P & L Account of the bank)		20			
	Net profit more than the short provisions (including unprovided liabilities) assessed by IO and also adequate to contribute to reserves as per the bye-laws and for declaring dividend	20				
	Net profit more than the short provisions (including unprovided liabilities) assessed by IO and also adequate to contribute to reserves as per the bye-laws but not sufficient to declare dividend.	15				
	Net profit not adequate to cover short provisions (including unprovided liabilities) assessed by IO.	7				
	No Net Profit (i.e. Net Loss)	0				
(iii)	Percentage of Non-earning Assets to total assets		10			
	(a) upto 10%	10				
	(b) 10% and above upto 15%	7-9				

	(c) 15% and above upto 20%	4-6				
	(d) 20% and above upto 25%	1-3				
	(e) Above 25%	0				
(iv)	Yield on Loans and Advances		5			Total interest received from Loan portfolio*100 / Average Loan outstanding
	i) Above 10%	5				
	ii) Above 8% upto 10%	4				
	iii) Above 6% upto 8%	3				
	iv) Above 5% upto 6%	2				
	v) less than 5%	1				
(v)	Yield on Investments		5			Total dividend / interest received from Investments *100 / Average Investments
	i) Above 9%	5				
	ii) Above 8% upto 9%	4				
	iii) Above 7% upto 8%	3				
	iv) Above 6% upto 7%	2				
	v) less than 6%	1				
(vi)	Return on Assets		5			Net Profit as per IO, divided by average Working Fund x 100
	Above 1%	5				
	Above 0.80% and upto 1%	4				
	Above 0.50% and upto 0.80%	3				
	Above 0.20% and upto 0.50%	2				
	Above 0 & upto 0.20%	1				
(vii)	Deposits		5			
	Percentage of CASA deposits to total deposits					
	Above 40%	5				
	Above 30% and upto 40%	3-4				
	Less than 30%	1-2				
(viii)	Cost of Deposits		5			Total interest paid on deposits*100 /

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					average deposits
	i) Upto 6%	5			
	ii) above 6% - upto 7%	4			
	iii) above 7% upto 8%	3			
	iv) above 8% upto 10%	2			
	v) above 10%	1			
(ix)	Transaction Cost / Operating Cost		5		(non-interest operating cost * 100 / working fund)
	1.5% and below	5			
	above 1.5% upto 2%	4			
	above 2% upto 3%	2-3			
	above 3%	1			
(x)	Return on Equity		10		Net Profit as per IO, divided by Equity (i.e. Net Worth) x 100.
	Above 20%	10			
	Above 15% and upto 20%	7-9			
	Above 5% and upto 15%	3-6			
	Above 0 & upto 5%	1-2			
(xi)	Operating Profit as % to Average Total Assets		10		Operating Profit divided by Average Total Assets x 100
	Above 2%	10			
	Above 1.5% and upto 2%	7-9			
	Above 0.5% and upto 1.5%	3-6			
	Above 0 & upto 0.5%	1-2			
	TOTAL		100		
	Liquidity				
(i)	Maintenance of CRR/SLR		25		
	No violation of CRR/SLR	25			
	No CRR violation but violated SLR not more than 2 occasions	17-24			
	No CRR violation but violated SLR on more than 2 occasions	10-16			
	No SLR Violation but CRR violation on not more than 2 occasions	6-9			

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	No SLR Violation but CRR violation on more than 2 occasions	1-5				
	Both CRR & SLR violated	0				
(ii)	Timely repayment of borrowings		20			
	No default	20				
	Defaulted but later paid within one month	15				
	Defaulted but later paid within three months	10				
	Defaulted but later paid within six months	5				
	If default is not regularized within six months	No marks				
(iii)	Functioning of ALCO/ALM					
	A- ALCO formed / in place, meeting regularly, policy with prudential limits fixed for mismatches is in place. Bank making use of ALCO for product pricing.		10			
	all above parameters in place / being followed	10				
	Atleast two of the above parameters complied	8				
	Atleast one of the above parameters complied	5				
	No ALCO, no ALM, not meeting regularly	No marks				
	B- whether time bucketing for liabilities and Assets is correct (Give marks if "yes")		5			
	C- No. of occasions when prudential limits for mismatches under structural liquidity statements were breached		10			No marks if Structured Liquidity Statement, Interest Rate Sensitivity Statements not prepared
	Not breached	10				
	Breached upto 2 occasions in a year	8				
	Breached only on 3 occasions in a year	5				
	Breached on more than 3 occasions in a year	1-2				

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(iv)	Deposit mobilisation (growth over previous year)		10			
	Growth above 15%	10				
	Growth above 10% & upto 15%	7-9				
	Growth above 5% & upto 10%	3-6				
	Growth upto 5%	1-2				
	No growth or decrease	0				
(v)	Source of Deposits - ratio of individual deposits to Institutional Deposits		10			
	above 200%	10				
	above 150% upto 200%	7-9				
	above 100% upto 150%	3-6				
	Below 100%	1-2				
(vi)	Deposit Insurance		10			
	All assessable deposits properly assessed and all insurance premium paid in time and returns submitted	10				
	All assessable deposits properly assessed and all insurance premium paid with minor delay	8				
	Defects in working out the assessable deposits, but paid premium without delay	5				
	Defects in working out the assessable deposits and also delay in payment premium but delay in respect of one half year only	1-2				
	TOTAL		100			
	Systems & Controls					
(i)	Internal Inspection, Internal Audit and Concurrent Audit, IS Audit		10			
	All 4 Systems (Internal Inspection, Internal Audit system, Concurrent Audit and IS Audit system) in place and implemented effectively	10				

	Any three of the above four systems are in place	8				
	Any two of the above four systems are in place	5				
	Any one of the above four systems in place	2				
(ii)	Audit Committee of the Board (ACB)		5			No ACB – No marks
	ACB formed and functioning effectively	5				
	ACB formed but meetings not held periodically and not effective	3				
(iii)	Loans and advances		15			
	Well defined policy, Followed all guidelines, diversification of loans, pre-sanction appraisal, post sanction follow-up done and terms & conditions stipulated in sanction letters are followed, documentation is proper, obtained membership of all Credit Information Companies (CIC) as per RBI instructions	15				
	Followed guidelines and loan policy, pre-sanction appraisal done, sanction is in order, sanction letter issued, etc., documentation satisfactory. but no post sanction follow-up, obtained CIC membership of atleast one of the CICs	11-14				
	Pre-sanction appraisal and Sanction is in order. But proper sanction letter with Terms and conditions not issued, no post sanction follow-up, No membership of any CIC	7-10				
	No-pre-sanction appraisal and post sanction follow-up. Over concentration of certain activities. Loans becoming NPAs. Various other deficiencies including No membership of any CIC	1-6				
(iv)	Exposure Norms		5			

58%

	No violation of exposure norms	5				
	Violation of Exposure norms	0				
(v)	Accounting Procedure		10			
	Accounts and financial statements finalised within three months from the date of balance sheet	10				
	Accounts and financial statements finalized within four months from the date of balance sheet	8				
	Accounts and financial statements finalized within six months from the date of balance sheet.	5				
	Accounts not finalized within six months from the date of balance sheet	0				
(vi)	House Keeping		10			
	Reconciliation of inter bank account / Branch Adjustment account done and no balance outstanding under Migra Account .	10				
	Reconciliation of inter bank account / Branch Adjustment account done but balance remained outstanding upto one year in Migra Account .	8				
	Reconciliation of inter bank account / Branch Adjustment account done but balance remained outstanding in Migra Account for the two years.	5				
	Reconciliation of inter bank account / Branch Adjustment account done but Migra Account shows balance for more than two years.	1-2				
(vii)	Risk Management System		15			
	Risk Management Committee and Fraud Risk Group formed and functioning satisfactorily. Bank has taken adequate	15				

LSA

	steps to identify, measure and monitor various risks.					
	Risk Management Committee formed, but meetings not held regularly. The bank has taken adequate steps to identify and monitor various risks.	8-14				
	Risk management Committee not formed, but the bank has taken measures to identify & monitor various risks	1-7				
	No Risk management Systems and Committee in bank. No steps taken to identify, measure and monitor risks	0				
(viii)	Core Banking Solutions		10			
	All the parameters indicated are in place / performance thereunder is good	10				All banks are on CBS - rating based on the important parameters like (i) Reconciliation with sponsor / supporting bank in respect of RTGS / NEFT, IMPS, card technology etc., (ii) preparation of Trial balance, balance sheet through CBS, (iii) Robust IT Policy in place and being implemented, (iv) Posting of IT related staff, (v) mechanism in place to know / monitor that branches are working on CBS (vi) Migration Audit

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						is complete. etc.
	Atleast four of the parameters indicated are in place / performance thereunder is good	8				
	Atleast three of the parameters indicated are in place / performance thereunder is good	5				
	Atleast two of the parameters indicated are in place / performance thereunder is good	2				
(ix)	Frauds (preventive measures including advance warning, systems, etc.,)		10			
	Preventive measures including advance warning system in place. No new fraud in the bank occurred during the inspection period .	10				Software driven system wherein Bank will be able to monitor and look for sign of / likelihood of perpetration of fraud - is treated as Advance Warning system
	Preventive measures in place, but fraud occurred during inspection period for which police case, disciplinary action against erring staff, recovery of amount involved and corrective steps taken and . Effective monitoring as per RBI guidelines is done.	7-9				
	Preventive measures in place but were weak.. Fraud occurred during inspection period, besides old outstanding frauds. Corrective steps initiated but not adequate / effective. Recovery against amount of frauds negligible.	3-6				
	Major frauds occurred / detected during the	1-2				Major frauds are frauds

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	Mechanism in place but not very effective. Grievances pending for more than one month.				
	Grievance Redressal Mechanism in place but not very effective. Grievances pending for more than one month.				
	Grievance Redressal Mechanism in place but not very effective. Grievances pending for more than one month.				
	Grievance Redressal Mechanism in place but not very effective. Grievances pending for more than one month.				
	Grievance Redressal Mechanism in place but not very effective. Grievances pending for more than one month.				
	Grievance Redressal Mechanism in place but not very effective. Grievances / complaints pending for more than one month.	5			
	No Grievance Redressal Mechanism in place, complaints are pending for long period (say above 1 year)	0			
	TOTAL		100		
	Compliance				
(i)	Compliance on Statutory Audit Report		20		(Current Year's Audit Report)
	(a) Quality of compliance.	10			
	Audit Report Issued without qualifying remarks	10			
	Audit Report Issued with qualifying remarks	5			
	(b) Action taken on Audit Observations	10			
	Reviewed by the management and passed necessary order for rectifications & compliance issued was satisfactory	10			
	Reviewed by the management but necessary steps for rectification not initiated.	5			

	Compliance report issued was not satisfactory					
	Not reviewed by the management, compliance not issued or issued but not satisfactory.	0				
(ii)	Compliance on Statutory Inspection Report		25			
	All major observations of NABARD inspection report, complied with.	25				
	More than 75% of major observations of NABARD inspection report, complied with.	20-24				
	50 to 75% of major observations of NABARD inspection report, complied with.	10-19				
	Less than 50% observations complied	1-9				
(iii)	Compliance on Exposure norms		15			
	(a) Timely submission of returns	5				Separate marks would be awarded to each sub-parameter
	(b) Inconsistency or otherwise in returns vis-a-vis actuals	5				
	(c) Violations in exposure norms					
	No violations observed	5				
	Loans disbursed beyond the exposure limit	0				
(iv)	Compliance with AML-CFT guidelines		15			
	(a) Policy put in place with the approval of Board of Directors, Principal officer appointed, Operational guidelines issued to branches	5				Separate marks would be awarded to each sub-parameter
	(b) Online CTR, STR returns submitted	5				
	(c) STR evaluation system / software in place & action on STR taken	5				
(v)	Submission of statutory returns including OSS returns		15			

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	(a) Timeliness in submission of returns prescribed under BR Act and RBI Act (including on-line submission)	5				Separate marks would be awarded to each sub-parameter
	(b) Accuracy and consistency in compilation of returns	10				
(vi)	Compliance Function and appointment of Compliance Officer		10			
	Compliance Officer is appointed and performing Compliance Function as per the policy of the bank	10				
	Compliance Officer is appointed but not performing Compliance Function as per the policy of the bank	5				
	No Compliance Officer appointed	0				
	TOTAL		100			

Based on the serious adverse features observed in the financial position & methods of operation of the bank, the supervisory rating would be restricted as indicated below:-

Additional parameters

Sr. No	Broad parameter	financial, operational and compliance weaknesses	Supervisory Rating may be restricted to
1	Capital Adequacy (C)	If the bank is not complying with Section 11(1) of the B R Act, 1949 (AACS) / Section 42(6)(a)(i) of RBI Act, 1934.	Would be rated "D", irrespective of rating marks obtained.
2	Asset Quality (A)	The bank with gross NPAs above 25% and Net NPAs above 10%	Would not be rated beyond "B" (even if it has obtained 60 or above rating marks)
3	Management (M)	Serious Governance / Management issues like (i) both, Board and CEO are not found effective – with adequate substantiation by IOs and accepted by OIC of the RO, (ii) If some recommendations (like removal of Board / CEO and restrictions on some of their actions) have been made / are	Would not be rated beyond "B" (even if it has obtained 60 or above rating marks)

		being made to RBI against the Board or CEO	
4	Liquidity (L)	In case the bank is having high liquidity risk / liquidity problem (and observed instances of return clearing / debarred from clearing house / other banks not accepting cheques issued on this bank, not honouring depositors claims etc.)	Would not be rated beyond "C" (even if it has obtained 50 or above rating marks)
5	Compliance	If the bank is not complying with Section 22(3)(b) of the B R Act, 1949 (AACS) / Section 42(6)(a)(ii) of RBI Act, 1934.	It would not be rated as "A", (even if it has obtained 75 or above rating marks).
