

# **Draft Reserve Bank of India (Rural Co-operative Banks - Governance) Directions**

## **DRAFT FOR COMMENTS**

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# **Draft Reserve Bank of India (Rural Co-operative Banks - Governance) Directions**

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In exercise of the powers conferred by Section 35A read with Section 56 of the Banking Regulation Act, 1949 and all other provisions / laws enabling the Reserve Bank of India ('RBI') in this regard, RBI being satisfied that it is necessary and expedient in the public interest to do so, hereby issues the Directions hereinafter specified.

## **Chapter I - Preliminary**

### **A. Short title and commencement**

1. These Directions shall be called the Reserve Bank of India (Rural Co-operative Banks - Governance) Directions, 2025.
2. These Directions shall come into force with immediate effect.

### **B. Applicability**

3. These Directions shall be applicable to Rural Co-operative Banks (hereinafter collectively referred to as 'RCBs' and individually as an 'RCB').

*In this context, 'rural co-operative banks' shall mean State Co-operative Banks (collectively referred to as 'StCBs' and individually as an 'StCB') and Central Co-operative Banks (collectively referred to as 'DCCBs' and individually as a 'DCCB'), as defined in the National Bank for Agriculture and Rural Development Act, 1981.*

### **C. Definitions**

All expressions shall have the same meaning as have been assigned to them under the Banking Regulation Act, 1949, or the Reserve Bank of India Act, 1934, or any statutory modification or re-enactment thereto, or [Glossary](#) of Terms published by RBI or as used in common or commercial parlance, as the case may be.

## **Chapter II - Constitution of Board and Appointment of Directors**

4. The directors of an RCB should be knowledgeable and persons of high integrity. They must function in a cohesive manner and provide leadership for the smooth and efficient management of the affairs of the RCB.
5. The following persons shall not be eligible to become directors of an RCB:
  - (i) those who are not eligible for admission even as members cannot act as promoters or become directors of the RCB (except co-opted and nominated directors);
  - (ii) those engaged in money lending, financing and investment activities, either in individual capacity or as proprietor / partner / employee / director of any concern; and
  - (iii) those convicted of any criminal offenses including moral turpitude, in terms of clause b(ii) of the model Bye-law no.9 and / or the provisions contained in the Cooperative Societies Act (concerned).
6. To ensure professionalism in the Board, an RCB shall have at least two directors with suitable banking experience (at middle / senior management level) or with relevant professional qualifications i.e., in areas of accountancy / banking / agriculture and development / legal / auditing etc. An RCB should also have a suitable provision in its Bye-laws to ensure such professionals on its Board.

## **Chapter III - Role of the Board and Individual Directors**

### **A. Role of Board of Directors**

7. The Board of Directors of an RCB shall be responsible for, *inter alia*,
  - (i) formulation of policies;
  - (ii) exercising overall supervision and control over the functioning of the RCB, leaving day to day administration to the CEO / MD of the RCB.
8. An RCB shall ensure that all circulars and other material relating to policies issued by RBI / NABARD are seen by every member of the Board and also placed before the Board for suitable action.

### **B. Code of conduct**

9. An RCB shall lay down a Code of Conduct for its Directors on the Board and Senior Management.

*Explanation:* Senior Management shall include top Executives at the level of General Managers and functional heads.

10. The Code of Conduct shall set forth the guiding principles on which an RCB will operate and conduct its daily business with its multitudinous stakeholders, government and regulatory agencies, media, and anyone else with whom it is connected. It shall recognize that the RCB is a trustee and custodian of public money and in order to fulfil its fiduciary obligations and responsibilities, it has to maintain and continue to enjoy the trust and confidence of public at large. The RCB shall continue to initiate policies, which are customer centric, and which promote financial prudence.
11. The Code of Conduct shall be signed by the Directors of an RCB in witness of RCS and NABARD to ensure adherence.
12. The directors of an RCB shall adhere to Do's and Don'ts envisaged in the Code of Conduct as set out below:
  - (1) Corporate Governance: The Directors of an RCB should:
    - (i) be fully aware of Cooperative Societies Act, Bye-laws & Rules and regulatory prescriptions of BR Act, 1949 on banking related aspects;

- (iv) attend the Board meeting regularly, participate effectively and work in a spirit of "Cooperation must succeed";
- (v) receive agenda notes in advance and examine as regards to quality of content and coverage;
- (vi) involve themselves in formulation and adoption of various policies such as credit policy, human resource policy, procurement policy, IT policy, cybersecurity policy, etc. and monitoring implementation of such policies at Board meetings;
- (vii) ensure adoption of a proper HR policy in relation to recruitment, placement, promotion, transfer and training;
- (viii) be aware of latest developments in banking technology and strive for adoption of these technologies;
- (ix) review functioning of various Board level / management level Committees viz., audit committee, HR committee, investment committee, ALCO, risk management committee, Frauds Committee, etc.;
- (x) strengthen internal checks and controls mechanism as regards to segregation of duties and responsibilities and fixing accountability;
- (xi) strengthen internal audit system & vigilance mechanism and its timely reporting and follow up action thereon;
- (xii) carefully peruse audit reports & NABARD Inspection Reports and ensure timely action and compliance;
- (xiii) undertake review of frauds committed, timely reporting and action taken; and
- (xiv) ensure observance of statutory requirements and guidelines issued by RBI / NABARD.

(2) Business Development: The Directors of an RCB should:

- (i) ensure framing and adoption of Loan policy and manual;
- (ii) review loan portfolio and develop strategies for business diversification for improving the profitability;

- (iii) review mobilization of resources and suggest measures for low cost resources;
- (iv) ensure efficient management of funds and improving profitability;
- (v) review investment management and functioning of Investment Committee;
- (vi) review budgeting of income & expenditure, performance & profitability;
- (vii) identify new business activities inclusive of non-fund business;
- (viii) review viability of branches with special focus on branches especially loss-making branches;
- (ix) ensure loans sanctioned by CEO / GM are put up to the Board;
- (x) create effective follow up and monitoring system for prompt and timely recovery and reduce level of NPAs and overdues;
- (xi) analyse the trends of economy, assist in the discharge of management's responsibility to public and formulation of measures to improve customer service and be generally of constructive assistance to the RCB management; and
- (xii) review arbitration cases.

(3) Development aspects: The Directors should:

- (i) ensure preparation of Development Action Plans for successive financial year and monitoring of implementation of plan at quarterly intervals;
- (ii) encourage involvement of the RCB in Govt. sponsored / National priority programmes also promoting Self Help Groups (SHGs), Joint Liability Groups (JLGs), Farmers Clubs etc.;
- (iii) promote and participate in spreading message of financial inclusion and digital financial literacy;
- (iv) create environment for effective coordination with higher and lower tiers of the rural co-operative credit structure;
- (v) establish proper MIS and intensifying computerization process;
- (vi) monitor key risk areas; and
- (vii) take steps for financial literacy and credit counseling.

(4) Non-Interference: The directors of an RCB should not:

- (i) interfere in the management functions and involve themselves in routine or everyday business of the RCB; and
- (ii) send instructions / directions to any individual officer/ employee of the RCB in any manner.

(5) No Sponsorship: The directors of an RCB should not:

- (i) sponsor any loan proposal, buildings and sites for the RCB's premises, enlistment or empanelment of contractors, architects, doctors, lawyers, etc.;
- (ii) approach or influence for sanction of any kind of facility;
- (iii) participate in Board discussions, if a proposal in which they are directly or indirectly interested, comes up for discussions. They should disclose their interest, well in advance, to the CEO and Board;
- (iv) sponsor any candidate for recruitment or promotion or interfere in the process of selection / appointment or in transfers of staff;
- (v) do anything which will interfere with an / or be subversive of maintenance of discipline, good conduct and integrity of the staff;
- (vi) encourage the individual officer/ employee or unions approaching them in any matter; and
- (vii) conduct RCB's business with a relative or any other person or any firm, Company or Association in which the relative or other person is associated in any significant role.

*Provided that*, if such a related party transaction is unavoidable, they shall fully disclose the nature of the related party transaction to the appropriate authority. Any dealings with a related party must be conducted in such a way that no preferential treatment is given to that party. In the case of any other transaction or situation giving rise to conflicts of interests, the appropriate authority should after due deliberations decide on its impact.

(6) Maintain confidentiality: The directors of an RCB should not:

- (i) reveal any information relating to any constituent of the RCB to anyone as, they are under oath of secrecy and fidelity. The directors are expected to ensure confidentiality of the RCB's agenda papers / notes. The board papers may ordinarily be returned to the RCB after the meeting;
- (ii) call for papers / files / notes recorded by various departments for scrutiny etc. in respect of agenda items to be discussed in the meetings. All information / clarification that they may require for taking a decision should be made available by the executive; and
- (iii) display logos of distinctive design of the RCB on their visiting card / letter head. However, a director may indicate their directorship of the RCB on their visiting card or letter head.

*Explanation:* The Do's and Don'ts are illustrative and not exhaustive and are not to be regarded as a substitute to the specified duties, responsibilities or rights of the Board of Directors as enunciated in the Cooperative law and / or Bye-laws of the RCB.

## Chapter IV – Board Meeting Procedures

### C. Model Agenda of Board Meetings

13. An illustrative agenda for meeting of the Board of an RCB is suggested below:

- (i) Funds position, compliance with Cash Reserve Ratio (CRR) / Statutory Liquidity Ratio (SLR), maintenance of investments in Government securities, concurrent audit report by internal auditors and its compliance;
- (ii) Loans and advances;
- (iii) Business Plan - Targets and Achievements;
- (iv) Branch Performance etc.;
- (v) Review of half-yearly investment of the RCB;
- (vi) Review of high value frauds;
- (vii) Effective Information Technology (IT) and Information Security (IS);
- (viii) Cyber security framework and review of systems;

*Explanation:* RCB should suitably modify the same as per their extant requirements.

### D. Calendar of Reviews

14. The following matters shall be put up to the Board as per their prescribed periodicity:

Calendar of Reviews	
<b>Periodicity: Every Board meeting</b>	
(1)	<u>Funds Management</u>
	<ul style="list-style-type: none"><li>(i) Information about funds position of the RCB;</li><li>(ii) Compliance with CRR / SLR requirements;</li><li>(iii) Details of investments in call deposits, non-SLR investments made, securities traded and income earned / loss incurred, if any;</li><li>(iv) Compliance with RBI instructions in regard to maintenance of investments in Government Securities;</li></ul>

	<ul style="list-style-type: none"> <li>(v) Details of borrowings availed of from higher financing agencies (StCB / NABARD / State Govt. etc.) under various lines of credit limits vis-a-vis the Maximum Borrowing Power;</li> <li>(vi) Position of deposits mobilized, amount invested in various avenues and advances made. The report should not be a fact sheet but should capture qualitative data on the important market trends, market developments, regulatory initiatives, etc. between the review periods and should stimulate constructive suggestions and discussions on critical appraisal of the strategies followed presently and the need for changes; and</li> <li>(vii) Concurrent audit report by internal auditors and compliance report thereon (to be placed before the CEO and Chairman every month).</li> </ul>
(2)	<p><u>Loans and Advances</u></p> <ul style="list-style-type: none"> <li>(i) Review of various credit limits sanctioned by Managing Director / Chairman / Executive Committee;</li> <li>(ii) Sanction of term loans (for setting up / modernization of sugar factory / spinning mill / ginning press, etc.) and follow up;</li> <li>(iii) Participation in Consortium Finance; and</li> <li>(iv) Adherence to exposure norms prescribed by RBI / NABARD.</li> </ul>
(3)	<p><u>General</u></p> <ul style="list-style-type: none"> <li>(i) Compliance in respect of outstanding observations of the Board;</li> <li>(ii) Review compliance with various Sections of Banking Regulation Act/ RBI Act / Cooperative Societies Act / Rules / Bye-laws;</li> <li>(iii) Circulars received from RBI, NABARD, DICGC, RCS and Apex Bank;</li> <li>(iv) Implementation of the instructions / directives / guidelines issued by RBI / NABARD / Govt.; and</li> <li>(v) Submission of Statutory and regulatory returns</li> </ul>
<b>Periodicity: Quarterly</b>	
(1)	<p><u>Business Plan: Targets and Achievements</u></p> <ul style="list-style-type: none"> <li>(i) Performance reviews vis-a-vis business goals such as deposit mobilization, credit disbursal, recovery of loans, etc. The reviews shall: <ul style="list-style-type: none"> <li>(a) be comprehensive;</li> <li>(b) cover specifically the RCB's structural / organizational requirement;</li> <li>(c) lead to initiation of business strategies of growth and profitability; and</li> </ul> </li> </ul>

	<ul style="list-style-type: none"> <li>(d) contain RCB's performance under special programmes of credit assistance like SHG, etc.</li> </ul>
(ii)	Review of high yielding advances sanctioned by the RCB;
(iii)	Review of progress in implementation of Govt. sponsored programmes;
(iv)	A comprehensive report on the recoveries effected under NPA accounts. The report shall cover requisite details on the deficiencies observed, systemic controls required for avoidance of incidence of NPAs, etc. During the review, the Board shall also look at loan policy caveats on exposure thresholds, borrower-wise/ industry-wise, etc. and other credit risk management initiatives on ongoing basis.
(v)	Details of One Time Settlement (OTS) / waiver of irrecoverable loans / interest;
(vi)	Recovery under legal action (cases of ABN filed, decree / awards obtained and EPs filed / executed); and
(vii)	Supervisory reports generated and action taken thereof.
(2)	<u>Branch performance</u>
(i)	Branch-wise targets and achievements under various business parameters;
(ii)	Review of branch profitability with suggestions on measures to improve the position of loss-making branches. Need for branch expansion and branch rationalization;
(iii)	Progress in inspection of branches and important observations of branch inspections; and
(iv)	Review of discussions held during Branch Manager's review meetings
(3)	<u>Working Results</u>
(i)	An analysis of the working results of the RCB on a quarterly basis along with an analytical note and proposals for future course of action. The RCB's comparative position shall also be highlighted; and
(4)	<u>Others</u>
(i)	A comprehensive review of the Vigilance Cell including position of vigilance cases and disciplinary cases initiated against the RCB's staff and secretaries of affiliated societies;
(ii)	Review of cases of frauds, misappropriations, embezzlements, defalcations, etc. together with action for recovery thereof.
(iii)	Review of cases of dacoities and security arrangements in the RCB;

- (iv) Review of customer services rendered by the RCB with analysis of complaints received and action taken;
- (v) Review of Development Action Plan / Memorandum of Understanding;
- (vi) Progress in implementation of the Action Plan prepared for compliance with Section 11 of the BR Act, 1949 (AACS) - (for Sec. 11 non-compliant RCBs); and
- (vii) Observations of the Audit Committee.

**Periodicity: Half-yearly**

- (i) Half yearly review of investment portfolio (as on 30 September and 31 March); copy of review report put up to the Board should be forwarded to RBI / NABARD by 15 November and 15 May;
- (ii) A review of operations of the RCB's non-fund business;
- (iii) A review of the RCB's Human Resource Development policy, training programmes, etc.;
- (iv) Comprehensive status notes separately on Income Recognition, Asset Classification and Capital Adequacy regarding compliance with the policy guidelines laid down by RBI from time to time. The review should be a progress report on the steps initiated on the policy guidelines of RBI on prudential regulations, risk management, etc.;
- (v) Review of implementation of Risk Management guidelines in the RCB;
- (vi) Review of all aspects relating to the computerization of branches / Regional Office / Head Office and also look into Information Technology related needs;
- (vii) Review of cost of funds, yield on deployment of funds, interest rates revision, etc.;
- (viii) Position of imbalance-society-wise;
- (ix) Review compliance of the Fair Practices Code and the functioning of Grievance Redressal Mechanism at various levels of controlling offices; and
- (x) Review of viability of affiliated DCCBs / societies. Position of Cadre Fund, share capital contribution / share linking at different tiers.

**Periodicity: Yearly**

- (i) Working results - Comparison of various parameters with working results of other RCBs and should include analysis of Balance Sheet prescribed by RBI;
- (ii) Audit Report - Long Form Audit Report (LFAR) of the RCB along with RCB's comments on the auditors' observations;

- (iii) Review of all policies - An annual review of all policies formulated by the RCB like Loan Policy, Investment Policy, Recovery Policy, Funds Management Policy, Risk Management Policy, ALM, etc;
- (iv) Corporate Budget Review of budget proposals made for various expenditure vis-a-vis actual expenditure and reasons for large scale deviations, if any;
- (v) Review of working of Head Office Departments;
- (vi) Statutory inspection report and compliance report thereon (to be submitted to NABARD);
- (vii) Review of findings of inspection conducted by StCB and action taken thereon;
- (viii) Review of reports submitted by Audit Committee and action taken thereon;
- (ix) Cash retention limits of HO and branches; and
- (x) Note on Man-power Planning and Development and periodical review in respect thereof, as well as policy relating to recruitment / promotion / transfer / staff welfare.

15. An RCB shall submit a quarterly return to concerned Regional Office of NABARD (as per the format in the [Annex](#)) by the 10th of April / July / October / January in respect of the status of submission of above agenda notes to the Board.

## Chapter V – Committees of the Board

### A. Audit Committee of Board

16. In order to ensure and enhance the quality and effectiveness of internal audit / inspection as a management tool, an RCB shall set up an independent Audit Committee at the Board level for overseeing and providing direction to the internal audit / inspection machinery / Statutory (external) Auditors and other executives of the RCB.
17. Constitution of the Committee - The Board of Directors of an RCB shall ensure that members of its Audit Committee are independent, understand banking and financial matters and have the capability to serve as effective Audit Committee members, including having the ability to formulate and ask probing questions about the RCB's financial reporting process and to challenge management decisions if and when necessary. While constituting the Committee, an RCB shall ensure that:
  - (ii) the Committee comprises of three or four directors only, one of whom shall act as the Chairman of the Committee;
  - (iii) the Chairman and the CEO / MD of the RCB is not a member of the Audit Committee; and
  - (iv) one qualified locally available Chartered Accountant shall be co-opted.

*Provided that*, if the elected Board of an RCB has been superseded, the Administrator shall appoint two or three members having expertise in banking, accountancy, finance, etc. for constitution of this Committee and such an Audit Committee shall have the Chartered Accountant as its Chairman.

18. The Audit Committee shall be given direct, unfettered, and independent access to management, internal audit, and statutory auditors. The Committee shall be able to communicate in confidence with these three groups independently of each other.
19. Role of the Committee - The ACB of an RCB shall assist the Board of Directors in fulfilling its oversight responsibilities by reviewing:
  - i. the financial reports and other financial information provided by the RCB to any statutory body or the public;

- ii. the RCB's systems of internal controls regarding funds, accounting, legal compliance, ethics that management and the Board have established; and,
- iii. the RCB's auditing, accounting and financial reporting processes.

20. Accordingly, the Committee shall:

- (i) serve as a proactive, effective and objective mechanism to monitor the RCB's financial reporting process and internal control systems;
- (ii) review and appraise the audit efforts of the RCB's external auditors and internal audit department;
- (iii) review and approve the compliances furnished by the RCB in respect of audit reports and inspection reports issued by NABARD / RCB's internal audit department; and
- (iv) provide an open channel of communication among the external / departmental auditors, senior management, the internal audit department and the Board of Directors.

21. Responsibilities of the Committee - The suggested Agenda for the Audit Committee is indicated below:

(1) Review:

- (i) Recommend to the full Board for shareholder's approval, the appointment, reappointment, removal, or replacement and terms of appointment of auditors, and the fee payable to them for the audit, taking into consideration any relationship between the auditors and the RCB that may impact the independence of the auditors in carrying out the audit.
- (ii) Approve the terms of engagement of the services of the external / statutory auditors for rendering any other professional services to the RCB and the fee therefor.
- (iii) Review and examine with the management, the annual financial statements and auditor's report thereon before submission to the Board for approval, with particular reference to:
  - (a) Any changes in accounting policies and practices;

- (b) Major accounting entries involving estimates based on the exercise of judgement by management;
- (c) Significant adjustments made in the financial statements arising out of audit findings;
- (d) Compliance with the applicable accounting standards;
- (e) Compliance with listing and other legal requirements relating to financial statements, and RBI guidelines and directives, concerning financial policies and statements;
- (f) Auditor's statement on internal control systems prior to endorsement by the Board;
- (g) The going concern assumption;
- (h) Disclosure of any related-party transaction, i.e., transactions of the RCB with its Directors, senior executives, their relatives, or associated concerns, that may potentially conflict with the RCB's interests at large;
- (i) Modified opinion(s) in the draft audit report; and
- (j) Consider suggesting adoption of Accounting Standards on voluntary basis in tune with industry best practices.

- (iv) Review of IS audit observations and compliance.
- (v) Review follow-up action on the Internal Inspection / Internal Audit Reports, particularly of "unsatisfactory" branches, and large branches and also on concurrent audit observations.
- (vi) Review RCB's compliance with statutory provisions of the Banking Regulation Act 1949 (AACS), with particular reference to Section 18, 24, 29, 31, 35A etc./ Section 42 of the RBI Act, 1934 in case of Scheduled RCBs.
- (vii) Review the information security audit mechanism in the RCB with particular reference to Disaster Recovery System and Business Continuity Planning.
- (viii) Periodically review the progress in reconciliation of entries in Inter-bank and Inter-branch accounts and reconciliation of RCB accounts.

- (ix) Review of frauds and action taken to recover the amount involved, to avoid recurrence of such frauds in future.
- (x) Review any significant disagreement among management and the accounts department or the internal audit department in connection with the preparation of the financial statements.
- (xi) Review, with the management, the quarterly financial statements before submission to the Board for approval.
- (xii) Review and exercise oversight over the functioning of the Whistle Blower Mechanism.
- (xiii) Ensure that Senior Management is taking necessary corrective actions to address the findings and recommendations of internal auditors and external auditors in a timely manner.

(2) Policy:

- (i) Fix accountability for unsatisfactory compliance of inspection / audit reports, delay in compliance and non-rectification of deficiencies.
- (ii) Ensure the RCB's adherence to KYC & PMLA guidelines issued by the RBI / NABARD and if any violations are observed, action taken thereon to avoid recurrence of the same.
- (iii) Recommend to the Board of Directors the selection of the Internal Auditor considering their independence and effectiveness.
- (iv) Periodical review of the accounting policies, systems and controls in the RCB with a view to ensuring greater transparency in the RCB's accounts and adequacy of accounting controls to address the risks faced or likely to be faced by the RCB.
- (v) Consider and approve, if appropriate, major changes to the RCB's auditing principles and practices as suggested by the accounts department, management, or the internal audit Department / External Auditors / NABARD Inspection Team.
- (vi) Establish, review and update periodically a Code of Ethical Conduct and ensure that management has established a system to enforce this Code.

(3) Compliance:

- (i) Peruse the latest Inspection Report of NABARD and status of compliance therewith.
- (ii) Compliance to Statutory Audit Report.
- (iii) Divergence is observed and pointed out in the Inspection Reports which are sent to the RCB. To see that the RCB / Statutory Auditors have been ensuring proper classification of such assets while finalizing the books of accounts as at the end of next financial year.
- (iv) Review the integrity of the RCB's financial reporting processes, both internal and external, especially, the correctness of NPAs and provisioning for impaired assets.
- (v) Review omission on the part of internal inspecting officials / concurrent auditors to detect serious irregularities, which come to light later.
- (vi) Certification of physical possession of securities as reported to RBI & NABARD every quarter by Internal / Departmental Auditors or concurrent auditors.
- (vii) Perform any other activities consistent with the guidelines of RBI / NABARD, the RCB's Bye-laws and Co-operative Societies' Act, as the Committee or the Board deems necessary or appropriate.
- (viii) Review reasons for defaults in payment to the depositors and creditors in case of such defaults.

22. Meetings of the Committee - The audit committee shall meet at least once in a quarter. Besides, the Committee should meet at least half-yearly with management, the chief of the statutory auditing / inspection team and the department of accounts in separate sessions to discuss any matters that the Committee or each of these groups believe should be discussed privately.
23. Calendar of Reviews - The following reviews shall be put up to the Audit Committees of an RCB at their corresponding periodicity:

(1) Quarterly:

- (i) Inter-branch reconciliation;

- (ii) Performance of Concurrent Audit / Inspection Department;
- (iii) Inspection reports of poorly rated branches - Progress in rectification of deficiencies;
- (iv) Review of arrears in balancing of books, clearing differences, sundry / suspense items; and
- (v) IS audit compliances.

(2) Yearly:

- (i) Compliance with observations made by the statutory auditor; and
- (ii) Compliance with observations made in NABARD's Inspection Report.

## **B. Risk Management Committee**

- 24. Risks are usually defined by the adverse impact of several distinct sources of uncertainty on profitability. The principal banking risks are credit risk, liquidity risk, interest rate risk, market risk, foreign exchange risk and solvency risk. Risk management covers all risk information systems, reporting and subsequent actions.
- 25. In order to improve the ability to identify, measure, monitor and control the overall level of risks it is exposed to, an RCB shall constitute a Risk Management Committee as a Sub-Committee of the Board.
- 26. Constitution of the Committee - The following instructions shall apply to the constitution of a Risk Management Committee by an RCB:
  - (i) the Committee shall include the CEO and Heads of Credit, Investment, Operational Risk departments, etc.;
  - (ii) the Head of IT Department shall be a special invitee to the meetings; and
  - (iii) there may be sub-committees and support committees at the RCB's discretion.
- 27. Role of the Committee - The Committee shall:
  - (i) ensure a proper Loan Review Mechanism is put in place for constantly evaluating the quality of credit portfolio and to bring out qualitative improvements in credit administration;

- (ii) monitor the RCB's handling of concentration of risk and may require that the Credit Department reports to them any such exposure exceeding a specified limit or exposures to large borrowers;
- (iii) ensure an effective liquidity management policy which spells out funding strategies, liquidity planning under alternative scenarios, prudential limits, liquidity reporting / reviewing, etc.; and
- (iv) establish well defined internal control systems which include segregation of duties, clear management reporting lines and adequate operating procedures and compliance thereof.

28. Responsibilities of the Committee – The suggested Agenda for the Risk Management Committee is indicated below:

- (i) approve the policy, strategy and methods for risk management, by evaluating the overall risks faced by the RCB and determining the acceptable level of risks, its management and control in the best interest of the RCB; and
- (ii) oversee all risk management functions in the RCB by undertaking the following functions:
  - (a) approve the policies and strategies for implementing integrated risk management system, for addressing various risks faced by the RCB;
  - (b) oversee functions of Credit Risk Management Committee (CRMC), Asset Liability Management Committee (ALCO), Operational Risk Management Committee (ORMC) and Information Security Committee (ISC);
  - (c) set policies and guidelines for measurement, management and reporting of credit risk, market risk and operational risk;
  - (d) set risk mitigation and stop-loss parameters in respect of all the three risks;
  - (e) ensure Management Processes (including people, systems, operations, limits and controls for implementing risk management systems);

- (f) ensure robustness and effectiveness of financial / rating models and their appraisal systems for assessing various risks faced by the RCB;
- (g) review and approve the Internal Capital adequacy Assessment Process;
- (h) approval / review of credit rating process, fixation of exposure ceilings for various types of exposures, geographies, sectors, industries etc., and based on internal / external rating, borrower category / groups etc.;
- (i) ensure availability of qualified and competent officers and risk managers in the Integrated Risk Management Department for ensuring effectiveness of risk management systems in the RCB;
- (j) decide / approve adoption of technology / appropriate and adequate MIS system needed for risk management;
- (k) reinforce the culture and awareness of risk management throughout the organization that would attach high priority on effective risk management and adherence to sound internal controls; and
- (l) assess feasibility of shift to Risk Based Internal Audit (RBIA) and prepare a road map for transition.

## **Chapter VI – Repeal and other provisions**

### **A. Repeal and saving**

2. With the issue of these Directions, the existing Directions, instructions, and guidelines relating to governance as applicable to Rural Co-operative Banks stand repealed, as communicated vide notification dated XX, 2025. The Directions, instructions, and guidelines repealed prior to the issuance of these Directions shall continue to remain repealed.
29. Notwithstanding such repeal, any action taken or purported to have been taken, or initiated under the repealed Directions, instructions, or guidelines shall continue to be governed by the provisions thereof. All approvals or acknowledgments granted under these repealed lists shall be deemed as governed by these Directions.

### **B. Application of other laws not barred**

30. The provisions of these Directions shall be in addition to, and not in derogation of the provisions of any other laws, rules, regulations, or directions, for the time being in force.

### **C. Interpretations**

31. For the purpose of giving effect to the provisions of these Directions or in order to remove any difficulties in the application or interpretation of the provisions of these Directions, the RBI may, if it considers necessary, issue necessary clarifications in respect of any matter covered herein and the interpretation of any provision of these Directions given by the RBI shall be final and binding.

## Annex

### **Status of submission of agenda to the Board of Rural Co-operative Bank**

Quarterly Returns to be submitted by April 10 / July 10 / October 10 / January 10

Name of the Bank:

Board Meeting		Agenda Item prescribed (as per Table at paragraph 14 of this Direction)	Agenda Notes		Reasons for non - submission
No.	Date		Submitted	Not Submitted	

Name & Signature of Authorised Official

Date