SMFG India Home Finance Company Limited

Policy on Appointment of Chief Risk Officer, Chief Compliance Officer and Head of Internal Audit

Policy on Appointment of Chief Risk Officer, Chief Compliance Officer and Head of Internal Audit

Appointment of Chief Risk Officer (CRO)

HFCs with asset size of more than INR 5,000 crore shall appoint a Chief Risk Officer (CRO) with clearly specified role and responsibilities.

Role & Responsibilities of Chief Risk Officer (CRO)

a) To lead the Risk Management Function

b) To ensure development and review of the Risk Appetite Statement (RAS) and monitoring results against approved metrics.

c) To oversee and manage diverse risks faced by the organization such as credit, market, liquidity, operational, fraud, reputational risks, and any other risks emanating from the company's operations and market/ industry/ economic/ regulatory environment.

d) To be involved in the process of identification, measurement and mitigation of risks and ensure that adequate risk management policies and procedures are in place.

e) To assess effectiveness of appropriate internal controls in managing diverse risks; and build awareness of the implications of various types of risks as part of the leadership culture.

f) To evaluate, improve, and monitor the business strategy and operating model, including reporting the effectiveness of risk management controls, systems, and processes to the Managing Director & Chief Executive Officer (MD & CEO) and Risk Oversight Committee (ROC) /Board of Directors (Board).

g) To provide MD & CEO and ROC/Board advice on risk management issues in strategic decision making.

h) To ensure the overall quality of the lending portfolio by planning and directing all aspects of credit risk through credit risk program/policy. All credit products (retail or wholesale) shall be vetted by the CRO from the angle of inherent and control risks.

i) To provide regular review and analysis of portfolio trends to detect deterioration in portfolio quality. This includes the monitoring and controlling the credit portfolio by ensuring that all credit exposure is properly approved, reported, and reviewed.

j) To provide oversight and input from risk management perspective for ICAAP Policy and ICAAP exercise.

k) To provide clear, concise, and objective guidance to management and comprehensive summary reports to appropriate committees including ROC/Board, and any other forums or committees as tasked.

l) To develop analytical processes and procedures to identify risks and opportunities in loan origination and portfolio management.

m) To ensure risk and return objectives are clearly communicated to accountable business managers.

n) To maintain ongoing relationships with management throughout the organization and effectively manage and motivate the team.

o) To develop the skills of the team members through training and coaching and manage individual performances to full potential.

p) To enhance bench-strength 2 levels down with clearly identified successors and documented action plan for employee development with succession plans in place

The eligibility criteria, selection process including tenor, reporting transfer / removal and authority of the CRO are enumerated below:

Eligibility

The CRO shall be a senior official of the Company in the rank, who shall not be more than two levels below the MD & CEO based on succession planning or can be recruited from the market with the approval of the Board

However, consultants, advisors, part time auditors or individuals who are neither on the rolls of the Company nor have a contractual employer-employee relationship with the Company shall not be appointed / designated as CRO.

Experience - The CRO shall have adequate professional qualification/ experience which may include product and credit policy, fraud risk and operational risk, credit underwriting, collections and recovery, risk analytics and monitoring, market risk, portfolio sale, internal controls, collaterals, legal and information security etc.

Skills - The CRO shall have a good understanding of industry and risk management, experience in managing large teams and held leadership position in the past. s/he should have relevant experience of 20 + years along with qualification of CA/PG from top institutes

Period of appointment - The CRO shall ordinarily be appointed for a fixed tenure of not less than 3 years with the approval of the Board. CRO shall not have any business targets nor report to any business vertical. CRO shall not be given any other responsibility i.e. there should be no “Dual hatting”

Selection Process - The names of suitable candidates for the role of CRO shall be recommended by the Nomination and Remuneration Committee (NRC) to the Board. The final decision of appointing the CRO shall rest with the Board of the Company.

Regulatory Reporting requirements - The Company shall provide an intimation to the Senior Supervisory Manager, Department of Supervision (DoS), RBI, Chennai (under whose jurisdiction the Company is registered) on any change in the incumbency including appointment (including interim appointment and re-appointment), premature transfer, exit, early retirement, change in tenure or removal of the of CRO within five working days.

Intimation of appointment (including interim appointment and re-appointment) to RBI/NHB shall be accompanied with the candidate’s profile

In compliance with existing Reserve Bank of India (Non-Banking Financial Companies - Governance) Directions, as amended, any change in incumbency of the CRO shall also be reported to the stock exchanges.

Reporting line -MD & CEO The CRO shall functionally report to the ROC of the Board and administratively to the MD & CEO of the Company. Further, the CRO shall meet the ROC at least on a quarterly basis without the presence of Senior Management, including the MD & CEO/WTD.

The performance appraisal of the CRO shall be reviewed by the ROC.

Transfer/Removal of CRO

a. Premature transfer / removal of the CRO before completion of the tenure shall be done with the explicit approval of the Board after following a well-defined and transparent internal administrative procedure.
b. In case the CRO leaves the position voluntarily, the Company shall advise the ROC and Board along with reasons for leaving.

Participation at the meetings of the Board, Board and Company's internal committees

CRO shall attend the meetings of the Board committees and Internal/Management Committees wherever (s)he is a member or invitee. (S)he shall also attend meetings of the Board, other Board sub-committees and Internal/Management Committees, where (s)he is not a member or invitee whenever required/invited.

Credit Sanction Committee and Chief Risk Officer Role

SMFG India Home Finance Co. Ltd. (SMHFC) adopts a committee approach for high value proposals (as determined for the Credit Committee).

CRO shall act as an adviser in the Credit Committee. The advice of the CRO shall be supported with proper rationale.

Approval of any proposal contrary to the advice of the CRO and without incorporating adequate risk mitigation measures shall be approved by the Risk Oversight Committee (ROC). All such cases shall be reported to the Board.

Further, the CRO shall recuse himself/herself from deliberations on loan proposals, or contracts and arrangements involving himself or his/her related parties.

Appointment of Chief Compliance Officer (CCO)

Role & Responsibilities of Chief Compliance Officer (CCO)

a. To manage the Compliance Function (CF)
b. To develop and implement Compliance Policy, maintaining oversight of the activities of the CF of all the units, design and implementation of the Compliance framework, training on regulatory and conduct risks and effective communication of compliance expectations
c. To assist the Board and Senior Management in monitoring the Company's compliance risk and implementation of the Compliance Policy across the Company.
d. The CCO shall participate in the discussions between the Company and the regulators on a need basis.
e. To advise the Company's Senior Management on managing effectively the compliance risks faced by the Company
f. To provide clarifications on issues or concerns relating to the Compliance Policy
g. To review the results of the compliance reviews, compliance monitoring and testing results
h. To submit his observations and recommendations to the Audit Committee of the Board (ACB) on a quarterly basis, based on analysis of the results of monitoring and testing conducted.
i. To submit annual review of Compliance, function the ACB
j. To supervise activities and provide guidance to the staff in Compliance Department and the Nodal Officers (Nos) from all units.
k. To maintain a close liaison with regulators and act as an interface between the Company and the regulators and CCO shall be the nodal contact.
l. To engage with the Senior Supervisory Manager (SSM), RBI at regular intervals
To attend the meetings of Committees of the Board and Management as invited by the appropriate Committees

The eligibility criteria, selection process including tenor, reporting transfer / removal and authority of the CCO are enumerated below:

Eligibility:

The CCO shall be a senior executive of the Company in the rank, who shall not be more than two levels below the MD & CEO, based on succession planning or can be recruited from the market, with the approval of the Board

However, consultants, advisors, part time auditors or individuals who are neither on the rolls of the Company nor have a contractual employer-employee relationship with the Company shall not be appointed / designated as CCO.

Experience - The CCO shall have adequate experience in the banking or financial services.

Skills - The CCO shall have a good understanding of industry and risk management practices, knowledge of regulations, legal framework and sensitivity to supervisors' expectations.

Stature - The CCO shall have the ability to exercise judgement independently. He should have the freedom and sufficient authority to interact with regulators/supervisors directly and ensure compliance.

Period of appointment: The CCO shall ordinarily be appointed for a fixed tenure of not less than 3 years.

Others: No vigilance case or adverse observation from RBI shall be pending against the candidate identified for appointment as CCO. CCO shall have a clean track record and unquestionable integrity.

Selection Process:

a. A candidate shall be considered for appointment as the CCO of the Company, based on a well-defined 'fit and proper' selection criteria / process to ensure fulfilment of the 'Eligibility' criteria as mentioned above.
b. The names of suitable candidates for the role of CCO shall be recommended by the NRC to the Board final decision of appointing the CCO shall rest with the Board of the Company.

Regulatory Reporting requirements:

a. The Company shall provide an intimation to the Senior Supervisory Manager, Department of Supervision (DoS), RBI/NHB , on appointment (including interim appointment and re-appointment), premature transfer, resignation, early retirement or removal of the of CCO at least five working days in advance.

b. The Company shall provide detailed profile of the candidate along with the fit and proper certification MD & CEO as per **Annexure A** confirming that the person meets the all supervisory requirements as per extant guidelines. The appointment may be communicated to the candidate only after the lapse of five working days from the date of receipt of intimation by the RBI, provided no communication to the contrary is received from the RBI.

Reporting line:

a. MD & CEO The CCO shall functionally report to the ACB and administratively to the MD & CEO of the Company. Further, the CCO shall meet the ACB quarterly on a one-to-one basis without the presence of the Senior Management including the MD&CEO/WTD.

b. The CCO and staff in the Compliance Department shall not have any reporting relationship with the business verticals of the Company and shall not have any business targets or given any responsibility which brings elements of conflict of interest to avoid 'dual hatting'.

c. The performance appraisal of the CCO shall be reviewed by the ACB.

Transfer/Removal of CCO:

a. Premature transfer / removal of the CCO before completion of the tenure shall be done with the explicit approval of the Board after following a well-defined and transparent internal administrative procedure.
b. In case the CCO leaves the position voluntarily, the Company shall advise the ACB and Board along with reasons for leaving.

Annexure A

Fit and Proper Criteria certification for CCO Appointment

I	**Personal details**		
	a.	Full Name	
	b.	Date of Birth	
	c.	Permanent Address	
	d.	Present Address	
	e.	E-mail Address / Telephone Number	
II	**Academic and Professional Qualifications**		
III	**Area of experience – Details**		
IV	**Other Skill Sets**		
	Understanding of the industry and risk management practices		
	knowledge regarding applicable regulations		
	Knowledge regarding applicable legal requirements		
	Sensitivity to Supervisory expectations		
	Practical Experience in Business Lines/ Audit Process		
	Practical Experience in RBI Inspections and related matters		
	Ability to exercise judgment independently		
	Clean track record and unquestionable integrity		
	CCO's profile fit as a senior official in the hierarchy of the Company		
V	**Other relevant information**		
	Name of Companies in which proposed CCO is or has been a member of the board		
	Details of criminal prosecution, if any, pending or commenced or resulting in conviction in the last five years against the proposed CCO		
	Details of shareholding or other interest (i.e., any shares in, or have any interest, legal or equitable, direct or indirect, in the firm)		
	Certification by MD & CEO		
VI	I hereby confirm that the above candidate meets the fit and proper criteria to be appointed as CCO in line with the norms contained in the RBI Cir No. DoS.CO.PPG.SEC.01/11.01.005/2022-23 dated April 11, 2022. The Candidate complies with all the qualification and experience criteria as well as the other prerequisites to be appointed as the CCO of the Company as set out in the said Circular and I undertake to keep RBI informed in case of any material changes to the information supplied on this certification.		
	Place:		**Name & Signature of MD & CEO**
	Date:		

Appointment of Head of Internal Audit (HIA)

Role and Responsibilities of Head of Internal Audit (HIA)

a) To manage the Internal Audit function
b) To work on the basis of established Internal Audit policies and procedures as approved by the ACB/Board.
c) To undertake an independent risk assessment for the purpose of formulating a risk-based audit plan. This risk assessment would cover risks at various levels/areas (corporate and branch, the portfolio and individual transactions, etc.) as also the associated processes.
d) To focus on the material risk areas and prioritizing the audit work.
e) To identify inherent business risks in various activities undertaken, evaluation of the effectiveness of the control systems for monitoring the inherent risks of the business activities ('Control risk') and drawing-up a risk-matrix for both the factors viz., inherent business risks and control risks. The basis for determination of the level (high, medium, low) and trend (increasing, stable, decreasing) of inherent business risks and control risks should be clearly spelt out.
f) To ensure that the plan, scope, objectives, timelines and resource allocations of the audit assignment should be clearly established
g) To ensure that the scope of Risk-based Internal Audit (RBIA) must be determined for low, medium, high, very high and extremely high-risk areas.
h) To ensure that the internal audit report should be based on appropriate analysis and evaluation. It should bring out adequate, reliable, relevant and useful information to support the observations and conclusions. It should cover the objectives, scope, and results of the audit assignment and make appropriate recommendations and / or action plans.
i) To report all pending high and medium risk paras and persisting irregularities should be reported to the ACB/Board in order to highlight key areas in which risk mitigation has not been undertaken despite risk identification.
j) To have a system to monitor compliance to the observations made by internal audit. Status of compliance should be an integral part of reporting to the ACB/Board.
k) To ensure internal audit function shall not be outsourced. However, where required, experts, including former employees can be hired on a contractual basis subject to the ACB/Board being assured that such expertise does not exist within the audit function.

The eligibility criteria, selection process including tenor, reporting transfer / removal and authority of the HIA are enumerated below:

Eligibility

The HIA shall be a senior executive of the Company in the rank, who shall not be more than two levels below the MD & CEO, based on succession planning or can be recruited from the market with the approval of the Board

However, consultants, advisors, part time auditors or individuals who are neither on the rolls of the Company nor have a contractual employer-employee relationship with the Company shall not be appointed / designated as HIA.

Experience & Skills - The HIA shall have requisite professional competence, adequate Knowledge and experience which may include banking/financial entity's operations, accounting, information technology, data analytics, forensic investigation, among others etc. The collective skill levels should be adequate to audit all areas.

Stature - The HIA shall have the ability to exercise judgement independently. The HIA should have sufficient authority to communicate with any staff member and get access to all records that are necessary to carry out the entrusted responsibilities.

Period of appointment - The HIA shall ordinarily be appointed for a fixed tenure of not less than three years. The HIA should not have any reporting relationship with the business verticals and shall not be given any business targets.

Selection Process - The names of suitable candidates for the role of HIA shall be recommended by the NRC to the Board. The final decision to appoint the HIA shall rest with the Board of the Company.

Regulatory Reporting requirements - The Company shall provide an intimation to the Senior Supervisory Manager, Department of Supervision (DoS), RBI, Chennai on appointment (including interim appointment and re-appointment), premature transfer, resignation, early retirement or removal of the of HIA at least five working days in advance.

Intimation of appointment (including interim appointment and re-appointment) shall be accompanied with the candidate's profile and a confirmation from the MD & CEO stating that the candidate is fit and proper for the position. The appointment may be communicated to the candidate only after the lapse of five working days from the date of receipt of intimation by the RBI, provided no communication to the contrary is received from the RBI.

Reporting line - The HIA shall functionally report to the ACB and administratively to the report to MD & CEO of the Company. Further, the HIA shall meet the ACB at least once in a quarter without the presence of the senior management (including the MD & CEO/WTD).

The performance appraisal of the HIA shall be reviewed by the ACB

Transfer/Removal of HIA

a. Premature transfer / removal of the HIA before completion of the tenure shall be done with the explicit approval of the Board after following a well-defined and transparent internal administrative procedure.
b. In case the HIA leaves the position voluntarily, the Company shall advise the ACB and Board along with reasons for leaving.