



**SBM Bank India Ltd**

Compliance Policy

# Synopsis of Compliance Policy

**Compliance:** Compliance means “the adherence to laws, regulations, rules, related self-regulatory organization standards and codes of conduct in matters concerning observing proper standards of market conduct, managing conflicts of interest and specifically dealing with matters such as prevention of money laundering and terrorist financing, and investigations of alleged breaches and fraudulent behavior”.

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”.

## Objective:

The aim of SBM India’s compliance policy is to enable strict observance of all statutory provisions contained in various relevant legislations as well as other regulatory guidelines of RBI including industry standards and codes, SBM India’s internal policies and fair practices code.

## Scope:

The Compliance Function must ensure strict observance of all statutory provisions contained in various legislations such as -

(i) Banking Regulation Act (ii) Reserve Bank of India Act (iii) Foreign Exchange Management Act, (iv) Prevention of Money Laundering Act etc. as well as to ensure observance of other regulatory guidelines issued from time to time; standards and codes prescribed by BCSBI, IBA, FEDAI, FIMMDA etc.; and also, the bank’s internal policies and fair practices code.

The scope of compliance includes the ability to:

1. Assist, support and advise the management in fulfilling its compliance responsibilities
2. Advise any employee with respect to their compliance obligations
3. Identify, assess, and monitor the compliance risks faced by SBM India
4. Help bank to carry out business in conformity with external, internal standards and regulations
5. Develop a system that represents a set of management processes and tools, including reporting, which is used in execution of business activities, in order to mitigate compliance risk.

## General Principles

1. **Independence:** ensure that compliance function is sufficiently independent of its business activities and will not have any functional relationship with business units.
2. **Business with Ethics:** take measures to ensure that employees conduct their business activities in an ethical manner, consistent with fiduciary and legal/regulatory obligations and with SBM India’s policies, procedures, guidelines and code of conduct.
3. **Effectiveness and Integrity:** ensure the effectiveness and integrity of the compliance process with appropriate monitoring to conform to applicable legal and regulatory standards.

## Operating Guidelines

**Advice:** Compliance function to advise senior management on related regulatory /statutory guidelines

**Guidance and Education:** Compliance function to incorporate a robust mechanism to ensure that regulatory guidelines / instructions are promptly issued / disseminated within the organization.

**Identification, Assessment and Measurement of Compliance Risk:** Compliance team to identify relevant rules and standards for various business units and assess each unit.

**Monitoring & Testing and Reporting:** Compliance monitoring involves identifying activities of departments that are in breach of the legislation, rules and standards set on an ongoing basis.

**Compliance Program and Process:** The activities of the compliance function to be carried out under a compliance program that sets out its planned activities.

**Roles, Responsibilities and Authorization Levels:** The roles and responsibilities of various stakeholders i.e Board of Directors of SBM India, Head of Compliance, Compliance Team and Money Laundering Reporting Officer are well defined.

**Compliance Structure:** The Compliance Team of SBM- India will be headed by Head- Compliance who report to CEO SBM- India but have the right to report directly to the Board of Directors

**Internal Audit:** The activities of the compliance function shall be subject to periodic review by the internal audit.

# POLICY DOCUMENT

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## 1 INTRODUCTION

### 1.1 Definition

SBM Bank (India) (hereafter referred to a SBM India) understands compliance as “the adherence to laws, regulations, rules, related self-regulatory organization standards and codes of conduct in matters concerning observing proper standards of market conduct, managing conflicts of interest and specifically dealing with matters such as prevention of money laundering and terrorist financing, and investigations of alleged breaches and fraudulent behavior”.

As per the BIS guidelines, SBM India understands 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”.

### 1.2 Purpose and Scope

#### 1.2.1 Purpose

The aim of SBM India’s compliance policy is to enable strict observance of all statutory provisions contained in various relevant legislations as well as other regulatory guidelines including industry standards and codes, SBM India’s internal policies and fair practices code.

Refer to [Appendix-1](#) for the relevant RBI sources related to this policy supplement. Any updates in the relevant RBI circulars with regards to Compliance Policy, would supersede the policy supplement statements given here and would accordingly need to be incorporated in the next revision of the supplement.

Also, the Group Policy applies where mentioned unless specific guidelines have been included, which will supersede the Group policy guidelines

#### 1.2.2 Scope

The Compliance Function 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. as well as to ensure observance of other regulatory guidelines issued from time to time; standards and codes prescribed by BCSBI, IBA, FEDAI, FIMMDA etc.; and also the bank's internal policies and fair practices code.

The scope of compliance in SBM India includes the ability to:

4. Assist, support and advise the management in fulfilling its compliance responsibilities
5. Advise any employee with respect to their compliance obligations
6. Identify, assess, and monitor the compliance risks faced by SBM India
7. Help SBM India to carry out business successfully in conformity with external and internal standards and regulations
  
8. Develop a system that represents a set of management processes and tools, including reporting, which is used in execution of business activities, in order to mitigate compliance risk.

## 1.3 Context

Compliance laws, rules and standards have various sources, including primary legislation, rules and standards issued by legislators and supervisors, market conventions, codes of practice promoted by industry associations, and internal codes of conduct applicable to the staff members of SBM India.

The criticality of the compliance function area in identifying, evaluating, and addressing legal and reputation risks cannot be overstated. Keeping this in view, SBM India proposes to adopt a compliance policy which will help it to look at and across business lines and activities of the organization as a whole.

## 2 GENERAL PRINCIPLES

The principles below for compliance risk management would guide and underpin the development of all processes, systems and procedures in this regard.

4. **Independence:** SBM India will ensure the compliance function is sufficiently independent of its business activities and will not have any functional relationship with business units.
5. **Business with Ethics:** SBM India will take measures to ensure that employees conduct their business activities in an ethical manner, consistent with fiduciary and legal/regulatory obligations and with SBM India's policies, procedures, guidelines and code of conduct.
6. **Effectiveness and Integrity:** SBM India will ensure the effectiveness and integrity of the compliance process with appropriate monitoring to conform to applicable legal and regulatory standards.

## 3 OPERATING GUIDELINES

### 3.1 Advice

1. The compliance function shall advise senior management on relevant regulatory and statutory guidelines and standards and ensure that SBM India is aware of leading market principles and international standards including but not limited to the following:
  - a. Prevention of money laundering and terrorist financing;
  - b. Prevention of insider trading and conflicts of interest;
2. The compliance function shall provide independent expert advice to management on integrity concerns and assess whether the potential risk is acceptable to SBM India, in accordance with SBM India's code of ethics and business conduct.

### 3.2 Guidance and Education

1. The compliance function shall incorporate a robust mechanism to ensure that regulatory guidelines / instructions are promptly issued / disseminated within the organization.
2. Compliance function shall vet the guidelines / circulars issued, for compliance with regulatory guidelines before these are disseminated amongst the operational units.
3. The compliance function shall serve as a reference point for SBM India staff from operational departments for seeking clarifications/ interpretations of various regulatory and statutory guidelines
4. The compliance function in conjunction with HR shall facilitate training of staff through awareness raising activities in regard to integrity, anti-money laundering, conflict of interests,

and ethical matters, and act as a contact point within SBM India for queries from staff members with respect to their obligations.

5. SBM India staff shall attend and complete Compliance Certification Programs (Internal and External and basic to advance based on the level of the staff's responsibility).

### 3.3 Identification, Assessment and Measurement of Compliance Risk

The compliance team shall identify all relevant rules and standards for various business units, and assess each unit based on the enforcement of applicable rules and standards within the unit.

The compliance function shall aim to measure compliance risk by using performance indicators during compliance risk assessment. They shall use quantitative and qualitative criteria as a gauge to check the adequacy of compliance within SBM India. The risks shall be classified into high, medium and low categories based on agreed parameters to mitigate them by appropriate level of attention of the management.

### 3.4 Monitoring & Testing and Reporting

1. Compliance monitoring involves identifying activities of various departments that are in breach of the legislation, rules and standards that are set forth, on an ongoing basis.
2. The compliance function shall monitor and test compliance by performing sufficient and representative compliance testing and the results of such compliance testing shall be reported to the senior management and Operational Risk Forum if need be.
3. The internal audit team shall conduct independent compliance audits to ensure that there is adherence to legal and regulatory norms across SBM India.
4. Compliance staff shall be empowered to conduct independent compliance reviews / investigations, whenever required.
5. Compliance shall obtain on a quarterly basis self-compliance certification from the business units. Sample compliance checks shall be affected to assess genuineness of the compliance statement.
6. Reporting requirements shall include reporting of monitoring activities, compliance risk assessment and change in the compliance risk profile by compliance function to the senior management. The compliance team prepares the following reports to address these requirements:
  - a. Compliance review reports detailing findings of each review conducted
  - b. Monthly Compliance Report prepared for the Operational Risk Forum
  - c. Quarterly Compliance Report prepared for the Risk Management Committee
7. Apart from regular reporting, instances of all material compliance failures which may attract significant risk of legal or regulatory sanctions, financial loss or loss of reputation shall be reported to the Board/Risk Management Committee promptly.

### 3.5 Compliance Program and Process

The activities of the compliance function shall be carried out under a compliance program that sets out its planned activities. The compliance program shall be risk-based and subject to oversight by the Head of Compliance to ensure appropriate coverage across businesses and co-ordination among risk management functions. SBM India shall carry out an annual compliance risk assessment in order to identify and assess major compliance risks faced by them and prepare a plan to manage the risks as identified in the Group Policy.

In addition to the requirements identified in the Group Policy, the Annual Review shall also include the following:

1. Independence of compliance function
2. Scope of compliance procedures and processes

Further, SBM India shall adhere to the following:

1. The Compliance Officer at SBM India shall submit a monthly report on the position of compliance risk to the senior management/CEO
2. A brief report on the compliance position may also be placed before the Board/ACB/Risk Committee, as the case may be on a quarterly basis.
3. The Compliance Department shall play the central role in the area of identifying the level of compliance risk in each business line, products and processes and issue instructions to operational functionaries / formulate proposals for mitigation of such risk. It shall periodically circulate the instances of compliance failures among staff along with preventive instructions.
4. Inspection/audit findings shall serve as a feedback mechanism for the Compliance Department for assessing the areas of compliance breaches/failures. A check-list on the compliance aspect may be made part of the inspection report for the inspectors / concurrent auditors to verify the level of compliance.
5. All instances of material compliance failures which potentially attract significant risk of legal or regulatory sanctions, financial loss or loss of reputation shall be reported to the Operational Risk Forum and Risk Committee promptly.
6. SBM India shall ensure that there are Compliance Manuals duly approved by the Compliance Department and provide these to the staff associated with the respective functions.
7. An Annual Report on compliance failures/breaches shall be compiled and placed before the Board or Board Committee and also circulated to all functional heads. Non-compliance with any regulatory guidelines and administrative actions initiated against the bank and or corrective steps taken to avoid recurrence of the lapses shall be disclosed in the annual report of the banks.
8. Weightage shall be given to record of compliance during performance appraisal of the staff at various levels. Staff accountability shall be examined for all compliance failures.

### 3.6 Independence of the Compliance Function

The Compliance Function of SBM India shall be independent from the Audit function. SBM India shall ensure that the remuneration of the compliance functionaries is not related to the business line for which they exercise compliance responsibilities though it can generally be related to the financial performance of the bank as a whole.

Under no circumstances, the compliance staff shall be assigned audit/inspection, as it gives rise to serious conflict of interest.

The compliance function has the right to have access to all information necessary to carry out its responsibilities and for pointing out / looking into possible breaches of compliance policy.

The compliance function of SBM India shall be free to report to senior management on any irregularities without fear of disfavor from management or other staff members. Although its normal reporting line shall be to senior management, the compliance function shall also have the right of direct access to the board of directors or to the Audit Committee of the board or a committee of the Board, as the case may be, bypassing normal reporting lines.

### 3.7 The Compliance Structure

1. SBM India has a Compliance Department set up at the bank's Principal Office in India which is

Mumbai. The Compliance Team of SBM- India will be headed by Head- Compliance who report to CEO SBM- India but have the right to report directly to the Board of Directors or ACB or the committee of the Board, as the case may be.

2. The Head Compliance in SBM India shall be appointed for a fixed tenure, and during that tenure, he may be removed / transferred only with the approval of the Board and through an internal administrative procedure in which his negligence in discharging compliance function or his serious acts of omission and commissions in other financial or administrative matters is established and recorded in a transparent manner.
3. The Board or the Audit Committee of the Board shall be kept informed of any change in the Head Compliance and also for reason for change.
4. The Reserve Bank of India shall be kept informed of the name of the Head Compliance as also any change thereof, as and when it takes place.

#### **4 ROLES, RESPONSIBILITIES AND AUTHORIZATION LEVELS**

Detailed below are the roles and responsibilities of various stakeholders.

##### **4.1 Board of Directors (SBM India)**

The Board of Directors is responsible for:

1. Ensuring that an exhaustive compliance framework encompassing all guidelines emanating from RBI is in place and identify potential breaches and remedy them upfront
2. Ensuring that compliance issues are resolved effectively and expeditiously by senior management with the assistance of compliance staff
3. Assessing, at least once a year, the extent to which SBM India is effectively managing its compliance risk
4. Ensuring that the Compliance function is empowered to conduct independent compliance Reviews / investigations, whenever required
5. Ensuring the activities of compliance function is free of any conflict of interest
6. According adequate priority in order to ensure that the compliance wings discharge their functions without human resource constraints and also ensuring that appropriate succession planning is resorted to.

##### **4.2 Head of Compliance (SBM India)**

The Head of Compliance is responsible for:

1. Establishing and continuously improving a consistent operating framework for the identification, management, monitoring and reporting of Compliance risks and issues.
2. Providing advice and guidance to business units and management on compliance related matters and ensuring alignment with Group objectives.
3. Evaluating new laws and regulations and staying abreast of all legislative and regulatory developments both locally and globally that might have an impact on SBM India.
4. Reporting to relevant governance committees such as Operational Risk Forum and Risk Management Committee of SBM India.
5. Determining the impact of current and new legislation, rules and regulations on SBM India and its current/new products, as well as communicating the same to the Group.
6. Ensuring that there is a Money Laundering Reporting Officers (MLRO) and Deputy MRLO appointed as per established process.
7. Ensuring that internal policies do not contravene current legislation, rules and regulations.
8. Liaising with Risk Management and Internal Audit on risk related issues, as well as non-

compliance with internal policies, legislation, rules and regulations.

9. Attending meetings of Audit Committee of the Board when invited to do so by the Head of Internal Audit.
10. Ensuring total compliance with all the specified guidelines enlisted in the Risk Based Supervision (RBS) templates oriented towards compliance assessment.
11. Ensuring that proper compliance to Annual Financial Inspection (AFI) / Risk Based Supervision reports of RBI and submitted to the Regulator well in time if required and meet senior officers of RBI's Regulator / Supervisory Department to discuss Compliance related issue.

#### 4.3 Money Laundering Reporting Officers (MLRO)

1. SBM India shall appoint MLROs and Deputy MLROs after following the due process of adequate screening mechanism.
2. The Money Laundering Reporting Officer shall be responsible for:
  - a) Ensuring that an appropriate KYC/AML/CFT Policy is in place in the Group to manage compliance risk and also overseeing its implementation.
  - b) Ensuring that the appropriate AML procedures are implemented effectively, including customer acceptance policy, customer due diligence, record-keeping, ongoing monitoring, reporting of suspicious transactions and combating the financing of terrorism;
  - c) Ensuring reporting is done as and when suspicious transactions are identified. Suspicious Transaction Report (STR), as well as other money laundering cases and other relevant information shall be provided as requested by the regulators.
  - d) Checking that the AML mechanism is regularly assessed to ensure that it is effective and sufficient to address any change in money laundering and financing of terrorism trends;
  - e) Open channel of communication from employees to the Compliance Officer and subsequently to SBM India's Head of Compliance is secured and that information is kept confidential
  - f) Generating and evaluating suspicious transaction reports (STR) at an individual entity level and consolidated at a Group level before submission to the regulatory authorities
3. The Deputy Money Laundering Reporting Officer (DMLRO) shall be responsible for:
  - a) Assisting the board in implementing the necessary changes to the AML policies and procedures, with the approval of the board of directors, to ensure that the current policies are sound and appropriate
  - b) Directions for implementing adequate AML training, training content, medium of imparting for its employees, including promoting employees' awareness of their AML obligations should happen at a Group level while the implementation should happen at an individual entity level
  - c) Ensuring all employees are aware of the reporting institution's AML measures, including control policies, control mechanism and the channel of reporting;
  - d) Identifying money laundering and financing of terrorism risks associated with new products or services, or arising from the Group's operational changes, including the introduction of new technology and processes

#### 4.4 Compliance Team (SBM India)

The Compliance team is responsible for:

1. Ensuring that regulatory guidelines / instructions are promptly issued / disseminated within SBM India.
2. Working with HR and Training teams to develop training on regulatory prescriptions and guidelines for staff on AML/CFT.
3. Serving as reference point for SBM India staff from operational departments seeking

clarifications/ interpretations of various regulatory and statutory guidelines

4. Monitoring compliance with the regulatory guidelines/ instructions
5. Proactively helping identify, document and assess the compliance risks associated with SBM India's business activities and products
6. Developing function-wise compliance checklists duly approved by the Head of Compliance
7. Frequently interacting with Legal Team, Operational Risk Team and Internal Audit Team of SBM India to understand latest compliance risks and issues identified by the Operational Risk and Audit teams
8. For all new product launches, the compliance function will review the product features and procedure manuals so as ensure that they are in compliance with all relevant regulations.
9. Participating in national and international forums on banking compliance to present / seek leading practices around compliance function in banks nationally and internationally
10. Monitoring and testing compliance by performing sufficient and representative compliance testing of SBM India

#### 4.5 Internal Audit Team (SBM India)

The activities of the compliance function shall be subject to periodic review by the 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 SBM India's compliance function including testing of controls commensurate with the perceived level of risk.

Promoting a Compliance Culture:

SBM India shall re-emphasize the need to comply with instructions meticulously among all the staff in the bank through continuous and mandatory training to all staff on compliance aspects, appropriate disciplinary measures through staff accountability framework/ policies for non-compliance etc. SBM India shall not see compliance as an activity of the compliance department alone but as a culture that pervades across the banks.

Staffing of Compliance Department:

- a) Staffing of compliance departments may be accorded adequate priority in order to ensure that the compliance wings discharge their functions without human resource constraints.
- b) Appropriate succession planning may be resorted to, for ensuring that the post of compliance officers does not remain vacant.
- c) Appointment of compliance officers should be duly notified to RBI.

#### 5 POLICY REVIEWS

This Compliance Policy – India will be reviewed at least once a year or more frequently (if required) by Compliance Team, SBM India. Further, inputs from the India CEO will also be sought at the time of the review. This will have to be done before the changes are put forward to the Risk Management Committee, SBM India.

#### 6 POLICY AMENDMENT AUTHORITY

Risk Management Committee, SBM India must recommend to the Board any changes or amendments to the policy for their approval.

## 7 POLICY AUTHORIZATION

By their signatures below, on behalf of the Board, the Chief Executive officer, SBM India and Head of Compliance, SBM India hereby certify that this Policy has been drafted to comply with, and is in accordance with, practices at SBM India and will be fully adopted and adhered to.

## 8 LIST OF ACRONYMS

<b>CEO</b>	Chief Executive Officer
<b>ACB</b>	Audit Committee of the Board
<b>MLRO</b>	Money Laundering Reporting Officer
<b>BCSBI</b>	The Banking Codes and Standards Board of India
<b>IBA</b>	Indian Banks' Association
<b>FEDAI</b>	Foreign Exchange Dealers' Association of India
<b>FIMMDA</b>	Fixed Income Money Market and Derivatives Association of India
<b>BIS</b>	Bank of International Settlements

## Appendix - 1:

This Compliance Policy shall be read in conjunction with the Group Compliance Policy

### RBI Sources

The below document has been referred to while working on the India policy:

1. RBI circular RBI/2006-2007/335 Ref. DBS. CO.PP.BC 6/11.01.005/2006-07 – dated April 20, 2007 Compliance function in Banks  
<http://rbidocs.rbi.org.in/rdocs/notification/PDFs/76938.pdf>
2. RBI circular RBI/2006-2007/335 Ref. DBS. CO.PP. BC 109461 /11.01.005/2014-15 – dated March 04, 2015 Compliance function in Banks

Any updates in the relevant RBI circulars with regards to Compliance Policy, would supersede the Policy Statements given here and would accordingly need to be incorporated in the next revision in the supplement.