



**ANTWERP BRANCH**

**INTERNAL GOVERNANCE MEMORANDUM**

**28<sup>TH</sup> SEPTEMBER 2023**

- 1. Legal Framework:** Directive 2013/36/EU dated 26.06.2013 amended by Directive 2019/878/EU provides legal scope for Prudential supervision of credit Institutions.

Article 74 of the Directive mandates that Institutions shall have robust governance arrangements, which includes a clear organizational structure with well defined, transparent and consistent lines of responsibility, effective process to identify, manage, monitor and report the risk they are or might be exposed to.

The arrangements, process and mechanism of Internal governance shall be comprehensive and proportionate to the nature, scale and complexity of the risk inherent in the business model and the institution's activities.

Article 76 to 95 of the directive 2013/36/EU, provides elaborate guidelines for the credit institutions to articulate their Internal Governance Policy. The SBI Antwerp Branch is operating as a Wholesale Banking business branch of the State Bank of India and as such this Internal Governance Memorandum has been adopted considering the SBI Group Policy and the local requirements of governance commensurate with the scale of operations of the Branch.

- 2. Objective:** Internal Governance includes all standards and principles concerned with setting an institution's objective, strategies and risk management framework; how its business is organised; how responsibilities and authority are defined and clearly allocated; how reporting lines are set up and what information they convey; and how the internal control framework is organised and implemented, including accounting procedures and remuneration policies. Internal Governance also encompasses sound information technology systems, outsourcing arrangements and business continuity management.

- 3. Shareholding structure:**

State Bank of India (SBI) is a statutory body incorporated in the Republic of India in 1955 through an Act of the Indian Parliament. Its shares are listed on various stock exchanges in India; including the Bombay Stock Exchange and National Stock Exchange. It is also listed with London Stock Exchange and Singapore Exchange Limited. Its majority shares (56.92 %) are held with the Govt. of India. It has its

Corporate Centre at State Bank Bhavan, Madame Cama Road, Mumbai, India. Among other places, SBI has a Branch Office in Antwerp, Belgium which was set up in 1983 to facilitate, inter-alia, Belgo-Indian trade & commerce in particular and for the Benelux and EU region in general.

**Shareholding Pattern as on 31.03.2023**

Sr no.	Description	% of total shares
1.	President of India	56.92
2.	Non Residents (FIIs/OCBs/NRIs/GDRs)	11.05
3.	Mutual Funds & UTI	13.28
4.	Private Corporate Bodies	0.64
5.	Banks/FIs /Insurance Cos etc.	11.69
6.	Others including Resident Individuals	6.42
	Total	100

**4. Group structure**



## **5. Policy as regards composition and operation of the governing bodies**

### **a) Number, duration of the mandate, turnover, age, follow-up, selection criteria, procedure for appointments and dismissals/non-renewals**

The Chairman and Members of the Branch Management Committee (BMC) are appointed by the Bank's Corporate Centre, by following a rigorous selection criteria to ensure that competent Managers with high level of integrity are members of the Branch Management Committee. Each Manager who is also a member of the Branch Management Committee is carefully selected as a whole-time employee, based on his/her experience in the required task, proven track record in reliability & competence and an established record of impeccable integrity. It is intended to select a person as Manager who has the professional capability to make independent and objective judgment on issues within his purview, in the interest of the Bank; free from pressures of any external influences. The selection of India based managers is done by a Selection Committee, especially appointed by the Bank's Corporate Centre. Usually, such managers will have at least 10 years' experience as an employee in the Bank and would have held a similar assignment or acquired similar exposure earlier. Selection of local Managers is done through a process involving short listing of eligible candidates procured through recruitment agency, advertisement or any other reliable channel and putting them through an intensive interview and background verification process to ensure that he/she possesses the requisite qualities, enumerated earlier.

Among the BMC members, three to four members are chosen based on seniority to form part of Effective management of the Branch. The curriculum vitae of the selected managers is submitted to NBB. The fitness and propriety of the Managers is assessed by NBB who approve their appointment. The Chairman of the BMC & the Chief Executive Officer of the Branch is appointed through a similar process at the Corporate Centre, which is more elaborate and intensive to ensure that the selected person also possesses the required leadership qualities and conflict management capabilities. Except the Compliance Manager, the other India-based managers including CEO are appointed for a period of 4 (four) years to ensure proper rotation of the Management. Every time new members of the Effective Management are to be appointed, NBB approval is obtained in the manner described earlier.

Each time a new Chairman of the BMC is to be appointed, additionally an interaction with NBB officials is also arranged to ensure full NBB satisfaction on the proposed changes in the leadership of the BMC. It is also ensured that proper skill & knowledge transfer is provided by the outgoing Chairman through a sufficient period of overlap, to ensure smooth transition.

Every time there is a change of a Manager/Member of the BMC, the new incumbent is made aware of the local regulatory requirements through trainings and other means. To ensure smooth transition, an overlap period is provided where the outgoing Manager transfers skill & knowledge to the new incumbent. If some knowledge gaps are perceived, they are bridged through accredited institutional training programs viz. Febelfin, Euromoney, ACAMS, ACFCFS etc as well as in-house training on compliance, risk & operations. This is to ensure that such rotation of managers does not affect the quality of management of risks and/or the quality of the portfolio. Similarly, Managers are also deputed, from time to time, to seminars and training programs on areas related to their responsibilities, to ensure up-dating of knowledge for more efficient discharge of responsibilities. Antwerp branch has 40 policies and Standard Operating procedures (SOP) which govern and define various operational areas. The branch policies are reviewed annually and the SOPs as and when deemed necessary to include process changes.

b) Independent directors

There are no independent directors in the governing body.

c) Remuneration policy

i. Senior managers

Remuneration for all managers is fixed and not variable

ii. Non-executive directors

Not applicable

## 6. Governance structure and organization chart

### a) Branch Management Committee (BMC)

The governing body (called Branch Management Committee) at SBI Antwerp is headed by the Chief Executive Officer and consists of all Managers, namely Manager (Compliance), Manager (Accounts & Operations), Manager (Syndications & ECBs), Manager (Risk), Manager (Trade & NRI), Manager (Credit Operations, FX & Swift) Manager (Systems & Audit) and Manager (Credit & Relationship)

Composition of the BMC: CEO + all other Managers of the Branch.

Operation: It mostly concerns with issuance of guidance for management of the Branch's affairs and implementation of the strategic decision of the Corporate Centre.

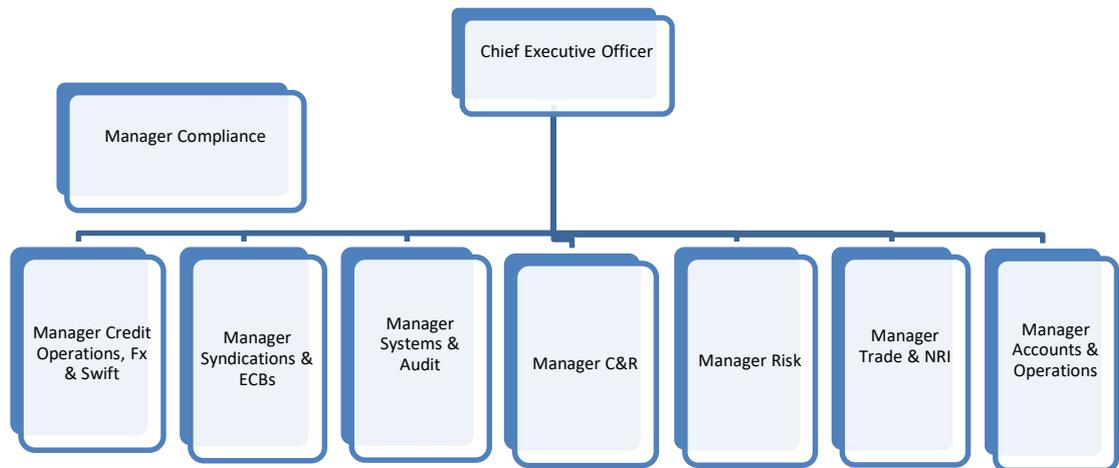
### b) Specialized Committees

Apart from the BMC, the Branch has following specialized committees:

S.No	Name	Objective	Periodicity
1.	Branch Compliance Committee	Discuss Compliance issues	Monthly
2.	Foreign Office Credit Committee	Taking Credit decision	No fixed periodicity
3.	Risk Management Committee	Discuss Risk Related Issues and its mitigation	Monthly
4.	Internal Risk Rating Validation Committee	Validation of Internal Rating of Corporates	No fixed periodicity
5.	Branch Premises Committee	Premises issues	No fixed periodicity
6.	Audit Sub Committee	Audit Issues	Quarterly
7.	Preventive Vigilance committee	Sensitization & evaluation of Fraud prevention measures.	Quarterly

These committees discuss various issues faced by the Branch in its day-to-day functioning, business development, credit decision, audit related issues, internal rating of customers etc. and take decision on collective basis. The proceedings are properly recorded and the minutes of these committees except of Foreign Office Credit Committee are submitted to International Banking Group at SBI Corporate Centre Mumbai for their perusal and necessary action.

## Organization chart Senior Management:



Manager (Compliance) has a dotted line relationship with the Branch CEO. He reports to the Compliance function at Corporate Centre.

Organisation of the specialized committees:

### I. Branch Risk Committee

- Members: Chief Executive Officer + Managers (Compliance), Manager (Credit & Relationship), Manager (Syndications & ECB), Manager (Trade & NRI) and Manager (Risk).
- Overseeing the risk management
- Reports to the International Banking Group at the Head Office level
- Monitoring on the basis of risk policy along with other policies of the Branch, which incorporate group risk policies

### II. Foreign Office Credit Committee

- Members: Chief Executive Officer + Managers (Compliance), Manager (Credit & Relationship), Manager (Syndications & ECB), Manager (Trade & NRI) and Manager (Risk).
- All credit related decisions and matters (e.g. new credit proposals, review/renewal of credit lines, Diamond Bills review, Trade Finance Control report, Non- performing asset monitoring, NPA Provisioning etc. ....)

- Branch level credit risk policy available for each of the different types of credits: i.e. diamond advances, commercial loans, trade finance, syndicated loans.
  - Detailed delegation of powers available
- III. Internal Risk Rating Validation Committee
- Manager (Risk), Manager (Accounts and Operation), Manager (Credit Operations) and Manager (Trade & NRI).
  - Assigning an internal risk rating to each customer that benefits from any form of credit by the Branch other than trade finance customers
- IV. Audit Sub-Committee
- Chief Executive Officer, Manager (Compliance), Manager (Operations), Manager (Systems & Audit) and Manager (Risk)
  - Overseeing the internal audit report (outsourced firm KPMG from 2023-24), Home Office Audit and finalizing the reply to the recommendations of the Auditors and Statutory Audit.
- V. Compliance Committee
- Chief Executive Officer, Manager Compliance and all other Managers
  - All Compliance and regulatory requirements related matters
  - All issues related to anti money laundering governance and organizational control measures of internal policy, internal; procedures, training of related employees, permanent monitoring of client relationship and transactions etc.
  - AML/CFT, KYC and UBO identification.
- VI. Preventive Vigilance Committee
- Members: Chief Executive Officer + Managers (Compliance), Manager (Credit & Relationship), Manager (Syndications & ECB), Manager (Trade & NRI) and Manager (Risk).
  - Sensitization and evaluation of fraud prevention measures.

## VII. Branch Premises Committee

- Chief Executive Officer, Manager (Operations) & Manager (Systems & Audit)
- Will evaluate and recommend for sanction/approval by BMC/IBG on acquisition and maintenance of physical assets

## 7. Key functions

### Internal Audit

- a. Home Office Audit
  - i. By the Head Office's Inspection and Audit Department
  - ii. Once in 24 months (approximately)
  
- b. Internal Audit is outsourced, generally to the one of the Big 4. The appointment is normally for a period of 3 years. Until FY 2022-23 EY has been the Internal Auditor. The appointment of Internal Auditor from FY 2023-24 is in progress. The appointment of the Internal Auditor is done by Bank's Inspection & Audit Dept.
  - i. Audit charter available
  - ii. Audit activities set out in audit plan
  - iii. On average 60 mandays/year of 8 Hrs pay day.

### External Audit (Statutory Audit)

- Mazars since FY 2022-23
- Required to audit, attest and/or deliver several qualitative (e.g. on the internal control system) and quantitative (e.g. accounts) documents

### Compliance & AML

- Strong focus on the importance of these function because of diamond financing activities
- Experience and knowledge of local regulation required
- Required to deliver a yearly report on the compliance and AML-activities
- Active involvement is prerequisite (e.g. when it comes to a client identification and acceptance)
- FSMA certified

## Main relationships with other group entities

- Credit approval process
  - a. Detailed delegation of powers
  - b. Decision level depending on the constitution, activity, the type of client and the amounts.
  
- Risk monitoring
  - c. Monitoring of risk based on Risk Appetite statement.
  - d. Country Risk Limits based counter party Bank limit are mostly set by the Head Office (e.g. country risk)
  - e. Follow-up of various Risk in the Branch through the Branch Risk Management Committee.
  
- Liquidity
  - f. Liquidity support available through SBI, Central Treasury London, Money Market Borrowing and BA funding.

## **8. Organizational structure**

### a. Business lines, products and services offered

- Credit Activities
  - Bilateral Loans
  - Trade Finance
    - a. Bills discounted under Letters of Credit
    - b. Short term foreign currency loans
    - c. Bank Guarantees/ Letters of Credit
  - Syndicated loans
  - Other commercial loans
  - Forex and Money Market activities
- Other services
  - d. Deposits
  - e. Payment Services

## b. Outsourcing

- IT
  - IT-systems and mainframe provided for by the Head Office
  - Local prudential reporting through software provided by Parseport
  - IT facility back up in light of Business Continuity (COIN Availability Service Belgium SA)
- Legal
  - Local law firms
- HR
  - Payroll outsourced to a 'social secretariat', Acerta
  - Filing of income tax return for expat officers by Acerta
  - Comprehending HR policy is in place to govern the man power management on the principles of equality of opportunity.
- Filing of Regulatory returns and Corporate Tax
  - Some regulatory returns are filed by Accal BV (Luc Callaert) based on data provided by the bank.
  - Corporate income tax return by an outside agency.
- Security & Branch Upkeep
  - Private security agency, Oktopus.
  - Branch upkeep by Private agency, Atalian Cleaning Services
- Data Protection Officer
  - The data protection officer services has been outsourced to BDO Risk Assurance Services, Brussels.
- Storage of vouchers, files with Merak NV

## c. Use of offshore centers

SBI Antwerp does not have or does not work with offshore centers.

## 9. Integrity policy

### a) Strategic objectives and enterprise values

The State Bank of India, Antwerp being a branch office of State Bank of India (SBI), subordinates its aims, objectives and values within the mission, vision and values of SBI to the extent of their applicability. These are as under:

#### Vision Statement (qualitative)

 Be the Bank of Choice for a Transforming India.

#### Mission Statement

 Committed to Providing Simple, Responsive and Innovative Financial Solutions.

#### Values

 Service

 Transparency

 Ethics

 Politeness

 Sustainability

### b) Gift policy

No SBI Antwerp employee shall accept or permit any member of his/her family or any person acting on his/her behalf to accept any gift.

Explanation: the expression “gift” shall include free transport, boarding, lodging or other service or any other pecuniary advantage when provided by any person who is obligated to the Bank through official dealings with the employee other than a near relative or a personal friend.

Note: a casual meal, lift or other social hospitality shall not be deemed as a gift.

c) Anti-corruption & Anti bribery policy

- a. It is an offence to offer, promise or give advantage to induce another person with an intention to bring about an improper performance by another person.
- b. It is also an offence to request, agree to accept an advantage with an intention that a relevant activity should be performed improperly.
- c. it is an offence if person offers, promises or gives any advantage to a foreign public official in order to retain or obtain business.
- d. It is an offence if a commercial organization fails to prevent bribery by a person associated with it to another person with the intention to obtain or retain business.

d) Fiscal prevention policy

Observance of tax laws is of vital importance to the State Bank of India, Antwerp branch. SBI Antwerp is a responsible taxpayer, basing itself on professionally executed compliance with tax laws and legitimate tax planning, supported by valid business objectives.

Consequently, customers may never be given advice of a nature that might prompt them to violate tax laws or regulations. Mechanisms may not be set up that are contrary to standard practice and that clearly aim to promote or result in tax fraud by customers. Additionally, no assistance may be provided in any operations whose purpose is to procure an unlawful tax benefit for the customer.

When launching new products on the market or penetrating new markets, account is to be taken of the relevant tax requirements.

e) Policy on conflicts of interest

All employees must conduct their business affairs in such a manner and with such ethics and integrity that no conflict of interest, real or implied, could be construed. A conflict of interest shall be deemed to exist whenever an employee has a financial interest, direct or indirect, in a customer, supplier or other principals dealing with the Bank and that interest is of such extent and nature that it might reasonably affect his judgment or decisions exercised on behalf of the Bank. Such conflicts may lead to dismissal from the service of the Bank.

f) Whistle blowing procedure

In the event a complaint is received which points to a weakness in the System, unearths a fraud and/or wrong doing, the identity of such complainant (whistle-blower/bell-ringer) will be protected; irrespective of the fact whether the person is an employee, a customer or an outsider. Each such complaint/signal is fully investigated until a logical end is reached.

g) Treatment of customers' complaints

The Branch and the Bank has got a well laid down complaint redressal mechanism. At the Branch level all written complaints received are entered in the Branch Complaint Register and is personally scrutinised and monitored by the Manager (Accounts & Operations). Based on the nature of complaint, the matter will be investigated by a Senior Manager who is not related / involved in the complaint. He is required to submit an independent report within a stipulated time and suitable remedial actions are initiated with due reply to the complainant. If the allegations are found true, internal disciplinary actions can be proposed with the intervention of the controlling authority. Branch level complaint management policy is in place to effective resolution of complaints.

## **10. Policy as regards the principles applied with regard to publicity and disclosure**

a. Publicity for the Branch and its products is very limited and can more be seen as sponsoring and participating in some events, than as publicity.

b. Disclosures and communication with stake-holders

The Antwerp Branch of SBI has a proper management structure in place and the activities of the Branch are monitored through a Branch Management Committee (BMC), the members of which are appointed by the Bank's Corporate Centre. The Branch functions are governed by Policies approved by the BMC. The BMC meets, at least, once in a month.

The Branch adopts a committee approach for taking credit decisions through a Foreign Office Credit Committee (FOCC). The FOCC also supervises credit management (Bill Review, Control of Trade Finance), including management of

non- performing and loss assets. The FOCC meets as often as required.

The Branch manages risk through Risk management framework consists of a Risk management strategy and Risk Appetite Statement. The committee convenes at least once in a month to discuss various areas of Branch Risk.

An internal audit system is in place for risk focused audit of various activities of the Branch, including management functions. The report is submitted on quarterly basis to the BMC and also independently to Corporate Centre. The Branch is duty bound to report compliance to the Corporate Centre as also share the same with the Internal Auditor.

The State Bank of India being a listed company, the Corporate Centre follows extensive disclosures as per the listing agreements. These include making public any/all major events deemed significant enough to impact balance sheet & profitability of the Bank and/or key changes in the management of the Bank. The quarterly performance review with analysis is shared with public. A comprehensive annual report covering all significant features of the last year's performance is available on public domain. The Corporate website of the Parent Bank available at [sbi.co.in](http://sbi.co.in). The Branch also maintains its own website [be. statebank](http://be.statebank) to display its product / service features and keep updating the site as and when required.

The Antwerp Branch of SBI discloses the result of its activities through the Balance-sheets submitted to the National Bank of Belgium. The Branch also shares all information about its functioning with the regulators in a fair and transparent manner through audit mechanism and other regulatory reports.

## **11.EBA Guidelines on Loan Origination and Monitoring**

The guidelines specify the internal governance arrangements, processes and mechanisms, as laid down in Article 74(1) of Directive 2013/36/EU (CRD) and further specified in the EBA Guidelines on internal governance , and requirements on credit and counterparty risk, as laid down in Article 79 of Directive 2013/36/EU in relation to the granting and monitoring of credit facilities throughout their life cycle.

General internal governance framework, as set out in the EBA Guidelines on internal governance in relation to the credit granting process.

- (1) credit risk governance and culture, also explaining the specific roles of the management body;
- (2) credit risk appetite, strategy and credit risk limits, explaining how these concepts fit into the institutions' overall risk appetite framework (RAF) and strategy;
- (3) credit risk policies and procedures, setting out general and specific criteria to be considered in these policies;
- (4) the credit decision-making process, highlighting the principle of independence between different (e.g. business and risk) functions in decision-making;
- (5) setting out the requirements for robust and effective credit risk management and internal control frameworks, as part of the institutions' overall risk management and control frameworks;
- (6) the resources, skills and information technology (IT) and data infrastructure that institutions should have in place for prudent and robust credit decision-making processes; and
- (7) the application of general remuneration requirements to credit risk granting, with a view to mitigating excessive risk taking in lending activities.

Based on the above guidelines, we have carried out a review of our existing lending policies, procedures and capabilities in respect of each of the five focus areas of the Guidelines and concluded that our existing policies and framework are already broadly in compliance with the Guidelines and do not require any major adjustments. A brief summary about our compliance in this regard is furnished below:

- i. Internal governance for credit granting and monitoring: Our Branch Credit Policy, which is designed based on the State Bank of India's Credit Policy with contextual adjustments in accordance with the local regulatory landscape, covers in detail all the aspects of end-to-end handling of loans originating at our Branch. Besides, our internally published Loan Manuals guides the loan management process, from cradle-to-grave. We have a centralized loan management system (LLMS-Loan Lifecycle Management System) in place since 2014-15 through which the credit risk & internal rating assessment, underwriting and monitoring exercises are undertaken.

- ii. For additional monitoring, our automated EWS (Early Warning System) provides alerts and updates in respect of various external/internal factors impacting the credit quality characteristics at individual loan level on at least daily basis.
- iii. Our Internal Credit Rating Assessment model is part of the Loan Lifecycle Management System-LLMS. The development of this model is guided by the Bank's internal risk guidelines while also taking into account the relevant regulatory requirements. We have an internally approved Standard Operating Procedure (SOP) for origination, participation and management of various loan products. The environmental and governance factors are already an integral part of our internal risk assessment framework and Bank level guidelines in respect of incorporating the ESG factors in the underwriting process are also in place from 04 August 2021. AML/CFT related due diligence process is also integrated in our loan management system and invariably forms part of our credit proposals at the time of originations as well as periodic reviews.
- iv. The pricing decisions are based on the benchmark Risk Adjusted Return on Capital (RAROC) which again is an integral part of our underwriting process.
- v. We have written guidelines in relation to the criteria for valuation/re-valuation and monitoring of immovable and movable properties in terms of the margins, frequency, inspection, monitoring and dependency of these factors on credit quality as well as the requirements for the empaneled valuers for the said purposes. The details of internal and external valuations, certified legal ownership, insurance, creation of charge in respect of the immovable and movable properties held as security for the loans are also captured in the LLMS and updated from time to time.
- vi. Our monitoring framework, automated as well as manual, enables us to monitor our credit exposure by assessing various internal and external parameters on an ongoing basis and provides automated alerts in the event of any adverse movement in any of the parameters. The combination of automated and manual framework provides broadness and flexibility to our ongoing monitoring process.

## **9. Status on the internal governance memorandum and date**

The Internal Governance Memorandum of the branch shall be reviewed as and when necessary or at least at annual intervals by the Branch Management Committee.

**Owner of the Policy: Manager (Compliance)**

**Reviewed by BMC on 28.09.2023**