RISK AND CONDUCT REVIEW COMMITTEE

LA PRUDENCE LEASING FINANCE CO LTD

RISK AND CONDUCT REVIEW COMMITTEE
TERMS OF REFERENCE

INTRODUCTION

La Prudence Leasing Finance Co Ltd (the Company) holds a Non-Bank Deposit Taking Licence issued by the Bank of Mauritius and a Leasing Finance Licence issued by the Financial Services Commission.

Being a Company regulated by both the Bank of Mauritius and the Financial Services Commission, the Company falls within the scope of the First Schedule of the Financial Reporting Act as a Public Interest Entity; hence must abide by the National Code of Corporate Governance.

Risk is the likelihood / possibility of losses due to business. It is, hence, important to determine the sensitivity of portfolio companies to lease certain kinds of risks, i.e. to identify those types of risks that can lead to large losses and damages and to measures to reduce such risks.

Risk Management consist of (i) risk avoidance, (ii) risk mitigation, (iii) risk sharing and transfer, and (iv) risk acceptance

Pursuant to Section 54 of the Banking Act 2004, the Board of Directors shall maintain adequate internal control systems, commensurate with the nature and volume of its activities and various types of risks to which it is exposed, regarding–

(i) operations and internal processes;
(ii) the Company of accounting and information processing systems;
(iii) risk and result measurement systems;
(iv) documentation and information systems; and
(v) cash flow transactions monitoring systems.

In view of delivering its roles and responsibilities, the Board of Directors has set up a Risk and Conduct Review Committee (the Committee) to work on the technical aspect and report thereto.

The Committee is also responsible for monitoring and reviewing related party transactions, their terms and conditions and ensuring effectiveness of the established procedures and compliance with the Bank of Mauritius Guidelines.

The following Guidelines have been issued by the Bank of Mauritius to assist the Company regarding the subject matter:

(i) Guideline on Operational Risk and Capital Adequacy Determination 2008
(ii) Guidelines on Capital Adequacy Ratio for Non-Bank Deposit Taking Institutions October 2009
(iii) Guideline on Liquidity August 2010
(iv) Guideline on Maintenance of Accounting and other Records and Internal Control Systems November 2013
(v) Guideline on Corporate Governance May 2016
(vi) Guideline on Related Party Transactions

The Companies Act 2001, Financial Reporting Act 2004 and National Code of Corporate Governance 2016 requirements are also addressed in this document.

INTERPRETATION

'Balance Sheet Risk'	means risk to earnings and capital from mismatches between assets and liabilities in interest rate with varying maturity and repricing profiles, and from mismatches in term.
'Compliance Risk'	means risk of legal or regulatory sanctions, financial loss, or loss to reputation the Company may suffer as a result of its failure to comply with all applicable regulations, codes of conduct and good practice standards
"Credit risk"	means the risk of credit loss that may result from the failure of a borrower to honour the borrower's credit obligation to the financial institution;
'Interest rate risk'	means potential losses due to fluctuations in interest rate;
'IT/System risk'	means potential losses due to system failures and programming errors;
'Liquidity risk'	means the risk of financial loss to a bank arising from its inability to fund increases in assets and/or meet obligations as they fall due without incurring unacceptable cost or losses;
'Operational risk'	means the risk of loss resulting from inadequate or failed internal processes, potential losses due to a human error (done willingly or unconsciously) and systems or from external events. The definition includes legal risk, but excludes strategic which of the purview of the Board of Directors;
'Processes risk'	means potential losses due to improper information processing, leaking or hacking of information and inaccuracy of data processing;
"Prudent"	means the exercise of careful and practical judgment that would be exercised by a knowledgeable person in the Company's industry, having regard to (i) the objectives of the Company, (ii) all risks to which the Company is exposed, including credit risk, and (iii) the amount and nature of the Company's capital

1. ROLES AND RESPONSIBILITIES

The Committee has the purpose of assisting the Board of Directors in their role and responsibilities imposed by/under:

1.1 Bank of Mauritius:

(i) identification, assessment and management of principal risks, including those relating to credit, market, liquidity, operational, compliance, and reputation of the Company, and prudent actions to mitigate the risks;

(ii) appointing of a chief risk officer who, among other things, shall provide assurance that the oversight of risk management is independent from operational management and is adequately resourced with proper visibility and status in the Company;

(iii) designing, implement and adhere to internal risk management policies and procedures and effective control systems to avoid losses arising from internal control weaknesses.

(iv) formulating and making recommendations to the board on prudent risk management issues;

(v) designing contingency and business continuity plans to ensure their ability to operate on an ongoing basis and limit losses in the event of severe business disruption.

1.2 The National Code of Corporate Governance regarding recommended disclosure in Annual Report:

(i) Statement that the Board is responsible for the governance of risk and for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives.
(ii) Outline of the structures and processes in place for identifying and managing risk.
(iii) Description of the methods by which the directors derive assurance that the risk management processes are in place and are effective.
(iv) Description of each of the principal risks and uncertainties faced by the Company and the way in which each is managed.
(v) Identification and discussion of the risks that threaten the business model, future performance, solvency and liquidity of the Company.
(vi) Affirmation that the Board or an appropriate Board committee has monitored and evaluated the Company's strategic, financial, operational and compliance risk.
(vii) Assurance that by direction of the Board or an appropriate Board committee management has developed and implemented appropriate frameworks and effective processes for the sound management of risk.
(viii) Outline of the systems and processes in place for implementing, maintaining and monitoring the internal controls.
(ix) Description of the process by which the Board derives assurance that the internal control systems are effective.
(x) Identification of any significant areas not covered by the internal controls.
(xi) Acknowledgement of any risks or deficiencies in the Company's system of internal controls processes.
(xii) Report on whistle-blowing rules and procedures; possible protections could include confidential hotlines, access to a confidential and independent person or office, safe harbours and rewards, or immunity to whistle blowers.

2. MEMBERSHIP

The Committee members are appointed by the Board on the recommendation of the Corporate Governance, Nomination and Remuneration Committee and may be replaced by the Board.

The Chairperson of the Board of Directors can be a member of the Committee but **not** the Chairman of the Committee.

The Committee shall be composed of the Managing Director and a minimum of three independent directors.

All members of the Committee shall have a broad understanding of the business and economic environment, of financial and business risks and of the country's legal and statutory environment.

3. MEETINGS

The Committee shall hold meetings quarterly, or more frequently as circumstances require.

The CEO, Chief Financial Officer, Chief Risk Officer, the External Auditor, the Internal Auditor and representatives of management may be invited to attend part or all of any meeting of the Committee as appropriate.

Any Member wishing to add any item on the Agenda shall communicate same to the Company Secretary who shall transmit same to the Chairman.

The Quorum for the Committee shall be three.

4. MINUTES

Minutes of meeting which has been physical held shall be recorded and drafted by the Company Secretary and communicated to the Board of Directors.

5. BUSINESS

The following is the listing of risk categories encompassed within the duties and responsibilities of the Committee.

	RISKS	CONTRIBUTORS	RISK MANAGEMENT GUIDELINES
1	Enterprise Risk / Strategic Risk	Board of Directors	The Board should set the Company's: (i) Risk Appetite; (ii) Risk Strategies; (iii) Risk Policies and (iv) authority levels as the basis for the Risk Management Committee to operate.
2	Credit Risk	Credit Management Committee	The Credit Risk Management Committee shall assist the Risk Management Committee on the credit appraisal, approval and management policies designed and set up by the Credit Risk Management Committee.
3	Market Risk	Asset & Liability Committee [ALCO]	The Asset & Liabilities Committee [ALCO] shall assist the Risk Management Committee on how it has set up procedures to mitigate the Market Risk.
4	Operational Risk	Audit Committee, Corporate Governance, Nomination and Remuneration Committee/ Credit Management Committee / ALCO	The relevant Committees shall assist the Risk Management Committee, with the contribution of the Compliance Officer / Internal Auditors in assessing the Internal Control & Processes **[Annex 1]**
5	Compliance Risk	Corporate Governance Committee Audit Committee Compliance Officer / Internal Auditor	The Compliance Officer on an ongoing basis Exemption Report The Internal Auditor based on an annual work plan to provide adequate coverage of critical operations over an agreed upon timeframe. CGC shall assist Statutory Disclosures to Registrar of Companies/ Financial Reporting Council.
7	Liquidity Risk	Assets & Liabilities Committee [ALCO]	The ALCO shall assist the Committee on a liquidity risk management strategy exists and that same is being translated into clear guidance and operating standards e.g. in the form of policies, controls or procedures
8	Balance Sheet Risk	Assets & Liabilities Committee [ALCO]	Capital Base, Weighted Risk Assets and Capital Adequacy Ratio / Risk Weighted On-balance Sheet Assets

6. RELATED PARTY TRANSACTIONS

The Committee is also responsible for monitoring and reviewing related party transactions, their terms and conditions and ensuring the effectiveness of the established procedures and compliance to the Bank of Mauritius Guidelines:

The mandate of the Committee shall include:

(i) require management of the financial institution to establish policies and procedures to comply with the requirements of the Guideline on Related Party Transactions;
(ii) review the policies and procedures periodically to ensure their continuing adequacy and enforcement, in the best interests of the financial institution;
(iii) review and approve each credit exposure to related parties;
(iv) ensure that market terms and conditions are applied to all related party transactions;
(v) review the practices of the financial institution to ensure that any transaction with related parties that may have a material effect on the stability and solvency of the financial institution is identified and dealt with in a timely manner;
(vi) report periodically and in any case not less frequently than on a quarterly basis to the board of directors on matters reviewed by it, including exceptions to policies, processes and limits.

Definition of Related Parties

The following categories are defined in the Guideline of the Bank of Mauritius on Related Parties:

Category 1

This includes credit exposures to
(a) a person who has significant interest in the financial institution;
(b) a director of the financial institution;
(c) a director of a body corporate that controls1 the financial institution;
(d) the spouse, child and parent of a natural person covered in (a) or (b) or (c) above;
(e) any entity that is controlled2 by a person described in (a) or (b) or (c) or (d) above; and
(f) any entity in which the financial institution has significant interest, excluding a subsidiary of the financial institution as mentioned in 16(e).

Category 2

This includes credit exposures to
(a) senior officers, which are outside the terms and conditions of employment contracts;
(b) the spouse, child and parent of senior officers;
(c) senior officers of a body corporate that controls3 the financial institution;
(d) any entity that is controlled4 by a person described in (a) or (b) or (c) above; and
(e) a subsidiary of the financial institution with no shareholder (natural person) holding directly or indirectly more than a significant shareholding in the parent financial institution.

Category 3

This includes credit exposures to senior officers, which are within the terms and conditions of employment contracts.

The Committee shall ensure that transactions with related parties are regularly reported to it and it shall also ensure that regulatory limits defined in the Bank of Mauritius Guidelines are adhered to at all times.

7. EVALUATION

The Chairman of the Committee shall conduct an annual evaluation of contribution and effectiveness of its Members in fulfilling their mandate.

The evaluation of the Chairman shall be effected by his peer.

The evaluation shall be submitted to the Governance, Nomination and Remuneration Committee which shall submit its recommendation to the Board.

8. DELEGATION OF AUTORITY

The Committee may, in its discretion, form and delegate all or a portion of its authority.

Such delegation shall be approved by the Board of Directors.

The Recommendation must clearly state the following minimum delegation authority:

- The person (s) to which such delegation will apply to;
- The scope

The Committee shall retain its duty of monitoring and supervision.

9. REVIEW OF TERMS AND REFERENCE

The Committee shall review and assess the adequacy of these Terms of Reference.

The Committee may recommend amendments to these Terms of Reference at any time and submit amendments for approval to the Board.

Dated this … of ……………… 2017

[……..]

ANNEX 1

Supervision of Operational Risk

Developing an Appropriate Risk Management Environment

i. ***Top level reviews***

Reviews of actual financial performance versus budgeted figures.

In performing these reviews, the Company should relate data – operational, risk related, or financial- to one another.

The Company should use these comparisons to analyse its actual against projected performance to identify reasons for significant variances.

ii. ***Activity controls***

Middle management should make use of exception reports, and other reports generated on a daily, weekly, monthly, quarterly or yearly basis to determine deviances from standard performance. Such reports may include reports on potential losses due to a human error (done willingly or unconsciously) missed instalments, past dues claim, payments received, interest income on portfolio, and provisioning.

iii. Physical control

These controls are designed to ensure the physical security of the Company's assets. They include safeguarding assets, records and restricting access to sensitive area.

Control activities include physical limitations, dual control, and periodic inventories.

iv. Limits control

As part of its risk management process, the Company should set limits to exposures such as on related parties, credit concentration, and sector wise limit on credit. It is important that there are periodic reviews to assess compliance with those limits.

v. Computer controls

Senior management should ensure that adequate internal control measures are maintained for its information systems.

There are several control activities that are unique to a computer environment. These controls apply to all computerized information systems- mainframe, minicomputer, and end-user environments.

Typical types of controls to be found in an information system will consist of general and application controls.

General controls in an information system are those controls that relate to the environment surrounding the information system and commonly include the following:

- Control over data centre operations
- System software acquisition, development and maintenance
- Access security
- Telecommunications security
- Contingency planning, backup and disaster recovery

Application controls relate to the specific tasks performed by the computer system that help to ensure that transactions are valid, properly authorised and reported completely and accurately. These controls cover the whole range of transaction processing from the preparation of the initial source document or online data entry, to the creation and use of the final output. As such, application controls consist of input, processing and output controls:

- Input controls include processes for verifying data accuracy and completeness upon data –entry to a system.
  These controls also provide specific mechanisms for input authorisation, data conversion, data editing and error handling.
- Processing controls help to ensure that data remains complete and accurate during updating, and that the application programs perform as intended.
- Output controls help ensure that system-generated information is accurate, property recorded, and received or reviewed by authorized individuals only.

vi. Approval and authorisations

The Company should ensure that there are clear written procedures that place authorisation limits for transactions.

The Company is required to establish adequate controls to ensure that transactions approved are within authorisation limits.

vii. Verification and reconciliation

As part of control measure, The Company should ensure that periodic reconciliation of records and accounts form an integral part of the risk management process and that reports on such reconciliation are circulated to appropriate levels of management.

viii. Segregation of duties

The Company should establish segregation of duties by assigning different people the responsibilities for authorisation, custody, record keeping and reconciliation.

Proper segregation of duties is considered essential in avoiding any conflict of responsibilities and thus reduces the possibility of individuals being in a position to both perpetrate frauds and conceal errors and irregularities