Compliance Charter and Framework

(CCF)
Introduction

Bank Melli Iran (Bank) has always had strong and close correspondent relationships with many international banks since its first years of operation and during these years, while adhering to ethical and human principles, rules, regulations, business conducts and professional standards developed and promoted a culture of compliance with rules and regulations. Moreover, senior management, with respect to the rules and regulations, provided ethical conduct patterns for all employees.

Bank, as one of the most important financial institutions, in line with its intrinsic duties, maintaining financial resources and protection of customers’ benefits, plays a significant role in financing cultural, social and economic projects. Therefore, it should ensure the sound financial transactions and interactions with customers and other counterparts in exact compliance with the national and international applicable rules and regulations and standards. In this regard, in order to strengthen the internal control system's performance, it has developed the compliance function in its organizational structure.

The present document has been approved by the Board of Directors, in line with Circular No. 235076/96 dated 19th October 2017 of Central Bank of Islamic Republic of Iran, entitled "The Instruction for Compliance in Credit Institutions", to determine the compliance framework in the Bank, and clarify the responsibilities of the Bank’s pillars in relation to the compliance risk management, especially the organizational position, the role and responsibilities of the compliance function, the objectives, principles, policies, reporting lines and other requirements governing compliance of activities.
Chapter One: Definitions

In this CCF, the following terms are used instead of relevant definitions:

1. **Central Bank**: Central Bank of Islamic Republic of Iran
2. **Bank**: Bank Melli Iran
3. **Rules and Regulations**: All applicable rules, regulations and standards for the Bank in Iran and countries where it has independent subsidiaries, branches or representative offices, as well as countries where it, in a way performs banking operations.
4. **Compliance Risk**: Exposure to legal penalties, financial forfeiture and material loss an organization faces when it violates the regulations or fails to act in accordance with governing rules and regulations, internal policies or prescribed practices of the Bank
5. **Compliance Function**: Department of Risk Management and Compliance
6. **Risk and Compliance High Committee**: The Risk and Compliance High Committee is one of the Board committees that is responsible for monitoring effective management of the risks (including compliance risk) that the Bank is exposed to.

Chapter Two: Objectives of Compliance Function

All the Bank's compliance programs are implemented through the following objectives:

2.1 Maintaining reputation and honor

2.2 Developing and promoting the culture of adherence to rules and regulations

2.3 Interacting with relevant departments on training and empowering all staff, considering the compliance requirements

2.4 Maintaining the stability of the Bank operations and complying its services and products with the relevant legal requirements
2.5 Providing necessary requirements for customers and employees to understand and comply with rules and regulations

2.6 Reducing compliance losses caused by the faults and failures of the Bank employees

**Chapter Three: Compliance Policy and Principles**

3.1 The policy of the Bank is adherence to human and ethical principles, to comply with applicable rules and regulations relevant to duties and banking operations. Considering this policy, all bank managers and employees are committed to the ethical principles, values of Bank’s Code of Ethics, all applicable rules, regulations and standards, at all levels.

3.2 All managers and employees of the Bank recognize the independence of the Compliance Function and make necessary cooperation.

**Chapter Four: General Responsibilities of the Board of Directors**

The Board of Directors is responsible for approving the compliance policy, ensuring its implementation and monitoring the quality of compliance risk management.

**Chapter Five: Characteristics of Compliance Function**

5.1 The Compliance Function staff must not have any other responsibilities in the Bank.

5.2 The Compliance Function must have access to all information of the Bank's units within the framework of its compliance policy and duties.

5.3 The Compliance Function, in order to perform its responsibilities effectively, must have sufficient resources (including budget, staff, and software/hardware equipments and facilities).
5.4 The Compliance Function staff must have sufficient qualifications to fulfill their duties. Their professional skills and knowledge such as awareness of any changes in banking activities, rules and regulations, should be updated through regular and systematic trainings.

Chapter Six: **Responsibilities of the Compliance Function**

6.1 The Compliance Function notifies and ensures the deployment and enforcement of compliance with rules and regulations through all levels of Bank, including overseas subsidiaries and branches.

6.2 The Compliance Function, observing any non-compliance, provides corrective guidelines and recommendations to the relevant executive unit and, if necessary, reports it to the Board of Directors.

6.3 The Compliance function reports any major non-compliance cases, even the Board of Directors approvals and decisions, to Risk and Compliance High Committee as soon as possible.

6.4 The Compliance Function regularly reports to the Risk and Compliance High Committee and the Board of Directors, on the Bank's compliance status and quality.

6.5 The Compliance Function cooperates and interacts with the relevant units on Combating Money Laundering and Financing of Terrorism.

6.6 The Compliance Function provides consultative opinions and advice about compliance and other requirements related to banking activities to the Board of Directors, the Risk and Compliance High Committee, the Chief Executive Officer and Executive Directors.

6.7 The Compliance Function provides appropriate compliance educational content for training the Bank staff.
Chapter Seven: Qualifications and Responsibilities of the Chief Compliance Officer

The chief compliance officer has the following qualifications and responsibilities:

7.1 Must be independent and has no other responsibilities.

7.2 Must not have any managerial and financial positions in business activities or income-generating units.

7.3 Must not serve as CEO, Finance Director, Senior Accountant or other members of the Board simultaneously.

7.4 Must be generally responsible for identification, coordination, and management of the compliance risk in the Bank.

Chapter Eight: Three Lines of Defense in Compliance Risk Management

All of the Bank's managers and staff contribute to the management of the risk in three lines of defense, as follows:

8.1 First Line of Defense in Compliance Risk Management

By the first line of defense it is meant all managers and staff of branches and some departments who are in direct contact with legal and natural entities as customers; they are compliance risk owners and required to comply with the relevant rules, regulations and directives, as well as guidelines related to compliance risk management. They are also responsible for permanent monitoring of their activities and ensuring their compliance with obligatory rules and regulations. This monitoring of activities is done either separately or in group and the management will be provided with objective evidence of the effective controls and compliance of staff’s activities with obligatory rules and regulations. They are responsible for the consequences of non-compliance.
8.2 Second Line of Defense in Compliance Risk Management
By the second line of defense, it is meant the Compliance Function of the Bank, which is in cooperation with relevant units, takes the responsibilities of planning and organizing the identification, evaluation, monitoring and reporting activities within the framework of Central Bank of Iran’s circulars and policy of Bank’s Board of Directors. Ongoing monitoring, reviewing and assessing business units’ activities by the Compliance Function mitigates the non-compliance risk. Also, the appropriate controls will be implemented to ensure greater certainty. Additionally, the Compliance Function is responsible for promoting the compliance culture and providing advice to other Bank units on how to manage the risks involved.

8.3 Third Line of Defense in Compliance Risk Management
The third line of defense in compliance risk management is the Independent Internal Audit, which independently ensures adequacy and effectiveness of control activities and processes of compliance risk in the first and second lines. Internal audit must provide Compliance Function of the Bank with its recommendations in order to be used in compliance programs.

Chapter Nine: Compliance Risk Management Mechanism
In order to provide required proceedings to prevent negative financial, legal and regulatory consequences, the Bank takes the compliance risk management steps as follow:

9.1 Identifying the Compliance Risk
The identification stage, as the first and most important step of the compliance risk management process, requires a framework. Developing this framework requires a sound understanding of the operations and business environment, applicable rules, regulations and standards, and providing relevant guidelines and investigating the relevance and their importance from business view. Historical data of non-compliance, requests and complaints by customers and
employees, etc. are used as sources of risk identification in order to obtain the following factors:

- What event or incident happens, when and where?
- What types of people or businesses will be involved?
- Why does the risk occur, Direct and underlying reasons?
- What is the impact upon the regulatory outcome, who will be adversely affected?

9.2 Measuring and Evaluating the Compliance Risk

At this stage, using quantitative and qualitative tools and techniques, the identified risks are classified in terms of their significance and relevance to business activities and their efficacy. This classification results in providing the Bank's compliance risk matrix that determines the probability or frequency of risk, based on their impact and the overall ranking of each risk: low, medium, critical, major and disastrous.

9.3 Monitoring the Compliance Risk

In this step, the classified risks are monitored through ongoing reviewing key risk indicators in different areas such as employees, customers, services and products, etc. according to the views and in coordination with other bank units such as inspection, internal audit, legal, Anti-Money Laundering, Combating Financing Terrorism and operational risk units, and so on.

9.4 Controlling and Mitigating the Compliance Risk

In this step, taking into account that it is actually impossible to eliminate the risk of non-compliance of rules and regulations, the bank attempts to reduce the probability of the causes of the error and their adverse impact on performance by using control mechanisms such as employee training, segregation of duties, the use of a multi-layer supervisory approach in high-risk areas, systematic mechanisms, announcement of processes and procedures associated with risk reduction, etc., in coordination with relevant departments.
Chapter Ten: Compliance Reporting Requirements

The Compliance Function's report to the Board of Directors and The Risk and Compliance High Committee should include at least one of the followings:

10.1 The results of the evaluations and surveys carried out during the period, emphasizing key changes in the situation of compliance risk, as well as areas and issues that require special and more attention of Board of Directors;

10.2 Summary of non-compliance cases as well as deficiencies of compliance risk management in different levels.


10.4 Recommendation for corrective actions such as disciplinary ones, in cases of non-compliance and deficiencies of compliance risk management.

10.5 A history of corrective actions and an assessment of adequacy and effectiveness of those actions.

10.6 Findings and observation results related to compliance culture that exist in all or part of the bank and can lead to an increase in adherence to rules and regulations.

Chapter Eleven: Compliance Risk Management in the Bank's Overseas Units

Compliance risk management in overseas units is in accordance with the rules and regulations set by Central Bank and regulatory authorities of the host countries. However, this does not negate the responsibilities of the compliance function referred to in Chapter 6.