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Anti-Money Laundering & Combating the Financing of Terrorism Policy

Bank Melli Iran
AML & CFT Department
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Preamble

Bank Melli Iran (BMI), regarding its historical background that arisen from its glorious position in the contemporary history of the country and public trust in this national institution, is fully aware of the destructive and harmful effects of Money laundering (ML) and Terrorist Financing (TF) on the country's economy and developmental factors, and in this regard, while complying with professional ethical principles, has adopted a rigid policy toward mentioned crimes, and its officials and staff commit themselves to the exact implementation of the policy, for the purpose of the prevention of the misuse of BMI products, facilities, service platforms, and financial transfer channels to commit financial crimes, especially ML and TF, and considers these practices as their social responsibility. Therefore BMI, as a leading institution in monetary and banking fields in the country and in line with global trends of credit institutions in combating and preventing financial crimes and illegal financial activities, codifies and declares its AML policy, that is adopted from AML and CFT laws and regulations and also Central Bank of Islamic Republic of Iran (CBI) requirements in the form of communicated directives and instructions, as follows; in addition, BMI takes effort to comply with National AML Risk Assessment Document and Action Plan that will be declared by FIU, and will make the necessary efforts to develop and promote its AML and CFT organizational culture.



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Purpose of AML Policy

The purpose of this policy is to explain the strategies of BMI in combating ML and TF crimes.

Customer acceptance

- Opening any type of account and creating a working relationship is subject to the submission of valid documents.
- It is necessary to identify customers before providing any service to him and if it is not possible to assess the customer risk and identify him. It is forbidden to provide services or establish a working relationship with them.
- It is forbidden to provide services to people who do not have a legal identity.
- Establishing a working relationship and providing services to sanctioned persons is prohibited.
- Establishing a working relationship with people who are deprived of basic banking services due to the verdicts of the courts and due to monetary and financial crimes is prohibited.
- Establishing a working relationship with certain legal entities such as exchange offices, Gharz al-Hasna funds, investment companies, notaries, leasing, etc., which do not have the necessary permission from the relevant authorities is prohibited.
- Establishing a working relationship with shell banks is prohibited.
- If the legal representative is applying for services on behalf of another person or persons. In addition to the original, the legal representative (agent, executor, natural guardian, and legal guardian) is also fully identified.



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- In establishing working relationship with foreign banks, good reputation of in terms of complying with the AML and CFT standards and requirements is a priority in establishment of correspondent banking relationship.
- Regarding the current customers, if the bank is unable to identify a customer based on the latest customer risk classification, the working relationship will be terminated.
- Establishing and making a working relationship in the form of private banking in a way that conceals the nature of the customer's identity is prohibited.

Customer identification

Since BMI, in order to manage the AML and CFT risks , considers customer risk assessment as the starting point for establishing a working relationship, so in this regard, by implementing the process of effective customer identification that involves the customer's purpose of opening an account, the nature of the customer's business, the customer's background, the customer's hometown, the customer's liaisons, and determining the level of the expected activity; tries to evaluate the customer's risk at the beginning of the business interaction to identify and classify the customer based on risk indicators.

Accordingly, BMI takes a risk-based approach in its risk acceptance, identification, monitoring and management, and based on the expected level of risks, applies the appropriate identification process.

The customer identification process in BMI is based on valid identity and residence documents and their compliance with independent and valid sources, includes all basic and non-basic banking services, and according to its risk-oriented nature is appropriate to its risk category. It runs on three levels: simple, common, and enhanced.



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- **Simple identification:** It is implemented when the risk of work interaction is assessed as low and its scope includes matching the information of the identity documents with the information obtained from the customer with the aim of identification.
- **Common identification:** It is implemented when the risk of work interaction is assessed as medium, during which, while obtaining and matching identity and residence documents with the information entered in the bank forms, the mentioned information is verified with independent and valid sources. While determining the expected level of activity, other customer information including the purpose of establishing a working relationship, is obtained.
- **Enhanced identification:** in cases such as establishing a working relationship with high-risk individuals and legal entities, domestic and foreign political entities, famous individuals, persons under watching lists, and unusual transactions that do not have a specific economic or legal purpose and the risk of interaction with a customer is assessed as high, the enhanced identification procedure is applied, during which, in addition to the common identification measures, more accurate and in-depth information of the customer , and the customer's nature of the business, beneficial owner, and background, are obtained. In such a way, the customer risk can be assessed.
- In order to manage the customers' risk, the identification process in BMI is not outsourced to third parties.
- The customer identification process in BMI is a dynamic and continuous process and is updated annually.
- For high-risk customers, customer information is updated in shorter periods.



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- In the common and enhanced identification processes, three categories of customer information are obtained in the form of identity, economic and beneficial owner information.

Monitoring

In line with continuous and effective monitoring and with the aim of achieving the high goals of the Bank in the field of AML & CFT, BMI believes and is committed to implementing the following:

- Accounts are regularly monitored in the bank's monitoring program, and if there are major changes in the level of a customer's expected activity, the customer will be re-identified (CDD).
- If a customer's risk is categorized as high, continuous and stronger monitoring will be applied on the customer's activity.
- Applying a risk-based approach on AML and CFT controls.
- Conducting on-sight inspections and on-line controls to ensure compliance with AML and CFT rules and regulations across the units.
- Utilization of control systems under international standards in AML and CFT fields, fraud detection, and behavioral and performance analysis of customers for detecting suspicious transactions and patterns of suspicious financial behavior.
- Ensuring compliance with required rules, regulations and standards in abroad branches and affiliations of BMI.
- Monitoring the more risk exposed accounts periodically.



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Risk Management

In order to manage and reduce the bank's vulnerability to ML and TF, BMI is obliged to implement threat identification programs in the areas of customer acceptance, customer identification, and banking new products and services.

- In order to manage and reduce the AML & CFT risks, before providing any customer services, the risk of the business interactions is evaluated and classified by BMI and based on the results, the amount of required information and the level of required supervision are determined.
- The customer identification process in case of a virtual business relationship is implemented under CBI rules and regulations, however, before starting any kind of such a relationship, the customer should attend in the branch and the identification process should be implemented based on authentic documents and the verification of such documents with independent sources.
- If the level of risk assessed by the customer is higher than the acceptable level of risk determined by FIU, BMI avoids establishing a working relationship and providing services to the customer.
- Establishing working relationships with high-risk individuals is done with the permission of the relevant senior manager.
- Enhanced customer identification is applied for high-risk customers.
- In the process of AML & CFT risk management, customer risk, product risk, geographical risk and service channel risk are examined and assessed.
- Providing remote basic banking services to the customers is prohibited.



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- Carrying out any transfer of funds and electronic banking transactions without the recipient and sender information or transactions that are not traceable, is forbidden.
- For being up to date with the latest status of the customers, BMI reassessed the information on their activities.
- In cases of legal collaborations, a natural customer's death or dissolution or suspension of a legal customer's activities, the related accounts will be blocked to prevent any misuse.

The other main approaches

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- Always strives to establish and maintain the highest level of working interaction with governmental and legal authorities related to AML & CFT.
- Develops its relations with cross boarder banking systems with the maintenance and observance of the highest standards governing the activities of credit institutions as a goal and in this regard, complying with the AML & CFT rules and regulations in correspondent banking, commits itself to completion the Wolfsberg Questionnaire.
- Providing any basic services is subject to obtaining a commitment to comply with the rules and regulations from customers.
- Always commits to respond to inquiries from FIU, CBI, and other competent regulatory and judicial authorities, as well as preparing and sending periodic information.
- Considers the Identification of the beneficial owner when providing banking services as a basic requirement and obliges itself to do so.
- Always adheres to the principle of confidentiality and secrecy of customer information, except in cases where it is required by law to provide customer information.



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- Establishes any customer relationship based on AML & CFT integral documents which are AML & CFT Policy, KYC statement, as well as the Comprehensive Internal Guidelines (Circular 37b).

Training & Education

BMI AML & CFT policy emphasizes on education-based culture and provides necessary and specialized training in this regard in order to improve the knowledge and individual skills of employees, a fundamental and effective principle in AML & CFT processes, and considers it as a principle in its development. Therefore, by designing and holding general courses in the form of pre-service and in-service training courses, as well as specialized courses appropriate to the job levels of employees, and also staff participation, especially employees who works in AML & CFT department, in specialized courses held by FIU and CBI, it has promoted the specialized knowledge of its employees and is committed to this process.

AML & CFT Organizational structure in Bank Melli Iran

The ultimate responsibility of the measures related to BMI AML & CFT rests with the bank's CEO, but in this regard and in order to properly perform the assigned tasks in accordance with the notification criteria and with the aim of effective management of ML & TF risks, an organization wide structure has been designed and implemented with a developed and efficient structure.

In this structure, after BMI CEO, the AML & CFT high Committee, which is chaired by the esteemed CEO of the bank is located, in which at least three members of the board are also members.

In this committee, important policies and strategies and important decisions on AML & CFT are taken and referred to the Compliance and AML & CFT



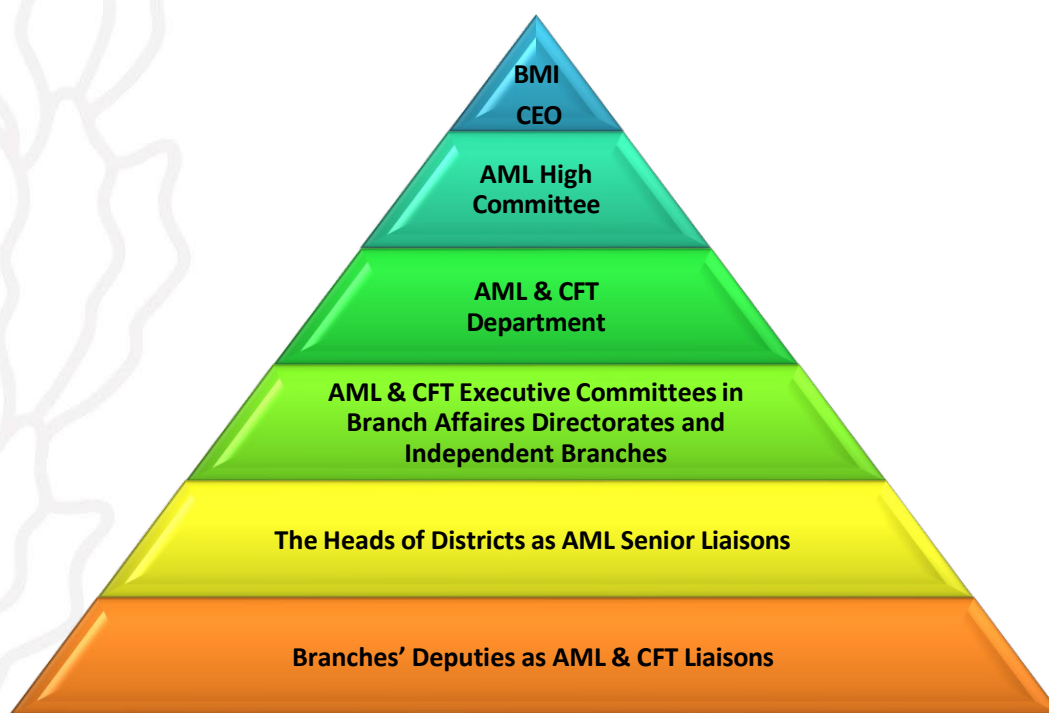
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General Directorate which its head is also the Secretary of the AML & CFT high Committee.

It should be noted that the Compliance and AML & CFT General Directorate, in addition to following the approvals of the High Committee, is also responsible for implementing the legal requirements at the bank level.

The heads of the Branch Affairs Directorates and Independent Branches serves as the heads of AML & CFT Executive Committees in the related units. They fully monitor the implementation of AML & CFT rules and regulations. In addition, as part of their activities, the heads of Districts also serve as senior liaisons of the executive committees, are focused on monitoring and implementation of executive instructions in the related units.

In the last part of the mentioned structure, the branches' deputies are assigned as the liaisons of AML & CFT in the Branches. They are responsible for following the executive requirements of AML & CFT and complying the branch's function with mentioned requirements.





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Required reports

Pursuant to the Executive Regulations of the AML Law and in accordance with the rules and regulations of CBI, BMI obliges itself to prepare and submit AML & CFT reports as follows.

Report on Suspected ML & TF Operations, Transactions and Behaviors (STR)

Whereas in BMI, the employees' detection of ML & TF suspicious activities is a priority, they are obliged to report as soon as they encounter or are informed of any related activity to the AML & CFT Unit prompt and confidentiality. In addition, BMI uses intelligent systems and IT infrastructure developed by the latest technologies to identify suspicious transactions and unusual financial behaviors related to AML & CFT. During the mentioned process, the reports received from the units as well as the cases extracted from the systems are examined by the AML & CFT Unit and in case of suspicious cases, they are reported to FIU.

Over the Threshold Amount of Cash Transaction Report (CTR)

In case of depositing more than the threshold amount of cash by the account holder or any other person to the customer's account, the depositor should complete the CTR form and confirm its contents. The form is registered in BMI operating systems and reported to FIU.

The Basic Service Recipients' Information

In carrying out its legal duties, BMI reports the information of the recipients of basic banking services to FIU on a monthly basis.



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Suspicious Persons' Information

While monitoring and controlling the activities of persons under surveillance and persons suspected of ML and TF activities, their operational information is confidentially reported to FIU on a monthly basis.

General Power of Attorney

In order to create transparency in identifying the beneficial owner of banking operations, the information related to the general (absolute) power of attorney submitted to BMI should be reported to CBI.

Aliens

- Aliens can use BMI banking services if they possess valid identification documents and a legal residence certificate.
- The provision of banking services to foreign PEPs is subject to accurately identifying them, as well as, obtaining written permits from the competent government authorities and the relevant senior manager in BMI.
- Any provision of basic banking services to foreign political customers (foreign PEPs) is reported to CBI.
- Providing services to special foreign PEPs as well as foreign persons under sanctions is prohibited.
- As a continuous procedure and with the aim of informing about the activity status of foreign customers' accounts, the account turnover of aliens is checked on a three months base and necessary care is taken and in case of unusual and sudden changes in customer performance, it is carefully examined. In case of suspicious cases, the matter will be reported to the competent authorities.
- Due to the level of the risk of aliens, more intensive care is taken in identifying of such customers by BMI.



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- Providing banking services to aliens that are refugees or temporal residents faces restrictions such as the ban on issuing electronic debit cards and electronic banking services.

Maintenance of Records, Information and Archives of Documents

- Customer information and records are considered as the main assets of BMI, so while preserving and protecting it without a time limit, it records and maintains its customers' information.
- In the implementation of the executive regulations of the AML Law, documents and records related to work interaction with the customers are maintained for 10 years.
- BMI obliges itself to record and maintain information, records and documents in such a way as to protect the security and quality of information and documents, and to send them at the request of FIU and other competent authorities within the time specified in the executive regulations.
- BMI while trying to digitize all customer identity and performance records as well as its current activities, pursues the creation of customer information profiles and customer risk profiles in the form of a comprehensive customer information management system.

Disciplinary Approach

BMI, considering the negative effects of ML and TF on the country's economy and security and its adverse consequences on social norms, commits itself to combating such a condemned phenomenon.



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In this regard, in order to strengthen social justice, along with other relevant agencies, it considers itself at the forefront of AML & CFT, and in this way, it is determined to deal decisively with the manifestations and related factors.

Therefore, while exercising the necessary care in order to maintain its reputation, in case of any violation by the employees, it will implement severe disciplinary punishments and, if necessary, judicial measures against them and review the working status of the offending employees.

Review of AML Policy

Since BMI considers the fight against corruption and financial crimes as a dynamic and continuous matter, it always tries to base its policies in accordance with the latest achievements and standards. Accordingly, BMI AML policy is reviewed annually in accordance with CBI rules and regulations and after the approval of the Board of Directors of the bank - as one of the main upstream documents- is communicated to the all levels of the bank.

Concluding Remarks

BMI with a long experience in the field of banking and monetary affairs based on the Islamic -Iranian rich culture and principles, is proud to adhere to the principles of Islamic economics and other financial requirements communicated by CBI as the custodian of the country's banking network and guarantee of the accuracy, health and transparency of the financial activities of credit institutions, and by using its supervisory infrastructure tries to apply the strongest regulatory programs and conduct continuous inspections in order to strictly implement the spirit of laws, including AML & CFT laws and regulations.