

EXPORT DEVELOPMENT BANK OF IRAN

(EDBI)

Anti-Money Laundering and Combating Financing of Terrorism Policies

Target audience:

Employees and Management of EDBI

Approved by:

EDBI's Board of Directors, at 2018/05/21

Preamble

The AML/CFT policy of Export Development Bank of Iran (hereafter EDBI) consists of Anti-Money Laundering and Combating Financing of Terrorism measures in adopting the Central Bank of Iran' directives on AML/CFT, as well as the international AML/CFT standards developed by relevant competent authorities in particular Financial Action Task Force (FATF). This policy defines AML/CFT objectives and scope, and sets out a framework to comply with applicable AML/CFT laws, regulations and standards; this framework requires to:

- undertake customer due diligence procedures on all new and existing customers with a risk based approach;
- conduct ongoing monitoring with a risk based approach;
- retain documents and transaction records;
- practice heightened surveillance on suspicious activities and transactions;
- report suspicious transactions to competent authorities;
- enhance the internal controls to mitigate the AML/CFT risks;

The AML/CFT and Compliance Department in EDBI is responsible for proposing suitable procedures for implementing AML/CFT policies and the AML/CFT Committee is responsible to review and verify mentioned procedures.

1-Objectives of AML/CFT policy

The primary objective of this policy is to facilitate the implementation of Islamic Republic of Iran's AML law, which criminalizes money laundering, and CFT law, which criminalizes terrorism financing.

Another main objective of this policy is to ensure that the products and services of the bank are not being used to launder the proceeds of crime and/or finance terrorism, and to keep the Bank's staff being aware of their obligations to remain vigilant in AML/CFT.

2-Scope

To indicate the laws, regulations and standards, this policy is set to cover the following items:

- AML Law and bylaw
- CFT Law and bylaw
- Central Bank of Iran's directives on AML/CFT, subsequent amendments and changes.
- FATF standards
- International standards and guidelines, such as Basel Committee and Wolfsberg Group.

Execution of this policy is mandatory for all domestic and foreign branches, administrative units, and subsidiaries of the Bank. In case, the countries where the EDBI's subsidiaries are located do not apply any AML and CFT laws, or even their standards are not equivalent to those in Iran, this policy is also mandatory for them.

3-Know Your Customer Principle

As per the Risk model in EDBI, the following risk factors are considered while establishing a business relation with a customer:

- a. Country Risk
- b. Product Risk
- c. Delivery Channel Risk
- d. Customer Risk

In EDBI's risk model, customers are categorized in three different categories:

- 1) Low Risk customers
- 2) Medium Risk customers
- 3) High Risk customers

- 1) For Low Risk customers, simplified Customer Due Diligence (here after CDD) is performed and the customers' information is updated every two years.
- 2) For Medium Risk customers, CDD (Customer Due Diligence) is performed and ongoing controls with especial cares are considered in case of need. The customers' information is updated as yearly.
- 3) For High Risk customers, Enhanced Due Diligence (hereafter EDD) is required. In addition to customer acceptance controls, ongoing monitoring is performed. The customers' information is updated every six months.

If any noncompliance is observed in this principle, the compliance committee is responsible to make decision as per the risk rate of the customer.

3-1- Identification and Verification of Customers

In line with Iran's AML and CFT laws and international standards, EDBI's policy adopts following measures to indentify and verify all new and existing customers:

- Identity, Address, Occupation and Income Information;

In this step all natural and legal persons as customers declare their own full information and all legal and natural persons related to them (including attorneys, signatories, share holders, beneficial owners and ultimate beneficial owners). This declaration is made as per documents and evidences specified by AML/CFT committee and approved by the Board of Directors of the bank. Documents and evidences offered by customers must be consistent with CDD & EDD regulations and complying with the international standards.

- Customers' Information Verification and Compliance, and Customers' Activity Level Determination

All information received from customers shall comply with original documents and be verified through competent authorities portals. These verification web portals are as follows:

- a. National ID Number Portal for Iranian Natural Persons
- b. National ID Number Portal for Iranian Legal Persons
- c. Designated Code Web Portal for Foreign Natural and Legal Persons
- d. Postal Code Web Portal of Islamic Republic of Iran Post Co
- e. Economic Code Web Portal of Tax Affairs Organization
- f. Guild Code Web Portal of the Ministry of Industry, Mine and Trade
- g. The National Official Gazette's Database
- h. Judiciary web portal for Power of attorney inquiry
- i. Military service organization inquiry web

After all above steps are done, customer's activity level is determined as per instruction on "determining the expected turnover level of the customer in credit institutions".

3-2- Identification and Verification of Ultimate Beneficial Owner

The ultimate beneficial owner (hereafter UBO) means the person(s), who is entitled to enjoy the economic benefits stemming from the ownership even if the legal ownership has been registered in the name of someone else (the legal owner) who holds the object in his own name but on behalf of the beneficial owner.

The beneficial owners of each customer must be indentified and verified through taking necessary measures as set forth in the executive instructions for AML and CFT mandated by Iran's Ministry of Finance and Economic Affairs and advised by Central Bank of Iran. Generally, the UBO is determined in two ways: i. a signed affidavit from the customer, and ii. related web portals and registry systems and other reliable information sources. For legal entities, the ultimate natural person(s) who owns or controls it shall be indentified and verified. If no natural person is

identifiable, natural persons who hold the position of senior management shall be identified and verified.

3-3- Customer Acceptance

After the process mentioned above, EDBI can accept or reject the customer as per customers' ML/FT risk rating. Based on the bank's risk appetite, EDBI shall refuse to accept the customer in this step.

3-4- Walk-in customers

We do not conduct transactions for persons we do not have a business relationship with, so we always know our customer. The only exception is when we cash the checks drawn by our own customers for whom we have already performed our KYC procedures. For walked-in customers we do our regular CDD and a copy of their ID documents is retained.

4- Enhanced due diligence

Enhanced measures should be taken at establishment and keeping business relationship with customers who based on the bank's ML/FT risk model are categorized as high risk. In the risk model, following customers are considered as **high risk**.

- Politically Exposed Persons (PEP)
- Non-profit organizations (including charities)
- Exchange companies
- Non-financial businesses (e.g. Jewelers, Precious Stone Sellers, Car and Housing Agencies)
- Retirement funds
- investment funds
- Non-resident customers

- Correspondent banks and counterparts
- Money service businesses

5- Correspondent Banking Relations

Enhanced due diligence is conducted before establishment of correspondent banking relations, and the following criteria are considered.

- Geographic risk of the intended Bank' branches, subsidiaries and affiliates
- Management structure, regulatory and supervisory authority of the bank, branches, subsidiaries and affiliates, regarding their AML/CFT aspect
- The bank's main activity and business type
- The bank's customers base regarding their activity and structure
- Services and products offered to the bank's customers as well as their correspondents
- Existence of any PEP in the executive management or ownership structure, shareholders and related persons
- How the bank deals with PEP customers
- Suspicious transaction control and monitoring
- Probable sanctions statues
- Account opening procedures and offering services to high risk customers such as nominee accounts, fiduciary accounts, pooled accounts, retirement and investment funds, non-face-to-face and non-resident customers, and payable through accounts
- Monitoring sanctioned and black listed persons statues in transferring financial and non financial messages
- AML/CFT Policies issued by the bank and the updating procedures
- The bank's domiciled country AML/CFT laws and regulation and the bank's policy in cooperation for information exchange in case of need

The results and outcomes are assessed by AML/CFT and Compliance officers, working in an independent division. The assessment is communicated to

Correspondent Relations Committee. The process of correspondent relations establishment is according to the rules stipulated in EDBI's instruction of "Correspondent Relationship Establishment and Maintenance" which has been approved by the board.

If applied parameters for correspondent bank evaluation are not concluding a suitable result or the documents received from the correspondent bank fails to present the bank's situation clearly, the EDBI's compliance officer shall visit the requesting party's officials at their premises. To accomplish the correspondent diligence process, this visit must take place before establishment of correspondent relations or within a reasonable period subsequently.

6- Groups of customer with which business relationship is forbidden

"Know Your Customer Principle" in EDBI does not allow providing services to the following groups of customers.

- Customers who want to open anonymous accounts or accounts with fictitious names
- Customers who refuse to provide the required information and documentation
- Customers who are included in sanctioned and black lists issued by competent authorities
- Customers whose identity verification is not possible .
- Customers who do not provide sufficient information about the purpose of the business relation
- Customers who have a negative record in the bank's internal intelligence system for money-laundering, financing of terrorism and financial crimes related thereto (fraud, counterfeiting, organized offenses, etc.)
- Non-face-to-face customers
- Shell banks
- Gambling and arms transactions

7- Suspicious Transaction Monitoring and Reporting

All EDBI's transactions and activities are monitored on the basis of AML and CFT laws and their executive by-laws and suspicious transactions detecting and reporting guidelines; as per the same mentioned rules, suspicious transactions and activities should be reported to Financial Intelligence Unit (FIU) of Iran.

Since these reports are made secretly and are neither determined as an accusation nor known as revealing secrets, so as per the AML/CFT regulations, the reporting persons must be protected from any subsequent threats and perils. This support is guaranteed by the Bank's top management.

EDBI's AML software is able to monitor and control all transactions to detect suspicious ones according to the circular no. 91/161337 dated sep 13th , 2012 under the topic of "Providing and Operating of AML Software". This software acts automatically and shows suspicious transactions on the basis of specified rules and the defined parameters.

8- International transactions

Transparency and traceability are the two main factors in international transactions. EDBI practices all necessary controls on transaction elements e.g. transaction parties, source of fund, banks involved, brief description of goods, shipping companies etc., and EDBI conducts due diligence depending on the type of transactions made by SWIFT system.

None of the involved parties in transactions should be enlisted in internal and international sanctions lists. EDBI uses suitable portals and SWIFT sanction screening system on all SWIFT messages to screen the transactions.

In case of information shortage in received SWIFT messages of MT 202 and MT202COV, and MT205COV, and MT205COV, in addition to rejection of the message, EDBI shall report the case to Iran Financial Intelligent Unit (IRIFIU) as a suspicious transaction report.

9- Training

All EDBI's staff in all management, expert and executive levels must pass training courses proper to their needs, including the following subjects:

- a) AML/CFT Training Course
- b) CDD & EDD Training Course
- c) Suspicious Transactions Detecting Course
- d) Suspicious Transactions Analyzing Course (for AML/CFT and Compliance department staff and whistleblower officers)

10- Electronic Transactions

All EDBI's branches and subsidiaries are required to act according to instruction on "AML/CFT in E-banking and E-payment" issued by the Central Bank of Iran for the electronic transaction suppliant.

11- Cash Transaction Report

All EDBI's branches and subsidiaries are required to report cash transactions over the designated threshold to AML/CFT and Compliance department as per the instruction on "Reporting cash transactions above the designated threshold amount" issued by the Central Bank of Iran. After collecting all of the reports, the AML/CFT and Compliance Department will send them to the FIU of Iran as daily.

12- Document Retention

All documents applicable to the transactions must be retained as per the rules specified in "By-law on the duration and method for maintaining commercial papers, banks' ledgers and documents" imparted in circular No. 90/41478 dated 2011/05/16.

13- Policy Updating and Confirmation

This policy is verified by AML/CFT committee and approved by the board. Updating this policy would be made in necessary cases or periodically; the periodic updates do not exceed two years.

14- Supervision on Policy Implementation

AML/CFT and Compliance Department is responsible to observe the performance of this policy, and this observation is made through adequate online controls and on-site periodic and per case inspections. Furthermore, Internal Audit Department shall evaluate the controlling and observatory processes over this policy through periodic checks. The main findings of these inspections, checks and recommended corrective measures are reported to AML/CFT committee or other related committees in the Bank.

Any non-compliance or negligence observed through these supervision processes, besides the required and descriptive trainings, shall be reported to the “Initial Committee for Staff Infringement Investigations”