

Compliance Policy

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Version 2.0



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Azizi Bank Compliance Policy

1. Background

Compliance has emerged as an essential element of Corporate governance in banks and financial institutions. Banks' Compliance Department has received a high level of attention from regulators across the world. Compliance is an integral feature of a well-managed business, capable of creating value through enhanced reputation, investor confidence and lower cost of capital.

The purpose of the Compliance Department is to assist bank in managing its compliance risk, which can be defined as "the risk of legal or regulatory sanctions, material financial loss, or loss to reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organization standards, and codes of conduct applicable to its banking activities.

Compliance risk is sometimes also referred to as integrity risk, because a bank's reputation is closely connected with its adherence to principles of integrity and fair dealing and embrace broader standards of integrity and ethical conduct.

The Basel Committee on Banking Supervision issued its paper on 'Compliance and the compliance function in banks in April 2005. The Basel Committee paper lays down broad principles for establishment and functioning of an effective compliance department and independence of the compliance department.

The DAB has also provided guidelines with regard to the compliance department inter alia reading as under:

- a. Banks are required to establish a compliance department/section in order to ensure the routine monitoring of compliance with this law, other legislations, corporate governance rules, codes and policies applicable to the bank and to ensure that deviations are reported to the competent authorities.
- b. In case of material deviations, the head of the compliance department department/section referred to in Paragraph (a) above, shall report such material deviations directly to the Board of Supervisors.
- c. The bank's Board of Supervisors is responsible for overseeing the management of the bank's compliance risk. The Board should establish a compliance department and approve the bank's policies and processes for identifying, assessing, monitoring and reporting and advising on compliance risk.
- d. An independent compliance department is a key component of the bank's second line of defense. This department is responsible for, among other things, ensuring

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- that the bank operates with integrity and in compliance with applicable laws, regulations and internal policies.
- e. The bank's board of management is responsible for establishing a compliance policy that contains the basic principles to be approved by the board of supervisors and explains the main processes by which compliance risks are to be identified and managed through all levels of the organization.
 - f. The compliance department should advise the board of supervisors and board of management on the bank's compliance with applicable laws, rules and standards and keep them informed of developments in the area. It should also help educate staff about compliance issues, act as a contact point within the bank for compliance queries from staff members, and provide guidance to staff on the appropriate implementation of applicable laws, rules and standards in the form of policies and procedures and other documents such as compliance manuals, internal codes of conduct and practice guidelines.
 - g. To be effective, the compliance department must have sufficient authority, stature, independence, resources and access to the board of supervisors. Board of management should respect the independent duties of the compliance department and not interfere with their fulfillment.

Accordingly, Bank has adopted a comprehensive approach to manage compliance risk and has developed a compliance framework articulated in this policy document.

The policy provides governing principles for managing the compliance framework, and shall be further supported with relevant procedures and methodologies for identification, assessment, control and monitoring of Compliance risk keeping in view the Bank's business and regulator specific compliance requirements.

The Compliance Policy aims at managing compliance risk and also oversees its implementation besides ensuring that compliance issues are resolved effectively and expeditiously with the assistance of compliance staff.

2. Objectives

The objectives of compliance policy of the bank are:

- i. To introduce, standards and procedures relating to compliance departments, which are in line with international and national best practices.
- ii. To promulgate Compliance Department policies as an integral part of governance, internal control and risk management.

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- iii. To educate all constituents for initiating preventive measures for mitigating compliance risk.
- iv. To manage conflicts of interest (under no circumstance shall the Compliance Staff be assigned an audit/inspection duty as this would give rise to serious conflicts of interest).
- v. To prevent money laundering and terrorist financing.
- vi. To meet the provisions of tax laws.
- vii. To ensure proactive compliance risk management culture comprehensively to cover the entire range of banking activities.
- viii. To prevent a material financial or reputational loss, which Bank might suffer due to a failure to comply with laws, regulations, rules, standards and codes of conduct applicable to banking.
- ix. To frame policies, rules & regulations for the help of Board of Management and Board of Supervisors (BOS) in recognizing the legal and reputational risks which are required to be monitored for mitigating compliance risk.
- x. To introduce a healthy compliance culture so that compliance requirements are effectively carried out.

3. Definitions used in this Policy document (in alphabetical order)

- i. "Business units" shall mean the branches, functional departments- Marketing, Salary, Western Union and ADC of Bank undertaking various banking business activities.
- ii. "Compliance Department" shall mean a key department in the corporate governance framework of Bank, tasked with the identification, assessment, advisement, monitoring and reporting of compliance risk for the Bank, and shall include the key roles and responsibilities described in the Compliance Policy.
- iii. "Chief Compliance Officer" shall mean the head of the Compliance department in Bank.
- iv. "Compliance staff" shall refer to personnel in the Compliance Department, who assist the Chief Compliance Officer in fulfilling his / her responsibilities.
- v. "Compliance policy" shall mean this policy document that contains the basic principles to be followed by management and staff of Bank and explains the main processes by which compliance risks are to be identified and managed through all levels of Bank.

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- vi. "Compliance risk" shall mean the risk of legal or regulatory sanctions, financial loss, damage to reputation or impairment of integrity that arises when a financial institution fails to comply with laws, directives, rules, regulations, prescribed practices, internal policies and procedures, or the standards or codes of conduct of self-regulatory organizations applicable to all of that institution's varied business activities and departments.
- vii. "Compliance risk assessment" shall mean the assessment of the risk of key compliance requirements impacting the Bank's products and processes.
- viii. "Compliance risk assessment framework" shall mean a framework containing among other things
 - a. An organized approach to assessing the risk of all compliance requirements impacting Bank's products and processes.
 - b. Definition of the rating scale for impact and likelihood characteristics, which could be used for arriving at a composite risk for determination of the overall inherent risk rating;
 - c. Parameters for assessment of control environment [as stated below] will help in determining the residual risk.
 - d. A methodology to arrive at a compliance index for every business unit and/or operations unit that is aggregative for the Bank as a whole.
- ix. "Compliance risk monitoring framework" shall mean a framework setting out the various monitoring techniques (to be dependent on the nature and level of compliance risk) for the purposes of ascertaining the level of residual compliance risk at the level of the business units and/or operations units within the Bank.
- x. "Control environment" shall mean overall control design effectiveness in terms of mitigating the significant risks inherent in the regulations pertaining to a business unit and/or operations unit within the Bank for determining the residual risk of each Business unit and/or Operations unit. Parameters such as operational risk health assessment results, frequency and nature of controls, reported audit issues etc. shall be used for the purposes of such evaluation of overall control design effectiveness.
- xi. "Inherent risk" shall mean the status of risk (measured through impact and/or likelihood) without taking into account any risk management activities (controls) that the Bank may already have in place.
- xii. "Operations units" shall mean the entities such as centralized processing center proposed to be established and other operational units of Bank at its Head Office.

4. Applicability of the Compliance Policy

The Policy recognizes the top down approach in implementation of Compliance Department in the Bank. The policy recognizes the Compliance Department as a part of Bank's basic activities and gives utmost importance for meeting the obligation under Compliance department.



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This policy outlines the compliance philosophy of the Bank, compliance structure, roles and responsibilities. It also provides a framework for the functioning of the Compliance Department at Bank level. The contents of this policy are mandatory for Bank and represent minimum standards that shall guide Bank. Exceptions to this policy, unless noted otherwise within this policy, must be approved by the Board of Supervisors (BOS) of Bank.

5. Compliance Philosophy/Guiding Principles

Compliance is most effective in a corporate culture that emphasizes standards of honesty and integrity. It concerns everyone in Bank and shall be viewed as an integral part of the business. Bank shall hold itself to high standards when carrying on business and at all times, strive to observe the spirit as well as the letter of the law. Bank understands that failure to consider the impact of its actions on its shareholders, customers, employees and the other stakeholders may result in significant adverse publicity and reputational damage even in the absence of any direct compliance breach.

Given the complexity of the businesses and geographic reach of Bank, oversight of the compliance activities at Bank level is critical. Compliance risk is inherent in all the businesses across Bank. A bank-wide compliance risk management framework, therefore, shall assist the Bank in addressing and managing compliance risk across Bank as a whole.

To achieve this objective, Bank has defined its compliance philosophy for Bank, using key guiding principles that shall facilitate enhancing the compliance risk management framework.

These key guiding principles are described hereunder:

5.1. Ownership of compliance

Compliance starts at the top. The Board of Supervisors of Bank shall be responsible for overseeing the management of compliance risk and implementation of the Compliance risk management framework across Bank.

The Board of Management of Bank shall be responsible for managing compliance risk and implementing the compliance policy. Where Bank shall outsource certain activities, the compliance requirements with regard to those activities will continue to be the responsibility of Bank. The Board of Management of the Bank shall be responsible for establishing an effective compliance department to assist in managing Compliance risk at Bank. Board of Management shall also be responsible for providing adequate staff and resources to the Compliance Department to enable it to discharge its responsibilities effectively.

Ownership of compliance shall rest with the operations units. Compliance risk management shall involve three lines of defense:

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- a. First line of defense: Business units/operations units shall be primarily responsible for compliance.
- b. Second line of defense: Compliance Department shall advise management and assist with policy development and shall also perform monitoring of compliances.
- c. Third line of defense: Internal Audit shall perform testing and provide feedback to management and Compliance Department.

5.2. Sharing of compliance responsibility

Compliance shall be the responsibility of every individual in the organization. This implies demonstration of a strong commitment to compliance, good corporate citizenship and responsible corporate behavior. To fulfill this responsibility, it shall be required of all personnel to:

- a. Possess a good understanding of the relevant compliance requirements applicable to discharge of their duties;
- b. Ensure adherence to the applicable laws, regulations and standards.

Bank personnel may consult the Compliance Department for assistance with any questions regarding the compliance policy or any aspect of his/her compliance responsibility.

5.3. Compliance culture

Bank shall promote awareness of compliance obligations and ethical values to maintain an appropriate compliance culture throughout its businesses. Bank considers that the Compliance culture is crucial for the Bank since non-compliance may lead to following undesirable consequences.

A few examples of risks which can be faced by bank owing to non-adherence by compliance regulations are stated below;

- a. Penal action by regulators resulting in material financial loss.
- b. Loss of confidence resulting in a permanent reputational damage as regulatory action is in the public domain.
- c. Adverse effect on the Bank's future plans, strategies and operations on account of regulatory and legal sanctions.
- d. Breaches of ethical rules of conduct reflect on the integrity of the institution and can result in loss of current or future customers and/or current/future business.

The compliance culture shall be strengthened through various forms of communication and interactions across the organization e.g. training, discussions on compliance incidents observed within or outside the Bank, open lines of communication for consultation, circulars, e-mails etc.

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Compliance Department shall assess the compliance related training requirements for the business/operations units. Compliance Department shall work with the Training department to develop compliance related content for training programs for various businesses.

Compliance culture and awareness shall be tested through a number of mechanisms such as employee surveys and reviews at Bank level. Compliance culture goals and achievements shall be formally addressed in both business and individual recognition programs.

5.4. Independence

Compliance Department of Bank shall be an independent department that has the ability to objectively assess and express its views on the policies and practices of other departments/businesses in relation to compliance. To enable the independence of the Compliance Department, the Compliance Staff will have an independent reporting line to the Chief Compliance Officer. The Chief Compliance Officer shall be functionally independent with no business or operational responsibilities so that there is no conflict of interest.

Chief Compliance Officer of the Bank shall be appointed with the recommendation of the Board of Supervisors and prior approval of the Da Afghanistan Bank. The Chief Compliance Officer shall ordinarily be appointed for tenure of four years, subject to review thereafter. The premature removal/transfer of the Chief Compliance Officer shall be done only with the approval of the Bank's Board of Supervisors and in conformity with the related internal administrative procedures.

The Bank's Board of Supervisors shall be kept informed of any change in the incumbency of the Chief Compliance Officer as also the reason for the change in the incumbency. The name of Chief Compliance Officer and any change in incumbency shall also be informed to the relevant regulator (DAB) as and when a change occurs.

The Chief Compliance Officer shall be an invitee to the meetings of the Audit Committee. The remuneration of compliance officers and Staff shall not be linked to the financial performance of the business unit/business line for which they exercise compliance responsibilities.

Compliance Department shall freely express and disclose its findings and views to the Board of Management. The Compliance department shall have the right of direct access to the Board of Supervisors.

The scope of the Compliance Department shall be subject to periodic review by the Internal Audit Department and consequently, Compliance Department and the Internal Audit Department shall be separate.

5.5. Monitoring of Compliance risks

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One of the key responsibilities of the Compliance Department is to monitor whether all critical compliance risks are adequately managed and mitigated. The Compliance Department of the Bank shall monitor compliance risks for the Bank, based on suitable monitoring mechanisms inter alia including a review of Internal Audit reports, incidents reported etc. Further, the Compliance Department may also test compliance controls in addition to the tests carried out by the Internal Audit Department depending upon the criticality of the underlying compliance risks.

5.6. Compliance periodic reports to Board of Supervisors & Board of Management

The Chief Compliance Officer shall report on periodic basis, to Board of Supervisors & Board of Management on relevant matters. Report shall be provided on regular basis & as when Board of Supervisors/ Board of Management meetings are held usually on monthly basis.

Chief Compliance Officer shall inform Board of Supervisors of material regulatory breaches identified or reported, along with the plan for mitigation of the breaches

The Chief Compliance Officer should also advise Board of Supervisors and Board of Management on the bank's compliance with applicable laws, rules and standards and keep them informed of developments in the area.

5.7. Communication

Bank is aware that open lines of communication, both upstream and downstream, are important for effectively managing compliance risks. The Compliance Department of Bank shall be responsible for identifying and communicating relevant compliance standards, clarifications and regulatory requirements to relevant business units and policy-making departments at the Head Office of Bank, as also keeping the Board of Supervisors abreast of key changes on a timely basis.

The business units and policy-making departments in turn shall be responsible for translating the regulatory requirements into internal policies and procedures and communicating the same across the Bank.

Compliance Department shall review the policy documents to determine whether the regulatory requirements have been adequately captured in the policy documents. Compliance Department shall also provide inputs and expert advice to the business units on key compliance issues, as and when required.

For effective management of Compliance risk, Bank shall develop and maintain or update their Operating manuals for the applicable compliance requirements. These manuals shall include specific regulatory requirements for various businesses, products and processes,

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with which the personnel of the Bank shall have to comply. These manuals shall be supported with process-wise checklists detailing the compliance responsibilities at the operating level. An incident reporting mechanism shall be implemented to enable upstream communication, timely escalation and management of compliance issues. In this regard:

- a. Chief Compliance Officer of the Bank shall on a regular basis apprise the Board of Supervisors of material regulatory breaches identified or reported, along with the plan for mitigation of the breaches.
- b. Compliance breaches that could have significant legal, regulatory, financial or reputational risk shall be promptly reported by the Chief Compliance Officer to the Management Board in order to facilitate timely initiation of appropriate risk mitigation measures.

5.8. Coordination with other control departments

In order to effectively and efficiently manage compliance risk, Compliance Department shall work in close coordination with the Internal Audit Department. Compliance shall be one of the key areas in the scope of Internal Audit. Compliance risk shall be included in the risk assessment methodology of the Internal Audit Department and an audit program that covers the adequacy and effectiveness of the compliance control environment shall be established, including testing of controls commensurate with the perceived level of risk. The Internal Audit Department shall keep Compliance Department informed of audit findings related to compliance.

Audit findings will serve as a feedback mechanism for the Compliance Department to assess areas of compliance breaches and failures. Compliance Department shall also interact with other Departments, such as Legal, Finance, Human Resources, Credit, Treasury etc., as appropriate/necessary, on compliance related issues.

6. Scope of Compliance Department

In order to roll out an effective compliance framework in Bank, it is important to define the compliance universe that shall determine the purview of Compliance Department. The scope of Compliance Department may be segregated into 'Core' and 'Non-Core' areas. Core areas are those for which Compliance Department would build centers of excellence within the department.

Compliance staff will have domain expertise on the Core areas, whereas for the Non-Core areas, the domain expertise shall reside with other Department(s) within Bank. For example, the Bank's Compliance Department may have a detailed understanding of all business related regulations issued by the DAB. However, areas like accounting standards, tax rules and employee practices may be termed as Non-Core areas, where existing departments within the organization shall have the relevant expertise.

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While Compliance Department shall be responsible for developing domain expertise for Core areas, it will continue to monitor compliance for Non-Core areas as well. Compliance risk monitoring and testing shall include monitoring compliance of both Core and Non-Core areas. While Compliance Department shall be more actively involved in monitoring compliance in the Core areas, for Non-Core areas, Compliance Department shall monitor compliance at a lower frequency and place reliance on declarations, enquiries, meetings and discussions etc. as a means of monitoring compliance.

All regulatory breaches in the Core areas shall be reported to the Compliance Department. Significant regulatory breaches in any of the Non-Core areas shall also be reported to the Compliance Department, which would monitor the remediation efforts of breaches in both Core and Non-Core areas. Significant regulatory breaches would mean any material fines or penalties, seizure of licenses, or any significant reputational impact event leading to public disclosures or adverse media publicity.

In respect of Non-Core areas of compliance, Compliance Department shall be involved in a secondary position to Department primarily responsible for coordination and communication with the regulators on progress made in remediation of breaches.

Compliance Department shall also include specific areas such as prevention of money laundering and terrorist financing and may extend to tax laws that are relevant to the structuring of banking products/services. Compliance Department shall go beyond what is legally binding and shall embrace broader standards of integrity and ethical standards.

The following principles are further embedded in the purview of Compliance Department:

6.1. Core areas of Compliance Department

- a. Statutes that govern the core businesses of the Bank E.g. Banking Law of Afghanistan, Negotiable Instrument Law, Anti-Money Laundering Law of Afghanistan, Afghanistan Counter Financing of Terrorism Law etc.
- b. All regulatory requirements or guidelines laid down by regulatory authorities that relate to the core business activities of the Bank shall be considered as Core areas for the Compliance department e.g. regulations/guidelines issued by the DAB.
- c. Internal policies and procedures to comply with the above requirements with regard to the core business activities of the Bank shall also be included.

6.2. Indicative Non-Core areas of Compliance Department

- a. Statutes those are not specific to the business of the Bank, e.g. Income tax Act
- b. Corporate governance related requirements or regulations.

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C. Internal policies and procedures to comply with the above.

Further, the Chief Compliance Officer, as part of his annual review of the Compliance Policy may identify and make required changes to the indicated Core and Non-Core areas, in keeping with the evolving Compliance risk profile.

7. Organizational structure

The organizational structure for Bank's Compliance Department at Head Office and across the Bank duly reviewed and approved by Bank's Board of Supervisors shall be as under:

- a. Board of Supervisors
- b. Chief Compliance Officer
- c. Compliance department at the Bank
- d. Compliance staff at Business Units

8. Roles and Responsibilities

8.1. Board of Supervisors

The Board of Supervisors retains ultimate responsibility for Bank's compliance with applicable statutes, regulations and ethical standards and thereby have the oversight responsibility for the management of the Bank's compliance risks. The Board of Supervisors shall be primarily responsible for approving the compliance policy and compliance risk management policy and the regulations framed under it for Bank.

The Board of Supervisors shall also maintain oversight of the activities of Compliance Department, implementation of Compliance Policy and review of compliance breaches at Bank.

The Board of Supervisors shall interact with the Chief Compliance Officer periodically to assess the extent to which the Bank is managing its compliance risk effectively.

8.2. Board of Management

The Board of Management shall be ultimately responsible for ensuring compliance with applicable statutes, regulations, internal policies and guidelines and ethical standards. In case of cross-border businesses, Board of Management shall be responsible for ensuring compliance with applicable laws and regulations prevailing in various jurisdictions where the business is undertaken. The Board of Management shall be responsible for implementation

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of the Bank's Compliance Policy and its associated requirements. They shall also be responsible for the adequacy of processes, systems, policies and procedures that would create an appropriate environment for managing compliance risks.

Further, the Board of Management shall review the mitigation plans on various Compliance risks identified, monitor the timely resolution of compliance issues arising out of various internal and external inspections, audits and compliance breaches, and assist in creating a compliance conscious culture.

8.3. Chief Compliance Officer

The Chief Compliance Officer shall be appointed with the recommendation of the Board of Supervisors and approval of the regulator i.e. the DAB. He shall be a Senior Executive.

The Chief Compliance Officer shall report to the Board of Supervisors and shall be responsible for ensuring effective implementation of the Compliance Policy and other compliance initiatives, coordinating the identification and management Compliance Risks and supervising the activities of other Compliance Department staff.

Chief Compliance Officer shall assist Board of Management in managing effectively the compliance risks faced by the Bank and would be responsible for providing clarifications on issues or concerns relating to the Bank's compliance policy, guiding the Compliance staff in performance of risk assessments and reviewing the results of the compliance risk assessments, compliance risk reviews and compliance monitoring and testing programs.

The Chief Compliance Officer shall be responsible for developing and maintaining the Compliance Policy including the approval/reporting of exceptions thereto, maintaining oversight of the activities of Compliance Department and implementation of the compliance policy and compliance risk management framework across the Bank.

Further, the Chief Compliance Officer shall be responsible for maintaining a relationship with the regulators supervising the Bank and act as the key interface between the Board of Management and the regulators.

The Chief Compliance Officer shall participate in the discussion between Bank and the DAB if any as per requirement. He shall also monitor industry-wide developments and provide guidance on strategic and policy matters, as required.

8.4. Compliance Department

Compliance Department shall work with the business units, Internal Audit, and Legal Department to ensure that compliance activities are aligned with business objectives. It would provide an independent and objective perspective on emerging compliance issues.

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The Compliance staff will have a reporting relationship to the Chief Compliance Officer and would be responsible for implementing the compliance framework across the Bank.

The responsibilities of Compliance Department shall be to vet/disseminate regulatory guidelines/instructions to business units, provide guidance in the implementation of the compliance policy and compliance framework to Compliance staff and respond to compliance-related requests/queries of employees and identify, assess and document the compliance risks with regard to the business activities and products of the Bank.

Further, Compliance Department shall be responsible for identifying emerging areas of compliance risk, assessing the control environment and developing a compliance risk monitoring and testing program.

Compliance Department shall also be responsible for developing and maintaining the compliance calendar for all regulatory reporting, disseminating same to the relevant business units, monitoring the implementation of the findings from compliance risk reviews or regulatory inspections, providing guidance to the business units on corrective action to be taken for identified compliance breaches/incidents, and tracking compliance breaches/incidents and their appropriate resolution.

Compliance Department shall identify compliance failures in bank using the internal audit and concurrent audit as a feedback mechanism. Synopsis of all audit reports will be marked to Chief Compliance Officer and similarly, all reviews by Compliance Department will be marked to Internal Audit Department. It will go through the synopsis of all audit/inspection reports and rectification reports regularly to enable it to identify compliance failures in the bank.

Compliance Department shall monitor and test compliance by performing sufficient and representative compliance testing and report the results thereof to the board of management.

8.5. All employees

As set out in the guiding principles of Compliance philosophy, compliance is the responsibility of every individual in the Bank. It is the responsibility of every employee to adhere to the requirements of the Compliance Policy, report compliance findings or non-compliances to the Compliance staff and share information with Chief Compliance Officer that may be required to carry out their responsibilities. The staff shall attend training programs organized on compliance matters and keep abreast of statutory and regulatory compliance requirements related to their respective areas of operation.

9. Compliance Risk Management Framework

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The Compliance Risk Management Framework comprises the following two components:

9.1. Compliance risk inventory and assessment

Compliance risk inventory and assessment is the identification of key business compliance requirements and determination of associated potential compliance requirements and risks using quantitative and qualitative tools. It involves the use of a risk rating methodology and inputs from the business units to identify and assess compliance risk, which in turn aids in the development of a compliance monitoring program and determination of resources required to monitor compliance. A compliance program shall thus be an outcome of the above compliance risk assessment, which shall identify critical Compliance risks and the level of monitoring and testing to which they shall be subjected. Further, this compliance program shall be risk-based and shall appropriately cover the various businesses of the Bank.

The key steps for undertaking compliance risk inventory and assessment include:

- a. Understanding business/operating processes/products pertaining to a business unit;
- b. Identifying regulations applicable to a business unit;
- c. Undertaking a risk assessment to assess the inherent compliance risk in a business, assess the design and operating effectiveness of existing control environment to manage the compliance risk; and
- d. Providing periodic updates on new regulations, amendments, changes in business requirements and operating and control environment.

9.2. Compliance risk monitoring and testing

Compliance risk assessment shall drive the identification of appropriate monitoring and testing tools. Depending on the severity of the compliance risk determined through the Compliance risk assessment process, the Chief Compliance Officer shall identify and employ appropriate monitoring and testing tools such as MIS reports, training, questionnaires, Key Risk Indicators (KRI), Compliance and/or Internal Audit testing etc. which shall help in the timely detection and mitigation of compliance risk.

The results of the monitoring and testing program of the Bank shall be presented to the Board of supervisors on a periodic basis.

10. Incident Management

10.1. Compliance breaches

Compliance breaches are incidents that may lead to legal or regulatory sanctions, financial loss or damage to reputation or impairment of integrity as a result of a failure to comply
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with applicable laws, regulations and standards. An illustrative list of incidents is mentioned below:

- a. Crime or fraud
- b. Regulatory sanctions
- c. Incidents resulting in reputational damage
- d. Breach of applicable laws, regulations and standards including relevant internal regulations.

10.2. Analysis of breaches

The identified compliance breaches shall be analyzed and resolved in an appropriate manner.

During the analysis, it shall be determined how the compliance risk was perceived for the area under question during risk assessments or risk reviews and whether any key risk indicators could be developed for the same. The objective of the analysis shall be to identify areas of weakness in the control environment and take necessary action to mitigate and correct the deficiency. Systemic measures shall be taken to prevent recurrence of such incidents in the future.

10.3. Reporting

All compliance breaches in core areas of compliance, irrespective of the magnitude of the impact shall be reported to the Chief Compliance Officer. Significant regulatory breaches in Non-Core areas of compliance shall also be reported to the Chief Compliance Officer.

Compliance Department shall promulgate a process for the reporting of compliance breaches. The Chief Compliance Officer shall on periodic basis present the breaches reported along with the mitigation plan, to the Board of Supervisors.

Compliance breaches that could have significant legal, regulatory, financial or reputational risk shall be promptly reported by the Chief Compliance Officer to the Board of Supervisors.

11. Record-keeping

Bank's record retention policy (in conformity with the record retention policy of DAB) shall be adhered to by the Bank for managing records relating to compliance. In case of compliance breaches, all documentation shall be maintained on record until the issues have been fully resolved, or for such longer period as required by regulations, whichever, is later.

12. Training and Education

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Chief Compliance Officer shall identify the compliance-related training needs on the basis of internal audit reports, regulatory and inspection reports, and compliance incident reports etc. He shall provide inputs on the development of suitable training programs and the training calendar to the Training department, and monitor the execution of the training programs. The compliance training program shall inter alia include the following:

- a. Staff members' role in the compliance framework;
- b. Laws and regulations, procedures and guidelines relevant to the Bank's business;
- c. Key compliance risks that could affect the Bank's business;
- d. Reporting of compliance issues and seeking advice on compliance issues from the Compliance staff;
- e. Consequences of not managing compliance risks in an appropriate manner.

In order to keep the compliance staff up-to-date with developments in the areas of banking laws, rules and standards, regular and systematic education and training will be given to them. They will be adequately trained in new products and services introduced in the banking industry as well as in the areas of corporate governance, risk management, supervisory practices etc.

13. Review of New Products and Processes

The purpose of the product/process review is to expedite timely introduction of new products/ processes and to facilitate modifications in existing products offered/ processes followed by the Bank, and at the same time, to ensure that all relevant risks pertaining to the product/process are adequately managed. The Bank shall have a formal governance framework that covers the approval process for:

- a. New products and processes and
- b. Product/process modifications.

The Product Review Process ensures that new products and processes are introduced in a controlled and timely manner. A new product/process shall not be implemented unless it has reviewed by Compliance and Risk Management Departments & approval has been obtained from the CEO/ Dy. CEO.

Compliance Department shall ensure to incorporate following Compliance Certificate in every note placed to the Board of Supervisors for seeking its approval for launching a new product, introducing any new Process /activity, etc.

COMPLIANCE CERTIFICATE

"We have examined the related statutory/regulatory/internal guidelines and also the provisions contained in the various agreements, wherever applicable; and certify that the

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proposed product/process/activity is strictly in accordance with the various guidelines stated above."

13.1. Scope of New Product / Process Review

The following shall be considered as new products/processes:

- i. The product is not currently offered by the business line;
- ii. There is a transfer of responsibility from one business unit to another business unit in Handling/ processing of the product;
- iii. There are material changes in structure and processes in existing products that require the re-engineering of the business processes;
- iv. The product is to be processed through a new system/application.

13.2. Role of the business units in Product Review Process

The concerned business unit shall:

- i. Prepare the product/process note incorporating, inter alia, all relevant aspects with regard to compliance risk for approval in the product review process;
- ii. Proactively engage with the Compliance department to discuss and address all compliance related requirements before the product launch; and
- iii. Implement corrective actions suggested during the product review process before rolling out the product/process.

13.3. Role of the Compliance Department in Product Review Process

Compliance Department shall:

- i. Assess the compliance risks in new products and business processes proposed to be introduced and approve new products/processes or changes in existing products/processes from the compliance perspective; and
- ii. Advise Business Units on changes in regulatory requirements, provide clarifications on regulations, and suggest control enhancements, wherever necessary.

All new products/processes shall be subjected to continuous monitoring by Compliance Department for a period of six months from the date of introduction to verify whether the parameters of compliance risks identified in the new product approval process are being implemented.

14. Right to access information and personnel, and right to report to Board of Management and Board of Supervisors

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In exceptional circumstances, the Chief Compliance Officer and any of the Compliance staff duly authorized by the Chief Compliance Officer shall have the right to suo-motu communicate with any staff member and obtain access to any record/file necessary to enable the Compliance Department to carry out its responsibilities.

Chief Compliance Officer shall have the right to conduct investigations of possible breaches of the Compliance policy and to request assistance from specialists within Bank e.g. Legal or Internal Audit or to engage outside specialists, as appropriate, to perform this task.

Chief Compliance Officer shall have the right to access Inspection and Audit Reports, Concurrent Audit Reports, DAB Inspection Reports etc. in order to discharge his responsibilities in examining/ investigating possible breaches of the Compliance policy.

In exceptional circumstances, Chief Compliance Officer shall have the authority to directly report irregularities or breaches of Compliance policy to the Board of Supervisors.

15. Compliance Undertaking

Compliance Undertaking is a mandatory declaration for all the employees of Azizi Bank. The electronic form of Compliance Undertaking is available on the bank's website. All employees are individually required to submit the Compliance Undertaking annually by logging into the bank's website.

Employees shall mandatorily undertake adherence to applicable laws, rules & regulations issued by government as well as undertake adherence to the internal policies, procedures, circulars, instructions etc. including this policy & Bank Code of Conduct & Ethics.

16. Review of the Compliance Policy

The Compliance Policy will be updated from time to time by the Chief Compliance Officer in the light of amendments to laws, rules and regulations, as applicable, and an annual review shall be submitted to the Board of Supervisors of the Bank for approval.



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Approved by the Board of Supervisors in their meeting

Dated 28.12.2020 (As recorded in the minutes of the meeting)

(Mr. Sundaram Prabhu)

Chairman of the BOS
