COMPLIANCE POLICY

Division: Chennai

Classification:Restricted-External

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1.0 Introduction

Compliance, adherence to the laws of the countries, in which we do business, to our own internal regulations and above all, to our business conduct guidelines, is a key element of integrity and an inseparable part of our business activities. Adherence to the law and internal regulations is the foundation of business activities of Bank of Ceylon.

The responsibility of present-day banks does not end with its performance to the satisfaction of all written and applicable laws. It goes beyond the practices evolved in the market and the standards set by the pioneers. In spite of ever-increasing complexities, sophistication and the area of the banking operations, banks should not overlook the fact that all of their activities should comply with the relevant laws/ regulatory requirements/ internal controls etc. In this aspect, the Bank of Ceylon (BOC) Chennai branch is committed to follow all such applicable laws, regulatory requirements, internal controls and the international best practice in the areas of ethics, accountability and transparency in the banking operations.

This policy is intended to present as to how the BOC Chennai branch has treated the compliance and addresses the issues the bank has to face in its endeavor in managing the compliance risk and ethical issues.

2.0 Compliance

Compliance can be defined as the adherence to laws, regulations, rules, related self-regulatory organization standards and codes of conduct in matters concerning observing proper standards of market conduct, managing conflicts of interest and specifically dealing with matters such as prevention of money laundering and terrorist financing, and investigations of alleged corrupt and fraudulent behavior.

Compliance is an integral part of the activities of an organization and thereby becomes a part of the culture of the organization.

3.0 The Compliance Policy and Principles

3.1 Compliance Policy

It is the policy of BOC Chennai Branch to observe high standards of integrity and fair dealing in the conduct of its business, act with due skill, care and diligence and comply with both the letter and spirit of all relevant laws, codes, rules, regulations and standards of good market practice in each jurisdiction around the world where we conduct business.

Commercial pressures to reduce costs and increase revenue will not be permitted to compromise our reputation.

BOC Chennai branch will co-operate with the international community in Anti Money Laundering (AML) and Suppression of Terrorism and Terrorist Financing by adopting the

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recommendation and suggestions of the world recognized organizations such as Financial Action Task Force (FATF) and Basel Committee on Banking Supervision etc. with the guidance of the regulator, Reserve Bank of India (RBI).

3.2 Compliance principles

Compliance Policy of the Bank is based on the following principles.

3.2.1 Acceptance of this policy document and its adherence

Integrity and reputation of Bank of Ceylon give the most important ground for an efficient Compliance control. In order to preserve the integrity and the reputation of the bank for professional and ethical conduct, the management of BOC, all its employees, are responsible for acceptance of this Policy and adherence thereto.

The Management is the bearer of Compliance and holds ultimate responsibility for the effective implementation of and adherence to this Compliance Policy supported and advised by the DGM Compliance at Head Office who is the CCO (Global).

3.2.2 Understanding of applicable laws, regulations and standards and their application

All the parties referred to in 3.2.1 are also responsible for good understanding of and strict compliance with the applicable laws, regulations and standards in whatever market and or jurisdiction the operations are being performed.

3.2.3 Business with Ethics

The Management shall take all appropriate measures to ensure that employees conduct their business activities in an ethical manner, consistent with fiduciary and legal/regulatory obligations and with BOC's basic business principles and Code of Conduct.

3.2.4 Effectiveness and Integrity of the Compliance Process

The Chief Compliance Officer (CCO Chennai) at Chennai shall ensure that the Compliance Policy is implemented, adhered to as a continuous mode of performing banking activities. Further the, Chief Compliance Officer of Chennai Branch shall act as the coordinator between the Bank, RBI and DGM Compliance (Global CCO) at Head Office.

4.0 Compliance at Bank of Ceylon

The objective of the Compliance Department in Chennai Branch is to protect the branch reputation and facilitate its business activities by providing advice on, and reasonable assurance of, compliance with applicable laws, regulations, rules and corporate policies, and high ethical standards. Compliance achieves these objectives by providing the bank with advice, education and monitoring services.

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4.1 Objectives of the Compliance Function

4.1.1 Identify and evaluate the compliance risks within the branch.
4.1.2 Organize, coordinate and structure compliance-related controls
4.1.3 Control and monitor all measures taken to mitigate the compliance risks
4.1.4 Report accordingly to top management and the Board of Directors, as appropriate
4.1.5 Act as an adviser in compliance matters within the organization

4.2 Compliance Risk

Compliance Risk is the risk of legal or regulatory sanctions, material financial loss, or loss to reputation, a branch may suffer as a result of its failure to comply with compliance laws, rules, regulations, related self-regulatory organization standards and code of conduct applicable to the banking activities.

Compliance risk is also referred to as integrity risk, since the integrity risk is the key focus of Compliance, and also as reputation risk, since compliance risk leads to reputation risk. Compliance risk is therefore a broader concept.

It shall be noted that reputation damage is only one of the possible effects of compliance risk, other than the sanctions and financial loss. Reputation damage or risk is a secondary effect or consequence of compliance risk. However, Reputation damage would be much costlier than financial loss of existing and future business of existing clients.

4.3 Internal Compliance Function

There is a requirement for the branch, which has been set out by the regulator to establish and maintain a permanent and effective internal compliance function which operates independently and which has the following responsibilities:

4.3.1 Identify, assess, and monitor the compliance risks, faced by BOC Chennai branch and on a regular basis to assess the adequacy and effectiveness of the measures and procedures put in place and the actions taken to address any deficiencies in the bank's compliance with its obligations.

4.3.2 Assist, support and advice the Management in fulfilling its compliance responsibilities.

4.3.3 Advise any employee with respect to their personal compliance obligations.

4.3.4 To help BOC Chennai branch to carry out business successfully in conformity with external and internal standards and regulations.

4.3.5 In a situation requiring a compliance input, the task of Compliance Department in Chennai Branch is not only limited to analyzing the situation, identifying a solution and giving the advice to management. The

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Compliance Department in Chennai Branch must also continue to pursue the matter until a satisfactory solution is fully implemented. If necessary, the actions taken should include drawing the attention of higher management on the issue for a better solution.

4.4 Scope of Compliance Function

The scope of compliance function in BOC Chennai branch includes identification, assessment, advising to the management, monitoring, reporting the monitoring results and management of compliance risk, mainly the risk of legal/ regulatory sanctions/ financial loss and reputation risk.

Statutory, Regulatory and Internal guidelines and codes shall be comprehensively governing the banking business. Therefore, these guidelines and codes which are named below shall be the scope of operation of the Compliance function.

Indian Rules and Regulations

Statutory Guidelines:

Banking Regulation Act 1949

Reserve Bank of India Act 1934

Foreign Exchange Management Act 2000

Prevention of Money Laundering Act 2002

Negotiable Instrument Act 1881

Right to Information Act 2005

Companies Act 2013

Any other acts of the Government of India in relation to Banking business.

Any guidelines/ instructions issued from time to time by the Government of India.

Regulatory Guidelines

Circulars, guidelines and directives issued by the RBI from time to time on banking operations.

Internal Guidelines

Circulars issued from time to time by the Bank.

Code of Conduct applicable to the members of staff.

Sri Lankan Rules and Regulations

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Statutory guidelines

Bank of Ceylon Ordinance
Banking Act no 30 of 1988
Convention on the Suppression of Terrorist Financing Act No. 25 of 2005
Prevention of Money Laundering Act No. 5 of 2006
Financial Transaction Reporting Act No. 6 of 2006
Other banking business related Acts issued by the Government of Sri Lanka
Guidelines or instructions issued by the Government of Sri Lanka

Regulatory Guidelines

Customer Charter issued to licensed Commercial Banks by the Regulator.

Circulars, guidelines and directives issued by the RBI from time to time on banking operations.

5.0 Organizational Position and Operation of Compliance Department of Chennai Branch

Independence

As per the directive of RBI, the Compliance Department of Chennai Branch shall be sufficiently independent of the business activities of the Bank. Hence, the department shall not have any functional relationship with any of the business units of the branch.

Reporting Line

The Compliance Department of Chennai Branch shall functionally come under the DGM Compliance (Global CCO).

Relationship with Internal Audit

In order to ensure that the activities of the compliance function are subject to independent review, the compliance function and the audit function of the bank should be kept separate. Where feasible, Compliance may consider delegating certain tasks to internal audit, or coordinating certain compliance matters. The work and performance of the Compliance function is subject to periodic review by internal audit. However, the compliance function shall be subject to Internal Audit.

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5.1 Corporate Governance and Compliance

Banks are special, and so is the corporate governance of banks and other financial institutions. Empirical evidence, mostly gathered after the financial crisis, confirms this. The special governance of banks and other financial institutions is firmly embedded in bank supervisory law and regulation.

- **Board appointed Committees**

  In recognition of the various aspects of the Bank's compliance risk, the Board appointed Committees will approve and annually review this policy. It will ensure that an appropriate Compliance Policy is always in place to manage compliance risk and also oversee its implementation. It will also ensure that compliance issues are resolved effectively and expeditiously by Senior Management with the assistance of compliance staff.

5.1.1 Supervision by the Board of Directors:

The Board shall be responsible for ensuring that an appropriate Compliance Policy is in place in the branch to mitigate the compliance risk of the Bank.

The Board being responsible for driving the Compliance Policy into operation, shall oversee its implementation for management of compliance risk. Compliance with law and regulation must be managed as an integral part of the BOC Chennai branch business strategy. The Board of Directors and the Management must recognize the scope and implications of laws and regulations that apply to the Bank.

The Board and Senior Management periodically should review the effectiveness of the compliance management system. This review should include reports which identify any weaknesses or required modifications due to changes in laws, regulations or policy statements. Prompt capable management response to those weaknesses and required changes is the final measure of the compliance system's effectiveness. The Board should review the compliance function on a quarterly basis.

5.2 Duties of the Management toward Compliance Risk Management

In order to manage the compliance risk, the Management shall:

5.2.1 Promote and enforce high standards of integrity by setting a good example

5.2.2 Ensure that the Compliance Policy is implemented and adhered to and that compliance is implemented as a continuous mode of performing bank activities.

5.2.3 Ensure that employees are aware of, understand and adhere to Compliance standards relevant to them, and are trained periodically on usage of these standards.

5.2.4 React promptly and effectively to compliance issues that arise.

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5.2.5 Encourage and facilitate active cooperation and feedback from all employees, without reprisal, down to most local levels, by creating open lines of communication, both to report compliance concerns and to ask questions about compliance issues.

5.2.6 Create an open and receptive attitude towards compliance.

5.2.7 Not merely to evaluate employees on production measures, but also reward their ability to proactively manage compliance risk.

5.2.8 Provide compliance staff with sufficient resources and access they need to detect compliance risk and ensure that all employees respect the work they do.

5.2.9 Involve/ contact CCO Chennai Branch always when necessary or as soon as possible whenever a potential compliance issue is detected or suspected.

5.2.10 Make enough on-going inspection or audit capacity (in-or outside Compliance) available to inspect or audit compliance risk.

5.2.11 Actively follow-up recommendations from CCO Chennai Branch, so as to ensure that all issues are promptly and effectively resolved.

5.2.12 Include in employee's job description that each employee is responsible to compliance his/her area of responsibility with internal policies, procedures, working instructions or manuals approved by BOC.

5.3 Disclosures

Following disclosures must be made in the Annual Report

5.3.1 Annual Audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements.

5.3.2 A report by the Board and BOC Chennai branch internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting

5.3.3 The external Auditors report on the effectiveness of the internal control mechanism referred above in respect of any statements prepared

5.4 Compliance Advisory Bodies

The following are the officials, who perform the functions of advisory in nature to the Compliance Officer.

Local Advisory Board

Panel of Lawyers

Panel of Valuers

Independent Recovery Organisations, if any.

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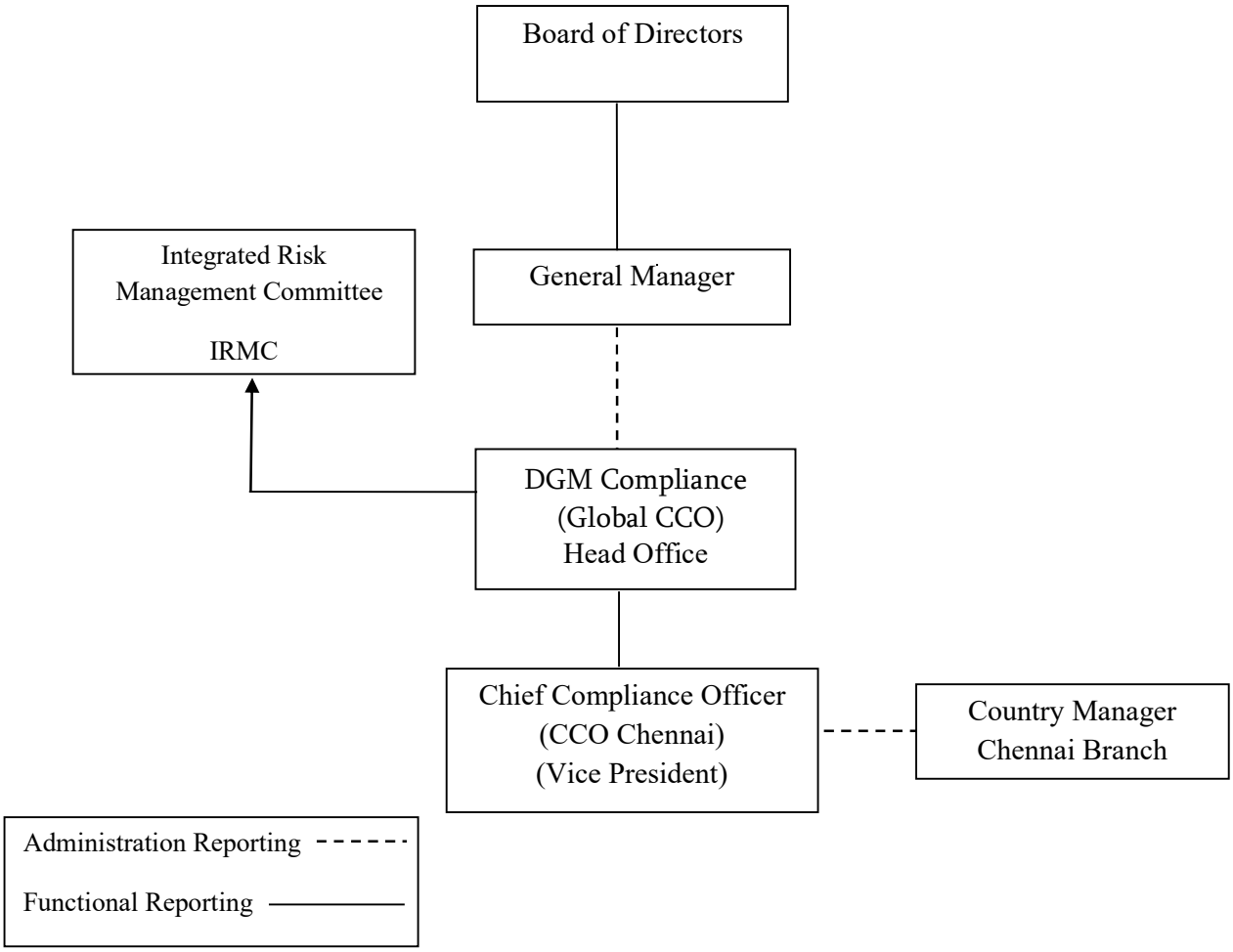
5.5 Organizational Structure

ORGANISATIONAL / REPORTING STRUCTURE OF COMPLIANCE FUNCTIONARIES PROBLEMS



6.0 Compliance Department and Compliance Officer

6.1 Compliance Department

The Head of the Department shall be called as 'Compliance Officer' of the Bank. The Compliance Department comprises of compliance unit and the AML unit. It shall be sufficiently resourced to maintain its independence and the expected level of performance. All activities of the Department inclusive of the compliance functions shall be subject to periodical and independent review of the Internal Audit Department.

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6.2 Chief Compliance Officer (CCO)

The expression "Chief Compliance Officer" means the person having overall responsibility of discharging the banking operations as per the stipulated rules regulations norms directives procedures and instructions. Bank of Ceylon Chennai branch Chief Compliance Officer (CCO) will act as Compliance Officer for Chennai Branch and is primarily responsible for overseeing and managing compliance issues, to coordinate with the Financial Intelligence Unit of India, and any other law enforcing Authority in investigations accordingly.

An appropriate qualified person fulfilling 'Fit & Proper' criteria set by RBI shall be appointed as the Chief Compliance Officer. The CCO Chennai will be appointed with the approval of the Board of Directors and a prior intimation to the Department of Supervision, Reserve Bank of India, Central Office, Mumbai, shall be provided before appointment, premature transfer/removal of CCO Chennai. Such information should be supported by a detailed profile of the candidate along with the fit and proper certification by the CEO of the Bank, confirming that the person meets the above supervisory requirements, and detailed rationale for changes, if any;

The CCO Chennai will be appointed with overall responsibility for coordinating the identification and management of the Bank's Compliance Risk and Supervising the activities of Compliance Department & Compliance Function of the Bank.

The CCO Chennai shall be appointed for a fixed tenure of not less than three years. The CCO Chennai may be transferred / removed before completion of the tenure only in exceptional circumstances with the explicit prior approval of the Board after following a well-defined and transparent internal administrative procedure; The Reserve Bank of India shall also be kept informed of the name of the Chief Compliance Officer as also any change thereof, as and when it takes place.

The CCO shall be the nodal point of contact between the Bank and the Regulator (RBI). However, activities of the Bank are not limited to the banking sector and the directions are also received from all concern regulators. These directions can constitute part of Compliance Functions of the Bank.

The CCO Chennai shall act as a contact point between the Bank and Reserve Bank of India (RBI). The CCO Chennai represents the compliance function on relevant internal and external committees. Especially participate in Corporate Management Committees. Contributes and attends meetings of industry bodies of which the Bank is a member. Manages compliance risk group-wide.

The area of purview shall broadly cover the following activities.

6.2.1 Develop policies and procedures designed to eliminate minimize the risk of breach of regulatory requirements and of damages to the bank's reputation and to ensure these arrangements are adhered to both letter and spirit.

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6.2.2 Promote throughout the business the belief that compliance is not a negative process but a positive contribution to the success of the BOC Chennai branch, so that the principles and importance of compliance are clearly understood by all.

6.2.3 Secure early involvement in the design and structuring of new products and systems, to ensure that they conform to local regulatory requirements and internal compliance and ethical standards.

6.2.4 Maintain regular contact and good working relationship with regulators based upon clear and timely communication and a mutual understanding of the regulators' objectives.

6.2.5 Ensure that reviews are undertaken at appropriate frequencies to assess compliance with regulatory rules and internal compliance standards.

6.2.6 Promote, across the compliance network, best practices developed in the area of compliance.

6.2.7 Understand and apply all new legal and regulatory developments relevant to the business of the Bank.

6.2.8 Ensure that compliance policies and procedures are clearly communicated to management and members of staff.

6.2.9 Provide timely reports to management, including senior management, which will highlight regulatory developments, changes in the law, and other developments in so far as they give rise to compliance issues relevant to the BOC Chennai Branch business.

6.2.10 Highlight serious or persistent compliance problems and where appropriate, work with management to ensure that they are rectified within an acceptable time.

6.2.11 To examine sustenance of compliance as an integral part of compliance testing and annual compliance assessment exercise.

6.2.12 Liaise with the Bank's Audit function to ensure that:

(a) Auditors are familiar with local regulatory and ethical requirements, so that they are able to ensure that compliance issues are properly addressed.

(b) Compliance weaknesses identified as a result of audits are followed up.

Creates a programme of activities to educate and encourage both Managers and staff to operate in compliance with relevant laws and regulations. This should include providing training on key compliance and regulatory matters. Also, arrange to enhance knowledge level of Compliance staff to strengthen their capabilities for better functioning of compliance program throughout the bank.

6.2.13 In addition to the above, the CCO Chennai shall also be responsible for

(a) Ensure that the compliance policy of the Bank is framed and approved by the Board of Directors. The policy shall be reviewed annually.

(b) Assist the Board and the Senior Management in overseeing the implementation of Compliance Policy including Policies and Procedures, prescriptions in Compliance Manuals, Internal Codes of Conduct etc.

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(c) Play the Central Role in identifying the level of compliance risk in Bank. The Compliance Risk in existing or new products and process shall be analyzed and appropriate risk mitigate put in place. The Chief Compliance Officer shall be a member of the 'New Product Committee/s in planning department. All new products shall be subject to intensive monitoring at least for the first six months of introduction to ensure that the indicative parameters of Compliance Risk are adequately monitored. Compliance Function shall monitor and test Compliance by performing sufficient and representative Compliance testing and the result of such Compliance testing shall be reported to the Senior Management / CEO.

(d) Ensure compliance of regulatory /supervisory directions given by RBI in both letters & spirit in a time bound sustainable manner. RBI will continue to expect an effective Compliance Program where all Risk Mitigation Plan (RMP) / Monitorabel Action Plan (MAP) points are complied with within the timelines prescribed.

(e) Attend to compliance with directions from other regulators in cases where the activities of the entity are not limited to the regulation / supervision of RBI.

(f) The Compliance department may also serve a reference point for the staff from the operational departments for seeking clarifications / interpretation of various regulatory and statutory guidelines.

(g) Compliance to RBI inspection reports shall be communicated to RBI necessarily through the office of CCO Chennai.

(h) Heads of Departments shall be responsible for compliance of task allotted to them. Adherence to applicable statutory provisions and regulations is the responsibility of each staff members. However, CCO Chennai shall ensure overall oversight.

(i) Also ensure submission of the prescribed quarterly Compliance Certificate by all the Departments and also make sure that the Departments rectify the irregularities pointed out in those Compliance Certificates.

(j) The focus of the compliance function shall be on compliance of various regulatory / statutory functions, government policies, standards and codes prescribed by self- regulatory organizations, Bank's internal policies and prevention of money laundering and funding of illegal activities.

(k) As Compliance starts at the top, the most effective Corporate Culture is one that emphasizes Standards of Honesty and Integrity, wherein the Board of Directors and Senior Management lead by setting an example.

6.3 Statutory Responsibilities and Liaison

1. The Chief Compliance Officer serves as the Principal Officer (PO) of BOC Chennai for Anti Money Laundering Reporting and ensures liaison with relevant external bodies.
2. Assigned the duties of compliance officer for the Exchange Control Act and directions, guidelines, operating instructions and rules issued there under for Bank of Ceylon.

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6.4 Compliance Staff

The Compliance staff exercising compliance responsibilities should have necessary qualifications, experience and professional and personal qualities to carry out their duties effectively.

Appropriate professional qualities would include:

i. A sound understanding of the applicable laws, rules and standards and their practical impact on the bank's operations.

ii. Possession of upto date knowledge on developments in the applicable laws, rules, and standards maintained through regular and systematic Education and Training.

6.5 Functions of Compliance Department

The sole responsibility of the Compliance Department is to ensure that the Compliance management process in the bank is effectively implemented. The Compliance Department shall undertake the following duties and responsibilities with all sincerity and integrity for achieving the objectives of the compliance function.

Compliance Department shall download the regulatory /statutory notifications/ circulars/ guidelines applicable to the Bank from the websites of the following institutions/ organizations on daily basis and disseminate to the concerned department for implementation:

1. Reserve Bank of India (RBI)

2. Ministry of Finance, GOI

3. Indian Banks' Association (IBA)

4. Financial Intelligence Unit (FIU)

5. Deposit Insurance and Credit Guarantee Corporation (DICGC)

6. Clearing Corporation of India Ltd. (CCIL)

7. Foreign Exchange Dealer's Association of India (FEDAI)

8. Financial Benchmarks India Private Limited (FBIL)

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The concerned Department(s) shall ensure implementation of guidelines disseminated by the Compliance Department and submit the status of implementation of guidelines to Compliance Department within 15 days of receipt of the said guidelines:

Reference & Subject	Brief of the Guideline	Steps taken / to be taken by the Department to ensure implementation in Bank with tentative timelines

The Department shall periodically report to the DGM Compliance (Global CCO)

1. **Monthly Reporting**

The CCO Chennai shall report to the Global CCO for the compliance activities, identified risks, if any, special investigations in accordance with internal procedures, if conducted, and professional development of compliance staff taken place in the preceding month.

2. **Quarterly Reporting**

The CCO Chennai shall report to the Global CCO for the compliance activities, identified risks, if any, special investigations in accordance with internal procedures, if conducted, and professional development of compliance staff taken place in the preceding month.

3. **Annual Reporting**

The compliance risk will be assessed annually and it shall be reported with the Annual Plan of the Compliance Department to the Board of Directors of the Bank. The Compliance Department:

i. Will identify the business functions of the bank that fall under each statutory and regulatory guideline.
ii. Will assess the level of compliance risk in each business line, product and process into High, Medium and Low Risk and accordingly formulate proposals for mitigation of the risk.
iii. Will ensure prompt dissemination of statutory and regulatory guidelines and instructions for compliance to Branches and other business/ service units of the bank and closely monitor the compliance of the guidelines.
iv. Will periodically circulate the instances of compliance failures to Branches and other business/ service units of the bank along with preventive instructions.

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v. Will examine all new products and services from compliance angle and appropriate compliance risk measures will be put in place before launching.

vi. Will prepare an Annual Report on compliance failures/breaches and place before the Board.

vii. Will conduct compliance testing regularly and submit the results to the Global CCO.

viii. The Inspection/audit findings related to compliance should be scrutinized and appropriate corrective measures are to be taken in case of any compliance breaches/failures.

6.6 Building the relationship with the regulator

Building the relationship with the regulator is a key role for compliance staff. The Bank must deal with the regulator in an open and co-operative way and must appropriately disclose to the regulator anything of which it would reasonably expect notice. The compliance function can seek opinion on issues that arise and discuss resolution.

7.0 Compliance Program and its implementation

7.1 The Compliance Program

Compliance Program is a set of planned activities to carry out the responsibilities of Compliance Function. It will provide a solid foundation for compliance and shall be under the supervision of the head of the Compliance for effective implementation.

The compliance program shall contain the following major functions.

7.1.1 Compliance in accordance with laws and other regulatory standards
7.1.2 Compliance Plan
7.1.3 Compliance Risk identification.
7.1.4 Compliance, assessment and reporting
7.1.5 Compliance Risk mitigation through standards, procedures and guidelines
7.1.6 Compliance risk monitoring- Risk Based Approach
7.1.7 Compliance Testing
7.1.8 Compliance Certification
7.1.9 Sanction Compliance
7.1.10 Incidents management
7.1.11 Training and Education
7.1.12 Action Tracking - management of corrective and preventive actions, tasks and non-conformances to meet regulatory compliance requirements.
7.1.13 Reporting and advising
7.1.14 Implementation of Compliance Policy and minimum standard
7.1.15 Product approval process (New product initiatives, integrating compliance into the process)
Compliance Department generally have primary role to translate or ensure translation of these external rules into clear and workable internal rules.

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7.2 Compliance Risk Analysis

Compliance risk assessment process reveals how well the BOC Chennai branch manages compliance with regulators rules and guidelines. The review and analysis starts with a top-down comprehensive evaluation of the compliance management system, used by the BOC Chennai branch to identify monitor and manage its compliance responsibilities and risks.

The Compliance Department is required to perform yearly compliance risks identification and assessment, which shall aim to:

7.2.1 Identify and prioritize potential areas of compliance risk, such as reputation risk, legal or regulatory sanctions, or financial loss

7.2.2 Review, identify, and prioritize potential areas of compliance risks, and advise appropriate solutions

The Compliance Department shall carry out an assessment annually on the compliance risk in order to identify the cause for the major compliance risks faced during the preceding year and to prepare a plan to manage the risks in future. Comprehensive report in this regard shall be submitted to Global CCO.

The Compliance Department shall report to the Global CCO promptly the instances of material compliance risk.

The Compliance Department shall submit a report to the Global CCO quarterly on the compliance functions performed during the preceding quarter such as compliance tests and the observations etc., new developments in the field of compliance, compliance risk faced and the remedial action taken during the preceding quarter.

7.3 Compliance Risk Mitigation through standards, procedures and guidelines

Compliance Risk mitigation through standards, procedures and guidelines is based on the risk identification and assessment. The Compliance Department shall mitigate risk through:

7.3.1 Establishing appropriate risk mitigating measures for key risks,
7.3.2 Including clear standards, procedures and guidelines
7.3.3 Advising, improving or assisting with improving or implementing standards, procedures and guidelines, by asking opinions of business participants
7.3.4 Preparing the ethical and professional code of conduct

7.3.5 Developing timetables for current year of training, monitoring, regulatory reporting etc.
7.3.6 Incorporating specific requirements of the local legislator or regulator which are not already covered by corporate requirements.

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Distinction shall be made between:

The ethical and professional code of conduct which sets the rules to be followed by all employees of BOC Chennai branch (consisting of personal account dealing rules, reporting suspicious transactions to AML authorities, securities trading, no insider trading, activities out of BOC etc.)

7.4 Risk Based Approach-(RBA)

The application of RBA is a prerequisite for the effective implementation of the FATF recommendations.RBA means to identify, assess and understand the money laundering and terrorist financing (ML/TF) risks to which they are exposed and take AML/CFT measures commensurate to those risks in order to mitigate them effectively.

Accordingly, monitoring program is risk based, which explains different levels of regulatory risks. The bank must use the Risk Based Approach to priorities potential issues and then allocate time to take parts of business with the greatest risk exposure. This will help to identify where it is most likely that a breach may occur. Risk Based Approach will prioritize and allocate resources to help management avoid compliance risk.

7.5 Compliance Testing

Compliance testing is a process which is performed to determine whether a product or system meets some specified standard that has been developed for efficiency. On a product basis: Identifying and assessing the compliance risks associated with the business activities, new products and business practices, customer relationships. It is a responsibility of the Compliance Function, to ensure compliance tests and reviews are undertaken at appropriate frequencies to assess compliance with regulatory rules and internal compliance standards.

8.0. Foreign Accounts Tax Compliance Act (FATCA)

8.1. FATCA Overview

FATCA is a piece of US legislation that was designed to improve tax compliance by US persons, both individuals and entities, as they are required to report their worldwide income to the US Internal Revenue Service (IRS) on an annual basis, regardless of whether or not they currently reside in the US. FATCA requires foreign financial institutions (FFIs) to identify all reportable US persons within their client base and provide information on such accounts to the appropriate tax authorities. The term 'United States person' means:

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I. A citizen or resident of the United States
II. A partnership created or organized in the United States or under the law of the United States or of any State, or the District of Columbia
III. A corporation created or organized in the United States or under the law of the United States or of any State, or the District of Columbia
IV. Any estate or trust other than a foreign estate or foreign trust. (See Internal Revenue Code section 7701(a) (31) for the definition of a foreign estate and a foreign trust)
V. A person that meets the substantial presence test

8.2. Reporting requirement under Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standards (CRS)

Under FATCA and CRS, REs shall adhere to the provisions of Income Tax Rules 114F, 114G and 114H and determine whether they are a Reporting Financial Institution as defined in Income Tax Rule 114F and if so, shall take following steps for complying with the reporting requirements:

(a) Register on the related e-filling portal of Income Tax Department as Reporting Financial Institutions at the link https://income tax india e-filing .gov.in/ post login --> My Account --> Register as Reporting Financial Institution,

(b) Submit online reports by using the digital signature of the 'Designated Director' by either uploading the Form 61B or 'NIL' report, for which, the schema prepared by Central Board of Direct Taxes (CBDT) shall be referred to.

Explanation: REs shall refer to the spot reference rates published by Foreign Exchange Dealers' Association of India (FEDAI) on their website at http://www.fedai.org.in/RevaluationRates.aspx for carrying out the due diligence procedure for the purposes of identifying reportable accounts in terms of Rule 114H.

(c) Develop Information Technology (IT) framework for carrying out due diligence procedure and for recording and maintaining the same, as provided in Rule 114H.

(d) Develop a system of audit for the IT framework and compliance with Rules 114F, 114G and 114H of Income Tax Rules.

(e) Constitute a "High Level Monitoring Committee" under the Designated Director or any other equivalent functionary to ensure compliance.

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(f) Ensure compliance with updated instructions/ rules/ guidance notes/ Press releases/ issued on the subject by Central Board of Direct Taxes (CBDT) from time to time and available on the web site http:// www . income tax india .gov.in/Pages/default.aspx. REs may take note of the following:

i. updated Guidance Note on FATCA and CRS

ii. a press release on 'Closure of Financial Accounts' under Rule 114H (8).

9.0 Training and Education

Education of the BOC Chennai branch personnel is essential to maintain a sound compliance program. All the staff should receive comprehensive education in laws directly affecting their jobs and familiar with the customer charter principles. They must be trained in policies and procedures adopted by the bank to ensure compliance with those laws.

The Compliance Department is obliged to conduct compliance training programs with the assistance of Deputy Manager Chennai branch to raise awareness on Compliance Risks, Financial regulations, RBI guidelines on Compliance areas.

This program shall have standard training and education for all employees, which may include annual refresher courses. The bank has the obligation to arrange AML training to employees regularly. Generally, this is interpreted as meaning annually. The CCO Chennai should ensure that adequate training provision is made for new employees shortly after the commencement of their employment and that additional training is provided where necessary. Also for promotion, enhanced knowledge should be provided for better performance.

10.0 Incidents Management

1. Compliance incidents

The Compliance Department is responsible for reporting of and responding to compliance incidents, i.e. ensuring appropriate information to the management of BOC.

2. Material compliance incidents

Material compliance incidents are defined as events which have impaired the Banks integrity, leading to material damage to the bank's reputation, legal or regulatory sanctions, or financial loss, as a result of a failure to comply with all applicable laws, regulations and standards.

3. Periodic reporting

Material compliance incidents shall be immediately reported to the Board of Directors in accordance with standards, procedures and guidelines of the Compliance Department.

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11.0 Implementation of Compliance Policy and minimum standards

This activity includes proactive assistance and support of management to drive day-today implementation of the compliance program.

Compliance function has important responsibilities and duties, requiring the direct and full support from Board of Directors, and allocation of proportional and qualified resources.

Compliance function has obligation on careful annual activity planning, including prioritization of identified compliance risks, backing by the full approval and supportive direction of the Board of Directors.

12.0 Review of the Policy

The Policy will be reviewed by Chennai Branch on an annual basis in tune with the regulatory guidelines issued from time to time or internal requirements or as and when considered necessary.

Classification:Restricted-External