**Introduction**

There is no doubt that complying with rules and regulations in banking system has been a matter of increasing importance in recent years because of the national and international sensitivities and worries regarding abuse of banking system to fulfill illegal actions such as money laundering and financing terrorism, violating international sanctions as well as making financial crimes particularly bribery and embezzlement. In current situation the reliable foreign banks, before establishing banking relations with other banks, pay due attention to the position and quality of compliance and when establishing a banking relation, the correspondent bank is being required to complete a questionnaire about its policies regarding observance of rules and regulations and arrange for its confirmation by relevant senior manager. It is obvious that so many of the reputable banks have spent a lot of money on appropriate organizational structure and human resources to ensure compliance with the rules and regulations. In Bank Saderat Iran compliance starts from the senior management and should be included in organizational culture under the responsibilities of the Board of Directors and senior management who emphasize on the standards of honesty; and all of the bank’s employees at any structural level are obliged to take part in it. Apparently neglecting compliance, even not violating any laws, would affect all of the bank’s activities regarding shareholders, customers, staff and market and it may even result in damage to the reputation of the bank.

**Objective**

The aim of the management of Compliance Unit is to assist Bank Saderat Iran to manage compliance risks. In other words it seeks to create essential grounds to ensure recognition and compliance with all of the accepted local and foreign rules, regulations and standards in order to maintain stability and security in banking operations and prevent risks such as financial crimes, legal penalties, supervisory sanctions, significant losses, vulnerability of the bank’s reputation, conflict of interests and unfair treatment with the customers.
Definitions

1-Bank: In this charter “Bank” refers to all of the local and foreign branches, branches’ management of Tehran regions and provinces, general departments, affiliated companies and headquarters of Bank Saderat Iran that are binding to execute the cases stated in this charter.

2-Rules, Regulations and Standards: refers to all the rules, regulations and standards which are binding for Bank Saderat Iran and for its branches, independent units or representative offices in other countries as well as for any country in which BSI performs banking operations by any means.

3-Non-Compliance Risk: refers to the probability of loss resulted from the inclusion of legal punishments and penalties, regulatory sanctions and damage to the bank’s reputation because of the non-compliance with the rules and regulations and other requirements related to BSI’s activities.

4-Compliance Committee: This committee has been established in line with the execution of the requirements and instructions related to the corporate governance, consisting of one of the board members as the chairman and nine other members from the bank’s senior managers, to implement affairs related to policy making and making required decisions according to the instructions issued by Central Bank of the Islamic Republic of Iran and the Board of Directors of the bank regarding complying with the rules and regulations.

Compliance Committee’s Authority

- The Board of Directors delegates required authority regarding any kind of decision making about management of compliance risk, issuance and execution of the compliance committee’s resolutions according to the formulated and approved by-laws.

- The Board of Directors delegates required authority regarding having access to all of the documents, correspondences, information and data required to execute related duties.
Compliance Principles

- Adopting and promoting the professional procedures based on the ethical requirements, observance of confidentiality and professional dignity as well as the bank’s reputation and finally safeguarding the customers’ interests.

- Ensuring compliance of the (IRR/FX) policies, procedures and instructions of the bank with the relevant rules, regulations and standards.

- Enjoying the right of having access to the required information to perform duties.

- Independence of compliance unit.

- Providing the compliance unit with the required authority taking into account the related job description.

- Compliance risk management requires the contribution of Board of Directors, managers and employees of different sections of the bank.

Compliance Unit Mission

- Advising and ensuring the establishment and implementation of the compliance policy throughout all bank’s units, including independent units and foreign branches.

- Providing Compliance Unit and Board of Directors with periodical reports regarding the status and quality of the compliance/non-compliance with the rules and regulations within the related policies throughout the bank.

- Providing advice and essential recommendations to the board of directors, compliance committee, managing director, executive managers and providing guidance, required suggestions and coordination for holding training courses as well as responding to the staff’s questions.

The compliance unit should formulate indicators and procedures, in line with the implementation of its duties regarding compliance with rules and regulations specially prudential regulations, AML (Anti - Money Laundering) and CFT (Combating Financing Terrorism) requirements, financial crimes and international sanctions, and arrange for their approval by the board of directors.
Six areas of compliance with the rules and regulations

1) **Compliance on prudential regulation’s conduct:** Central Bank’s requirements on the subjects such as: authorized limit for fixed assets, authorized limit for corporate facilities and commitments, authorized limit for investments, F/X open position, capital adequacy ratio, etc.

2) **Compliance on organization’s conduct:** making sure of the implementation of the resolutions of the corporate governance committees such as risk management, internal audit, compliance committee and etc., independent structure of compliance with rules and regulations, risk and monitoring of transitions with related persons.

3) **Compliance on staff’s conduct:** Compliance with ethical principles and the by – law on staff’s professional behavior and procedures for preventing bribery, fraud , disclosure of confidential information , etc.

4) **Compliance on customer’s conduct:** making sure of compliance with the international sanctions, regulations related to Anti – Money Laundering and Combating Financing Terrorism, politically exposed persons (PEPs) and people related to them, fraud and deceit made by the customers, etc.

5) **Compliance on financial service’s conduct:** transparency in presentation of banking products and electronic financial services, security of customers’ information , management of complaints , etc.

6) **Compliance on other risk’s conduct:** making sure of existence of standard processes in different areas of risk management such as : credit risk, liquidity risk , operational risk, market risk , etc.

**Four – Line Defense Model**

*In order to accurately comply with the rules and regulations and design and implement internal control system, the Four – Line Defense Model, Which would be highly influential in the establishment of the effective supervision, will be developed in Bank Saderat Iran as follows:*
1) First Line of Defense:

This section includes all branches and headquarters and the staff working in this defense line are involved in risks and establishment of controls in the bank and oversee all banking operations (including transactions, executive operations and recording of them) in both internal (all branches and headquarters) and external (including customers, supporting companies, etc.) sections. Therefore, all branches and headquarters, which are constantly facing risks relating to their functions, as the first line of defense, have the responsibility of identifying, control, appropriate response to the risk of non-compliance with the rules and regulations and informing the related authorities of the same to determine and take appropriate decisions.

2) Second Line of Defense:

All units involved in this defense line (financial, inspection and compliance, risk management, etc. units) have the function of supporting, coordinating, assisting and supervising over the first line of defense. Therefore, the second line of defense defines preventive control requirements and, while it is independent from the first line of defense, provides daily and periodical controls and ensures the requirements in the first line’s policies and procedures. Obviously, the above measures, under any circumstances, does not reduce the liabilities of the first line of defense against the ongoing operations.

3) Third Line of Defense:

In this defense line internal audit is responsible for providing assurance and independent and impartial consultation for the purpose of improvement of the bank’s operations. Internal audit, by establishing a well-organized approach and assessing and improving effectiveness of processes such as risk management, control and guidance system, helps bank achieve its objectives and, in practice, internal audit section should at least annually assess the organization’s risks.

4) Fourth Line of Defense:

In this section, independent auditors can make a separate assessment of the above three defense lines that is related to financial reporting audit of the organization and compliance with the regulatory requirements. Supervisors, obtaining the internal auditor’s findings, refer the independent auditors to accomplish some of their special duties.
At the same time, the independent auditors, too, can enjoy connecting with the supervisors and obtain some information which help them do their responsibilities effectively. This leads to a trilateral connection among internal auditors, banking supervisors and independent auditors. Therefore, this line of defense, providing shareholders, board of directors, independent auditors, regulators and other external entities with more confidence, has a significant role in the overall structure of guidance and control of the organization.
*** Four – Line Defense Local Model ***

Fourth Line of Defense
Independent Auditor and supervisor

Third Line of Defense
- Internal functions that provide independent assurance
- Internal Audit

Second Line of Defense
Units:
- Inspection and Compliance Affairs
- Risk Management
- Prudential regulations' conduct
- Organization’s conduct
- Staff's conduct
- Customers' conduct
- Financial services' conduct
- Other risks conduct
- Anti Money Laundering
- Security

First Line of Defense
- All branches and headquarters

Board of Directors / Audit Committee

Senior Managers

Regulator (Central Bank, etc)

Independent Auditor

BANK SADERAT IRAN

** This charter will be annually reviewed by the Board of Directors and will be updated if required.**