

Policy Summary Anti-Money Laundering (AML) Combating Financing of Terrorism (CFT) Anti-bribery and Corruption (ABC) Sanctions Compliance

AML Manual

Policies and Procedures

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1 Introduction

The bank's Policies and Procedures are established in accordance with the requirements of the FC Module of the CBB Rulebook Volume No.1, which was first issued in July 2004 and applies to all Conventional Bank Licensees. The FC module is a comprehensive framework aimed at combating money laundering and terrorist financing.

2 Policy Statement

Rafidain Bank - Bahrain (bank) is committed to the highest standards of Anti-Money Laundering (AML) Compliance and Counter Terrorism Financing (CFT). Policy is applicable to all staff throughout the bank. This is inclusive of members of the board, management, advisors, agents, brokers, consultants, contractors, intermediaries, introducers, representatives, stakeholders, suppliers and joint venture entities with whom the bank works. All are required to adhere to these standards in order to prevent the use of bank products and services from being abused for money laundering and other illegal purposes.

A reputation for integrity in the bank's business behavior is imperative to achievement of its commercial goals and to the fulfilment of corporate responsibilities. Policy outlines the standards and expectations of internal AML controls which are to be adhered to in order to mitigate the legal, regulatory, reputational and consequently financial risks.

Whilst policy sets out the minimum standards to be achieved and maintained by the bank and its branches, offices, outlets and subsidiaries, detailed procedures as required are to be produced by each respective business unit, tailored to its own respective requirements and to meet local laws, regulations and standards, as deemed appropriate. The bank will adhere to all applicable laws and regulations in all countries where it conducts business or has business relationships.

3 Laws and Regulations

The applicable Anti-Money Laundering laws and regulations in Bahrain include (but are not limited to) the following:

- Decree Law No. 4 of 2001 with Respect to the Prevention and Prohibition of the Laundering of Money
- Decree Law No. 54 of 2006 amending certain provisions of Legislative Decree No. 4 of 2001 with Respect to the Prevention and Prohibition of the Laundering of Money
- Decree Law no 25 of 2013 amending certain provisions of legislative decree law no 4 of 2001 with Respect to the Prevention and Prohibition of the Laundering of Money
- Decree Law no 36 of 2017 amending article 3 of decree law no 4 of 2001 with Respect to the Prevention and Prohibition of the Laundering of Money
- Decree Law No. 58 of 2006 with Respect to the Protection of Society from Terrorism Activities
- Ministerial Order No. 7 of 2001 with respect to the obligations governing institutions concerning the prohibition and combating of money laundering
- Ministerial Resolution No. 1 of 2004 on Directives Relating to the Prevention and Prohibition of Money Laundering at the Bahrain Stock Exchange (Bahrain Bourse)
- Decree Law No. 15 of 1976 concerning the Penal Code with Respect to Anti-Bribery and Corruption (Article 186)

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- Decree Law No. 1 of 2013 amending some provisions of Decree Law No. 15 of 1976 concerning the Penal Code with Respect to Anti-Bribery and Corruption (Article 418)

4 Risk Based Approach

The bank, in line with international best practice, has adopted a risk-based approach (RBA) in its management of AML and CFT. The application of the RBA is fundamental to the prevention of money laundering and ensuring that resources are adequately applied to those areas the bank has deemed to be most at risk. The general principle of an RBA is to focus more attention and controls on the smaller volume of customers and activity that cause most concern.

The policy stipulates that the business unit must construct, document, implement and place suitable governance over their RBA, processes and procedures. evidence must be maintained of how the bank is applying an RBA to the development of AML procedures. resources must be assigned in accordance with the nature and location of the identified money laundering risks.

5 Customer Due Diligence

The policy introduces a risk matrix taking into consideration all of the risk factors related to the customer such as Delivery Channel risk, Product & Service risk, Geographic risk and Customer risk. In line with the policy, the customers will be classified into various risk categories (Low, Medium and High (H1, H2, H3)) and the extent of due diligence will depend on the risk category of the customer.

The bank is prohibited from conducting business with certain companies listed in the policy as prohibited accounts (e.g. shell companies, numbered accounts). In the event of restricted activates / business relationships, business will accept the customer only after undertaking additional measures and approvals.

All the accounts opened for Politically Exposed Persons (PEPs) and its related are treated as high risk. However, taking into consideration that within PEPs there are different risks, a categorization is to be assigned to such accounts based on the associated risks.

5.1 Enhanced Due Diligence

Enhanced customer due diligence must be performed in line with the FC module of CBB rulebook volume 1 on those customers identified as having a higher risk profile, and additional inquiries made, or information obtained in respect of those customers along with senior management approval.

6 Roles and Responsibilities

The bank operates a Three Lines of Defense model for AML and CFT oversight.

- First Line of Defense – Business Unit
- Second Line of Defense – Compliance
- Third Line of Defense – Internal Audit

The overall responsibility for the AML / CTF framework resides with the Board of Directors.

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7 Suspicious Activity Monitoring and Reporting

The bank is regulated by the Central Bank of Bahrain (CBB) and is required to put in place arrangements for the recognition and reporting of activity which is known or reasonably suspected to be money laundering or terrorist financing. It is the responsibility of every employee to report suspicions concerning money laundering or terrorist financing. All customer accounts are monitored to ensure that any suspicious or unusual be reviewed by designated bank officials on a daily basis and appropriate details maintained to evidence the disposition of all alerts. In the event of a suspicion, a Suspicious Activity Report must be completed and submitted as per the bank's procedures. Special attention should be paid to all complex, unusually large transactions and all unusual patterns which require proportionately more rigorous monitoring. Channels for reporting suspicious transactions are documented and communicated to all employees. Adequate procedures are in place to ensure that reporting takes place without disclosure of the employee's identity thus providing them protection from adverse reactions.

8 Correspondent Banking Standards

The bank has considered the risk associated with correspondent banking relationships. All correspondent banking relations are subject to appropriate due diligence, monitoring and review. The bank does not maintain or open accounts for shell / virtual banks and does not provide "nested" or "Payable through Accounts" services to its customers.

9 Sanctions Compliance

The bank is committed to complying with its legal and regulatory responsibilities in relation to international sanctions.

9.1 Customer Screening

In order to ensure that the bank is sufficiently protected and to avoid potential regulatory and reputational risks, the bank screens all customers against the sanctions list of countries that the bank operates in as well as other international sanctions lists (i.e. OFAC, EU, OFSI and UN) and the bank's own internal watchlists. This is done both prior to opening of an account and periodically thereafter. All names identified during the screening process are investigated and evidenced in accordance with documented procedures.

9.2 Payment and message screening

The bank screens all relevant incoming and outgoing payments and messages against the sanctions list of the countries that the bank operates in as well as other international sanctions lists (i.e. OFAC, EU, OFSI and US) and the bank's own internal watchlists to identify the involvement of sanctioned parties or countries in the messages being screened.

10 Bribery and Corruption

The Bank does not tolerate bribery and corruption in any form. Any employee or Director caught engaging in acts of bribery or corruption, directly or through a third party, shall be subject to severe action by the Bank, including reporting to the regulatory authorities.

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11 Record Keeping

The bank must maintain and keep the physical records pertaining to customer identification and transaction for a minimum period of five (5) years after the account is closed, or any longer retention periods as required by CBB.

12 Training

The bank is required by the CBB to provide appropriate AML and Sanctions (i.e. Compliance Training) to all employees. All new employees must go through the bank's Compliance Training program as part of their induction program. Records must be maintained of all formal training conducted, including the names, designation, business unit, dates and locations for all attendees. Policies and procedures on new / revised regulations must be documented and communicated to all branches and departments. Training is continuous requirements, and it is therefore important that arrangements for refresher training courses are made at regular intervals i.e., at least annually to ensure that employees of the bank remain vigilant and that they are updated with any new laws or developments related to AML and Sanctions Compliance.

Kindly contact the undersigned with any questions or information requests regarding the bank's AML, CFT and Sanctions policy:

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