

Charter of the Compliance and Operational Risk Management Office

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1. Purpose & Scope

The purpose of this document is to set out the formal status of the Compliance and Operational Risk Management Office (DCR) and communicate it to all staff throughout the Bank, as per the international standards set by the Basel Committee on Banking Supervision (Basel Committee),

This document is the Charter of the Compliance and Operational Risk Management Office.

2. Terms & Abbreviations

2.1 Terms

The following terms are used in this Policy **as respectively** defined below:

Staff Members: Officers and Staff of the Bank

Bank Officials: the President, the Vice Presidents and the Secretary General, comprising the senior management of the Bank

Basel Committee: the Basel Committee on Banking Supervision

2.2 Abbreviations

The following abbreviations are used in this Policy

Abbreviation	Full Wording of Abbreviation
DCR	Compliance and Operational Risk Management Office
DIA	Internal Audit Department

3. Responsibilities

The following business units and positions are responsible for the corresponding tasks:

- **DCR** is responsible for: identifying, assessing, advising, monitoring, and reporting accordingly on the control and mitigation of the Bank's compliance and operational risk; reporting to the President of the Bank and the Board of Directors, through its Chairman, on the Bank's compliance and operational risk management efforts.
- **The Head of DCR** is responsible for: exercising direct authority to exert control over the entire compliance and operational risk management process performed by DCR; shall keep DIA informed of significant findings in relation to compliance and operational risk control deficiencies.
- **The President** is responsible for: granting access rights to DCR with regard to assignments requiring access to the Bank's premises and systems where Staff Members have a reasonable expectation of privacy, i.e. areas within the Bank that Staff Members would expect to be free from intrusion, such as drawers etc.

- **The Audit Committee** is responsible to oversee the status, the ability to perform duties independently and the performance of the Bank's compliance and operational risk management functions and maintaining a direct and open communication with DCR,
- **DIA** is responsible for: the independent periodic review of DCR; keep the Head of DCR informed of any significant audit findings relating to compliance, as appropriate.
- **Bank Officials** are responsible for: controls and risks and for action to correct deficiencies in systems of control, as pointed out by DCR.
- **Staff Members** are responsible for: assisting, as appointed by the respective Directors or Heads of the units with the approval of the respective supervising Bank Official, as needed, the Head of DCR in carrying out his responsibilities in areas of their expertise, at the Head of DCR's request.

4. Charter of the Compliance and Operational Risk Management Office

4.1 Compliance Risk

Compliance risk is defined as the risk of legal sanctions, material financial loss, or loss to reputation the Bank may suffer as a result of its failure to comply with any applicable laws, its own regulations, code of conduct, and standards of best/good practice.

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.

4.2 Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition includes legal risk but excludes strategic and reputational risk.

4.3 Establishment of the Compliance and Operational Risk Management Functions

The Bank gives paramount importance to identifying, measuring and mitigating risks inherent in its activity. To this end, the revised Financial Policies of BSTDB place high importance on a Comprehensive Risk Management system, stating that: "The Bank is committed to **actively identify and manage all risks inherent in its activities** in order to support its sustainable profitability objective and safeguard its capital base. The Bank pays particular attention to managing credit risks in the course of its core activities and treasury operations, market risks in its Treasury as well as **compliance and operational risks in its organization and activities.**"

In the 40th Board of Directors Meeting, held in September 2004, the Bank approved the Organization Structure of the Bank, which included two new functions within the Internal Audit Department, namely the Compliance Risk Management and Operational Risk Management functions.

As per decision 0406-41-BD2004-80 of BSTDB's Board of Directors taken on 6 December 2004 "The compliance function within the Bank –as approved by the Board in September 2004 through the newly adopted Organization Structure document– should be separated from the audit function of the Bank and compliance risk should be included in the risk assessment methodology of the internal audit function. A compliance policy should be presented for adoption by the Board, providing for the above-mentioned separation of functions, defining responsibilities and reporting arrangements to the Board. Its implementation should be the responsibility of the management."

4.4 Status of the Compliance and Operational Risk Management Office – Reporting Relationships - Independence

DCR is a unit independent of the business activities of the Bank. However, a co-operative working relationship between DCR and business units shall be established to identify and manage compliance and operational risks at an early stage.

DCR is reporting to the President of the Bank and the Board of Directors, through its Chairman, on the Bank's compliance and operational risk management efforts and has a direct and open communication with the Audit Committee. Furthermore, as per the Audit Committee's Terms of Reference, the Audit Committee oversees the status, the ability to perform duties independently and the performance of the Bank's compliance and operational risk management functions.

Representatives from each of the Bank's Divisions and operating units, as appointed by the respective Directors or Heads of the units with the approval of the respective supervising member of the senior management, at the Head of DCR's request, shall assist from time to time, as needed, the Head of DCR in carrying out his responsibilities in areas of their expertise.

4.5 Resources of DCR

The resources to be provided for DCR shall be both sufficient and appropriate to ensure that the respective risks within the Bank are managed effectively. In particular, DCR's staff shall have the necessary qualifications, experience and professional and personal qualities to enable them to carry out their specific duties. Their professional skills shall be maintained through regular and systematic education and training.

Specific tasks of DCR requiring technical skills not available within the Bank or of confidential nature may be outsourced, in conformity with the Bank's applicable rules and regulations, however, provided the outsourcing arrangement is overseen by the Head of DCR who maintains full and final responsibility for the entire activity of DCR.

4.6 Role of DCR

DCR performs two sets of activities/functions:

- a. Assists senior management in managing effectively the compliance risks faced by the Bank. To this end, it identifies, assesses, advises, monitors, and reports accordingly on the control and mitigation of the Bank's compliance risk.
- b. Assists the Bank in managing the operational risk. DCR shall identify, assess, advise, monitor and report on the control and mitigation of the operational risk inherent in all material products, activities, processes and systems.

4.7 Authority granted to DCR

The Head of DCR has direct authority to exert control over the entire compliance and operational risk management process performed by DCR, from program design to enforcement.

All activities of the organization other than internal audit are to be subject to regular compliance and operational risk management reviews and testing in accordance with the annual compliance and operational risk management programs.

Upon informing the President, the Head of DCR has the right to i) conduct special investigations in relation to the tasks falling within the purview of DCR, ii) request for contribution to such investigations from other units of the Bank, as per their expertise, and iii) appoint outside experts, if appropriate.

On every compliance and operational risk management assignment, with the exception of the Internal Audit Department (DIA), the accountable management is expected to allow unrestricted right of access to DCR staff: on its own initiative to communicate with any staff member and obtain access to any records or files necessary to enable it to carry out its responsibilities. For assignments requiring access to the Bank's premises and systems where Staff Members have a reasonable expectation of privacy, i.e. areas within the Bank that Staff Members would expect to be free from intrusion, such as drawers etc, the President's permission only with regard to access rights will be sought.

Documents and information given to DCR staff members are handled in the same prudent manner as by those employees normally accountable for them.

Senior management is responsible for controls and risks and for action to correct deficiencies in systems of control, as pointed out by DCR.

4.8 Main Responsibilities

- a. Compliance Risk Management function main responsibilities
 - On a pro-active basis, to identify, document and assess the compliance risks associated with the Bank's business activities, including the development of new products and business practices, the proposed establishment of new types of business or customer relationships, or material changes in the nature of such relationships;

- To assist senior management in educating staff on compliance issues in coordination with the Human Resources Department which shall assist in facilitating the training/education;
- To assist and advise the business groups and the Credit Committee on operations-related integrity, reputational and United Nations Security Council sanctions issues, as well as on issues related to the contractual undertakings of the Bank, in the context of checks on borrowing clients, project sponsors, other partners and counterparties including of Treasury, upon request;
- To provide compliance-related input into the drafting or review of templates of legal documents pertaining to the Bank's activities;
- To monitor international regulatory requirements and assess potential impact and/or relevance to the Bank's operation;
- To respond to KYC/integrity-related due diligence and inquiries by the Bank's counterparties;
- Upon informing the President, the Head of DCR shall lead and co-ordinate investigations into alleged unsatisfactory conduct or misconduct of Bank employees or consultants. Where appropriate, the Head of DCR recommends to Management disciplinary or corrective action;
- To deal with and lead and co-ordinate investigations into issues of conflict of interest (of the Bank, staff, etc), cases of alleged corruption, money laundering, terrorist financing, and complaints received with regard to Bank-financed operations vis-à-vis the aforementioned, as per the Bank's rules;
- To assess the appropriateness and consistency of the Bank's regulatory framework (statutory documents, policies, strategies, guidelines, rules, regulations and procedures in force) related to compliance issues, promptly following up any identified deficiencies in the policies and procedures and, where necessary, formulating proposals for amendments; To ascertain compliance with the provisions of the Bank's Code of Conduct, to review and propose amendments to the Bank's Code of Conduct and other policies and procedures, as necessary, to reflect ethical standards in all areas;
- To report on a regular basis to the President of the Bank and the Chairman of the Board of Directors. The reports shall refer to the compliance risk assessment and testing which has taken place during the reporting period, any identified breaches and/or deficiencies, the corrective action taken; any compliance matters that should be brought to their attention for information or action purposes, and shall contain information about compliance training provided to compliance function and other bank staff;
- To perform Compliance Reviews;
- To assess compliance of the Bank's counterparties with the Bank's Domiciliation Policy;
- To log all deadline-setting Management Committee Decisions, monitor the respect of all deadlines set by the them and promptly inform the Management Committee of each instance where there is a likelihood that the deadline will not be adhered to, along with the reasons thereof;
- To manage the Bank's requirements for the prevention of Market Abuse.

b. Operational Risk Management function main responsibilities

- To review the Bank's policies and procedures and place operational risk within the Bank's overall risk management and strategic framework, thereby enhancing and promoting the Bank's risk and control awareness culture;
- To implement and maintain the Bank's operational risk monitoring and control system, including also the regular monitoring of operational risk profiles and material exposures to losses, and detecting and making proposals for the correction of deficiencies in the related policies, procedures and processes. To report regularly pertinent information, including recommendations made, to the President of the Bank and the Chairman of the Board of Directors that support the proactive management of operational risk;
- To quantify operational risk for the Bank's activities as necessary, according to best standards and practices utilizing internationally accepted methodologies;
- To advise staff on operational risk matters and facilitate reporting of relevant risk information up, down and across the Bank by framing accountability and authority for operational risk management in the business units;
- To deal with and lead and co-ordinate investigations into cases of internal and external fraud;
- To participate in the new products approval process, in order to identify and assess the operational risk related to each new product, activity, process and system, or their amended versions, to be introduced or undertaken, and present operational risk mitigation proposals;
- To manage and monitor the protection of personal data within the Bank;
- To manage the corporate insurance (but not property insurance) coverage of the Bank, as a key process to manage financial losses due to related events;
- To track and assess the Bank's key risk indicators within the framework of the Disaster Recovery and Business Continuity Plan;
- To monitor and manage matters of physical security and safety of the staff and premises, in co-operation with the Bank's Administrative Services.

4.9 Relationship with DIA

The scope and breadth of the activities of DCR are subject to independent periodic review by DIA. Compliance and operational risks are included in the risk assessment methodology of internal audit. The review of compliance and operational risk management activities by internal audit consists of assessing the controls in place to ensure that all relative risks are adequately mitigated according to best practices and the Bank's policies and procedures; the establishment and effective functioning of DCR constitutes such a control.

The DIA, according to the Bank's Internal Audit Charter and other relevant policies and procedures, will keep the Head of DCR informed of any significant audit findings relating to compliance and operational risk, as appropriate. Similarly, the Head of DCR will also keep DIA informed of significant findings in relation to compliance and operational risk control deficiencies.

Every effort will be made to enable communication and coordination between DCR and DIA, aiming at ensuring appropriate coverage of these areas and avoidance of overlapping of tasks or responsibilities.

4.10 Relationship with other risk management functions

Every effort will be made to enable communication and coordination between the compliance and operational risk management functions, and credit risk management and assets and liabilities management functions in relation to issues of compliance and operational risk management, aiming at ensuring appropriate coverage of these areas and avoidance of overlapping of tasks or responsibilities.

5. References

None