

Approved by the Supervisory Board of the
“International Bank of Azerbaijan” OJSC:
Protocol № 3; Decision № 2;
Date: 17 September 2013

**“Know the Client Policy”
of the “International Bank of Azerbaijan” OJSC in its activity in the
field of fight against legalization of monetary funds or other property
obtained through the crime and financing of terrorism**

1. General provisions

- 1.1. The present Policy has been developed on the basis of the Laws of the Republic of Azerbaijan “On banks”, “On fight against legalization of monetary funds or other property and financing of terrorism”, “Requirements for organization of system of internal supervision over the activity against legalization of monetary funds or other property obtained through the crime and financing of terrorism of monitoring participants which are legal persons and other persons participating in the monitoring”, “Methodological Manual on “Know the client policy” for the activity in the field of fight against legalization of monetary funds or other property obtained through the crime and financing of terrorism of monitoring participants and other persons participating in the monitoring” of the Financial Monitoring Service under the Central Bank of the Republic of Azerbaijan (hereinafter referred to as “Financial Monitoring Service”) and other normative legal documents, as well as recommendations of Financial Action Task Force (FATF), Principles of the Basel Committee on Banking Supervision and Wolfsberg Principles widely used in banking practice.
- 1.2. The present Policy shall set out purpose and basic elements of set of measures associated with the process of collection of required information about existing and potential clients by the “International Bank of Azerbaijan” OJSC (hereinafter referred to as “the Bank”), respective inspection of their identity and monetary funds or other property they own.

- 1.3. Application of the provisions of the present Policy shall be obligatory in the course of fulfilment of the duties by employees directly working with clients and participating in establishment of communications with them.

2. Used concepts

- 2.1. **Client** – natural or legal person constantly or casually using any services of the Bank in the course of exercise of operations with regard to monetary funds or other property.
- 2.2. **Beneficiary** – natural or legal person acquiring economic or any other benefit from operations associated with monetary funds or other property as a final result as well as real owner of the legal person in favor of whom transactions are enforced or legal person exercising the supervision over the client.
- 2.3. **Identification** – identification of identity, legal ability, representation power and business activity of the client, beneficiary and authorized representative.
- 2.4. **Verification** – verification of authenticity of identification information acquired about the client, beneficiary and authorized representative through the reliable sources.
- 2.5. **Structural unit**– unit carrying out enforcement of operations with clients or establishment of relations with them in the course of exercise of their functions.
- 2.6. **Client profile** – set of specific features such as country of citizenship of the client, current or previous important public position and social status, financial status, the person on behalf of whom he/she acts, associated accounts, business activity and its nature, location and such other features.
- 2.7. **Responsible person** – employee of the Bank appointed by the head of structural unit and responsible for supervision over implementation of internal regulations and procedures with regard to actions against legalization monetary funds or other property obtained through the crime and financing of terrorism, implementation of exchange of information with Internal Audit and Monitoring Department of the Bank as well as for elaboration and submission of relevant reports related to operations to be monitored.
- 2.8. **Responsible person of the Bank** – employee of the Bank appointed by the chairman of the Management Board from the level of leadership of the Bank as well as leadership of structural units and responsible for supervision over implementation of internal regulations and procedures with regard to actions against legalization of criminally obtained funds and other property and financing of terrorism, implementation of

exchange of information with Financial Monitoring Service as well as for elaboration and submission of relevant reports related to operations to be monitored.

- 2.9. **ML/FT** – legalization of monetary funds or other property obtained through the crime and financing of terrorism.
- 2.10. **AML/CFT** – fight against legalization of monetary funds or other property obtained through the crime and financing of terrorism.

Note. Concepts provided in the present document shall be provided for purposes of the Policy only, other concepts explanation of which is not provided shall have the meaning of those provided in normative legal documents of Financial Monitoring Service.

3. Purpose of Know the Client Policy

- 3.1. Thoroughly analyze clients' activity, acquire detailed information about the business profiles, register and examine documents which they submit.
- 3.2. Refuse from establishment or continuation of business relations with clients in case of reveal of the following cases as a result of regular inspections exercise on the basis of information and documents acquired with regard to clients:
 - if there are strong grounds to believe in participation of the client in ML/FT;
 - if there are strong grounds to believe in support of the client of transnational organized crime, as well as armed separatism, extremism, mercenary activity and participation in illicit traffic of narcotic drugs and psychotropic substances;
 - if there is no physical presence in the territory of registration of financial and credit institution;
 - if there is a failure of the financial and credit institution to take full measures in the field of AML/CFT;
 - if there is a failure of the client to submit required documents or if the client has submitted false documents (information).
- 3.3. By applying the present Policy, the Bank shall prevent its use for ML/FT purposes by criminal elements and, as a final result, reputation, operation, legal and concentration risks leading to considerable expenses and losses shall be minimized.

4. Basic elements of the Know the Customer Policy

- 4.1. **Establishment of business relations with the client.**

Country of citizenship of the client, presently or previously occupied significant public position and social status, financial status, person on behalf of whom he/she acts, associated accounts, business activity and its nature, its location and such other risk criteria shall be defined for establishment of the client-related data base – client profile on the basis of respective regulations and procedures. Decision on establishment of business relations with the client shall be based on assessment exercised with regard to those risk criteria. At the same time, procedures regarding establishment of business relations with the client shall not be of restrictive nature. Existence of very strict requirements may result in refusal of the clients from services of the Bank. Along with this, elements in those procedures restricting the access of needy segment of population to services of the Bank should be excluded. On the other hand, additional identification measures should be applied in respect of those persons having large amount of monetary funds or valuable property source of which is unknown. Decision on establishment of business relations with high-risk clients – non-residents, politicians of foreign countries, clients with suspicious reputation or past criminal records, charity organizations, clients using technological means without establishing direct contact and having correspondent accounts should be adopted by the management of the Bank.

4.2. Identification and verification measures.

Measures for identification of the client and beneficiary should be taken in the following cases:

- prior to establishment of business relations;
- prior to any single operation enforcement of which is expected in the amount of fifteen thousand manat (hereinafter referred to as the limit) or more (this case also includes several operations, which are connected with each other and to be enforced within the limit and total amount of which exceeds the limit);
- prior to money transfer enforcement of which is expected without opening of account irrespective of the amount;
- if there are suspicions associated with ML/FT or sufficient grounds to believe in such suspicions;
- if unreliability of the client or beneficiary-related identification information submitted before is revealed.

Business relations with the client should be established only after full and thorough identification and verification of the client. Identification information of the client should be

updated permanently. Update of that information in the course of enforcement of complex, large-scale unusual operations as well as operations without clear economic or legitimate purpose and in the course of considerable changes in the information submitted by the client or in the management of the clients' accounts shall be specifically important.

4.2.1. *Standard identification and verification measures*

All required identification information associated with each new client and purposes and nature of his/her business activity should be acquired. Client identification procedure shall be exercised as follows:

- in any case, identification of natural person shall be exercised on the basis of document certifying the identity as provided for in the legislation;
- identification of legal person shall be exercised on the basis of notarized copies of charter of the legal person and document on the state registration;
- identification of natural person dealing with entrepreneurial activity without establishment of legal person shall be exercised on the basis of document certifying the identity as provided for in the legislation and certificate issued by the respective tax authority.

should take measures for verification of identification information acquired about the Client and beneficiary owner through the document certifying the identity as provided for in the legislation and reliable, independent sources (electronic data bases, internet resources etc.). Existence of the power of the natural person acting on behalf of the client, which is a legal person, to do so should be examined, respectively executed power of attorney should be demanded from the authorized representative and measures for its identification and verification should be taken. Legal address, organizational legal form and director of the legal person should be identified on the basis of the charter of legal person and document on state registration. Verification measures shall be taken unless full identification of the beneficial owner is made. Acting of natural persons on their behalf or on behalf of other person should be identified. If business relations, financial operations or other transactions are enforced through the representative (beneficiary owner), measures for identification and verification of person representing and person represented should be taken. In order to identify beneficiary owner of the client which is a legal person, measures shall be taken for identification of natural persons who are real owners of the legal person (founder or shareholder having control stock), who exercise supervision over the legal person or who ultimately gain

profit from the activity of the legal person. Reliability of documents submitted to the Bank should be regularly examined at the beginning of establishment of business relations or in the course of enforcement of operations. Measures for identification and verification should be taken regarding to any person attempting to conduct any operation acting on behalf of corporate client without presence of representative of that client. If the place of residence or place of work of the client is not located in the territory which is served by the structural unit of the Bank, reason of cooperation of the client with structural unit of the Bank located far from the place of residence or place of work should be clarified. Operations with clients or representatives rejecting to submit documents required for duly exercise of verification process should be refused. Upon establishment of business relations, reliability of his/her telephone number, e-mail or other communication means should be examined with the purpose of confirmation of submitted information about the client.

4.2.2. Simplified identification and verification measures

Such type of measures shall be composed of identification measures applied in respect of clients and operations with low ML/FT risks. Simplified identification and verification measures shall be applied with regard to nature of the client, business relations and conducted operations and possible risks they may cause. Simplified identification and verification measures may be applied only in respect of clients, business relations and operations with low AML/FT risks prior to the establishment of business relations and before any single operation conduct of which is expected in the amount of 15 thousand manats or more (this case also includes several operations to be conducted within the limit and which connected to each other and total amount of which exceeds the limit). In such case, identification and verification of the client and beneficiary, determination of purposes and contents of business relations of the client and constant update of acquired information may be exercised in more simple and restrictive form. Samples of simplified identification and verification measures which may be applied in connection with low-risk business relations shall include the following:

- verification of the client and beneficiary owner upon establishment of business relations (for instance, if account-related operations will exceed defined minimal limit);
- decrease of constancy of updates of client identification;
- decrease of level of constant monitoring and inspection of operations on the basis of minimal limit in the respective amount;

- acquisition of information about purpose and nature of business relations from conducted operations and established business relations.

4.2.3. *Additional identification measures*

Application of additional identification measures shall be required in respect of clients and operations they conduct which are included into high-risk categories. Safety measures elaborated for provision of confidentiality of such clients and their activity shall not preclude inspection of that information by the responsible person, auditors or other relevant persons. Additional identification measures shall be as follows:

- examination of accounts and business relations or clarification of purpose and contents of conducted operations;
- identification of shareholders of the client which is a legal person and their participation portions;
- acquisition and comparing more precise information on the client, beneficiary and, if possible, source of monetary funds or other property through the other reliable sources.

Application of additional identification measures, especially in the course of exercise of business relations with the following high-risk category clients shall be required.

Non-resident clients.

Attention shall be paid to business relations with non-resident clients. Reasons of the activity of non-residents in the Republic of Azerbaijan (opening of bank account, as well as conduct of operations with monetary funds and other property etc.) shall be examined precisely. Special attention should be paid to operations from high-risk countries (territories). Operations from high-risk countries (territories) shall mean any operations with citizens of those countries (territories), persons whose place of registration, residence or principal place of activity is located in those countries (territories) as well as with monetary funds or other property in connection with persons having an account in the bank registered in indicated countries (territories). List of such countries (territories) shall be defined and published by the Financial Monitoring Service as provided by the rule of Cabinet of Ministers of the Republic of Azerbaijan.

Legal persons entrusted with the management of monetary funds, securities or other property.

There is a risk when client uses legal persons through the entrusting to them management of monetary funds, securities or other property with the purpose of concealment of his/her identity. Cases of attempts to conceal illegal activity through the

presentation of the client himself as an authorized representative in the capacity of natural or legal person acting on behalf of other person or persons should be identified. In such case precise identification of authorized representative and the person he represents should be exercised and its identity should be clarified precisely. In case of emergence of serious suspicions to believe that several client accounts opened in the bank by the professional mediator are assigned for rendering service to one client (beneficiary), additional identification and verification measures should be taken. Identity of all clients using joint accounts (which have deposits of several clients) managed by legal persons rendering professional mediation services should be identified.

□ Operations with legal persons which are nominal holders or issuers of documentary anonymous shares.

In case of start of business relations with enterprises which have nominal holders or anonymous shares, attention should be paid to those relations. Beneficiaries of such companies should be fully and precisely identified.

□ Operations conducted with foreign banks through correspondent accounts.

The Bank should have sufficient information about respondent bank exercising operation through correspondent accounts in order to understand business activity of that respondent bank. Completion of self-assessment survey table shall be required from foreign bank in the course of opening of correspondent account of the foreign bank. That survey table should be assessed by the responsible person of the Bank and should furnish written report on the results to the top official (member of the Management Board) of the Bank. Decision on opening of correspondent account of foreign bank should be adopted by the management of the Bank only.

Specific attention should be paid to correspondent accounts of respondent bank which proposes services without physical presence in any country. The Bank should establish correspondent relations only with foreign banks effectively controlled by supervising authorities specialized in the respective sphere. No relations should be established with banks which are registered in any country, but which does not have physical presence and regulatory body (shell-bank) or such relations established before should not be continued. The Bank should pay more attention while establishing business relations or continuing existing relations with respondent banks located in jurisdictions defined as the countries which do not have high standards in the field of AML/CFT and which do not have an intention to cooperate in this sphere. The Bank should define the existence of identification and verification regulations and procedures in the respondent bank and

should take additional identification measures in operations conducted through correspondent accounts.

Operations of politicians of foreign countries.

Politicians of foreign countries shall include heads of states or governments, authoritative politicians, members of government, judges of higher instance courts, high-rank military servants, directors of state-owned enterprises, officials of political parties, their families and close relatives. Establishment of business relations with high officials of foreign countries or persons/companies who/which are in direct contact with them may potentially entail danger of reputation and legal risk for the Bank. Therefore, if there is suspicion to believe that this or another person is a politician, detailed identification measures should be taken in respect of that person and persons and enterprises which are directly regarded to him/her. Source of funds of politicians should be examined prior to establishment of business relations with him/her. Decision on establishment of business relations with politicians shall be adopted by the management of the Bank.

Unusual and suspicious operations.

Unusual operations shall mean complicated operations which are not typical for existing activity of the client as well as operations which do not have clear economic or legitimate purpose and operations conducted in economically irrational manner and in large cash amounts. If there are grounds to believe in high probability of creation of AML/FT risk by unusual operation, it shall be deemed to be suspicious. Suspicions on unusual operations shall be based on assessment of a number of factors. Submission of information about the identity of the parties conducting such operations should be required and other measures for identification of source of funds and purpose of operations should be taken. If existence of high AML/FT risks in unusual operations is identified, the Bank should submit the information thereof to the Financial Monitoring Service in accordance with the legislation.

Operations conducted with the use of technological means without establishment of direct contact.

The Bank should apply client identification, verification and additional identification regulations and procedures applied in the course of opening of accounts for clients establishing business relations with the use of technological means without establishing direct contact. In such case, services of reliable third party may be also used in the course of exercise of additional identification measures. Potential risks that may be emerged should be assessed and, bearing such risks in mind, client identification and

verification measures should be constantly updated such risks with due regard to new technological means.

4.3. Constant monitoring of client accounts and operations.

Information on accounts of the clients and operations conducted by them as well as information on purpose and contents of business relations of the clients should be subject to monitoring on constant basis. Intensity of monitoring should be increased proportionally to the increase of risk rate.

4.4. Risk management

The Bank shall minimize reputation, operational, legal and concentration risks through the regular exercise of examinations in respect of clients.

Reputation risk shall be defined as the danger which will lead to decrease of reliability to the Bank through the formation of negative opinion about the business activity and business relations of the Bank before the public. Intentional and unlawful playing of the role of mediator by the Bank in conduct of illegal operations of the clients shall pose serious threat to its future activity.

Operational risk shall express the danger of potential financial losses as a result of incompliance of the nature of activity of the Bank and internal regulations and procedures of conduct of operations with the requirements of the applicable legislation. High level of such risk shall show failure of the Bank to have professional regulations and procedures in the field of own activity of the Bank, including efficient risk management and, as a result, to have normal business activity.

Legal risk shall mean existence of cases of fines in large amount, adoption of court decisions, even adoption of decisions on suspensioin of its activity as a result of direct or indirect participation of the Bank in conduct of operations of illegal operations of the Bank.

Concentration risk shall express the danger of potential losses arising from concentration of the activity of the Bank in any concrete tool, single client groups, operations, separate sector of the economy. In order to define concetration risks, the Bank should be precisely aware of identity of the clients and fields of activity in which they act. Thus, potential risks resulting in withdrawal of large-scale investments belonging to certain client group or to economic spheres, deposits and other financial tools, failure to repay loans, termination of agreements and such other undesirable cases may pose serious threat to the Bank.

Risks of the activity of clients should be identified, assessed, monitored and supervised subject to the plan. In order to identify and assess AML/FT risks (clients, states or geographical areas, products, services, transactions or delivery channels) by the Bank respective measures should be taken. If high risks are identified, additional measures should be taken for risk management and reduction. If low risks are identified, simplified measures may be taken.

5. Liability for the failure to comply with the present Policy

- 5.1. Management of the Bank, responsible person of the Bank exercising supervision over the enforcement of measures referred to in the present Policy and other employees of the Bank implementing those measures shall bear liability for enforcement of those measures.
- 5.2. Responsible person of the Bank shall bear liability for the development of the present Policy.

6. Final provisions

- 6.1. The present Policy shall be approved by the Supervisory Board of the Bank.
- 6.2. All amendments and modifications to the present Policy shall be made on the basis of decision of the Supervisory Board.