



**NCC Bank**

नेपाल क्रेडिट एंड कमर्चर्स बङ्क लि.  
Nepal Credit & Commerce Bank Ltd.

Your Business Bank

## Compliance Policy

2018



**Nepal Credit And Commerce Bank Ltd.**

**Bagbazar, Kathmandu**

(Approved by Board of Directors Meeting No. 670 Dated 7 Feb 2018)



Mr. J. S.  
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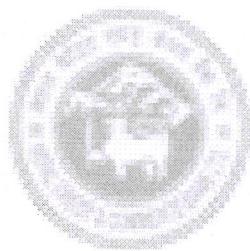
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Nepal Credit & Commerce Bank Ltd.

*Your Trusted Bank*



*[Handwritten signatures in blue ink over the seal]*

## 1. Introduction

This Policy outlines the Nepal Credit and Commerce (NCC) Bank's measures to mitigate and manage compliance risks through the adherence of prevalent Act, Rules, Regulations and Guidelines issued internally or externally from regulatory authorities. As a Bank entrusted with public monies, NCC Bank strives at carrying out its activities with the highest level of integrity and sincerity on the compliance functions. Where there is no specific procedure and restriction in laws or practices, compliance works with highest level of standards based upon the international best practices in banking industries.

### 1.1 Compliance Risk

Compliance risk is the chances of non compliances of external and internal requirements. Compliance risk exposes the Bank with both financial and non financial matters. Non compliance attracts higher level of reputational and financial losses to the Bank. Zero Tolerance on compliance is one and only objective of the Bank.

### 1.2 Compliance Officer

Compliance Officer works as the key control point for the overall compliance monitoring and controlling. Bank assigns a staff as the compliance officer for both regulatory and internal compliance purposes.

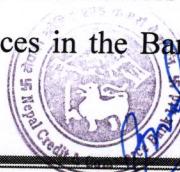
## 2. Core Values

Bank adopts six core values on the matter of compliance and good governance. These are always on top of all while conducting the activity within the Bank.

- Corporate Governance
- Zero Tolerance
- Transparency
- Professionalism
- Continuity
- Accountability and Trust

### 2.1 Corporate Governance

Board of Directors (BoD) and Management maintain highest level of Corporate Governance practices in the Bank. Corporate governance ensures the adherence of all laws and regulation



both external and internal. There will be no issue of conflict of interest. Board continuously monitors the effectiveness and efficiency of the functionality of management.

## **2.2 Zero Tolerance**

Zero Tolerance is the one and only agenda of the compliance. Non compliances shall not be tolerated. It is the responsibility of all concerned to adhere with the rules, regulations and practices being applied in the Bank.

## **2.3 Transparency**

Bank maintains the highest level of transparency and integrity. Bank shall keep wide and open mind on disclosure of its performances and activities keeping in mind the confidentiality concerned. Business is driven with the market information and Bank's information is open to all stakeholders considering the proprietary information.

## **2.4 Professionalism**

All should be sincere and honest abiding by the practices and cultural norms within the bank. Staffs maintain pleasant and polite appearances to the customers and stakeholders while dealing about the product and services. Even on the issues of complains and conflicts, staffs deal on pleasant way. Every one admits the mistakes and it is the part of job to get critical/adverse feedback and correct them. It is obvious to end the office time as specified but staying on late will ensure the better service to the customers or meet the customer expectation on that particular situation. Staffs respect the hierarchical and functional position.

## **2.5 Continuity**

It is the general tendency to start new thing but discontinue after some time. Maintaining the continuity on implementation is the primary focused activity of the compliance. It is ongoing task to keep track of compliance through continuity of monitoring. Once taken polices and strategies would be continued tirelessly.

## **2.6 Accountability & Trust**

Bank believes that without responsibility and accountability, compliance function does not work efficiently. Anyone who intentionally does not abide by the rules and regulation of the bank shall be responsible and accountable for any kind of loss. Accountable, strong and sustainable control functional structure is the key objectives of compliance functions. Whatever reports are



prepared by head office departments, branches or units, it will be assumed complete and accurate. It is the matter of trust.

### **3. Compliance Commitment**

Some of the key strategies that the Bank has taken as the compliance commitment would be the culture of the Bank. All the parties involved in the Bank are committed for achieving the policy commitments. The policy intends to have and practice the followings:

#### **A. Zero Tolerance**

Bank stands on Top of the Class in compliance and corporate governance. It maintains "Zero Tolerance" on compliances.

#### **B. Good Governance**

Bank strives for highest level of corporate governance, transparency, accountability and professionalism. Bank remains free from insider trading and conflict of interest.

#### **C. All Compliance Envoy**

Chairman, Directors, CEO, Senior Management, Executives, Department Heads, Branch Managers and All Staffs work as compliance envoy. All takes the responsibilities ensuring the zero level of non compliance in each activity.

#### **D. Compliance on DNA**

Compliance is known as the culture of the Bank. Board of Directors, the Chairman and Senior Management shall lead by example. All has the compliance consciousness.

#### **E. No Compliance- No Excuse**

As like the statement of "Ignorance of law is no excused", "No Compliance-No Excuse" will be the theme of the Policy.

#### **F. Risk Response**

Compliance is an integral part of the Bank's business activities. The identification of compliance risk, its assessment and appropriate risk response shall be the key elements to consider in any due diligence process.



#### **G. Standard Framework**

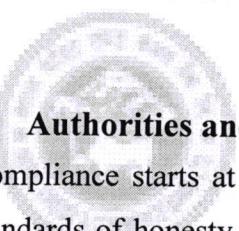
Bank staffs carry out their tasks in accordance with the designed framework applicable to the Bank and in compliance with generally accepted standards as guided by regulators, government and internal policies.

#### **H. No Interference**

Chairman and any member of the board shall not interfere in the day-to-day functioning of the management. No member of the Board, Management Committee and employees shall engage directly or indirectly in any activity which is against the interest of the Bank.

#### **I. Well Known Institution**

Develop the Bank as a top for controlling and monitoring system with the best support to Anti Money Laundering (AML) and Combating of Financing on Terrorism (CFT). Bank would have good recognition of regulators on the matter of AML/KYC activities.



## NCC Bank

#### **4. Authorities and Responsibilities**

Compliance starts at the top. It will be most effective in a corporate culture that emphasizes standards of honesty and integrity and in which the board of directors and senior management lead by example.

##### **A. Board of Directors (BoD)**

The Board shall be responsible for ensuring that an appropriate compliance policy is in place in the Bank to manage compliance risk and also overseeing its implementation. It has to ensure that compliance issues are resolved effectively and expeditiously by the management. The Board reviews compliance activities on periodical basis. The Board shall be responsible but not limited to the followings:

- Promoting a strong compliance culture;
- Ensuring that the management is capable, qualified and motivated to manage compliance risks;
- Reviewing and approving key elements of the compliance program such as policies, standards and board committee roles.



## B. Senior Management

Members of senior management are responsible for the day to day management of compliance risks and to ensure that the procedures and guidance in support of the Bank's integrity and ethical standards are adhered to in the areas for which they are responsible. This includes responsibility for ensuring that appropriate remedial or disciplinary action is taken according to the relevant procedures if breaches are identified. It shall be responsible for reinforcing the strong compliance culture. Senior management should

- Identify and assess the key compliance risk issues facing the Bank and the plans to manage them.
- Report on periodical basis at least once a year to the BoD or committee of the board on the Bank's management of its compliance risk, in such a manner so as to assist board members to make an informed judgment on whether the Bank is managing its compliance risk effectively; and
- Report promptly to the BoD or a committee of the board on any material compliance failure (e.g. failure that may attract a significant risk of legal or regulatory sanctions, material financial loss, or loss to reputation).

## C. Line Managers (Executives/Department Heads/Branch Managers/Unit Heads)

Line managers are primarily responsible to perform duties and ensure the performance in branches, departments or unit based upon the policies, procedures, manuals and circular in place. Every staffs under line managers are equally responsible for ensuring the compliance on their duties. If the compliance becomes weak at starting/working point, it will be hard to identify and correct in next level like line managers, top management and board.

## D. Head Compliance

Bank assigns the responsibility of Head of Compliance (HC) to the staff having adequate level of knowledge on overall banking activities. HC assumes overall responsibility for co-coordinating the identification and management of the Bank's compliance risk and for supervising the activities of other compliance function staffs.

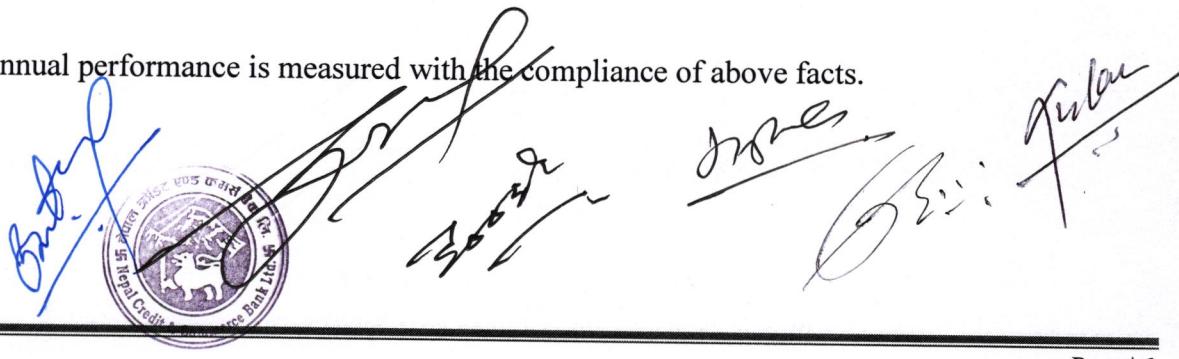
HC has access to all of the Bank's units, departments, branches and teams for the purpose of discharging its responsibilities, including the conduct of autonomous and independent functions.



**HC is responsible and authorized to:**

- Advise senior management on relevant rules and standards and ensures that the Bank is aware of, or is following, best market principles and standards.
- Develop the policies, rules, procedures and processes governing basic ethical standard in the Bank. Develop tools/awareness to raise suspicious activity/transaction reports.
- Prepare a database of relevant laws and regulations, ensuring timely access to such database by the relevant parties which may be affected by changes/updates and notifying about such changes, their impact and action taken.
- Maintain and keep on safe of all policies and manuals of the Bank on secured and confidential way.
- Ensure that new policies, rules, procedures and processes, or changes to existing ones, are effectively communicated and implemented throughout the Bank.
- Provide independent advice to management on significant integrity concerns and assesses whether the potential risk is acceptable to the Bank, in accordance with the Bank's risk appetite framework.
- Monitor the compliance with the Bank's internal policies, procedures and guidelines relating to the integrity of the Bank's clients, sponsors, borrowers, and other counterparties with whom the Bank interacts.
- Train staff through awareness raising activities in regards to integrity, Know Your Customer (KYC), Anti-Money Laundering (AML), conflict of interests and ethical matters, and acts as a contact point within the Bank for queries from staff members in respect of their obligations. One staff gets at least one training on AML and KYC matter in a year.
- Prepare national and international PEPs list and get it implemented in the Bank. He/she should ensure that PEPs are checked before opening accounts or establishing any kind of relationship in the Bank.
- Update and make follow ups that KYC procedures are completely followed on accounts.
- Other functions as assigned by the supervisor or CEO, Risk Management Committee or Board.

HC's annual performance is measured with the compliance of above facts.



In the course of discharging of duties under this policy and other relevant documents, Head of Compliance would have access to all of Bank's units, departments and teams for the purpose of discharging the responsibilities, including the conduct of autonomous and independent investigation. Specifically, HC is authorized to:

- Have an unrestricted access to the functions, records and property of the bank. Information and documents access by HC and designated compliance officer (DCO) shall be handled in the same prudent and confidential manner as required from those persons who are normally accountable for such information and documents.
- Have easy access in management and board level for functional purposes through reporting supervisor.

#### E. Staffs

Compliance of laws, regulations and standards in both personal and business conduct, and managing the compliance risk is the responsibility of every employee. Each employee must fulfill the minimum requirements of compliances in day-to-day business activities. Employees must find out what compliance obligations impact their day-to-day business activities and must make sure that they understand and meet it. Employee performance on compliance supports to meet the objectives of **Zero Tolerance** and non compliance shall be the matter of disciplinary actions.

#### 5. Line of Defense and Supervisory Role



### **1st Line of Defense – Line Management and Business Units**

Control and monitoring procedures over the compliance have to be integrated into the daily operations with clear policies and procedures. Compliance has to be reviewed on a regular basis to ensure the effectiveness and efficiency of policies in place. This ensures that management is operating within the guidelines with established control framework. Comprehensive trainings shall also be provided to staff to ensure their understanding of the control and compliance requirements.

### **2nd Line of Defense – Compliance and Risk Monitoring**

The Compliance and Risk management functions monitor the effectiveness of the established policies, procedures, circulars and directives in the Bank. It also reviews the effectiveness on the use of risk management control framework. In particular, they provide guidelines to business functions to facilitate compliance, risk management processes and support management to identify emerging risks and assist in developing internal controls. Further, irregularities identified at the functional level, if any, will be reported to the risk management and compliance teams who red-flag the risk for timely rectification and senior management's attention.

### **3rd Line of Defense – Internal Audit**

The internal audit function provides independent objective assurance to the Audit Committee on whether the compliance and control environments within the business are adequate. The internal audit function carries out independent reviews of key business processes and controls in accordance with its annual audit plan approved by the Audit Committee. The internal audit function periodically reports to the Audit Committee and has regular meetings with the chairman of the Audit Committee bringing a systematic and disciplined approach to evaluate the compliance and corporate governance in the Bank. Key findings and recommendations for improvement and the implementation progress of the internal auditor's recommendations are regularly reported to the Board through the Audit Committee. With the assistance of the Audit Committee, the Board ensures the effectiveness of compliance functions.

### **Supervisory Roles**

Senior management and Board play the effective supervisory roles. Based upon the report submitted by line management, compliance, risk management, internal audit, external audit, NRB Inspection and other reports, senior management takes the issues of non compliances and compliance risk. Senior management instantly takes actions for effective implementation of non



compliances that came into knowledge. It is the capacity, effectiveness and efficiency of management to get updated information of compliance situation within the Bank.

Board of Directors regularly reviews the report submitted by the management and make decisions for ensuring effective compliance practices in the Bank. Being ultimate responsible of compliance, board takes the matter of compliance and corporate governance sincerely and seriously.

## **6. Compliance Structure**

- A. The Compliance function shall be independent in the form of four elements:
  - I. Compliance Department shall be under the core functional line in the Bank's organizational structure,
  - II. Head of Compliance shall be empowered with overall responsibility for managing the compliance risk,
  - III. To the best possible, compliance staffs shall not be placed in position where there is a possible conflict of interest between their compliance responsibilities and any other responsibilities they may have,
  - IV. Compliance function shall have access to the information, places and personnel necessary to carry out their duties,
- B. Bank follows a centralized organizational structure for the compliance function. The Department shall be stationed at the Head Office (HO) and shall be reviewing the compliance related issues all the time.
- C. Head of Compliance (HC) shall be a staff member having adequate level of knowledge and understanding with the overall responsibility for coordinating, identifying and management of the Bank's compliance risk and supervising the activities of other compliance function staff.
- D. Compliance department shall be provided with adequate staff. Further each department in head office and branches shall have distinct compliance function and such function shall be undertaken by specifically designated compliance officer who shall report to the HC. Branch Managers and Departmental Heads shall be referred to as the Designated Compliance Officer of their respective branches and departments. Regional managers shall closely monitor and ensure that branches have maintained the compliance adequately in the respective branches under their region.



## 7. Compliance Functions and Scopes

It is the independent function that identifies, assesses, evaluates, make recommendations, monitors and reports on the Bank's compliance status and compliance risk. In general, compliance department conducts the following activities.

- a) Examining and reporting the implementation of Policies, Manuals, Administrative Instructions, Circulars, Directives and other Rules/Regulations in the Bank.
- b) Monitor and keep updates the implementation of Know Your Customer (KYC), Anti Money Laundering (AML) and Combating against Terrorist Financing (CFT) procedures in the Bank.
- c) Review, keep tracking and report the implementation status of Internal Audit Report.
- d) Review, keep tracking and report the implementation status of External Audit Report.
- e) Review, keep tracking and report the implementation status of Special Inspection Report of NRB and Regular Inspection Report of NRB.
- f) Deal on the issues and correspondences received from external agencies like: Nepal Rastra Bank, CIB, CIAA, Anti Money Laundering Department etc for timely and accurate reporting. And ensure the timely response collected and forwarded with accuracy and authenticity.
- g) Assess the appropriateness of internal Policies, Procedures, Manuals and Guidelines.
- h) Educate staffs with respect to compliance with the applicable internal and external laws, regulations, circulars, directives and manuals. Train the staff on KYC and AML at least once a year to a staff. Keep record and ensure the implementation.
- i) Identify and assess the activities which have higher level of non compliances in the Bank through sample checking, checklist, internal audit report, external audit report and other internal reporting mechanism.
- j) Prepare the annual plan and program for compliance related activities before starting the fiscal year and perform the departmental task as per the annual plan both activity plan and human resources plan.
- k) Liaise with relevant external bodies and regulators on compliance matters. Collect and report the TTR and STR on periodical basis in compliance of FIU Nepal requirements.
- l) Periodic monitoring of compliance related issues and periodically circulating the instances of compliance failures among staffs along with preventive instructions.



- m) Conduct the media monitoring and socialize if any adverse media information are observed in related with compliance risk, credit risk, operation risk or other factors affecting the Bank
- n) Provide the clarification on the matter of compliance especially on KYC, AML and Policies implementation. It will be the point of contact for any kind of clarification on the matter of compliance.
- o) Compliance Department shall, at frequent intervals, interact with Company Secretary, Legal Department, Risk Department and Internal Audit Department etc of the Bank to update the latest developments.
- p) Annual Report on compliance failures/breaches shall be compiled and placed to CEO and circulated to all the functional heads. Non-compliance of any regulatory guidelines and administrative actions taken against the bank along with corrective steps taken to avoid recurrence of the lapses shall be disclosed in the report.
- q) Compliance Department shall monitor timely submission of regulatory returns by the controlling offices through appropriate mechanism, such as a Monthly Returns Calendar, which may indicate the returns/reports to be submitted by each branch/controlling office and their dates of submission.
- r) Circulate instances of compliance failures among staff along with the identified risk and preventive instructions at least quarterly but preferably once a month.

## 8. Designated Compliance Officer (DCO)

Designated Compliance Officers are those staffs who are assigned to look after the issues of compliance functions in the departments and branches. In general, or not specifically assigned otherwise, department head or branch manager or unit head shall be known as designated compliance officer. The roles and responsibilities of DCO shall be as follows:

- a) Update information about the compliance of applicable rules, regulations, manuals, circulars and directives/guidelines issued by NRB and by the Bank.
- b) Play a proactive role in assisting the HC on latest developments on compliance related matters.
- c) Report the HC on compliance related matters concerning the units/departments under their responsibility.
- d) Actively involved in drafting of compliance program of the unit/branch/ Department.



- e) DCO constantly communicate and coordinate with the head of compliance on compliance related matters.
- f) Ensure activities and assignments as given by the HC are carried out and report in a timely manner to the HC.
- g) Create an open and receptive attitude towards compliance.

## 9. Compliance Department

Bank shall have strong, independent and active compliance department for monitoring and controlling the functions. Department prepares periodical report about the compliance status on quarterly basis and submit to the Chief Risk Officer (CRO) and CEO. CRO further submit the report to Risk Management Committee for review. The report shall incorporate compliance related matters categorizing the compliance risk as high, medium and low. Recommendations for mitigating compliance risk shall also be part of the report. Compliance department will be equipped with adequate qualitative staffs. It shall maintain highest level of confidence over the information obtained during the course of job. In order to keep the compliance staff up-to-date on banking knowledge, training shall be provided regularly.

## 10. Compliance Program

- A. Compliance program shall be prepared by the HC to carry out the compliance activities in a planned manner. The program should adequately cover all the key business/functions areas of the Bank including KYC and AML regime.
- B. Bank shall carry out an annual compliance risk assessment in order to identify and assess major compliance risks faced and prepare a plan to manage the risks. The annual review should broadly cover the following aspects:
  - Compliance failures, consequential losses, regulatory action and steps taken to avoid recurrence of the same
  - List of all major regulatory guidelines issued during the preceding year and steps taken by the Bank to ensure compliance
  - Independence of compliance function
  - Scope of compliance procedures and processes
  - System of internal control to minimize compliance risk



- Compliance with fair practices, codes and adherence to standards set by self regulatory bodies and accounting standards
  - Progress in rectification of significant deficiencies pointed out in the internal audit, statutory audit and NRB inspection reports and position of implementation of recommendations made therein.
  - Strategy for the next year including restructuring of compliance department, if necessary, posting/transfer/training of staff
- C. Apart from the exhaustive annual review, a quarterly report on the position of compliance risk shall be put up to Risk Management Committee through CRO and CEO. A brief report on the compliance functions along with KYC/AML shall be placed to board through CEO and RMC on quarterly basis.
- D. The activities of the compliance function should be subject to annual review by the internal audit. Compliance risk shall be included in the risk assessment methodology of the internal audit function and the audit program shall cover the adequacy and effectiveness of the bank's compliance function including testing of controls commensurate with the perceived level of risk.

## **11. Guidance and Education**

Compliance advises and assists the senior management on compliance laws, rules and standards, including keeping them informed on developments by establishing written guidance. Management also takes support and view of compliance on each initiative and developments of products and services. Though being independent, it works on supportive role on overall development of organization in terms of business and governance.

## **12. Implementation and Review**

This Policy will be effective upon the approval of BoD. It shall be reviewed annually. In case there is a conflict between the contents herein and laws, instructions and regulations issued by regulators or legislators, the stricter provisions shall be applied.

