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Responsible:

Compliance & Money
Laundering

Compliance Policy

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1 Preamble

Pursuant to Section 25a (1) of the German Banking Act (KWG) in conjunction with AT 4.4.2 of BaFin Circular 09/2017 (BA) - Minimum Requirements for Risk Management (MaRisk) dated 27 October 2017, Middle East Bank, Munich Branch (MB) must establish a MaRisk compliance function to ensure compliance with legal requirements. This applies in particular to areas with special inherent risks. The compliance organisation is established as part of its internal control system.

Compliance is a key tool for promoting and maintaining business relationships. A strong compliance function increases trust towards the bank. Implementing and actively living a compliance culture is essential for the bank and must extend across the entire value chain of products and services offered to clients. MB's business model is significantly dependent on compliance. Against the backdrop of past and current sanctions regimes, the Bank's focus is on the full implementation of compliance, anti-money laundering, counter-terrorist financing and prevention of other criminal acts standards. Transparent, complete and timely communication of potential compliance breaches within the Bank and to the supervisory authorities is therefore an integral part of the Compliance & Money Laundering organisation.

2 Compliance culture

An appropriate organisational structure and culture are the foundations for the effectiveness of MB's compliance programme. Culture is a combination of habits and beliefs regarding compliance. Management sets the core values and expectations for the company. Transparent and exemplary behaviour on the part of management is one of the main components of MB's compliance culture. MB's compliance culture focuses on raising employee awareness of regulatory requirements and on the early identification of emerging and potential compliance risks. The Compliance function works continuously to raise awareness of compliance among all employees of the Bank and to create an atmosphere that fosters a culture of compliance. The Executive Board has defined and recorded the way we conduct business, compliance and management of risks in the Code of Conduct.

The MB Executive Board has overall responsibility for compliance. In order to fulfil the compliance tasks, the management has established an appropriate, permanent and effective compliance function that performs its tasks independently. It is directly subordinate to the management and bundles the tasks of the KWG compliance function and also includes money laundering and fraud prevention.

3. tasks of the compliance organisation

Compliance is responsible for the following topics:

- the implementation and further development of the compliance organisation,
- advising the Executive Board,
- the assessment of the effectiveness of the control environment,
- ensure that the bank has developed and implemented effective controls to minimise risk.

It is the MB's goal to comply with, monitor and control all relevant laws, regulations, codes of conduct, organisational standards of practice and internal instructions at all times. This significantly reduces the risk of non-compliance. The bank acts independently, i.e. no decisions and services are outsourced or ceded.

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On the one hand, the tasks of Compliance relate to the observance of statutory regulations. On the other hand, Compliance is also responsible for fulfilling the tasks of the Compliance Organisation according to §25 a of the German Banking Act (KWG) and its concretisation by the Minimum Requirements for Risk Management (MaRisk) AT.4.4.2. This includes both identifying the legal regulations and requirements that are important for the bank and working towards their compliance.

3.1 Risk analysis

Compliance risk is defined as the danger to the financial or organisational set-up or reputation of the company due to possible breaches of laws, regulations, codes of conduct or organisational standards in practice. Compliance risks can materialise in compliance breaches. Compliance breaches are events that are very likely to cause both direct losses and indirect effects such as serious reputational damage to stakeholders such as the public, customers and regulators.

Compliance conducts an analysis annually, as well as on an ad hoc basis, to determine the legal regulations and requirements that are essential for the Bank in order to determine the scope and focus of its activities. Special occasions can be adjustments in the business model, new legal framework conditions as well as compliance cases of other institutions.

The risk analysis serves to create a bank-wide compliance risk map, on the basis of which the necessary controls are to be determined, if applicable. In this process, both the consequences resulting from the legal regulations and the handling of the obligations within the institution are determined. In addition to the audit results of the internal and external audits, the assessment of the risk controlling also flows into the determination of the risk.

3.2 Consultation and co-design

Compliance advises and supports the Bank's divisions with regard to the standards to be complied with and, in particular, is available to employees as a contact and advisor in their daily work. Compliance determines whether the policies, means and procedures that the Bank has established or wishes to establish are designed to ensure that MB and its employees comply with the obligations of the laws and regulations and participates in the creation of new policies and procedures within the Bank. In addition, Compliance has an advisory role to management to enable them to fulfil their duty to comply with the material legal rules and regulations.

Compliance advises the operating divisions in particular on all strategic decisions and significant organisational changes in accordance with AT 8.1 No. 5 MaRisk - such as in the decision-making process regarding the design of processes for new products.

Compliance ensures that conflicts of interest are avoided in the interest of the client or are managed in such a way that the client is not harmed. This may also mean disclosure of the conflict of interest. In this regard, compliance is also involved in the identification and design of the sales objectives of the sales staff as well as in the design of the remuneration system and in the design of the processes for monitoring employee transactions in the company.

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3.3 Communication & Training

Communication and training are core components of an effective compliance programme. Active communication within the Bank ensures that managers and all employees are aware of the core values and expectations and the consequences of violating them. As part of its remit, Compliance develops various training programmes covering the legal and regulatory requirements that MB employees need to know in their respective areas of activity. The Bank conducts regular training to inform and educate on the Bank's principles of conduct, policies and work instructions.

3.4 Monitoring and control actions

Compliance carries out risk-based monitoring and control activities on the basis of a monitoring and control plan, which is intended to ensure that the established principles and precautions are complied with. The monitoring & control plan covers all material areas of the Bank, taking into account the risk content of the business areas. Compliance reacts immediately to unforeseen events and, if necessary, adjusts the focus of the monitoring and control activities accordingly.

In addition, the monitoring & control plan is designed to ensure that compliance risks are comprehensively monitored. It specifies the focal points for the monitoring and control activities in accordance with the risk analysis. The scope, range and frequency of the monitoring and control activities to be defined in the monitoring plan as well as the selection of the appropriate instruments and methods are also determined by Compliance on the basis of the risk analysis.

3.5 Contact with supervisory and investigative authorities

Compliance maintains contact with the supervisory authorities on an ad hoc basis and is responsible for responding to requests for information and from investigative authorities insofar as it relates to Compliance's area of responsibility.

3.6 Reporting

Compliance prepares a report on its activities once a year for the Executive Board in order to provide information on compliance-relevant issues. Compliance regularly informs the Executive Board about compliance-relevant issues, identified deficits as well as recommendations/measures that have been introduced or already initiated to remedy the deficits and immediately about current findings.

In addition to the information in the report, Compliance informs the management about significant findings, serious violations, compliance-relevant facts, identified deficits as well as measures introduced or already initiated to remedy the deficits by means of an ad hoc report. The report contains a proposal regarding remedial measures to be taken.

3.7 Whistle Blowing

A whistleblowing system has been established.

3.8. Compliance Monitoring & Continuous Enhancement

One of the key objectives of monitoring is to determine whether the compliance programme contains the elements generally considered necessary to adequately protect MB from unlawful acts by managers, employees and third parties.

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A high compliance culture and monitoring activities are key to the early identification of potential aberrations or risk trends and provide evidence as to whether the control system is operationally effective. Such testing and monitoring positions the MB to identify issues in a timely manner and also to respond to regulatory changes that may impact business and compliance requirements, processes and controls. In order to comply with the MaRisk requirements, MB has installed the New Regulation Monitoring Process. Another aspect of the MaRisk requirements is the regular monitoring of the industry, customers and specific events. For this reason, regular reviews are carried out and analysed by the MB.