

Bank of Cyprus



Anti-money Laundering/Combating Terrorism Financing Risk Appetite Framework

November 2023

1. Introduction

1.1 Objective

The Bank of Cyprus' ("BOC" or "the Bank") Anti-Money Laundering and Combating Terrorism Financing Risk Appetite Framework (AML/CTF RAF) relates to "Compliance Risk" which is defined as ***"the risk of impairment to the organization's business model, reputation and financial condition from failure to meet laws and regulations, internal standards and policies and expectations of key stakeholders such as shareholders, customers, employees and society as a whole."***

The three main risks concerning Money Laundering and Terrorist Financing and the Risk Appetite associated with those risks, are:

1. Financial Crime Compliance Risk
2. International Sanctions Compliance Risk
3. Regulatory Compliance Risk

This document provides a framework for the Board of Directors and executive management and defines the approach and tolerances more clearly.

In establishing the Bank's AML/CTF Risk Appetite Framework and procedures, the following areas have been considered:

1. Legal/Regulatory requirements
2. Bank procedures
3. On-site / Off-site audits by the Bank's regulators
4. AML/CTF Risk Control Self Assessments
5. AMLCO Annual Risk Management Report / Sanctions Risk Report
6. Internal Audit reports and
7. Feedback from correspondent banks.

Regulatory Framework and Best Practices

BOC's primary focus with respect to AML is to operate in countries that are members of the Financial Action Task Force ("FATF") or Moneyval. Cyprus has enacted laws and regulations designed to implement the AML/Combating Terrorist Financing ("CTF") guidelines of both FATF and the EU. BOC has implemented an AML/CTF and Sanctions program that is designed to comply with:

1. the Cyprus AML Law 188(I) 2007 (as subsequently amended)
2. the 5th issue of Central Bank of Cyprus (CBC) AML Directive as a minimum standard
3. the Law 58 (I) of 2016 and the CBC Directive for Compliance with the provisions of UN Security Council Resolutions and the decisions / regulations of the Council of the European Union

The Bank also complies with sanctions regulations issued by the US Department of Treasury's Office of Foreign Assets Control ("OFAC") and by HM Treasury's Office for Financial Sanctions Implementation.

It also covers important restrictive measures imposed by other US authorities such as the Department of Commerce, where a US nexus is established.

It has also relied on the Wolfsberg AML principles, as well as the Wolfsberg statement concerning terrorist financing.

Finally, it also adheres (i) to certain requirements of the Patriot Act related to the Bank’s obligations as a responded bank, as well as (ii) certain requirements of the Patriot Act pertaining to the operation of correspondent banks in the USA which can be applied by overseas financial institutions as well.

1.2 Scope of Application, Approval Process and Updating

Scope of Application

The AML/CTF RAF is applicable at Bank of Cyprus Group level, including the Bank (Bank of Cyprus Public Company Limited) and all other non-banking subsidiaries.

Approval Process and Updating

The AML/CTF RAF is approved by the Audit Committee.

The AML/CTF RAF is updated on an annual basis and on an ad-hoc basis in cases where the prevailing economic conditions and/or significant internal developments and/or regulatory guidance demand so.

The update process follows an established procedure which includes:

1. An updated version is compiled by the Financial Crime and Sanctions Compliance Department and released to the CCO.
2. Upon review from the CCO it is submitted to the AC for approval.

Common indicators between the Group RAF and AML/CTF RAF are updated and reviewed in accordance with the procedure set out in the Group RAF.

2. Abbreviations

Abbreviation	Definition
AML	Anti-Money Laundering
AML/CTF RAF	Anti-Money Laundering and Combating Terrorism Financing Risk Appetite Framework
BoC	Bank of Cyprus
CBC	Central Bank of Cyprus
CCO	Chief Compliance Officer
CTF	Combating Terrorism Financing
EU	European Union
FATF	Financial Action Task Force
FC&SCD	Financial Crime and Sanctions Compliance Department
Group RAF	Group Risk Appetite Framework
Joint AC/RC	Joint Audit / Risk Committee
ML	Money Laundering

Abbreviation	Definition
OFSI	Office of Financial Sanction implementation
PEP	Politically Exposed Person
RCSAs	Risk Control Self Assessments
TF	Terrorism Financing

3. General Principles

3.1 Risk Based Approach in establishing the Risk Appetite

In establishing the AML/CTF Risk Appetite, a risk-based approach was followed as per the FC&SCD's AML Risk Assessment Methodology, which considers the main categories of AML risk criteria being:

1. Customer Risk
2. Country Risk
3. Product Risk
4. Transaction Risk
5. Industry Risk
6. Distribution Risk

Where:

1. **Customer Risk** - Guidelines from various authorities (FATF, EU, CBC etc) are used in deciding the various characteristics of customers that are considered to pose higher risk. For higher risk clients, these are either classified as outside the Bank's risk appetite and are not to be transacted with (e.g. dealing in certain industries such as adult entertainment, arms and military equipment, etc.), or they are subjected to enhanced due diligence before been accepted (e.g. PEPs, client accounts, etc.).
2. **Country Risk** - The risk appetite statement recognises that certain countries (based on the Bank Country Risk Methodology) pose potential money laundering risks, and this factor is taken into account when risk assessing clients.
3. **Product Risk** - Certain products and services offered by the Bank may pose a higher risk of money laundering or terrorist financing depending on the nature of the specific product or service offered. Such products and services may facilitate a higher degree of anonymity or involve the handling of high volumes of currency or currency equivalents.
4. **Transaction Risk** - Certain transactions performed by the Bank's customers may pose a higher risk of money laundering or terrorist financing depending on the nature of the transaction. Such transactions may involve intensive use of cash or wire transfers to countries considered as high risk, or transactions which are identified by correspondent banks and inquired into.
5. **Industry Risk** - The Bank has identified specific categories of customers, who, based on their industry activities, are considered to pose higher risk.
6. **Distribution Channel Risk** - A distribution channel refers to the route through which banking products or services reach the Bank's customers. At the most basic level, the Bank can engage in direct contact with customers. In some cases, however, the distribution of services/products involves the use of other channels, posing higher ML/TF risk.

The customer acceptance policy is designed to consider the various factors based on the above risk-based approach analysis.

3.2 Capital Adequacy and Liquidity of the Bank

Capital requirements emanating from ML/TF risks are calculated under the ICAAP exercise within the context of the calculation of Pillar II capital set aside for operational losses. In this respect, scenarios are drafted relating to either Money Laundering, Terrorist Financing or Sanctions Risk and historical data as well as existing mitigating measures are considered to calculate the expected loss in case the scenario crystalizes. Operational losses could be in the form of penalties, loss of business, legal/operational expenses or any other costs relevant to each scenario.

The provisions set out in this document are considered when selecting and drafting scenarios for the purposes of calculating capital requirements emanating from ML/TF risks.

In case operational losses are expected to influence cash flows, their impact on the liquidity stress tests and on the different liquidity matrices are evaluated by Market Risk.

3.3 Staff Awareness, Training and Alertness

The AML/CTF RAF expects that a clear and well-articulated framework for ensuring that relevant employees are aware of their obligations in respect to the prevention of Money Laundering and Terrorist financing is always in place. In addition, adequate annual training is provided to employees for the identification and reporting of suspicious transactions. The training provided must be commensurate to each staff member's duties and relevant ML/TF risks it is exposed to.

4. AML/CTF Risk Appetite Framework

The AML/CTF Risk Appetite with respect to higher risk clients revolves around the establishment of ongoing processes of developing, updating and implementing internal controls, in order to detect, prevent and minimize likelihood of BOC being used for ML/TF/Sanctions violation. Within these processes appropriate measures and controls are utilised to mitigate the potential risk of those customers/transactions that are determined to be higher risk as a result of the Bank's risk assessment process. These measures include:

1. Increased awareness of higher risk situations within business lines across the Bank through enhanced ML/TF risk scoring and monitoring systems and through specialised training
2. Increased levels of know your customer ("KYC") and know your customer's business ("KYCB") procedures and the application of enhanced due diligence for higher risk clients / transactions.
3. Escalation for approval of the establishment of a new or the maintenance of an existing business relationship for higher risk clients.
4. Ongoing monitoring of transactions
5. Increased levels of ongoing controls and reviews of relationships

4.1 Qualitative Statements

1. Financial Crime Compliance Risk

The Bank maintains zero tolerance for Money Laundering (ML)/ Terrorist Financing (TF) risk. The Bank is obliged to transact its business so as to ensure it minimizes the risk of its systems and processes, and those of its affiliates, being used for ML or TF purposes.

2. International Sanctions Compliance Risk

No tolerance for violations of sanctions or other measures imposed by American Authorities such as the US Department of Treasury’s Office of Foreign Assets Control (OFAC), the United Nations, the European Union and the United Kingdom’s Her Majesty’s Treasury. In case of such deviations, immediate rectification and investigation actions shall be enacted.

No tolerance for deviations from Group Sanctions Policy with regards to the opening of accounts / transacting in US Dollars for / by persons connected with countries subject to strict sanctions as per Appendices 2 & 3 of the Group Sanctions Policy.

3. Regulatory Compliance Risk

The Bank ensures that it adopts all regulatory, legal and compliance requirements and values in a proportionate way that satisfies the requirements of the regimes in a pragmatic, cost-effective and ethical manner.

The Bank maintains a zero tolerance for regulatory fines. Consequently, non-compliance to regulatory requirements shall immediately trigger mitigation/ rectification actions.

The Bank is committed to and sets out relevant controls and procedures for the protection of its clients and all other stakeholders.

4.2 Quantitative Statements

The following Quantitative Statements have been set:

1. The percentage of blocked not reviewed (CCM) high to total number of high-risk clients, should not exceed 10%. Furthermore, this limit is also set at division level.
2. The percentage of high-risk customers to overall customers should not exceed 1.6%. Furthermore, this limit is also set at division level.

Tier	Indicator	Thresholds		
		Business as usual (Risk Tolerance)	Early warning	In breach
II	% of blocked not reviewed high risk customers to total number of high-risk customers	<10,0%	10,0% – 12,0%	>12,0%
	01 - Personal	<10,0%	10,0% – 12,0%	>12,0%
	02 - Business	<3,0%	10,0% – 12,0%	>4,0%

Tier	Indicator	Thresholds		
		Business as usual (Risk Tolerance)	Early warning	In breach
	03 - Corporate	<2,0%	2,0% - 2,5%	>2,5%
	06 – IBU & International Corporate	<5,0%	5,0% - 6,0%	>6,0%
	07 - RRD	n/a	n/a	n/a
II	% of high-risk customers to total number of active customers	<1,6%	1,6%-3,0%	>3,0%
	01 - Personal	<0,65%	0,65%-1,73%	>1,73%
	02 - Business	<4%	4%-7,0%	>7,0%
	03 - Corporate	<12,0%	12,0%-17,0%	>17,0%
	06 - IBU& International Corporate	<12,85%	12,85%-18,0%	>18,0%
	07 - RRD	<2,5%	2,5%-7,0%	>7,0%