

Risk Appetite Statement and Guidelines in Relation to Mitigating Risk Pertaining to Money Laundering and Terrorist Financing

1. Introduction

ML/TF Risk Appetite

The Bank of Cyprus' ("BOC" or "the Bank") Risk Appetite Statement makes reference to "Compliance Risk" and states that

"The Bank maintains a zero tolerance for regulatory / compliance risk. It aims to comply with all regulatory requirements and thus avoid all penalties. The Bank must ensure that it adopts all regulatory, legal and compliance requirements in a proportionate way that satisfies the requirements of the regimes in a pragmatic, cost effective fashion. The on-going cost of compliance is a cost of doing business and should not be material in terms of annual income."

Going a step further, the Board's risk appetite with respect to Money Laundering / Terrorism Financing (ML/TF) risk is as follows:

The Bank maintains a zero tolerance for ML/TF risk. The Bank is obliged to transact its business so as to ensure it minimises the risk of its systems and processes, and those of its affiliates, being used for ML or TF purposes. BOC adopts risk appetite and practices which place it at the "best practice" end of international standards, in relation to preventing Money Laundering and Terrorism Financing abuses.

This document provides a framework for executive management and the Board of Directors to more clearly define our approach and tolerances in this regard.

Regulatory Framework and Best Practices

BOC's Group primary focus with respect to AML is to operate in countries that are members of the Financial Action Task Force¹ ("FATF"). Cyprus, its primary market and, through its membership in the EU, has enacted laws and regulations designed to implement the Anti Money Laundering (AML) /Combating Terrorist Financing ("CTF") guidelines of both FATF and the EU.

¹ FATF is the global standard setting body for anti-money laundering and combating terrorism financing.

BOC has implemented an AML program that is designed to comply with the Cyprus AML Law 188(I) 2007 (as subsequently amended) and the 4th issue of Central Bank of Cyprus AML Directive as a minimum standard throughout the BOC Group. It has also relied on the Wolfsberg² AML principles as well as the Wolfsberg statement concerning terrorist financing.

The BOC Group has developed a global framework of policies, guidelines, processes and controls in relation to AML & CTF / Sanctions & Embargoes which are applicable across the Group.

The Group ensures that its foreign branches and its owned subsidiaries apply AML/CTF measures consistent with the home country requirements and implementing Group Risk Models. Where there is conflict between local regulatory requirements and the group's FATF and EU compliant Rules and Laws, the stricter rules will apply.

2. Measures and Controls for Higher Risk Situations

The Bank's 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. Within these processes appropriate measures and controls are utilised to mitigate the potential money laundering 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:

- Increased awareness of higher risk situations within business lines across the Bank through enhanced and specialised training
- Increased levels of know your customer ("KYC") and know your customer's business ("KYCB") or enhanced due diligence
- Escalation for approval of the establishment of a new or the maintenance of an existing business relationship
- Ongoing monitoring of transactions
- Increased levels of ongoing controls and reviews of relationship

² The Wolfsberg Group is an association of eleven global banks, which aims to develop financial services industry standards, and related products, for Know Your Customer, Anti-Money Laundering and Counter Terrorist Financing policies.

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