GROUP POLICY: MONITORING OF FINANCIAL/ TAX EXCHANGE INFORMATION

1. PURPOSE AND SCOPE OF POLICY

The landscape of international tax reporting between different jurisdictions is rapidly evolving as part of a global initiative to enhance and improve tax transparency.

The Foreign Accounts Tax Compliance Act (FATCA) was implemented by the USA in 2014, aiming to combat tax evasion by U.S. taxpayers using offshore accounts, and to ensure that the Internal Revenue Service ("**IRS**") can identify and collect the appropriate amount of tax from all U.S. persons. Several countries signed Intergovernmental Agreements with the USA, in order to facilitate the implementation of FATCA provisions by Financial Institutions ("**Fis**") in their jurisdictions. FATCA came into effect in Cyprus on 02/01/2015.

Following FATCA and in a global effort to improve tax transparency, the OECD promoted the implementation of the Common Reporting Standard ("**CRS**") which provides for the automatic exchange of information between participating jurisdictions. Currently more than 100 jurisdictions participate in this OECD's initiative. The CRS was implemented in Cyprus on 01/01/2016, along with 57 other jurisdictions, signed on as early adopters.

While CRS is heavily influenced by the FATCA, it has a broader scope and affects a significantly larger number of customers.

DAC6 refers to EU Council Directive 2018/882/EU. It was introduced on 25 May 2018 and provides for mandatory disclosure rules for intermediaries (and in some cases, taxpayers) in respect of cross-border arrangements affecting at least one EU member state, exhibiting certain "hallmarks". The main aim of the Directive is to provide tax authorities with an early warning mechanism on new risks of tax avoidance and thereby enable them to carry out audits more effectively. Prior to the Directive, there was no requirement under EU legislation to report such cross-border arrangements.

The Group is committed to the highest standards to comply fully with tax initiatives, relevant legislation, and regulations (including Intergovernmental Agreements, Competent Authority Agreements and EU Directives), local country guidelines (including Decrees, Guidance Notes etc.) as well as best practices that govern the automatic exchange of financial and tax information. The purpose of this Policy is to set out the general principles to ensure that the Group establishes, implements, and maintains effective policies and procedures for full compliance with the relevant FATCA, CRS and DAC6 framework.

This Policy applies to all Group Entities to the extent possible, given the regulatory framework within which they operate. The content of this Policy is mandatory and represents the minimum standards which apply throughout the Group which includes Bank of Cyprus Public Company Ltd and its subsidiaries.

2. ABBREVIATIONS

Within this document, the following abbreviations are used:

Abbreviation	Definition
ACB	Association of Cyprus Banks
AEOI	Automatic Exchange of Information
AML/KYC	Ani-Money Laundering / Know Your Client
CEO	Chief Executive Officer
CRS	OECD's Common Reporting Standard
DAC6	Directive 2011/16/EU on administrative cooperation in the field of taxation
EU	European Union
FAQ	Frequently Asked Question
FATCA	Foreign Accounts Tax Compliance Act
FFI	Foreign Financial Institution
FI	Financial Institution
CD	Compliance Division
ICPAC	The Institute of Certified Public Accountants of Cyprus
IGA	Intergovernmental Agreement
IT	Information Technology
CL	Compliance Liaison
OD	Organisation Department
OECD	Organisation for Economic Co-operation and Development
RO	Responsible Officer
USA	United States of America
US IRS	Inland Revenue Services of the United States of America

3. DEFINITION OF TERMS

For the purpose of this policy, the terms listed below have the following meaning:

1. **Bank**
   Means "Bank of Cyprus Public Company Limited"
2. **Group**
   Means "Bank of Cyprus Public Company Limited, its ultimate holding company and its subsidiaries".
3. **Hallmark**
   Refers to a characteristic or feature of a cross-border arrangement that presents an indication of a potential risk of tax avoidance. An EU Intermediary reports a cross-border arrangement that contains at least one the following:
   a. Generic hallmarks linked to the Main Benefit test,
   b. Specific hallmarks linked to the Main Benefit test,
   c. Specific hallmarks related to cross-border transactions,
   d. Specific hallmarks concerning automatic exchange of information and beneficial ownership or
   e. Specific hallmarks concerning transfer pricing.

The Main Benefit Test means that one of the main objectives of the arrangement is to obtain a tax advantage.

4. Intermediary

Means any person that 'designs, markets, organises or makes available for implementation or manages the implementation of a reportable cross-border arrangement' or 'knows or could be reasonably expected to know that they have undertaken to provide, directly or by means of other persons, aid, assistance or advice with respect' to such activities.

a. An arrangement is regarded as cross- border if it either concerns more than one Member States, or a Member State and a third country AND meets any of the following criteria:
    a. Not all participants in the arrangement are tax resident in the same jurisdiction.
    b. A permanent establishment linked to any of the participants is established in a different jurisdiction and the arrangement forms part of the business of the permanent establishment.
    c. At least one of the participants in the arrangement carries on activities in another jurisdiction without being resident for tax purposes or creating a permanent establishment situated in that jurisdiction.
    d. At least one of the participants has dual residency for tax purposes.
    e. Such an arrangement has a possible impact on the automatic exchange of information or the identification of beneficial ownership.

5. Responsible Officer - FATCA CRS

The role of the Responsible Officer (RO) is relevant only in relation to FATCA and CRS. The RO has the appropriate authority and seniority to execute his/her responsibilities.

Responsibilities are as follows:

- Act as the central point of contact with external stakeholders such as the local tax authorities as well as internal stakeholders for CRS and FATCA compliance and related issues.
- Register the Reporting FI to the local and US IRS (as applicable) as per regulatory requirements.
- Ensure timely communication and implementation of the policies and procedures in relation to the Exchange of Financial and Tax Information, across the FI.
- Ensure the development and maintenance of effective internal controls to ensure compliance with the regulations.
- Ensure compliance with the relevant regulatory framework. Therefore he/she ensures that the FI adopts such a compliance program that allows him/her to certify compliance with the relevant regulatory framework to the tax authorities as and when requested.
- Review findings of Internal Audit, Compliance, Risk Management and Line Directors' (via CLs) in relation to FATCA/CRS compliance and ensure that that the appropriate procedures and remedial actions have been performed across the organization.
- Make certifications to the Tax Authorities and other external stakeholders as and when required (including provision of Self-certifications).

  A procedure is in place to support this Policy, with all documents/confirmations templates (and frequency) of completion.

6. Central Team - DAC6

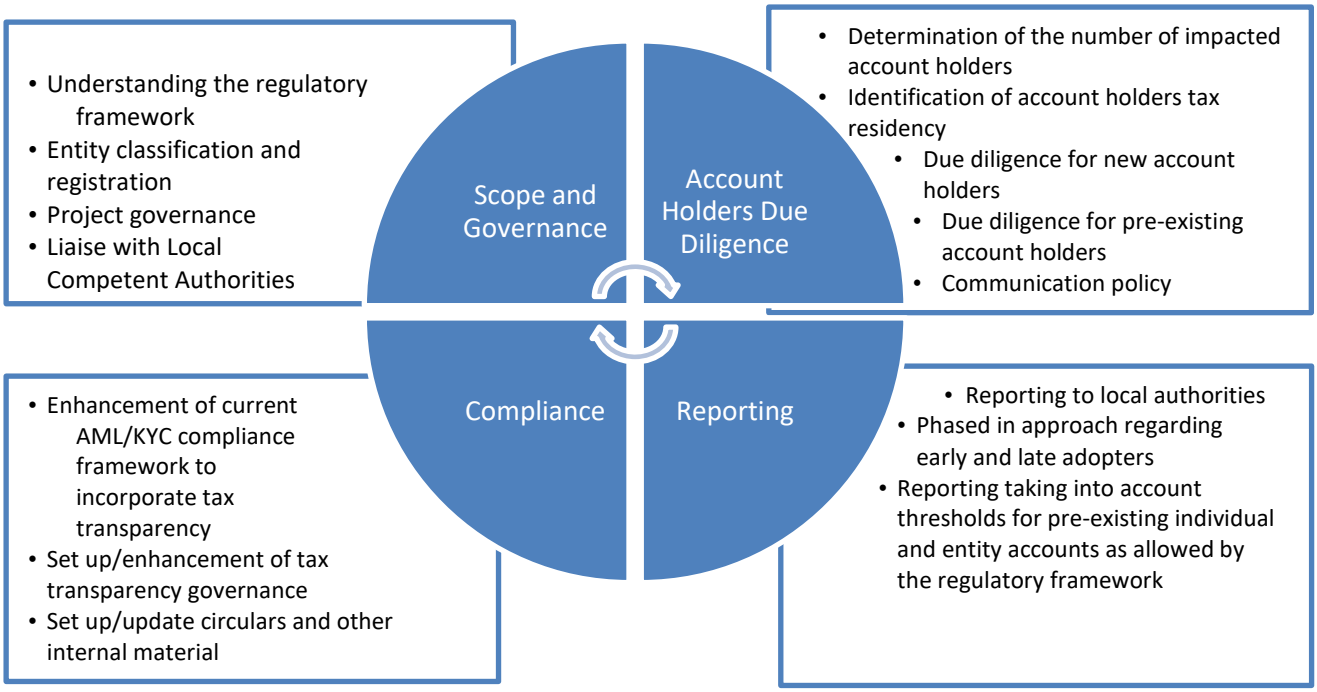
The role of the Central Team is relevant only in relation to DAC6. The Central Team undertakes the ongoing oversight of the project on implementation and provides support on an ongoing basis. The Central Team consists of the coordinator, and members from the Compliance Division, IBU & International Corporate-Shipping and Finance Division. Its duties are set out below:

- Set policies and procedures (e.g., for new transactions).
- Ensure consistent application / interpretations within the Bank.
- Coordinate people from various departments and business units (e.g., Compliance, Risk, Policies and Regulations, IT, Legal etc.).
- Communicate with the ACB and the tax authorities.
- Establish an escalation policy (e.g., for queries, to assess new arrangements, when to seek external support etc.).
- Monitor and observe data to identify new products (if applicable) for which there is a need to develop a policy.
- Revisit policies / procedures because of deficiencies identified from internal / external reviews.
- Follow up on data analytics (from tool) as to whether there is appropriate compliance (amount of reports / engagement of teams etc.).
- Consider policy in cases where different teams are involved with the same client (e.g., interaction of IBU with Wealth Management etc.).
- Revisit and update lists (e.g., no-tax / low-tax / non-cooperative jurisdictions).

4. GENERAL PRINCIPLES

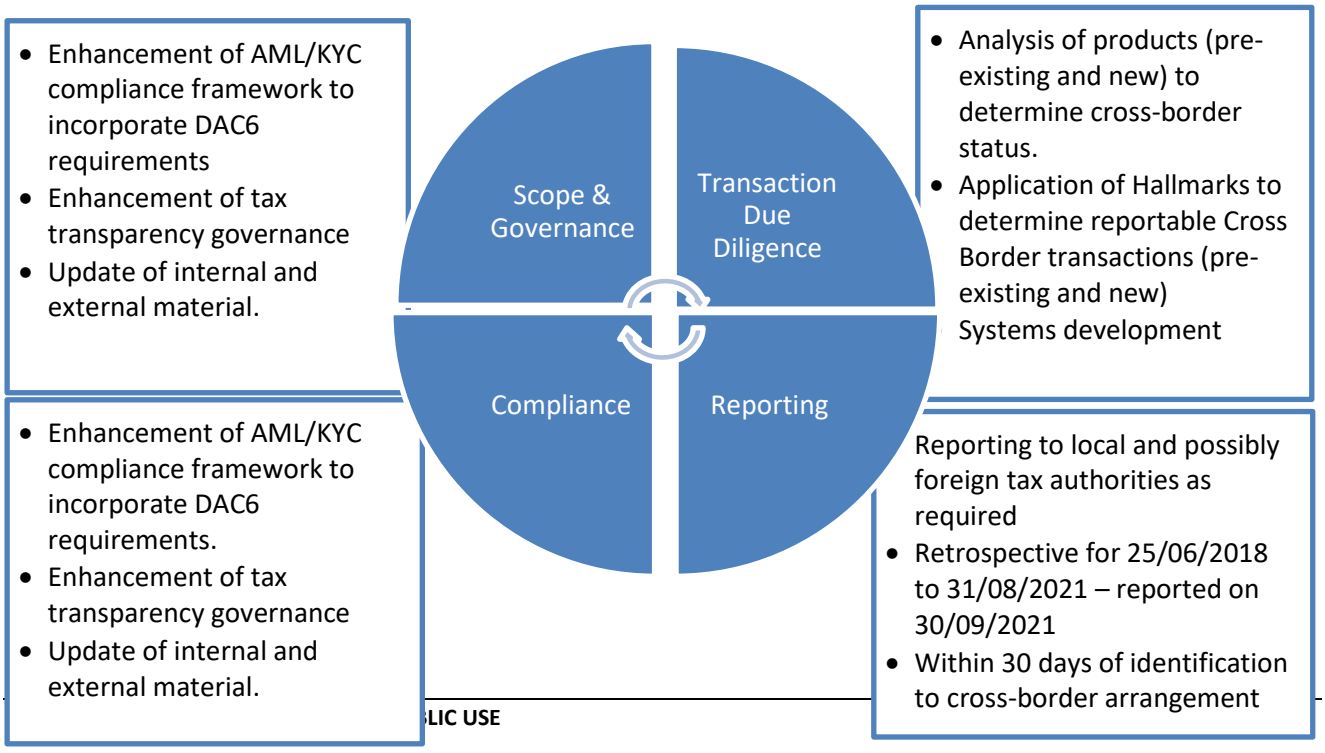
The Group performs its responsibilities in accordance with the provisions of the legal and regulatory framework governing the automatic exchange of financial and tax information.

There are four main cornerstones that are addressed to achieve compliance with the relevant regulatory framework for FATCA and CRS, as shown in the diagram below:



Whereas FATCA and CRS set the information standards for the Automatic Exchange of Information (AEOI) regarding bank accounts on a global level, between tax authorities, DAC6 requires EU intermediaries (including banks, accounting firms, law firms, corporate service providers and certain other persons) involved in cross-border arrangements to make a disclosure to their tax authority if certain requirements are met.

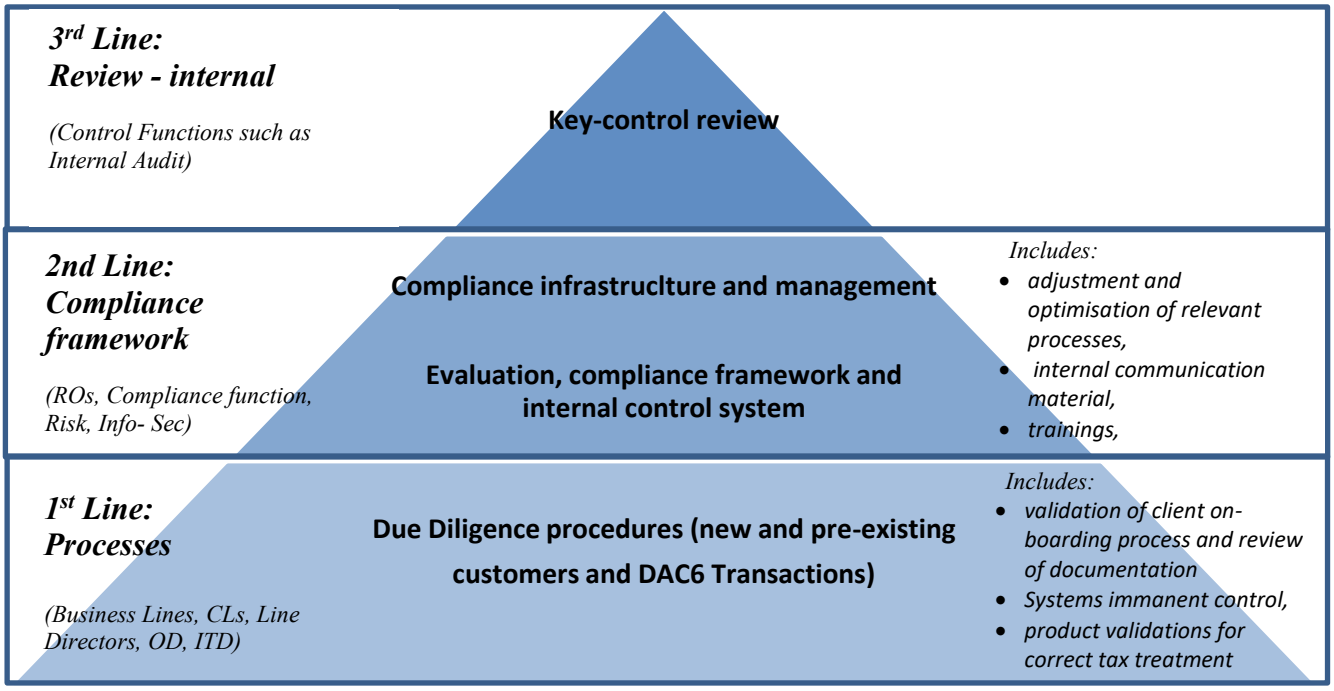
The four main cornerstones that are addressed to achieve compliance with the relevant regulatory framework for DAC6, are shown in the diagram below:



Each FI enhances its AML/KYC compliance framework to encompass the requirements of the tax transparency framework. Documentation and certifications provided by clients is reviewed and validated against other information collected in relation to the client/transaction, as well as against the personal knowledge of the Relationship Manager/Personal Banker of the client. Therefore, properly documented procedures and clear internal communication materials (e.g., circulars, procedures manuals etc.) is provided to all responsible staff.

Effective implementation of FATCA, CRS and DAC6 as of any other regulatory framework requires involvement of all "Three Lines of Defence" as per the diagram below. Compliance is regularly monitored, in co-operation with other control functions such as the Internal Audit, Operational Risk etc.

"Three Lines of Defence"



Non-compliance issues are assessed accordingly and any impact on the capital adequacy and liquidity is considered.

5. GOVERNANCE

5.1 Principles

1. **<u>Understanding the regulatory framework</u>**

   It is critical that each Group Entity understands and addresses the relevant compliance requirements (for FATCA, CRS and DAC6) as they arise from the regulatory framework of the jurisdiction, they are in, as well as other jurisdictions, where applicable (e.g., Polish regulatory framework for DAC6). This framework may

include Intergovernmental Agreements, Competent Authority Agreements, EU Directives, local legislation, guidelines etc. All staff are properly trained in relation to the regulatory requirements according to their position and involvement in the implementation process.

2. **Entity Classification and Registration**

   There are several entity classifications under FATCA and CRS (the definitions may not coincide) and each entity understands its status and classifies itself accordingly, to determine its respective obligations.

   All Group Entities that are classified as FIs, comply with the registration requirements as they arise from FATCA, the local regulatory framework and any agreements they may have entered into with foreign tax authorities (e.g., FFI Agreement with the US IRS).

3. **Governance**

   Each entity that is classified as an FI for FATCA/CRS purposes:

   a. Appoint a Responsible Officer (RO). Even though there may not be a requirement for the appointment of a RO, each Group FI appoints one. The RO acts as a point of contact with the local tax authorities, oversees compliance with the regulatory framework and provides any certifications as required. The responsible officer is usually the Compliance Officer of the relevant entity and/or the Compliance Liaison.

   b. Develop written procedures and manuals to implement compliance responsibilities arising from the relevant framework and arrange for relevant staff training.

4. **Implementation of FATCA/CRS/DAC6 and Local Competent Authorities**

   The Group liaises with the Local Competent Authorities and other professional bodies e.g., ACB, ICPAC etc., to ensure that the local guidelines reflect regulatory requirements and support the FATCA/CRS/DAC6 implementation in an efficient and effective manner in the interest of both the Group and our customers.

5.2 Roles and Responsibilities

For this Policy, the following major Roles and Responsibilities have been identified.

Board of Directors	• Bears the ultimate responsibility for the effective implementation of the Policy and for setting the right tone from the top. • Approves the Policy.
Audit Committee	• Recommends the Policy for approval (to the Board of Directors). • Makes sure that sufficient, dependable, and secure internal procedures are in place to ensure that the Group complies with the policy. • Monitors the effective implementation of the Policy via the Control Functions.
ExCo	• Reviews the Policy prior to submission to the AC. • Ensures that it is effectively embedded throughout the Group's operations.

Internal Audit Division	• Responsible for providing independent and objective assurance to the BoD, through the AC, and to management, by assessing the effectiveness of governance, risk management, and control processes related to this policy. • Informs AC of its findings and relevant recommendations.
Operational Risk Management Department	Ensures the development and adoption of procedures and methods for effective management of operational risk and draws up acceptable limits for undertaking operational risk in the Group, with the aim of improving prevention and reduction of operational risks.
Organisation Department	Simplifies the way the Bank works through the redesign of its processes (in collaboration with the affected Directorates / Departments); prepares and publicizes simple and understandable instructions that includes Organizational Circulars, announcements etc. with the aim of the optimal and most efficient operation of the Bank at the lowest possible cost.
Information Technology Services	Deploys and manages a service-oriented IT Function that acts both as an enabler of Business Strategy but also as a Driver of Transformation.
Finance Division	Supports the Group's general management in making management decisions and presenting financial statements.
Subsidiary General Manager	• Responsible to enforce the policy
Compliance Liaison	• The primary point of contact between 1st line Division / Department and the Compliance Division. • Pro-actively supports the local management in carrying out their responsibilities for compliance with regulatory changes, addressing compliance issues and implementing controls in adherence to compliance principles. • Identifies, measures, monitors and reports risks and ensures compliance with internal and external requirements within his/her department.

5.3 Reporting

Bank of Cyprus Public Company Ltd and all subsidiaries in Cyprus report to the Cyprus tax authorities based on the FATCA Intergovernmental Agreement (IGA Model 1) of Cyprus with the United States and the CRS requirements. However, in relation to DAC6, reporting is done to the Cyprus tax authorities as well as to foreign tax authorities where this is provided by the local legislation as is the case with Poland that expanded the scope of the Directive to have extraterritorial effect.

In case a subsidiary is located and operating in a partner jurisdiction (i.e., a jurisdiction that has in place an IGA with the USA) or a jurisdiction participating in the CRS, reporting is done to the local tax authorities. Direct reporting can only take place to the US IRS for FATCA purposes, provided that the FI has in place a relevant agreement with such authorities. In relation to the DAC6, reporting takes place in the home jurisdiction as well as to any other jurisdiction that expanded the scope of the Directive to have extraterritorial effect.

Each reporting FI closely monitors developments in the reporting requirements of the jurisdiction in which it operates, as well as other participating jurisdictions that expanded the scope of the Directive to have extraterritorial effect. The local list of reportable jurisdictions may undergo changes at any given time, each country is likely to provide individual reporting profile and implement local reporting channels etc.

6. EXCEPTION APPROVAL PROCESS

Not applicable.

7. IMPLEMENTATION PROCEDURES (KEY PROCESS)

1. Due diligence

Generally, each reporting FI enhances its due diligence review information and, if necessary, obtains additional documentation from account holders to establish their status to determine which are subject to reporting and/or withholding obligations (if applicable) or to establish whether or not the relevant transactions facilitate a reportable cross-border arrangement.

AML/KYC, FATCA, CRS and DAC6 due diligence procedures are aligned and consolidated as far as possible, so that relevant information is collected in the most efficient and effective manner, with the minimum burden on our customers and staff.

All Group FIs have in place procedures to protect the privacy rights of individuals in accordance with the Data Protection Law and their respective policies.

a. <u>Customer Identification</u>

Each FI has in place procedures to ensure that:

<u>All new account holders</u> provide at account opening, all forms and information necessary for their classification and identification.

Pre-existing account holders are identified as potentially "Reportable accounts" and marked in the systems according to the requirements of the applicable regulatory framework and any relevant agreements that the FI may have entered into with tax authorities.

Where reporting and due diligence thresholds are allowed each FI may take up the election.

b. Customer Documentation

Each FI has in place procedures to ensure that the valid self-certification documents which incorporate both FATCA and CRS requirements are obtained from all account holders, both new and pre-existing ones, identified as potentially reportable. For a self-certification document to be valid it is duly completed and signed by the account holder and verified against any other information collected in respect of the client for AML/KYC purposes. Overall, the FATCA/CRS/ DAC6 requirements are embedded into the normal business processes and are not considered as a separate process.

c. Transaction Documentation

Each FI has in place procedures to assess its products, current and new, to evaluate whether they constitute or form part of or facilitate a cross-border arrangement. For each cross-border transaction the FI gathers sufficient information to enable it to assess whether the transaction meets any of the hallmarks and therefore whether reporting is required under DAC6, subject to banking practice requirement for information needed.

d. Data Analysis

It is critical to ensure that systems are leveraged to support and facilitate compliance with the regulatory requirements. It is important to clarify system requirements, capture initial data on systems, identify gaps and take remedial actions.

e. Communication

Each FI develops a clear, proper and transparent internal and external communication for FATCA, CRS and DAC6, via various channels (e.g., Website, Compliance Portal, FAQs, Circulars, Presentations, press releases etc.). Internal communication is developed in a manner that highlights the impact and key processes implementing the respective regulatory frameworks and solves any questions/enquiries. External Communication Strategy is important to ensure that customers receive proper and timely information, and the FI receives the relevant documentation (e.g., valid self-certification forms and supporting documentation) from them in the most efficient way.

It is of the utmost importance to ensure that no information that may be perceived as tax advice is given to customers, as this is explicitly forbidden by the regulatory framework for both FATCA and CRS. Where the customer is not aware of his/her tax status or seeks advice, he/she is immediately referred to his/her tax advisors and staff refrain from giving any tax advice.

There are written, well documented and detailed procedures for the implementation of the regulatory framework and these are effectively communicated to all relevant staff. Systems and tools are adjusted accordingly, and staff adequately trained to support effective FATCA, CRS and DAC6 implementation and monitoring processes.