

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

Compliance risk 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 ML/TF and the Risk appetite associated with those risks, are:

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.*

International Sanctions Compliance Risk

- No tolerance for sanctions or other measures imposed by American Authorities, such as the US Department of Treasury's Office of Foreign Assets Control (OFAC) with respect to violations of ML legislation or Sanction programs. In case of such deviations, immediate rectification and investigation actions shall be enacted.*
- No tolerance for deviations with regards to the opening of accounts in US Dollars for persons connected with countries subject to strict sanctions imposed by the US Department of Treasury's Office of Foreign Assets Control (OFAC).*

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.*

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") or Moneyval. 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.

BOC has implemented an AML program that is designed to comply with the Cyprus AML Law 188(I) 2007 (as subsequently amended) and the 5th issue of Central Bank of Cyprus AML Directive as a minimum standard. It has also relied on the Wolfsberg² AML principles as well as the Wolfsberg statement concerning terrorist financing.

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

BOC ensures that its owned subsidiaries apply AML/CTF measures consistent with Bank of Cyprus PLC requirements and Risk Models. Where there is conflict between local regulatory requirements and BOC'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 ML/TF risk scoring and monitoring systems and through specialised training

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

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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- 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.
- Escalation for approval of the establishment of a new or the maintenance of an existing business relationship for higher risk clients
- Ongoing monitoring of transactions
- Increased levels of ongoing controls and reviews of relationship

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