

**POLICY: GROUP CUSTOMER ACCEPTANCE POLICY**

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## 1. PURPOSE AND SCOPE OF POLICY

The purpose of this Policy is to provide guidance and clarity on customer acceptance and to ensure compliance with all applicable legal and regulatory requirements.

## 2. ABBREVIATIONS

Within this document, the following abbreviations are used:

Abbreviation	Definition
AML/CTF	Anti-money Laundering / Combating Terrorism Financing
AMLCO	Anti-Money Laundering Compliance Officer
CAP	Customer Acceptance Policy
CBA	Cyprus Bar Association
CBC	Central Bank of Cyprus
CPI	Corruption Perceptions Index
CySEC	Cyprus Securities and Exchange Commission
EEA	European Economic Area
EU	European Union
FATF	Financial Action Task Force
FCSCD	Financial Crime Sanctions Compliance Department
FIU	Financial Intelligence Unit
FSI	Financial Stability Institute
ICPAC	The Institute of Certified Public Accounts of Cyprus
ICAAP	Internal Capital Adequacy Assessment Process
ML/TF	Money Laundering / Terrorism Financing
OECD	The Organisation for Economic Co-operation and Development
OFAC	Office of Foreign Assets Control
PEP	Politically Exposed Person
UN	United Nations

## 3. ENTITIES AFFECTED

The Policy applies to all Entities belonging to BOC.

All entities must, as a minimum, meet the requirements set out in this Policy. In any country where the requirements of applicable law(s), directives or practices establish a higher standard, Entities must meet those standards. In the case where current local laws conflict with this policy, the respective local Compliance/AML Unit must liaise with the AMLCO of the parent company of the Group, so as to resolve the issue.

All BOC subsidiaries are expected to enact in their own internal systems equivalent procedures.

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## 4. POLICY

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### 4.1 Customer Acceptance Principles

***The evaluation of a customer's risk is fundamental to the Bank's effort to prevent and suppress money laundering, terrorist financing and other illegal activities.***

***The Bank reserves its right to deny the establishment of any business relationship with a person (physical and/or legal) assessed to fall within the groups of not accepted customers described below or indeed if for any reason the Bank is uncomfortable with the establishment of a business relationship.***

The Bank of Cyprus Customer Acceptance Policy ("CAP") is designed to ensure that the Bank adequately assesses prospective and existing customers from an AML/CTF perspective in order to ensure that it establishes and maintains relationships with customers with no ML/TF relationships or transactions. In parallel, the CAP covers areas outside the Bank's risk appetite, where a business relationship cannot be accepted.

BOC and its subsidiaries transact only with customers meeting minimum risk assessment criteria and without significant failure, as described below.

In the case of vendors, the same principles apply.

### 4.2 Customer Risk Assessment Scorecard

To this extent, the Bank has adopted the use of a scorecard to determine the risk level of prospect and current customers. The scorecard uses various criteria such as:

- **Geography Risk Factors:** Scoring is allocated based on the geographical risks associated with each customer. If the entity is an individual, then s/he will be scored for both his/her ID/Passport Country and his/her Country of Residence. In the case of a legal entity, several factors are considered, including the legal entity's Country of Registration and Country of Economic Activity, as well as the Country of Residence and the Country of ID/Passport of all its Ultimate Beneficial Owners, Shareholders, Directors, and Signatories.
- **Destination / Origin of Wire Transfers:** Scoring is allocated based on the geographical distribution of the customer's wire transfer activity.
- **Transactional Risk Factors:** Scoring is allocated based on the total turnover (Debit or Credit) of the customer.
- **Customer Risk Factors:** Scoring is allocated based on certain characteristics associated with the customer. In the case of individuals, scoring is allocated in the case the customer is a PEP/PEP related, if s/he is associated with Negative Media, based on the length of his/her relationship with the Bank, or if s/he is a sole proprietor with heavy cash business. In the case of legal entities, scoring is allocated in the case the legal entity is associated with a PEP, in the case the legal entity is associated with Negative Media, in the absence of audited accounts, in the case the legal entity is part of a complex structure, if nominee

shareholders are included in the legal entity's structure, or in the case the business is associated with heavy cash turnover.

- **Product Risk:** Scoring is allocated based on the type of products the customer has. Certain products such as investment portfolios, respondent accounts carry a higher risk score.
- **Distribution Channel Risk:** Scoring is allocated based on the method of on boarding the customer. Higher score is attributed if the customer is a distance customer.
- **Behavior Risk Factors:** Scoring is attributed based on several behavioral aspects of the customer such as the need to monitor his/her transactions, number of inquiries received from Correspondent Banks for the customer, or whether there is a significant deviation between the customer's established declared turnover in his/her bank accounts, compared to the actual.
- **Employment Type:** The customer's employment type is considered for the scoring.
- **Industry Factors:** The industry in which the customer is involved is considered for the scoring.
- **Legal form:** If the customer is a legal entity or a legal arrangement, the type of the legal entity / arrangement is considered for the scoring.

The above criteria are used in combination, in order to determine the risk level of each customer. Customers, based on the score reached by their characteristics, can be categorized as:

- Not Accepted (see Appendix 1)
- Critical Risk / High Risk (see Appendix 2)
- Significant Risk
- Moderate Risk
- Low Risk

Depending on each risk category, different due diligence measures are required. Simplified due diligence measures are required for Low-Risk customers, Normal due diligence measures are required for Moderate Risk customers and Enhanced Due Diligence measures are required for Significant and Critical/High Risk customers. Higher charges / rates may apply to customers for whom Enhanced Due Diligence measures are applied.

#### **4.3 List of conditions under which a business relationship with an existing client must be terminated**

The Bank may terminate a business relationship with an existing customer if the following conditions apply:

1. If he was initially introduced by an approved professional intermediary and a subsequent meeting did not take place with Bank staff.
2. If, during the review / customer update process, the customer fails or refuses to provide vital information requested by the Bank.
3. If a court order by the local authorities has been issued against a customer, resulting in an unacceptably increased ML/TF risk associated with the customer.
4. If the customer's activities change, and the new activities fall within the Bank's non-accepted types of business.
5. If a customer was convicted for any serious predicate offence.

6. If a customer has attempted to deceive the Bank.
7. If the customer or, in the case of a legal entity, any of its directors, shareholders, beneficial owners, or signatories is added on sanctions lists issued by the EU, UN or OFAC, then, existing business relationships should be treated according to the instructions provided by the international authority imposing the sanctions. Usually, the assets of these persons are frozen, and the customer is reported to the appropriate local and/or international authorities via the Compliance Division. Affected entities must be flagged as Not Accepted Customers.

If the Bank has reasonable grounds to believe that the customer is involved in money laundering or terrorism financing activities, then all necessary measures should be considered, including the termination of the business relationship, subject to the directions of the local FIU.

#### **4.4 Deviation from the Customer Acceptance Policy**

In the event there is a request for a deviation/override of any terms of the Customer Acceptance Policy which does not violate any legal or regulatory framework, the underlined reasons must be fully justified. The request is submitted by the responsible Unit to the CEO of Bank of Cyprus for approval, after obtaining FCSCD's comments and confirmation by the Director of the Compliance Division. The Audit Committee will be also notified for any such exceptionally approvals, on a quarterly basis.

#### **4.5 Approval and Annual Review**

The policy is approved by the Board of Directors through the Audit Committee.

The policy is reviewed at least annually by Compliance and any amendments are submitted to the Audit Committee for approval.

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## **5. CAPITAL ADEQUACY AND LIQUIDITY OF THE BANK**

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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 policy should be 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 will be evaluated by Risk Strategy.

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**Appendix 1 - Examples of Entities (Individuals or Legal Entities), Accounts, or Transactions Not Accepted by BOC and related entities**

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**Important Notes:**

1. BOC has decided that the risk associated with certain groups of customers is unacceptably high and has, therefore, decided not to establish a business relationship with them. In the case of vendors, the same principles apply. Apart from the requirements of the Law and the Directive, the Bank, as part of its Risk Appetite Assessment, has included in this category other types of customers based on the ML / TF risk associated with them.
2. The categorization of a customer as Not Accepted is based on the overall score assigned by the automated scorecard, considering all risk parameters. To that effect, the below list is not an exhaustive list of Not Accepted customer types.
3. For Countries Categorization, please refer to Appendix 3.
4. The automated scorecard incorporates parameters / examples as described below which can be implemented systemically. To that effect, some of the below parameters / examples, which cannot be implemented systemically, should also be considered in the overall risk assessment of clients.

**An Entity is considered Not Accepted if it:**

1. Carries out illegal activities, including specific human rights violations (such as drug dealing, fraud, human trafficking, slavery, forced labour, prostitution, child pornography, pedophilia, etc.).
2. Is convicted for a crime included in the predicate offences covered under the relevant Law in each jurisdiction.
3. Fails to provide adequate identification information or to disclose its financial operations.
4. Is a shell company<sup>1</sup>, a shell bank or a bank which deals with shell banks or shell companies.
5. Is a terrorist or deals with terrorist activities (such as financing terrorist activities etc.).
6. Requests to have accounts in the name of anonymous or fictitious persons.
7. Is from a political regime not recognized by the United Nations.
8. Is subject to specific sanctions (i.e. EU, UN, OFAC, local lists), including close family members, close associates and related entities (irrespective of the percentage of ownership, either direct or indirect, held by the entities subject to sanctions).
9. Is an Entity designated under Sectoral Sanctions (including related entities).
10. Is acting on behalf of or dealing/trading with any sanctioned person or is involved in any sanctioned activity.
11. Is an individual customer whose Country of Residence is a Country included in Categories A, A1 or A2. Existing customers will remain until final closure of accounts is possible.

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<sup>1</sup> Refer to OC151 regarding the definition and procedures which must be followed.

12. Is an individual customer whose ID / Passport Country is a Country included in Category A.
13. Is a legal entity whose Country of Registration or Country of Economic Activity is a Country included in Categories A, A1 or A2.
14. Is a legal entity where the Country of Residence of any of its Directors, Signatories, Shareholders (=>25%) or Beneficial Owners (=>25%) is a Country included in Categories A, A1 or A2. Existing customers will remain active until final closure of accounts is possible.
15. Is a legal entity where the Country of ID / Passport of any of its Directors, Signatories, Shareholders (=>25%) or Beneficial Owners (=>25%) is a Country included in Categories A and A1. Existing customers will remain active until final closure of accounts is possible.
16. Is a legal entity with bearer shares or has a provision to issue bearer shares.
17. Is a customer who falls under the following categories:
  - Is a Non-face to face customer<sup>2</sup> from,
  - Is a trust established in,
  - Is a Foundation for business or private purposes registered in,
 Category A, A1, A2 or B Countries.
18. Is a Politically Exposed Person (PEP)<sup>3</sup>:
  - From a Category A, A1 or A2 Country.
  - For whom the source of wealth cannot be determined or the reasoning of establishing a business relationship is not clear.
19. Is a trust:
  - Which is governed by the Cyprus Legal framework but is not registered in the Cyprus Register of Trusts, or
  - Whose ultimate beneficial owners are not determined (discretionary trust), or
  - Whose purpose is not compatible with the business activity/economic profile of the account holder, or there is no legitimate economic reason for its establishment.
20. Operates in the following high-risk industries and is not regulated/licensed in a Category F Country: (a) Casinos, (b) Betting Houses, (c) Prize Competitions, (d) Financial Services Firms, or Brokerage Firms<sup>4</sup> (e) Banking or Insurance Institutions, (k) Armed Security Services , (l) Defense/Arms/Military Industry, (m) Credit Acquiring including Asset Management for the purpose of acquiring credit facilities from credit institutions (n) Crowdfunding Services Provision.

<sup>2</sup> Customers met in person by staff within the Group do not fall in the non-face-to-face category

<sup>3</sup> Refer to FATF definition of a PEP and to OC151

<sup>4</sup> In very exceptional cases, Financial or Brokerage Firms can be accepted and treated as high risk customers, provided that FCSCD' consent is obtained.

21. Operates in the following high-risk industries and is not registered in a Category F Country: (a) Precious metals/stones<sup>5</sup>, (b) Pawn shops, (c) Sporting / Hunting / Antique guns, (d) Internet Gaming other than electronic gambling, (e) Trading of art collection.
22. Is an Online Gambling company (including related services<sup>6</sup> such as software providers, payment processing services, card acquirers) which is not regulated in a Category F Country. Additionally, Online Gambling companies are not permitted to open client accounts.
23. Is a Payment Institution or an Electronic Money Institution (MSB) (including MSBs providing Money Transmission Services and Currency Exchange Services) which is not regulated in a Category F Country.  
Generally, MSBs regulated in Category F Countries can maintain only corporate accounts, to be utilized solely for the processing of administration expenses.  
Exceptionally, for a limited selective list of clients, a client account may be opened in any of the following cases:
- For MSBs whose activities are limited to the transmission of funds for physical persons serviced in Cyprus.
  - The AML Risk assessed is considered low based on the client's business profile and provided that no restrictions are imposed by our major correspondent banks.
24. Operates in the following Not Accepted Industries: (a) Online Casinos, (b) Online Pharmacies, (c) Trading in Binary options, (d) Dating, (e) Adult Entertainment, (f) Fortune Telling, (g) Medium activities, (h) Issuers or Dealers of Virtual Currency (e.g. Bitcoin) or involved in converting traditional currency in virtual currency or vice versa, including related services (software providers, payment processing services, card acquirers), (i) Military Missions, and (j) Production and/or Wholesale Trading of Nuclear Related Raw Materials, Products and Services.
25. (A) Is a client with a Russian / Belarusian nexus with any of the following characteristics:
- i. Individuals included on the Putin List, as per the US Treasury Department's CAATSA 241 report, dated 29/1/2018 (including any legal entities they own / participate in share capital / control by more than 20%<sup>7</sup>).
  - ii. State-Owned Russian / Belarusian entities (including any legal entities they own / participate in share capital / control by more than 20%<sup>7</sup>)
  - iii. Legal entities registered in Russia / Belarus or with main Tax Residency in Russia / Belarus. The prohibition does not apply to legal entities they own / participate in share capital / control registered outside Russia / Belarus.
  - iv. Entities designated under Sectoral Sanctions by OFAC / EU / UK (including any legal entities they own / participate in share capital / control by more than 20%).
  - v. Politically Exposed Persons (PEPs) from Russia and Belarus (including PEP related individuals and PEP related entities which participation in the share capital / are controlled / owned by the PEPs by more than 20%<sup>7</sup>).

<sup>5</sup> Conglomerate/well established companies (substantiated through independent sources) that are in the mining/ exploration of gold and other precious metals industries from countries not included in Category F can be accepted and treated as high risk customers

<sup>6</sup> If the online gambling company they are cooperating / associated with, is not regulated in a Country included under Category F

<sup>7</sup> For participation in Legal entities between 5% and 20% FC&SCD approval and Par.27 will apply.

- vi. Entities whose main economic activity location after February 2022 (after the imposition of sanctions) is in Russia / Belarus / Kazakhstan / Turkey in industries other than those listed on the Whitelist included as Appendix in GC 2022/003.
- vii. Temporarily, it is forbidden to commence /maintain a business relationship with individuals:
  - a. Whose permanent residency is in Russia or Belarus, and they are not holders of a passport from an EU country, Iceland, Lichtenstein, Norway or Switzerland.
  - b. With a passport from Russia / Belarus and who (1) do not reside in an EU country, Iceland, Lichtenstein, Norway or Switzerland or (2) are not holders of a passport from an EU country, Iceland, Lichtenstein, Norway or Switzerland.

Exceptions apply for people planning to move to Cyprus (except under a tourist visa).

- viii. Temporarily, it is forbidden to commence a business relationship with an entity whose UBO is an individual falling under the criteria described in point vii, above.
- ix. Individuals (irrespective if they are in possession of dual nationality) or legal entities (irrespective of country of registration), where a direct or indirect connection is identified with the Russian government (either through structure, or through transactional activity, or common investments).
- x. Individuals (irrespective if they are in possession of dual nationality) or legal entities (irrespective of country of registration) where a direct or indirect connection is identified with another individual or legal entity that falls outside the White List with no intention and absence of action to immediately disengage, and this is identified through:
  - corporate structure (applies only for relationships between legal entities),
  - common investments,
  - any form of trading transactional activity.
- xi. Individuals and Legal entities (irrespective of dual nationality or registration) with a Russian / Belarusian nexus with high or significant negative media in accordance with OC0151.
- xii. Individuals and Legal entities (irrespective of dual nationality or registration) with influence on the Russian economy or Russian State.

(B) Transactions relating to trading with Russia / Belarus / Kazakhstan / Turkey, if the product is not on the Whitelist, as per the parameters in relevant Appendix in GC 2022/003.

- 26. Regarding the prohibitions in paragraphs 21-25 and 26vi. above, in cases where the client is part of a group operating in, amongst other industries, an industry which is considered not accepted as per the above parameters, the client may in very exceptional cases be accepted if this relates to a well-established, reputable group and mitigating measures are taken to ensure, beyond reasonable doubt, that the transactions that will be processed through the Bank will not be connected to the non-accepted activities of the group. In such a case, the client will be considered High Risk.

27. Is a fund, whose risk, based on the 'Scorecard of Investment Funds' (included in the Portal) is determined to be Not Accepted.
28. Is a legal entity with a complex structure, where there is no transparent and legitimate economic reason for its complexity.
29. Is a foreign government organization of a country not included in Category F and there is no reasonable ground/business justification for establishing such a business relationship.
30. Is a non-Profit Organisation or Charity or Foundation for charity purposes, which is either:
  - not registered/established and operating in Cyprus or
  - registered/established and operating in Cyprus but is not reputable and well known

Exceptionally, a business relationship could be established with a limited selective list of the aforementioned entities registered/established and operating in a Category F Country, provided that they relate to very reputable global organizations, and there is a justifiable need for operating a bank account in Cyprus.

The above provisions also apply to clients who are ultimately owned by more than 50% by Non-Profit Organizations or Charities or Foundations set up for charity purposes.

31. Is introduced by a Professional Intermediary but has not been met in person before the opening of accounts.
32. Is a Correspondent / Respondent Bank which:
  - Is not regulated, or
  - Does not apply adequate AML procedures/measures, or
  - Does not have a policy that covers the monitoring of the business relationship with PEPs or
  - Is not regulated in an EEA Country<sup>8</sup> and for which an investigation for AML/CTF purposes has been conducted or is in progress by the authorities of the country of incorporation or origin, or on which significant fines/sanctions have been imposed by the local authorities (FIU, Regulator), or
  - There is a strong belief that the correspondent or the respondent bank is involved in money laundering.
33. New Clients who are Politically Exposed Persons (PEP)<sup>9</sup>:
  - From a Category B Country
  - Ukraine
34. New UK resident<sup>10</sup> individuals or UK domiciled<sup>11</sup> companies for the purposes of granting consumer credit facilities or providing investment services.

<sup>8</sup> In exceptional cases, existing RMA relationships could be maintained with Banks other than in countries subject to strict sanctions (Sanctions Policy-Appendices 2&3), and only for Trade Finance purposes, provided approval is obtained from Senior Management.

<sup>9</sup> Refer to FATF definition of a PEP and to OC151

<sup>10</sup> UK residents include: 1. individuals, 2. small cooperatives of two or three people and 3. non-corporate associations whose residential address is in the UK and 4. residents of the UK territory.

<sup>11</sup> Definition of UK domiciled companies includes companies that have their registered office or head office, where there is none registered office, in the UK.

### Examples of Not Accepted Types of Accounts

- Nested Accounts
- Payable-through-accounts
- Fiduciary Deposits Accounts on behalf of Credit Institutions not regulated in a Category F Country
- Omnibus accounts (concentration accounts)
- Accounts in USD for High/Significant Persons connected<sup>12</sup> with countries in Appendices 2&3 of the Bank's Sanctions Policy
- Accounts in USD, CAD or RUB for Online Gambling (including related services) Companies, Casinos or Bookmakers and irrespective if the customer operates in or is regulated in a Category F Country

### Examples of Not Accepted Types of Transactions

- The undertaking of transactions with customers resident<sup>13</sup> in countries included in Appendices 1,2 and 3 of the Sanctions Policy, that can create credit exposure<sup>14</sup> to the Bank.
- The processing of wire transfers in any currency from /to Banks established in countries included in Appendices 2&3 of the Sanctions Policy.
- The processing of wire transfers in USD to / from Latvia, Estonia, Georgia or Armenia.
- The processing of wire transfer in USD (or involving US Correspondent Banks), either (i) for Persons connected<sup>8</sup> with countries in Appendices 2&3 of the Sanctions Policy, or (ii) involving countries in Appendices 2&3 of the Sanctions Policy.
- The processing of wire transfers in any currency relating to:
  - third party lending<sup>15</sup> (in any form, including promissory notes) / assignment of loans and any other similar types of financing, between parties who do not belong to the same group of companies and where the main activities of the party lending the money are not related to the financial sector, with the exception referred to in Appendix 2.
  - consultancy services where there is no adequate information/appropriate documentation regarding the professional expertise of the consultant (such as educational qualifications/ relative working experience), the reasonableness/adequacy of the agreement between the parties, as well as the reasonableness of the fee.
  - buying or selling of virtual currency.
  - counterparties subject to specific or sectoral EU, U.S. and U.N sanctions, including related entities with ownership (directly or indirectly) equal or over 50%.
- The provision of Downstream Correspondent Clearing Services.
- Transactions related to trading of ivory and/or any protected species and related products.

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<sup>12</sup>"Persons Connected" covers (i) For Individuals: Country of Residence / ID / Passport, (ii) For Legal Entities: Country of incorporation, or country of Residence / ID / Passport of Directors, Signatories, Shareholders or Beneficial Owners, (iii) any natural or legal person, entity or body operating in a sanctioned country, (iv) the government/state of a sanctioned country or any public authority thereof.

<sup>13</sup>In the case of legal entities, the term "resident" refers to the country of registration or economic activity, or the country of residence of any of the directors, signatories, shareholders or beneficial owners.

<sup>14</sup>Please refer to Credit Risk Policies and procedures

<sup>15</sup>Lending between family members is not considered as a third-party lending.

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## Appendix 2 - Examples of High-Risk customers (individuals and/or legal entities)

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### Important Notes:

1. The following categories of customers are designated as high risk subject to enhanced due diligence measures, as prescribed by:
  - The Law or the Directive of the Central Bank of Cyprus:
    - Politically Exposed Persons (“PEPs”)
    - Complex or unusually large transactions or unusual types of transactions
    - “Client accounts” in the name of third persons.
    - Foundations and Trust Accounts
    - Correspondent/respondent relationships with banks not regulated in the EEA.
    - Transactions with parties in high-risk countries.
  - The Bank, in accordance with its risk appetite on ML and TF risk.
2. The categorization of a customer as High Risk is based on the overall score assigned by the automated scorecard, considering all risk parameters.
3. For Countries Categorization, please refer to Appendix 3.

### Examples Geography Risk Factors, which, considered on their own, classify a customer as High Risk

- Individuals whose ID / Passport Country is a Country included in Category A1<sup>16</sup>
- Individuals whose Country of Residence is a Country included in Category B.
- Legal entities whose Country of Registration or Country of Economic Activity is a Country included in Category B.
- Legal entities where the Country of Residence of any of its Directors, Signatories, Shareholders (=>25%) or Beneficial Owners (=>25%) is a Country included in Category B.

### Examples of Customer / Legal form Risk Factors, which, considered on their own, classify a customer as High Risk

- Legal entities with complex corporate structures, provided there is a transparent and legitimate economic reason for their complexity.
- Foreign government organizations and Embassies of countries other than the ones included under Category F, provided there is reasonable ground/business justification for establishing a business relationship
- Persons associated with negative media related to ML/TF (the negative media identified need to be classified as High Risk)
- Foreigners who invest in Cyprus in order to obtain the Cyprus citizenship

### Examples of Employment /Economic Activity Risk Factors, which, considered on their own, classify a customer as High Risk

- Customers involved in the Production and/or Wholesale Trading of (i) Petroleum Products, such as oil and petrol, (ii) Energy such as natural gas, CO2 emissions or wind power.
- Customers operating in the following high-risk industries, provided they are regulated/licensed in a Category F Country: (i) Online Gambling (including related services such as software providers,

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<sup>16</sup> If the individual is also resident in a Category A1 Country, then s/he is considered Not Accepted

- payment processing services, card acquirers), (ii) Casinos (excluding online casino games), (iii) Betting Houses, (iv) Financial or Brokerage<sup>17</sup> firms, (v) Insurance Services Companies, (vi) Payment Institutions and Electronic Money Institutions (including MSBs providing Money Transmission Services and Currency Exchange Service), (vii) Organizations providing Armed Security Services, (viii) Entities operating in the Defense/Arms/Military Industries<sup>18</sup> (ix) Crowdfunding Services Provision
- Customers operating in the following high-risk industries, provided they are registered in a Category F Country: (a) Precious metals/stones<sup>19</sup>, (b) Pawn shops, (c) Trading of art collection.
  - Non-Profit organizations, Charities and Foundations set up for charity purposes, provided that are (a<sup>20</sup>) reputable and well-known charities established/registered and operating in Cyprus or (b<sup>17</sup>) registered in a Category F Country and provided they relate to very reputable global organizations, and there is a justifiable need for operating a bank account in Cyprus,
  - Funds, whose overall risk score, based on the 'Scorecard of Investment Funds' (included in the Portal) is determined as high risk.
  - Foundations for business or private purposes, if they are not registered in a Category A, A1, A2, B country.

**Examples of Product Risk Factors, which, considered on their own, classify a customer as High Risk**

- Fiduciary Deposits from reputable credit institutions regulated within a Category F Country

**Examples of Behavior Risk Factors, which, considered on their own, classify a customer as High Risk**

- Customers for whom the Bank received three or more inquiries from Correspondent Banks
- Customers flagged by Compliance for Close Monitoring

**Types of Transaction treated as High Risk**

- Transactions relating to foreigners who invest in Cyprus to obtain the CY citizenship.
- Transfers relating to third party lending (in any form, including promissory notes) / assignment of loans, between parties who do not belong to the same group of companies and where the main activities of the party lending the money are not related to the financial sector. These transactions, apart from being treated as high risk, can be executed, provided enhanced due diligence has been performed in all other respects and if all specific criteria<sup>21</sup> are met.
- Additionally, one-off transfers between individuals (interbank or to/from other Banks) relating to personal loans may be exceptionally accepted, provided that:
  - The two individuals are first degree relatives (children, parents, in laws, siblings), and this can be evidenced adequately, or
  - The two individuals are acquainted, and their relationship can be evidenced adequately via certain documentation and a written attestation to the Bank signed by both parties. Such transactions can only be performed if:

<sup>17</sup>In very exceptional cases, Financial or Brokerage Firms, regulated/licensed in other than a Category F Country, can be accepted and treated as high risk customers, provided that FCSCD' consent is obtained.

<sup>18</sup>Refer to OC151 for all the conditions which must be met, for the establishment of a business relationship to be allowed

<sup>19</sup>Conglomerate/well established companies (substantiated through independent sources) that are in the mining/ exploration of gold and other precious metals industries from counties not included in Category F can be accepted and treated as high risk customers

<sup>20</sup> The provisions for points (a) and (b) also apply to clients who are ultimately owned by more than 50% by Non-Profit Organizations or Charities or Foundations set up for charity purposes.

<sup>21</sup>Refer to OC151

- The approval of the responsible Line Director is granted, and
  - Such personal loans do not exceed the amount of €100k.
- Receipt of funds from Crowdfunding Services
  - Transactions related to cultural artefacts and other items of archaeological, historical, cultural and religious importance, or of rare scientific values.

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### Appendix 3 – Country Risk Categorization

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The Geography Risk Factors used by the scorecard to determine the risk level of prospect and current customers, derive from the Country Risk Categorization Methodology, which assesses the ML/TF risk emanating from each country and geographic area.

The ML/TF risk of each country is based on several indexes and standards available, as well as the opinion of the AMLCO. Examples of such indexes and standards include the Basel AML Index Report, the Corruption Perception Index, FATF/Moneyval Public Statements, EU List of High-Risk Countries, EU/OECD List of Non-Cooperative Jurisdiction for Tax Purposes, Sanctions imposed by OFAC/EU/UN.

The country risk categorization is utilized for the purposes of the score card to assign scores for geography risk factors. Individuals are scored based on their Country of Residence and their Country of ID / Passport. Legal entities are scored based on the Country of Registration, Country of Economic Activity, as well as the Country of Residence and ID/Passport Country of their Directors, Signatories, Shareholders (=>25%) and Beneficial Owners (=>25%). Scores are also assigned based on the country of origin / destination of wire transfers.

Countries fall within the following ML/TF categories:

- Category A: Countries included in Appendix 3 of the Sanctions Policy and Dissolved Jurisdictions/Countries
- Category A1: Countries included in Appendix 3 of the Sanctions Policy and Countries associated with severe negative media relating to ML/TF/Evasion of Sanctions
- Category A2: Countries included in Appendix 2 of the Sanctions Policy
- Category B: Countries with High Risk profile/characteristics including, among others, countries with significant deficiencies as per FATF, and countries included in the EU/Moneyval list of high-risk countries.
- Category C: Countries near war zones and/or near jurisdictions with connections with known terrorist organisations or associated with Significant Negative Media regarding ML/TF Deficiencies
- Category D: Countries as per Compliance Division' Country Methodology, which takes into consideration various Indexes (e.g. Basel, CPI, FSI)
- Category E: Moderate Risk Countries
- Category F: Countries which entail the lowest ML/TF risks, including, among others, EEA countries.