

# FINANCIAL CRIME RISK APPETITE STATEMENT

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## 1. GLOSSARY

<b>Term Abbreviation</b>	<b>Definition</b>
<b>RISK APPETITE STATEMENT (RAS)</b>	Defines the types and level of financial crime risks the bank is willing to accept while conducting its business.
<b>BKT</b>	<b>B</b> anka <b>K</b> ombëtare <b>T</b> regtare Sh.a.
<b>Financial Crime</b>	Financial crime is a broad term used to describe criminal activities that involve money or other financial resources. It refers to any illegal activity that involves the use of financial systems, institutions, or instruments for illicit purposes, typically with the goal of generating profits for the perpetrators. In view of this document, it covers money laundering, financing of terrorism, sanction evasion, anti-bribery & corruption, fraud risk.
<b>SDN lists</b>	<b>S</b> pecial <b>D</b> esignated <b>N</b> ationals List, is a (local or international) government sanctions/embargo measure targeting designated terrorists, officials and beneficiaries of certain authoritarian regimes, and international criminals (e.g., drug traffickers).
<b>B2B</b>	<b>B</b> usiness- <b>to</b> - <b>B</b> usiness
<b>B2C</b>	<b>B</b> usiness- <b>to</b> - <b>C</b> onsumer
<b>AML</b>	<b>A</b> nti- <b>M</b> oney <b>L</b> aundering
<b>CFT</b>	<b>C</b> ombating the <b>F</b> inancing of <b>T</b> errorism ( <b>T</b> errorist <b>F</b> inancing)
<b>MSB</b>	<b>M</b> oney <b>S</b> ervices <b>B</b> usiness
<b>MVTS</b>	<b>M</b> oney or <b>V</b> alue <b>T</b> ransfer <b>S</b> ervices
<b>PEP</b>	<b>P</b> olitically <b>E</b> xposed <b>P</b> erson
<b>EWRA</b>	<b>E</b> nterprise- <b>W</b> ide <b>R</b> isk <b>A</b> ssessment

## **2. INTRODUCTION**

This statement defines the risk appetite of BKT toward money laundering, terrorist financing, sanctions, and other financial crime risks to ensure the bank's adherence to provisions of the local and international regulatory framework. The provisions outlined in this document apply to transactions and business relationships with customers, correspondent banking activities and other counterparties the bank has established a business/cooperation relationship.

## **3. GOVERNANCE AND OVERVIEW**

The Board of Directors of BKT is responsible for overseeing the financial crime risk and Compliance & AML Department is the responsible unit for exercising the permanent control and reporting functions of such risks (ad-hoc or quarterly).

The bank is strongly committed to operate in compliance with the local and international regulatory framework and contribute to the global fight against the financial crime by implementing and maintaining robust preventive and mitigating measures. For this purpose, the bank continuously improves and updates its internal prevention and monitoring framework, reflected in its *Financial Crime Risk Appetite Statement*, as well.

BKT also maintains a comprehensive ML/TF/Sanctions risk management framework, which emphasises the importance of regulatory standards, professionalism, staff training, high level of integrity and accountability to stakeholders. BKT's risk appetite underpins both this framework and the bank's ML/TF mitigation strategy.

## **4. MANAGEMENT AND INTERNAL CONTROL FRAMEWORK FOR ML/TF/SANCTIONS RISK**

### **4.1. RISK ANALYSIS**

BKT applies risk analysis techniques and procedures to evaluate the risk exposure related with the products and services it offers enabling the bank to apply the necessary mitigation measures. The main factors taken into consideration in the risk assessment process are customer category, products and services provided, distribution channels, and geographic components/risk. The result of this analysis defines the respective measures to be applied on.

### **4.2. CONTROLS**

In compliance with the local and international regulations BKT applies a permanent control regime to monitor the risks and assure the implementation of mitigation measures in an effective manner to limit the level of risk that can affect the bank's

activity. In addition, BKT performs annual AML/CFT EWRA, the results of which are subject to reporting to internal and external authorities.

#### **4.3. KYC PROGRAM**

BKT has implemented a robust KYC monitoring programme including internal regulatory framework, customer identification policy, IT solutions for screening applicable on customer identity and all relevant linked parties, provision for continues monitoring and regular review of the on-going business relationships with customers.

Special attention is paid to business relationships with high-risk customers including PEPs, high risk countries or industries.

#### **4.4. CORRESPONDENT BANKING**

BKT gives particular attention to the correspondent banking relationships by applying approval, due diligence and monitoring measures at the onboarding stage and during the business relationship.

These measures include:

- Obtaining the necessary information and documentation to fully understand the nature of the correspondent business activities, reputation, management, ownership structure (including Ultimate Beneficial Owners) and the level of compliance with counterparty's regulation and supervision in the respondent country.
- Assessment of relationship risk based on analysis performed.
- Obtaining senior management approval for establishment of new correspondent banking relationships.

BKT has implemented specific compliance standards in accordance with legal requirements and best practices, including not maintaining accounts or any business relationship with shell banks or with banks offering services to shell banks.

#### **4.5. APPROVAL OF NEW PRODUCTS**

BKT pays special attention to the implementation of new products and services, or updating the existing ones, by implementing a well-designed internal workflow for reviewing and approving all the new products and services, or the changes to the existing ones. A very important stage of this workflow is the compliance and AML/CFT/Sanctions risk assessment, assuring the final product or service is in adherence to all the applicable regulatory and risk mitigation requirements.

## **5. FINANCIAL CRIME RISK APPETITE STATEMENT**

To achieve its objective in terms of financial crime risk mitigation, BKT has implemented an internal regulatory framework covering the main risk factors such as Country Risk, Customer Risk, Industry/Business Risk and distribution channel risk. In addition to the procedural provisions, the bank has a well-established Internal Audit Framework; it provides continuous training to its staff and runs well-designed IT-solutions for financial crime risks mitigation purposes.

BKT has implemented the following risk appetite in terms of AML/CFT/Sanctions risk in order to comply with local and international regulatory framework and with mutual obligations arising from B2B and B2C relationships including correspondent banking and other third parties service providers.

### **5.1. GEOGRAPHIC/COUNTRY RISK**

In terms of country risk, BKT applies a risk-based approach.

#### **5.1.1. Prohibited Risk Countries**

BKT has no risk appetite to transact with the following countries:

- Democratic People's Republic of Korea (North Korea)
- Islamic Republic of Iran
- Myanmar

#### **5.1.2. High Risk Countries**

BKT applies **Enhanced Due Diligence** to following countries:

- Angola
- Bolivia
- **Bosnia and Herzegovina**
- Bulgaria
- Cameroon
- Côte D'Ivoire
- Democratic Republic of Congo
- Haiti
- **Iraq**
- Kenya
- Kuwait
- Lao PDR
- Lebanon
- Monaco
- Nepal
- Papua New Guinea

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- South Sudan
  - Syria
  - Venezuela
  - Vietnam
  - Virgin Island (UK)
  - Yemen

### **5.1.3. Lower Risk Countries**

In this category are included the countries that no specific measures are required by the local and international framework.

## **5.2. INDUSTRY RISK**

In terms of industry risk, BKT applies a risk-based approach.

### **5.2.1. Prohibited Risk Industries**

BKT has no risk appetite to transact with the following industries:

- Arms, defense, military
- Gambling
- Marijuana-related
- Nuclear power
- Precious metals and stones
- Red light businesses/ Adult entertainment
- Virtual Assets Services Providers
- Unlicensed, unregistered and/or unregulated Money Services Business
- Payable through accounts

### **5.2.2. High Risk Industries**

BKT applies **Enhanced Due Diligence** to following industries:

- Embassies/Consulates
- Extractive Industries
- General Trading Companies
- Payment Services Providers
- Travel and Tour Companies
- Used Car Dealers

### **5.2.3. Lower Risk Industries**

In this category are included the industries that no specific measures are required by the local and international framework.

### **5.3. CUSTOMER RISK**

In terms of customer risk, BKT applies a risk-based approach.

#### **5.3.1. Prohibited Customer Category**

BKT has no risk appetite to maintain a business relationship and/or transact with the following customer categories:

- Companies not registered in Albania (Non-resident Companies)
- Customers listed in any of the official SDN lists
- Unregulated charities
- Shell banks

#### **5.3.2. High Risk Customer Category**

BKT applies **Enhanced Due Diligence** to following customer categories:

- MSB/MVTS Customers
- Non-government organizations
- Non-resident customers
- PEPs
- PEP Close Associates
- PEP Related
- Regulated Charities
- Trusts
- Bearer Shares

#### **5.3.3. Lower Risk Customer Category**

These represent customer categories that enhanced monitoring or due diligence measures are not applied to and not listed in the above two lists (prohibited and high risk).

### **5.4. CHANNEL RISK**

The bank has implemented a set of measures to mitigate risks associated with transaction channel. Key risk indicators in channel assessment include the country where the channel operates and the merchant category, for debit and credit card payments.

#### **5.4.1. Prohibited Countries for card payments**

BKT has no appetite for transacting with the debit & credit cards in the following countries:

- Afghanistan
- Arab Republic of Yemen
- Barbados
- Belarus

- Botswana
- Burkina Faso
- Cayman Islands
- Central African Republic
- Congo
- Cuba
- Democratic Republic of the Congo
- Democratic People's Republic of Korea (North Korea)
- Ghana
- Gibraltar
- Indonesia
- Iraq
- Islamic Republic of Iran
- Jamaica
- Lebanon
- Libyan Arab Republic
- Mauritius
- Myanmar
- Nauru
- North Korea
- Palestine
- Panama
- Russian Federation
- Senegal
- Somalia
- Sudan
- Syrian Arab Republic
- Uganda
- Venezuela
- Zimbabwe

#### **5.4.2. Prohibited Merchants for card payments**

BKT has no appetite for transacting with the debit & credit cards with the following merchant categories:

- Dating Services
- Debt Collection Agency
- Government Owned Lottery
- Internet Gambling
- Government-Licensed Horse/Dog Racing
- DVD/Video Tape Rental Stores
- Betting, including Lottery Tickets Casino Gaming Chips, Off- Track Betting, and Wagers at Racetrack
- Gambling—Horse Racing, Dog Racing, Non-Sports Intrastate Internet Gambling

### **5.5. SANCTIONS RISK**

BKT adheres to sanctions regime ratified and imposed by Albanian Government and international authorities such as EU, UN, OFAC, OFSI, SECO, etc. These lists are integrated in the automated monitoring tools that the bank uses for screening customers and transactions. The integrated lists are updated regularly enabling the bank to comply in regard to any changes applied to the lists.

### **5.6. ANTI-BRIBERY AND CORRUPTION (ABC)**

BKT does not tolerate bribery or any form of corruption. All BKT employees and third parties that act on BKT's behalf are strictly prohibited from having any involvement in acts of bribery and corruption. BKT's ABC program involves:

- policies and procedures,
- dedicated and secure whistleblowing channels,
- staff training and awareness activities,
- ongoing monitoring, reporting and testing activities,
- special requirements for dealings with public officials or persons with political influence,
- standards and requirements related to gifts, entertainment & hospitality, donations/sponsorships and other related activities.
- Third party standards and risk assessments.

### **5.7. ANTI-FRAUD**

BKT has implemented an Anti-Fraud Program for the purpose of protecting the customers and the bank's activity for any risk of internal or external fraud. The implement program is composed of the following:

- Policies, procedures, standards.
- Responsible unit for management of Fraud risk.
- Detective and preventive measures including on-going controls.
- Dedicated monitoring solutions.
- Staff training and awareness activities.
- Customer awareness activities.
- Whistleblowing and complaints channels.
- Risk assessments of new and updated products and services.
- Risk assessments of third-party business relationships.
- On-going and periodic reporting of any events of risks.

### **5.8. STAFF TRAINING & AWARENESS**

Training activities are planned and delivered for the entire staff of the Bank both on-site and off-site (e-learning and guidelines) covering legal requirements, main concepts of laundering of proceeds of crime and financing of terrorism, red flags and best-practices, with respect to prevention of laundering of proceeds of crime and financing of terrorism, suspicious activity reporting, etc., and any other recent important topics evolving in AML/CFT/Sanctions matter.

Also, for the purpose of increasing staff awareness and compliance culture the staff of the bank is informed of latest developments and risks through means of periodic or ad-hoc notifications or published compliance journals and bulletins.

### **5.9. RECORD KEEPING**

All details and information collected are kept in printed or electronic form for a period of five years after the end of the business relationship with the customer or the date of the occasional transaction. Upon expiry of that period, the bank shall delete the personal data, unless the data based on legal requirements is required to be kept for longer periods (but in any case, not more than 40 years).

### **5.10. AUDIT**

Compliance with AML/CFT program is subject to periodic audits by the Internal Audit, annual audits by the External Auditors and periodic inspection/evaluation from the Responsible/Supervising Authorities.

## **6. REVIEW AND COMMUNICATION**

This statement is subject to on-going reviews. Any changes are communicated to all relevant stakeholders.