

# Risk appetite of Coop Pank AS in the area of AML/CTF and the implementation of international sanctions

This document is designed to provide potential and existing clients and other third parties with an overview of the risk appetite of Coop Pank AS (hereinafter referred to as the Bank) and Coop Liising AS (hereinafter collectively referred to as the Group) in the area of anti-money laundering and counter-terrorist financing (AML/CTF) and implementation of international sanctions.

The obligation on banks to determine risk appetite in regard to AML/CTF and the implementation of international sanctions arises from the Money Laundering and Terrorist Financing Prevention Act and the International Sanctions Act. In practice, this requires banks to determine which clients they will serve, the kind of clients with whom they wish to avoid business relationships and the clients they regard as high-risk.

This does not constitute the Group's risk appetite document, but is an explanatory summary of said document.

## 1. General principles for establishment and management of client relationships

### Knowing our clients

The Group wishes to cooperate with trustworthy clients who use its products and services for lawful purposes and whose identity, beneficial owners and origin of assets can be identified and, where necessary, verified. It is also important for the Group to understand the nature and objective of a client's business relations and transactions.

### Due diligence measures taken to get to know our clients

A risk-based approach is used upon the application of measures required for us to get to know our clients and understand the objective of their business relationships, incl. upon the application of enhanced due diligence measures: due diligence measures are applied to a client to the extent necessary for managing the risk arising from said client. If a client does not allow the Group to apply due diligence measures, the Group is unable to establish or continue business relationships with said client.

### Identifying our clients

The Group establishes client relationships in its branch network, from a distance in the form of field sales, by identifying persons directly via partners or by identifying them electronically. In order to avoid taking excessive risks, the Group only uses electronic identification in respect of Estonian citizens, natural persons who are

holders of long-term Estonian residence permits and legal persons established in the Republic of Estonia.

### Country risk related to clients

The Group establishes business relationships with both residents and non-residents, incl. residents whose business operations take place outside of Estonia and the European Economic Area (EEA). E-residents are classified as non-resident clients.

### The following are regarded as non-residents:

- Private persons whose permanent place of residence is not in Estonia or who have been issued with a residence permit for a period of less than one (1) year
- A company registered abroad or an Estonian company if it is controlled by a person who is not a resident of Estonia (i.e. the company is under the ownership of a non-resident beneficial owner/owners to the extent of more than 25% of the company being controlled by one or more non-residents in any other manner, or if the majority of the company's management consists of non-residents)

### A legal entity is considered to have a strong connection to Estonia if:

- the company's economic activities are connected to Estonia (e.g. its actual place of business or its workforce is in Estonia);
- the company's key transaction partners are companies operating in Estonia;
- the company provides a product or service aimed at the Estonian market (e.g. an Estonian-language online store);
- the company owns property in Estonia or its operations are related to property (e.g. property management or development); and/or
- there is another significant and verifiable connection which explains the need for the company to have a bank account in Estonia (e.g. the company's management consists largely of Estonians).

### A private person is considered to have a strong connection to Estonia if:

- the individual has a valid employment contract or an employer's written confirmation of employment in Estonia or in an Estonian company and confirmation of registration of short-term employment in Estonia;
- the individual has a certificate of an educational institution confirming that they are studying in Estonia, which must be valid for at least six (6) months and be no more than one (1) month old;
- the individual owns property in Estonia whose upkeep costs are paid from the Bank account or rent from which is paid into the Bank account; and/or

- there is another significant and verifiable connection which explains the need for the individual to have a bank account in Estonia and why, accordingly, they have a justified interest in holding a main payment account in the Bank.

Any non-resident who wishes to establish a business relationship must have a strong connection to Estonia. When an account is opened, the aforementioned connections are assessed collectively, wherein meeting a single criterion may not be considered a sufficiently strong connection in all situations to establish a business relationship.

The Group does not establish client relationships with Russian or Belarusian citizens who do not have a valid residence permit for a Member State of the European Union (EU), the EEA or Switzerland and does not permit them to perform occasional transactions. Nor are client relationships established with or occasional transactions permitted to be performed by companies in which a share of 50% or more is held or over whose management or supervisory boards actual control is exercised as the chairman by a person who is a Russian or Belarusian citizen who does not have a valid residence permit for a Member State of the EU, the EEA or Switzerland.

## 2. Restrictions in establishing client relationships and performing transactions

2.1. The Group does not establish business relationships or permit occasional transactions to be performed if:

- the Group suspects that the individual is subject to an AML/CTF restriction, international sanction or other restriction applicable to the Group (including suspected attempts to circumvent such restrictions);
- the Group suspects that a legal person is in breach of a requirement arising from law (e.g. avoiding the payment of taxes or operating without a licence);
- the Bank has a writ of seizure received from a bailiff in connection with the seizing of an individual's account;
- the Group suspects that a legal person has committed, or there are suspicions based on public information that the legal person or a person related to them has committed, a significant offence, incl. trading in drugs, trafficking in human beings, terrorism, financial and tax crimes, money laundering and terrorist financing;
- the individual in question is one whose area of operations has been identified as the provision of a striptease service (e.g. striptease clubs) or adult entertainment (e.g. web portals aimed at adults);
- the Group suspects the individual of being a frontman;
- the individual has committed an attack against the Group (e.g. a cyber attack, submission of false data

or forged documents, loan or other fraud) or is engaged in activities that could tarnish the Group's reputation in any other manner;

- the individual has refused to submit to the Group the data and documents required for the application of due diligence measures or has done so to an insufficient extent or where there are suspicions that the submitted documents may have been forged;
- the origin of assets and operations of the individual are unclear, incl. if the individual does not provide sufficient cooperation for the implementation of due diligence measures arising from law;
- a legal person is registered in a high-risk third country<sup>1</sup> or is owned by a company or natural person registered in such a country;
- the individual's capital consists of bearer shares or other bearer securities;
- the case in question is one of an association with no legal form (e.g. which has not registered itself as an NGO);
- the case in question is one of a credit institution or financial institution or an institution that performs actions equivalent to those of credit institutions and financial institutions which have been established in a jurisdiction or country where it has no management or administration or physical location for purposeful business activities, and which is not associated with the group of a single credit institution or financial institution (a shell bank) or that is a credit institution or financial institution serving shell banks;
- the individual's area of activity is the provision of virtual currencies (e.g. wallet service providers and transfer services). This prohibition does not apply to the activities and persons set out in point 3.2;
- the individual has been identified by the Group as being involved in a money laundering scheme;
- the individual is a non-resident who has no strong connection to Estonia and who therefore has no justified interest in holding a main payment account in the Bank;
- the individual's activities correspond to the characteristics of a so-called transit account (with any money that is received being quickly transferred on, the permanent account balance being small or actual economic activities being unidentifiable in the case of legal persons) and the purpose of these activities is incomprehensible or suspicious;
- the Group has identified that the legal person or a natural person connected to it has been linked to corruption;
- the individual's area of activity is the weapons industry or weapons trade (excl. if related to Estonia, NATO or other member countries of the alliance); and/or

<sup>1</sup> Regulated by law. These countries largely overlap with the list published here: <https://www.coopbank.ee/keelatud-valismaksed>

- the individual is registered in a non-cooperative jurisdiction for tax purposes<sup>2</sup> or the company is owned by a company registered in such a country.

## 2.2. The Group does not perform transactions:

- in connection with which the Group suspects that the individual is subject to an AML/CTF restriction, international sanction or other restriction applicable to the Group;
- the origin of the resources for which is unclear;
- which are identified by the Group as deviating significantly from the ordinary operations of the client;
- in regard to which there are suspicions of a breach of a requirement arising from law (e.g. avoiding the payment of taxes or operating without a licence) or which bear characteristics of a sham transaction;
- the explanation for which hints at criminal activity (e.g. human trafficking or the sale of narcotics), money laundering, the financing of terrorism or the violation of sanctions;
- which are connected to virtual currencies. This prohibition does not apply to the activities and persons set out in point 3.2;
- for which the Bank is used solely for the transfer of funds (so-called transit account activity);
- whose objective or other circumstances are incomprehensible to the Group;
- in regard to which the client has not submitted sufficient explanations or documentation;
- with units or individuals whose names are on the lists below or are owned by or under the control of such persons or is a business partner or person closely related to such a person:
  - Consolidated List of EU Sanctions (EU)
  - List established with a resolution of the United Nations (UN) Security Council
  - Sanctions lists (Specially Designated Nationals (SDN)) managed by the US Office of Foreign Assets Control (OFAC)
  - Lists of the United States Bureau of Industry and Security (BIS)
  - Lists established by the United Kingdom Office of Financial Sanctions Implementation (OFSI).
- for an individual in regard to whom other restrictions on the provision of financial services have been established as set out in<sup>3</sup> § 14<sup>4</sup> of the International Sanctions Act or the business partner of or a person closely related to such an individual; and/or

<sup>2</sup> List of countries: <https://www.consilium.europa.eu/et/policies/eu-list-of-non-cooperative-jurisdictions/>

<sup>3</sup> International Sanctions Act: <https://www.riigiteataja.ee/akt/108032022003?leiaKehtiv>

- in the case of which it is difficult or impossible for the Bank to make sure that the performance of the transaction will not violate a financial or other international sanction.

2.3. The Bank restricts the intermediation of payments to countries regarded as those with a higher risk of terrorist financing or where, in the opinion of the Financial Action Task Force (FATF), adequate AML measures have not been adopted<sup>5</sup>. Payments are also restricted to countries on which broad-ranging international sanctions have been imposed, including restrictions to prevent the proliferation of weapons of mass destruction. A list of these countries is published by the Bank in the payments section of its website, among other places.

## 3. Prohibited activities and products/services

3.1. The Group does not provide the following services to its clients:

- Intermediation of payments to countries on the Bank's list of prohibited countries
- Provision of trust management and company services, incl. the establishment of companies and the provision of consultation services in this regard
- Provision of consultation services in the areas of accounting or taxation
- Transactions related to virtual currencies i.e. cryptocurrencies (purchase, sale, intermediation or safekeeping) and transactions linked to NFTs (non-fungible tokens)
- Cross-border cash or securities transport services
- Correspondent banking services to credit institutions

3.2. In relation to virtual currencies and virtual currency service providers, the following are permitted as exceptions for the virtual currencies indicated in points 2.1 and 2.2:

- Investing in virtual currencies via the Bank, provided that it is possible to give an overview of the transactions on virtual currency platforms related to these investments in a manner that is understandable to the Bank and the person also makes their other main settlements in the Bank and the origin of their assets is clear and unambiguous
- Settlements by virtual currency service providers which are not related to the provision of virtual currency services (e.g. salaries to employees, rental payments and tax settlements)

<sup>4</sup> This point does not apply to individuals in relation to whom an amount-based restriction on deposit accounts has been established on the basis of an international sanction, but who have a sufficient connection with Estonia on the basis of point 1.

<sup>5</sup> Restrictions related to payments: <https://www.coopbank.ee/keelatud-valismaksed>

#### 4. International sanctions and prevention of proliferation of weapons of mass destruction and of terrorist financing

4.1. The Group applies restrictive measures in its activities against countries and individuals on whom international sanctions have been imposed, through which it is known or suspected that they are being used to circumvent international sanctions or to finance weapons of mass destruction or terrorism.

4.2. The Group does not perform transactions:

- if it identifies a party in the goods supply chain or otherwise involved in the transaction on whom international sanctions have been imposed or who is suspected of violating sanctions or financing the proliferation of weapons of mass destruction or terrorism;
- in the case of which it is difficult or impossible to make sure that the performance of the transaction will not violate a financial or other international sanction or in the case of which it is impossible to rule out suspicions of the financing of the proliferation of weapons of mass destruction or terrorism. This extends to establishing and maintaining client relationships;
- involving the transfer of funds to or from Russian or Belarussian banks. This restriction extends to all subsidiaries of Russian and Belarussian banks that may be registered or operate outside of Russia and Belarus;
- initiated within Russian and Belarussian banks or other financial institutions or via the subsidiaries of these banks or financial institutions operating in the EU or other countries;
- initiated within companies established outside of Russia or Belarus but of which more than 50% of the owners are from Russia or Belarus;
- initiated within companies established in Russia or Belarus via any other bank or financial institution;
- in regard to which it is ascertained that the final beneficiary of a Russian or Belarussian party in the goods supply chain or otherwise involved in the transaction or of the goods or service is Russian or Belarussian;
- involving, in general, the transfer of funds to Armenian, Azerbaijani, Kazakhstani, Kyrgyzstani, Moldovan, Serbian, Tajikistani, Turkmen and Uzbekistani banks or the acceptance of payments from them; and/or
- involving transactions connected to North Korea or Iran.

4.3. In respect to transactions connected to the regions of Crimea, Luhansk, Donetsk, Kherson and Zaporizhia that concern restrictions or prohibitions on goods, services or other activities (such as tourism or investment), the Bank applies enhanced due diligence measures and avoids, inter alia,

transactions which, in the Bank's opinion, may be inconsistent with the purpose of the sanctions or in respect of which the Bank suspects the circumvention of sanctions.