

Anti Money Laundering Policy

I. Definition of Money Laundering

Money laundering is the process by which large amounts of illegally obtained money (from drug trafficking, terrorist activity or other serious crimes) is given the appearance of having originated from a legitimate source. Criminals and their associates use the financial system to make payments and transfers of funds from one account to another, to hide the source and beneficial ownership of money, and to provide storage for bank-notes through a safe-deposit facility.

II. Financial Action Task Force - FATF

The FATF is an inter-governmental policy-making body whose purpose is to establish international standards, and develop and promote policies, both at national and international levels, to combat money laundering and terrorist financing. It was established in July 1989 by a Group of Seven (G-7) Summit in Paris, initially to examine and develop measures to combat money laundering. In October 2001, the FATF expanded its mandate to incorporate efforts to combat terrorist financing, in addition to money laundering.

Lebanese Swiss Bank is strongly committed to adhere to the FATF requirements and recommendations in order to ensure compliance domestically as well as globally.

III. Purpose and Scope

The Lebanese Swiss Bank strongly commits to preventing the use of the banking system for the legalization of revenue from criminal activity and for terrorist financing.

The objective is:

- ❖ To protect the Bank's status and reputation, and
- ❖ To prevent the imposing of sanctions against it due to actions that can end up in the Bank being used for the legalization of revenue from criminal activities.

IV. Stages of Money Laundering

Money Laundering in general includes the following three basic stages:

Stage 1: Placement: At this first stage, illegal profits (or otherwise referred to as "Dirty Money") are introduced into the financial system. This might be done by breaking up large amounts of cash into less conspicuous smaller sums that are then deposited into a bank account, or by purchasing a series of monetary instruments that are then collected and deposited into accounts at another location.

Stage 2: Layering: Separating the illicit funds from its original source through a series of complex financial transactions, thereby making it difficult to trace. The Goal is to separate illegally obtained money from its source, protect criminals involved in the criminal activities that generated the money by making it difficult to follow the money trail back to the source crimes and participants and enable subsequent use of the money by the criminals for lawful purposes by removing all ties to the underlying criminal activities.

Stage 3: Integration: Popular methods at this stage include property investments, purchase of luxury Assets, establishment of anonymous companies in countries with corporate secrecy laws and use of false loan repayments or forged invoices used as a cover for laundered money

V. LSB Standards

The Lebanese Swiss Banks' management shall ensure that business is conducted in conformity with high ethical standards and that the laws and regulations pertaining to financial transactions are adhered to.

The Bank shall cooperate fully with national law enforcement authorities to the extent permitted by specific Lebanese regulations relating to customer confidentiality.

VI. Domestic Regulations

As per Article 5 of Lebanese Law No. 318 of April 20, 2001, Lebanese Swiss Bank being an institution subject to the provisions of the Banking Secrecy Law of September 3, 1956, it is subject to controlling operations with clients, in order to avoid involvement in what may conceal money laundering operations resulting from any of the offences specified by the Law 318 dated April 20, 2001.

VII. Indicators of Money Laundering

1. Some of the Risk Indicators during the Account Opening Process:

- ❖ The customer wishes to engage in transactions that lack business sense, apparent investment strategy, or are inconsistent with the customer's stated business/strategy.
- ❖ The customer exhibits unusual concern for secrecy, particularly with respect to his identity, type of business, assets or dealings with firms.
- ❖ The customer has difficulty describing the nature of his business.
- ❖ The customer lacks general knowledge of his industry.

2. Some of the Risk Indicators as Part of Customer Account Activity:

- ❖ The undertaking by a client of large cash operations in the form of deposits and withdrawals, with insufficient personal identification.
- ❖ The customer account has unexplained or sudden extensive wire activity, especially in accounts that had little or no previous activity.
- ❖ The undertaking of large or recurrent foreign exchange operations by using cash funds.
- ❖ A change in the pattern of deposit operations made by a client exempted from filling the cash transaction slip (C.T.S.)

3. Some of the Risk Indicators Concerning the Economic Right Owner:

(As per BDL Circular 83 dated May 18th, 2001 - Article 5)

- ❖ When a power of attorney is given to a nonprofessional person and when it appears that the relationship to the client does not justify the proxy operation, or when the business relationship is conducted through false names or numbered accounts, or through umbrella institutions or companies.

- ❖ When the financial status of the client intending to make the operation is known to the officer in charge and the operation's value is disproportionate to the financial status of the said client.
- ❖ When, through the conduct of business with the client, any other indicator draws the attention of the bank.

4. Other Risk Indicators:

(As per BDL Circular 83 dated May 18th, 2001 – Article 9)

- ❖ The replacement of large cash funds by electronic transfer requests or by bank checks.
- ❖ The fact of depositing bank / traveler checks in the account of a company / institution whose activities do not justify such deposits.
- ❖ The occurrence of cash operations and / or bank transfers that appears unusual, considering the location of the branch.

Behavior is suspicious, not people. The consideration of many factors, not any one factor will lead to the conclusion that there are reasonable grounds to suspect a transaction is related to a money laundering or terrorist financing offence.

VIII. Special Investigation Commission (SIC) Relationship

The mission of the Special Investigation Commission is to investigate operations that are suspected to be money-laundering offences, and to decide on the seriousness of evidence and circumstantial evidence related to any such offence or offences.

In accordance with Article 7 of Law 318 Dated April 20,2001, the Lebanese Swiss Bank shall immediately report to the SIC the details of operations that is suspected to be concealing money laundering.

IX. AML Policy Requirements

A. Establishment of Customer Identity (KYC):

The Lebanese Swiss Bank will verify the identity of the customer and beneficial owner before or during the course of establishing a business relationship or conducting transactions for occasional customers.

LSB believes that sound KYC policies and procedures are critical in protecting the safety and soundness of the bank and the integrity of banking systems.

The “Know Your Customer” or KYC principle is applied, so as to make known the customer’s actual identity, his/her business profile and his/her intentions regarding the way of operation and use of the banking products offered to him/her by the bank.

B. Essential Elements of the KYC:

i. Customer acceptance policy

Lebanese Swiss Bank will abide by and adhere to BDL circular 83 dated May 18th, 2001 – Article 3’s requirements in order to check the client's identity. The officer in charge will request specific documents from the client depending on his status as specified in the circular mentioned above.

ii. Customer identification

A customer includes:

- ❖ The person or entity that maintains an account with the bank or those on whose behalf an account is maintained (i.e. beneficial owners),
- ❖ The beneficiaries of transactions conducted by professional intermediaries, and
- ❖ Any person or entity connected with a financial transaction that can pose a significant reputational or other risk to the bank.

iii. General identification requirements

The Lebanese Swiss Bank needs to obtain all information necessary to establish to its full satisfaction the identity of each new customer and the purpose and projected nature of the business relationship.

iv. On-going monitoring of accounts and transactions

To ensure that records remain up-to-date and relevant, the Lebanese Swiss Bank will undertake regular reviews of existing records and this is in Compliance with BDL circular 83 Dated May 18th, 2001 – Article 7.

C. Transaction Monitoring (CTS) and Exemptions

For all transactions that exceed USD 10,000 or its equivalent, the Lebanese Swiss Bank will fill out the **Cash Transaction Slip (CTS)**. The amount could be a lump sum or a cumulative sum that is reached upon performing several transactions on the same day.

In reference to SIC Circular 6, the Compliance Officer may exempt some clients from this procedure after setting a ceiling; such exemptions must be based on justifiable criteria. The AML & Compliance Committee in accordance with the client's nature and line of business and the respective projected logical account activity shall specify the exemption limit of each client. Those clients that are subject to exemptions shall also be monitored as not to exceed the specified limits accorded to them.

D. Reporting of Unusual or Suspicious Transactions (eSTR)

Suspicious transactions are financial transactions that trigger reasonable grounds to suspect an attempt related to the commission of a money laundering offence. Suspicious transactions also include financial transactions that trigger reasonable grounds to suspect attempts related to the commission of a terrorist activity financing offence.

Through the monitoring of transactions, the compliance unit may detect possible attempts to money laundering. Once the attempt is identified the compliance unit investigates the transaction further and when it has serious doubts about the transaction, the issue is elevated to the Compliance & AML committee. The Committee discusses and debates the issue and come to a final decision. If the Committee still has serious doubt about a money-laundering attempt, it will request the Compliance unit to inform the Special Investigation Commission immediately of the matter in order to seek guidance through the process.

X. Monitoring / Systems and MIS

a. World Check Monitoring

AML & Compliance unit team is given access to World Compliance Online solution which offers a data entry search capabilities of a various databases worldwide for known or suspected terrorists, money launderers, narcotics traffickers, and Politically Exposed Persons. This access assists the Lebanese Swiss Bank Team to identify names circulated worldwide through an in-depth, up-to-date large database and reduces further the probability of being a vehicle for the purpose of money-laundering or terrorist financing.

b. LSB Local Database Monitoring

The AML department at the Lebanese Swiss Bank relies on various daily, monthly and ad-hoc reports to adequately monitor and control the opening of new accounts, accounts activities as well as swift operations.

XI. Correspondent Banks and ultimate Beneficiaries

I. Shell Banks

Shell bank is a bank incorporated in a jurisdiction in which it has no physical presence and which is unaffiliated with a regulated financial group. It is a bank that:

- ❖ Does not conduct business at a fixed address in a jurisdiction in which the shell bank is authorized to engage in banking activities.
- ❖ Does not employ one or more individuals on a full time basis at this fixed address.
- ❖ Does not maintain operating records at this address.
- ❖ Is not subject to inspection by the banking authority that licensed it to conduct banking activities.

The Lebanese Swiss Bank will not establish, maintain, administer or manage a Correspondent Account for a Shell Bank and will take reasonable steps to ensure that its Respondent Bank will not use its Correspondent Account to provide banking services to a shell bank.

II. Establishment of Correspondent Accounts / Due Diligence

The Lebanese Swiss Bank, in accordance with BDL circular 83 dated May 18th, 2001 - Article 2, shall ascertain the identity and activities of its correspondents and make sure, when dealing with them for the first time, that they really exist, based on submitted documentary evidence. In particular, make sure that the foreign bank with which it deals is not a shell bank.

XII. Politically Exposed Persons (PEPs)

PEPs are often high net-worth and prestigious individuals. They are individuals who are or have been entrusted with prominent public functions in a foreign country. Business relationships with family members or close associates of PEPs involve reputational risks similar to those with PEPs themselves.

Lebanese Swiss Bank will not automatically treat PEPs as "high risk", but rather that they may potentially constitute a reputational risk. Therefore, it is LSB's policy, in relation to politically exposed persons, and that, in addition to performing normal due diligence measures, to obtain general management approval for establishing business relationships.

XIII. Risk Based Approach and Classifications

Adopting a risk-based approach implies the adoption of a risk management process for dealing with money laundering and terrorist financing. This process encompasses:

- ❖ Recognizing the existence of the risks,
- ❖ Undertaking an assessment of the risks and,
- ❖ Developing strategies to manage and mitigate the identified risks.

Higher risk areas shall be subject to enhanced procedures. The risk Based approach assists the Bank to effectively manage potential money laundering and terrorist financing risks.

Potential Benefits of Risk Based Approach includes:

- ❖ Better management of risks and cost-benefits.
- ❖ Focusing on real and identified threats.
- ❖ Flexibility to adapt to risks that change over time.

i. Customer Risk

Customer Risk include, in reference to BDL circular 83 dated May 18th, 2001 – Article 9 bis:

- ❖ Customers whose professional activities depend mainly on cash (money exchange, gold and precious stones dealers, restaurants and night-clubs, real estate companies, car dealers...).
- ❖ Politically exposed foreigners who hold or have held important official positions.
- ❖ Offshore companies.
- ❖ Non face-to-face customers.
- ❖ Customers dealing through fiduciary contracts or trusts.
- ❖ Charities and other "not for profit" organizations which are not subject to monitoring or supervision.

ii. Country Risk

Country Risk include, in reference to BDL circular 83 dated May 18th, 2001 – Article 9 bis:

- ❖ The strictness of laws on fighting money laundering and terrorism financing, and the efficiency of the regulatory and judiciary authorities in charge of their implementation.
- ❖ The existence of banking secrecy.
- ❖ The situation of the country regarding corruption and organized crime.

iii. Service Risk

Service Risk include, in reference to BDL circular 83 dated May 18th, 2001 – Article 9 bis:

- ❖ Private Banking.
- ❖ Payable through Accounts, which are accounts opened by banks and financial institutions at other banks and put at their customers' disposal to be used directly or through subaccounts.
- ❖ Electronic banking.

To the above objective, LSB will establish risk-based control measures and procedures, and adopt at least, according to risk scoring of customers and transactions classified as high risk, the following measures and procedures:

- 1- To raise awareness concerning strict control as a priority.
- 2- To obtain more detailed information about clients (Increased KYC Levels).
- 3- To obtain, according to risk levels, the necessary administrative approvals, which allow dealing with customers and executing transactions.
- 4- To undertake periodic reviews of relationships with customers.
- 5- To make continuous peer comparisons.

XIV. Money Dealers

In reference to BDL circular 83 Dated May 18th, 2001 - Article 8:

The Lebanese Swiss Bank shall enquire from the client about the source and destination of funds, the object of the operation, and the identities of both the beneficiary and the economic right owner, when it finds that the intended operation has certain characteristics specified in the above circular.

In case an exchange institution fails to send the notification specified above, LSB will promptly inform the Central Bank of Lebanon.

XV. Non-Profit Organizations

A non-profit organization (NPO) refers to a legal entity or organization that primarily engages in raising or disbursing funds for purposes such as charitable, religious, cultural, educational, social or fraternal purposes, or for the carrying out of other types of "good works".

Non-profit organizations are particularly vulnerable, and LSB is committed to ensure that it is not misused by terrorist organizations posing as legitimate entities for terrorist financing or for the purpose of escaping asset freezing measures.

For that purpose, LSB will ensure adequate screening for all NPOs, their members and transactions activities continuously and will report any such suspicion that might comes across during the process. In case of any doubt LSB will refrain from opening an account to any NPO approaching the bank for to transact with such NPOs in any form.

XVI. Trainings

In reference to BDL Circular No. 83 Dated May 18th, 2001 - Article 12, Lebanese Swiss Bank will ensure an ongoing training of its staff and the participation of the concerned officers and those responsible for training in relevant seminars, workshops and lectures, so that they may keep abreast of money laundering-fighting methods.