

 LET ME INTRODUCE

COMPLIANCE DURING THE WAR: interview with Olena Pokhodziaieva, Chief Compliance and AFC Officer of Pravex Bank JSC

Olena Pokhodziaieva – CCO and Member of the Management Board of PRAVEX BANK JSC since 2020. She received a Master degree in Law and a Master degree in Economics at the Kyiv National Taras Shevchenko University, MBA of Kyiv School of Economics, Certified Global Sanction Specialist and Certified Anti-Money Laundering Specialist, as well as a certified specialist in corporate governance. Has more than 20 years of experience of work with international banks



With the beginning of Russia's full-scale invasion of Ukraine, the lives of many Ukrainians changed completely. Have such changes affected you and the compliance team in Pravex Bank?

Definitely. The biggest challenge and the most important priority for the Bank was to ensure continuous activity in conditions of direct threat to the life and health of employees and their families. Over the past year and a half, our team has learned to work productively from any corner of Ukraine and from abroad, during power cuts and even in conditions of complete blackout. Unfortunately, air alarms in Kyiv and Ukraine in general are quite frequent. From time to time, after nights spent in shelters due to mass shelling of Ukraine, next morning our colleagues start working as usual. And in the daytime during air raids, they continue to work from the shelters. It seems that nothing is impossible for Ukrainians who stay in their Country all this time. They live, work and build their lives despite everything. At this time, the support of the Parent Company, both financial, material and moral, was and remains priceless for us. We are grateful for the support and understanding of the needs of our employees.

The last year and a half have been actually difficult for business in Ukraine, the banking sector inclusively. How did full-scale invasion affect compliance area?

Due to Russia's military aggression, martial law was introduced in Ukraine, which resulted in numerous legislative changes, in particular for the banking community. The main focus of the decisions of the legislator and the National Bank of Ukraine was on the adaptation of regulatory framework to the realities of war. On the first day of the full-scale invasion, the National Bank had already approved Resolution No.18, which regulates the operation of the banking system during martial law. Later on this Resolution was subsequently amended more than 40 times. The National Bank established restrictions and limits on certain operations, prohibited any operations with entities from Russia and Belarus, and all requirements established by the Regulator had to be implemented as soon as possible, on the same day. It was a real challenge in war conditions, and our Bank coped with it, although not all Ukrainian banks managed to react quickly enough. The maximally prompt implementation of new requirements in our Bank allowed us to successfully pass the Regulator's inspection on the compliance of the Bank's activities with the Resolution No.18. In addition to monitoring and compliance with legal requirements, the department's strategic areas of activity were the implementation of sanctions restrictions of the National Security and Defence Council of Ukraine and international organizations and the control of operations conducted with the participation of entities from the Russian Federation and Belarus.

What recent compliance projects are you most proud of?

This year, my team and I implemented the new "EASY Compliance" initiative aimed at strengthening communication with other divisions of the Bank and maintaining compliance culture. Within the project, we systematically organize periodic meetings with the Bank's employees in which, in simple words and in a friendly atmosphere we talk about issues that are in the compliance perimeter, including the implementation of the new requirements of the legislation of Ukraine and the European Union, the sensitive issues of combating money laundering or preventing terrorism and/or the application of other internal compliance procedures. So far, we have already held two EASY Compliance meetings and received a lot of positive feedback from colleagues. It is also very valuable that a colleague from the legal department joined us as a speaker in the last meeting, as the cross-functional involvement in the project extremely strengthens the professional level of the event and creates new opportunities for the development of our colleagues. Besides that, at the end of each month, the Bank's employees receive a communication from the CCO regarding the major legislative changes, the important market news or other issues in the field of compliance and AML, which are worthy of attention and which are important for each of our employees to know. Such informative communications also contribute to the strengthening and development of a compliance culture, which represent an investment in the long-term success of the Bank, its employees and clients.



1. NEW EXTERNAL REGULATIONS

1.1 Bank of Italy implemented the EBA Guidelines on role and responsibilities of the AML/CFT compliance officer

On August 1, 2023 the Bank of Italy published the Provision for the implementation of the European Banking Authority (EBA) Guidelines on the role, tasks and responsibilities of the anti-money laundering and countering the financing of terrorism (AML/CFT) compliance officer and of the management body of credit or financial institutions ("EBA Guidelines"). The Provisions modifies the Provisions of the Bank of Italy on organization, procedure and internal controls for anti-money laundering purposes of March 26, 2019.

The amendments, among other things, affect the rules on corporate bodies, in which a new section dedicated to the AML/CFT compliance officer has been inserted; some amendments also concern the section that regulates the AML function, with specific focus on outsourcing: ((i) the credit or financial institution relying on an outsourcing arrangement should remain accountable to monitor and oversee the quality of the service provided; (ii) intra-group outsourcing should be subject to the same regulatory framework as outsourcing to service providers outside the group). Finally, the section applicable to groups has been rewritten in order to include new organizational requirements at group level (the parent credit or financial institution should:

- designate a member of its management body or senior manager responsible for AML/CFT among the senior managers at the level of the parent undertaking, as well as a group AML/CFT compliance officer.
- approve the group's internal AML/CFT policies and procedures.
- set up an organizational and operational coordination structure at group level.

The Provision shall apply from November 14, 2023. The AML/CFT compliance officer shall be appointed upon the first renewal of the corporate bodies following November 14, 2023, and, in any case, no later than June 30, 2026.

1.2 New Regulation on information accompanying transfers of funds in the Official Journal of the EU and updates on AML/CFT Package

The Regulation 2023/1113 on information accompanying transfers of funds and certain crypto assets ("Regulation 2023/1113") has been published in the Official Journal of the EU on June 9, 2023. The Regulation 2023/1113 - binding in its entirety and directly applicable in all EU Member States - entered into force on June 29, 2023, and it shall apply from 30 December 2024 (from this date the Regulation (EU) 2015/847 on information accompanying transfers of funds into force is repealed).

The Regulation (EU) 2015/847 currently only applies to transfers of funds, that is to banknotes and coins, scriptural money, and electronic money. The Regulation 2023/1113 extends the scope of Regulation (EU) 2015/847 in order to also cover transfers of virtual assets.

In particular, the Regulation 2023/1113 lays down rules on the information on payers and payees accompanying transfers of funds, in any currency, and on the information on originators and beneficiaries accompanying transfers of crypto-assets, for the purposes of preventing, detecting and investigating money laundering and terrorist financing, where at least one of the payment service providers or crypto-asset service providers involved in the transfer of funds or transfer of crypto-assets is established or has its registered office, as applicable, in the EU.

In addition, the Regulation 2023/1113 lays down rules on internal policies, procedures, and controls to ensure implementation of restrictive measures where at least one of the payment service providers or crypto-asset service providers involved in the transfer of funds or transfer of crypto-assets is established or has its registered office, as applicable, in the EU.

The Regulation 2023/1113 is one of the four legislative proposals in which the AML/CFT Package consists.

 AFC REGULATION & TRENDS

2. INTERNAL GUIDELINES AND RULES

2.1 Overview of the documents updated as of May and to be published by the end of 2023

2.1.1 Guidelines

- Group Anti-corruption Guidelines. On September 29, 2023, the updated version of the Guidelines was approved by the Board of Directors of ISP. The new version introduces, among other things, a focus on "Business Introducers", with additional cautions considering the higher risks associated with such cases
- Guidelines for combating Money Laundering and Terrorist Financing and for managing Embargoes. The new Guidelines are expected to be published by the end of November 2023. The document among its new features includes EBA Guidelines on AML/CFT compliance officer as transposed by the Bank of Italy

2.1.2 Rules applicable only for ISP and Italian Entities under the centralized model

Here below is the list of documents applicable only to the Group's Italian entities recently updated or to be updated by the end of 2023:

- Rules for communications pursuant to Articles 46 and 51 of Legislative Decree 231/2007 published in July 2023
- Rules on record keeping, making available and external reporting for the purposes of anti-money-laundering and counter-terrorist financing published in August 2023
- Rules on customer due diligence for combating money laundering and terrorist financing expected by October 2023
- Rules on transaction monitoring and reporting on suspicious transactions for combating ML/TF - Foreign Branches and International Subsidiaries, to be published by December 2023

2.1.3 Group Rules

- Update of the annex to the Group Rules for the management and use of Country Lists for combating money laundering and terrorist financing with Circ. 858/2023, published on September 2023
- Group Rules on Intra-Group Processes to Combat Money Laundering and Terrorist Financing (December 2023)
- Group Rules for the management of Embargoes to be published by December 2023

2.1.4 Rules for Foreign Branches and International Subsidiaries under the steering, coordination, and control model

- Rules for Transaction Monitoring and SAR (applicable only to Foreign Branches and International Subsidiaries of ISB and IMI CIB Division) – currently under final customization by the Group entities
- Rules for Know Your Customer (applicable only to Foreign Branches and International Subsidiaries of ISB and IMI CIB Division) – under consolidation, to be published by December 2023
- Rulebook for the on-boarding of International Private Banking Customers - AML-CFT and FATCA-CRS obligations – currently under definition (due date November 2023)
- Rules for Transaction Monitoring and SAR for International Private Banking Division to be released by December 2023

2.2 Institutional Documents

- The ISP Wolfsberg Questionnaire (CBDDQ) - version 1.4 - was signed on the 24th of August 2023 and published on the Institutional Group website: <https://group.intesasanpaolo.com/en/footer-pages/aml-cft>

With reference to the acknowledgment of the internal Rules within the new tool "Regulation Management WorkFlow", it should be noted that as envisaged in the document "Guidelines for the Governance of Group Regulations", the Group Companies recipient of the Group Rules must acknowledge them within the Workflow. The Group Companies that have not yet completed the are recommended to do so.



WHAT'S GOING ON

1. AFC RISK ASSESSMENT: Data collection automation through the new tool "Service NOW"

In 2022, DC AFC and CDT embarked on a multi-year digitalization initiative for the AFC Risk Assessment process, with the overarching goal of reducing manual processes and ensuring enhanced auditability. With the completion of the digitalization interventions in Q3 2023 it was possible to streamline the data collection phase of the Risk Assessment process using a workflow tool developed in ServiceNow. Three roles have been foreseen for the execution of the AFC Risk Assessment, once logged in, the tool will automatically identify the user's role, presenting only the relevant sections and information required to perform tasks aligned with their profile:

1. **Campaign Manager:** This role involves designing, initiating, and managing Risk Assessment campaigns, including the associated surveys.
2. **Survey Manager:** responsible for pre-populating surveys and reviewing and validating the data entered by Compilers.
3. **Compiler:** responsible for entering the data requested in the surveys.

The workflow requires that for each AFC Risk Assessment, N-Surveys are created to collect data from all Legal Entities in scope. The survey process follows a four-stage workflow:

1. **Draft:** Campaign Manager prepares the surveys intended for the Legal Entities. Additionally, Survey Managers pre-fill these surveys with data available at the Head Office level.
2. **Assess:** Compilers populate their surveys and verify the pre-filled data.
3. **Review:** The Survey Manager reviews the information provided by the Compiler.
4. **Monitor:** The surveys are transmitted to the calculation engine to process the results of the Risk Assessment.

When the Campaign Manager closes the campaign, the results will be shared through the provided channels and from this year also through the compliance platform TheMIS, where it will be possible to retrieve Risk Assessment results and access (if authorized) the data collection tool in ServiceNow.

We remind that **data collection phase** will be close **no later than October 22nd**.

We thank you for the first feedback received after the launch of the AFC Risk Assessment 2023 exercise.

We recommend everyone to feel free to send feedback about the new tool, to Andrea Robbiani's team (DC_AFC_RIS_AS_TD_REP.07361@INTESASANPAOLO.COM).

2. TRAINING ACTIVITIES: the AFC training plan

In September the internal process for the preparation of the Anti Financial Crime Training Plan for the year 2024 was started. The plan, in continuity with the 2023 - takes in due consideration:

- the evolution of primary and secondary external legislation, as well as the evolution of operating processes in the anti-money laundering, anti-terrorism, embargoes, and anti-corruption areas
- the needs identified through the collaboration of the Group Entities Oversight, which liaised with all the Group entities in order to identify local needs, analyze common topics and address them in the annual Training Plan.

The different initiatives include induction sessions on important regulatory novelties such as the EBA Guidelines on AML compliance officers and the changes introduced by the European Commission's AML Package.