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Chairman of the Board



Vadim V. Morokhovskiy

stamp

Pivdennyi Bank Internal Policy
On the Counteraction of the Legitimization (Laundering) of the Proceeds of Crime,
or the Financing of Terrorism
(new edition)

Internal policy concerning the Counteraction of the Legitimization (Laundering) of the Proceeds of Crime, or the Financing of Terrorism – conducting financial monitoring process in Pivdennyi Bank (hereinafter “the Bank”), is in conformity with the FATF strategies and objectives, is based upon 40 recommendations of the Group on development of financial actions on combating money laundering, the Basel Committee on Banking Supervision, is founded upon the Law of Ukraine “On the Counteraction of the Legitimization (Laundering) of the Proceeds of Crime, or the Financing of Terrorism” dated 18.05.2010 No.2258-VI, regulations of the National Bank of Ukraine, internal documents of the Bank.

Internal documents of the Bank (Internal Financial Monitoring Rules, Client Identification and Due Diligence Program, Financial Monitoring Conduct Programs on particular business lines of the Bank during client service process (settlement and cash transactions, foreign exchange transactions, transactions with the use of special payment means, credit operations, operations with securities, etc.) Risk of Legitimization (Laundering) of the Proceeds of Crime/ the Financing of Terrorism Assessment and Management Program, Staff Training Program), approved by the competent authority of the Bank, determine procedure for client identification and study process, internal technologies of financial monitoring process, continuous staff training process, functions of audit service regarding system reliability review.

The Bank starts to execute its functions as a subject of initial financial monitoring with a client identification and study while establishing business relations with the client.

Identification includes:

- initial client identification and study while establishing business relations with the client;
- activities and procedures on verification of the client's information;
- procedures on record keeping of the client's information;
- procedures for clients classification in accordance with Risk of Legitimization (Laundering) of the Proceeds of Crime/ the Financing of Terrorism Assessment and Management Program;
- procedure for client financial condition assessment;
- procedure for client financial activity study, including procedure for client quarterly financial operations analysis;
- procedure for refusal the client in establishing business relations with it or conducting its financial transactions.

Identification is performed by providing original documents by the client or duly certified copies for identification its purposes, information contained in the questionnaire, obtaining information from state authorities, including for beneficial owners, for persons exercising direct or indirect influence on the client, etc.

The Bank is entitled to request any information and documents from the client that confirm its identity, business specifics, financial condition, etc.

If the client fails to provide the requested information or documents for identification and study of its financial activities, the Bank must refuse the client to carry out its cash settlement transaction and inform hereabout a Designated Authority (State Financial Monitoring Service of Ukraine).

With regard to foreign financial institutions while establishing correspondent relations, the Bank ensures information acquisition on bank's activities, its financial condition, reputation as well as the information whether the bank has been prosecuted or fined for failure to comply with anti-money laundering laws, determines which actions have been taken by the bank for prevention and counteraction of the legitimization (laundering) of the proceeds of crime, or the financing of terrorism.

The Bank ensures information verification on client identity and due diligence in the event of:

- change of the owner's substantial share;
- change of the account owner location;
- changes introduced to the statutory documents;

-expiration of provided documents validity period.

The right of the Bank for obtaining additional information is stipulated by agreement between the Bank and the client.

Frequency of information verification on identification and study of the client depends on the risk assessment of the client's transactions on legitimization of proceeds of crime/financing of terrorism, but should not exceed three years for low risk level, two years for medium risk level, one year for high risk level.

Information on the client and conclusions drawn by the Bank (financial condition assessment, risk assessment, compliance of financial transactions with financial condition and business activities, reputation of the client) are reflected in client questionnaire which is the internal document of the Bank. Access to the questionnaire is regulated.

Financial Monitoring Conduct Programs on particular business lines of the Bank during client service process (cash financial transactions monitoring, non-cash transactions in local and foreign currency monitoring, monitoring of securities transactions, monitoring of credit operations, etc.) aimed at implementing requirements of legislative acts, effective in Ukraine, ensure operation of internal banking system on counteraction of the legitimization (laundering) of the proceeds of crime/the financing of terrorism.

Financial Monitoring Conduct Programs contain criteria, established by law, of a mandatory financial monitoring for transactions over UAH 150 000, as well as other criteria which are determined by the Bank according to specific character and trends of activity (internal financial monitoring), with consideration of requirements of a Designated Authority.

Analysis of financial transactions is carried out by the Bank employee directly serving the client under the manager's control before (during, in case of a settlement attempt), in a day of financial transaction settlement refusal to a client, no later than the following day after the Bank has received required documents and/or information on financial transactions which was missing on the day of its conduct.

The Bank pays attention to complex, uncommonly large transactions and transactions conducted by an unusual scheme, having neither economic nor apparent lawful purpose.

Final decision on a particular transaction is made by a responsible bank employee (Compliance Officer), being responsible for complete and timely informing a Designated Authority. Compliance Officer is a board member, meets qualification requirements, has a perfect business reputation and is appointed after approval by the National Bank of Ukraine.

In case of inexpediency of a Designated Authority informing on a transaction subject to financial monitoring, Compliance Officer executes a document substantiating such a decision.

Prior to executing a financial transaction, the Bank is entitled to refuse the client in its execution or suspend it, if the transaction contains evidence subject to financial monitoring.

All transactions that came under a mandatory or internal financial monitoring, are registered in the Register of financial transactions subject to financial monitoring, which is a document with a limited access. Compliance Officer sets a register access mode and is responsible for data protection, unauthorized access, data modification or correction.

Informing a Designated Authority on a financial transaction subject to a mandatory financial monitoring to be made within three days since the day of a registration in the registry, and for internal financial monitoring during 10 working days in a file-notification containing details envisaged by regulations of the National Bank of Ukraine.

The file-notification is signed by an electronic digital signature of a Compliance Officer.

A basic principle of implementation of Internal Financial Monitoring Rules is a participation of the Bank employees (within their competence) in identifying financial transactions that may be associated with the legitimization (laundering) of proceeds of crime or the financing of terrorism.

The Bank organizational structure determines four levels of financial transactions identification, analysis and control:

- 1) Bank officials directly serving financial transactions;
- 2) Managers of structural divisions;
- 3) Employees of a financial monitoring department;
- 4) Compliance Officer who makes a final decision.

Financial transactions carried out by structural divisions of the Bank (branches) in the regions of Ukraine, beyond the location of the Head office of the Bank, are analyzed by them and additionally controlled by employees of a financial monitoring department having no right to influence the final decision.

There are appointed responsible officials entitled to make decisions on particular transactions in the branches. Responsible officials in the branches are appointed only upon agreement with a Compliance Officer.

For identification of persons involved in the financing of terrorism the Bank uses software that allows for verification of participants (beneficiaries) of a financial transaction in accordance with the list of persons involved in terrorist activities, or that are subjects to the international sanctions approved by the State Financial Monitoring Service of Ukraine. The list includes persons that are subject to UN sanctions.

In addition, verification is performed according to the list distributed by the Committee on Foreign Assets Control of the US Treasury (OFAC).

According to Ukrainian laws the Bank is obliged to suspend a financial transaction in case of identification of persons involved in the financing of terrorism and immediately inform on a financial transaction and its participants a Designated Authority or a law enforcement authority.

The Bank keeps all records related to a financial transaction subject to a financial monitoring and its participants' identification for five years after its conduct.

All bank employees bear responsibility established in accordance with legislation for disclosure of a fact of a Designated Authority notification and related information.

**Deputy Chairman of the Board-
Compliance Officer**



Lyudmila Khudiyash