

COMPLIANCE WEEK

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Q&A: Hellenic Bank CCO on progress made to fight corruption in Cyprus



By Aaron Nicodemus | Tue, Jan 28, 2025 10:35 AM

Maria Aristidou Demetriou, chief compliance officer at Cyprus-based Hellenic Bank, spoke to Compliance Week about derisking in the Cypriot banking sector since Russian's invasion of Ukraine and efforts to combat corruption, money laundering, and sanctions evasion.

Q. You are the chief compliance officer for Hellenic Bank, based in Cyprus. Tell me about the bank, like its history, its services, and its customers.

A. During 2024, Eurobank's share increased to 93.47 percent and the bank acquired 100 percent of CNP Cyprus Insurance Holdings Limited. Subject to regulatory approvals, the deals are expected to be concluded in Q1-2025.

Some facts about the bank:

- Second largest financial institution in Cyprus, with assets totaling about 20 billion euros
- A retail-focused bank with a stable customer base (mostly local) and strong market shares in household deposits (about 38 percent) and household lending (about 33 percent)
- Other business activities: corporate, small, and medium-sized enterprises, investment services, shipping, international banking



Maria Aristidou
Demetriou

Benefiting from:

- Best-in-class common equity tier 1 capital quantity and quality
- A resilient business model
- Robust liquidity
- Increasing profitability partly due to rising interest rates
- A sustainable business plan with a vision of further deleveraging, enhancing the risk-return profile, and optimizing cost efficiency
- Enhanced funding structure through a strong parent shareholder

Rated by Moody's Investor Service at Baa2 (positive outlook) for long-term bank deposits and by Fitch Ratings at BBB (stable outlook) for Issuer Default Ratings.

Q. The Cypriot banking system has long had a reputation as a haven for Russians and others seeking banking services. But, according to recent statistics from the Association of Cyprus Banks (ACB), inward transfers from Russia, Ukraine, and Belarus to Cyprus banks fell 96 percent from 2014 to 2023, from 40 billion euros to 1.5 billion. Outward transfers have similarly fallen. How has the Cypriot banking sector achieved this result?

“On the basis of these reforms, Cyprus banks became more vigilant in their operations, revised their risk appetites, and revisited their business models by limiting international exposure, restricting business from high-risk countries and industries along with limiting reliance on third parties for customer due diligence. The challenging sanctions environment following Russia’s invasion of Ukraine also increased the need for ACB member institutions to undertake further transactional scrutiny.”

A. Following the 2013 crisis, the banking sector faced a lot of challenges: reputational damage, regulatory scrutiny, and financial losses emanating both from regulatory fines and loss of business.

Since 2013, many regulatory reforms have taken place in collaboration between the government, the regulatory authorities, and the banks through their association.

On the basis of these reforms, Cyprus banks became more vigilant in their operations, revised their risk appetites, and revisited their business models by limiting international exposure, restricting business from high-risk countries and industries along with limiting reliance on third parties for customer due diligence. The challenging sanctions environment following Russia's invasion of Ukraine also increased the need for ACB member institutions to undertake further transactional scrutiny.

In order to achieve the above, Cyprus banks invested further in technology and human resources for their compliance programs. Statistics indicate an increase of compliance personnel from 1 percent in 2014 to 2.8 percent in 2023, and compliance budget increases from 0.84 million in 2014 to 2.11 million in 2023.

Q. Derisking, or the shedding of high-risk bank customers, has been a topic of ongoing debate in the international banking community. How are Cyprus banks like Hellenic Bank assessing which of their existing or new customers are high-risk?

A. I wish to clarify that the bank's policy does not restrict business with high-risk clients, but instead defines principles to identify those clients and monitor their activities with increased due diligence. The risk parameters which are taken into consideration include:

- Customers' identity and occupation

- Involved countries (place of residence, country of origin, country of registration, countries or geographical areas conducting their business activities)
- Line of business
- Legal structure
- Transactional behavior (e.g., type of transactions, volume of transactions, the origin and destination of funds)
- The specific products and specific services and transactions requested by the customer
- The channels used by the bank for the provision of such products, services, and transactions

The bank's policy also defines the characteristics for which the bank has no risk appetite, i.e., unwanted business relationships. The bank does not accept the initiation of a customer relationship with persons (natural or legal) that fall in any of the following categories:

- Sanctioned persons or persons related to sanctions
- Persons with adverse findings
- Persons who fail to provide transparency for the business relationship
- Persons operating/involved in activities related to gambling/betting (certain exceptions may apply for regulated entities within the EU)
- Persons who provide regulated services without being regulated themselves
- Other persons with characteristics or areas of operations outside the bank's risk appetite e.g., relating to unacceptable countries

If such cases, as described above, are discovered, either during a review process, during the banking relationship, or through the due diligence process, the relationship(s) is/are immediately terminated.

It is also strictly prohibited for the bank to execute transactions with the following characteristics:

- Relate to sanctioned persons or activities
- Considered suspicious or inadequately supported
- Regulated activities with unregulated persons
- Fall outside the bank's money laundering risk appetite and/or sanctions risk appetite

If such transactions, as described above, are discovered, either during a review process, during the banking relationship, or through the due diligence process, the relationship(s) and the person(s) is/are immediately assessed and relevant actions are taken.

Q. What are some of the methods that Cypriot banks are using to discontinue banking services to those high-risk customers?

A. Hellenic Bank contractually informs the customers from the outset of the business relationship that it has the right to terminate the business relationship at any point in time if it considers the relationship outside its risk appetite including but not limited to concerns for anti-money launder (AML) and sanctions. In the case where the customer does not cooperate to provide the necessary information to the satisfaction of the bank, they are being informed in writing with a notice of termination. They are usually given a period of two months to find other alternatives for their banking services. The accounts during that period are closely monitored and transactions may be rejected if they are considered outside the risk appetite of the bank. Usually, the same approach is followed by other banks as well.

Q. Has this derisking process hurt or helped Cyprus' banking sector?

A. Inevitably the derisking process had a short-medium-term financial impact on the profitability of the Cyprus' banking sector. However, due to the strategic location of Cyprus, it always served as an investment hub to many countries, not only Russia, such as Greece, Germany, the U.K, France, the Netherlands, UAE, Qatar, and China. The fact that ACB member banks de-risked from over-reliance on the Russian market and implemented a series of reforms to enhance AML compliance (something which has been validated by independent bodies such as Moneyval) proved beneficial, since investment opportunities evolved from other countries which previously were reluctant to invest in Cyprus due to the bad reputation of the country on AML weaknesses. The main industries which have benefited are finance, education, technology, tourism, and sustainable energy. A clear example is the recent investment of Eurobank SA in Hellenic Bank.

Q. What are some of the steps that Cyprus banks take to determine who is the beneficial owner of new accounts?

A. The beneficial owners are declared by the customers during onboarding and review. Additionally, the beneficial owners are registered in central registries to which ACB-member banks have access. Furthermore, due diligence is carried out by the banks based on information from external sources such as search databases including the internet and also based on reasonableness tests, i.e., the age of the beneficial owners, their educational background and connection to the industry in which the customer is operating, their financial standing, etc.

Q. Is beneficial ownership information for Cyprus-based corporations available to the public?

A. As per article **61A (6)(a)(iii)** of the AML Law "a member of the general public shall be permitted to access the name, the month, and year of birth and the country of residence and nationality of the beneficial owner as well as the nature and extent of the beneficial interest held."

Q. Has the collaboration between the Cypriot government and the U.S. FBI and the U.S. Treasury Department's Financial Crimes Enforcement Network, announced in March 2024, made a difference in reducing Cyprus' exposure to potential money laundering and sanctions evasion? If so, how?

A. The government's initiatives along with the ACB's road show initiative in the USA the last couple of years created a momentum of collaboration of various U.S. governmental departments with the banking sector, which proved beneficial since we had the chance to exchange typologies and new sanctions trends and challenges through workshops and conferences organized by the U.S. Embassy, creating an environment of mutual trust and collaboration. For more information, please ask the Cyprus government.

Q. Based on the reporting of the International Consortium of Investigative Journalists, the Cyprus banking system has continued to provide banking services to Russian oligarchs attempting to avoid U.S., U.K., and EU sanctions, as recently as 2023. How do you or the ACB respond to these allegations?

A. The banking sector members of the ACB as mentioned above have each de-risked from operations relating to Russia especially since the war in Ukraine due to increased sanctions risk. The only operations that may still be serviced by ACB member banks are operations of Russians residing in Cyprus and having local businesses. Of course, even these cases are being monitored with enhanced due diligence ensuring that transactional activity does not circumvent any U.S., U.K., UN, or EU sanctions or is prone to money laundering risks. It is noted that although the banks in Cyprus are not legally obliged to follow U.S. and U.K. sanctions, they voluntarily declared abidance by those sanctions following strictly all the relevant requirements. This has been acknowledged by our correspondent banks which continue to offer their services to the banks in Cyprus.

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