Julius Bär

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General scope:	Legal Entities worldwide

	Significant regulated entities	All other Advisory Offices	Group WMCs	Other
Julius Baer Group	Bahamas Germany Guernsey Hong Kong India Luxembourg Monaco (Bank) Singapore Switzerland (Bank) U.A.E. UK	Austria Bahrain Chile Ireland Israel Lebanon Monaco JBWM Russia South Africa Spain Uruguay	Fransad Gestion GPS Brazil JB Fiduciaria (Milano) JBWM Nomura Kairos NSC Wergen & Partner	Small Offices TRCM

SUMMARY

Julius Baer Group (the Group) has zero tolerance for breaches of the legislation related to anti-money laundering (AML) and terrorism financing (TF). The purpose of this policy is to raise awareness and to outline the key measures the Group undertakes in order to manage the risks related to TF on a risk based approach.

The Combatting Terrorism Financing (CTF) framework is embedded in the Group's AML governance, which is integral part of the overall Financial Crime governance. The policy is supplemented by JBG-AI-2007-00 Additional Information on Combatting Terrorism Financing elaborating on current TF threats and key risks. This policy adheres to the principles outlined in JBG-2000-00 Group Financial Crime Policy and is part of the Group's Financial Crime Compliance (FCC) framework.

Key aspects of this policy

- Definition of terrorism financing
- Combatting Terrorism Financing Risk Assessment
- Combatting Terrorism Financing standards and measures
- Training and awareness

Violation of this policy may result in disciplinary action.

1. DEFINITIONS

Terrorism Financing incorporates the distinct activities of fund-raising, storing and concealing funds, using funds to sustain terrorist organizations and infrastructure, and transferring funds to support or carry out specific terrorist attacks. Funds used to support terrorism may be generated through legal or illegal means, and legitimate humanitarian or business organizations may be used unwittingly or knowingly as a channel for financial or other logistical support to terrorism.[1]

There is a distinction between the terrorism risk and the TF risk. They are often, but not always, interlinked. An assessment of TF risk requires a consideration of the domestic and foreign terrorist threats. If a jurisdiction has active terrorist organizations operating domestically or regionally, this implies high terrorism risk and will likely increase the probability of TF. Nevertheless, in light of the cross-border nature of TF, a jurisdiction that faces a low terrorism risk may still face significant TF risks. A low terrorism risk implies that terrorist individuals and groups are not using domestically assets of any kind (tangible of intangible) for terrorist attacks. However, actors may still exploit vulnerabilities to raise or store funds or other assets domestically, or to move funds or other assets through the jurisdiction.

There are differences in the factors associated with TF risk and those associated with money laundering (ML) risk. While laundered funds come from the proceeds of illegal activities, funds used to finance terrorism may come from both legitimate and illegitimate sources. However, the goal of ML is to launder illegitimate money by ultimately transmitting such funds to a legitimate enterprise. In the case of TF, the goal is to support acts of terrorism, terrorist individuals and organizations, and for that reason the funds or other assets must, for the most part, ultimately be transferred to persons connected with terrorism.

Although there are overlaps between the money laundering and the terrorist activity, the motive, and therefore the threats and risk indicators, differs.

While transfer of a low volume of funds may be lower risk for ML, this type of activity may pose a higher risk indicator for TF when considered along with other factors. Often only small amounts are required to commit individual terrorist acts, thus increasing the difficulty of tracking terrorists' assets. In addition, terrorists can be funded from legitimately obtained income, including legitimate enterprises, and it is extremely difficult to identify the stage at which legitimate funds become terrorist property.

Terrorist organisations can, however, require quite significant funding and property to resource their infrastructure. They often control property and funds from a variety of sources and employ modern techniques to manage these funds, and to move them between jurisdictions. In this respect the financial system in general, including the private banking industry, is exposed to TF risk, whereby the risk depends on the profile of the bank (e.g. geographical spread, type of clients serviced, nexus to regions exposed to TF risk).

[1] United Nations CFIFT Working Group Report – Tackling the Financing of Terrorism (2009)

In combating TF, the obligation on banks is to report any suspicious activity to the authorities. This supports the law enforcement agencies by allowing the seizure and/or freezing of the assets where there are grounds for suspecting that such assets could be used to finance terrorist activity. In addition, it supports authorities in the development of intelligence, sharing of information, development of case studies and risk scenarios.

2. CTF RISK ASSESSMENT

The global FCC unit (FCCU) performs a Group CTF Risk Assessment as part of the yearly Global Financial Crime Risk Assessment. The CTF Risk Assessment aims at establishing the TF risks to which the Group is exposed in its activities (inherent risks), determining how and to what extent the Group's control framework manages those risks and to determine additional risk mitigation measures to minimise residual risks, where required.

3. CTF STANDARDS AND MEASURES

3.1. Standards and measures

The efforts to combat TF and ML are closely interrelated and based on the same governance and control framework. In this respect, the Group AML/CTF framework is built on key pillars, which ensure the proper management of these risks:

- **KYC Profiles for all clients** - the adoption of effective Know Your Client (KYC) standards is an essential part of the Group's risk management framework. It includes a comprehensive understanding of the client background (personal and family; respectively corporate history for legal establishments and other structures), the nature and the purpose of the relationship, the source of wealth, income and funds, the transactional behaviour and the potential existence of adverse media or broader reputational risk. For details, reference is made to JBG-2002-00 Group KYC Standards.
- **Transaction monitoring** – processes and controls in place, supported by transaction monitoring systems, enable timely detecting of unusual patterns which are reviewed and escalated as per the applicable internal policies of the Group. For details, reference is made to JBG-2001-00 Global Anti-Money Laundering Monitoring Policy .
- **Sanctions compliance framework** – a key element of CTF is the timely implementation of all applicable sanctions laws and regulations in the countries in which the Group conducts business. Known terrorists, terrorist financiers and designated entities are included in the sanctions lists and are subjects to sanctions screening as per the applicable internal policies of the Group. For details, reference is made to D-1079-00 International Sanctions and Embargos.

3.2. Risk based approach

In managing the ML and TF risks, the Group uses a risk based approach, as defined in the JBG-2000-00 Group Financial Crime Policy, at any stage of the client relationship. As part of the risk based approach the Group applies:

- Enhanced due diligence for clients related to risk countries when on-boarding new clients and reviewing client files at periodic or ad-hoc reviews.
- Enhanced due diligence for clients related to sensitive industries as per appendix 2 “Sensitive and forbidden industries/Guidelines for sensitive industry clients” of the JBG-2003-00 Private Banking Client Acceptance Policy.
- Review by Client Review Committees of client relationships potentially posing higher ML and/or TF risks to the Group. For further details, reference is made to JBG-G-2003-01 Global Terms of Reference – Client Review Committee .

3.3. Monitoring and Reviews

The Group applies various monitoring tools and processes to detect potential ML and TF risks such as:

- Global searches conducted to identify potential existing clients included in terrorist / TF lists.
- Name screening and media searches to determine whether a client poses a heightened risk.
- Risk based periodic KYC reviews to re-assess existing client risk and in case of identified cases with potential TF risks further escalation as per the applicable internal policies of the Group.

3.4. Development of knowledge and raising awareness

Another key element of CTF is the level of knowledge and awareness in the organisation which is achieved through:

- Development and maintenance of a TF training and awareness campaign.
- Development of expertise within the markets with potential higher exposure to TF risks.

4. TRAINING

Awareness building for the first and second line of defence and knowledge sharing are core elements of this policy. To ensure a common understanding across the Group, a dedicated CTF training content is a standard item of the AML training agenda. The Global Head FCC defines the training concept and training cycles based on the risk assessment and control monitoring outcomes. Significant changes to relevant CTF laws and regulations and related internal policies, procedures and controls, and threat scenarios, are promptly communicated to all relevant employees.

5. PERIODIC RISK BASED CONTROLS BY GROUP COMPLIANCE

The Group ensures periodic risk based controls of the Group's legal entities related to Financial Crime including on-site checks and controls by Group Compliance. For details, reference is made to JBG-2000-00 Group Financial Crime Policy.

Further information:

The policy is supplemented by the JBG-AI-2007-00 Additional Information on Combatting Terrorism Financing, elaborating on current TF threats and key risks.

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