BGS REFINERY (FZC)

RISK IDENTIFICATION & ASSESSMENT

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1. Risk Based Approach

Our AML/CFT program is "risk-based." That means that the AML policies, procedures, and internal controls are designed to address the risk of money laundering specific to our Company. The Risk-Based Approach (RBA) is a methodology to identify, assess, and understand the ML/TF risks to which we are exposed and implement required AML/CFT measures effectively and efficiently, to mitigate and manage the risks.

Key elements of an RBA can be summarised as follows:

(i) Risk Identification and Assessment - identifying ML/TF risks facing our company, given the type of customers we serve, the services we offer, countries of operation, also having regard to publicly available information regarding ML/TF risks and typologies.

(ii) Risk Management and Mitigation - identifying and applying measures to mitigate and manage ML/TF risks effectively and efficiently.

(iii) Ongoing Monitoring - putting in place policies, procedures, and information systems to monitor changes to ML/TF risks

(iv) Documentation - documenting risk assessments, strategies, policies, and procedures to monitor, manage and mitigate ML/TF risks

The general principle of a RBA is that, where there are higher risks, enhanced measures should be taken to manage and mitigate those risks. The range, degree, frequency or intensity of preventive measures and controls conducted should be stronger in higher risk scenarios. However, where the ML/TF risk is assessed as lower, the degree, frequency and/or the intensity of the controls conducted will be relatively lighter. Where risk is assessed at a normal level, the standard AML/CFT controls should apply.

A risk-based approach (RBA) is central to the effective implementation of the AML/CFT legislation. It means that **BGS REFINERY FZC** must identify, assess, and understand the ML/TF risks to which they are exposed, and implement the most appropriate mitigation measure considering the various risk factors and the results of the national risk assessment. In this regard, **BGS REFINERY FZC** considers their business nature, size and complexity.

2. Risk Factors

As part of the business-wide ML/TF risk assessment, a proper identification of risk factors is crucial to the effective assessment of ML/FT risk. The AML-CFT Decision outlines several risk factors which **BGS REFINERY FZC** considers while identifying and assessing their ML/FT risk exposure. **BGS REFINERY FZC** considers a wide array of additional risk factors, utilizing various sources and considering the following points:

- Categories of business relationships with complex legal, ownership, or direct or indirect group or network structures, or with less transparency about Beneficial Ownership effective control, or tax residency, may pose different ML/FT risks than those with simpler legal/ownership structures or with greater transparency,

- Categories of Customers involved in highly regulated and supervised activities and those involved in activities that are unregulated.
- Customers associated with higher-risk persons or professions (for example, foreign PEPS and/or their companies), or those linked to sectors associated with higher ML/FT risks
- Non-resident entities particularly those with connections to offshore and high-risk jurisdictions.
- Persons acting as introducer or intermediary on behalf of customers or groups of customers (whereby there is no direct contact with the customer).
- High net worth individuals.
- **BGS REFINERY FZC** should consider whether the countries or jurisdictions they deal with are the subject of international sanctions, such as targeted financial sanctions (TFS), UAE, OFAC, I-JN and EU restrictive measures, that could impact their ML/FT risk exposure and mitigation requirements.
- **BGS REFINERY FZC** must consider evaluating the degree to which their operational processes and/or their customers expose them to the risk of exploitation for the purpose of professional third-party ML/FT through cyber-attacks or through other means, such as the use of distributed technology or social networks.

3. ML/TF Risk Assessment

Risk Assessment will be done on three levels.

A. **Entity-Wide Risk Assessment** - The Compliance Officer is responsible for ensuring, that an ML/TF risk assessment at the Entity-Level, is completed and regularly reviewed. The Compliance officer will assess the money laundering and terrorist financing risks presented by aggregate Client Risk, Supply Chain Risks, Geographic Risk, Product Risk, Channel Risk and Environmental Risks.
B. **Customer Risk Assessment** -The ML/TF risk posed by each client, Natural Person or Legal person will be assessed based on Client demographics, Jurisdictional risks, Product Risks and Channel Risks
C. **Supplier Risk Assessment** - The ML/TF posed by Suppliers will be assessed on the Stage of Supply Chain, Jurisdictional risk, Product risks and Channel Risks.

- **Stage of Supply Chain:** Extraction/Production, Trading in Raw Minerals, Benefaction (Refining/Purification), Wholesale Trade, Retail Trade. At each stage of the supply chain there may be risks of theft, Fraud, Robbery, embezzlement, smuggling, and bribery/corruption, Commingling, Entry of Criminal Organizations, Prevalence of Cash, obscuring of traceability of PMS and Trade-based ML.
- **Counterparty/customer type:** complexity and transparency (e.g. whether the counterparty or customer is a physical person, a legal person or a legal arrangement(trust); if a legal person or arrangement, whether part of a larger, more complex group; and whether there is any association with a PEP)—particularly in relation to whether the party appears to be acting on their own or at the behest of a

third party, and whether their knowledge and experience level in regard to the product or service and transaction type is appropriate;

- **Country of origin of the PMS**—particularly in relation to whether the country is a known production or trading hub for the type of PMS; has adequate regulations and controls (for example, is a participant in the (Kimberley Process Certification Scheme (KPCS for rough diamonds); is a High-Risk Country (e.g., is subject to international financial sanctions, has a poor transparency or corruption index, or is a known location for the operation of criminal or terrorist organisations);
- Country of origin or residence status of the counterparty or customer (whether a UAE national or a foreign customer, and in the case of the latter, whether associated with a High-Risk Country—particularly in relation to the locations where the transaction is conducted, and the goods are delivered.
- Channel by which the counterparty/customer is introduced (e.g., referrals versus walk-in, international versus domestic, in-person or via the internet or other media) and communicates (e.g., remote, or personal contact, direct or indirect through a proxy);
- Product Risk-Type, nature, and characteristics of the products and/or services, including but not limited to quantity, quality/level of purity, price/value, form (whether physical or virtual, raw/rough or processed/finished, etc.), rarity, portability, potential for anonymity;
- Transaction Risk- Type, size, complexity, cost, and transparency of both the transaction (including whether the physical or virtual exchange of merchandise is involved) and the means of payment or financing—particularly in relation to whether they appear to be consistent with the counterparty or customer's socio-economic profile, local market practices, and the degree of expertise required.
- Novelty or unusual nature of the transaction or financial arrangements (including, for example, requirements to expedite the transaction beyond what is customary, unusual delivery requirements, or unusual requests for secrecy), particularly compared with what is normal practice in the local market.

4. How to assess the Risk involved?

- ➢ Identifying the specific areas of the business that are more likely to be used by criminals in order to conduct any terrorist financing or money laundering activities.
- ➢ Assessing the risks associated with all business activities and services.
- ➢ Areas that need to be addressed while determining risk.
    - Geography of the potential clients
    - Business relationships and the clients of potential customers
    - Products, services, and delivery channels
    - Other relevant factors
- ➢ Considering the nature and behaviour of our clients, the products or services we deliver, and the ways or mediums in which we provide our offerings.

- ➢ If we identify any of the situations that suspect unusual or illicit activities, we should instantly control these risks by implementing all the probable mitigation measures.

5. Steps in Risk Identification & Assessment

Some crucial steps for the risk identification & assessment :

- ✓ Identifying the inherent risks of our company
- ✓ Creating risk-reduction or mitigation measures and critical controls
- ✓ Efficient implementation of our risk-based approach
- ✓ Reviewing our applied risk-based approach

In order to effectively assess our inherent risks, we divide the process of risk assessment into two parts.

Business-Based Risk Assessment

Relationship-Based Risk Assessment

Analysing our products, services, delivery channels, and the geographical location.

Assessing our products as well as delivery channels in order to ascertain any high risk associated with the same. This may include the following.

- Buying precious metals, stones, and precious jewels
- Sale of precious metals, stones, and precious jewels
- Indirect transactions with unknown clients. These could take place through the internet, mail, or a telephone.

<u>Points to consider while assessing the Products and Delivery Channels :</u>

- Assessing our products as per the type of market we are operating into, along with the kind of clients they are curated for.
- Assessing the physical characteristics of our jewellery items is also a critical aspect that we must watch out for. Portability, value, storage options, etc., are considered as the physical characteristics of the products.
- The jewellery products which are lesser in value usually aren't subject to significant risks.
- Determining the modes of communication with our client also has a role to play: face-to-face communication or any form of virtual communication that occurs through the mail, telephone, or video conferencing.
- Considering the mode of delivering our jewellery items is also crucial and should be thoroughly monitored. Needless to say, the mode of the transaction should also be observed.

<u>Some behavioural risks related to counter parties :</u>

- Any counterparty that proposes any unusual transaction which is entirely insensible and baseless or the transactions that are pretty high veiled or include high potential profits.
- Any counterparty that leverages the power of non-banking financial institutions and money service business for no logical and legitimate business reason.
- Any counterparty that frequently changes bank accounts, especially when on foreign land.
- Any counterparty seeks secrecy by conducting ordinary business transactions with the help of lawyers, accountants, or any other intermediary.

Other factors that indicate high risk.

- A supplier who is not willing to provide accurate or complete contact information, business affiliations, and financial references.
- Offering risky stones like diamonds through indirect means and to clients whom we haven't been in direct touch with. These types of transactions are hazardous.

Geographical Factors :

When we assess our geography, you have to consider whether the geographic locations in which we operate or our clients are based out possess high risks of money laundering activities or terrorist financing. Depending upon the operations of our business, this can range from our immediate surrounding to a province or a territory.

- Locations that experience a considerably higher crime rate may lead to the enhanced potential risk of money laundering or terrorist financing.
- A rural area where the customers are known could present a lesser risk as compared to an urban area where new and anonymous clients are more likely to bring significant risks involved with them.
- If our potential clients are located in countries subject to sanctions or embargoes, we must consider their high risks.

Miscellaneous Factors :

Assessing all the other factors related to our business but that does not fall under any of the previously mentioned headings is also crucial to mitigate or eliminate any potential risks. For instance, the size, structure, employees, and number of branches of our business are a few aspects that also need to be assessed for the availability of any risks.

As a dealer in precious stones, metals, or jewels, we enter a professional relationship when a customer conducts a transaction with us that requires us to determine their identity irrespective of whether the transactions are related to each other or not. If we have a professional relationship with your clients, we need to conduct a risk assessment based on the inherent characteristics of our customers. It can be done on the basis of the following factors.

The product we are offering and the channel of delivering we are opting for.

- The geographical location of either our existing or potential client.
- The characteristics of our clients.
- The financial activities and transactional patterns of our clients.

It is quite a possibility that our business deals with clients out of a professional relationship. These types of interactions might be sporadic. As a result, there would not be sufficient information available for our business and the legitimacy of the clients. The risk assessment of these clients is more likely to focus on monitoring transactions than having a file under the name of our client. Monitoring such clients is nothing but an obligation to report any suspicious activities like ML/TF.

6. CLIENTS' RISK

The list of indicators given below is intended solely as an aid for **BGS REFINERY FZC** in identifying some of the circumstances that could be suspicious in nature or that could be indicative that money is being laundered (ML) or used for terrorism financing (TF) purposes. While each individual indicator may not be sufficient to suggest that ML/TF is taking place, a combination of such indicators may be indicative of a suspicious transaction.

CUSTOMERS

Transaction Patterns

- Transactions that are not consistent with the usual profile of a customer:
    - Transactions that appear to be beyond the means of the customer based on his/her stated or known occupation or income; or
    - Transactions that appear to be more than the usual amount for a typical customer of the business.
- Transactions where customer does not consider the value, size and/or colour of the precious stone, precious metal, or precious product.
- Unusual payment methods, such as large amounts of cash, traveller's cheques, or cashier's cheques.
- Large or frequent transactions that are in a foreign currency.
- Numerous transactions by a customer, especially over a short period of time, such that the amount of each transaction is not substantial (e.g. below the regulatory threshold for customer due diligence), but the cumulative total of which is substantial.
- Use of third parties in transactions related to precious metals and precious stones, for example:
    - Payments received from a third party, who is not the owner of the funds, without legitimate business purpose; or
    - Precious stones/metals product delivered to a third party, who is not the owner or payer of funds, without legitimate business purpose.

  Note: Payments may be in the form of third party cheques or a third party credit card.

Customer Behaviour

- Where the customer enquiries about refund policies and requests for large refunds subsequently.

- The customer is suspected to be using forged, fraudulent or false identity documents for due diligence and record keeping purposes.
- The customer is unusually concerned with the AML/CFT policies.
- The customer pays for precious metals, precious stones or precious products with cheques, but noted on the cheque that the payment is for something else.
- The customer attempts to maintain a high degree of secrecy with respect to the transaction, for example –
    - To request that normal business records not to be kept; or
    - The customer is unable or unwilling to provide information for due diligence and record keeping purposes.
- The customer or the declared owner of the funds is traced to negative news or crime e.g. he is named in a news report on a crime committed, or detected when screened against UN Security Council Resolutions (UNSCRs).
- The customer appears to be related to a country or entity that is associated with money laundering or terrorism activities or a person that has been designated as terrorists.

SUPPLIERS

Transaction Patterns

- Transactions that are not consistent with the usual profile of a supplier:
    - Over or under-invoicing, structured, complex, or multiple invoice requests, and high-dollar shipments that are over or underinsured; or
    - Transactions which are excessive, given the amount or quality, or potential profit from the sale of precious metals and stones; or
    - Consignment size or type of precious stone, precious metals or precious product being shipped appears inconsistent with the capacity of the exporter or importer, i.e. the shipment does not make economic sense.
- Use of third parties in transactions related to precious metals and precious stones, for example:
    - Funds paid to a third party who is not related to the supplier, without legitimate business purpose; or
    - Precious stones, precious metals or precious products delivered from a third party who is not related to the supplier, without legitimate business purpose.

Supplier Behaviour

- The supplier is unable to provide information for due diligence and record keeping purposes.
- The supplier is suspected to be using forged, fraudulent or false identity documents for due diligence and record keeping purposes.
- The origins of the precious stone, precious metal or precious product appear to be fictitious.
- The supplier is unusually concerned with the AML/CFT policies.

- The supplier attempts to maintain a high degree of secrecy with respect to the transaction, for example –
  - Request that normal business records not to be kept; or
  - Unwillingness to identify beneficial owners or controlling interests, where this would be commercially expected; or
  - Request for payments to be made through money services busLAinesses or other non-bank financial institutions for no apparent legitimate business purposes.
- The supplier is traced to negative news or crime e.g. he is named in a news report on a crime committed, or detected when screened against UN Security Council Resolutions (UNSCRs).
- The supplier appears to be related to a country or entity that is associated with money laundering or terrorism activities or a person that has been designated as terrorists.
- The supplier transports precious stones or metals through a country that is associated with money laundering or terrorism activities for no apparent economic reason.

NOTE : The list is not exhaustive and may be updated due to changing circumstances and new methods of laundering money or financing terrorism.

7. ANNEXURE

Risk Assessment Process for Money Laundering - Individual

CUSTOMER	CATEGORY1	CATEGORY2	HIGH RISK	MEDIUM RISK	LOW RISK
INDIVIDUAL	RESIDENTIAL STATUS	RESIDENT LOCAL			
		RESIDENT EXPAT			
		NON RESIDENT			
	NATIONALITY	LOW			
		MEDIUM			
		HIGH			
	INCOME STATUS	SALARIED – Investment matching to profile			
		SALARIED – Investment not matching to profile			
		BUSINESS – Investment matching to profile			
		BUSINESS – Investment not matching to profile			
DELIVERY CHANNEL	CASH	Cash transaction			
	ATM DEPOSIT	ATM transaction			
	BANK TRANSFER	Bank transfer from own account and Customer risk is low			
		Bank transfer from own account and Customer risk is medium			
		Bank transfer from own account and Customer risk is high			
		Bank transfer from third party account			

Risk Assessment Process for Money Laundering – Corporate

CUSTOMER	CATEGORY1	HIGH RISK	MEDIUM RISK	LOW RISK
CORPORATE	Mainland Formation			
	Freezone Formation			
	Offshore Company			
	Shell Company	PROHIBITED		
PARTNER'S NATIONALITY	High			
	Medium			
	Low			
REPRESENTATIVE'S NATIONALITY	High			
	Medium			
	Low			
CDD MEASURES	Documentation complete with ID proofs			
	Documentation not complete			
	Third party documentation			
DELIVERY CHANNELS	Cash			
	ATM Deposit			
	Cheque			
	Bank transfer – matching investment profile			
	Bank transfer – not matching investment profile			
	Third party transfer			