**AML and OFAC Risk Assessment Methodology**

The Bank’s AML and OFAC Risk Assessment process was designed after careful consideration of the guidance provided in the FFIEC Bank Secrecy Act Anti-Money Laundering Examination Manual. The process began with a review of the Bank’s overall organization structure and business mix, including product lines, geographic locations, and control functions. The risk assessments have been developed identifying risks along with the associated mitigants. These assessments are ongoing processes, updated according to changes in activities, services, customers/entities, etc., and presented to the Board of Directors for their review and approval. Even is the absence of such changes, these BSA/AML/OFAC risks will be reassess at least every 12 to 18 months.

Using risk factors and assigning points to these factors permits the AML officer, executive management, and Board of Directors to gain a thorough understanding of the AML and OFAC risk profiles of the Bank. The risk assessments also serve as a tool to identify, prioritize and ultimately manage risk. This also allows for the concentration of those areas where the Bank has the greatest potential for exposure. Therefore, the objectives of these risk assessments are as follows:

* Helps to identify the areas requiring increased resources;
* Clarifies cost/benefits decision as to whether it makes sense to continue to offer a product or to modify a product offering;
* Helps to identify the need for additional monitoring/risk mitigation.

The risk factors utilized in the AML assessment are as follows:

* Customer base risk is the risk arising from rapid growth and in diverse geographic areas resulting in the Bank not being well-familiar with their customer base.
* Use of third party loan brokers is the risk arising where the Bank relies heavily on third parties instead of well known and well established sources.
* Purchase/Funding of Loans is the risk arising where the Bank is relying on the credit provider for CIP/AML compliance to regulations.
* Internet Banking is the risk arising from the number and nature of electronic banking services provided such as e-banking, transfers, bill-pay, accounts opened, etc.
* Presence of high risk customers or businesses is the risk arising from the volume of high risk customers/businesses such as MSBs, high volume cash businesses, foreign customers/NRAs, international, payable through, etc.
* Monitoring of high risk activity is the risk arising from the effectiveness of the Bank’s established procedures in initial account opening; the monitoring of deviations from expected activity (manual or systematic); sets parameters for rule-based volume and frequency; and the system of investigation.
* Volume of large currency transactions is the risk arising from the volume of cash transactions being conducted by the deposit base.
* Senior, foreign officials and politically exposed persons is the risk arising considering the level that the Bank engages or solicits senior political officials and foreign government staff.
* High Risk Products and Services is the risk arising from the number and nature of products such as cash management services, merchant processing, etc.
* Medium Risk Products and Services is the risk arising from the number and nature of products such as remote deposit capture, etc.
* Foreign correspondent bank relationships is the risk arising from the volume of activities such as overseas wires, foreign exchange, pouch activity, concentration accounts, etc. processed through a foreign correspondent.
* Trust, fiduciary, private banking is the risk arising based on the level of trust and fiduciary offerings.
* International banking operations is the risk arising based on the volume of international transactions/activity.
* OFAC risk – problems, exposure, communication with OFAC is the risk arising from negative comments or violations communicated from OFAC.
* Bank locale-designated HIDTA and HIFCA is the risk arising based on whether the bank is located and/or does business in an area of high intensity drug-trafficking or financial crime.
* Wire Transfers is the risk arising from the volume and/or nature of wire activity such as foreign activity especially suspect regions, offshore activity, high-risk jurisdictions, etc.
* Staff Experience/Turnover is the risk arising based on frequency of turnover of key (front-line) customer contact staff.

The risk factors utilized in the OFAC assessment are as follows:

* Customer Base is the risk arising from rapid growth and in diverse geographic areas resulting in the Bank not being well-familiar with their customer base.
* High Risk Customers or Businesses is the risk arising from the volume of high risk customers/businesses such as MSBs, foreign customers/NRAs, international, payable through, etc.
* Internet/Electronic Banking is the risk arising from the number and nature of electronic banking services provided such as e-banking, transfers, bill-pay, accounts opened, etc.
* International Activity is the risk arising based on the volume of international transactions/activity.
* Funds Transfer is the risk arising from the volume and/or nature of wire activity such as foreign activity especially suspect regions, offshore activity, high-risk jurisdictions, etc.
* ACH Transactions is the risk arising from commercial customers originating ACH transactions.
* Non Customer Transactions is the risk arising from conducting transactions for individuals who are not known to the bank.
* Foreign Relationships is the risk arising from having overseas branches and correspondent accounts with foreign banks.
* OFAC Exposure/Communication is the risk arising from negative comments or violations communicated from OFAC.
* Bank locale-designated HIDTA and HIFCA is the risk arising based on whether the bank is located and/or does business in an area of high intensity drug-trafficking or financial crime.

For each risk factor category, points “0 – 8” will be assigned accordingly based on the risk factor description as well as the compensating control in effect to reduce such risk. The points are totaled and then averaged to determine the overall AML or OFAC risk.

* Low Risk - points averaged 0-2
* Medium Risk – points averaged 3-5
* High Risk – points averaged 6-8

Risk scoring is a useful tool to assist in identifying areas of high risk. This process involves the application of experience and judgment in evaluating the results. No single risk methodology can be expected to be appropriate in all situations.

Note: Besides the overall risk profile of the Bank, areas receiving a higher number score will have increased controls in place, enhanced due diligence for distinct activities and would require additional supervision by the AML officer.