

Cyprus as a global financial centre

- Cyprus is a great destination for banking and financial services, as well as legal services, insurance and tourism
- Tremendous progress over the last 50 years
- 50 % of GDP comes from the financial sector



Business Council for Cooperation
with Cyprus

- Fair taxation regime
- Reasonable level of state regulation
- Great business servicing
- Concerted efforts to attract foreign investments

- Developing links and cooperation between Russian and Cypriot companies and businessmen
- Promoting Russian businesses in Cyprus and protect their lawful interests
- Organizing conferences and business forums in Russia and in Cyprus

Advantages of Cyprus as Global Financial Center

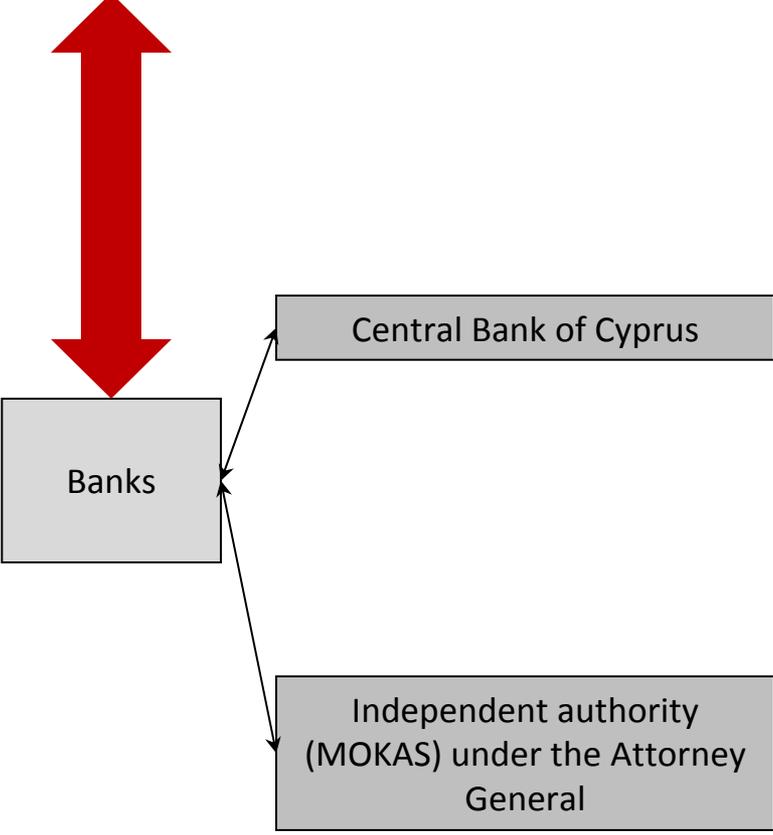
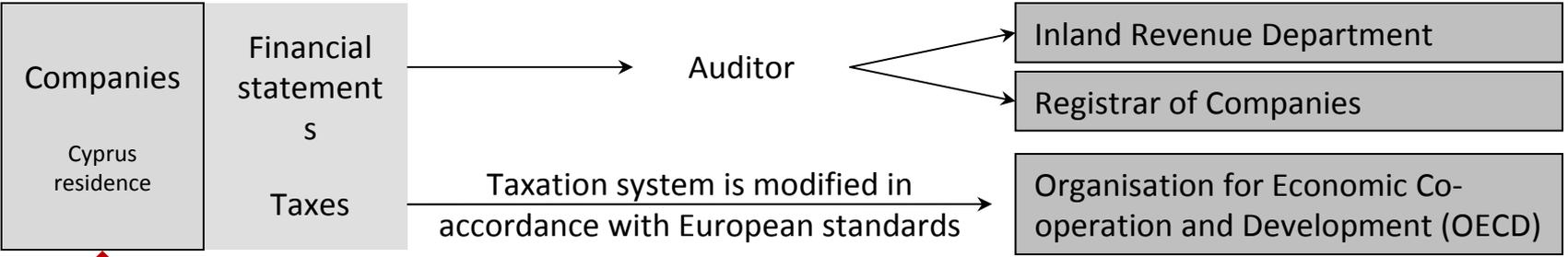
Reputation

Trust

Transparency

Prevention of fraud

Regulation framework – KEY ELEMENTS



- Adjusts European Union regulations in the context of Cyprus legislation. Consequently, Cyprus banking business is transparent and strictly regulated.
- Central Bank of Cyprus’s AML Directive of the EU 3rd Directive and Financial Actions Task Force (FATF) recommendations provide for:
 - Identification of the customer and Beneficial Owners
 - Monitoring of accounts activities
 - Updating of customers identification information
 - Enhanced Due Diligence for high risk customers such as Politically Exposed Persons (PEPs)

- Entitled to request relevant information without limitation from all Cyprus banks, including Central Bank of Cyprus.
- Multi-dimensional approach with in-house police, customs and prosecution experts

Bank of Moscow – Findings by Bank of Russia, Deposit Insurance Agency and Accounts Chamber

- The audits showed that a substantial part of the Bank's loan portfolio had to be significantly written down, which would have wiped out the Bank's equity
- This was apparent through the inconsistency of the borrowers' businesses and the amount of loans provided to them. In many cases the borrowers lacked any substantial business, no collateral was provided by them and the end-use of the loan proceeds was not properly monitored.
- To avoid collapse of the 5-th largest bank in Russia the Russian Government and VTB Group had to jointly and urgently bail out the Bank of Moscow
- The loans, which were the source of the problem, were issued in direct violation of the Bank's own lending procedures, as well as the requirements of the Russian Central Bank by the Bank's highest ranking managers. Many loans were supported by the decisions of the Credit committees of the Bank, while it was proved that those committees have never analyzed or authorized those loans. The loans were instead issued by the direct orders of the Bank's 2 top executives, Messrs. Borodin and Akulinin.



Bad loans: Link to Cyprus

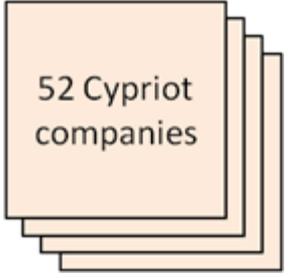


Bank of Moscow

Loans USD2+ bn

Loans issued were:

- in direct violation of the Bank's own lending procedures, as well as the requirements of the Russian Central Bank
- issued by the direct orders of Messrs. Borodin and Akulinin to fund various business projects for the benefit of themselves and their partners
- often blatant stealing of money as most of these businesses have outstanding loans which they are unable to service
- used to disguise the flow of funds, and in effect money laundering



52 Cypriot companies

Registration and secretarial service

Cypriot provider

Audit and advisory

Cypriot auditor

Bank accounts

Cypriot bank

- One person is both founder and chairman of these two companies
- Combination of all these services could be indicative of the breach of independence
- The auditor had the ability to analyze all of the financial activities, including the source of the loans and ultimate beneficiaries
- Regulatory reporting duties could have been breached

- The law requires verification of the identity of the customer and the beneficiary
- This could have identified the affiliation of Messrs. Borodin, Akulinin and 52 Cypriot companies
- Activity of accounts should have been monitored as provided by the Law and Central Bank's Directive
- Enhanced due diligence and monitoring should have been in place because of the PEP status of the accounts
- Should have reported to MOKAS
- Might have even stopped operations

Why it is important to react to this

Reputation of Cyprus as a financial centre

- To reinforce the efforts that took place over many years to promote the image of Cyprus as the proper jurisdiction for international business
- The head of the Russian Central Bank recently said that he is inclined by the results of the audit of the Bank of Moscow to treat the operations of Russian banks with Cypriot companies with greater scrutiny

Fair approach to prosecution

- It became clear that Messrs. Borodin and Akulinin violated the trust placed in them by the shareholders of the Bank of Moscow as well as the principle of segregation of assets of the Bank and their own
- Therefore they are being prosecuted in Russia and Russian law enforcement authorities and courts need the collaboration from their counterparts in Cyprus

Recovery of funds spent on the bailout of the Bank of Moscow

- The situation is closely monitored by the leaders of Russia because the funds for the bailout are coming from the state budget
- As a President of the Bank of Moscow as well as the Chairman of the Business Council I have been entrusted to negotiate with the Cypriot authorities to legally assist in this process

Relationship between Russia and Cyprus

- The President as well as the people of Russia treat Cyprus as a long-term partner and a friendly nation with whom we share a common faith
- The President of Russia has recently demonstrated our willingness to develop our ties by offering Cyprus financial assistance