



***THE BANK OF PUNJAB***

***KNOW YOUR CUSTOMER***

***AND***

***ANTI-MONEY LAUNDERING POLICY***



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# Introduction

The Internal controls & compliance unit was formulated to assist bank's management to manage / counter the Compliance Risk & provide the bank a safe path for its growth & glory in the local as well as international banking market. The Compliance Risk can be described as the risk of imposition of legal or regulatory sanctions, financial loss or loss to reputation of the bank arising out of its failure to comply with applicable laws of land / regulations governing financial institution & prudential regulations issued by the regulator i.e. State Bank of Pakistan. Compliance with laws, rules and standard banking practices helps the BANK to maintain its reputation and meet the expectations of its stakeholders, customers, the markets and society as a whole.

In order to achieve the above target /protect the bank from Compliance Risk and to clearly disassociate from the increasing danger of organized activity and money laundering, the bank has developed a clearly laid down Policy for "KNOW YOUR CUSTOMER" (KYC) & Anti Money Laundering (AML). The main emphasize of the policy is to provide on site guidelines against the opening of fictitious accounts and to protect the bank from being used as a channel for transfer of illegal funds. Due to tightened checks and controls the policy will ensure that day to day business is being transacted at our branches in conformity with high ethical / banking standards and within legally defined parameters. It has instituted comprehensive but explicit and well defined KNOW YOUR CUSTOMER (KYC) & Anti Money Laundering (AML) Rules. In order to identify, track, detect and foil any attempt by the criminals to use our Bank as a channel for money laundering, the rules so developed shall be strictly enforced and meticulously complied with at all of our branches / offices.

In line with the internationally developing compliance phenomena, serious & effective efforts are being made by Pakistan to curb the laundering of criminally derived incomes. It has assumed a prominent position on the priority list of State Bank of Pakistan and law enforcing agencies. State Bank of Pakistan, in line with Financial Action Task force (FATF) Recommendations & local laws has been issuing directives to banks and DFI's for combating Money Laundering, financing of Terrorist and develop know your customer policy.

The policies, procedures and controls outlined in this KYC & AML Policy are minimum mandatory compliance requirements and have been designed to be a current document, subject to on-going revisions and updates. All members of the Management especially Branch operations staff/ manager and Control & Compliance Division staff are expected to be conversant with the provisions of this Policy. Branch staff must be familiar with requirements related to their own work. The branches will still have to adhere to the approved policies and procedures such as the Operations Manual, where relevant policies and procedures are not covered under this Manual.

Ilyas Ahmad Sadiq

Head Controls & Compliance Division



# Policy Statement

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The Know Your Customer (KYC) and Anti Money laundering (AML) policy of The Bank Of Punjab (BOP) has been formulated to ensure that Bank is performing its business in conformity with the regulatory requirements issued by the SBP & Controlling agencies at one hand and international KYC / AML policies & standards on other.

## Purpose of the policy

The purpose of the KYC / AML policy is to:

- Adhere to Know Your Customer (KYC) policies & procedures.
- Comply with all applicable money laundering laws and regulations and internal policies and procedures
- Protect the Bank from being used as a channel for illegal transactions arising from money laundering activity.
- Protect the reputation of the bank and clearly disassociate from the increasing danger of organized criminal activity and money laundering.
- On detection of suspicious activity, take appropriate action at management level. Ensure that all detected suspicious activities are appropriately reported to the regulatory authorities in accordance with applicable laws.

## Scope of the policy

The KYC / AML policy of the bank shall cover all the banking products / deals / transactions performed by its account holder as well as walk in customers. It shall at least include;

- Opening of new accounts & their documentation.
- Obtaining / Recording the KYC of existing account holder.
- Obtaining of KYC information from walk in customer.
- KYC information required for correspondent banks.
- Implementation of Anti money laundering regulation issued by SBP & Other regulatory bodies / agencies.
- Retention of record relating to the transactions / KYC information (SBP regulation M3)
- Identifying suspicious transaction, it's reporting to the regulatory authorities as per regulations.

## Amendments in the policy

It is an on going process. To keep the policy updated & inline with market practices, the policy shall be updated on annual bases. All amendments in the policy shall be presented in operations committee for approval & after approval from the committee shall become the integral part of the KYC / AML policy of the bank.



# Money Laundering

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## DEFINITION:

"It is the process by which criminals attempts to hide and disguise the true origin and ownership of the proceeds / funds generated from their criminal activities & makes funds legalized in the eyes of the law of land for ultimate use."

Money derived from counterfeiting, fraud, forgery, illegal trading, bribes, drug sales, theft, embezzlement etc. is used to put in to a cycle of transactions, which at the end makes so earned money to appear like legal / cleanly earned money. Once the criminally earned money comes into the financial system, it become very hard to trace-out and confiscate the same.

The source of illegally obtained funds is obscured through a succession of transfers and transactions so that those same funds can eventually be made to reappear as legitimate funds. Involvement of bank in any transaction that is to:

- Conceal the existence or source of income.
- Disguise income from crime so that it appears legitimate and or
- Knowingly assists a criminal in moving money or other property which constitute the proceeds of criminal activities.
- Money laundering does not relates only to drug offence but also relates to all criminal offences such as embezzlement, fraud, bribery, terrorism, illegal arm sale etc.
- Money launderers endeavor to conceal the source of this illegal money with the intent of legalizing it so that it can be used freely.

## Where Money does comes for Laundering?

- Collection of Cash / Creating Funds through Illegal means such as:
  - Drug Trafficking
  - Kidnapping
  - Racketeering
  - Arms dealing
  - Tax evasion
  - Extortion
  - Other organized crimes

## Money Laundering Stages/ Washing Cycle

The first step of money laundering process is: -

### ➤ Placement:

The process by which someone attempt to physically insert illegally obtained cash or bearer instruments into the financial system is called Placement. Two common methods of placement are **Smurfing & Structuring**.



**Smurfing** is breaking up large sums of cash to avoid suspicion and the reporting threshold

**Structuring:** To avoid the currency reporting requirements established by the government. (The currency reporting requirement will be established once the AML Law passed by the Government of Pakistan)

*Placement process includes*

- *Opening of A/C Genuine Or fictitious name*
- *Placement of proceeds in the A/C by depositing Cash either in bulk or through structuring of transactions.*
- *Depositing Bearer instruments in the account.*

### **The Second step of money laundering process is: -**

**Layering:** the creation of complex, multiple layers of financial transactions intended to separate funds from illegal source to break an audit trail.

- *Layering of Transactions in the Accounts (Application of Funds to Purchase)*
  - *Goods & services*
  - *Investment in real estate*
  - *Stocks & Commodities etc*
  - *Conducting number of transactions from one A/C to Other & from one Bank to other bank through overseas Banks leaving no trail of origin to avoid seizer.*

### **The Third step of money laundering process is: -**

- **Integration:** is the process by which funds derived out of the second step are inserted back into the economy. Such funds are often mixed with funds from legitimate sources, so as to make them appear to have legitimate origins.

*Integration of Funds means & includes: -*

- *Injection of laundered money in to the economy in such a way as to appear resulting from legitimate business activity i.e.*
  - *Earning less showing excess*
  - *Turning the funds into a tangible asset like real estate or reinvesting the funds into a business.*

## **Module of Money Laundering**

The cash is the normal medium of exchange in the world of drug trafficking. Criminals have three basic requirements, that is, to conceal the true beneficial ownership and origin of the funds; to control the funds; and to change the form of the funds.

The most common form of money laundering that banks encounter on a day-to-day basis takes the form of accumulated cash transactions deposited in the banking system or



exchanged for value items. These include “decomposing”, which involves breaking up large sums into smaller amounts that can be deposited without raising suspicion.

Banks have become major targets for money laundering operations. This is because they provide a variety of services and financial instruments such as drafts, travelers checks, telex transfers, etc. that can be used to conceal the source of money.

## Financing of Terrorism

The money laundering process can also be used by those involved in supporting terrorist activities. Terrorist activity can be funded from the proceeds of crime or from private donations.

### Where Does Laundered Money used?

Laundered Money can also called easy money & could be used for any purpose such as:

- Business Investments
- Bank Deposits
- Real Estate
- Holidays / Recreation
- Crimes
- Financing of Terrorism
- Any other way.

## Impact of Money Laundering

The social, political and economic unrest are some of the out comes of the money laundering. Easy way to launder the money shall create more de-stability in the social setup, which in-return creates gap in the political & economical sector and ultimately can hamper solidarity / existence of a country.

Effects of money laundering are potentially very serious in nature. Drug trafficking, human trafficking, political corruption, terrorism are some of out comes of the easy money laundering. These are crimes that cause a great deal of human misery, whilst allowing great wealth and power to fall into the hands of a very highly undesirable people.

The amounts of money involved are enormous. The crimes that generate this money are very unpleasant. The people who commit them are serious threat to the socio economic sector of country, the unwanted aliments are very dangerous and their wealth and connections are often very powerful and influential.

In the prevailing social / economical situation of Pakistan demands very strong & effective anti money laundering measures to revert the scenario. The tainted money could be destabilizing for civil society and generally has come to be regarded as highly dangerous source of financing terrorism across the world. Therefore, it was extremely necessary for Pakistan to introduce anti-money laundering law & join the global efforts to combat money laundering.



## Regulations

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Keeping in view the above adverse effects, it is economical, social as well as moral obligation for every country in the world to develop its own regulations to combat money laundering. At present following are the source documents available to the banking industry as well as to non financial institution to combat money laundering.

- a. Prudential Regulations Issued by State Bank Of Pakistan (For text refer Appendix-C at the end of policy)
  - M1 Know Your Customer(KYC)
  - M2 Anti Money Laundering(AML)
  - M3 Record Retention
  - M4 Correspondent Banking
  - M5 Suspicious Transactions
  - Circulars, Notifications and Directives issued by SBP
- b. National Accountability Bureau (NAB) Ordinance, 1999.
- c. Narcotics Substances Act 1997 Section-67
- d. Anti Terrorism Act, 1997.
- e. Federal Investigation Act, 1974.
- f. Securities and Exchange Commission of Pakistan Act, 1997.
- g. Code of Corporate Governance.

## Know Your Customer Policy

In order to achieve desired KYC standards & prevent the Bank of Punjab from being used for money laundering, terrorist financing, transfer or induction of illegal / ill-gotten money in to the banking system, the KYC Policy has been developed & implemented. In the present scenario of international as well as local banking the importance of 'Know Your Customer (KYC) / customer due diligence' has been increased to many folds. The KYC Policy has been developed to ensure / obtain the proper / verifiable answer to the following queries.

- a) *Do you know who you are dealing with?*
- b) *Do you know what your customer's needs and circumstances are?*
- c) *Can your customer be engaged in money laundering??*

Implementation of KYC policy, on one hand provides protection against unforeseen events / money laundering to the bank and satisfaction / protection to branch management / staff on the other.

Obtaining maximum realistic information about the customers is the basic principal of good KYC policy. Branch officers / staff should prudently ensure that at the time of account



opening, introduction as well as all necessary documents has been obtained. The Know-Your-Customer Policy is a most effective weapon available to the banks which provides protection against being used for money laundering.

Before opening of any type of account or performing any type of transaction on behalf of its customers (such as remittances, online transfers & issuance of certifications) the bank is under regulatory obligation to obtain maximum information regarding its customers. It may include know your customer formats already in use, nature of business that is being conducted with bank, frequencies & nature of financial transaction to be conducted by the customers and any other information which the bank feels necessary for law full running of its business. This applies every type of customer regardless of who they are, their personal status, or the type of accounts or services being rendered. Knowing the customer means

- 1) Seeking evidence of identity, address and independently confirming that evidence at the time of start of a business relationship with the bank.
- 2) Seeking information regarding nature of business that the customer expect to conduct with the bank, establishing source of income and expected patterns of transaction and keeping that information up to date, to show what might regarded as the normal activity of the customer.

## Dealing with New / Existing Customers

### 1) Customer Identification

The credential of all type of new & existing customer must be verified i.e. (Individual customers; sole proprietorship; partnership; private and public companies etc. The KYC portion in the Account Opening Form (AOF) (for new account) or the separate KYC form (for existing accounts) should be filled by the Marketing / branch staff at the time of opening of account or continuing the relationship. While establishing business contact, the bank shall diligently check & verify at least following point:-

- a) Inquire into the nature of the customer's business activities. Verify that in case of Limited Company A/C, the real activities of the company are consistent with the company's corporate purpose and with its key financial data.
- b) Original identification documents must be physically checked and clear / legible attested photocopies along with certification that original have been seen, be retained along with A/C Open Form (AOF).
- c) Identification documents should be checked & verified as to their genuineness e.g. CNIC through NADRA's Verisys system etc.
- d) Bank shall not enter into contract of any type with person / entities appearing in the list of blocked / negative persons circulated by SBP.
- e) Prudently determine source of funds as well as number & volume of expected transactions during interviewing the customer.
- f) Determine Ultimate Beneficiary if different from the customer and its relationship with the customer. (Applicable to Mandated / Third Party Accounts)



- g) If the bank has any suspicions about any of the information provided by the customer, the bank should exercise extra due diligence & use all possible means to verify such information e.g. verifying home & business address, office/ Residence telephone numbers by calling such numbers, Visit to given address etc.
- h) Ask the customer to provide information about any existing bank accounts maintained with other local banks.
- i) Being aware of any suspicious transaction or activity that is disproportionate to customer Transaction Profile (known business); and reporting all suspicious transactions to compliance officer and senior management to decide whether or not the transaction/ activity need to be reported to law regulatory authorities.

## **2) Introduction of Account**

- a) All the CD / PLS & all chequing A/C maintained in local as well as foreign currency must be introduced by our existing A/C holders or bank officials as per bank policy.
- b) All Govt. semi Govt. and autonomous bodies' accounts shall be subject to authority issued by the concerned department duly signed by the competent authority.
- c) In case of the person introducing account does not call at the bank, extreme care shall be taken while verifying his signatures and genuineness.
- d) Accounts shall not be introduced by those persons, who are dubious of their dealings with the bank. For introducing the account, the introducer must have clean & worth appreciating record with bank.
- e) Introduction from the staff is restricted Chief Manager/ Branch Manager / Operation Managers and all the officer including cash officers. However, they shall introduce accounts only for those persons who are personally known to them and whose credential is absolutely clean.
- f) Introduction of dormant/ inoperative/ unclaimed account shall not be accepted.
- g) Where the introducer is existing A/C holder of the same branch his introduction should be accepted after due verification of signature by the officer of the branch. In case the introducer is account holder of another branch of the bank, the account should only be opened after proper verification of introducer's signature from the concerned branch.
- h) Where the introducer happens to be the account holder of another bank, introduction should be accepted after complete verification of the signature and other particulars of the introducer from that bank.

### **ID documents required**

The following minimum set of documents must be obtained from various types of customers/ account holder(s).

S. No.	Nature of Account	Documents/papers to be obtained
I	Individuals	Attested photocopy of computerized national identity card, passport of the individual.



		<p>In case the CNIC does not contain a photograph, the bank should also obtain attested copy of the Photograph in addition to CNIC, or any other document such as driver's license etc that contains a photograph.</p> <p>In case of a salaried person, attested copy of his service card, or any other acceptable evidence of service, including, but not limited to a certificate from the employer.</p> <p>In case of illiterate person, a passport size photograph of the new account holder besides taking his right and left thumb impression on the specimen signature card.</p>
II	Partnership	<p>(i) Attested photocopies of identity cards of all partners.</p> <p>(ii) Attested copy of "Partnership Deed" duly signed by all partners of the firm.</p> <p>(iii) Attested copy of Registration Certificate with Registrar of Firms. In case the partnership is unregistered, this fact should be clearly mentioned on the Account Opening form.</p> <p>(iv) Authority letter, in original, in favor of the person authorized to operate on the account of the firm.</p>
III	Joint Stock Companies	<p>Certified copies of:</p> <p>(i) Resolution of Board of Directors for opening of account specifying the person(s) authorized to operate the company account.</p> <p>(ii) Memorandum and Article of Association</p> <p>(iii) Certificate of Incorporation.</p> <p>(iv) Certificate of Commencement of Business.</p> <p>(v) Attested photocopies of identity cards of all the directors.</p>
IV	Clubs, Societies and Associations	<p>(i) Certified copies of</p> <p>(a) Certificate of Registration.</p> <p>(b) By-laws/Rules &amp; Regulations.</p> <p>(ii) Resolution of the Governing Body/Executive Committee for opening of account authorizing the person(s) to operate the account and attested copy of the identity card of the authorized person(s).</p> <p>(iii) An undertaking signed by all the authorized persons on behalf of the institution mentioning that when any change takes place in the persons authorized to operate on the account, the banker will be informed immediately.</p>
V	Agents Accounts	<p>(i) Certified copy of "Power of Attorney".</p>



		(ii) Attested photocopy of identity card of the agent.
VI	Trust Account	(i) Attested copy of Certificate of Registration. (ii) Attested copies of CNIC of all the trustees. (iii) Certified copies of Instrument of Trust.
VII	Executors and Administrators	(i) Attested photocopy of identity cards (CNIC) of the Executor/ Administrator. (ii) Certified copy of Letter of Administration or Probate.
VIII	Govt. Accounts	(i) Attested photocopy of identity cards (CNIC) of the authorized persons. (ii) Authority Letter to open & operate the A/C from concerned Govt. department.

### 3) Complete Account Opening Form and KYC Portion / Forms.

- a) Appropriate Account Opening Form (AOF) must be filed & completed in all respect. No space in the AOF shall be left blank. In case of not applicable spaces / columns they must be marked as NA or crossed out.
- b) The customer shall be asked to provide necessary documentary evidence for identification. Such as Valid CNIC, Passport, Aliens Card etc. **CNIC shall be verified from NADRA "VeriSys" system** & record of the same shall be retained for audit purpose.
- c) Depending on the type of account, a Branch official or Branch Operations Manager as the case may be shall fill "know your customer section of AOF and obtain minimum documents required for particular account.
- d) Based on information obtained from the customer, KYC form for all existing account holders will be completed by the staff / relationship manager / Branch Operations manger.
- e) All documentary evidence, information and signatures of the account holder must be in consistent with each other.
- f) No account should be opened until Account Opening form and Know Your Customer forms have been completed and documents have been received, verified and are found to be valid.

### 4) KYC Questionnaire for Account holders.

- a) KYC Questionnaires for new A/C holders have been developed and printed on Account Opening Form. Further, for old Accounts a separate KYC Form has been developed and circulated for completion in the branches.
- b) All the CD / PLS & all chequeing A/C maintained in local as well as foreign currency must be introduced by our existing A/C holders or bank officials as per bank policy. Following KYC information is required to be maintained for the new as well as old account holders.

**i) Know your customer for individual Account.**

- (a) Type of customer i.e. walk in, Marketed or referred by some one
- (b) Is he a public figure?
- (c) Source of funds i.e. salary, Family Business, Stock / investments, Home remittances, Agricultural income, rented property or any other income.
- (d) Usual Mode of transactions i.e. Cash, Clearing, collection, remittances or any other specified mode.
- (e) Purpose of the Account i.e. for personal savings, Business, or any other
- (f) Who is the Ultimate beneficiary of the account (if different from the account holder & his relationship with the account holder?
- (g) Initial deposit
- (h) Approximate Maximum value / number of transactions per month.

**ii) Know your customer for Business Account.**

- (a) Type of customer i.e. walk in, Marketed or referred by some one
- (b) Name of Parent Company/ group, Name of other companies of the group.
- (c) Is beneficial owner a public figure?
- (d) Main Geographical area of operation of the company.
- (e) Source of funds i.e. Export proceeds, Property / Real Estate, Local trading, Equity / FX trading, Charity and funds donations or any other.
- (f) Usual Mode of transactions i.e. Cash, Clearing, collection, remittances or any other specified mode.
- (g) Who is the Ultimate beneficiary of the account (if different from the account holder & his relationship with the customer?
- (h) Initial deposit
- (i) Approximate Maximum value / number of transactions per month.

**iii) Know your customer for already existing Accounts.**

Another KYC questionnaire has been developed for Completing KYC Information of already existing individual / Joint accounts. Apart from the information already available information as per AOF, following additional/ updated information shall be completed by the branch staff/ management: -

- (a) Account No. with last & present review dates.
- (b) Customer Name
- (c) Is he or she a public figure?
- (d) Date of birth
- (e) Nationality / Country of residence /permanent address, Mailing address & Phone Nos.
- (f) Identification Documents i.e. CNIC, Passport, Alien Registration card No.



- (g) Occupation i.e. Government Service, Private Service, Self Employed, House wife, Student, Unemployed, Money Transmitter / Exchange Business, Other if any.
- (h) Source of funds i.e. Salary, Family Business, Stock / investments, Home remittances, Agricultural income, rented property or any other income.
- (i) Other A/cs with BOP(if any)
- (j) Usual Mode of transactions i.e. Cash, Clearing, collection, remittances or any other specified mode.
- (k) Purpose of the Account i.e. for personal savings, Business, or any other
- (l) Accounts to operated by Self / Mandate
- (m) Who is the Ultimate beneficiary of the account (if different from the account holder & his relationship with the customer?
- (n) Expected Average value / Number of transactions Per Month.

## 5) CUSTOMER INFORMATION

### a) Individual Customers Account

Required documents and information should be obtained to complete the KYC/AOF. To ensure accuracy of the information, the customer personal information, such as name, address, signature, contact telephone numbers, employment details, etc. should be obtained & verified.

### b) Business Accounts

The Bank should inquire into the nature of the customer's business activities, and verify that the real activities of the company are consistent with the company's corporate purpose and with its key financial data. Further, before establishing a business relationship, a search, commercial enquiries shall be made to ensure that the corporate applicant has not been, or is not in the process of being, insolvent, dissolved, struck-off or wound-up.

Special care must be exercised while opening accounts of partnership firms, limited companies etc. Legal documents viz. Partnership Deeds, Memorandum & Articles of Association must be obtained and copies of the same shall be retained and filed with the AOFs. Manager/Operation Manager must study these documents and satisfy himself completely before allowing operations on such accounts.

### c) Clubs, Societies and Charities Accounts

In case of Club, Societies and charity account the Branch management must satisfy itself as to the legitimate purpose of the organization. Where there are more than one signatory to the account, the identity of at least two signatories must be verified. When ever there is a change of signatories, care should be taken to ensure that the identity of at least two current signatories has been verified.

Special care must be exercised while opening accounts of Clubs and societies etc. Legal documents viz. rules governing Clubs and Societies must be obtained and copies of the same shall be retained and filed with the AOFs. Manager/Operation



Manager must study these documents and satisfy himself completely before allowing operations on such accounts.

#### **d) Trust, Nominee Accounts**

Trust, nominee accounts can be used to avoid customer identification procedures and mask the origin of benefits of drug trafficking or criminal conduct. Bank must establish whether the applicant is acting on behalf of another person as trustee, nominee or agent (“Intermediary”). Bank should obtain satisfactory evidence of the identity of intermediaries and authorized signatories and the nature of their Intermediary capacity and duties. If significant changes to the trust structure or ownership occur subsequently, or suspicions are aroused by a change in the customer’s transaction profile or pattern, further checks and investigate.

#### **6) Approval of Account Opening Form**

After filling in the account opening forms and admitting/authenticating the signatures of the new account holders and the introducers, the officer shall seek the approval of the Manager/Operation Manager invariably before allotting account numbers and issuing cheque books to the new customers.

#### **7) Letter of thanks**

Letter of thanks shall be sent to every new account holder as well as to the introducer of the account. In order to establish genuineness of the new customer, letter of thanks shall be sent to him at his recorded address through courier services; however, at stations where such facility is not available a Registered A.D Post may be sent.

#### **8) Issuance of Cheque Book**

- I. Proper care and vigilance must be exercised in the issuance of Cheque Books to customers. No Cheque Book shall be issued to a new account holder until all formalities regarding opening of accounts are completed except where the manager is personally satisfied and specifically authorizes its issuance.
- II. The requisition slip from the customer’s current Cheque Book must be insisted upon and the signature thereon duly verified. Where a customer claims to have lost his Cheque Book requisition slip, customer shall be asked to submit prescribed form F-12. Form F-11 shall be used for issuance of cheque book to the new account holder.
- III. Before issuance of the Cheque Book, a reference shall be made to the customer’s account in the system to ensure that the Cheque Book already issued to him has been or is nearly exhausted. If the need for a fresh Cheque Book is not apparent, inquiries shall be made from the customer to confirm genuineness of the request.
- IV. When a Cheque Book is dispatched by post or is handed over to a duly authorized representative of the account holder against receipt, a separate advice shall be mailed to the account holder.
- V. Every issuance and acknowledgement shall be entered in the “Cheque Books Issued Register (B-8)”. Serial Numbers of Cheque Books issued shall be entered in the system for posting in the relevant account.



### **Issuance of Cheque Books to Customers on Personal Application**

- I. Signed Requisition Slip from customer shall be obtained. (Requisition Slip bound in the Cheque Book or F-12 if customer has lost the requisition slip shall be obtained). F-11 shall be obtained for a fresh account. Customer's signatures shall be verified.
- II. Account number on each cheque leaf shall be stamped /written. Title and account number on the cover shall be written and the requisition slip bound in the new Cheque Book shall be filled.
- III. Customer's signature on the old requisition slip and on the register shall be obtained. Genuineness of signatures shall be verified and Cheque Book shall be handed over to customer. Every cheque book should immediately be entered in the system and duly authenticated.
- IV. Requisition slip shall be filed in a separate file for the purpose.

### **Issuance of Cheque Books to Customers on Applications by Post or Through a Third Party**

- I. Signed requisition slip shall be obtained. Customer's signature shall be verified.
- II. If requisition is received from third party, it must be ensured that customer has given sufficient information to enable his representative to be identified, e.g. by comparison of third party's signatures on authority letter.
- III. Particulars shall be entered in the "Cheque Book Issued Register (B-8)".
- IV. Account number on each cheque leaf shall be written /stamped. Title and account number on the cover shall be verified and the requisition slip bound in the new Cheque Book shall be completed.
- V. Cheque Book and Advice shall be enclosed in envelope addressed to customer and it shall be sealed.
- VI. If cheque book is handed over to customer's representative, his receipt on the old requisition form and on the register shall be obtained.
- VII. If it is to be dispatched, it shall be handed over to another officer for confirmation of address and supervision of dispatch through courier/registered AD where courier not available.
- VIII. Advice to customer in separate envelope shall be dispatched through courier.
- IX. Every cheque book should immediately be entered in the system and duly authenticated.
- X. Copy of Advice shall be retained in order of date of dispatch in current file and reminder shall be sent if acknowledgement not received within 10-days.
- XI. Requisition slips shall be filed in a separate file for the purpose.

### **Issuance of Loose Cheque.**

- I. Two blank Cheque Books may be withdrawn from the stock after making necessary entry in the Cheque Books Stock Register. These Cheque Books will be used for making withdrawals from PLS Saving Accounts and CD Accounts respectively by way of issue of loose cheques.



- II. A separate portion of Cheque Book Issue Register (B-8) may be used for the purpose of issuance of loose cheques.
- III. The distinct number of each cheque contained in the loose Cheque Book shall be written in its serial order in section of Cheque Book Issue Register meant for recording the issue of loose cheques under authentication of the authorized officer.
- IV. The customer shall be requested to put up the requisition in writing. After the authentication of the signature, the full name of the customer, account number and date of issue shall be written in the appropriate columns against the distinct number of loose cheque, which is to be issued.
- V. The name of the customer, account number and date of issue shall also be written on the face of the loose cheque which particulars shall be authenticated by the authorized officer under full signatures.
- VI. The loose cheque attached with the requisition slip shall then be handed over to the customer after obtaining acknowledgement in the appropriate column of the loose cheque portion of the Cheque Book Issue Register against the distinct number of the cheque.
- VII. It will be ensured that payment of loose cheque will be effected on the same day.
- VIII. Loose cheque cannot be presented in clearing.
- IX. Payment of loose cheque shall not be made to third party.
- X. Loose cheque shall be issued upon approval of the manager/operation manager on the request letter.

## 9) Correspondent Account

In order to protect the bank from being used for money laundering purpose, following questioner shall be got complete from the intending correspondent bank. Correspondent's account shall only be opened on satisfactory evidence that the intending bank is compliant to KYC / AML requirement. It is pertinent to note that our bank as policy do not deal with the shell bank or with the bank dealing with the shell bank.

As per State Bank of Pakistan, it is mandatory for all banks to obtain compliance to Anti Money Laundering and Know Your Customer requirements from all correspondent banks. Therefore, the following questioner has been adopted as a minimal requirement to comply with by the correspondent bank. Before opening of correspondents account satisfaction on the questions raised shall be satisfied. The questionnaire adopted by the bank for qualification of the bank/ financial institution is as follows;

- I. Institution name, Registration and License NO.:
- II. Address (Registered Office), (Head Office) and (Principal place of business)
- III. Institution's ownership and management:
- IV. Major business activities:
- V. Is your financial institution subject to any Anti-Money Laundering Law promulgated by your regulator/country? (If so, please advise us the relevant law and the name of the agency that promulgates such laws.)



- VI. Does your institution have policy and procedures that include Know Your Customer (KYC) mechanisms, analysis and reporting of doubtful transactions, staff training and internal committees? Copy of same shall be obtained & placed on record.
- VII. Does your financial institution have a separate Compliance Division? (If so, please advise us the name, designation and contact details of the Head of Compliance Division.)
- VIII. Does your bank provide services to Shell Banks?
- IX. In case you have branches abroad, are they under the same policy?

## 10) Account Operated by Attorney

Following satisfactory documents shall be obtained before opening of attorney account.

- I. Certified copy of "duly executed Power of Attorney". Signature on attorney shall be verified with lead pencil.
- II. Attested photocopy of identity card of the agent / attorney holder. CNIC shall be verified through NADRA's "VeriSys" system.

## 11) Exchange Company Account

Dealing with Exchange company account is a high Risk business. Extreme care shall be exercised before opening of account pertaining to exchange company. To protect the bank from any unlawful activity and from being used for money laundering, the bank shall only deal with regulated and licensed exchange companies. The legitimacy of the company shall be established after obtaining and reviewing valid operating license and/or certificate of incorporation of the company.

The bank will perform enhanced due diligence, while opening account(s) of exchange companies. Prior to establishing the relationship with exchange companies, we ensure that:

- i) The background of the institution is clean. The company has established their own KYC / AML policy and has implemented the same in their day to day business.
- ii) Apart from other documents required for opening of company A/C, copy of KYC/ AML policy shall be obtained & reviewed to ensure adequacy and compliance with State Bank of Pakistan guidelines.
- iii) The shareholder(s) and beneficial owner(s) have good reputation -no blacklisted persons/entities are involved in the business of the company.
- iv) Management members have good standing -no blacklisted persons are involved in the management of the company.
- v) While performing the enhanced due diligence, if deemed necessary, On cases to case basis, "reference" on the exchange company, its shareholders, its management members shall be obtained.



- vi) All the exchange companies within the country are required to comply with the KYC / AML guidelines of State Bank of Pakistan. The compliance to this effect is examined by the regulator(s) periodically at the exchange company if possible report of such audit shall be obtained from the exchange company.
- vii) The exchange company accounts are categorized as 'High Risk' for purpose of review and monitoring.
- viii) Due diligence conducted on exchange companies are recorded in KYC. The KYC information is reviewed periodically. Steps are immediately taken if any of the above KYC information gets adverse (e.g. regulator action against company, its shareholders, its management etc).
- ix) The bank will closely monitor account activity of exchange companies so as to detect unusual and suspicious transactions. Suspicious activity (if any) is immediately investigated and if the suspicion is well-founded, it is reported to the regulatory authority(s).

## **12) Dormant and inoperative Account**

### **A. IDENTIFYING & MARKING OF DORMANT/ INOPERATIVE ACCOUNTS**

- I. All Current Accounts in which there has been no operation for the last six months and the Saving Bank Accounts in which there has been no operation for a period of one year shall be marked as "Dormant Accounts" by the system.
- II. When dealing with the first withdrawal from such accounts, the Manager/Operation Manager shall satisfy himself beyond doubt that the signature of the constituent concerned is genuine. In case the withdrawal is in cash, the presenter shall be interviewed in order to establish that the transaction is bonafied.
- III. All CD/PLS-SB Dormant Accounts, which have not been operated upon for a period of further two years, shall be declared and marked as "Inoperative Accounts" by the system.
- IV. At the end of each month relevant steps shall be run by the System Administrator for marking the accounts as dormant/inoperative. The computerized print outs of dormant/inoperative accounts shall be carefully examined.
- V. Calculation of provision of profit on PLS-SB Inoperative Accounts shall be made monthly by running the respective computer step and the profit shall be posted half yearly as per the computer program on the declared rates.
- VI. At the time, an account is transferred to the Inoperative Ledger; a suitably worded notice shall be sent to A/C holder. In case no response is received, another Registered A/D Notice, be dispatched after a fortnight.

### **B. DEPOSIT/WITHDRAWAL FROM INOPERATIVE ACCOUNT**

- I. No deposit in or withdrawal from inoperative CD/PLS-SB account shall be permitted without reference to the manager. In case of withdrawal the customer shall visit the branch personally and the manager must exercise



extreme care and vigilance to make sure that the customer is genuine. Letter of request & attested copy of CNIC be obtained & placed with transaction vouchers and his signatures must be tally with those of in bank's record and withdrawal is in order. The manager shall sign the vouchers to revive the inoperative accounts and also the cheque /voucher relative to the first withdrawal after revival.

- II. Any deposit tendered to the credit of an account must also be referred to the manager. Advices of such deposits, if tendered by third parties, shall also be sent separately to the concerned account holder.
- III. All such accounts, which remain inoperative for another 3 years shall be transferred to UNCLAIMED DEPOSIT A/Cs.

### **13) Transactions Undertaken for Non-Account Holders (Walk-in Customers)**

- i) Identity must be verified whenever a customer without an account comes for transaction/ remittance with the bank (i.e. walk in customer)
- ii) Where transactions are undertaken for non-account holders, in particular where transactions involve cash, the customer should be requested to prove identification by providing original CNIC/Passport along with the photocopy of the same. The identity documents shall be treated as part of the transaction documents and attested copies should be retained with transaction application.
- iii) In addition to the normal KYC requirement i.e. ascertaining identification of remitter, for remittance of funds of Rs. 5(M) & above, purpose of remittance and source funds should also be obtained & placed on record to comply with the KYC policy.

### **14) Online Transactions.**

Online banking is the quickest/ fastest mode of banking transaction, yet it carries certain inherent risks. In order to mitigate such inherited risks & to comply with KYC / AML policy of the bank, the branch management must ensure that: -

- i) Identity of the customer has been verified before execution of request for online transaction. The customer should be requested to prove identification by providing original CNIC/Passport along with the photocopy of the same. The identity documents shall be treated as part of the transaction documents and attested copies should be retained with transaction application
- ii) A threshold for the online transaction shall be decided by the operations to conduct safe & sound online business. At present the threshold for on line transactions is as under: -
  - (a) Cash Payments            maximum amount upto Rs. 50,000/- Per transaction
  - (b) Transfer Payments        maximum amount upto Rs. 500,000/- Per transaction
- iii) In addition to the normal KYC requirement i.e. ascertaining identification of remitter, for remittance of funds of Rs. 5(M) & above, purpose of remittance



and source funds should also be obtained & placed on record to comply with the KYC policy.

- iv) These thresholds can be change or relaxed in accordance with banking requirements. Such changes / relaxations shall be made only after approval from operations division / operations committee.

## **15) Responsibility of the Branch Manager/ Operations Manager.**

Compliance is the responsibility of every employee and each of our businesses unit.

The branch manager / branch operations manager shall jointly be responsible for;

- i) Implementation of KYC / AML policy of the bank.
- ii) Reporting any suspicious transaction as per prudential regulation.
- iii) Implementation of rules/ regulation issued by the BOP itself, SBP, any other law enforcing agencies or regulatory authority.
- iv) Retention of old as well as current record of any transaction/ transaction as per bank's policy and provide the same for verification/ audit on requisition.
- v) Retention of KYC/ AML related record as per bank policy & providing the same for audit / verification.
- vi) Update the KYC related information pertaining to the accounts maintained at the branch.

## **Terrorist and Undesirable parties**

Relationship must not be established with person or entities identified or suspected to be or to be associated with, terrorist and undesirable parties. The SBP negative list should be check before account opening. A centralized computer negative list shall be initialized & branches will be advised to confirm through the system that the name person/ persons are not appearing in the negative list issued by SBP. Tile such time, the negative list is initialized, the branches are required to check the same manually. If, name of the Account holder happens to be the same as appearing in the negative list, a Confirmation to the genuineness of accountholder & that the account holder is not the person appearing in the list shall be placed with AOF / Remittance form as the case may be.

## **Public Figures**

A "Public figure" is an individual who occupies, has recently occupied, is actively seeking, or is being considered for a senior civil position the government of a country. It also includes leading personalities from showbiz, military, Government agencies, and government-owned corporations, etc. In view of risk associated with Public Figure, enhanced customer due diligence and more stringent controls should be exercised over relationships established with Public Figure. (Please, refer Regulation M1)



## Categorization & Risk Assessment of Accounts

All the Accounts shall be categorized and its Operational risk will be assessed in accordance with the services rendered to such accounts. Following points shall be taken care of at the time of assessment of operational as well as other associated risk.

- I. The purpose of opening of accounts in the name of companies, establishments and individuals. The accounts be used for business purposes or it shall be used to conduct large volume / number of transactions relating to the remittances such as exchange company transactions/ collection A/C transactions.
- II. The Relationship Manager / Branch Manager shall require using prudence / market reports of the customer at the time of risk assessment, it should be taken care that the account could not be used for money laundering.
- III. Accounts are normally classified as high, medium or Low Risk depending on certain criteria.

In assessing the money laundering risks, the business should take into consideration the following criteria:

- I. Category of Customer: individual, establishment, company, public figure, etc.;
- II. Type of Business: Certain types of businesses generally represent higher potential for money laundering (e.g., cash-intensive, import, export, money exchange, etc.)
- III. Types of Banking Products expected to be used by customer. Special care shall be taken for remittance and online products as the same can be most often used for money laundering;
- IV. Geographic Location of the Account holder and his business activities / his customer's / suppliers / purchaser.
- V. Country in case of foreign trade / foreign remittance is compliant to KYC/ AML policy. Non compliant countries are considered as posing a higher risk for money laundering; and Business Environment: (Applicable for customers involved in foreign Trade)

## Risk Categories:

Risk Category	Risk	Type of Account
Level 1	Low	Individual accounts where source of funds is salary, home remittances, Agriculture/ Rented Property.  Individual Business Account  Account for public registered companies  Account of private limited companies
Level 2	Medium	Account operated by others (Mandate./ Third party Power Of Attorney)
Level 3	High	Account for Businesses involved in activities that are particularly vulnerable to money laundering risk such as Money transmitters, Stock brokers/exchange



		<p>companies and holders of charities / foundations /Trust( NGO), Cash driven business such as Property dealers, Builders, Precious commodities(Precious metals, jewelry stores, Antiques dealers.</p> <p>Accounts for Public figure. The following examples of Public figures</p> <p>Government officials, Influential functionaries in nationalized industries and government administration &amp; political parties;</p> <p>Customers who have any dealings with Non-Cooperative or are Nationals, resident of Country and Territories i.e. Nauru, as defined by FATF should be rated as High Risk customers.</p>
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### Review & Monitoring Customer Account

Based on the risk category assigned all Deposit / Running Finance / Chequeing Accounts shall be reviewed and monitored. The risk shall be assessed on bases of services rendered to such accountholder and the risk associated to product being used.

The basis of any monitoring procedures lies in the identification, Know Your Customer information and ongoing updating of that information. Updating evolve from regular monitoring customers activity and contacting the customer.

The manager and staff must recognize the need to keep up to date banks knowledge of customer with reference to

- taking care to identify the ownership of all accounts, relationships and of those using safe custody facilities;
- obtaining proper identification and other relevant information from all customers, especially those seeking to conduct significant business transactions;
- determining source of funds as well as determining normal and expected transactions;
- being aware of any suspicious transaction or activity that is disproportionate to the customer's known business; and
- Reporting of all suspicious transactions to Compliance Officer and senior management to decide if the transaction/ activity need to be reported to any law enforcing or regulatory authorities.

### Transaction Threshold Level

Taking in to account the nature of the business being conducted in the area, the volume of cash transaction and remittance business, Regional chief / Regional Operation Heads shall fix the threshold of customer's transactions & inform the branch accordingly for implementation. A list of branch wise threshold shall be submitted by the ROH to CCD Head office. The Branch Operations manager shall monitor the transaction in line with customer's KYC information & signoff the same.



All transactions pertaining to customer's account above the following transaction threshold or threshold fixed by the RC/ ROH shall be reviewed and if found in line with the customers KYC information shall be signed off by the branch operations manager. The BOP computer system will generate major deposit and withdrawal transactions above the following threshold.

- High Value transaction Limit = Rs. 5,000,000
- Over the counter limit by the account holder = Rs. 1,000,000

There will be no transaction limit for Walk-in customer. KYC information will be completed for all the transactions pertaining to the walk in customer.

In addition to the normal KYC requirement i.e. ascertaining identification of remitter (Remittance by any means), for remittance of funds of Rs. 5(M) & above, purpose of remittance and source funds should also be obtained & placed on record to comply with the KYC policy.

### Suspicious Activity

Obtaining/ retaining good knowledge of the transactions being carried out by the customers is a part of an effective KYC policy. KYC process followed by each business should include effective monitoring transactions conducted by the existing as well as new customer's and allows for the collection of sufficient information to update customer's profiles in order to assess possibility of money laundering activity. As the type of transactions that may be used by money launderers are almost unlimited, it is difficult to define a suspicious transaction. Suspicion is a personal feeling / assessment & subjective to prevailing circumstances at some specified point of time and falls far from proof based firm evidence. However suspicion must have some concrete evidence and not just based on mere speculation / hypotheses. Some of the indicators for the suspicions are given here under for reference.

- I. A business / person is reluctant to provide complete information regarding the purpose of the business, prior banking relationships, officers or directors, or its location.
- II. A business that refuses to provide information to qualify customers for credit or other banking services.
- III. The customer's background is inconsistent with business activities.
- IV. Person maintains several current / saving accounts at various locations without reasonable justifications.
- V. Person receives numerous small deposits to his or her accounts from various locations, which is not consistent with the previously prepared customer / transaction profile.
- VI. For large businesses or corporations, financial statements are not prepared by an accounting firm and & Audit not conducted.
- VII. A business that is reluctant to reveal details about its activities or to provide financial statements, or whose financial statements are noticeably different from those of similar businesses.



- VIII. A customer who is unwilling to provide personal background information when opening an account or purchasing monetary instruments above a specified threshold.
- IX. Corporate account(s) where deposits or withdrawals are primarily cash rather than checks
- X. The transaction involves funds derived from illegal activities or is intended or conducted in order to hide or disguise funds or assets derived from illegal activities as part of a plan to violate or evade any regulation.
- XI. The transaction has no business or apparent lawful purpose or is not the sort in which the particular customer would normally be expected to engage, and the bank knows of no reasonable explanation for the transaction after examining the available facts, including the background and possible purpose of the transaction.

### Recognizing Suspicion of Money Laundering

- I. Transactions involving Large cash
- II. Transactions involving Bank Accounts.
- III. Transactions involving Transfers Abroad.
- IV. Investment related Transactions.
- V. Transactions relating to Unidentified Parties.
- VI. Miscellaneous Transactions.

#### **Transaction involving Large Cash**

- I. Customer exchanging an unusually large amount of small-denominated notes for those of higher denomination;
- II. Frequent withdrawal by customer of large cash amounts which do not appear to be justified by the customer's business activity;
- III. Large cash withdrawals by customer from an account which has just received an unexpected large credit from abroad
- IV. Company transactions, both deposits and withdrawals, that are denominated by unusually large amounts of cash rather than by way of debits and credits normally associated with the normal commercial operations of the company, e.g. cheques, letters of credit, bills of exchange, etc.;
- V. Depositing cash by means of numerous credit-slips by a customer such that the amount of each deposit is not substantial but the total of which is substantial.

#### **Transactions Involving Bank Accounts**

- i) Multiple depositors using a single bank account.
- ii) High velocity of funds through an account i.e. low beginning and ending daily balances, which do not reflect the large volume of funds flowing through an account.
- iii) Matching of payments out with credits paid in by cash on the same or previous day.



- iv) Paying in large third party cheque endorsed in favor of the customer.
- v) Substantial increases in deposits of cash or negotiable instruments by a professional firm or company, using client accounts or in-house company or trust accounts, especially if the deposits are promptly transferred between other client company and trust accounts.

### **Transactions Involving Transfers Abroad**

- i) Transfer of money abroad by an interim customer in the absence of any legitimate reason;
- ii) A customer who appears to have accounts with several banks in the same locality, especially when the bank is aware of a regular consolidated process from such accounts prior to a request for onward transmission of the funds elsewhere.
- iii) Repeated transfers of large amounts of money abroad accompanied by the instruction to pay the beneficiary in cash
- iv) Substantial increase in cash deposits by a customer without apparent cause, especially if such deposits are subsequently transferred within a short period out of the account and/or to a destination not normally associated with the customer.

### **Investment Related Transactions**

- i) Purchasing of securities to be held by the bank in safe custody, where this does not appear appropriate given the customer's apparent standing
- ii) Requests by a customer for investment management services where the source of funds is unclear or not consistent with the customer's apparent standing.
- iii) Larger or unusual settlements of securities transactions in cash form; or
- iv) Buying and selling of a security with no apparent purpose or in circumstances which appear unusual.

### **Transactions Involving Unidentified Parties**

- i) Payment orders with inaccurate information concerning the person placing the orders
- ii) Use of fake or numbered accounts for effecting commercial transactions by enterprises active in trade and industry
- iii) Holding in trust, shares of an unlisted company whose activities cannot be ascertained by the bank or customers who wish to maintain a number of trustee or clients' accounts that do not appear consistent with their type of business, including transactions that involve nominee names.

### **Transactions Involving International Activity**

- i) Use of letter of credit and other mode of finance to move money between countries where such trade is not consistent with customer nature of business
- ii) Customer who makes regular or large payments, including electronic transaction /online transactions or receive regular large payments through online.
- iii) Unexplained online transactions by customers on an in-and-out basis or without passing the account.



## Transactions Involving Trade financing

- i) Using pro-forma invoices without goods descriptions and apparent reluctance to provide a goods description and appropriate supporting documents Payment orders with inaccurate information concerning the person placing the orders
- ii) Documents are restricted to a simple receipt, with no documentation confirming that a movement of goods takes place.
- iii) Use advance payment guarantee without providing other documentation such as underlying contract
- iv) Assignment of proceeds to an apparently unconnected third parties
- v) Transfers between same parties i.e. where the beneficiary and applicants are same.

## Miscellaneous transactions

- i) Purchase or sale of large amounts of precious metals by an interim customer
- ii) Purchase of bank cheques on a large scale by an interim customer; or
- iii) Extensive or increased use of safe deposit facilities which do not appear to be justified by the customer's personal or business activities.

The above list is not all inclusive but may help the employees of our Bank to identify/ recognize the abnormal/unusual operation or activity in an account provided they remain vigilant. Such transactions may warrant attention. It should, however, not to be construed that all such transactions should be considered suspicious or involve in illicit activity, it only means that the transaction require close scrutiny.

Moreover, many of the transactions may appear suspicious only because they are inconsistent with the normal customer behavior, but on closer examination legitimate business activity may be ascertained. Similarly other transactions which are not specifically mentioned hereinabove may also be suspicious if those are inconsistent with the normal activity.

## Reporting procedure Suspicious Activity

### Reporting Suspicion

The State Bank through its directives has reinforced the banks to pay special attention to all complex, unusually large transactions, and all unusual patterns of transactions, which have no apparent economic or visible lawful purpose. The back ground and purpose of such transactions should, as far as possible, be examined, the findings established in writing, and be available to help the relevant authorities in inspection and investigation.

Effective KYC policy demands to ascertain / obtain a good knowledge of the transactions being carried out by the customers. The KYC process followed by each business shall include the effective monitoring of existing as well as new customers' transactions and allows for the collection of sufficient information to update profiles of customers to assess possibility of money laundering activity.



The objective to place such procedures is reporting of suspicious transaction. Following are the stages in reporting suspicious transactions.

It is the duty of every staff member/Branch Operation manager / Branch Manager to report suspicious transaction to Compliance and Controls officer with a copy to Area Office Supervisor CCD or Regional Manager CCD. The Regional Manager CCD will report the same to Head Controls & Compliance Division at Head Office.

The compliance officer will initially review the report and will decide on the basis of available information and additional enquires whether or not transaction remains suspicious or whether there is some additional information that removes suspicion.

If the compliance officer considers that the suspicion is justified, he will prepare the report in coordination with respective operation manager or Area manager. Once the report has been submitted in line with the above procedures, all personal legal obligations have been met. All report submitted to CCD H.O shall be treated as strictly confidential. The customer shall not be informed of such reporting at any stage. Detailed procedure is given bellow for implementation.

### **Reporting procedure for staff**

1. If any Staff member / Officer / executive feels any suspicions about the transactions being conducted by any customer they shall report the same to Operation Mangers performing as Compliance Officer or ICCO if posted in the branch.
2. The Operations Manager /ICCO along with Branch Manager will investigate the matter on first hand & prepare a report & record their comment on the Form provided at the end of the report as "**Appendix- A**". It is noted for strict implementation that suspicion shall not be disclosed to customer at any stage.
3. After investigation, if suspicion remains there, Operations manager / ICCO will report the same to Area Office Supervisor CCD or to the Regional Manager CCD if AOS CCD not posted in the area.
4. The Area Office Supervisor CCD shall report the same to Regional Manager CCD with his comments/ recommendations. Where Regional Manager CCD is not posted ROH shall act as Regional Compliance Officer & report shall be submitted to him.
5. Regional Manager CCD or ROH where regional Manager CCD not posted shall investigate the matter with the coordination of RC / ROH & Local branch management. If the suspicion is not removed, the Regional Manager CCD / ROH as the case may be shall prepare & submit the report to Head CCD at head office.
6. A committee Consisting of Chief Manager Operations or GM Operations/ Chief Manger CCD or Regional Manager CCD of the area Along with Head CCD shall carefully look into the matter & record their comments. Report shall be finalized for submission to SBP.
7. The Head CCD shall report the Finalized report to SBP in accordance with the guidelines provided in Prudential regulation M-5 which says: -

Quote "If the bank / DFI suspects, or has reasonable grounds to suspect, that funds are the proceeds of a criminal activity, it should report promptly within three days, after conducting appropriate investigation, its suspicions, through Compliance Officer of the bank / DFI to Banking Policy Department of the State



Bank of Pakistan. The report should contain, at a minimum, the following information:

- a. Title, type and number of the accounts.
- b. Amounts involved.
- c. Detail of the transactions.
- d. Reasons for suspicion.
- e. Nature of the underlying criminal activity, the bank / DFI suspects, has generated the proceeds under suspicion.

It is important that reason for suspicion is fully explained. It is critical that such suspicion must not be discussed with anyone outside the bank. Care must be taken in discussing a suspicion, even with other colleagues. Under any circumstances not to inform customers of their suspicion or of their notification to the authorities Extreme caution must be exercised when dealing with these customers. Notification of suspected money laundering and terrorist financing cases to the authorities does not conflict with the provision of banking secrecy or customer confidentiality under the Economic Reform Act 1992.

### **Reporting of Suspicious Financial Transactions to Director General, Anti Narcotics Force.**

#### **Narcotics Substances Act 1997 Saction-67**

##### **Quotes**

- 1) Notwithstanding anything contained in any law for the time being in force all banks and financial institutions shall pay special attention to all unusual patterns of transactions, which have no apparent economic or lawful purpose and upon suspicion that such transactions could constitute or be related to illicit narcotics activities, the manager or director of such financial institution shall report the suspicious transactions to the Director General.
- 2) Whoever fails to supply the information in accordance with sub section (1) shall be punishable with rigorous imprisonment, which may extend to three years, or with fine or both. Unquote

### **Reporting of Suspicious Financial Transaction to National Accountability Bureau (NAB)**

NAB Ordinance, 1999. Section 20.

##### **Quotes**

- A. It shall be the duty of all banks and financial institutions to take prompt and immediate notice of all unusual or large transactions in an account, which have no apparently genuine economic or lawful purpose the manager or director of such Bank or financial institution shall report all such transactions to the Chairman NAB forthwith by the quickest possible mode of communication to be confirmed in writing.
- B. Whosoever fails to supply the information in accordance with subsection (a) shall be punishable with rigorous imprisonment which may extend to 5 years, and with fine.



## **The Bank will comply with the Latest Development in AML Regulations:**

As per reports the "Anti Money Laundering Bill" under consideration of the government for quite some time, was approved by the cabinet on 29th June 2005. The same is to be presented in the Assembly for approval. The Bill aims at tightening the noose around culprits and the same time providing sufficient safeguards for the non-guilty. The penalty proposed for the offender is quite intimidating. Those indulging in money laundering could be awarded four to ten years of imprisonments along with a fine of one million rupees and forfeiture of property. A body known as National Executive Committee (NEC) would be constituted to combat money laundering. It would be headed by the Finance Minister, or advisor to the Prime Minister on Finance, while Governor of State Bank of Pakistan, Chairmen of SECP and NAB and the Director-General of Financial Monitoring Unit (FMU) would be its members.

## **Responsibility of the Bank**

State Bank of Pakistan Prudential Regulations on Money Laundering M-2, NAB Ordinance, 1999 Section 20, Narcotics Substances Act 1997 Saction-67, Anti Terrorist Act 1998 and other regulations issued by regulatory authorities are applicable not only to criminals who try to launder their ill-gotten money, but also to the Bank and its employees who are knowingly involved in these activities. "Knowledge" means & includes the concepts of "willful blindness" and "conscious avoidance of knowledge". Thus, employees of the Bank whose suspicions are aroused, but who then deliberately fails to make further inquiries, wishing to remain ignorant, may be considered to have the requisite "knowledge". Any employee who suspects money laundering activities should immediately refer the matter to Head CCD through already defined channel for his review and further reporting to regulatory authorities.

### **Employees and each of Branch & Office shall be Responsible to: -**

- I. Provide Safeguard against being used as a channel for illegal transactions arising from money laundering activity, hence preserve the Bank's integrity and reputation;
- II. Ensure that all employees are aware and implement the Know Your Customer (KYC) policies, procedures and controls;
- III. Ensure full compliance with all applicable money laundering laws and regulations and corporate policies.
- IV. To conduct himself / herself in accordance with the highest ethical standards;
- V. To conduct his/her business in accordance with applicable anti-money laundering laws;
- VI. To refrain from providing any advice or assistance to individuals who attempt to violate or avoid money laundering regulations /laws;
- VII. To promptly report any suspicious activity to senior management/Chief compliance Office ; and
- VIII. ensure that all detected suspicious activities are appropriately reported to the authorities in accordance with applicable laws; and
- IX. To be constantly vigilant in the fight against money laundering.

**Regional Manager Control & Compliance (RMCC) shall be Responsible to: -**

- I. Ensure implementation of Head Office policies & procedures on compliance issues in the region by pointing out loopholes in the system to the local Management.
- II. Ensuring that SBP directives including prudential regulations are implemented and exceptions if any are raised with the regional management and Head Office.
- III. Maintenance of ICCO records e.g. ICCO Monthly reports & all related correspondence in a systematic way. (Where area supervisor is not designated)
- IV. Processing of reports submitted by ICCOs & Area Office Supervisors & submit summary to respective quarters. RMCC shall specially emphasize on Quality of reviews of AOF, KYC formalities & documentation for all existing as well as new accounts. Make follow-up for regularizing the exception at regional level as well as with Head office.
- V. Apart from other defined duties, on his visits to Area offices / Branches, he will focus that the branches are in practice to Review large Transaction Reports & the reports are being signed by the Operation manager. Further escalate the issues raised through this process at regional and Head office level.
- VI. Coordinate with SBP Audit team and to follow up on SBP Inspection exceptions for ratification / regularization.
- VII. Providing training /consultation and guidance to staff on compliance issues & arrange training on AML & KYC issues.
- VIII. Timely submission of accurate data /Information to Head Offices on compliance related returns / data pertaining to the region.
- IX. Ensure that periodic reviews (Daily, Weekly, and Monthly, Quarterly, half yearly & annual) are being regularly conducted by the ICCOs.
- X. Perform any duty assigned by the Head CCD

**Area Office Supervisor CCD (AOS CCD) shall be Responsible to: -**

- I. Ensure implementation of Head Office policies & procedures on compliance issues in the Branches by pointing out loopholes in the system to the local Management.
- II. Ensuring that SBP directives including prudential regulations are implemented and exceptions if any are reported to RMCC.
- III. Visit the branches as per schedule & perform the periodical reviews & Prepare report on devised formats as per CCD Manual.
- IV. Maintenance of ICCO records e.g. ICCO Monthly reports & all related correspondence in a systematic way.
- V. Processing of reports submitted by ICCOs submit summary to respective Regional Manger CCD (RMCC). Special emphasize shall be on Quality of reviews of AOF, KYC formalities & documentation for all existing as well as new accounts. Make follow-up for regularizing the exceptions with the branches under his area of operations.
- VI. Apart from other defined duties, on his visits to Branches, he will focus that the branches are in practice to Review Large Transaction Reports generated by the computer system & the reports are being signed by the Operation managers in



- token having being checked. Further escalate the issues raised through this process at Regional Manager CCD level.
- VII. Coordinate with SBP Audit team and to follow up on SBP Inspection exceptions for ratification / regularization.
  - VIII. Providing on job training /consultation and guidance to staff on compliance of KYC /AML issues.
  - IX. Timely submission of accurate data /Information to Regional Manager CCD on compliance related returns / data pertaining to the Branches under his operations / supervision.
  - X. Ensure that periodic reviews (Daily, Weekly, and Monthly, Quarterly, half yearly & annual) are being regularly conducted by him self & the ICCOs under his supervision.
  - XI. Perform any duty assigned by the RMCC/ Head CCD.

**Compliance Officer Branches/ ICCOs are Responsible to: -**

- I. Branch compliance officers (Ops Manger) shall ensure implementation of Head Office policies & procedures on compliance issues in the Branches, where as the ICCOs shall ensure the same by pointing out loopholes in the system to the local Management.
- II. Ensuring that SBP directives including prudential regulations are implemented and exceptions if any are reported to AOS CCD / RMCC.
- III. Visit the branches as per schedule & perform the periodical reviews & Prepare report on devised formats as per CCD Manual.
- IV. Special emphasize shall be on Quality of reviews of AOF, KYC formalities & documentation for all existing as well as new accounts. Make follow-up for regularizing the exceptions with the branches under his area of operations.
- V. Ensure implementation of Anti Money Laundering rules & Regulations. Apart from other defined duties, on his visits to Branches, he will focus that the branches are in practice to Review Large Transaction Reports generated by the computer system & the reports are being signed by the Operation managers in token having being checked. Further report the issues if any to AOS CCD / RMCC level.
- VI. Providing on job training /consultation and guidance to staff on compliance of KYC /AML issues.
- VII. Timely submission of accurate data /Information to AOS CCD/ Regional Manager CCD on compliance related returns / data pertaining to the Branches under his operations / supervision.
- VIII. Ensure that periodic reviews (Daily, Weekly, and Monthly, Quarterly, half yearly & annual) are being regularly conducted.
- IX. Perform any duty assigned by the AOS CCD / RMCC/ Head CCD.



### **Control & Compliance Division at Head Office is Responsible to: -**

- I. Review with the help of ICCOs / Compliance Officer that bank is complying with SBP directives including prudential regulations and banks own policies and procedures with special emphasizes on AML & KYC.
- II. Ensuring that staff are aware of their responsibilities and the bank procedures, and that staff are adequately trained on AML & KYC
- III. Advising management and staff down the line any changes on AML & KYC regulations.
- IV. Monitoring suspicious activity report submitted by the Regional Manager CC.
- V. Randomly monitoring of large transaction reports from the MIS.
- VI. Randomly monitoring of the accounts being opened at branches with special emphasizes on KYC format of the AOF (MIS to be developed by IT Division) reports from the MIS.
- VII. Randomly comparison of newly opened account with the negative list provided by the SBP & updating of negative list through IT division.
- VIII. Reporting suspicious Transaction to the Compliance committee
- IX. Provide training to staff in coordination with HR.

### **Record Retention**

The purpose of record keeping is to establish audit trails and to facilitate future investigation and due diligence audit exercises. Therefore, the Bank shall prepare and maintain documentation on its customer's relationships and transactions so that: -

- I. The relevant authorities and/or the internal or external auditors of the Bank will be able to judge reliably the Bank's transactions and its compliance with these guidelines;
- II. Any transaction effected via the Bank can be reconstructed; and
- III. It can satisfy within a reasonable time, any enquiry or order from the relevant authorities (or elsewhere, if such disclosure is permitted) as to disclosure of information, including without limitation, whether a particular person is the customer or beneficial owner of funds/assets deposited with the banks, or whether the banks have effected cash transactions requiring customer identification.

**For the mentioned purpose the bank will retain the documents / record as under: -**

- I. The records of transactions and identification data etc. pertaining to cases under litigation shall be retained for a period at least five years beyond execution / appeal date of such decision of the case. Such records shall be maintained in systematic manner with exactness of period of preservation to avoid any set back on legal and reputation fronts.
- II. Banks shall maintain, for a minimum period of five years, all necessary records on transactions, both domestic and international. The records so maintained should



- be sufficient for reconstruction of individual transactions (including the amounts and types of currency involved, if any) so as to provide, if necessary, to SBP or law enforcement agencies for their investigation or as an evidence in legal proceedings.
- III. The banks shall keep records on the identification data obtained through the customer due diligence process (e.g. copies or records of official identification documents like passports, identity cards, driving licenses or similar documents) with the account opening form / files and business correspondence for at least five years after the business relationship is ended.
  - IV. The records relating to the suspicious transactions reported by the bank will be retained by the bank, even after the lapse of the period prescribed above, till such time the bank gets permission from State Bank of Pakistan to destroy such record.
  - V. All records required to be retained under this policy are subject to the Bank's policy on records and documents retention, which are in line with respective regulations. The Ethical Standards, safeguarding of confidential information should strictly be observed that no information is disclosed to unauthorized parties unless permitted under applicable laws.

### KYC/ AML Training & Awareness

Controls & Compliance Division shall recognize the needs for training and educating bank employees to enhance their understanding of "Know your customer" and "Anti-money laundering" and their relationship with criminal activities. For the purpose, a module has been developed & provided to OTI. OTI will include this module in their regular training programs. However a one time exercise has been conducted through OTI, where by all the operation managers / ROH / AOM / CCD staff has been provided training on the KYC/AML Issues. To update the staff on the KYC / AML issues off & on (When ever needed) same type of training programs shall be conducted with the help of OTI.

The training is designed to cover applicable money laundering laws and trends in money laundering activities as well as the bank businesses policies and procedures to combat money laundering, including know your customer and how to recognize and report suspicious transactions.

### Awareness

Staff awareness and training will be on going functions in BOP. All possible efforts are made to keep staff up-to-date.

Periodical Training Programs to update the staff on KYC /AML policy / procedure will be conducted through OTI. Module already provided to OTI shall be updated periodically by the CCD. Periodical sessions shall be held by ROH / Area Operation Manager in their respective branches / region/ Area to keep staff up-to-date on compliance requirements, KYC policies and Anti Money Laundering policies & procedures.



## NEGATIVE LIST SCANNING SYSTEM

### **NEGATIVE LIST SCANNING SYSTEM (Client Watch)**

The bank carries the risk of loss of reputation if it found to be dealing with persons / institution on the negative list apart from risk of loss of business. The Compliance division has the vital role to introduce necessary controls to mitigate the risk of our bank being used to route money laundering, terrorist transactions and financing

Compliance division with support of IT division has put in place a system that is capable of initially filtering names appearing in the SBP negative list. However in days to come the system will facilitate online checking of existing cliental base against these lists but also safeguard against handling / booking of business pertaining to the name on the negative list.

The filtering system will initially be available only at CCD Head office. However with the development of new IT system the scanning of such negative list shall be shifted to Regions & Branches with overall preview at Head office.

It has been planned by the CCD to develop program with the help of IT Division which will scan/ compare SBP Negative List with the following products / transactions as & when conducted at branch level. The system will be capable for scanning of names from the negative list mainly for

1. Account opening,
2. Inward/Outward Local & Foreign remittances.
3. Handling transactions for walk in customers.
4. Handling of International Trade Transaction including L/C, and
5. Entering into lending relationship including (consumer / SME loans) or fee earning business like cards etc.

### System Generated Report to Support Monitoring of Large transaction.

#### **Major Deposit & Withdrawal Report DAILY.**

These report provides details of any deposit/withdrawal for user define amount and above for the branch. Information contained

1. Account No.
2. Title of Account
3. Amount
4. Remarks - Major Deposit or Withdrawal
5. Remaining balance.

The above transaction trend should caution the teller of "Unusual Activity". Since the first point of contact for such transactions is the teller. He must keep a look out for unusual activity such that it may be reported to the Branch Manager / CCD Staff for the purpose of on spot scrutiny and seeking clarification from the transacting customer if felt necessary.



1. Unusually large cash deposits made by an individual or a company.
2. Customers who deposit cash in numerous stages.
3. Company accounts whose transactions both deposits and withdrawals are mainly conducted in cash rather than by cheques or negotiable instruments.
4. Single customer making deposits to and withdrawals from various accounts.
5. Immediate transfer of deposited cash to other accounts which apparently have no relation to the depositor.

CCD staff while monitoring the report must

1. Review the customer AOF/ KYC form and/or,
2. Review the customer account statement and verify the transaction trend.
3. If account activity not in line with information provided in the AOF /KYC the same will be reported to Branch Manager to confirm that the transaction are in line with customer declared nature of business.
4. In case of any suspicion the CCD will report the transaction to the Regional Manager Control & Compliance as per given procedure.

### **Online Transaction**

The Online system provides variety of reports under local option. Some reports are also mandatory which will be automatically printed at the day end processing. Some reports are optional which can be printed as and when require.

CCD staff while monitoring the report must ensure

1. Review high volume transaction in the account with the average balance maintained.
2. Ensure all source media for the transaction is maintained by the branch.
3. Review the customer AOF/ KYC form and/or,
4. Review the customer account statement and verify the transaction trend.
5. If account activity not in line with information provided in the AOF /KYC the same will be report to Branch Manager to confirm that the transaction are in line with customer declared nature of business.
6. In case of any suspicion the CCD will report the transaction to the Regional Manager Control & Compliance by forwarding the documents along with comments and retaining a copy in the review of online file.

### **Daily account opened Report**

CCD staff while monitoring the report must ensure that all Accounts established have been

1. Filtered through Client Watch system.
2. All formalities of Account opening and KYC requirement are completed.



## APPENDIX-A

Region Name: \_\_\_\_\_ Branch Name: \_\_\_\_\_

Date: \_\_\_\_\_

### REPORTING OF SUSPICIOUS / OUT OF PATTERN TRANSACTIONS

Branch Name	
Date account opened	
Account Number	
Title of Account	
True Beneficial owner	
Business / Profession of customer	
Amount of transaction	
Details of transaction	
Average Balance	
Debit summation	
Credit Summation	

#### Reason for Suspicion

- Not Commensurate with average transaction level in the account.
- Does not relate to known business activity of customer.
- Deposit large amount of cash / cheques without reasonable explanation
- Matching large debits & credits in the account on same day or next day
- Repeated request to transfer funds to areas unrelated to customer business
- Frequent deposit in an account by non account holder
- Any other reason

Nature of the underlying criminal activity, the bank / DFI suspects, has generated the proceeds under suspicion.

Signed By

Operations Manager / ICCO

AOS CCD

ROH/Regional Manager CCD



## APPENDIX-B

### COMPUTER GENERATED REPORT FOR THE PURPOSE OF CCD REVIEW.

The following system reports generated by the system for the purpose of review for the branches by CCD staff

CVC #	Product Name	Freq	SYSTEM VIEW	REPORTS AVAILABLE	Manual Record	REMARKS
1	A/c Opening & Know your customer	Daily	1. List of New Account Opened & amendment Report <b>300002</b>	1. List of New Account Opened & amendment Report <b>300002</b>	Account Opening Form & A/c Open & Closed Register	
2	Anti Money Laundering /KYC	Daily	Major Withdrawal & Deposit Reports LCY <b>409014</b> FCY <b>409015</b>	Major Withdrawal & Deposit Reports LCY <b>409014</b> FCY <b>409015</b>	AOF Vouchers	
3	Foreign outward Remittance	Daily	Not available	Not Available	Vouchers, Registers & FE Activity Reported to treasury	
4	Local Outward Remittance	Daily	1. Bill Remittance 2.HO Extract Originating Entries Report <b>409066</b>	1.Bill Remittance 2.HO Extract Originating Entries Report <b>409066</b>	DD/TT/MT Issue Register Vouchers	
5	Suspicious/Large Transaction	Daily	Transaction & Its History Display of Major Withdrawal & Deposit LCY <b>409014</b> FCY <b>409015</b>	Transaction & Its History Display of Major Withdrawal & Deposit LCY <b>409014</b> FCY <b>409015</b>	Vouchers	
6	Online Transaction	Daily	Online Transaction generated & Responded Report <b>304006</b>	Online Transaction generated & Responded Report <b>304006</b>	Vouchers	



## APPENDIX-C

### Prudential Regulation M-1 Know Your Customer

#### KNOW YOUR CUSTOMER (KYC)

1. In view of recent heightened global efforts to prevent the possible use of the banking sector for money laundering, terrorist financing, transfer of illegal/ill-gotten monies, and as conduit for white collar crime etc., the importance of 'Know Your Customer (KYC) / customer due diligence' has increased. In line with the International best practices, as also to ensure transparency/prudence in banking transactions while starting relationship with a new customer and maintaining and continuing relationship with existing customers, the following minimum guidelines are required to be followed by banks / DFIs. However, banks / DFIs are free to obtain any further information /documents from customers/other banks / DFIs as they deem fit, provided the same are reasonable and applied across the board.
2. Each Bank / DFI shall formulate and keep in place, in writing, a comprehensive Know-Your-Customer policy duly approved by their Board of Directors and in case of branches of foreign banks, approved by their head office, and cascade the same down the line to each and every branch/office/ concerned officers for strict compliance.
3. All reasonable efforts shall be made to determine true identity of every prospective customer. For this purpose, minimum set of documents given at Annexure-VIII must be obtained from various types of customers/ account holder(s).
4. Banks / DFIs shall obtain 'Introduction' on the new account to assess the prospective customer's/account holder's integrity, respectability and the nature of business etc. Any laxity in this regard may result in serious consequences for the banker. The following guidelines are to be followed in this regard:
  - i. Where the introducer is an existing account holder of the same branch, his introduction should be accepted, after due verification of signature by the official of the branch. In case the introducer is an account holder of another branch of the same bank / DFI, the account should only be opened after proper verification of the signature from the concerned branch.
  - ii. Where the introducer happens to be an account holder of another bank/ DFI, the introduction should be accepted after complete verification of the signature and other particulars of the introducer from that bank / DFI.
  - iii. The introduction by the employees of the bank / DFI may also be acceptable. However, he or she will have to establish that sufficient information has been collected on the new account holder for making the introduction and that they believe that 'Introduction' from a person other than the bank's / DFI's employee is not necessary. (The introduction of a person other than by the branch employee is being stressed to ensure maximum authenticity on the status of the would-be accountholder/customer, beside minimizing the chances of undesirable accounts which may be opened on the introduction of the bank / DFI employees in their pursuit to achieve targets of opening maximum number of accounts and treating the 'Introduction' a mere formality in the process).



5. Bank / DFI and their branches shall obtain satisfactory evidence duly verified / authenticated by the branch manager which shall be placed on record in respect of (i) the true identity of the beneficial owners of all accounts opened by a person, entity etc, (ii) the real party in interest or controlling person/entity of the account(s) in case of nominee or minors account.
6. Banks / DFIs are also advised that KYC/customer due diligence is not a one time exercise to be conducted at the time of entering into a formal relationship with customer/account holder. KYC/customer due diligence is an on-going process for prudent banking practices. To this end, banks / DFIs are required to:
  - i. Set up a compliance unit with a full time Head.
  - ii. Put in place a system to monitor the accounts and transactions on a regular basis.
  - iii. Update customer information and records, if any, at reasonable intervals.
  - iv. Install an effective MIS to monitor the activity of the customers' accounts.
  - v. Chalk out plan of imparting suitable training to the staff of bank / DFI periodically.
  - vi. Maintain proper records of customer identifications and clearly indicate, in writing, if any exception is made in fulfilling the due diligence procedure.
7. Banks / DFIs shall develop guidelines for customer due diligence, including a description of the types of customers that are likely to pose a higher than average risk to a bank / DFI. In preparing such policies, factors such as customers' background, country of origin, public or high profile position, nature of business, etc. should be considered. Enhanced due diligence shall be applied.
  - i. To high-risk customers such as those belonging to countries where KYC and money laundering regulations are lax, those with links to offshore tax havens, customers in cash based businesses in high-value items, and high net worth customers with no clearly identifiable source of income etc.
  - ii. Where they have reason to believe that the customer has been refused banking facilities by another bank / DFI.
  - iii. For opening of correspondent banks' accounts, and taking appropriate measures to obtain all relevant information about the respondent bank.
  - iv. In dealing with non-face-to-face/ on-line customers. Adequate measures in this regard should also be in place, e.g. independent verification by a reliable third party, client report from the previous bank / DFI of the customer etc.
8. Banks / DFIs will also undertake customer due diligence measures, including identifying and verifying the identity of walk-in-customers conducting transactions above an appropriate limit to be prescribed by the banks / DFIs themselves.
9. State Bank of Pakistan, during the course of inspection, would particularly check the efficacy of the KYC system put in place by the banks / DFIs and its compliance by all the branches and the staff members. Appropriate action shall be taken against the bank / DFI and the concerned staff members for noncompliance and negligence in this area, under the provisions of Banking Companies Ordinance, 1962.



### **Prudential Regulation M-2 Anti Money Laundering**

1. Banks / DFIs are advised to follow the following guidelines to safeguard themselves against their involvement in money-laundering activities, and other unlawful trades. These will add to or reinforce the precautions, banks / DFIs may have been taking on their own in this regard:
  - a. Banks / DFIs shall ensure that their business is conducted in conformity with high ethical standards and that banking laws and regulations are adhered to. It is accepted that banks / DFIs normally do not have effective means of knowing whether a transaction stems from or forms part of wrongful activity. Similarly, in an international context, it may be difficult to ensure that cross border transactions on behalf of customers are in compliance with the regulations of another country. Nevertheless banks / DFIs should not set out to offer services or provide active assistance in transactions, which in their opinion, are associated with money derived from illegal activities.
  - b. Specific procedures be established for ascertaining customer's status and his source of earnings, for monitoring of accounts on a regular basis, for checking identities and bonafides of remitters and beneficiaries, for retaining internal record of transactions for future reference. The transactions, which are out of character /inconsistent with the history, pattern, or normal operation of the account involving heavy deposits / withdrawals / transfers, should be viewed with suspicion and properly investigated.
  - c. For an effective implementation of banks' / DFIs' policy and procedures relating to anti money laundering / other unlawful trades, suitable training be imparted to members of staff and they be informed of their responsibility in this regard.
2. Keeping in view the above principles, banks / DFIs shall issue necessary instructions for guidance and implementation by all concerned.

### **Prudential Regulation M-3 Record Retention**

1. The records of transactions and identification data etc. maintained by banks / DFIs occupy critical importance as far as legal proceedings are concerned. The prudence demands that such records may be maintained in systematic manner with exactness of period of preservation to avoid any set back on legal and reputation fronts. Banks / DFIs shall therefore, maintain, for a minimum period of five years, all necessary records on transactions, both domestic and international. The records so maintained must be sufficient to permit reconstruction of individual transactions (including the amounts and types of currency involved, if any) so as to provide, if necessary, to SBP or law enforcement agencies for investigation or as an evidence in legal proceedings. Banks / DFIs shall, however, retain those records for longer period where transactions relate to litigation or are required by the Court of law or by any other competent authority.
2. The banks / DFIs shall keep records on the identification data obtained through the customer due diligence process (e.g. copies or records of official identification documents like passports, identity cards, driving licenses or similar documents), account files and business correspondence for at least five years after the business relationship is ended.



3. The records relating to the suspicious transactions reported by the bank / DFI will be retained by the bank / DFI, even after the lapse of the period prescribed above, till such time the bank / DFI gets permission from State Bank of Pakistan to destroy such record.

### **Prudential Regulation M-4 Correspondent Banking**

1. The Banks & DFIs shall gather sufficient information about their correspondent banks to understand fully the nature of their business. Factors to consider include:
  - Know your customer policy (KYC)
  - Information about the correspondent bank's management and ownership
  - Major business activities
  - Their location
  - Money laundering prevention and detection measures
  - The purpose of the account
  - The identity of any third party that will use the correspondent banking services (i.e. in case of payable through accounts)
  - Condition of the bank regulation in and supervision in the correspondent's country.
2. The banks / DFIs should establish Correspondent relationships with only those foreign banks that have effective customer acceptance and KYC policies and are effectively supervised by the relevant authorities.
3. The banks / DFIs should refuse to enter into or continue a correspondent banking relationships with a bank incorporated in a jurisdiction in which it (the correspondent bank) has no physical presence and which is unaffiliated with a regulated financial group( i.e. shell bank). The bank / DFIs should also guard against establishing relation with correspondent foreign financial institution that permits their account to be used by the shell bank.
4. The banks/ DFIs should pay particular attention when continuing relationships with correspondent bank located in jurisdiction that have poor KYC standards or have been identified by Financial Action Task Force as being "non cooperative" in the fight against money laundering.
5. The banks / DFIs should particularly alert to the risk that correspondent accounts might be used directly by third parties to transact business on their own behalf (e.g. payable through- accounts). In such circumstances, the banks / DFIs must satisfy themselves that the correspondent bank has verified the identity of and performed on-going due diligence on the customers having direct access to accounts of the correspondent bank / DFIs and that it is able to provide relevant customer identification data upon request to correspondent bank / DFI.
6. Approval should be sought from a senior management, preferably at the level of Executive Vice President or equivalent, before establishing new correspondent banking relationships.



## **Prudential Regulation M-5 Suspicious Transactions**

### **SUSPICIOUS TRANSACTIONS**

1. The banks / DFIs should pay special attention to all complex, unusually large transactions and all unusual patterns of transactions, which have no apparent economic or visible lawful purpose. However, these are not intended to be exhaustive and only provide examples of the most basic ways in which money may be laundered. The background and purpose of such transactions should, as far as possible, be examined, the findings established in writing, and be available to help the relevant authorities in inspection and investigation.
2. If the bank / DFI suspects, or has reasonable grounds to suspect, that funds are the proceeds of a criminal activity, it should report promptly within three days, after conducting appropriate investigation, its suspicions, through Compliance Officer of the bank / DFI to Banking Policy Department of the State Bank of Pakistan. The report should contain, at a minimum, the following information:
  - a. Title, type and number of the accounts.
  - b. Amounts involved.
  - c. Detail of the transactions.
  - d. Reasons for suspicion.
  - e. Nature of the underlying criminal activity, the bank / DFI suspects, has generated the proceeds under suspicion.
3. The employees of the banks / DFIs are strictly prohibited to disclose the fact to the customer or any irrelevant quarter that a suspicious transaction or related information is being reported for investigation.
4. In cases of foreign branches of the banks/DFIs and subsidiaries of the banks/DFIs in foreign countries undertaking banking business, the banks/DFIs would ensure compliance with the regulations (relating to Anti Money Laundering and KYC) of State Bank of Pakistan or the relevant regulations of the host country, whichever are more exhaustive.



## Appendix D

### National Accountability Bureau (NAB) Ordinance, 1999.

#### *Section 20. Reporting of suspicious financial transactions*

- (a) it shall be the duty of all banks and financial institutions to take prompt and immediate notice of all unusual or large transactions in an account, which have no apparently genuine economic or lawful purpose the manager or director of such Bank or financial institution shall report all such transactions to the Chairman NAB forthwith by the quickest possible mode of communication to be confirmed in writing.*
- C. Whosoever fails to supply the information in accordance with subsection (a) shall be punishable with rigorous imprisonment which may extend to 5 years, and with fine.*

Circulated vide PPI Circular No. 2004/16 dated 18.02.2004



## Appendix E

### Narcotics Substances Act 1997 Section-67

Reporting of Suspicious Financial Transactions to Director General, Anti Narcotics Force.

#### Quotes

- 1) *Notwithstanding anything contained in any law for the time being in force all banks and financial institutions shall pay special attention to all unusual patterns of transactions, which have no apparent economic or lawful purpose and upon suspicion that such transactions could constitute or be related to illicit narcotics activities, the manager or director of such financial institution shall report the suspicious transactions to the Director General.*
- 2) *Whoever fails to supply the information in accordance with sub section (1) shall be punishable with rigorous imprisonment, which may extend to three years, or with fine or both. Unquote*

Circulated vide PPI Circular No. 2004/28 dated 22.03.2004