

NATIONAL FINANCE LIMITED (NFL)

ANTI MONEY LAUNDERING POLICY

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SCOPE

In recognition of the fact that financial institutions are particularly vulnerable to be used by money launderers, the Board of National Finance Limited intends to have an updated policy against which it will assess the adequacy of the internal controls and procedures to counter money laundering.

This policy covers the following areas which ensure the Anti Money Laundering Regime:

- A Granular Definition of Money Laundering, lists the predicate offences
- Process of Money Laundering
- Offences & Penalties of Money Laundering
- Responsibilities of Senior Management
- Role of CAMLCO
- Compliance Strategy of the NFL
- Organisational Structure
- KYC Procedure
- Risk Categorization of Customers
- Recognition of Suspicious Transactions
- Suspicious Transaction Reporting
- Internal Reporting Procedures
- Record Keeping
- Training & Awareness
- Self Assessment Process
- System of Independent Procedures Testing

This policy complies with all the requirements of Money Laundering Prevention Act 2009 and Anti Money Laundering circulars.

Purpose

The purpose of the Anti Money Laundering Policy is to provide a guideline in order to ensure the compliance of laws and regulation regarding Money Laundering both at home & abroad and thereby safeguard the NFL from potential compliance, financial and reputation risk.

Objective

Convey Board of Director's commitment to comply with the Money Laundering Prevention Act 2009 and other related local and international regulations to protect the NFL from compliance, financial and reputation risk.

Spell out senior management's responsibility in Anti Money Laundering Compliance.

Develop awareness at every level of the management regarding the importance of NFL's Anti Money Laundering Strategy.

Senior Management Commitment

The most important element behind the success of anti-money-laundering program is the commitment of senior management, including the chief executive officer of the NFL to the development and enforcement of the anti-money laundering objectives which can deter criminals from using NFL for money laundering and thus ensuring that they comply with their obligations under the law.

Senior Management must send the signal that the corporate culture is as concerned about its reputation as it is about earning profit, marketing and providing customer service. As part of its anti- money laundering policy NFL will communicate a statement from the Chief Executive Officer that clearly sets forth the policy against money laundering and any activity which facilitates money laundering or the funding of terrorist or criminal activities on an annual basis. This statement will evidence the strong commitment of NFL and its senior management to comply with all laws and regulations designed to combat money laundering.

The statement of compliance policy will include:

- A statement that all employees are required to comply with applicable laws and regulations and corporate ethics standards.
- A statement that all activities carried out by NFL must comply with applicable governing laws and regulations.
- A statement that compliance with rules and regulations is the responsibility of each individual in NFL in his/her normal course of assignments. It is the responsibility of the individual to become familiar with the rules and regulations relating to his or her Assignment. Ignorance of the rules and regulations will not be accepted as an excuse of non-compliance.
- The statement will direct staff to a compliance officer or other knowledgeable individuals while having any query or confusion regarding compliance matters.
- A statement that employees will be held accountable for carrying out their compliance responsibilities.
- A statement that individual will educate his/her respective customers about the anti money laundering laws and regulations.

Written Anti-Money Laundering Compliance Policy

The written anti-money-laundering compliance policy at a minimum would establish clear responsibilities and accountabilities within NFL to ensure the implementation and maintenance of policies, procedures, and controls which can deter criminals from using

NFL's facility for money laundering and financing of terrorist activities and thus ensuring that they comply with their obligations under the law.

In addition, the policy would emphasize the responsibility of each employee to protect NFL from being exploited by money launderers and should set forth the consequence of non-compliance with the applicable laws and NFL's policy, including the criminal, civil and disciplinary penalties and reputation harm that could result from any association with money laundering activity.

Why we must combat Money Laundering

Money laundering has potentially tremendous economic, security, and social consequences. It makes crime worthwhile by providing fuel to drug dealers, smugglers, terrorists, illegal arms dealers, corrupt public officials, and others to operate and expand their criminal activities. Increased law enforcement and health care expenditures (for example, for treatment of drug addicts) to combat the serious consequences resulted has driven up the cost of government. The scope of crime has become increasingly international and the financial aspects are getting more complex due to rapid advances in technology and globalization of the financial services industry.

Money laundering diminishes government tax revenue and therefore indirectly harms honest taxpayers. It also makes government tax collection difficult. This loss of revenue leads to higher tax rates than would normally be if the untaxed proceeds of crime were legitimate. Citizens are forced to pay more taxes for public expenditures inflated by corruption and the regular tax payers are victimized in this case due to those who evade taxes.

Money laundering swells up asset and commodity prices and leads to misallocation of resources. For financial institutions it can lead to an unstable liability base and unsound asset structures thereby creating risks of monetary instability and even systematic crises. Lack of credibility and investor confidence that such crises can occur has the potentiality of destabilizing financial systems, particularly in smaller economies.

One of the most serious microeconomic effects of money laundering is sensed in the private sector. Money launderers often use front companies, which commingle the proceeds of illicit activity with legitimate funds, to hide the ill-legally earned gains. These front companies have access to substantial illicit funds, allowing them to subsidize front company products and services at levels well below market rates. This kind of practice makes it difficult, if not impossible, for legitimate business to compete with front companies with subsidized funding and the impact is the crowding out of private sector business by criminal organizations.

Among its other negative socioeconomic effects, money laundering transfers economic power from the market, government, and citizens to criminals. Furthermore, the sheer magnitude of the economic power that accrues to criminals from money laundering has a corrupting effect on all elements of society.

The social and political costs of laundered money are also serious as laundered money may be used to corrupt national institutions. Bribing of officials and governments undermines the moral fabric in society and by weakening collective ethical standards corrupts our democratic institution. When money laundering goes to the level of unrestrained, it encourages the underlying criminal activities from which such money is generated.

Definition of Money Laundering

As per Section 2 (TTA) of the Money Laundering Prevention Act (MLPA) 2009 Money Laundering means –

Property acquired by committing predicate offence or to hide or conceal source of ill gotten property through conversion, transfer, trafficking abroad or bringing asset from abroad or trafficking of money or property abroad earned by legal and illegal means.

"Properties" has been defined in section 2 (Na) of the Act as "Properties means movable or immovable, visible or invisible properties of any nature and description."

Predicate Offence means such a following offence by which the earned money is laundered or attempt to launder.

1. Bribe & Corruption
2. Currency Forgery
3. Deed Forgery
4. Extortion
5. Cheating
6. Forgery
7. Illegal Arms Dealing
8. Illicit Traffic in Narcotic Drug
9. Illegal Business of Theft goods
10. Kidnapping
11. Murder or Assault
12. Child & Woman Trafficking
13. Smuggling & Domestic & Foreign Currency Trafficking
14. Robbery or Theft
15. Human Trafficking & Illegal Immigration
16. Dowry
17. Any other related offence as decided by Bangladesh Bank with approval of government serving the purpose of MLPA 2009

In short, money laundering is the way in which criminals turn their illegal proceeds or "dirty" money, which can be traced back to them, into "clean" money, which cannot be linked to any crime.

Purpose of Money Laundering

The purpose of money laundering is to break the connection between the money and the crime that generated the money. In other words, money laundering disguises or conceals the illicit origin of money generated by criminal activities.

Criminals engage in money laundering for three main reasons:

- I. Money is required to organize and run criminal activity for financial gain. Because it covers operating expenses, replenishes inventories, purchases the services of corrupt officials to escape detection and supplements finance for new crimes. It also pays the criminals for an expensive lifestyle. To spend money in these ways, criminals must make the money they derived illegally appear legitimate.
- II. A trail of money earned through illegal activities can become an evidence of crime. Criminals must conceal or disguise the source of their wealth to avoid prosecution.
- III. The proceeds from crime often become the target of investigation and seizure. To cover ill-gotten gains from suspicion and protect them from seizure, criminals must conceal their existence or, alternatively, give them a legitimate look.

Process of Money Laundering

Methods of Money Laundering can range from the purchase and resale of a luxury item (e.g. a house, car or jewellery) to passing money through a complex international web of legitimate businesses and 'shell' companies (i.e. those companies that primarily exist only as named legal entities without any trading or business activities). There are a number of crimes where the initial proceeds usually take the form of cash that needs to enter the Banking main stream financial channel by some means. Bribery, extortion, robbery and street sale of drugs are almost always ended up with cash. Criminals want to place this cash into financial system by some means.

Money laundering is not a single act but a process accomplished in 3 basic stages that may comprise numerous transactions by the launderers. These stages are:

Placement - the physical disposal of the initial proceeds derived from illegal activity. The idea is to put cash somewhere so that the laundering process can be started.

Layering - separating illicit proceeds from their source by creating complex layers of financial transactions designed to disguise the audit trail and provide anonymity. That is complex web of transactions to confuse the audit trail.

Integration - the provision of apparent legitimacy to wealth derived criminally. If the layering process has succeeded, integration schemes place the laundered proceeds back into the economy in such a way that they re-enter the financial system appearing

as normal business funds. In short, the layered funds are brought back into the legitimate economy or legitimate use.

The three basic steps may occur as separate and distinct phases. They may also occur simultaneously or, more commonly, may overlap. Steps used depend on the available laundering mechanisms and the requirements of the criminal organisations.

Requirements under the Money Laundering Prevention Act 2009

Money Laundering Prevention Act 2009 supersedes whatever may contain in any other Act in force in Bangladesh. So far as financial service providers are concerned, the Act:

- Defines the circumstances, which constitute the offence of money laundering and provides penalties for the commission of the offence
- Requires Banks, financial institutions and other institutions engaged in financial activities to establish the identity of their customers.
- Requires Banks, financial institutions and other institutions engaged in financial activities to retain correct and full information used to identify their customers and transaction records at least for five years after termination of relationships with the customers, and
- Imposes an obligation on Banks, financial institutions and other institutions engaged in financial activities and their employees to make a report to the Bangladesh Bank where:
 - They suspect that a money laundering offence has been or is being committed
 - Provide customer identification and transaction records to Bangladesh Bank from time to time based on demand.

Authority & Responsibility of Bangladesh Bank

The Act gives Bangladesh Bank responsibility of preventing money laundering and wide-ranging powers to take adequate measures to prevent money laundering, facilitating its detection, monitoring its incidence, and enforcing rules. The responsibilities and powers of Bangladesh Bank are in summary:

Supervise and monitor the activities of Banks, financial institutions and other institutions engaged in financial activities.

Call for reports relating to Cash Transactions & Suspicious Transactions from Banks, financial institutions and other institutions engaged in financial activities and analyze such reports to take appropriate actions.

Provide training to employees of Banks, financial institutions and other institutions engaged in financial activities on prevention of money laundering.

Issue an order in writing to any Financial Institution to suspend a transaction for a period of 30 days where it has reasonable grounds to suspect that the transaction involves connection with terrorist acts, and extend the order so passed for another 30 days.

To provide information asked for by the investigation authority for suspicious or money laundering activities under the existing laws of the land.

There is a unit named Bangladesh Financial Intelligence Unit (BFIU) which is located in Bangladesh Bank, to share information with foreign FIUs on the basis of contracts signed or agreements made.

Cognizance of Offence:

The Courts will not accept any offence under the Act for trial unless a complaint is lodged by Anti Corruption Commission or their authorized Law enforcement agencies.

The Offence of Money Laundering

The money laundering offences are, in summary:

- An offence for any person to obtain, retain, transfer, remit, conceal or invest moveable or immovable property acquired directly or indirectly through illegal means. Concealing or disguising the property includes concealing or disguising its nature, source, location, disposition, movement, ownership or any rights with respect to it.
- An offence for any person to illegally conceal, retain transfer, remit, or invest moveable or immovable property even when it is earned through perfectly legitimate means. It is a defense if the person concerned can prove that the offence was committed without his knowledge or it has occurred despite his efforts to prevent it.
- An offence for any individual or entity to provide assistance to a criminal to obtain, retain, transfer, remit, conceal or invest moveable or immovable property if that person knows or suspects that those properties are the proceeds of criminal conduct.
- An offence for Banks, financial institutions and other institutions engaged in financial activities not to retain identification and transaction records of their customers.
- An offence for Banks, financial institutions and other institutions engaged in financial activities not to report the knowledge or suspicion of money laundering to Bangladesh Bank as soon as it is reasonably practicable after the information came to light.
- An offence for anyone to prejudice an investigation by informing i.e. tipping off the person who is the subject of a suspicion, or any third party, that a report has been made, or that the authorities are acting, or are proposing to act, in connection with an investigation into money laundering. Preliminary enquiries of a customer to verify identity or to ascertain the source of funds or the precise nature of the transaction being undertaken will not trigger a tipping off offence before a suspicious report has been submitted in respect of that customer unless the enquirer knows that an investigation is underway or that the enquiries are likely to prejudice an investigation, Where it is known or suspected that a suspicious report has already been disclosed to the authorities and it becomes necessary to make further enquiries, great care should be taken to ensure that customers do not get any hints that their names have been brought to the attention of the law enforcement agencies.

- An offence for any person if violate any freezing order issued by the court on the basis of application made by investigating authority.
- An offence for the account holder if provide false information about identity, source of fund and nominee of the account
- An offence for any person if express unwillingness, without reasonable grounds to assist any enquiry officer in connection with an investigation into money laundering.

Our Risk exposure to Money Laundering

Financial institutions, both Banks and NBFIs, are susceptible to money laundering activities. Banking services like deposit taking and lending do offer a range of laundering mechanism, particularly in the initial conversion from cash.

Certain weaknesses identified in the laundering process, which money launderers find difficult to avoid are:

- Entry of cash into the financial system;
- Cross-border flows of cash; and
- Transfers within and among the financial system.

Although it may not appear obvious that the products might be used for money laundering purposes, vigilance is necessary to ensure that weaknesses cannot be exploited.

We as an NBFIs, through conducting financial business in liquid products are clearly most vulnerable to be used by money launderers, particularly where they are of high value. The liquidity of some products attract money launderers since it allows them quickly and easily to move their money from one product to another, mixing lawful and illicit proceeds and integrating them into the legitimate economy.

As providers of a wide range of money transmission and lending services, we are vulnerable to being used in the layering and integration stages of money laundering as well as the placement stage.

We are also susceptible to the scheme of the more sophisticated criminal organizations and their "professional money launderers". Such organizations, possibly under the disguise of front companies and nominees, may create large scale but false international trading activities in order to move their illicit money from one country to another. They may create the illusion of international trade using false/inflated invoices to generate apparently legitimate international wire transfers, and may use falsified/bogus letters of credit to confuse the trail further. Many of the front companies may even approach their Officers for credit to fund the business activity.

Penalties for Money Laundering

Section 11 of the Act states that all offences under this Act are non-bail able, cognizable & non compoundable.

The offence of money laundering is punishable by terms of a minimum imprisonment for six months and a maximum of up to seven years. In addition the property relates to the offence for which he/she is convicted will be handed over to the state.

The punishment for violation of Seizure Orders is a maximum imprisonment for one year or a fine of maximum Taka Five thousand, or both.

The punishment for violation of Freezing Orders is a maximum imprisonment for one year or a fine of maximum Taka five thousand, or both.

The offence of divulging information by informing i.e. tipping off the person who is the subject of a suspicion, or any third party is punishable by a maximum imprisonment for two year or a fine of maximum Taka ten thousand, or both.

The offence of obstructing investigations or failure to assist any enquiry officer in connection with an investigation into money laundering is punishable by a maximum imprisonment for one year or a fine of maximum Taka five thousand, or both.

The offence of providing false information by an individual on source of fund or identity introduction of the account holder or beneficiary of the account or about nominee of the account knowingly is punishable by maximum 1 year imprisonment or a fine of maximum taka fifty thousand or both.

Under section 25 (2) of this Act Bangladesh Bank is empowered to impose fines of not less than Taka ten thousand and not more than Taka five Lac on any Bank, financial institution and other institutions engaged in financial activities for the failure or negligence to

1. Retain customer's correct & complete information while maintaining account relationship.
2. Retain records of transaction of a customer for 5 years from the date of closure of the business relationship with the customer.
3. To provide above information to Bangladesh Bank as and when required.
4. Report to Bangladesh Bank of any suspicious transaction.

In addition to the above penalty Bangladesh Bank can cancel license and may inform the respective licensing authority to take action as per respective law.

If any Company, Partnership Firm, Society, or Association violates any provisions of the Act, it will be deemed that every owner, partner, directors, employees and officers have individually violated such provisions.

Safe Harbor Provision: The new law has a safe harbor provision. Under section 28 officials and reporting organizations will be protected from prosecution, either civil or criminal or any other legal proceedings for actions done in good faith. This will remove all hesitation from which officials of reporting organization suffer.

Fighting Money Laundering through "KYC"

One of the best methods of preventing and deterring money laundering is having sound knowledge about a customer's business and pattern of financial transactions and commitments. The procedure by which we "know your customer" is not only an essential tool to avoid involvement in money laundering but also a principle of good business.

Efforts to fight money laundering largely focus on those points in the process where the launderer's activities are more easily recognizable and have therefore concentrated on the deposit taking procedures i.e. the placement stage.

In complying with the requirements of the Act we must at all times pay particular attention to the fundamental principle of good business practice - **'know your customer'**. Having a sound knowledge of a

- **Customer's business**
- **Source of income**
- **Pattern of financial transactions**
- **Declared transaction profile**

is the best method by which we will recognize attempts at money laundering. Having sufficient information about customer - "knowing your customer" (KYC) and Making use of that information are two most important tools in fighting money laundering. If a customer has established an account using a false identity, s/he may be doing so to deceive NFL itself, or to ensure that s/he cannot be traced or linked to the crime, proceeds of which NFL is being used to launder. A false name, address or date of birth will usually mean that law enforcement agencies cannot trace the customer if s/he is needed for interview as part of an investigation.

Section 25 (1) Ka of the Prevention of Money Laundering Act 2009 requires us to seek satisfactory evidence of the identity & complete information of those with whom we deal. Unless satisfactory evidence of the identity of potential customers is obtained in good time, the business relationship must not proceed.

When a business relationship is being established, the nature of the business that the customer expects to conduct with NFL should be ascertained at the outset to establish

what might be expected later as normal activity. This information should be updated as appropriate, and as opportunities arise. **In order to be able to judge whether a transaction is or is not suspicious, we need to have a clear understanding of the business carried on by customers.**

It must be established that we are dealing with a real person (natural, corporate or legal), and must verify the identity of persons who are authorized to operate any NFL account, or transact business for the customer. The prospective customer must be interviewed personally.

The best identification documents possible should be obtained from the prospective customer i.e. those that are the most difficult to obtain illicitly. No single piece of identification can be fully guaranteed as genuine, or as being sufficient to establish identity. So verification will be an integral part of the process. The overriding principle is that we must know who our customers are, and have the necessary documentary evidence to identify/verify them.

Section 25 (1) Kha of the Act requires that records to the transaction of the customer account must be retained for five years after the account is closed or the business relationship ended

KYC programs would include (1) customer acceptance policy, (2) customer identification, (3) on-going monitoring of high risk accounts and (4) identification of suspicious transactions and reporting.

Only establishing the identity of customer and taking a transaction profile is not the end of the process. Monitor account activity to determine those transactions that do not conform to the declared profile is also essential.

Know Your Customer Procedures

We are required to perform due diligence on all prospective clients prior to opening an account. This process is completed by fulfilling the documentation requirements (Account Application, Introduction/ Bank References, Source of funds and Identification for example) and also a 'Know Your Customer' profile which is used to record a client's source of wealth, expected transaction activity at it's most basic level.

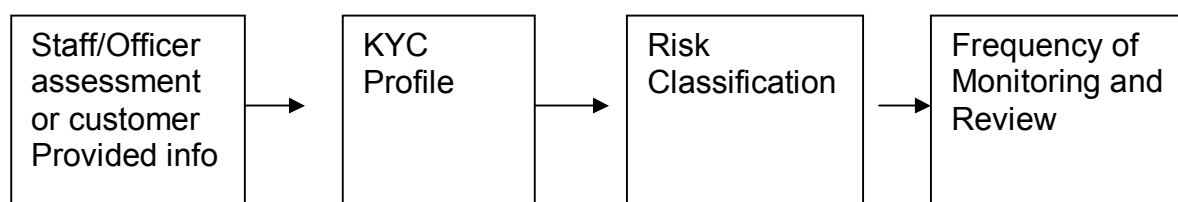
Once the identification procedures have been completed and the client relationship is established, we have to monitor the conduct of the relationship/account to ensure that it is consistent with the nature of business stated when the relationship/account was opened. This has to be done firstly by our staff being diligent, reporting suspicious transactions undertaken by the customer, updating the client's KYC profile for any significant changes in their lifestyle (e.g., change of employment status, increase in net worth) and by monitoring the transaction activity over the client's account on a periodic basis.

KYC profile would give the basic information about the customer like, Name, Address, Tel/Fax Numbers, line of business, Annual sales. If the customer is a Public Figure, the account will become automatically a High Risk Account.

The KYC Profile information would also include the observations of the NFL's Staff/Officer when they visit the customer's business place like, the business place is owned or rented, the type of clients visited, by what method is the client paid (cheque or cash). The Staff/Officer will record his observations and sign the KYC Profile form.

In the case of high net worth Accounts, the information will include net worth of the customer source of funds etc

The KYC Profile leads to Risk Classification of the Account as High/Low Risk.



Risk categorization - Based on Activity/KYC Profile

When opening accounts, the concerned Manager/Officer must assess the risk that the accounts could be used for "money laundering", and must classify the accounts as either High Risk or Low Risk. The risk assessment may be made using the KYC Profile Form given in Annexure A in which following seven risk categories are scored using a scale of 1 to 5 where scale 4-5 denotes High Risk, 3- Medium Risk and 1-2 Low Risk:

- . Occupation or nature of customer's business
- . Net worth / sales turnover of the customer
- . Mode of opening the account

KYC Profiles and Transaction Profiles must be updated and re-approved at least annually for "High Risk" accounts. There is no requirement for periodic updating of profiles for "Low Risk" transactional accounts. These should, of course, be updated if and when an account is reclassified to "High Risk", or as needed in the event of investigations of suspicious transactions or other concern.

Customer Acceptance Policy

NFL would discourage customer that are likely to pose a higher than average risk to NFL. In determining restricted segment customers' background, country of origin, public or high profile position, linked accounts, business activities or other risk indicators would be considered.

More extensive due diligence would be applicable for higher risk customers. For example, basic account-opening requirements would suffice opening an account for a working individual with a small account balance. On the other hand, quite extensive due diligence would be essential for an individual with a high net worth whose source of funds is unclear. Decisions to enter into business relationships with higher risk customers, such as public figures or politically exposed persons would be taken exclusively at senior management level.

ORGANIZATIONAL STRUCTURE

Company Secretary and Head of Compliance will be designated as the Chief Anti-Money Laundering Compliance Officer (CAMLCO) who will have sufficient authority to implement and enforce anti-money laundering policies, procedures and measures across the NFL and who will report directly to MD and the Board of Directors.

CAMLCO, directly or through his/her department, will be a central point of contact for communicating with the regulatory agencies regarding issues related to NFL's anti-money laundering program.

CAMLCO may choose to delegate duties or rely on suitably qualified staff for their practical performance whilst remaining responsible and accountable for the operation of the designated functions.

NFL officials at all levels would be made aware of the identity of the CAMLCO, and the procedure to follow when making a suspicious activity report. All relevant staff must be aware of the chain through which suspicious activity reports should be passed to the CAMLCO.

Organisation Structure

The Grid below details the individual responsibilities of anti-money laundering functions:-

Function	Role / Responsibilities
Customer Relations Officer/ Relationship Manager/ Customer Service Officer/DSE	<ul style="list-style-type: none"> • Perform due diligence on prospective clients prior opening an account • Be diligent regarding the identification (s) of account holder and the transactions relating to the account • Ensure all required documentation is completed satisfactorily • Complete the KYC Profile for the new customer • Ongoing monitoring of customer's KYC profile and transaction activity • Obtain documentary evidence of large cash deposits • Escalate any suspicion to the Supervisor

Operations Staff/ Customer Service Manger/Associate Manager	<ul style="list-style-type: none"> • Ensuring that all control points are completed prior to execution of • transaction • Ongoing diligence on transaction trends for clients • Update customer transaction profiles in the system
AMLCO	<ul style="list-style-type: none"> • Manages the transaction monitoring process • Reports any suspicious activity to CAMLCO if necessary • Provide AML training to Branch staff • Obtain AML regulations/Circulars and communicate to all staff • Submit Branch returns to CAMLCO on periodical basis (MIS)
Risk Management / Internal Control Officer	<ul style="list-style-type: none"> • Perform AML Risk Assessment for the Business • Perform periodic Quality Assurance on the AML program in the unit • Communicate updates in AML laws and internal policies.
Head of Business	<ul style="list-style-type: none"> • overall responsibility to ensure that the branches have an AML program in place and that it is working effectively
CAMLCO	<ul style="list-style-type: none"> • Implements and enforces Institution's anti-money laundering policies • Reports suspicious clients to Bangladesh Bank on Institution's behalf • Informs BAMLCO/AMLCOs of required actions (if any) • Ensure proper training to all staffs to combat Money Laundering
Chief Executive Officer (CEO)	<ul style="list-style-type: none"> • overall responsibility to ensure that the Business has an AML program in place and that it is working effectively

Identification Procedure

Customer Identification

A customer includes:

- The person or entity that maintains an account with the NFL or those on whose behalf an account is maintained (i.e. beneficial owners);
- The beneficiaries of transactions conducted by professional intermediaries; and

- Any person or entity connected with a financial transaction who can pose a significant reputation or other risk to the NFL.

Whenever the opening of an account or business relationship is being considered, or a one-off transaction or series of linked transactions of Tk.5, 000 or more is to be undertaken, identification procedures must be followed.

What Constitutes a Person's Identity

Identity generally means a set of elements, which uniquely define a natural or legal person. There are two main constituents of a person's identity, remembering that a person may be any one of a range of legal persons (an individual, body corporate, partnership, etc).

- The physical identity (e.g. name, date of birth, TIN/voter registration/passport/ ID number, etc.); and
- The activity undertaken.

Confirmation of a person's address is also necessary in determining whether a customer is the resident of a high-risk country. Knowledge of both residence and nationality are also necessary, in a non money-laundering context, to avoid breaches of UN or other international sanctions to which Bangladesh is a party. Where a passport is taken as evidence, the number, date and place of issue should be recorded.

The other main element in a person's identity is sufficient information about the nature of the business that the customer expects to undertake, and any expected or predictable, pattern of transactions. For some business these may be obvious, however, for more complex businesses this may not be the case.

When commencing a business relationship, NFL should consider recording the purpose and reason for establishing the business relationship, and the anticipated level and nature of activity to be undertaken. Documentation about the nature of the applicant's business should also cover the origin of funds to be used during the relationship. For example, funds may be transferred from a Bank or the applicant's employer, or be the proceeds of a matured insurance policy, etc.

Once account relationship has been established, reasonable steps should be taken by NFL to ensure that descriptive information is kept up to date as opportunities arise. It is important to emphasize that the customer identification process do not end at the point of application. The need to confirm and update information about identity, such as changes of address, and the extent of additional KYC information to be collected over time will differ from sector to sector and between institutions within any sector. It will also depend on the nature of the product or service being offered, and whether personal contact is maintained enabling file notes of discussion to be made or whether all contact with the customer is remote.

Individual Customers

Where verification of identity is required, the following information should be obtained from each individual applicant for opening account or other relationships, and should be independently verified by NFL:

- True name and/or names used:
- Parent's names:
- Date of birth;
- Current and permanent address;
- Details of occupation/employment and sources of wealth or income

One or more of the following steps is recommended to verify addresses:

- Provision of a recent utility bill, tax assessment or Bank statement containing details of the address (to guard against forged copies it is strongly recommended that original documents are examined);
- Through welcome letter
- Checking the Voter lists;
- Checking the telephone directory;
- Record of home/office visit.

The information obtained should demonstrate that a person of that name exists at the address given, and that the applicant is that person.

Identification documents, either originals or certified copies, should be pre-signed and bear a photograph of the applicant, e.g.:-

- i. Current valid passport;
- ii. Valid driving license;
- iii. National ID Card/Voter ID Card;
- iv. Armed Forces ID card;
- v. A Bangladeshi employer ID card bearing the photograph and
- vi. signature of the applicant; or
- vii. A certificate from any local government organs or any respectable person acceptable to the institution.

Identification documents, which do not bear photographs or signatures, or are easy to obtain, are not appropriate as sole evidence of identity. Any photocopies of documents showing photographs and signatures should be plainly legible. Where applicants put forward documents with which NFL is unfamiliar, either because of origin, format or language, NFL must take reasonable steps to verify that the document is indeed

genuine, which may include contacting the relevant authorities or obtaining a notarized translation. NFL should also be aware of the authenticity of passports.

In respect of joint accounts where the surname and/or address of the account holders differ, the name and address of all account holders, not only the first named, should normally be verified in accordance with the procedures set out above.

Any subsequent change to the customer's name, address, or employment details of which the NFL becomes aware should be recorded as part of the KYC process.

File copies of supporting evidence should be retained. In case of one off transaction with walk-in customers NFL must follow the process as mentioned in IC & C Instruction circular no 03/04 dated 19 April 2004.

Corporate Bodies and other Entities

Because of the difficulties of identifying beneficial ownership, and the possible complexity of organization and structures, corporate entities and trusts are the most likely vehicles to be used for money laundering, particularly when a legitimate trading company is involved. Particular care should be taken to verify the legal existence of the applicant and to ensure that any person purporting to act on behalf of the applicant is authorized to do so. The principal requirement is to look behind a corporate entity to identify those who have ultimate control over the business and the company's assets, with particular attention being paid to any shareholders or others who exercise a significant influence over the affairs of the company. Enquiries should be made to confirm that the company exists for a legitimate trading or economic purpose, and that it is not merely a "brass plate company" where the controlling principals cannot be identified.

Before establishing a business relationship, measures should be taken by way of company search and/or other commercial enquiries to ensure that the applicant company has not been, or is not in the process of being, dissolved, struck off, wound-up or terminated. In addition, further checks should be made if the NFL becomes aware of changes in the company structure or ownership, or suspicions aroused by a change in the nature of business transacted.

Particular care should be exercised when establishing business relationships with companies incorporated or registered abroad, or companies with no direct business link to Bangladesh. Such companies may be attempting to use geographic or legal complication to interpose a layer of opacity between the source of funds and their final destination. In such circumstances, NFL should carry out effective checks on the source of funds and the nature of the activity to be undertaken during the proposed business relationship. This is particularly important if the corporate body is registered or has known links to countries without anti-money laundering legislation and procedures equivalent to Bangladesh's. In the case of a trading company, a visit to the place of business may also be made to confirm the true nature of the business.

The following documents should normally be obtained from companies:

- Certified true copy of Certificate of Incorporation or equivalent, details of the registered office, and place of business;
- Certified true copy of the Memorandum and Articles of Association, or by-laws of the client.
- Copy of the board resolution to open the account relationship and the empowering authority for those who will operate any accounts;
- Explanation of the nature of the applicant's business, the reason for the relationship being established, an indication of the expected turnover, the source of funds, and a copy of the last available financial statements where appropriate;
- Satisfactory evidence of the identity of each of the principal beneficial owners being any person holding 20% interest or more or with principal control over the company's assets and any person (or persons) on whose instructions the signatories on the account are to act or may act where such persons are not full time employees, officers or directors of the company;
- Satisfactory evidence of the identity of the account signatories, details of their relationship with the company and if they are not employees an explanation of the relationship. Subsequent changes to signatories must be verified;
- Copies of the list/register of directors. (Annexure - B)

Where the business relationship is being opened in a different name from that of the applicant, NFL should also satisfy itself that the reason for using the second name makes sense.

The following persons (i.e. individuals or legal entities) must also be identified in line with this part of the notes:

- All the directors who will be responsible for the operation of the account / transaction.
- All the authorized signatories for the account/transaction.
- All holders of powers of attorney to operate the account/transaction.
- The beneficial owner(s) of the company
- The majority shareholders of a private limited company.

When authorized signatories change, care should be taken to ensure that the identities of all current signatories have been verified. In addition, it may be appropriate to make periodic enquiries to establish whether there have been any changes in directors/shareholders, or the nature of the business/activity being undertaken. Such changes could be significant in relation to potential money laundering activity, even though authorized signatories have not changed.

Monitoring Transactions and account activity

Transaction Monitoring Process

There should have systems and controls in place to monitor the relevant activities on an ongoing basis in the course of relationship. The purpose of this monitoring is to identify significant changes or inconsistencies in the pattern of transactions. Inconsistency is measured against the stated original purpose of the accounts i.e. the declared Transaction Profile (TP) of the Customer. Possible areas to monitor are: -

- a. Transaction type
- b. Frequency
- c. Unusually large amounts
- d. Geographical origin/destination
- e. Changes in account signatories

On a monthly basis Branch would generate an Exception Report (Excessive Movement Report) of customers whose accounts transaction volume exceeded the transaction limit mentioned in transaction profile.

BAMLCO will document their review initially on the report, and where necessary will prepare internal Suspicious Activity Reports (SAR) with action plans for approval of CAMLCO. A copy of the transaction identified should be attached to the SAR. CAMLCO will review the SAR along with comments from the **BAMLCO**.

CAMLCO will investigate any reported accounts and will send a status report on any of the accounts reported. No further action should be taken on the account until notification has been received.

If, after confirming with the client, the transaction trend is to continue the Account Officer is responsible for documenting the reasons why the transaction profile has changed and should amend the KYC profile accordingly.

Suspicious Activity Reporting (SAR) Process

Branch/Office would ensure that staff report all suspicious activities to CAMLCO, and that any such report be considered in the light of all other relevant information by the CAMLCO, for the purpose of determining whether or not the information or other matter contained in the report does give rise to a knowledge or suspicion (AML Circular #19).

Where staff continues to encounter suspicious activities on an account, which they have previously reported to the CAMLCO/AMLCO, they would continue making reports to the CAMLCO/AMLCO whenever a further suspicious transaction occurs, and the CAMLCO/AMLCO would determine whether a disclosure in accordance with the regulations is appropriate.

All reports of suspicious activities must reach the CAMLCO and only the CAMLCO should have the authority to determine whether a disclosure in accordance with the regulation is appropriate. However the line/relationship manager can be permitted to add his comments to the suspicious report indicating any evidence as to why he/she believes the suspicion is not justified.

Recognition of Suspicious Transactions

A suspicious transaction will often be one that is inconsistent with a customer's known, legitimate business or personal activities or with the normal business for that type of customer. Therefore, the first key to recognition is knowing enough about the customer's business to spot an unusual transaction or a series of the same.

Questions that we must consider when determining whether an established customer's transaction must be suspicious are:

- Is the size of the transaction consistent with the normal activities of the customer?
- Is the transaction rational in the context of the customer's declared transaction profile?
- Has the pattern of transactions conducted by the customer changed?
- Where the transaction is international in nature, does the customer have any obvious reason for conducting business with the other country involved?
- Whether any transaction is related to terrorist activities.

Reporting of Suspicious Transactions

There is a statutory obligation on all staff to report suspicions of money laundering. Section 25 of the Act contains the requirement to report to the Bangladesh Bank. Actual reporting should be made in accordance with an internal reporting procedure facilitating the operation of the reporting obligation.

In line with accepted practice, some businesses may choose to require that such unusual or suspicious transactions be drawn initially to the attention of supervisory management to ensure that there are no known facts that will negate the suspicion before further reporting on to the Anti Money Laundering Compliance Officer.

We have a clear obligation to ensure:

- That each relevant employee knows to which person they should report suspicions, and
- That there is a clear reporting chain under which those suspicions will be passed without delay to the Chief Anti Money Laundering Compliance Officer.

Once employees have reported their suspicions to the appropriate person in accordance with an established internal reporting procedure they have fully satisfied the statutory obligations.

We must refrain from carrying out transactions, which we know or suspect to be related to money laundering until they have appraised the Bangladesh Bank. Where it is impossible in the circumstances to refrain from executing a suspicious transaction before reporting to the Bangladesh Bank or where reporting it is likely to frustrate efforts to pursue the beneficiaries of a suspected money laundering operation, we have to apprise Bangladesh Bank immediately afterwards. While it is impossible to spell out in advance how to deal with every possible contingency, in most cases common sense will suggest what course of action is most appropriate. Where there is doubt, the advice of the Anti Money Laundering Compliance Officers may be sought.

It is the Chief Anti Money Laundering Compliance Officer (CAMLCO) who will have the responsibility in the NFL to communicate reports of suspicious transactions to the Anti-Money Laundering Department of Bangladesh Bank and will maintain the liaison between NFL and Bangladesh Bank.

The CAMLCO has a significant degree of responsibility and should be familiar with all aspects of the legislation. He/she is required to determine whether the information or other matters contained in the transaction report he/she has received give rise to a knowledge or suspicion that a customer is engaged in money laundering.

S/he must take steps to validate the suspicion in order to judge whether or not a report would be submitted to Bangladesh Bank. In making this judgment, the CAMLCO would consider all other relevant information available within NFL concerning the person or business to which the initial report relates. This may include a review of other transaction patterns and volumes through the account or accounts in the same name, the length of the relationship, and referral to identification records held. If, after completing this review, the CAMLCO decides that there are no facts that would negate the suspicion, then he must disclose the information to Bangladesh Bank within 3 working days of receiving from branch or unit.

The determination of whether or not to report implies a process with at least some formality attached to it. It does not necessarily imply that the CAMLCO must give reasons for negating, and therefore not reporting any particular matter, but it clearly would be prudent for internal procedures to require that written reports are submitted and that he/she should record his/her determination in writing. Clearly in cases where there is a doubt it would be prudent for the CAMLCO to make a report to the Bangladesh Bank.

It is therefore imperative that the CAMLCO would have reasonable access to information that will enable him/her to undertake his/her responsibility. It is important therefore that the CAMLCO would keep a written record of every matter reported to him,

whether or not the suggestion was negated or reported, and his reasons for decision taken.

The CAMLCO is expected to act honestly and reasonably and to make his determinations in good faith. Provided the CAMLCO or an authorized deputy does act in good faith in deciding not to pass on any suspicions report, there will be no liability for non-reporting if the judgment is later found to be wrong.

Care should be taken to guard against a report being submitted as a matter of routine to Bangladesh Bank without undertaking reasonable internal enquiries to determine that all available information has been taken into account.

Internal Reporting Procedures and Records

Any officer may report a suspicious account to his/her line manager

Supervisors/ Line Managers should also be aware of their own legal obligations. An additional fact is that the supervisor/ Line Manager supplies may negate the suspicion in the mind of the person making the initial report, but not in the mind of the supervisor. The supervisor then has a legal obligation to report to the AMLCO.

All suspicions reported to the AMLCO would be documented (in urgent cases this may follow an initial discussion by telephone). The initial report should be prepared and sent to the AMLCO. The report should include the full details of the customer and a statement as full as possible of information giving rise to the suspicion according to AML Circular No. 19, Section 6

The AMLCO should acknowledge receipt of the report and at the same time provide a reminder of the obligation to do nothing that might prejudice enquiries, i.e. "tipping off". All internal enquiries made in relation to the report, and the reason behind whether or not to submit the report to the authorities, should be documented. This information may be required to supplement the initial report or as evidence of good practice and best endeavors if, at some future date, there is an investigation and the suspicions are confirmed.

On-going communication between the AMLCO and the reporting person/department is important. It is particularly important that the AMLCO is informed of all communication between the investigating officer and the branch/unit concerned at all stages of the investigation. At the end of the investigation all members' or staff concerned may be informed of the outcome for escalating their knowledge.

Records of suspicions, which were raised internally with the CAMLCO but not disclosed to Bangladesh Bank, should be retained for five years from the date of transaction. Records of suspicions which the Bangladesh Bank has advised are of no interest should be retained for a similar period. Records of suspicions that assist with

investigations should be retained until the financial institution is informed by the Bangladesh Bank that they are no longer needed.

Reporting Procedures

The national reception point for reporting of suspicions by the CAMLCO is:

The General Manager
Anti-Money Laundering Department
Bangladesh Bank
Head Office
Dhaka

The Anti Money Laundering Department of Bangladesh Bank can be contacted during office hours at following numbers:

Telephone: (02) 7120659 and (02) 7120371
Fax: (02) 9566212
Email: gmamlbb@bangla.net

The use of a standard format in the reporting of suspicious activities is important and all required to use the unusual/suspicious transactions reporting form as per Annexure Ka of AML Circular No. 19 dated 14 August 2008.

Sufficient information should be disclosed on the suspicious transaction, including the reason for the suspicion, to enable the investigating officer to conduct appropriate enquiries. If a particular offence is suspected, this should be stated so that the report may be passed to the appropriate investigation team with minimum delay.

Where additional relevant evidence is held which could be made available to the investigating officer, should be noted on the form.

Following the submission of a suspicious activity report, we are not precluded from subsequently terminating relationship with a customer, provided it has normal commercial reasons. But this must not alert the customer as to do so would constitute a "tipping-off" offence. Close liaison with Anti Money Laundering Department of Bangladesh Bank and the investigating officer is encouraged in such circumstances so that the interests of all parties may be fully considered.

RECORD KEEPING

Statutory Requirements

The requirement contained in Section 25 Kha of the Act to retain correct and full records of customers' identification and transactions at least for five years after termination of

relationships with the customers is an essential constituent of the audit trail that the law seeks to establish.

If the law enforcement agencies investigating a money laundering case cannot link funds passing through the financial system with the original criminal money, then confiscation of those funds cannot be made. Often the only valid role required of a financial institution in a money laundering investigation is as a provider of relevant records

The records prepared and maintained by us on our customer relationships and transactions should be such that:

- Requirements of legislation and Bangladesh Bank directives are fully met;
- Competent third parties will be able to assess the institution's observance of money laundering policies and procedures;
- Any transactions effected via the institution can be reconstructed;
- Any customer can be properly identified and located;
- All suspicious reports received internally and those made to Bangladesh
- The institution can satisfy within a reasonable time any enquiries or court orders from the appropriate authorities as to disclosure of information.

In case of a suspicious activity report or an ongoing investigation into money laundering relating to a client or a transaction, related records should be retained until confirmation is received that the matter has been dissolved.

Documents Verifying Evidence of Identity and Transaction Records

Records relating to verification of identity will generally comprise:

- A description of the nature of all the evidence received relating to the identity of the verification subject;
- The evidence itself or a copy of it or, if that is not readily available, information reasonably sufficient to obtain such a copy.

Records relating to transactions will generally comprise:

- Details of personal identity, including the names and addresses, etc. as prescribed by Bangladesh Bank under AML Circular # 2 & 3 and subsequent directives pertaining to:

- (1) The customer;
- (2) The beneficial owner of the account or product;

- Details of transaction including:

- (1) The nature of such transactions;

- (2) Customer's instruction(s) and authority (ies);
- (3) Source and volume of funds;
- (4) Destination(s) of funds;
- (5) Book entries;
- (6) Custody of documentation;
- (7) The date of the transaction;
- (8) The form (e.g. cash, cheque) in which funds are offered and paid out.

These records of identity must be kept for at least five years from the date when the relationship with the customer ended.

Formats and Retrieval of Records

To satisfy the requirements of the law, it is important that records are capable of retrieval without undue delay. It is not necessary to retain documents in their original hard copy form, provided that the firm has reliable procedures for holding records in microfiche or electronic form, as appropriate, and that these can be reproduced without undue delay. In addition, NFL may rely on the records of a third party, such as a NFL or clearing house in respect of details of payments made by customers. However, the primary requirement is on the NFL itself to ensure that the third party is willing and able to retain and, if asked, can produce copies of the records required.

However, the record requirements are the same regardless of the format in which they are kept or whether the transaction was undertaken by paper or electronic means. Documents held centrally must be capable of distinguishing between the transactions relating to different customers and of identifying where the transaction took place and in what form.

Wire Transfer Transactions

Investigations of major money laundering cases over the last few years have shown that criminals make extensive use of telegraphic transfers (TT) and electronic payment and message systems

Following the recent focus on terrorist financing, NFL is required to include accurate and meaningful originator (name, account number, and where possible address) and beneficiary information (account name and/or account number) on all outgoing funds transfers and related messages that are sent, and this information should remain with the transfer or related message throughout the payment chain.

The records of electronic payments and messages must be treated in the same way as any other records in support of entries in the account and kept for a minimum of five years.

Investigations

Where NFL has submitted a report of suspicious activity to Bangladesh Bank or where it knows that a client or transaction is under investigation, it should not destroy any relevant records without the conformity of Bangladesh Bank even though the five-year limit may have been reached.

NFL should maintain a register or tabular records of all investigations made to it by the Bangladesh Bank and all disclosures to the Bangladesh Bank. The register should be kept separate from other records and contain the following details as a minimum:

- i. The date and nature of the enquiry,
- ii. Details of the account(s) involved; and
- iii. Be maintained for a period of at least 5 years.

Training Records

In order to demonstrate that NFL has complied with the regulations concerning staff training, a record which include the following should be maintained:-

- I. Details of the content of the training programs provided;
- II. The names of staff who have received the training;
- III. The date on which the training was delivered;
- IV. The results of any testing carried out to measure staff understanding of money laundering requirements; and
- V. An on-going training plan.

TRAINING AND AWARENESS

Statutory Requirements

Section 23 (Cha) of the Act requires Bangladesh Bank to provide training to the staff/officers of NFLs, financial institutions and other institutions engaged in financial activities in order to combat money laundering.

Since NFL has responsibilities under the Act in relation to identification, reporting and record retention, it is obligatory on our part to ensure that staffs are adequately trained to accomplish their responsibilities.

As such it is imperative that appropriate measures should be there to make employees aware of:

- Policies and procedures to prevent money laundering and for identification, record keeping and internal reporting;
- The legal requirements; and
- To provide relevant employees with training in the recognition and handling of suspicious transactions.

The Need for Staff Awareness

The effectiveness of the procedures and recommendations contained in this policy depends on the extent to which staff of NFL appreciates the serious nature of the background against which the legislation has been enacted. Staff must be aware of their own personal statutory obligations and that they can be personally liable for the failure of reporting information in accordance with internal procedures. All staff must be trained to co-operate fully and to provide a prompt report of any suspicious transactions.

Education and Training Programs

All relevant staff will be educated in the process of "Know Your Customer" requirements for money laundering prevention purposes. The training in this respect would cover not only the need to know the true identity of the customer but also, where a business relationship is being established, the need to know enough about the type of business activities expected in relation to that customer at the outset to know what might constitute suspicious activity at a future date. Relevant staff should be alert of any change in the pattern of a customer's transactions or circumstances that might constitute criminal activity.

New Employees

A general appreciation of the background to money laundering, and the subsequent need for reporting any suspicious transactions to the Anti Money Laundering Compliance Officer (AMLCO) should be provided to all new employees who are likely to be dealing with customers or their transactions, irrespective of the level of seniority. They should be made aware of the importance placed on the reporting of suspicions by the organization, that there is a legal requirement to report, and that there is a personal statutory obligation to do so.

Customer Service Officers/Relationship Officer/Managers

Members of staffs who are dealing directly with the public are the first point of contact with potential money launderers and their efforts are vital to the NFL's strategy in the fight against money laundering. They must be made aware of their legal responsibilities and should be made aware of the NFL's reporting system for such transactions. Training should be provided on factors that may give rise to suspicions and on the procedures to be adopted when a transaction is deemed to be suspicious.

All 'front-line' staff would be made aware of NFL's policy for dealing with non-regular (walk in) customers particularly where large transactions are involved, and the need for extra vigilance in these cases.

Anti Money Laundering Compliance Officer

In order to ensure smooth operation & proper compliance in depth training on all aspects of Money Laundering Legislation, Bangladesh Bank directives and internal policies will be required by the- Anti Money Laundering compliance officer (AMLCO). In addition, the AMLCO will have extensive instructions on the validation and reporting of suspicious transactions and on the feedback arrangements, and on new trends and patterns of criminal activity.

Refresher Training

It is also necessary to keep the content of training programs under review and to make arrangement for refresher training at regular intervals i.e. at least once in a year to ensure that staff does not forget their responsibilities.

Self-Assessment Process

NFL would establish an annual self-assessment process that will assess how effectively anti-money laundering procedure management to identify areas of risk or to access the need for additional control mechanisms. The self assessment would conclude a report documenting the work performed, who performed it, how it was controlled supervised and the resulting findings, conclusions and recommendations. The self-assessment should advise management whether the internal procedures and statutory obligations of the NFL have been properly discharged. The report should provide conclusions to three key questions:

Are anti- money laundering procedures in place?

Are anti-money laundering procedures being adhered to?

Do anti-money laundering procedure comply with all policies, controls and statutory requirements?

However, in this regard NFL has to follow the AML Circular No.15 dated 24 March 2008

System of Independent Procedures Testing

Testing is to be conducted at least annually by Internal control & compliance Department. The test would include:

Interviews with employees handling transactions and interviews with their supervisors to determine their knowledge and compliance with the NFL's anti-money laundering procedures;

A test of the validity and reasonableness of any exemptions granted by the NFL and

A test conducted on whether the record keeping system is in accordance with the provisions of the Act.

Deficiencies identified would be reported to senior management indicating corrective action taken or to be taken and a deadline.