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Anti Money Laundering
&
Counter Financing Terrorism
Risk Assessment
and
Key Risk Indicators

Lanka Credit and Business Finance PLC

LCB Finance PLC

Owner - Compliance Department
Approval – Board of Directors
Date of Approval – 5th April 2024

1. INTRODUCTION

The Financial Action Task Force (FATF) is an independent inter-governmental body that develops and promotes policies to protect the global financial system against money laundering, terrorist financing, and the financing of proliferation of weapons of mass destruction. The FATF has published guidelines for conducting risk assessments for money laundering and terrorist financing, which can be used as a reference for your company's risk assessment.

The FATF recommends that the risk assessment should cover the following areas :

- **Customer, product, and service risk** :
  Assess the risk associated with the customers, products, and services offered by the company.

- **Geographic risk**:
  Assess the risk associated with the countries or geographic areas where the company operates.

- **Delivery channel risk**:
  Assess the risk associated with the delivery channels used by the company to provide its products and services.

- **Sectoral risk**:
  Assess the risk associated with the sectors in which the company operates.

- **Transaction risk**:
  Assess the risk associated with the transactions conducted by the company

What is an AML Risk Assessment?

A key component of an AML risk assessment is to facilitate the effectiveness of an institution's AML framework, by identifying inherent risks across the main areas of risk, assessing the institution's internal preventative and detective controls, and highlighting any gaps in controls which need to be addressed.

What is a suspicious activity risk assessment?

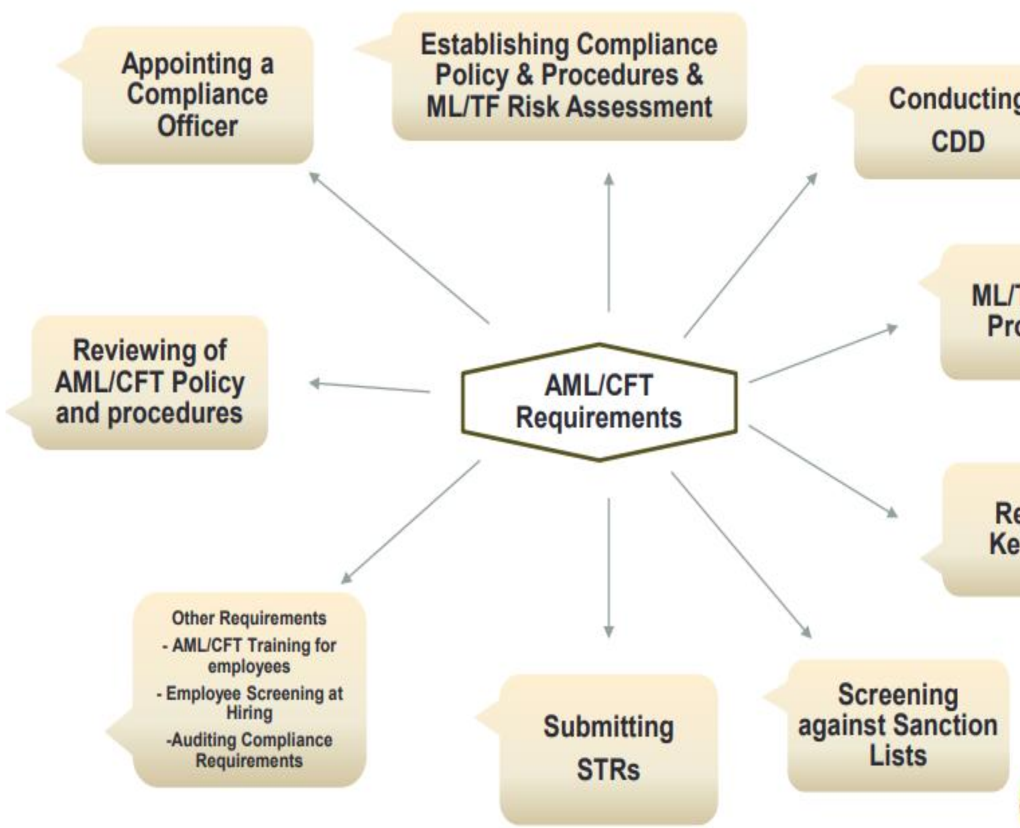
A suspicious activity risk assessment identifies risks relating to wide range of suspicious activity, including fraud, structuring, terrorist financing, money laundering, tax evasion, and other forms of financial crime. An effective suspicious activity risk assessment will not only identify risks, but also the effectiveness of applicable preventative and detective controls which financial institutions worldwide need to address.

What is a sanctions risk assessment?

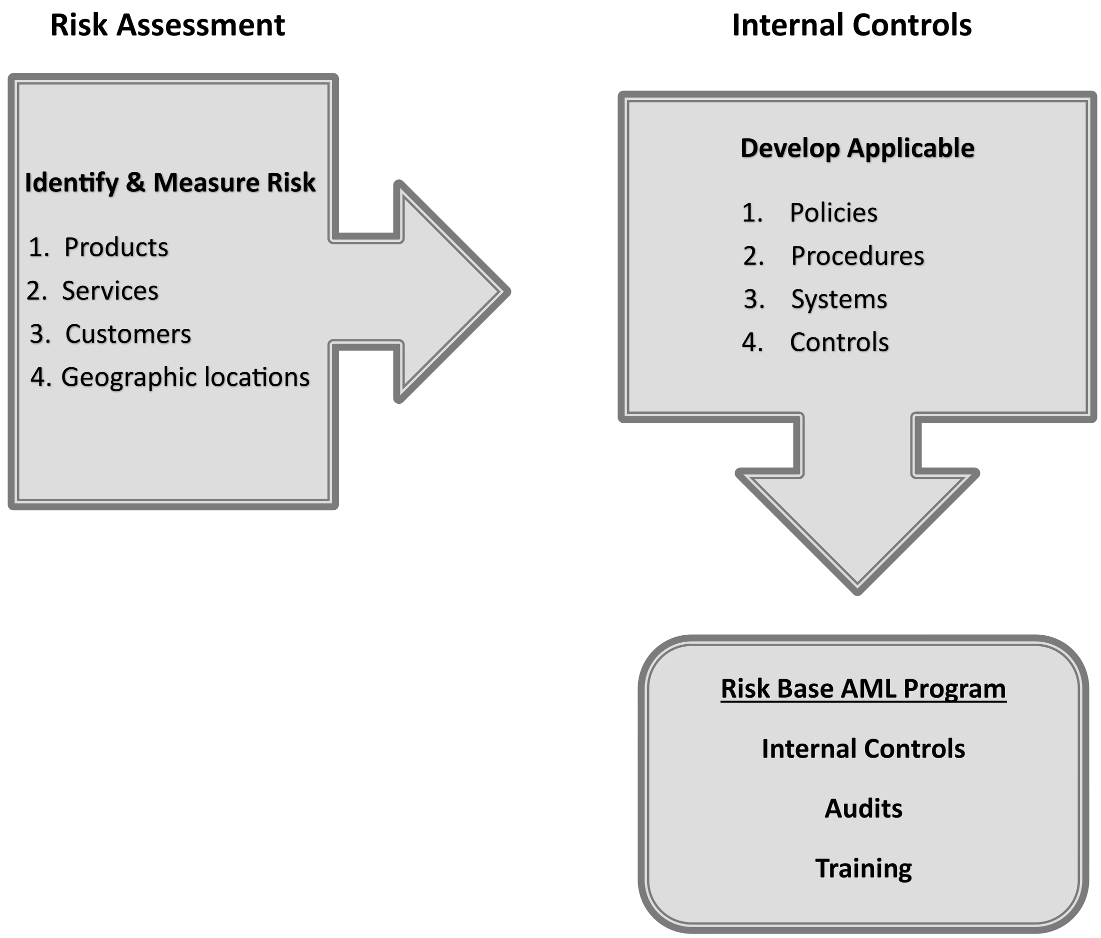
An effective sanctions risk assessment (SRA) measures the inherent sanctions risks a financial institution is exposed to and the effectiveness of its risk controls. Each area of sanctions risk should be allocated an inherent risk rating and control effectiveness should also be rated.

The frequency that an SRA needs to be completed and its level of comprehensiveness depends on the risk profile of the institution, and how that risk profile is changing overtime, as well as considering internal resource availability.

2. HOW TO PROTECT THE INSTITUTION FROM ML/TF RISK?



Risk Assessment Link to the AML compliance Program



3. What are key factors to consider in determining an institution's money laundering risk?

An AML risk assessment helps identify the institution's inherent risk and assesses the effectiveness of its preventative and detective controls.

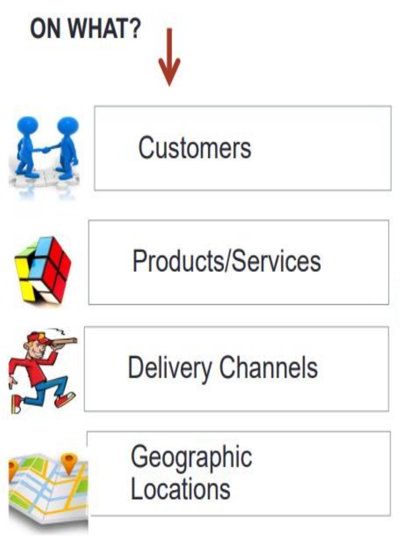
FATF recommends considering the following factors when assessing inherent money laundering risk:

- The nature, scale, diversity, and complexity of the business
- Target markets
- The number of customers already identified as high risk
- The jurisdictions the company is exposed to (through its own activities of those of customers)
- Distribution channels
- Internal audit and regulatory findings
- The volume and size of transactions

The AML controls and factors that should be assessed include (but are not limited to):

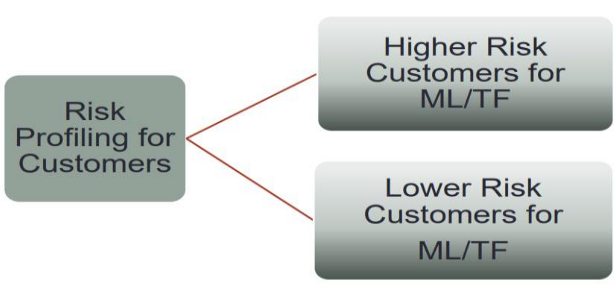
- Management oversight and accountability
- Policies and procedures
- KYC, CDD, and EDD controls
- Detection and SAR filing
- Monitoring, systems, and operations
- Employee training
- Independent testing and oversight

4. Risk Assessment for the LCB Finance PLC

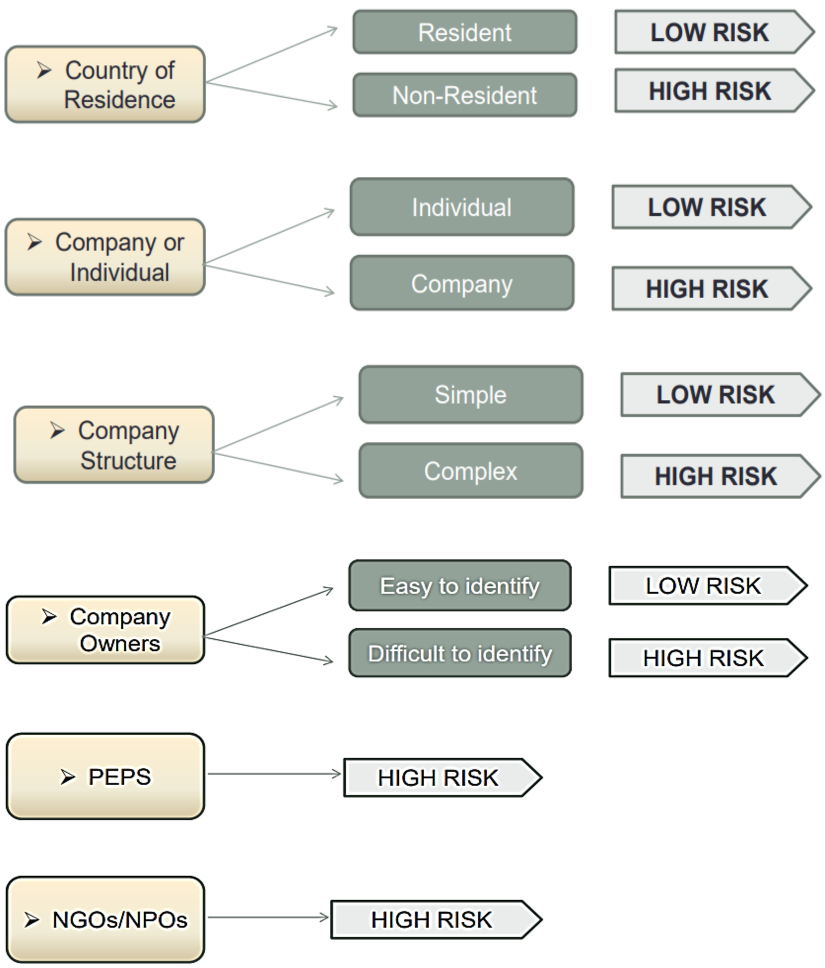


5. Customers' ML/TF Risk Assessment

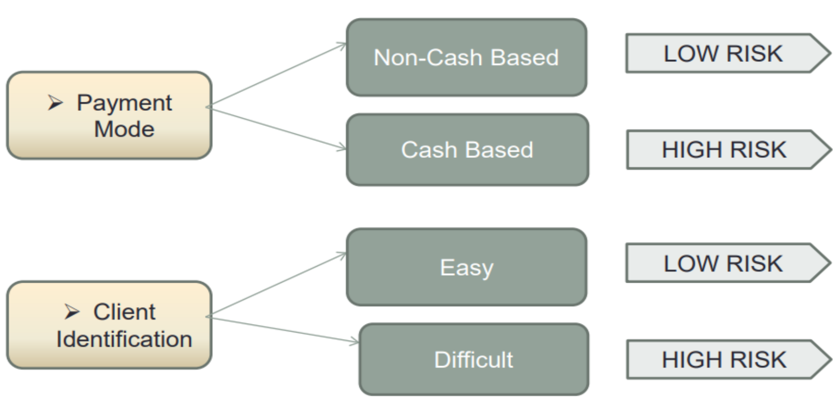
5.1 Risk Profiling for Customers on Collected Data

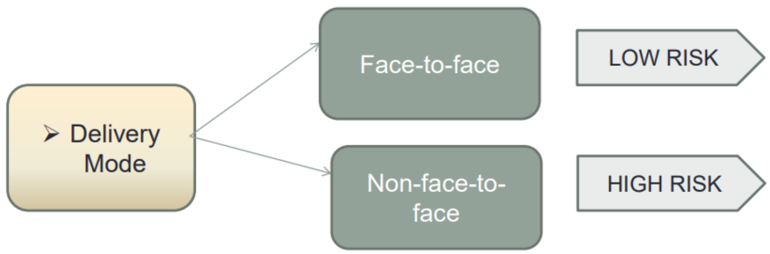


5.2 How to Profile Customers on ML/TF Risks?

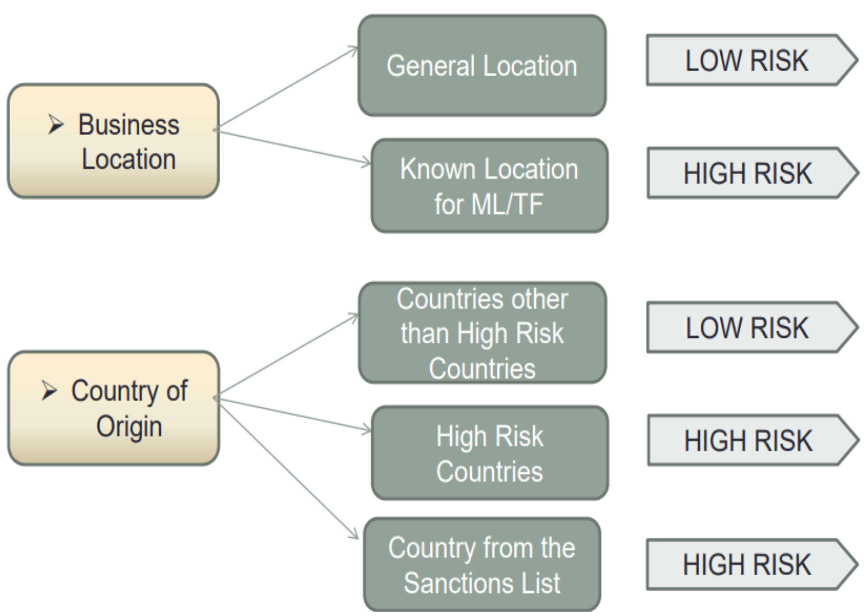


6. Products/Services' ML/TF Risk Assessment

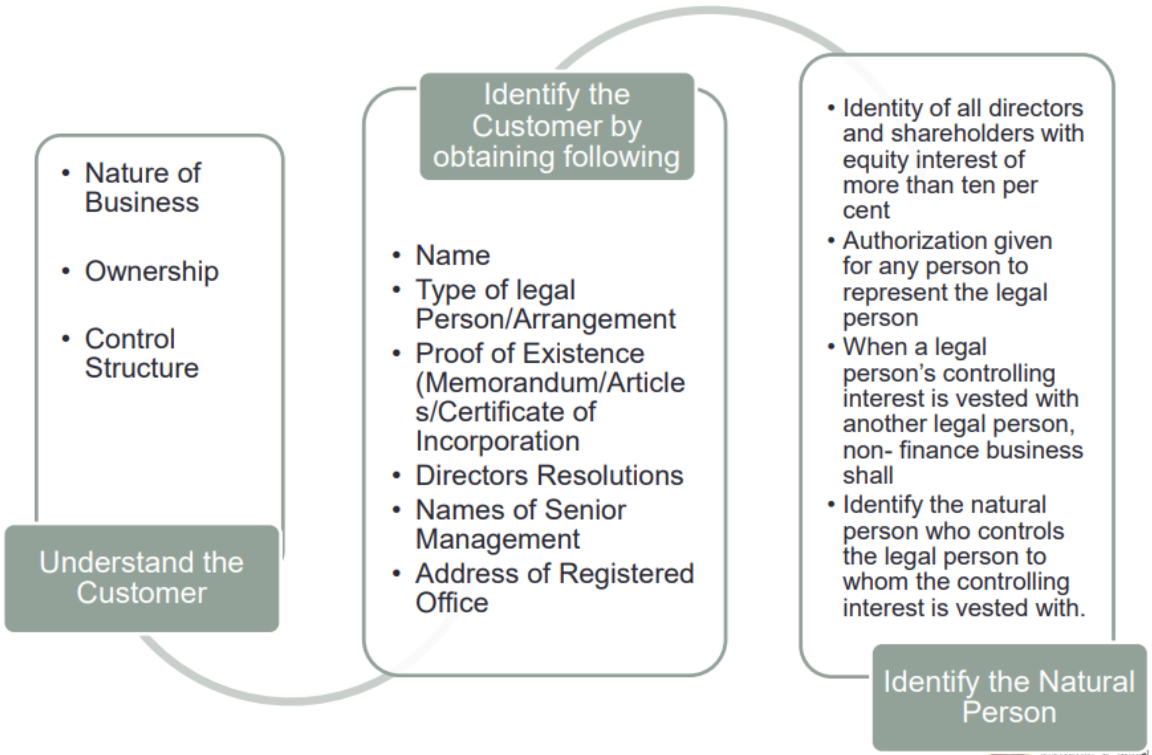




8. Geographic Locations' ML/TF Risk Assessment



9. When the Customer is a Company?



10. Customer Risk Profiling

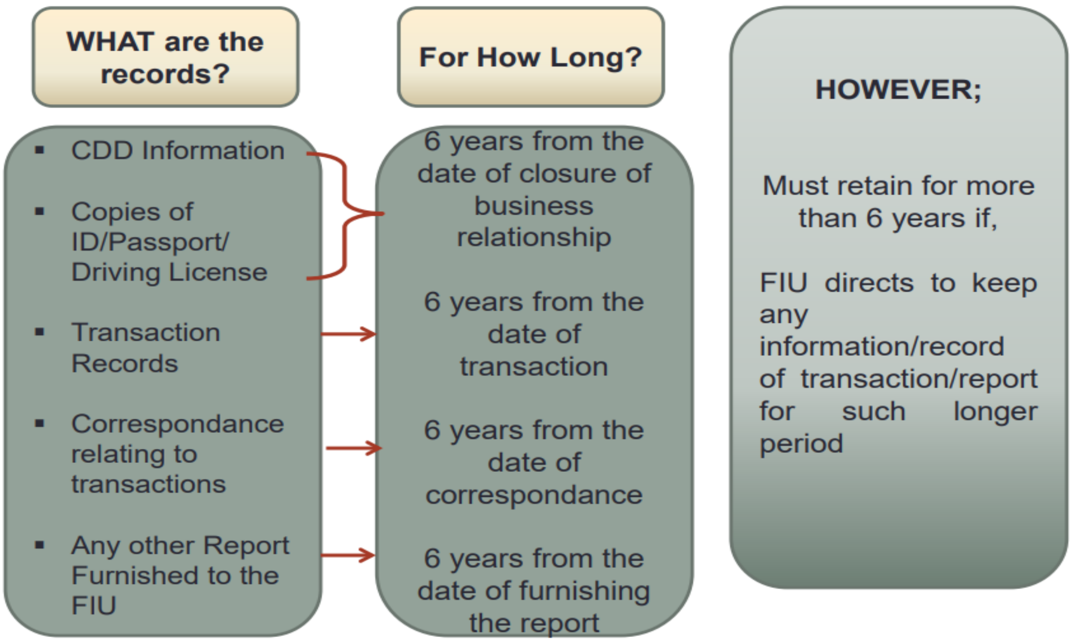
11.0 Customer Risk Assessment and Profiling – Part II

	Risk Assessment Criterion	Lower Risk	Higher Risk
1.	Type of Customer:	An individual	A legal person or a legal arrangement
		A resident	A non-Resident
		Customers from non-Higher Risk Countries	Customers from higher Risk Countries
		Non-PEP customers	Higher Risk Domestic PEP or Foreign PEPs
2.	Type of Transaction Relative to Customer	Normal frequency and normal value	High frequency & high value or suspicious patterns in conducting transactions such as splitting
3.	Mode of Delivery	Over the counter or face-to-face	Internet based or phone based
4.	Destination country (for remittance)	Non-high-risk countries	Higher risk countries
		Own country	Other country that appear unrelated
5.	Jurisdiction or Country of Origin	Same jurisdiction or country	Different jurisdictions or countries
			High number of inward transactions, followed by immediate withdrawals

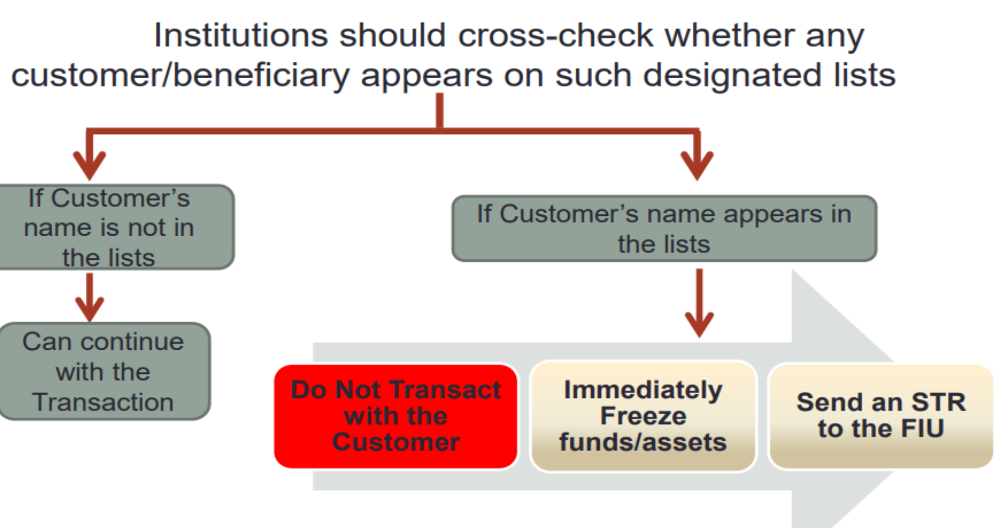
12. Enhanced Customer Due Diligence (ECDD)

- Customers rated as High Risk
- Politically Exposed Persons
- Non-face to face customers
- NGOs and NPOs
- Customers from High Risk Countries
- Legal Persons and Arrangements

13. Record Keeping

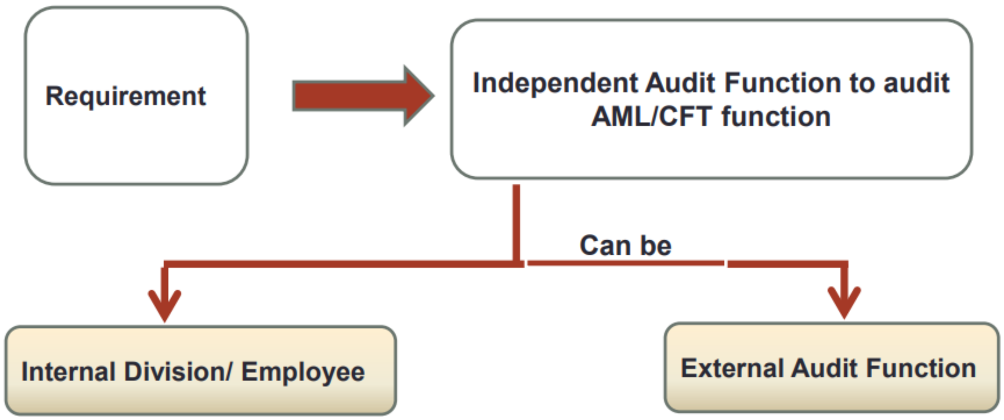


14. Screening Customers Against Sanction Lists



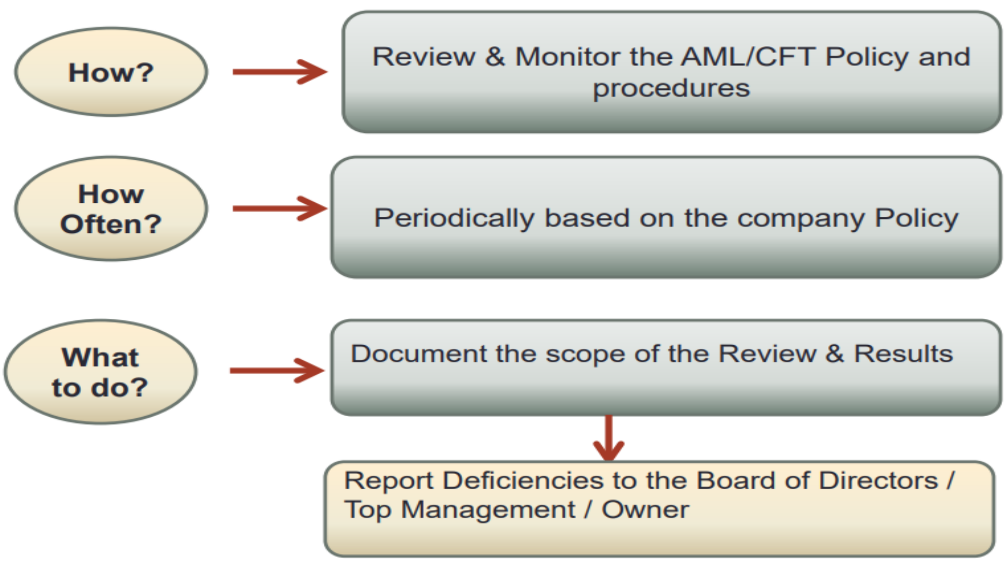
15. Auditing AML/CFT Measures

Establishing an Independent Audit Function



16. Effective Maintenance of the AML/CFT Policy and Procedures

How to fulfill the AML/CFT Compliance Obligations effectively



17.0 Customers' on ML/TF Risk Assessment and checklist

Customer /Entity Category	Sub Category	Risk Type	No. of customers	Remarks
Country of Residence	Resident	Low		
	Non - Resident	High		
Company or Individual	Individual	Low		
	Company	High		
Company Structure	Simple	Low		
	Complex	High		
Company Owner	Easy to identify	Low		
	Difficult to identify	High		
PEPs	• Members of Parliament/ Provincial Councils/ Pradeshiya Sabas/ Municipal Councils immediate family members and close associates- **as PEPs for life time** • Government/ Judicial/ Military officers, immediate family members and close associates - **as PEPs only during the time they hold their offices and for a further period of six months after removal from office** • Members, immediate family members and close associates of Government appointed Commissions / Boards/ Corporations - **as PEPs only during the time they hold their offices and for a further period of six months after removal from office.**	High		
NGO/NPOs		High		

18. Products/Services' on ML/TF Risk Assessment and checklist

Customer /Entity Category	Sub Category	Risk Type	No. of customers	Remarks
Payment Mode	Non-Cash Based	Low		
	Cash Based	High		
Client Identification	Easy	Low		
	Difficult	High		

19. Delivery Channels' on ML/TF Risk Assessment and checklist

Customer /Entity Category	Sub Category	Risk Type	No. of customers	Remarks
Delivery Mode	Face to Face	Low		
	Non-Face to Face	High		

20. Geographic Locations' on ML/TF Risk Assessment and checklist

Customer /Entity Category	Sub Category	Risk Type	No. of customers	Remarks
Business Location	General Location	Low		
	Known Location for ML/TF	High		
Country of Origin	Countries other than High Risk Countries	Low		
	High Risk Countries	High		
	Country from the Sanctions list	High		

21. Compliance Key Risk Indicators (KRIs)

Compliance Key Risk Indicators (KRIs) are metrics used to provide an early signal of increasing risk exposures in various areas of an organization's operations. Effective KRIs can help in proactive risk management by highlighting potential issues before they become significant problems.

Key risk indicators are part of an enterprise risk management program. Some examples of compliance KRIs include:

- The number of **complaints filed with the organization's compliance hotline**
- The number of e**mployees who have completed mandatory** compliance training
- The number of **external regulatory actions** taken against the organization
- The number of times an **organization's code of conduct has been violated**
- The number of **corrective action plans implemented in response** to non-compliance issues

A key element of a successful risk management program is to manage the risks of the environment in a risk appetite framework. Risk appetite is a firm's willingness to take to meet business needs and key operational risk indicators.

The risk indicator is measured in terms of assessing risk exposures in a system that can be monitored for a given time period. Therefore, all data capable of performing these functions are considered risk indicators and can show emerging risk trends.

The indicator is essentially key in the case that it is assessing significant risks exposure (a material risk), when it's particularly successful (a key indicator), or perhaps both. Existing risk identification methods lead to key risk indicators in a timely manner.

Managing risk management is an important part of the business process that allows companies to reduce their most significant risks. Risk assessments and identification processes must be incremental and active.

Auditors must revise and modify risk assessment procedures throughout rapidly evolving or complex situations. To help companies identify potential threats and improve future readiness, it's essential that you develop a key risk indicator. It helps your organization avoid various types of risks which might hinder its business plan.

Key risks should be identified to achieve business objectives. Although best key risk indicators are a way to predict risks, our organization faces, focusing on key concerns focuses our attention on specific risks, if any.

Company face changing landscapes; challenges arise in numerous places, and risk may affect one area. One of the key considerations by a financial institution is to quantify market risk.

institution must monitor its security updates to prevent hackers from acquiring and destroying data from its systems. There is another risk other than ransomware and other hackers.

21.1 KRI (Key Risk Indicator): What is KRI?

A key risk indicator (KRI) is a metric that measures an organization's exposure to risk. KRIs are used to identify, assess, and track risk in a variety of domains, including financial, operational, strategic, and reputational risk.

KRIs provide insight into an organization's overall risk profile and can be used to set thresholds for triggering a response. Common examples of KRIs include measures of credit risk, liquidity risk, and market risk.

Key risk indicators provide a predictor of undesirable events affecting organizations. By setting KRIs, businesses can identify and monitor risks. Integrated risk management systems allow for better management in organizations.

Identify Relevant Risks

Before creating the KRIs, the company should know the organization's goal and the potential risk points. Effective enterprise risk management requires pinpointing the biggest risk that could have the largest impacts, the highest probability to occur, or that does not fall within our business control.

A full risk assessment of the organization actioned by senior management will help in identifying kris.

Establish a solid process

Because KRIs are developed within each organization a strong process is required to create, assess and monitor them and to report them to relevant people. This is a good technique that should make everything run smoothly.

Purpose of KRI

The purpose of KRI is to ensure that an organization's risks are being monitored effectively and efficiently. KRIs help to assess an organization's current risk exposure and identify potential future risks. They can be used to track progress in reducing risk and to benchmark an organization's risk management performance against other organizations.

Business Unit Responsibilities

Several business units in each state must identify their respective KRIs, set the thresholds for monitoring each KRI state, and escalate variances against them.

It is important that industry guidelines and internal acceptance criteria influence these levels. All thresholds will be carefully evaluated and approved by key stakeholders.

Internal Audit Responsibilities

An internal audit will be needed to verify and provide assurance regarding the processes used for KRI. In addition, internal audits must report any exceptions to the KRI and document the violation.

Risk management responsibility

Before identifying a KRI, risk management teams must build an organizational framework.

Steps to develop Key Risk Indicators

- **Define the organization's risk appetite:** What level of risk is acceptable? This will vary from organization to organization, but it's important to have a clear understanding of what level of risk is tolerable before proceeding.
- **Identify the organization's key risks:** Once the risk appetite has been defined, it's time to identify which risks pose the greatest threat to the organization. This can be done through a variety of methods, including interviews, surveys, and data analysis.
- **Develop KRIs:** Once the organization's key risks have been identified, it's time to develop quantitative indicators that can be used to monitor those risks. When developing KRIs, it's important to consider factors such as data availability, frequency of measurement, and target values.
- **Implement a monitoring system:** Once the KRIs have been developed, it's time to put in place a system for monitoring them. This system should be designed to help identify early warning signs of potential problems so that corrective action can be taken before those problems occur.
- **Review and update KRIs regularly:** KRIs should not be static; they should be reviewed on a regular basis and updated as needed to ensure that they remain relevant and accurate.

Compliance: The risk of legal or regulatory sanctions, financial loss, or damage to reputation as a result of the company's failure to comply with laws and regulations

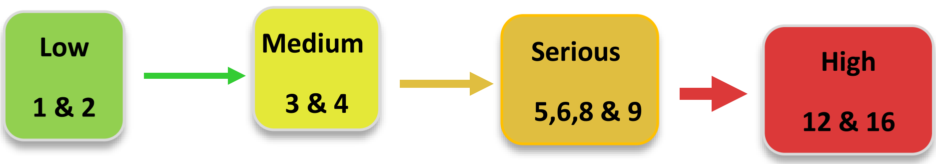
INDICATOR METRIC	WHAT DOES IT MEASURE?	WHAT'S THE PURPOSE?	WHO IS THE AUDIENCE?
Key performance indicator (KPI)	KPIs measure how effectively the organization is achieving its business objectives.	They provide directional insight on how you're progressing toward strategic objectives, or the effectiveness of specific business processes or control objectives.	**Strategic KPIs** Most often executive management and the board. **Operational KPIs** Most often managers, operational process owners, and department heads.
Key risk indicator (KRI)	KRIs measure how risky certain activities are in relation to business objectives.	They provide early warning signals when risks (both strategic and operational) move in a direction that may prevent the achievement of KPIs.	**Strategic KRIs** Most often executive management and the board. **Operational KRIs** Most often managers, operational process owners, and department heads.
Key control effectiveness indicator (KCI)	KCIs measure how well controls are working.	They provide direct insight into a specific control activity, procedure, or process that wasn't implemented or followed correctly.	Most often front-line control activity owners.

COMPLIANCE KEY RISK INDICATORS(KRIS) DASHBOARD

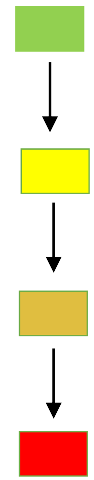
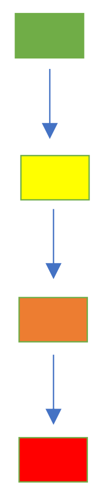
Risk Assessment Matrix

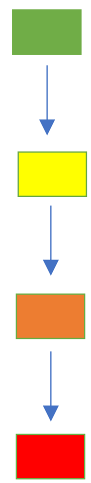
Probability	Severity: Catastrophic - 4	Critical - 3	Marginal - 2	Negligible - 1
Frequent - 4	High (16)	High (12)	Serious (8)	Medium (4)
Probable - 3	High (12)	Serious (9)	Serious (6)	Medium (3)
Remote - 2	Serious (8)	Serious (6)	Medium (4)	Low (2)
Improbable - 1	Medium (4)	Medium (3)	Low (2)	Low (1)

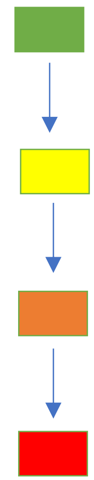
Risk parameter – (Risk blowout) -RBO - {Severity X probability)

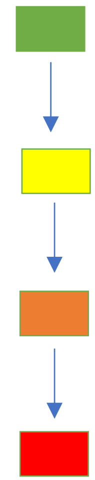


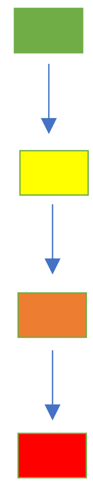
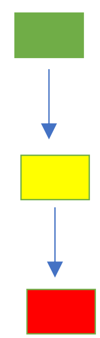
Key Indicator	Definition	Requirement	Impact and Consequences	Risk parameter	Risk Management Strategies
Liquid Assets	A **liquid asset** is an asset that can easily be converted into **cash within a short amount of time**. These assets are highly valuable because of their liquidity, which means they can be quickly transformed into cash without significant loss of value	**10%** of Total time deposits and non-transferable certificate of deposits **15%** of savings deposits **10%** of Outstanding Borrowings excluding secured borrowings and borrowings considered as capital funds **7.5%** of Average Month End Deposit Liabilities and outstanding borrowings for the Previous Financial Year	• **Operational Disruptions**: Unmanaged or poorly managed liquidity risk can lead to operational disruptions within an organization. • **Financial Losses**: Liquidity shortages may force banks to tighten lending, leading to reduced credit availability. • **Asset Depreciation**: Forced sales during liquidity crises can depress asset prices. • **Reputational Damage**: Persistent liquidity issues can harm an entity's reputation. • **Insolvency Risks: In extreme cases, prolonged liquidity problems can drive an entity toward insolvency or bankruptcy**		• **Maintain Liquid Assets**: Entities should hold a portfolio of liquid assets to ensure they have enough cash on hand. • **Cash Flow Forecasting**: Rigorous forecasting helps anticipate liquidity needs. • **Diversify Funding Sources**: Relying on multiple funding channels reduces dependence on a single source. • **Regulatory Frameworks: Company adhere to stringent liquidity standards (e.g., Basel II/III) to ensure financial stability and protect depositor interests**

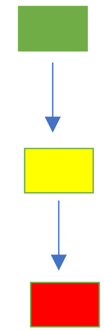
Key Indicator	Definition	Requirement	Impact and Consequences	Risk parameter	Risk Management Strategies
Capital Adequacy	The CAR measures a company's ability to absorb losses and safeguard depositors' funds. It compares the company's capital to its risk-weighted assets. Regulators closely monitor the CAR to evaluate a company's risk of failure and ensure financial stability	Tier 1 Capital (%) -8.5 % Total Capital (%) -12.5%	• A higher CAR indicates that a **company has sufficient capital to absorb losses.** This reduces the risk of insolvency and **ensures the safety of depositors' funds.** • Adequate capital allows **Company to lend more**. When a company has a strong CAR, it can extend loans and credit to businesses and individuals, promoting economic growth. • A robust CAR **enhances market confidence. Investors, depositors, and regulators trust** company with solid capital buffers, leading to stability in the financial system.		Company must meet minimum CAR requirements set by regulators. Failure to do so can **result in penalties or restrictions on operations** **Risk Management**: CAR encourages company to manage risks effectively. It incentivizes prudent lending practices and discourages excessive risk-taking.
Single Borrower Limit	The **Single Borrower Limit (SBL)** is a financial regulation that restricts the risk exposure of company to individual borrowers. When calculating this limit, the **commitments** to the borrower under the offered loan are combined with any other commitments to the same borrower and affiliated borrowers under other participated loans. In simpler terms, it ensures that a company doesn't excessively concentrate its risk by lending large amounts to a single borrower or related group of borrowers**.**	**Individual Borrower Limit** - Outstanding shall not exceed - 15% of capital funds (last audited balance sheet) **Group of Borrowers Limit** - Outstanding shall not exceed - 20% of capital funds **Aggregated Limit** - IB and GB, each of which exceed 10% of capital funds (last audited balance sheet) for the total outstanding accommodations - shall not exceed 50% of total outstanding accommodation of company.	company may encounter difficulties due to the **reduced exposure** allowed to a single borrower. This limitation can **affect their lending capacities**. Company must maintain the requirements set by regulators. Failure to do so can **result in penalties or restrictions on lending.**		Company might explore diversification strategies to mitigate the impact of this restriction. Adhere to regulatory requirements related to single borrower limits. Regularly assess and monitor the creditworthiness of borrowers. This involves analyzing financial statements, credit history, and other relevant information. Implement robust credit risk assessment processes to evaluate the borrower's ability to repay debt obligations. Use stress testing scenarios to assess how the portfolio would perform under adverse conditions.

Key Indicator	Definition	Requirement	Impact and Consequences	Risk parameter	Risk Management Strategies
		<u>**Unsecured Accommodation**</u> **Single unsecured accommodation -** Outstanding shall not exceed - 1% of core capital (last audited balance sheet) **Aggregated unsecured accommodation** -Total Outstanding shall not exceed - 5% of capital funds (last audited balance sheet)			
Non-Performing Advances	A nonperforming advance (NPA) refers to a classification for loans or advances that are in **default or in arrears**. A loan is in arrears when principal or interest payments are late or missed. A loan is in default when the lender considers the loan agreement to be broken and the debtor is unable to meet his obligations.	Understand the causes of non-performing advances. Interpret early warning signals and selecting remedial actions. Familiarize the strategies and techniques to employ in the recovery of non-performing advances. Be aware of guidelines for developing a good credit culture Identifying causes of default. Recovery Options. Effects on NPL and credit risk management on implementing IFRS 9	**Reduced Profitability**: When a company has a substantial amount of non-performing assets, it directly impacts profitability. These non-performing loans do not generate income for the company, leading to reduced overall profits. **Increased Risk**: High levels of NPLs pose a significant risk to company. These loans are typically associated with borrowers who are unable to repay, which increases credit risk. company may face difficulties in recovering the defaulted loan amounts, further exacerbating the risk. **Pressure on Capital Adequacy**: Non-performing assets put pressure on a company **Capital Adequacy Ratio (CAR)**. CAR is a regulatory measure that assesses a company's core capital in relation to its risk-weighted assets. When NPLs increase, the CAR may decline, affecting the company's ability to meet regulatory requirements. **Investor Confidence**: If non-performing assets constitute a large portion of a company's total assets, it erodes investor confidence. Investors may perceive the company as risky and be hesitant to invest or provide additional capital.		**Rehabilitation of Viable Units**: Identify and work with borrowers who have the potential to recover. Restructure loans, provide additional support, and help them get back on track. **Rephasing Loan Installments**: Adjust repayment schedules based on the borrower's financial situation. This can prevent defaults and improve recovery prospects. **Identifying Risks, Analyzing and Prioritizing Risks, Planning the Response, Implementing the Response, Monitoring and Reviewing, and Communication**.

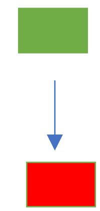
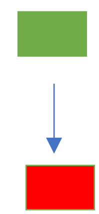
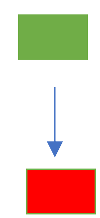
Key Indicator	Definition	Requirement	Impact and Consequences	Risk parameter	Risk Management Strategies
CBSL Directions/ Circulars,..	**Central Bank of Sri Lanka** (CBSL) issues various directions**, circulars, and guidelines** related to the financial sector. These documents provide regulatory instructions and guidance for financial institutions	The **Central Bank of Sri Lanka (CBSL)** issues various **directions, circulars, and guidelines** for FIs to ensure compliance with regulatory standards. These documents provide essential instructions and requirements that FIs must adhere to	**Penalties and Fines**: Non-compliance can result in **monetary penalties** imposed by the CBSL. These fines serve as a deterrent and encourage adherence to regulations. **Reputation Damage**: Violations can tarnish a company's reputation. Customers, investors, and other stakeholders may lose trust in the organization, affecting its long-term viability. **Operational Disruptions**: Failure to comply with CBSL guidelines may lead to operational disruptions. For instance, if a company doesn't follow technology risk management requirements, it could face system failures or security breaches. **Legal Consequences**: Persistent non-compliance may result in legal actions, including court proceedings or license revocation. This can severely impact the company's ability to operate. **Market Perception**: Investors and the market closely monitor regulatory compliance. A company's stock price and credit ratings may be negatively affected if it consistently violates CBSL directives. **Loss of Business Opportunities**: Non-compliance may prevent a company from participating in certain business activities or accessing international markets. **Financial Instability**: If a bank disregards liquidity or capital adequacy requirements, it risks becoming financially unstable. This could lead to a crisis affecting depositors and the overall financial system.		The **Central Bank of Sri Lanka (CBSL)** issues **directions, circulars, and guidelines** to regulate the operations of financial institutions. These directives are crucial for maintaining financial stability, ensuring compliance, and safeguarding the interests of depositors and the broader economy. **Risk Assessment and Mitigation**: Conduct regular risk assessments to identify potential risks related to technology, operations, credit, liquidity, and market. Develop risk mitigation plans specific to each risk category. Implement robust controls and monitoring mechanisms to minimize risks. **Governance and Oversight**: Establish a dedicated Risk Management Committee comprising senior management and board members. Ensure clear roles, responsibilities, and reporting lines for risk management. Regularly review and update risk policies and procedures. **Technology Risk Management**: Adhere and Implement robust cybersecurity measures, including firewalls, intrusion detection systems, and encryption. Regularly assess and update technology infrastructure to address vulnerabilities.

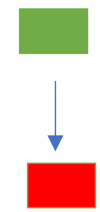
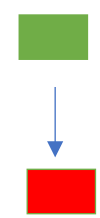
Key Indicator	Definition	Requirement	Impact and Consequences	Risk parameter	Risk Management Strategies
Corporate Governance	Corporate governance refers to the system of rules, practices, and processes by which a company is directed and controlled. It involves balancing the interests of a company's many stakeholders, such as shareholders, management, customers, suppliers, financiers, the government, and the community. Additionally, corporate governance provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. It is a continuous process that applies the best management practices, ensures compliance with the law, and adheres to ethical standards.	principles of corporate governance are accountability, transparency, fairness, responsibility, and risk management. Companies must be accountable for their actions and decisions. This includes transparency in financial reporting, adherence to legal and ethical standards, and responsibility for the consequences of their operations.	**Financial Losses:** When companies or individuals disregard corporate governance guidelines, they risk financial losses. Mismanagement, fraud, or unethical practices can lead to decreased profits, shareholder value erosion, and even bankruptcy. **Reputational Damage:** Non-compliance tarnishes a company's reputation. Negative publicity, loss of trust, and damaged relationships with stakeholders can harm long-term success. Reputational damage affects customer loyalty, investor confidence, and employee morale. **Legal Consequences:** Violating corporate governance rules may result in legal actions. Regulatory bodies can impose fines, penalties, or even criminal charges. Legal battles drain resources and harm the organization's standing. **Loss of Trust:** Stakeholders, including investors, employees, and customers, rely on corporate governance to ensure transparency and accountability. Non-compliance erodes trust, leading to investor flight, talent attrition, and customer defection. **Change in Management or Board:** Persistent non-compliance often triggers changes in leadership. Shareholders may demand new management or board members who prioritize governance. Such transitions disrupt stability and strategic continuity. **Negative Impact on Decision-Making:** Poor corporate governance leads to suboptimal decisions. Lack of accountability, conflicts of interest, and inadequate risk management		**Set the "Tone at the Top"**: Establish a strong commitment to risk management from senior leadership and the board of directors. This sets the tone for risk awareness and accountability throughout the organization. **Monitor Processes and Procedures**: Regularly review and assess risk management processes and internal controls. Ensure that risk-related policies and procedures are well-documented, up-to-date, and effectively implemented. **Competent Personnel**: Assign competent individuals to oversee risk management activities. Provide training and resources to ensure that personnel understand their roles and responsibilities in managing risks. **Social Responsibility and Risk Mitigation**: Companies that prioritize social responsibility are often better positioned to mitigate corporate risks. Consider environmental, social, and governance (ESG) factors in risk management.

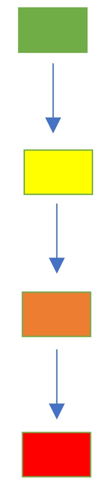
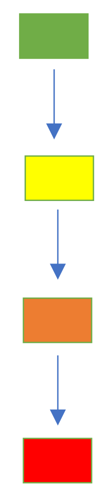
Key Indicator	Definition	Requirement	Impact and Consequences	Risk parameter	Risk Management Strategies
			hinder effective leadership and strategic planning. **Dissolution or Shutdown:** In extreme cases, governing authorities may order companies to shut down or dissolve due to serious non-compliance issues. This drastic consequence underscores the importance of adhering to governance norms		
Core Capital	core capital gains pertain specifically to thrift company, while capital gains encompass a broader range of assets and their financial implications It represents the **essential financial cushion** that ensures the stability and solvency of these financial institutions.	Minimum an unimpaired **core capital not less than Rs. 2.5 billion**	**Penalties and Fines**: Non-compliance can result in **monetary penalties** imposed by the CBSL. These fines serve as a deterrent and encourage adherence to regulations. **Market Perception**: Investors and the market closely monitor regulatory compliance. A company's stock price and credit ratings may be negatively affected if it consistently violates CBSL directives.		**Set the "Tone at the Top"**: Establish a strong commitment to risk management from senior leadership and the board of directors. This sets the tone for risk awareness and accountability throughout the organization. **Monitor Processes and Procedures**: Regularly review and assess risk management processes and internal controls. Ensure that risk-related policies and procedures are well-documented, up-to-date, and effectively implemented. **Competent Personnel**: Assign competent individuals to oversee risk management activities. Provide training and resources to ensure that personnel understand their roles and responsibilities in managing risks.
CBSL Regulatory returns for submission Finnet Returns – CBSL	Ensure timely submission of returns to regulatory authority.	Company is **required** to submit **statutory returns** on time	**Penalties and Fines**: Non-compliance can result in **monetary penalties** imposed by the CBSL. These fines serve as a deterrent and encourage adherence to regulations		Timely submission of statutory returns contributes to the overall stability and transparency of the financial system

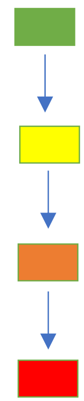
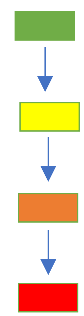
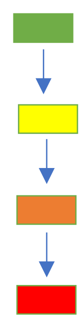
Key Indicator	Definition	Requirement	Impact and Consequences	Risk parameter	Risk Management Strategies
Return Verification and data accuracy process	Regulatory Return Reviews will be conducted based on the criticality of the information submitted to the regulatory authority which includes in the return.	**Statutory Reporting Importance**: **Accuracy**: Timely and accurate submission of statutory returns is essential. **Time Frame**: company must adhere to the specified reporting deadlines. **Compliance**: Compliance with regulatory guidelines ensures financial stability. **Common Issues**: Addressing common issues associated with submission is crucial.	**Penalties and Fines**: Non-compliance can result in **monetary penalties** imposed by the CBSL. These fines serve as a deterrent and encourage adherence to regulations		Accurate and timely submission of statutory returns contributes to the **overall stability and transparency of the financial system**
FIU CBSL Reporting AIF(A)/AIF(T)/ PAE/RAPS	In terms of the Section 15 (1) (b) of the Financial Transactions Reporting Act No. 06 of 2006, the Financial Intelligence Unit required to information relating to the persons/ entities /accounts through the goAML system	**Accuracy**: Timely and accurate submission of statutory returns is essential. **Time Frame**: company must adhere to the specified reporting deadlines. **Compliance**: Compliance with regulatory guidelines ensures financial stability.	**Penalties and Fines: Non-compliance can result in monetary penalties imposed by the CBSL. These fines serve as a deterrent and encourage adherence to regulations**		Financial institutions must conduct regular risk assessments and establish robust anti-money laundering (AML) and countering the financing of terrorism (CFT) policies.
Cash Transaction/ Electronic fund Transfer/gold loan transaction over 1.0 Mio (CTR)	In terms of the Section 15 (1) (b) of the Financial Transactions Reporting Act No. 06 of 2006, the Financial Intelligence Unit required to cash transaction (CTR) over 1.0 mio through the goAML system In terms of the Section 15 (1) (b) of the Financial Transactions Reporting Act No. 06 of 2006, the Financial Intelligence Unit required to gold transaction/Auctions over 1.0 mio through the goAML system In terms of the Section 15 (1) (b) of the Financial Transactions Reporting Act No. 06 of 2006, the Financial Intelligence Unit required to gold transaction/Auctions over 1.0 mio through the goAML system	**Accuracy**: Timely and accurate submission of statutory returns is essential. **Time Frame**: company must adhere to the specified reporting deadlines. **Compliance**: Compliance with regulatory guidelines ensures financial stability.	**Penalties and Fines: Non-compliance can result in monetary penalties imposed by the CBSL. These fines serve as a deterrent and encourage adherence to regulations**		Financial institutions must conduct regular risk assessments and establish robust anti-money laundering (AML) and countering the financing of terrorism (CFT) policies.

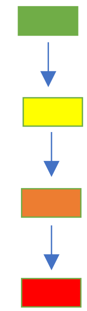
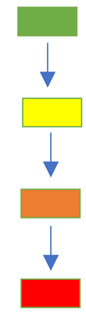
Key Indicator	Definition	Requirement	Impact and Consequences	Risk parameter	Risk Management Strategies
suspicious transaction reporting (STR)	Suspicious Transaction Report (STR) is one of the most important report types which is used by the FIU, for its intelligence management processes. Initially, Reporting Institutions (RIs) submitted STRs to the FIU via goAML system	**Accuracy**: Timely and accurate submission of statutory returns is essential. **Time Frame**: company must adhere to the specified reporting deadlines. **Compliance**: Compliance with regulatory guidelines ensures financial stability.	Failing to report suspicious transactions can result in penalties. The FIU may impose administrative fines on financial institutions		Financial institutions must conduct regular risk assessments and establish robust anti-money laundering (AML) and countering the financing of terrorism (CFT) policies. **Monitor Processes and Procedures**: Regularly review and assess risk management processes and internal controls. Ensure that risk-related policies and procedures are well-documented, up-to-date, and effectively implemented.
Customer inquiries – FIU/NDNBFI	The Financial Intelligence Unit shall collect or require the supervisory authority of a financial institution to collect any information that the Financial Intelligence Unit considers relevant to an act constituting an unlawful activity, or an offence of money laundering or financing of terrorism, or a terrorist activity whether or not publicly available, including commercially available databases, or information that is collected or maintained, including information that is stored, in databases maintained by the Government	**Accuracy**: Timely and accurate submission of statutory returns is essential. **Time Frame**: Company must adhere to the specified reporting deadlines. **Compliance**: Compliance with regulatory guidelines ensures financial stability.	Failing to report suspicious transactions can result in penalties. The FIU may impose administrative fines on financial institutions		Financial institutions must conduct regular risk assessments and establish robust anti-money laundering (AML) and countering the financing of terrorism (CFT) policies.
Customers Risk profile updating	Company is required to perform Risk Based Compliance and Risk profiling of all customers is mandatory and is to be done by way of the information derived by the Company through the KYC and Customer Due Diligence (CDD) process		Failing to update the customers risk profile updating report suspicious transactions can result in penalties. The FIU may impose administrative fines on financial institutions		Financial institutions must conduct regular risk assessments and establish robust anti-money laundering (AML) and countering the financing of terrorism (CFT) policies. **Monitor Processes and Procedures**: Regularly review and assess risk management processes and internal controls. Ensure that risk-related policies and procedures are well-documented, up-to-date, and effectively implemented.

Key Indicator	Definition	Requirement	Impact and Consequences	Risk parameter	Risk Management Strategies
Customer screening	Ongoing monitoring of Customers transaction (through core system) to identify/ track suspicious transactions and transaction trends to ascertain whether transactions are consistent and in line with the customers' known profile. Respective staff members are required to be well acquainted with the system.	AML (Anti-Money Laundering) rules require financial institutions to implement effective procedures, including customer screening. By adhering to these requirements, institutions demonstrate their commitment to preventing financial crimes while maintaining their reputation and financial stability	Failing to customer screening can result in penalties. The FIU may impose administrative fines on financial institutions		Financial institutions must conduct regular risk assessments and establish robust anti-money laundering (AML) and countering the financing of terrorism (CFT) policies. By comparing customer data against these lists, financial institutions can identify individuals or organizations with a history of illegal activities or threats to national security. This assessment helps prevent them from using financial services for money laundering, terrorism financing, or other illicit purposes.
Sanction List Screening	The company must verify whether any prospective customer or beneficiary appears on any suspected terrorist list or alert list issued in compliance with the United Nations Regulations No. 1 of 2012 published in Gazette Extraordinary No. 1758/19 dated May 15, 2012 and United Nations Regulations No. 2 of 2012 published in Gazette Extraordinary No. 1760/40 dated May 31, 2012, relating to the prevention and suppression of terrorism and terrorist financing, inclusive of United Nations Security Council Resolutions 1267 and 1373	AML (Anti-Money Laundering) rules require financial institutions to implement effective procedures, including customer sanction screening. By adhering to these requirements, institutions demonstrate their commitment to preventing financial crimes while maintaining their reputation and financial stability	Failing to customers **Screening with Sanction List** can result in penalties. The FIU may impose administrative fines on financial institutions		Financial institutions must conduct regular risk assessments and establish robust anti-money laundering (AML) and countering the financing of terrorism (CFT) policies. **Monitor Processes and Procedures**: Regularly review and assess risk management processes and internal controls. Ensure that risk-related policies and procedures are well-documented, up-to-date, and effectively implemented.
Identifying and monitoring of High-Risk Customers/countries	The enhanced CDD measures to business relationships and transactions to customers high risk customers	AML (Anti-Money Laundering) rules require financial institutions to implement effective procedures, including identifying and monitoring of high-risk countries/customer. By adhering to these requirements, institutions demonstrate their commitment to preventing financial crimes while maintaining their reputation and financial stability	Failing to **Identifying and monitoring of High-Risk Customers** can result in penalties. The FIU may impose administrative fines on financial institutions		Financial institutions must conduct regular risk assessments and establish robust anti-money laundering (AML) and countering the financing of terrorism (CFT) policies.

Key Indicator	Definition	Requirement	Impact and Consequences	Risk parameter	Risk Management Strategies
KYC /CDD ongoing monitoring and updating	Company is required to implement and ongoing monitoring a Customer Due Diligence programme (CDD) and KYC requirement	**Watchlists**: These contain individuals or entities identified as high-risk for money laundering, financial crimes, or other prohibited activities. **Sanctioned Lists**: These are government-sanctioned lists, such as those maintained by the **Office of Foreign Assets Control (OFAC)** in the United States or the **HM Treasury** in the United Kingdom and FATF **Politically Exposed Persons (PEP) Lists**: These lists include individuals who hold prominent positions in government, politics, or business and may be at a higher risk of being involved in financial crimes like money laundering or bribery.	Failing to **monitoring and updating of KYC/CDD** can result in penalties. The FIU may impose administrative fines on financial institutions Persistent non-compliance with AML and KYC regulations can result in a **loss of trust** from regulatory bodies. This loss of trust leads to increased scrutiny and monitoring by authorities, who may impose stricter reporting requirements, audits, and inspections.		Financial institutions must conduct regular risk assessments and establish robust anti-money laundering (AML) and countering the financing of terrorism (CFT) policies.
AML / KYC training and other Regulatory aspects	the world of **Anti-Money Laundering (AML)** regulations and **Know Your Customer (KYC)** procedures. These are crucial aspects in the financial industry, aimed at safeguarding against illicit financial activities **KYC (Know Your Customer)** procedures play a critical role in achieving sustainable AML compliance. Businesses must understand and comply with specific AML rules applicable to their industry and geographic location. Ongoing training and education for employees responsible for conducting KYC procedures are essential to ensure effective compliance	Ensure that operational staff maintains an awareness of AML/KYC policies, procedures in order to deliver the daily business requirements With the assistance of HRD, review of existing e-learning module for AML training conducted for existing staff Conducting trainings for new recruits /familiarizations programs	Non-compliance with KYC and AML regulations can have **severe consequences** for organizations. The risks can be categorized into three main areas: legal, financial, and reputational. From a legal perspective, non-compliance can result in significant fines, penalties, and legal actions.		Financial institutions must conduct regular risk assessments and establish robust anti-money laundering (AML) and countering the financing of terrorism (CFT) policies. **Monitor Processes and Procedures**: Regularly review and assess risk management processes and internal controls. Ensure that risk-related policies and procedures are well-documented, up-to-date, and effectively implemented.

Key Indicator	Definition	Requirement	Impact and Consequences	Risk parameter	Risk Management Strategies
code of conduct	A code of conduct is a defined set of rules, principles, values, employee expectations, behaviors, and relationships that an organization considers important and believes necessary for its success. It outlines the norms, rules, and responsibilities or proper practices of an individual party or an organization. Employees and employers are bound by this code, which is usually found in the employee handbook.	**Compliance with Laws and Ethical Behavior**: All employees must protect the company's legality by adhering to local, national, and international laws and regulations. Ethical behavior is essential, and employees should act honestly, transparently, and with integrity.	**Reputation Damage:** One of the most significant consequences that can arise from not adhering to a code of conduct is the damage to one's professional reputation. Professional reputations are built on trust, integrity, and ethical behavior. ... **Legal Penalties:** In some cases, violations of a code of conduct can lead to legal penalties.		**Risk Assessment and Identification:** • Begin by assessing potential risks related to your organization's activities, processes and initiatives. • Identify risks that could impact compliance with the code of conduct. • Involve key stakeholders and management in this process. **Stay Informed About Enforcement Policies:** • Understand the latest regulatory and legal requirements related to compliance. • Keep track of enforcement policies and guidelines. • Adapt your risk management practices accordingly.
Customer complaints	A customer complaint is an expression of dissatisfaction on a consumer's behalf to a responsible party Customer complaints are pieces of negative feedback about a company's product, service, or support experience	**Manage customer complaints** 1. Talk and listen to your customer More than anything, customers want to feel heard 2. Make records Keep a record of all the promises, agreements and undertakings you have with your customer 3. Ask for documentation 4.Understand your legal obligations ... 5. Follow up with your customer	Ignoring customer complaints can lead to dissatisfied customers, resulting in lost revenue and a damaged reputation. Negative feedback can spread like wildfire on social media and review sites, deterring potential customers from doing business with the company.		**Active Listening and Empathy:** Understand the customer's perspective and emotions. **Swift Response and Timely Resolution:** Address complaints promptly. **Root Cause Analysis:** Dig deeper to identify the core issue. **Apologize and Take Responsibility:** Show empathy and take ownership. **Provide Solutions and Compensation:** Offer practical solutions. **Implement Preventive Measures:** Learn from complaints and prevent recurrence. **Continuous Improvement:** Create a feedback loop for ongoing improvement

Key Indicator	Definition	Requirement	Impact and Consequences	Risk parameter	Risk Management Strategies
Credit Risk	This KRI focuses on the risk of borrowers being unable to repay loans. It considers factors such as loan quality, default rates, and creditworthiness.	**Assessment of Borrowers:** Company must thoroughly assess borrowers' creditworthiness before granting loans. **Risk Mitigation Measures:** Implement risk mitigation strategies such as collateral requirements, credit scoring models, and credit limits. **Monitoring and Reporting**: Regularly monitor credit exposures and report any adverse developments.	**Loan Defaults:** When borrowers fail to repay loans, it directly affects a company's financial health. Unpaid loans lead to reduced profitability and potential insolvency. **Capital Base:** The impact depends on a company's capital base. Adequate capital cushions can absorb losses from defaults. **Regulatory Compliance:** Regulatory organizations (such as the Basel Committee) impose limits on leverage to mitigate credit risk		**Assessment and Measurement:** Evaluate the creditworthiness of borrowers using tools like credit scoring and credit rating. **Diversification:** Spread credit exposure across different borrowers or sectors to reduce risk. **Collateral and Covenants:** Secure loans with collateral and set contractual covenants to mitigate potential losses. **Hedging:** Use derivatives or other financial instruments to hedge against credit risk
Operational Risk	Operational risk arises from internal processes, systems, or people failing. It includes risks related to fraud, cybersecurity threats, and third-party relationships.	**Internal Controls:** Establish robust internal controls to prevent operational failures. **Risk Management Framework:** Develop and implement a comprehensive risk management framework. **Scenario Analysis:** Conduct scenario analysis to identify potential operational risks.	**Financial Losses:** Operational failures (e.g., IT glitches, fraud) can lead to direct financial losses. **Reputation Damage:** Operational incidents affect a company's reputation and customer trust. **Mitigation:** Prudent practices, robust systems, and effective risk management are essential		**Risk Identification:** Identify operational risks related to processes, systems, and human factors. **Risk Mitigation:** Implement controls, redundancies, and contingency plans. **Insurance:** Transfer operational risk through insurance coverage. **Continuous Monitoring:** Regularly review and update risk management practices
Market Risk	Market risk involves losses due to adverse market price movements. It includes risks associated with interest rates, foreign exchange, and equity markets.	**Risk Measurement Models:** Use risk measurement models (e.g., Value at Risk) to assess market risk exposure. **Diversification:** Diversify investment portfolios to mitigate concentration risk. **Stress Testing:** Perform stress tests to evaluate the impact of extreme market conditions.	Portfolio Value: Market risk can lead to losses in investment portfolios. Systematic Risk: Factors affecting entire markets (e.g., interest rate changes, currency fluctuations) impact investments. Diversification: Diversifying assets helps mitigate market risk		**Value at Risk (VaR):** Estimate potential losses due to market fluctuations and incorporate it into risk management strategies. **Modeling Market Factors:** Analyze interest rates, equity prices, commodity prices, and other market variables. **Stress Testing:** Design stress tests to assess the impact of extreme market scenarios on portfolio

Key Indicator	Definition	Requirement	Impact and Consequences	Risk parameter	Risk Management Strategies
Asset Quality Risk	his KRI assesses the quality of a bank's assets, particularly loans. It considers non-performing loans, loan loss provisions, and asset valuation.	**Loan Classification:** Classify loans based on their credit quality (e.g., performing, non-performing, doubtful) **Provisioning:** Set aside provisions for potential loan losses. **Regular Review:** Continuously review asset quality and take corrective actions as needed.	Non-Performing Assets (NPAs): Poor asset quality results in NPAs (bad loans), affecting profitability. Provisioning: Banks must set aside provisions for NPAs, impacting earnings. Risk-Weighted Assets: Asset quality affects risk-weighted assets in regulatory calculations		Loan Classification: Categorize loans based on their quality (e.g., performing, non-performing, doubtful). Provisioning: Set aside provisions for potential loan losses. Portfolio Review: Regularly assess asset quality and take corrective actions as needed. Risk-Based Pricing: Adjust interest rates based on the perceived risk of assets
Earnings Risk	Earnings risk evaluates a bank's profitability. It considers net interest margin, return on assets, and overall financial performance.	**Net Interest Margin (NIM):** Maintain a healthy NIM by managing interest income and expenses. **Non-Interest Income:** Diversify revenue sources beyond interest income. **Cost Control:** Efficiently manage operating expenses to enhance overall earnings.	Profitability: Failing to manage risks affects earnings negatively. Solvency: Insufficient earnings may lead to solvency issues. Investor Confidence: Earnings impact investor confidence and stock performance		Diversification of Income Sources: Generate revenue from various streams to reduce reliance on a single source. Cost Control: Manage expenses efficiently to maintain stable earnings. Scenario Analysis: Evaluate potential impacts on earnings under different economic conditions. Capital Adequacy: Maintain sufficient capital buffers to absorb unexpected losses

22. REVIEW OF MANUAL

Both Sections of this document should be reviewed annually or as and when the need arises to incorporate new developments and changes and approval should be obtained from the Board of Directors of the company, through BIRMC by the Compliance Department

23. RECOMMENDATION

Recommended to the Board of Directors for adoption

HEAD OF COMPLIANCE **CEO/ EXECUTIVE DIRECTOR**