Board Paper No 2023/569/10/O:

Board Meeting No : 66 Date :27<sup>th</sup> October 2023



# PART I

# Procedure manual on Risk Based Approach

for all accounts in line with Know Your
Customer (KYC) and Customer Due Diligence
(CDD) with Customer Risk Categorization
(CRC)

for the Company

under the Financial Transaction Reporting Act. No 6 of 2006

Owner - Compliance Department Approval – Board of Directors Date of Approval - 27<sup>th</sup> October 2023

## 1. Introduction to Risk Based Approach

The Finance Company is mandated to adhere to the guidelines issued by the Financial Intelligence Unit by way of the Financial Transaction Reporting Act No 6 of 2006 and other directions issued there under. As per the direction issued by way of circular No 1/18 with reference 037/05/002/0018/017 dated 11<sup>th</sup> January 2018 and amendments and Customer Due Diligence Rules, No. 1 of 2016 issued by way of gazette 1951/13 dated 27<sup>th</sup> January 2016 and amendments, the Finance Company is required to have and follow the measures specified in these rules for the purpose of identifying, assessing and managing money laundering and terrorist financing risks posed by customers, and conduct its ongoing customer due diligence (CDD) on a "Risk Based Approach" (RBA).

The Finance company is required to take specific measures for the purpose of identifying, assessing, and managing the money laundering and terrorist financing risk posed by it's customers and business activities.

The RULES made by the Financial Intelligence Unit under section 2 of the Financial Transactions Reporting Act, No.6 of 2006 states,

"The intensity and extensiveness of risk management functions shall be in compliance with the "risk based approach" and be proportionate to the nature, scale and complexity of the Financial Institution's activities and money laundering and terrorist financing risk profile."

"The systematic application of: Management policies, procedures and practices to the tasks of establishing the context and identifying, analyzing evaluating treating, monitoring, and communicating Risk"

"The Companies are required to take appropriate steps to identify, assess and manage its money laundering and terrorist financing risks in relation to its customers, countries or geographical areas, products, services, transactions and delivery channels"

This General Circular is issued for LCB Finance PLC in terms thereof, and may be amended from time to time in line with changes in laws, regulations and applicable standards in the regulatory framework and applicable laws for the Financial Industry and must be read in conjunction with the Company AML Policy and Account Opening Circular and other related documents.

## 1.1 Factors to be considered in the Risk Assessment

All staff are responsible to conduct the risk assessment as part of the due diligence exercise, considering factors such as the below

- What risks are posed by the nature of the customer type, profession/vocation and legal structure of the customer?
- Is the Business located in a high risk jurisdiction? / is the Customer a PEP?
- What risks are posed by the nature of the customer's activities/business?
- Does the Company understand the commercial rationale of the customer's business or the activities
  of the customer?
- Do the customer's transactions involve a high level of cash?
- What risks are posed by the customer's behavior?
- Is there transparency of ownership?
- Is there a willingness to provide information about themselves and about its controllers?
- Is there information concerning the source of funds and source of wealth and in the case of Legal entities of the business or the owners?
- What risks are posed by the products and services being provided to the customer?
- How do we communicate with the customer? Did they solicit us or did we solicit them?
- Is the business conducted on a face-to-face basis?

### 2. Know Your Customer

In order to prevent the financial system being used for money laundering and transactions related to terrorism and subversive activities, it is mandated that all finance companies follow guidelines on customer identification in terms of Direction Ref 02/04/004/0012/001 dated 8<sup>th</sup> October 2008 and amendments issued by the Financial Intelligence Unit of the Central Bank of Sri Lanka.

- At the time of opening an account Customer "On-Boarding"
- Before establishing a business relationship with a prospective customer
- Thereafter when there are material changes in the way an account is operated.
- When a trigger event is observed

Financial Companies are responsible of Customer Identification, Risk Management and monitoring of accounts on a continuous basis.

## In order to 'Know Your Customers' (KYC) Finance companies are expected to:

• Have sufficient information on the identity of the customer

- Be satisfied that a prospective customer is who he/she claims to be. If the customer is acting on behalf of another, sufficient evidence on the identity of **both parties** should be obtained.
- Ensure that information obtained regarding customers in the normal course of business are utilized effectively for the prevention of money laundering/terrorism funding.

## 3. Customer Risk Profiling

All Finance companies are required to perform **Risk Based Compliance**. 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

Where any customer is rated as "High Risk" the company is required to carry out Enhanced CDD measures for such customer, in addition to the normal CDD measures undertaken.

The company has developed a Risk Matrix to enable the branch and business development staff to ascertain the particular AML Risk Profile (LOW, Medium of High) of a given customer.

A Brief description of Low, Medium, and High risk categories is given below.

## The profile will be evaluated taking the following into consideration

#### Low Risk

Individuals and entities whose identities and sources of wealth can be easily identified and transactions in whose accounts by and large conform to the known profile may be categorized as Low Risk.

The illustrative examples of low risk customers could be salaried employees whose salary structures are well defined, people belonging to lower economic strata of the society whose accounts show small balances and low turnover. E.g.: Student /House wife/Pensioner/farmer.

- Recommended frequency for periodical review: Every Two Years or upon a trigger
- Delayed Verification can be done for Low Risk Customers subject to the below

#### **Delayed Verification process**

- Verification shall be completed as soon as it is reasonably practicable but **not later than fourteen**(14) working days from the date of opening of the account.
- The delay shall be essential so as not to interrupt the Company's normal conduct of business

• No suspicion of money laundering or terrorist financing risk shall be involved with the customer.

#### Medium Risk

Customers who are likely to pose a higher than average risk to the company may be categorized as Medium or High Risk depending on the customer's background, nature and location of activity, country of origin, sources of funds and his client profile. etc. Such as:

- Where the client profile of the person/s opening the account, according to the perception of the branch is uncertain and/or doubtful and not all information is immediately verifiable.
- Fund flow sources not well documented or known to the Company or verifiable immediately; deposits to the account frequently exceed the declared income threshold by the customer; with adequate /known reasons.
- ✓ Recommended frequency for periodical review: Every one Year or upon a trigger
- ✓ Delayed Verification : Delayed verification is not permitted for Medium Risk Customers

## High Risk

The Company will be required to apply Enhanced Due Diligence measure based on the risk assessment, thereby requiring intensive 'Due Diligence' for Higher Risk customers, especially those for whom the sources of funds are not clear.

Examples of customers requiring higher level of Due Diligence may include.

- Non Resident Customers,
- High Net worth individuals
- Trusts, charities, NGOs and organizations receiving donations,
- Companies having close family shareholding or beneficial ownership
- Firms with 'sleeping partners'
- Politically Exposed Persons (PEPs) of foreign/local origin
- Non-face to face customers, and
- Those with dubious reputation as per public information available, etc
- Recommended frequency for periodical review: at least bi-annually or more frequently on a trigger basis.
- Delayed Verification: Delayed verification is not permitted for High Risk Customers
- Approval of the Head of the respective Business function is to be obtained at the point of opening accounts for individuals/entities categorized as High risk.

A report on all PEPs and other High Risk customers are presented to the Board on a monthly basis.

## 3.1 Politically Exposed Persons –PEPs

A PEP is an individual who is entrusted with prominent public functions either domestically or by a foreign country, or in an international organization and includes a Head of a State or a Government, a politician, a senior government officer, judicial officer or military officer, a senior executive of a State owned Corporation, Government or autonomous body but does not include middle rank or junior rank individuals.

- This category of customers known as PEPs and are required to be categorized as HIGH Risk from an ML Compliance perspective. However regulatory guidelines do not prohibit dealings with PEPs. But Enhanced Due Diligence (EDD) is required to be carried out on such customers.
- 2. The Account opening staff are required to **obtain approval** from the **Corporate Management** and the Compliance team in order to proceed.
- 3. For those identified as PEPS the Bank should identify, by appropriate means, the sources of funds and wealth or Beneficial Ownership of funds and wealth and be satisfied of the legitimacy of it;
- 4. Conduct Enhanced Ongoing Monitoring of business relationships with the politically exposed person.
- 5. Be fully satisfied that the Customer does not expose the Company to unacceptable levels of ML/TF risk

#### A Close Associates is,

- The Spouse, Siblings, Children and Parents
- A natural person having joint beneficial ownership of legal entities and legal arrangements, or any other close business relationship;
- A legal person or legal arrangement whose beneficial owner is a natural person and is known to have been set up for the benefit of such person or his immediate family members.

## 4.0 Notation on the Core System

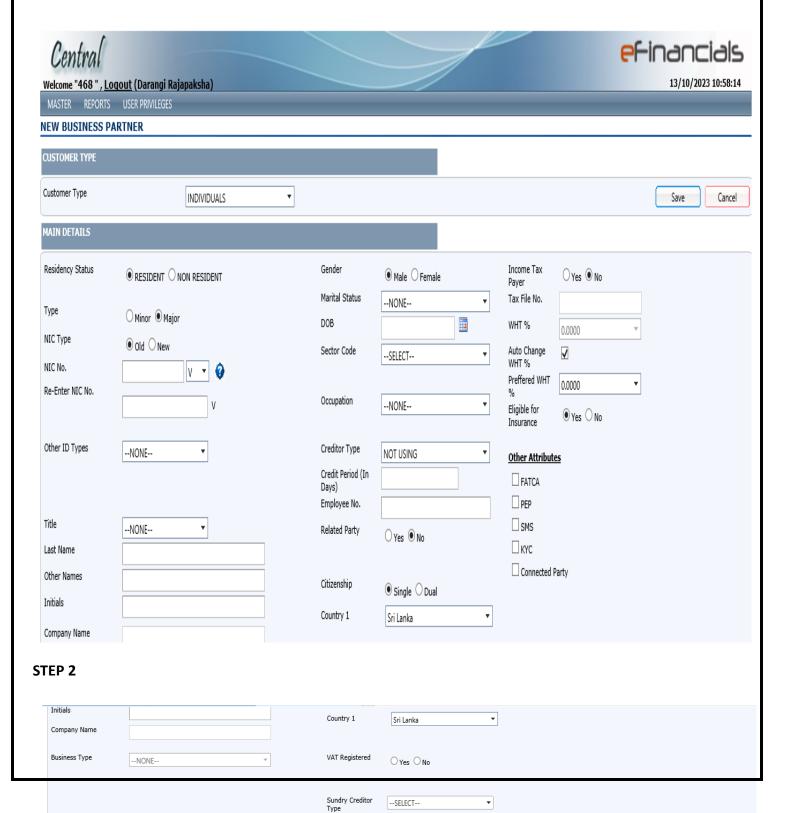
Irrespective of the customer type (Corporate, Individual etc.) the Risk Profile of the customer must be ascertained using the above matrix and noted in the Core System in the relevant field.

The risk assigned would need to be Low, Medium or High. This will enable staff of other Branches and Business Units to obtain information on the customer through the system as and when required. The risk rating assigned to a customer would be reviewed when conducting his/her KYC review at the stipulated frequency.

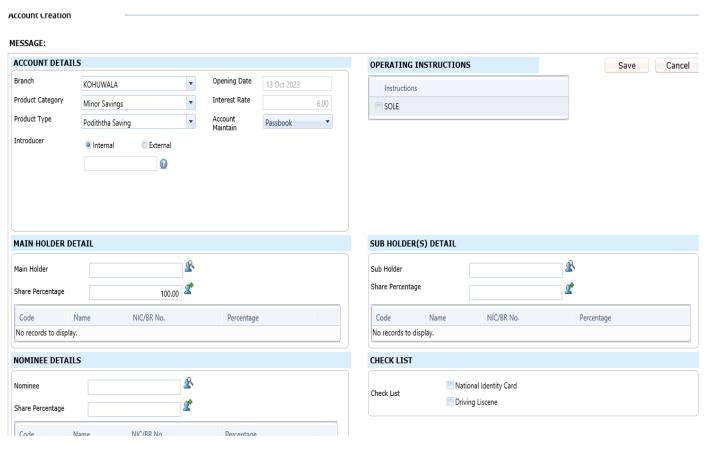
If a change in the risk rating assigned is deemed required, the same would need to be done and updated in the Company's Core system subsequent to the approval of the **DGM Business Development and Fund Mobilization** 

## 4.1 Customer Risk categorization

#### STEP 1



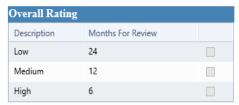
#### STEP 3



## STEP 4



## Grand Total: 0.00



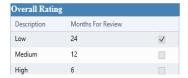
## STEP 5

CUSTOMER RISK I	PROFILING MODEL UPDATE	
Customer Type	INDIVIDUALS ▼ SAVE CLEAR PRINT	
Customer Code	· · ·	
Customer Name :		
Number of Years		
Category	Questions	
CLIENT TYPE	quentos	
CELETTITE		
	Student/Housewife/Pensioner	
	Employee – Executive - Private	✓
	Employee Non executive –Government	
	Government Institution	
	Public Limited Liability Company	
	Lawyer & Accountant (Employed)	
	Club/Society/Association	
	Educational Institution	
	Self Employed - Professional	
	Self Employed - Business	
	Client type (Other) - L	
	Employee - appointments by Government	
	Private Limited Liability Company	
	Business - Propriety/Partnership	
	Lawyer & Accountant (self-employed)	
	Manager and American	
	Client type (Other) - M	
	Client type (Other) - H	
BUSINESS/USAGE		
	Professional/Family Use	
	Finance/Insurance companies	✓
	Dealer in Petroleum Products	
	Professional Services	
	Dealer in Brand new vehicles	
	Retail Trade/Business	
	Service Provider	
	Printers & Publishers	
	Marketing & Advertising	
	Small/Medium work shop/repair	
	Nursing Homes/Health Care Centers	
	Manufacturing Industry	
	Transport operations	
	Social/Religious activities	
	Travel Agent	
	Importer & distributor of commercial goods	
	Entrepot trade	
	Exporter of local products	
	Commission Agent	
	Wholesale trader	
	Shipping airline and freight forwarding	

## STEP 7



#### Grand Total: 30.00



\_\_\_ 100,000 සිට 500,000 දක්වා

# 4.2 Customer KYC/ CDD forms

## Form I

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## Form II

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4. ධනය ඉපසු පුභවය/ආකාරය	
ු වහපාර ආදායම ු ආයෝජන ු වෘත්තීය/රැකියාව	<ul><li>□ පරිතනග (දේශීය/විදේශීය)</li><li>□ වෙනත් (නිශ්චිතව දක්වන්න)</li></ul>
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#### **DECLARATION OF BENEFICIAL OWNERSHIP**

This form has been issued under the Financial Institutions (Customer Due Diligence) Rules, No 1 of 2006 issued in terms of the Section 2 (3) of the Financial Transaction Reporting Act No. 6 of 2006. This form is required to be completed by customers of Financial Institutions designated under the Act to the best of their knowledge. The original completed and signed and witnessed version of this form must be retained by the financial institution and made available to the competent authorities upon request

Customer Identification	
Name and Designation of Natural Person opening account	
Name Registered number and address of Legal Person to whom the account is being opened	
Name, Deed Number, Trustee Address of Legal arrangement for which the account is being opened	
I declare that I:	
	owner of the customer for this account
owners that own or con	where of the customer for this account. (Complete identifying information for all beneficial trol 10% or more of the customer's equity, beneficial owners on whose behalf the account least one person who exercise effective control; of the legal entity regardless of whether listed)
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**Definition - Beneficial Owner is** "A natural person who ultimately owns or control the customer or the person on whose behalf a transaction is being conducted and includes the person who exercise ultimate effective control over a person or a legal arrangement

Name	NIC No /	Date	Current	Source of Beneficial	Check if Politically
III Vanna Mark	passport No Country of Issue, Country of Citizenship	of birth	Address	Ownership  1 Equity Indicate % 2 Effective Control 3 Person on whose behalf	Exposed Person (PEP)
				the account is opened	
THE PART CANNEL WITH	Minimum tell persett and	70		Lott to Relieve Williams In 1	nt pondit year private month
		200			GURNE NEW OR
					COLUMN THE STATE OF
					The state of the s
Details of the N	atural person	author	ized to act	on behalf of the Custo	omer / entity
Name					
NIC / Passport					
Date of Birth					
Signature (with seal)					the mean and a little of from
				herein and you acknowledge	and understand this warn
	icial ownership by	y an author	orized officer of	of our company	
Verification of Benef					
Verification of Benef					
Authorized Officer of	f the Financial inst	itution			Tentral
Authorized Officer of Name	f the Financial inst	itution			Table and a second
Authorized Officer of Name	f the Financial inst	itution			Total total
Authorized Officer of Name Designation Date	f the Financial inst	itution			

#### Definition

"Politically Exposed Person" means an individual who is entrusted with prominent public functions either domestically or be a foreign country, or in an international organization and includes a Head of State or a Government politician a senior Government officer, Judicial officer or military officer, or a senior executive of a state-owned Corporation, Government, or autonomous body, but does not include middle rank or junior rank individuals.

To be placed in the deposit account's mandate file of customer

#### Recommended

Signed

Head of Compliance

**CEO. Executive Director**