Bank Alfalah

(AML)

Anti Money Laundering /

(CFT)

Combating Financing of Terrorism /

(CPF)

Countering Proliferation Financing

&

Sanctions Essentials

ANTI – MONEY LAUNDERING (AML)

Presented By: Compliance Division

What Is Money Laundering?

- Money Laundering is a process of concealing the true identity of illegally acquired money to make it appear legal.

- In simple words: Money Laundering is a process of converting black-money into white-money by means of financial or banking channels.

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Process & Stages of Money Laundering

Collection of dirty Money

1. PLACEMENT

Dirty Money Integrates into the financial System

Wire Transfer

2. LAYERING

Transfer funds between various Offshore / Onshore Banks

3. INTEGRATION

Purchase of Luxury Assets
Financial Investments
Commercial / Industrial Investments

STAGE I : PLACEMENT

It is the initial deposit of illegally obtained funds into the financial system.

EXAMPLES OF PLACEMENT:

- Large deposits to bank accounts/fixed deposits.
- Multiple small deposits to the same account.
- Multiple deposits under reporting thresholds (E.g. Cash Deposits equal to or less than Rs. 2 Million)
- Purchase of TCs, Banker's Cheques, Foreign Currencies, etc.
- Using third-parties to make deposits.
- Using services of traders, who may intermingle illegal money with their funds.
- Using legal businesses as a front for depositing illegal funds.

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STAGE II : LAYERING

It is the process of separating the proceeds of criminal activity from their origin.

OR

It is the process of disguising the origin of proceeds through the movement of funds via accounts at financial institutions.

EXAMPLES OF LAYERING:

- Movement of funds to/ from different accounts.
- Frequent online transactions using the laundered funds.
- Investing with various business firms as an investor.
- Temporary loan adjustments for self and associates.
- Conversion of illegal money to assets and back to cash/funds.

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STAGE III : INTEGRATION

It is the process of insertion of laundered funds back into the legitimate economy. This is accomplished by conducting apparently legitimate transactions to disguise the illegal origins of the funds, allowing the laundering of funds to be disbursed back to the criminal.

EXAMPLES OF INTEGRATION:

- Lending the funds back to the launderers
- Repaying the proceeds to the launderer as apparently the payment against goods supplied and services rendered.
- Depositing the funds abroad or as collateral for financing facility, etc.

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What is Structuring and Smurfing ?

Structuring Refers to designing a transaction to evade triggering a reporting or recordkeeping requirement. The practice might involve dividing a sum of money into lesser quantities and making two or more deposits or withdrawals that add up to the original amount.

For example: Mr. Aslam wants to conduct a transaction involving PKR 4.5M in cash. However, knowing that depositing it all at once would exceed the cash reporting threshold PKR of 2M in cash and would trigger the filing of a currency transaction report, he goes to three different banks and deposits 1.5M in each.

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WHAT IS STRUCTURING AND SMURFING ?

Smurfing A commonly used money laundering method, smurfing involves the use of multiple individuals conducting multiple transactions for making cash deposits, buying monetary instruments or bank drafts in amounts under the reporting threshold.

For example: Mr. Anwar wants to make cash deposit of involving PKR 6M in cash. However, knowing that in his country PKR 2M is reporting threshold for currency transaction report he asks his 4 friends to visit different branches of city to make cash deposit of 1.5M each.

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Consequence of noncompliance for the Banks:

- **May lead to:**
  - Legal/ regulatory proceedings against the bank
  - Legal/ regulatory proceedings against the bank
  - Revocation of license of the bank
  - criminal/ regulatory sanctions/ penal actions against the bank
  - termination of correspondent relations by the foreign Banks
  - harm the reputation/ good-will of the Bank
  - deteriorate financial integrity/ stability of the bank

How to ensure compliance:

- By adhering to a set of applicable:
  - Laws
  - Rules & Regulations
  - Internal Policies & Procedures
  - Best Industry practices/ standards

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AML & CFT Control Framework

GLOBAL:

- UNO Convention (Vienna Convetion-1988).
- Financial Action Task Force (FATF).
- Asia Pacific Group (APG)-1997
  (FATF Style Regional Body)

LOCAL:

- Anti-Money Laundering Act, 2010 Amended up to Sep 2020.
- Establishment of Financial Monitoring Unit (FMU).
- SBP- AML/ CFT/ CPF Regulations Updated up to June 08, 2021.
- Anti- Terrorism (Amendment) Act, 2014
- NACTA
- Foreign Exchange Regulation Act
- National Risk Assessment

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Anti Money Laundering Act 2010

Punishments for Aiders/ Contributors to Money Laundering

- Punishments for Money Launderers:
  - ✓ Rigorous imprisonment not be less than 1 year but may extend to ten years, and
  - ✓ Fine up to Twenty Five Million Rupees, and
  - ✓ Forfeiture of property involved in the money laundering or property of corresponding value.
  - ✓ For legal persons, the fine may extend up to 100 Million Rupees.
- Tipping-off/ disclosure of information regarding reported/ reporting of STR/CTR to the customer or any other quarters:
  - ✓ Imprisonment for up to Five year or Fine up to Rs. 2 Million
  - ✓ Both of the Above.
- Liability for failure to file STR/ providing false information willfully to the Regulatory/ Investigating Authority:
  - ✓ Imprisonment for up to Five years or
  - ✓ Fine up to Rs. 5 Lac
  - ✓ Both of the Above.
  - ✓ In case of conviction of a bank, Regulatory authority may also revoke its banking license or Registration, or take such other administrative action.

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REGULATORY REGIME

SBP AML / CFT/ CPF Regulations

The Regulations will provide the clarity on implementation of AML/CFT requirements by Banks. SBP has revised regulations in Sep 2020 . Below is the list of AML/CFT/CPF Regulations :

Regulation 1- Risk Based Approach to AML/ CFT

Regulation 2- Customer Due Diligence (CDD)

Regulation 3- Reliance on Third Party Financial Institutions for CDD Measures

Regulation 4- Targeted Financial Sanctions under UNSC Act, 1948 and ATA, 1997

Regulation 5- Politically Exposed Persons (PEPs)

Regulation 6- NGO/ NPO/ Charity/ Trust Accounts .

Regulation 7- Reporting of Transactions (STRs/ CTRs)

Regulation 8- Record Keeping

Regulation 9- Correspondent Banking

Regulation 10- Money Value Transfer Services (MVTS) / Exchange Companies

Regulation 11- Wire Transfer/ Fund Transfer

Regulation 12- New Technologies

Regulation 13- Internal Controls

Regulation 14- Counter Measures For High Risk Jurisdictions

Regulation 15 Regulation and Supervision

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PROSCRIBED ENTITY-INDIVIDUALS ASSOCIATES

As per prevailing stringent guidelines of AML/CFT/ CPF regulations and in light of UNSC Guidelines, Anti-Terrorism Act, it's imperative for the banks to identify associates, who have direct links with any of the proscribed entities/ individuals.

- where financial affiliation is established in line with the delineated criteria i.e. Next of Kin, Mandates, Directors, Trustees, Partners, Same Addresses, Similar Contact Numbers, Counterparties.
- Such customers shall be considered as "associates" and identified accounts of them will be reported to the SBP .
- In addition, such accounts/ customers will also be reported to the FMU as STR in compliance of SBP AML/ CFT & UNSC guidelines.
- In case of entity accounts, it should be ensured that their beneficial owners, directors, members, trustees and authorized signatories are not linked with any proscribed/designated entities and persons, whether under the same name of with a different name.

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TYPOLOGIES OF TBML MEANS VARIOUS METHODS USED TO LAUNDER MONEY THROUGH TRADE TRANSACTIONS:

1. Short Shipment:

The act of shipping less than the invoiced quantity or quality of goods thereby misrepresenting the true value of goods in the document.

2. Over Shipment:

The act of shipping more than the invoiced quantity or quality of goods thereby misrepresenting the true value of goods in the documents.

3. Obfuscation of type of Goods/Services:

The act of omitting information from relevant documentation or deliberately disguising or falsifying it.

4.Phantom Shipment:

Shipping nothing at all with false invoices.

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COMBATING FINANCING OF TERRORISM (CFT)

Presented By: Compliance Division

WHAT IS TERRORIST FINANCING?

Terrorists also attempt to conceal their activities (including their financing) to avoid detection. As most terrorist activity requires funds for committing the terrorist acts and their sponsors support them both locally and from around the world.

Terrorist Financing is often also referred to as reverse money laundering since there is always a possibility of generating funds from legitimate sources being diverted into terrorist activities.

For instances the funds collected by the front welfare organizations for charity purpose of medical and education purposes are often directed towards training and conducting the terrorist activities.

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STAGES OF TERRORIST FINANCING

Similar to money laundering, terrorist financing also involves major three stages

Fund Raising

There are several ways to raise funds for terrorism by legitimate as well as by illegitimate means.

Movement of Funds

It Involves movement of money/funds collected through different means for their utilization in terrorist activities

Use of funds

Once the funds raised and moved through different ways and in reach of terrorist, it will be used for terrorist activities

Sources of Terrorist Financing

Terrorist financing can have a lawful origin – This is often called Reverse Money Laundering

1. Charitable/Donations
2. Legitimate Business

Funding by the Hostile Countries and Organizations based on political and other grounds

1.International Agencies
2.Funds based Specialized Program by hostile countries

Terrorist financing can have an unlawful origin (proceeds of crime)

1. Narcotics Trafficking
2. Kidnapping
3. Other Crimes

1. Fund Terrorist Attacks
2 Fund and sustain a terrorist organization

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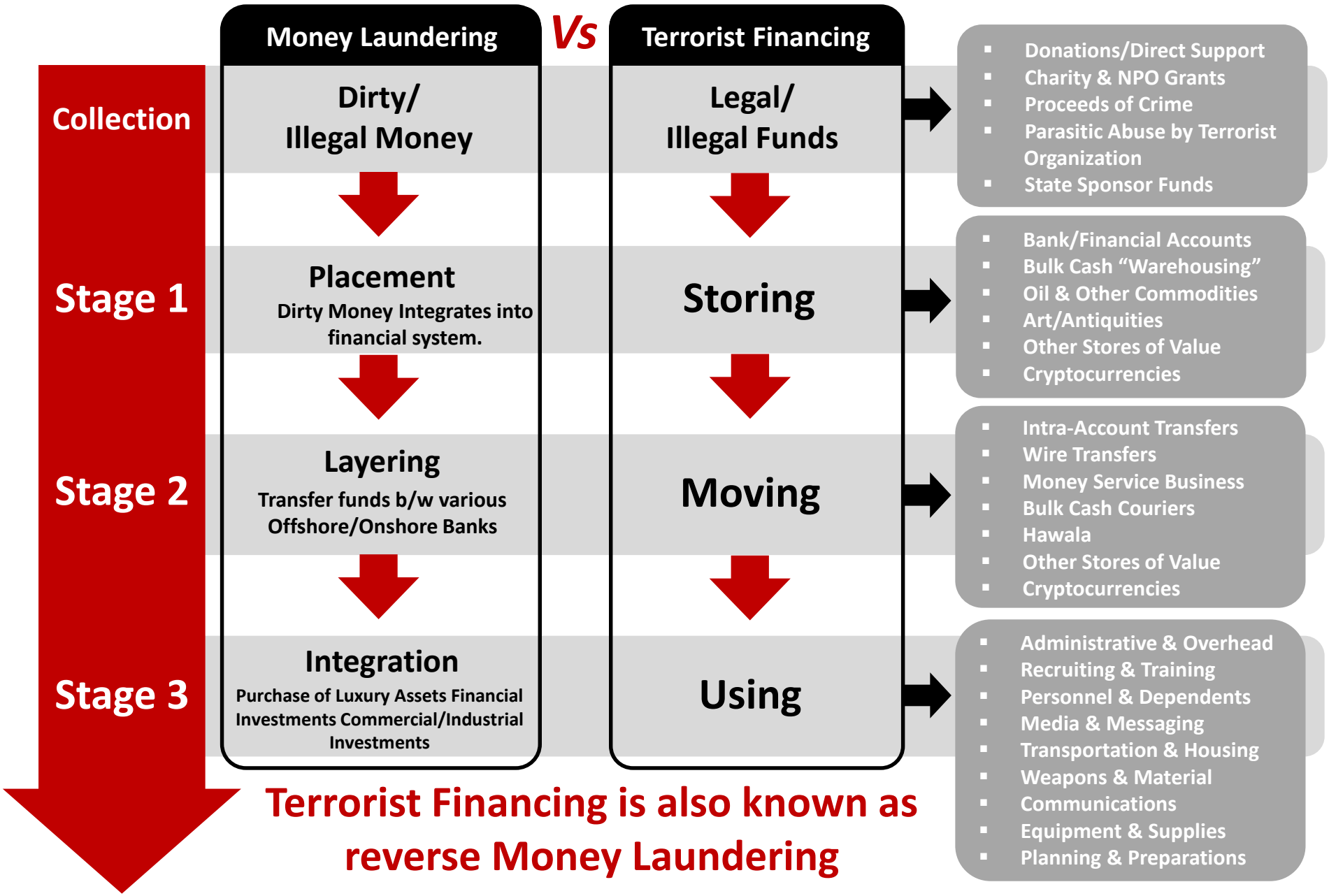
Differences b/w Money Laundering & Terrorist Financing



Terrorist Financing is also known as reverse Money Laundering

Risks Related To Money Laundering /Terrorist Financing:

Reputational Risk:

Reputational risk possess a potential threat to Banks, since the nature of banking business requires maintaining the confidence of depositors, creditors, shareholders and the general public.

Operational Risk:

Operational risk is the potential for loss resulting from the failure of internal processes, people and systems, or the impact of external events.

Legal Risk:

Legal risk is a possibility that lawsuits, adverse judgments or contracts that turn out to be unenforceable can disrupt or adversely affect the operations and the overall condition of the bank.

Financial Risk:

If a business does not know the true identity of its customers, it will also be difficult to retrieve any money that the customer owes.

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TRADITIONAL TF METHODS & TECHNIQUES

Item	Description
Private donations	▪ Every donation box is not for good purpose.. ▪ There exist a possibility of utilizing legitimate funds for financial support to individual terrorists or non-state actors.
Abuse and misuse of nonprofit organization	▪ NPO's methods of providing humanitarian aid may lead to their misuse to facilitate terrorist activities. ▪ in the good work done by the NPO sector. NPO activities are generally **not scrutinized** as consistently as other sectors. Terrorist networks abuse this public trust by associated on the legitimate activities of an – unaware – NPO, or by representing legitimate NPOs
Proceeds of criminal activity	▪ Smuggling of weapons and other goods ▪ Drug / human trafficking ▪ Extortion
State sponsored terrorism	▪ Indian consulates in Kandahar and Jalalabad, Afghanistan, providing arms, training and financial aid to the Baluchistan Liberation Army (BLA) in an attempt to destabilize Pakistan.
Kidnapping for ransom	▪ Ransom amount utilize for financing of terrorism

List of Impermissible Activities

BAFL, as a policy matter, shall not allow it's channel to be used for following impermissible activities:

Opening / Maintaining of:

- Anonymous / fictitious named or benami / numbered account
- Proscribed Individuals
- Account / relationship in abbreviated name in cases where entity has its complete non-abbreviated name in their constituent document.
- Government accounts in the personal names of the Government official(s)
- Accounts/ relations, where customer does not provide the required information / documents in relation to bank`s mandatory CDD / EDD measures; and/ or Bank is not satisfied with credentials of customers in terms of AML/CFT/CPF regime.

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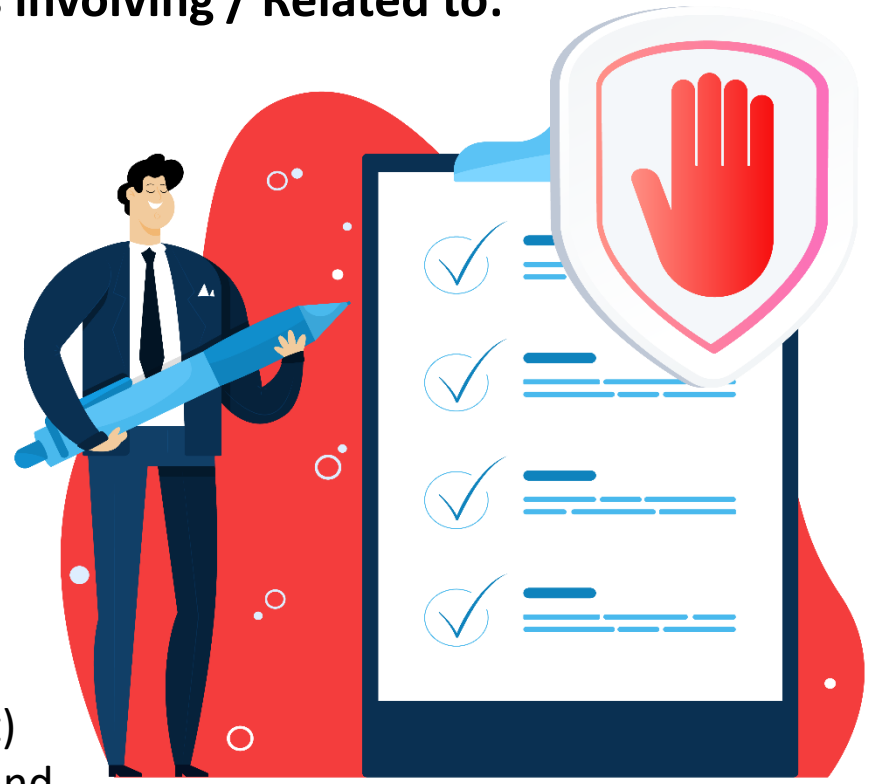
List of Impermissible Activities

Entering into / Continuing business relations involving / Related to:



- Bearer share company
- Gambling entities/ Bookies
- Dealers involved in the illegal distribution of Arms and Ammunitions
- Illegal narcotics / Human trafficking
- Pornography
- Virtual Currency/ Crypto currencies
- Unlicensed or unregulated banks / exchange companies / money transferring companies / other Financial institutions;
- Shell Banks, (means a bank that has no physical presence (mind and management) in the country in which it is incorporated and licensed, and which is unaffiliated with a regulated financial group that is subject to effective consolidated supervision).
- Banks/financial Institutions that allow their accounts to be used by shell banks;
- Conducting transactions on fake identity documents
- Institutions incorporated, registered, or having sponsorship in the sanctioned jurisdictions that are prohibited by the bank to deal with.
- Payable through Accounts (PTA)

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TARGETED FINANCIAL SANCTIONS UNDER UNSC ACT, 1948 AND ATA, 1997

Bank shall undertake TFS obligations under the UNSC Act and ATA, with regard to:

(a) DPs or PPs

(b) Entities owned or controlled, directly or indirectly, by them; or

(c) Individuals and entities acting on their behalf, or at their direction

- The Bank shall ensure that no funds or other financial assets, economic resources, or financial services, are made available, directly or indirectly, wholly or jointly, for the benefit of such individuals or entities unless authorized or otherwise notified in accordance with relevant provisions of the laws.
- If any account is identified the bank is required to freeze the account immediately and report the said account to FMU as STR.
- Freeze amount also report to SBP as per regulatory requirement.

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TARGETED FINANCIAL SANCTIONS UNDER UNSC ACT, 1948 AND ATA, 1997 (FAQS)

Q1 **Who are "associates" of Designated/ Proscribed Persons?**

- Associated individuals/entities are those acting on behalf of or at the direction of designated person/entities.

Q2 **Should an individual be considered as an associated individual merely on basis of familial/ blood relationship with a designated/proscribed person?**

- State Bank of Pakistan requires SBP reporting entities to identify individuals and entities acting mon behalf proscribed person/entities but cannot penalized a person merely on basis of blood n.relationship with designated/proscribed person.

Q3 **If an account of an entity is frozen based upon designation, should the personal bank accounts of directors/members of that entity be also frozen?**

- If a person is a member/director of a designated/ proscribed entity than his/ her personal accounts are also liable to be frozen.

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Designated Non-Financial Businesses and Professions (DNFBP) Risk

The DNFBP sector comprises real estate dealers, dealers in precious metals and stones (mostly jewelers), auditors, accountants, lawyers and notaries. The real estate dealers and jewelers pose high inherent vulnerability due to their limited regulatory regime.



Bank accounts of these DNFBPs may also serve as an avenue to hide funds of money launderers. The funds in their accounts may possibly come from some of their customers involved in criminal activities, therefore, the threat of such banking relationships is considered to be high.

The inherent vulnerability of DNFBPs accounts to our bank ranges between medium to High (Real Estate High; Jeweler's High Risk accounts and Accountants and Lawyers categories as medium risk .

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CONTROL FRAME WORK FOR DNFBPS ACCOUNTS IN BANK ALFALAH

Following are the sectors considered and DNFBPs:

- ✓ Real Estate Dealers
- ✓ Service provider Business
- ✓ Trusts
- ✓ Jewelers /Dealers in precious metals and stones
- ✓ Auditors, Accountants, lawyers and Notaries.

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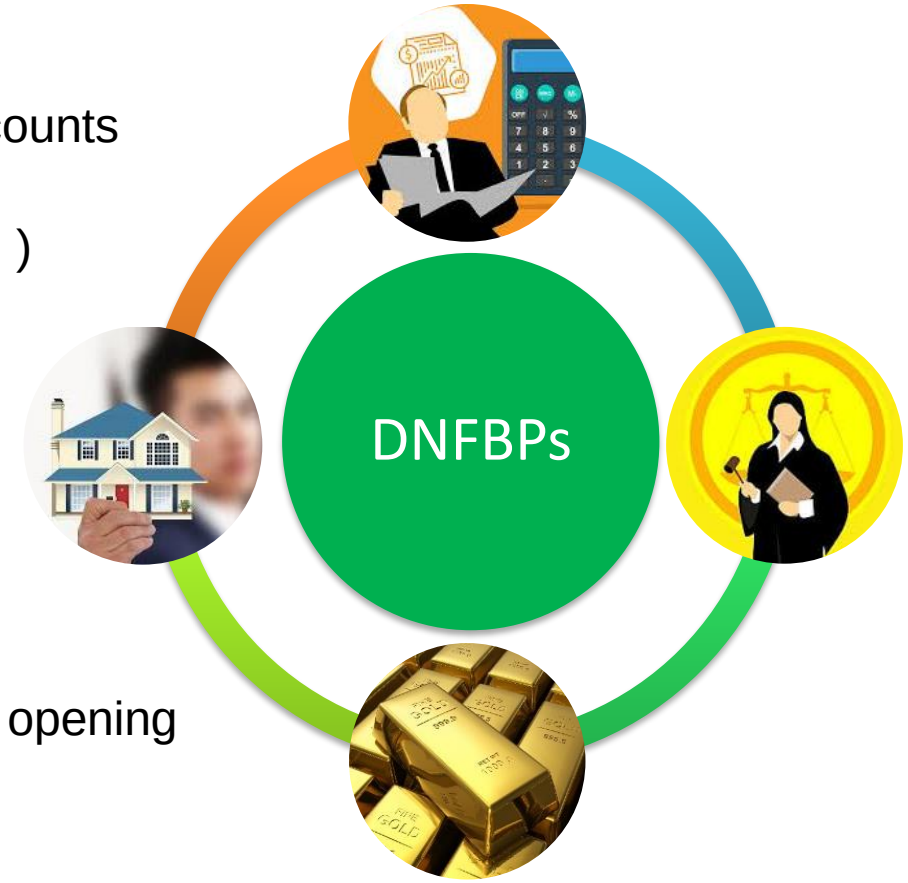
CONTROL FRAME WORK FOR DNFBPS ACCOUNTS IN BANK ALFALAH

- Enhance due diligence for High Risk Accounts
- Transactions Monitoring System (FCCM)
- Income proof / source documents for high value transactions
- CTR / STR Reporting
- Centralize Account Open department for opening of accounts
- Biometric Verification for accounts
- Customer screening while onboarding of customer as well as on line transactions conducted by walk in customer



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HANDLING OF LEA ENQUIRIES

- Bank's LEAC (Law Enforcement Agencies Coordination) unit receives letters and enquiries from various law enforcement agencies i.e. from CTD, FIA CTW through which CNIC numbers and relevant details of certain individuals being investigated in lieu of perpetrating alleged offences by the respective agencies are shared with the bank for identification of banking relationships maintained by those respective individuals.

- LEAC Unit incorporates the notified CNICs / identified relationships in CFT LNL List to be uploaded for screening purpose and refers the identified relationships to the respective branches and CDD Unit thus enabling them to take appropriate remedial measures at their end.

- In pursuance of the above mentioned measure, LEAC unit is responsible for carrying out searches through pan bank databases against the notified CNICs in CTD / FIA CTW letters and enquiries leading to preparation of Consolidated Bank's Responses against all identified relationships and onward sharing with CFT Desk for due processing at their end.

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HANDLING OF LEA ENQUIRIES

- It is obligatory upon CFT Desk to review and go through each and every relationship identified through Consolidated Bank's Responses received from LEAC Unit to ascertain whether any of those existent relationships are liable for STR reporting in light of the allegation levelled and terror financing perspective.

- Prior approval will be sought from CFT Desk management before STR submission and reporting to FMU (Financial Monitoring Unit) against identified existing relationship proven validated for onward reporting in context of TF perspective.

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REVIEW OF RED / BLACK BOOKS ISSUED BY DIFFERENT PROVINCIAL / FEDERAL POLICE DEPARTMENTS

- In addition to the above mentioned highlighted points, CFT Desk is also tasked with carrying out reviews of published red / black books issued by the respective provincial police departments for identification of any existent relationship being maintained by the risk entities listed in those books in order to mitigate inherent AML / CFT risk and safeguard overall bank's interest.

- The identified existing relationships are reported as STRs to FMU by CFT Desk apart from being intimated to the respective branches and CDD Unit for taking appropriate remedial measures at their end.

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WHAT CAN WE DO?

- Follow AML/CFT/ CPF policies and procedures which are designed to help you protect your business from these types of activities.

- Follow the steps for processing transactions to help safeguard your business and protect our financial system from money-laundering / terrorist financing efforts.

- Follow Guidelines on Compliance of Government of Pakistan's Notifications issued under United Nations Security Council (UNSC) Resolutions.

COUNTERING PROLIFERATION FINANCING (CPF)

Presented By: Compliance Division

PROLIFERATION FINANCING OR PF

Proliferation Financing or PF" is the act of providing funds or financial services which may be used, in whole or in part, for the manufacture, acquisition, possession, development, export, trans 'shipment, brokering, transport, transfer, stockpiling or use of nuclear, chemical or biological weapons and their means of delivery and related materials (including both technologies and dual-use goods used for no legitimate purposes accordingly as a starting point element that may indicate potential Proliferation Financing and sanctions evasion activities appended highlight red flag for your guidance while performing activities / transactions to identify the possible match with special focus on trade base money laundering to ensure review and take necessary actions if the situation so warrants.

Red Flags are :

- Transaction involves person or entity in foreign country of proliferation concern.
- Transaction involves person or entity in foreign country of diversion concern.

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Red Flags for Proliferation Financing

- Transaction involves shipment of goods incompatible with the technical level of the country to which it is being shipped, (e.g. semiconductor manufacturing equipment being shipped to a country that has no electronics industry.

- Involvement of items controlled under WMD export control regimes or national control regimes.

- Trade finance transaction involves shipment route (if available) through country with weak export control laws or weak enforcement of export control laws.

- Order for goods is placed by firms or persons from foreign countries other than the country of the stated end-user.

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TRANSNATIONAL RISK/THREATS:

Transnational can be define as extending or going beyond national boundaries or trafficking across the borders transactions .

Transnational threats, security threats that do not originate in and are not confined to a single country. Terrorism, organized international crime, and the possible acquisition of weapons of mass destruction (WMD) by non-governmental groups are commonly cited as examples of **transnational** threats.

Possible emerging Sources and Channels being used by Proscribed Person/Organizations for Terrorism Financing are:

- **Social and Religious Norms :**Many terrorist organizations derive their funding from licit sources such as donations through fund-raising including both nationally & Internationally)

- **Social Media (**Crowd funding through social media is also a new arena of TF being exploited by banned entities and its members due to anonymity and transnational impact and its unregulated nature & the use of cyberspace for the purpose of propagation of extremist ideology**)**

- **Illegal MVTS/Hawala/Hundi (**The cash-based economy of Pakistan, inherent risk of geography, demography, corruption, tax-evasion, unwillingness to come under the regulatory ambit and most importantly the anonymity factor in transactions, make the illegal MVTS a preferred choice for criminals for domestic and transnational transfer of funds**)**

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TRANSNATIONAL RISK

As far as financing of terrorism is concerned

- Funds for terrorism and terrorist organizations are generated both in Pakistan and in foreign jurisdictions for operations within the country.
- Funds generated illicitly in Pakistan include donations to known terrorist organizations, extortion, and kidnapping for ransom.
- Funds generated externally include these sources plus funding by hostile intelligence agencies.
- The geographic location of Pakistan is in itself the primary inherent characteristic posing high threat towards incoming transnational TF elements and outgoing financing.
- Funds appear routed through bulk cash movements and unauthorized hawala/Hundi and cash couriers.

The external terrorism and TF threats are exploiting Pakistan's ***highly active and porous borders***. The long porous borders with Iran and Afghanistan are major causes of illegal border crossing, cash smuggling, illegal trade, drug trafficking, kidnapping for ransom, extortion and hawala business. Therefore, the geographic location of Pakistan is in itself a primary high inherent vulnerability towards incoming transnational TF element.

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BE VIGILANT

Below are some of the examples of the common techniques that customer use to hide their sanctions nexus therefore it is responsibility of every staff of the bank to be vigilant.

- Missing information about parties or locations in payment messages or transaction documents where that information would usually appear.
- Imprecise or generic phrases in place of exact party or location names, such as ‘Our customer’ or ‘Persian Gulf’.
- Client or counterparty refuses to provide additional information about the parties or locations involved in a transaction.
- Unusual transactional structure used by our client, which do not make commercial sense and could hide the involvement of sanction country or party.
- Entity incorporated in a non sanction country but being operated from a sanction country i.e. correspondence received to/from sanction country (address/fax number/email addresses).

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Being the Bank Alfalah Employee what is our Responsibility?

- Employees must be aware of and implement the KYC/AML/CFT/CPF policy, procedures and controls in true spirit.
- Employees who have contact with customers have a high degree of responsibility for ensuring that they do not willingly or unwillingly assist / advised in structuring or any other ML/TF Techniques in a way to avoid their reporting or record keeping requirements.

- Employees must recognize that certain clients pose a higher risk to the institution and perform enhanced due diligence on these clients and enhanced monitoring of clients' transactions.
- Any employee who suspects money laundering/terrorist financing transactions should immediately refer the matter to Compliance.

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Sanctions Compliance & Bank's Sanctions Program

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WHAT ARE SANCTIONS?

Sanctions are policy tools put in place by the international community as a means to combat;

- Terrorism
- Human Right atrocities
- Nuclear weapons proliferation
- Transactional crimes

by depriving those involved of economic resources.

Sanctions can be targeted at specific individuals, entities, organization or countries by restricting or prohibiting their access to financial markers, trade, industry and arms.

Sanctions therefore serve as a means to influence or punish the relevant targets and restrict their ability to function in order to maintain or restore international peace and security as well as to uphold respect for human rights, democracy and rule of law.

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WHY SANCTIONS ARE IMPORTANT?

Sanctioned countries, individuals, entities, groups, etc. present risk to the bank. All banks including BAFL and our staff, have a duty and responsibility to comply with sanctions regime.

It is our responsibility to protect business interests by avoiding any situation that will put us in breach or potential breach of sanctions.

This will help us to avoid an adverse reputational impact which could undermine confidence in the bank and have consequences to customer willingness to deal with us.

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WHO IMPOSE SANCTIONS?

Sanctions are issued from various different authorities. These authorities includes the following:

LEGALLY BINDING ON PAKISTAN

- United Nations Security Council Sanctions
- Govt. of Pakistan (under Schedule – I and IV of ATA) – Available on NACTA

UNSC NACTA EU OFAC OFSI/HMT

Office of Financial Sanctions Implementation HM Treasury

UNILATERAL SANCTIONS OF GLOBAL IMPACT

- EU
- US – OFAC
- UK – OFSI/HMT

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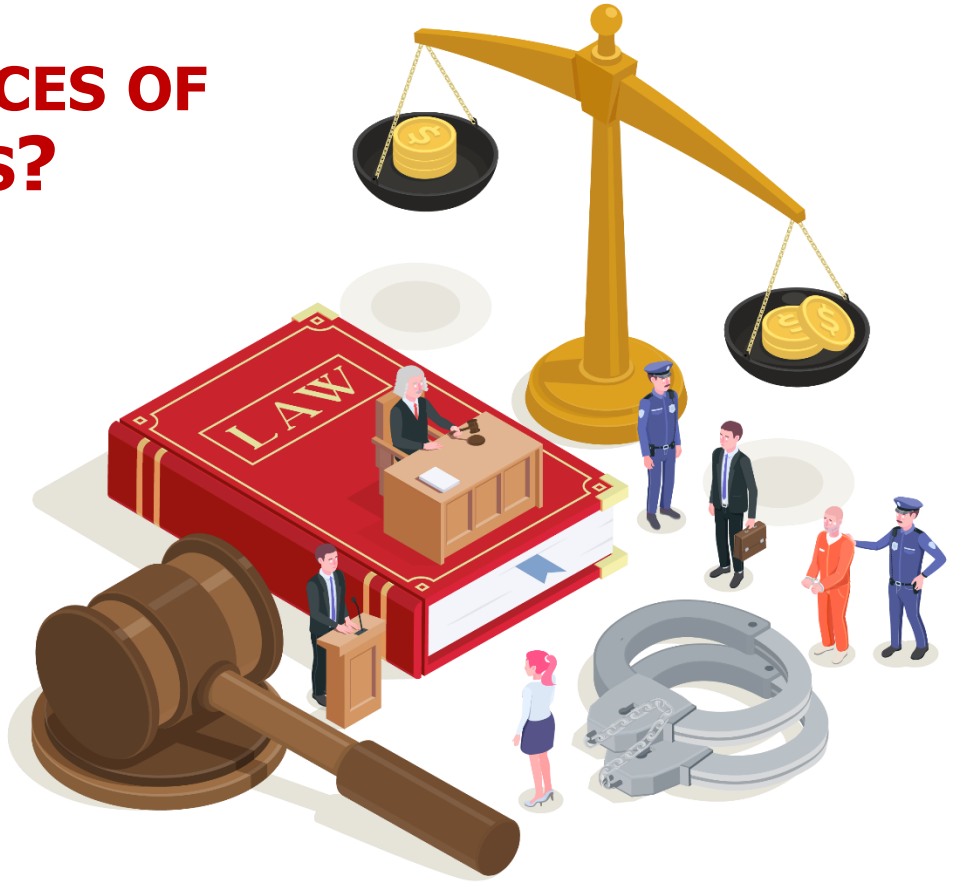
What are consequences of Breaching Sanctions?



For Individual

- Imprisonment
- Fines
- Loss of career

For Organization

- Reputational Damage
- Monetary Penalties
- Restrictions on ability to undertake certain business
- Damage to relationships with regulator, which could result in losing a license to operate.
- Significant remediation costs

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List of Sanctioned Countries

Following countries are subject to broad based sanctions and no transactions or any activity is allowed with these countries:

Iran

Israel

Cuba

Syria

Sudan and South Sudan

Ukraine

(North Korea)
Democratic People's Republic of Korea

Russia

Belarus

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Sanctions Screening

Screening is a control used in the detection, prevention and disruption of financial crime and, in particular, sanctions risk. It is the comparison of one string of text against another to detect similarities which would suggest a possible match.

It should be undertaken as part of an effective Sanctions Compliance program, to assist with the identification of sanctioned individuals and organization's, as well as the illegal activity to which the Financial Institutions may be exposed with.

It helps identify areas of potential sanctions concern and assists in making appropriately compliant risk decisions.

The following lists issued for designated parties are to be used for screening purposes:

- **United Nations**
- **European Union**
- **OFAC Lists**
- **HMT List**
- **NACTA (1st and 4th Schedule)**
- **Local Negative List**

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When to perform screening?

BAFL is committed to perform screening of client(s), vendors, employees, customers etc. against all the applicable sanctions list to identify the sanction risk and implemented systems for the mitigation of the same.

- Bank to perform screening before;
  - Onboarding of new relations, amendments in existing relationships particularly related with details of customer, its UBOs, Authorized Signatory, mandate-holder, etc.
  - Payment of Remittance or issuance/ cancellation of a remittance instrument such as banker's cheques, etc.
  - Issuing a locker, providing credit card or other facilities
  - Executing trade transaction
  - Dealing with Walk-in customers on counters for any type of banking services, e.g. issuance/ encashment/ cancellation of Banker's Cheques, CDRs/ government securities, online transaction, cash deposit, withdrawal, etc.
- In addition, periodic screening of existing relationships is also required to be carried out to ensure that no relationship is maintained with the proscribed/ designated persons

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BANK'S SANCTIONS PROGRAM

BANK'S SANCTIONS PROGRAM

Banks sanction program consists of two layered sanction screening mechanism.

1. **First line Screening**
   As a preventive measure, first line sanction screening is responsibility of first line of defense (i.e. branches, CTO, CFG, DBG, CAOD, etc.)

2. **Second line Screening**
   As a detective measure and to supplement the first line screening by applying risk based approach, 2nd line screening is also carried out at second line of defense (i.e. Compliance Division).

Note: The Bank has zero tolerance on the sanctions breaches, so all the concerned staff must ensure that there is no sanction breaches.

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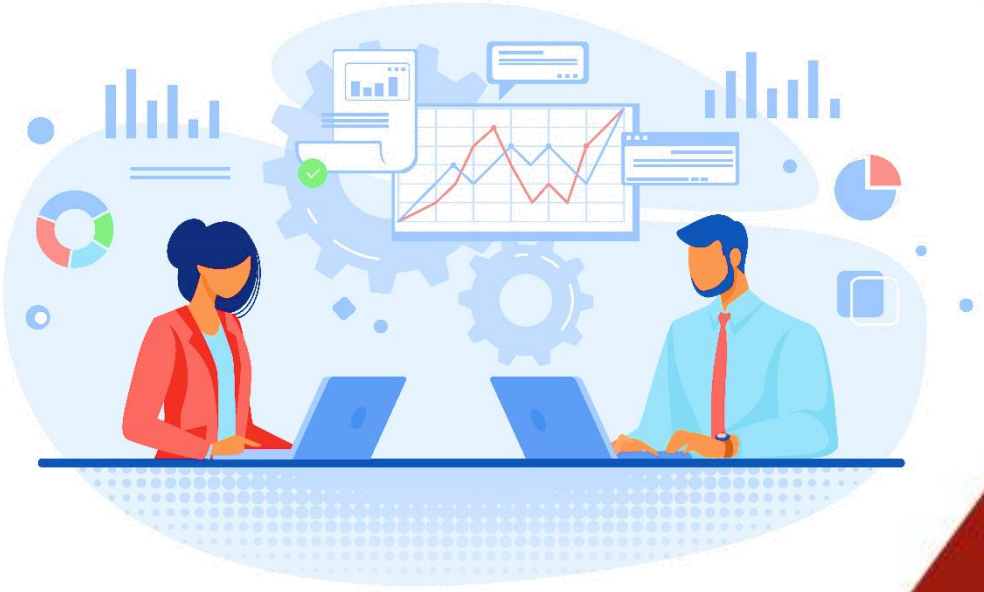
Transaction Monitoring



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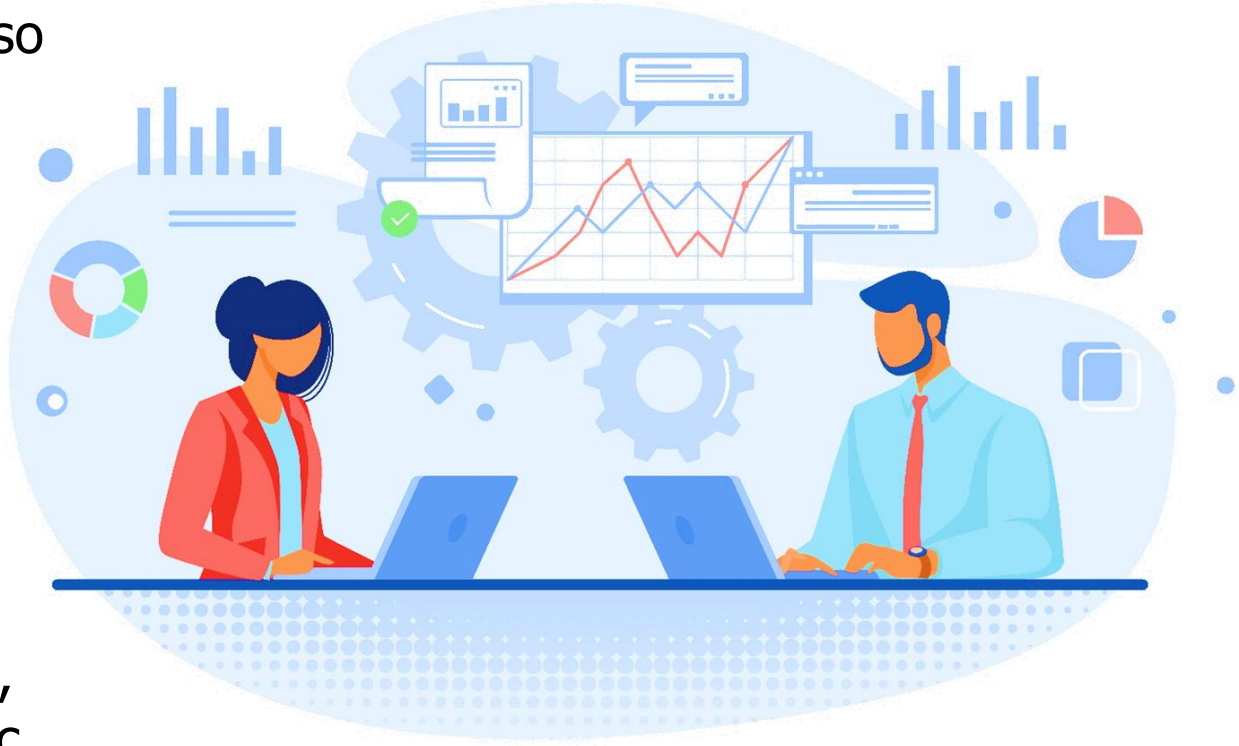
The Way Forward

What is Transaction Monitoring?

Transaction monitoring refers to the monitoring of customer transactions, including assessing historical and current information also including interaction with customer to obtain complete picture of customers activity. This can include all types of transactions such as deposits and withdrawals, transfers, clearing, collection, etc.



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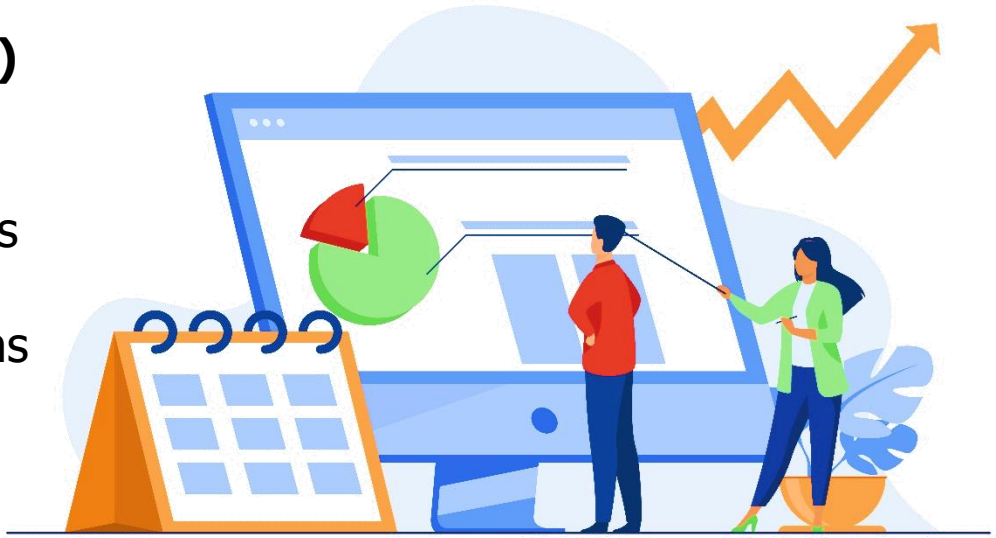
When to perform Transaction Monitoring?

AML/CFT/CPF Regulations

CUSTOMER DUE DILIGENCE (CDD) requires Banks/DFIs:



- ✓ All business relations with customers shall be monitored on an **ongoing basis** to ensure that the transactions are consistent with the bank/ DFI's knowledge of the customer, its business and risk profile and where appropriate, the sources of funds.
- ✓ Banks/DFIs shall obtain information and examine, as far as possible the background and purpose of all complex, unusual large transactions, and all unusual patterns of transactions, which have no apparent economic or visible lawful purpose.
- ✓ The background and purpose of these transactions shall be inquired and findings shall be documented with a view to making this information available to the relevant competent authorities when required.

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RISK BASED APPROACH (RBA)

FATF defines Risk Based Approach as;

- A RBA to AML/CFT means that countries, competent authorities and financial institutions, are expected to identify, assess and understand the ML/TF risks to which they are exposed and take AML/CFT measures commensurate to those risks in order to mitigate them effectively.

- When assessing ML/TF risk, countries, competent authorities, and financial institutions should analyse and seek to understand how the ML/TF risks they identify affect them; the risk assessment therefore provides the basis for the risk-sensitive application of AML/CFT measures.

- RBA allows countries to adopt a more flexible set of measures in order to target their resources more effectively and apply preventive measures that are commensurate to the nature of risks, in order to focus their efforts in the most effective way.

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Framework for Effective transaction monitoring System

SBP AML/CFT GUIDELINES ON RISK BASED APPROACH FOR BANKS & DFIs

Banks/DFIs may conduct their internal money laundering and financing of terrorism risk assessments with the purpose to develop their own policies and procedures, in order to identify, assess, manage and mitigate related risks on ongoing basis. It is advisable that measures to prevent ML/FT risks are commensurate to the risks identified for effective mitigation.

Wolfsberg Group

The Wolfsberg Group believes that a risk-based approach enhances the effectiveness of monitoring for unusual and potentially suspicious activity, to the extent that such activity is distinguishable from legitimate activity.

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Framework for Effective transaction monitoring System

Financial Action Task Force - FATF

A risk-based approach means that countries, competent authorities, and banks identify, assess, and understand the money laundering and terrorist financing risk to which they are exposed, and take the appropriate mitigation measures in accordance with the level of risk.

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How Bank Performs Transaction Monitoring ?

Bank performs transaction monitoring through ICD Dashboard used by branches, and FCCM (automated Transaction Monitoring system) deployed at Compliance respectively to detect and monitor unusual transactions in customer's account. AML transaction monitoring system allows institutions to monitor customer transactions for risk mitigation.

By combining the information of customers' transaction and account type, the system provide bank with a "whole picture" of a customer's profile, risk levels, generate alerts highlighting the unusual transactions.

These alerts are generated on various transactional modes including cash deposits and withdrawals, fund transfers, wire transfers, online transactions etc.

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TRANSACTION MONITORING SYSTEM USED AT BAFL

Monitoring of transactions has become mandatory by SBP regulations for the banks.

1. First line monitoring of the transactions is carried out by first line of defense (i.e. branches/ business units) on an ongoing basis through ICD Dashboard alerts.

2. To supplement first line monitoring, 2'nd line monitoring is performed by Compliance Division through Oracle AML automated TMS- Financial Crime and Compliance Management System (FCCM) Version 8.02. The system uses advanced behavior detection platform to identify behaviors of transactions which may be potentially out of pattern for the known customers profiles.

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Transaction Monitoring System Used at BAFL Branches

The following Transaction Monitoring Alert Scenarios are deployed at ICD Dashboard for real-time Monitoring of Transactions Monitoring.

Alert Name	Description / Scenario of Alert Generation
Transaction in Dormant Account	If any manual Debit transaction take place in any Dormant Account without changing account status this Alert will be generated.
FCY Transaction above 10,000 USD Equivalent	When any Counter Cash Credit Transaction occurred for USD 10,000 or Equivalent, this Alert will be generated.
Credit Transactions in Accounts Related to Proscribed Person	If any Credit Customer transaction take place in any account having Debit Block 26 defined for ATA proscribed, Alert will be generated.

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Transaction Monitoring System Used at BAFL Branches

The following Transaction Monitoring Alert Scenarios are deployed at ICD Dashboard for real-time Monitoring of Transactions Monitoring.

Alert Name	Description / Scenario of Alert Generation
Instrument Credited in Account other than Beneficiary	If Instrument Credited in Other than Beneficiary Account then Alert will be generated at ICD Dashboard. / System will match 1st Digit of Beneficiary and the Account where fund have been credited.
Inward Foreign Remittances - INGO/NGO/NPO Accounts (A/cs)	If any "Inward Foreign (FCY) Remittance" credited in INGO-NGO-NPO Account then following Alert will be generated.
High Frequency of Transactions - NGO/NPO/Charities/Trust/Society/Club/Association A/cs	Branches are required to critically review these accounts to validate transactions are conducted as per KYC profile, if found suspicious must be report as STR after investigation. Alert will generate only for "Cash Transactions" upto Rs.25,000/- with Frequency (Transaction Count) 25 or Higher per day.

Transaction Monitoring System Used at BAFL Branches

The following Transaction Monitoring Alert Scenarios are deployed at ICD Dashboard for real-time Monitoring of Transactions Monitoring.

Alert Name	Description / Scenario of Alert Generation
Exceptional Account Turnover - Annual	If Actual Annual Turnover (Debit + Credit) of account exceeds from Customer's Expected Annual Turnover -50% Lower Tolerance Breach from Expected Annual Turnover of Accounts having Actual Annual Turnover above Rs.2 Million and 50% Upper Tolerance Breach from Expected Annual Turnover. ➢ Accounts having Block 13 (New Accounts under Process at CAO) Status is excluded. ➢ Accounts ageing less than a year is excluded. ➢ Included only Active Checking Accounts Liability Accounts open in the branches.
Exceptional Account Turnover - Annual	System will calculate aggregate monthly Credit turnover from first date for each Calendar Month and will generate Alert during the month if Actual Account Credit Turnover breaches from Customer's defined Expected Credit Turnover + 20 % Tolerance. Similarly, same cycle will be followed for each month. ➢ Accounts having Block 13 (New Accounts under Process at CAO) Status is excluded. ➢ Included only Active Checking Liability/Deposit Accounts open in the branches.
Debit Transactions in Checking Accounts without Cheque No	System will generate Alert if any debit transaction has been posted without Cheque Serial number / Transaction Ref.

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Transaction Monitoring System Used at BAFL Branches

The following Transaction Monitoring Alert Scenarios are deployed at ICD Dashboard for real-time Monitoring of Transactions Monitoring.

Alert Name	Description / Scenario of Alert Generation
Newly Dormant to Active Accounts - Transaction Monitoring	System will generate alert if the sum of transaction amounts within 10 days of activation is Rs.20M on either debit or credit side for individual category accounts. For Non-Individual/entity category accounts the system will generate alert if the sum of transaction 10 days of activation is Rs. 50M on either debit or credit side
Call Deposit Receipts (CDR)	If any Call Deposit Receipts (CDR) of Rs. 1 Million &above issued, then Alert will be generated.
Country Variance in Trade Transactions with Customer's KYC Profile	The Anticipatory profile- Geographic variance (Import & Export) alerts are triggered when geographic locations other than those mentioned in KYC Form & same is required to be analyzed by First Line of Defense and in case of satisfaction the comments shall be updated accordingly otherwise if any suspicion from ML/TF/PF perspective is surfaced the internal STR shall be reported to Compliance Division.

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Guiding Rules For Transaction Review at 1st Line Of Defense

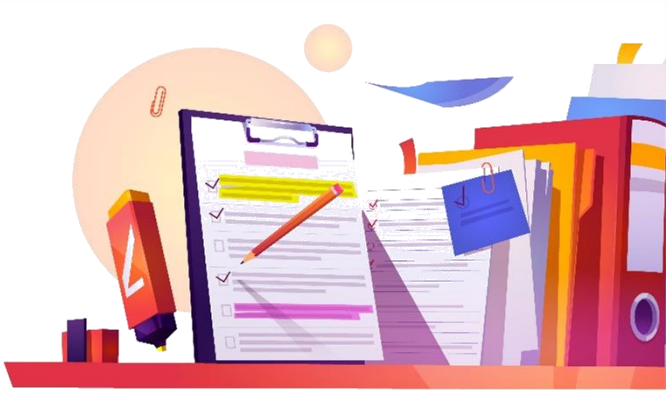
Review

- ✓ Review of customer profile i.e. CDD/AOF and seek necessary justification from customer against the transaction (If required).
- ✓ While execution of the transactions which apparently seems mismatch with the profile of the customer (counterparty, trading geography, turn-over, etc.) branch should ask the customer for plausible justification/ supporting documentation against such gaps.
- ✓ BM should review the **all transaction analysis** report extracted on daily basis and close it with proper rational against each transactions.

Update

- ✓ Upon getting satisfactory justification, KYC profile of the customer should be updated (where required).
- ✓ In case of any adverse news or the customer is under probe by the agencies, the branch should perform enhance due diligence and may increase risk level of the customer (if deemed appropriate).

Guiding Rules For Transaction Review at 1st Line Of Defense



Document

- ✓ Frontline to ensure that all relevant justification obtained from customer has been appropriately documented.
- ✓ The ideal time to get the supporting documents and transactions details from customer is at the time of performing the transactions.

Escalate

- ✓ In cases where there is a suspicion with respect to customer's profile or account activity from ML/TF perspective, the case should be escalated to Compliance division as internal STR on immediate basis as per circular Ref. No. OPRN-645/COMP-1467/2019 regarding the Guidelines on Transaction Monitoring and reporting of internal STRs.

Guiding Rules For Branches/Area offices To Respond To AML Queries

With Reference to Compliance circular: OPRN – 247/COMP-681/2016, process of responding of AML queries is clearly stipulated for the field offices / Branches.

At Branches: Upon the receipt of AML enquiries /Alerts, the concerned BM/OM/Designated Staff of the branch should:

- Review of queries thoroughly, understand the requirements well and arrange the required information / supporting documents.
- Complete economic consideration (source, utilization and purpose of the transactions) should be provided against the highlighted transactions.
- Prepare appropriate response for each point of the enquiry and attached all supporting documents therewith (if required) and submit the same to concerned AML analyst with complete trail within the given time frame.
- In case, if any adverse news or the customer is under probe by the agencies the same should intimated to the compliance division via relevant query
- Maintain proper records of AML enquiries along with exchange correspondence in branch for audit trail purpose.

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Guiding Rules For Brances/Area offices To Respond To AML Queries

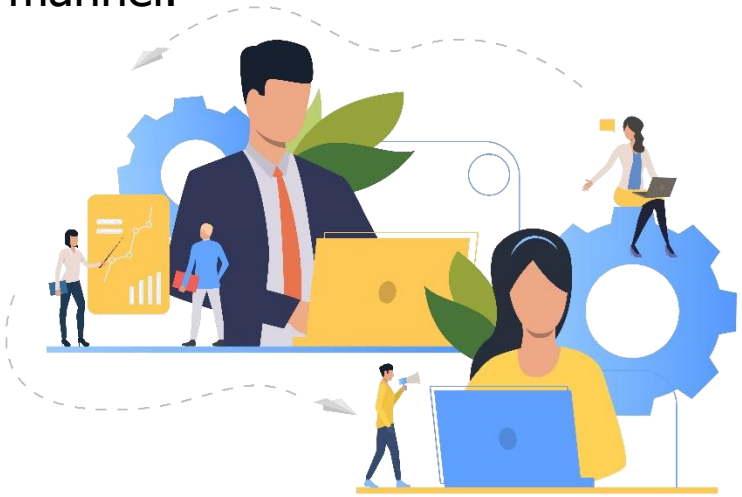
NOTE: In case where Transactional activity / Customer profile is observed /Identified as suspicious from AML / CFT perspective and if the same is the worth-filling STR, the branches should immediately report such cases to Transaction Monitoring Unit with all the relevant background and findings for further guidance / course of action.

At Area Offices: Area offices are required to effectively monitor the traffic and flow of AML queries between Compliance & Branches and ensures that:

- All enquiries raised / escalated on accounts of branches under their respective jurisdiction are responded in appropriate and timely manner.
- All suspicious cases / account unearthed from AML / CFT perspective pertaining to branches of the area are reported to Transaction Monitoring Unit-Compliance Div. in an appropriate and timely manner."

TAT for responding to AML Queries:

AML Query	TAT
Critical	3 days
Unusual	7 days



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Tips for Effectively Responding to AML Queries

DO'S

- Provide plausible rationale for increased account turnover and reason for high value transactions in the account.
- Before responding, verify financial status, business turnover etc. from customer (if not available in the branch record).
- Be 100% sure while giving your comfort on account activity that it is not related to ML/TF.
- Purpose of each transaction should be clear & Specific.
- Always try to identify the source & purpose of 'Remittances' with HIGH care along with the relationship with counterparty.

DON'TS

- Do not provide incomplete or vague response. Avoid using statements like customer is doing business or Personal transactions etc.
- Do not validate before confirmation
- Do not confirm without assurance
- General statements like Personal Savings/ investments, business transactions etc. should be avoided.
- Avoid responding with general statements like Investment / Personal Need / Family Support / Property / incomplete / non-conclusive reply.

Tips for Effectively Responding to AML Queries

DO'S

Try to give as much information as possible regarding customer & conduct of the account to avoid repetitive AML referrals.

Try to obtain documentary evidence proactively for high value transactions to satisfy yourselves on the genuineness of the transaction. If customer refuse to provide such documents, at least see the documents, and mention relevant details in the response email.

Give special attention to all unusual transactions in the account specially transactions conducted through cash and remittances (high risk) and Update customer's profile in case of change in his profile.

Always respond AML enquiry on timely basis i.e. within TAT

Don't hesitate to highlight unusual/ suspicious transactions/activity to compliance team through **Internal Report** for further course of action

DON'TS

Don't just reply as Satisfied / self-assumed responses / short-answered responses.

Don't ignore the importance of Documentary Evidence.

Don't treat the Unusual transaction as "U S U A L!!!"

Don't ignore the importance of AML queries.

Characteristics of Suspicious Transactions

Customer-Red Alerts

- ✓ Customer discusses a financial institution's recordkeeping or reporting requirements with the apparent intention of avoiding them.
- ✓ Customer threatens an employee in an effort to discourage required recordkeeping or reporting.
- ✓ Customer appears to have a hidden agenda or behaves abnormally, such as turning down the chance to obtain a higher interest rate on a large account balance.
- ✓ Transaction involves offshore institutions whose names resemble those of well-known legitimate financial institutions.
- ✓ Customer, who is a public official, opens account in the name of a family member who begins making large deposits not consistent with the known sources of legitimate family income.

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Characteristics of Suspicious Transactions

Documentation-Red Alerts

- ✓ Customer furnishes unusual or suspicious identification documents or declines to produce originals for verification.
- ✓ Customer asks many questions about how the financial institution disseminates information about the identification of its customers
- ✓ Customer furnishes unusual or suspicious identification documents or declines to produce originals for verification.
- ✓ A business customer is reluctant to provide complete information about the nature and purpose of its business, anticipated account activity, and other details about the business or to provide financial statements or documents about a related business entity

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Characteristics of Suspicious Transactions

Transactions-Red Alerts

- ✓ Transactions in which assets are withdrawn immediately after being deposited, unless the customer's business activities furnish a plausible reason for immediate withdrawal.
- ✓ Substantial increases in deposits of cash or negotiable instruments by a professional firm or company, using client accounts or in-house company or trust accounts, especially if the deposits are promptly transferred between other client company and trust accounts
- ✓ High velocity of funds through an account, i.e., low beginning and ending daily balances, which do not reflect the large volume of funds flowing through an account.
- ✓ Mixing of cash deposits and monetary instruments in an account in which such transactions do not appear to have any relation to the normal use of the account

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Characteristics of Suspicious Transactions

Transactions-Red Alerts

- ✓ Large cash withdrawals made from a personal or business account not normally associated with customer's profile.
- ✓ Large cash deposits made to the account of an individual or legal entity when the apparent business activity of the individual or entity would normally be conducted in cheques or other payment instruments.
- ✓ Large sums deposited through cheques or otherwise in newly opened accounts which may be suspicious.
- ✓ Customers making large and frequent deposits but cheques drawn on the accounts are mostly to counter-parties not normally associated with customer's business.
- ✓ A retail business has dramatically different patterns of currency deposits from similar businesses in the same general location.
- ✓ Large cash withdrawals from a previously dormant/inactive account, or from an account which has just received an unexpected large credit locally or from abroad.

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Characteristics of Suspicious Transactions

Wire Transfer-Red Alerts

- ✓ Wire transfers are sent or received from the same person to or from different accounts.
- ✓ Non-accountholder sends wire transfer with funds that include numerous monetary instruments each in an amount under the reporting threshold.
- ✓ Wire transfer activity to and from secrecy havens or higher-risk geographic locations without
- ✓ apparent business reason or is inconsistent with customer's transaction history.
- ✓ An increase in international wire transfer activity in an account with no history of such activity or where the stated business of the customer does not warrant it.
- ✓ Customer receives many small incoming wire transfers and then orders a large outgoing wire transfer to another country.
- ✓ Customer deposits bearer instruments followed by instructions to wire the funds to a third party.
- ✓ Account in the name of a currency exchange house receives wire transfers and/or cash deposits under the reporting threshold.

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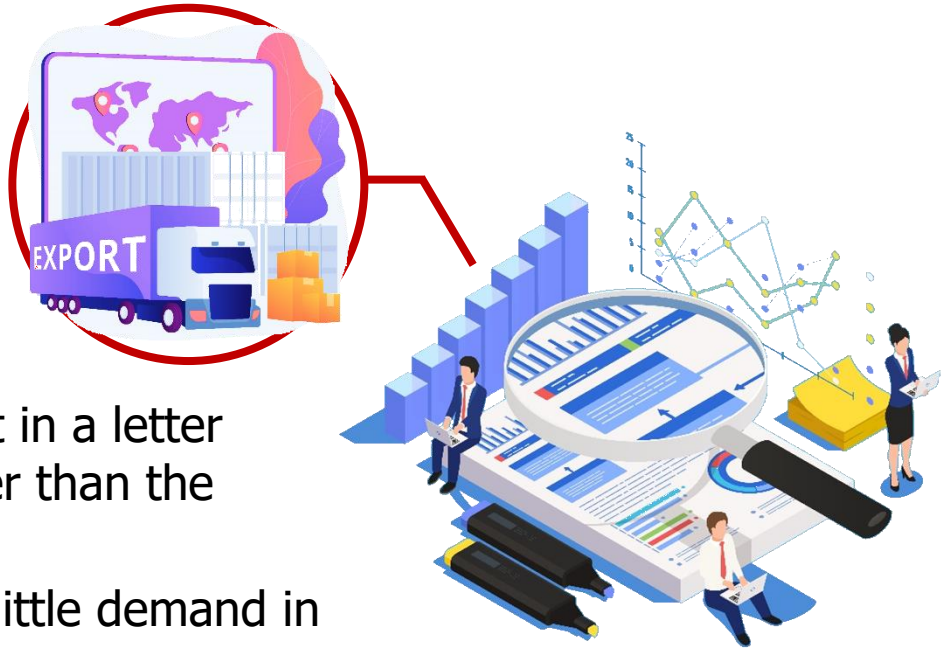
Characteristics of Suspicious Transactions

Trade Transactions-Red Alerts



- ✓ Customer seeks trade financing on the export or import of commodities whose stated prices are substantially more or less than those in a similar market situation or environment.
- ✓ Customer changes the place of payment in a letter of credit to an account in a country other than the beneficiary's stated location.
- ✓ Letter of Credit covers goods that have little demand in importer's country.
- ✓ Letter of Credit covers goods that are rarely if ever produced in the exporter's country.
- ✓ Obvious over-or underpricing of goods and services.
- ✓ Transaction's structure appears unnecessarily complex and deigned to obscure the true nature of the transaction.
- ✓ Commodities are shipped through one or more jurisdictions for no apparent economic or logistical reason.
- ✓ Size of the shipment appears inconsistent with the regular volume of business of the importer or of the exporter.

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Reporting

STR & CTR

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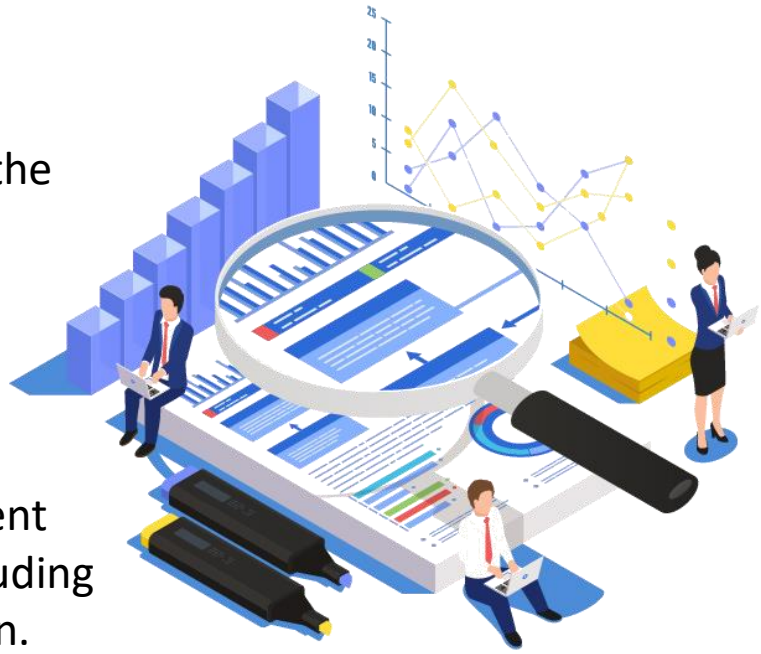
The Way Forward

WHAT IS STR AND CTR?

As per the AML//CFT regulations # 7 all banks/DFIs are required to report STR an CTR to the FMU. *AML ACT 2010 defines STR/CTR as follows;*



Suspicious Transaction Report (STR)

If, during the course of investigation, establishment of the customer relationship, or when conducting occasional transactions, a reporting entity suspects that the transaction (or a pattern of transactions of which the transaction is part) involves funds derived from illegal activities or is intended or effected in order to hide or disguise proceeds of crimes or has no apparent lawful purpose after examining the available facts, including the background and possible purpose of the transaction.

Currency Transaction Report (CTR)

It is a report that financial institutions are required to file with FMU for each cash or cash equivalent transaction involving deposit, withdrawal, payment, or transfer of an amount exceeding the minimum threshold of PKR 2 million.

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WHEN TO REPORT STR AND CTR?

As per **AML/CFT Regulations** and **AML ACT**, STR shall be filed promptly to FMU whereas CTR shall be filed immediately but not later than **seven** working days on their prescribed formats to the FMU:

- ***Suspicious Transaction Report (STR):***

  After forming the suspicion in respect of a particular transaction or pattern of transaction. STRs, including attempted transactions, should be reported regardless of the amount of the transaction.

- ***Currency Transaction Report (CTR):***

  After the respective currency transaction exceeding the specific threshold has been executed.

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WHOM TO REPORT?

As per AML/CFT regulations:

Financial Monitoring Unit (FMU)

FINANCIAL MONITORING UNIT
GOVERNMENT OF PAKISTAN

is the only designated independent Unit in Pakistan to which suspicious transaction report (STR) and currency transaction report (CTR) shall be reported.

The FMU after analyzing the transactions, refer these transaction reports to any appropriate investigating or prosecuting agency for use in the conduct of inquiry, intelligence , counterintelligence activities including analysis and including in respect of potential cases of money laundering or terrorist financing.

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Recognizing & reporting of Suspicious Transactions (STRs)

Recognizing & Establishing Suspicion

- Based on Transaction Monitoring & other CDD/ EDD measures, identify abnormal/ inconsistent transactions/ accounts of the customers
- Upon above, attempt to contact the customer for obtaining plausible justification/ economic consideration of the transactions/ accounts identified.
- In case if (despite all efforts), either customer could be not approached or he/ she could not justify his/ her transactions, report the same along with the complete back-ground/ branch findings & complete set of AODs/ statement of accounts under suspicion/ its allied ones, to Transaction Monitoring Unit (TMU) Compliance Division for further guidance.

Reporting of the STR to AML-H/ DH/ FMU

- Based on branch reporting/ back-end transaction monitoring, TM Unit will prepare a summary of observations and think over the same again.
- In case if suspicion persisted after counter review/ consideration of TM Unit, the brief summery will be escalated by TM Unit to AML Head / Divisional Head, for deciding fate of the case.
- Upon above, if suspicion is formed, the case will be reported as STR to FMU by Compliance on prompt basis.

Maintaining of Confidentiality

- Never disclose the report or its details to the customer/ any concerned quarter
- Informing the customer will be considered "Tipping Off" and may lead to legal action & financial penalties against the staff concerned/ the bank.
- Maintain record of all AML enquires/ correspondence related to recognition/ establishment of suspicion, its further escalation/ reporting to TM Unit in a systematic & safe manner for audit trail/ future reference purpose.

INTERNAL STR

- ✓ While processing transactions either on branch counter or receiving online cash transaction, or in back office central processing units of operations, the processing and approving officer must exercise due care & diligence and be aware of the red flags copied in next slides.
- ✓ In case of any suspicion arises from AML/ CFT perspective, an internal STR needs to be reported by the BM to the AML Team on email ID STR@bankalfalah.com by mentioning proper reason of the suspicion.
- ✓ The internal STR should be reported on the given below format.
- ✓ Compliance team has to review the suspicion raised for external reporting purposes.

Microsoft Word Document

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Thank You

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The Way Forward