



MCB Bank LTD

COMPLIANCE & CONTROLS GROUP



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**CUSTOMER DUE DILIGENCE (CDD) & ANTI-  
MONEY LAUNDERING (AML) / COMBATING  
FINANCING OF TERRORISM (CFT) POLICY**

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**2016**

**DOCUMENT CONTROL SHEET**

Title of the Policy	Customer Due Diligence (CDD) & Anti-Money Laundering (AML) / Combating Financing of Terrorism (CFT) Policy
Owner (Group/Division)	Compliance & Controls Group (CCG)
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Concurred by:	President
Recommended By	Standing Committee for Review of Policies (SCRP)
Approved By	Board of Directors

**Table of Contents**

1. INTRODUCTION .....	1
2. SCOPE.....	2
3. OBJECTIVES.....	2
4. ELEMENTS OF CDD.....	3
4.1. CUSTOMER IDENTIFICATION.....	3
4.2. CUSTOMER VERIFICATION.....	3
4.3. CUSTOMER ACCEPTANCE.....	4
4.3.1. CDD FOR WALK-IN-CUSTOMERS:.....	4
4.4. ACCOUNTS AND TRANSACTIONS MONITORING .....	4
4.5. WIRE TRANSFER.....	5
4.6. RISK MANAGEMENT.....	5
5. RECORD KEEPING.....	6
6. CORRESPONDENT BANKING & MONEY SERVICE BUSINESSES.....	7
7. FOREIGN BRANCHES AND SUBSIDIARIES.....	7
8. EMPLOYEE DUE DILIGENCE .....	7
9. TRAINING.....	8
10. CDD & AML/CFT PROCEDURAL HANDBOOK .....	8
11. POLICY REVIEW PERIOD .....	8
GLOSSARY .....	9

## **1. INTRODUCTION**

Formulation and revision of this policy is in line with requirements of Anti Money Laundering (AML) Act 2010 and Anti Money Laundering (AML) / Combating Financing of Terrorism (CFT) regulations along with international best practices, where Bank is required to adopt risk based approach to prevent the possible use of MCB Bank as a conduit for Money Laundering or Terrorist Financing activities.

Amid increasing focus of banks and regulatory bodies on curbing Money Laundering (ML) / Financing of Terrorism (FT) activities, banks are required to have comprehensive AML / CFT policy as a guideline for business, while establishing a business relationship with a new customer and maintaining/continuing relationship with existing customers in order to identify, assess, manage and mitigate risk on an on-going basis.

In addition to the above, the international best practices such as Financial Action Task Force (FATF), Basel Committee on Banking Supervision (BCBS) on Customer Due Diligence, and United Nations (UN) resolutions concerning sanctions should also be followed to prevent the possible use of the Bank as a Conduit for money laundering or terrorist financing activities.

To further strengthen the regulatory framework to curb Money Laundering and Terrorist Financing State Bank of Pakistan (SBP) has issued revised AML/CFT regulations, covering the following aspects;

<b>Regulation</b>	<b>Regulations</b>
Regulation -1 Customer Due Diligence	CDD Measures for Identifying, Verifying and Accepting new customers and maintaining relationship with existing customers.
Regulation -2 Correspondent Banking	CDD measures for establishing and maintaining relationship with Correspondent and Respondent Banks / Financial Institutions (FIs)
Regulation -3 Wire Transfers / Fund Transfers	Responsibilities of Ordering, Intermediary and Beneficiary Institutions (as applicable) involved in processing wire transfers / fund transfer.
Regulation -4 Reporting of Transactions (STRs / CTRs)	Guidelines for Reporting of Complex, Unusually Large, and out of pattern Transactions and Currency Transactions.
Regulation -5 Record Keeping	Maintenance & Retention of Customer and Transactions related records.
Regulation -6 Internal Controls, Policies, Compliance, Audit and Training	Requirements relating to development of Controls, Policies, Procedures, Training and programs to ensure compliance with AML / CFT regulations.

## **2. SCOPE**

This policy applies to each and every business segment and all employees of MCB Bank Ltd to effectively mitigate the risk of ML / FT. Bank is prone to the risk of being misused by criminal elements for their ulterior motives. To address the risks stemming from customers, this policy will be a guiding document for concerned employees towards managing the customer's risks in an effective way using the risk based approach.

MCB Bank has further refined Customer Due Diligence process using the risk based approach, through implementation of system based Risk Rating environment for Customer Risk Profiling under the Customer Due Diligence process, various sets of documents are formulated and provided to the branches / field offices from time to time to ensure execution of the process and identification of risks attached to each customer for effective mitigation of ML / FT risk.

Considering the huge size of undocumented sector in the economy, execution of due diligence process is complex and time consuming. However for the compliance of regulatory requirements and to contain the customer related risks, it has become inevitable to conduct proper due diligence of every existing and prospective customer.

## **3. OBJECTIVES**

- To prevent criminal elements from using the bank for money laundering activities.
- Ensuring that only bona fide and legitimate customers are accepted.
- Verifying the identity of customers using reliable and independent sources
- Ongoing Monitoring of customer accounts and transactions to prevent or detect potential ML / FT activities
- Implementing Customer Due Diligence process using risk based approach.
- To effectively manage customer-driven risks by using procedures as mentioned in CDD & AML/CFT Procedural Handbook.
- Managing reputational, operational, legal and concentration risks, etc.
- To put in place appropriate controls for detection and reporting of suspicious activities in accordance with applicable laws/laid down procedures.
- To comply with the applicable laws and regulatory guidelines.

## **4. ELEMENTS OF CDD**

### **4.1. CUSTOMER IDENTIFICATION**

MCB Bank will serve only the genuine person(s) and all out efforts would be made to determine true identity of every customer. Minimum set of documents shall be obtained from various types of customer(s), at the time of opening account, as prescribed in updated Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Regulations.

Customer relationship is only established on the strength of valid CNIC/SNIC/Passport/NICOP/POC/ARC number or where the customer is not a natural person, the registration/ incorporation number, business registration number or special resolution/authority, in case of government accounts/autonomous entities(as applicable);.

For walk-in-customers / Occasional customers, to establish and validate the true identity of the person(s) executing the transactions either for self or if the person is acting on behalf of some other person(s), complete originator information must be obtained and identities must be invariably verified.

### **4.2. CUSTOMER VERIFICATION**

MCB Bank shall identify the beneficial ownership of accounts/ transactions by taking all reasonable measures. Identity (ies) of the customer and beneficial owner will be verified using reliable independent sources.

Extra care is essential where the customer is acting on behalf of another person, and reasonable steps must be taken to obtain sufficient identification data to verify the identity of that other person as well. For customers that are legal persons or for legal arrangements, branches are required to take reasonable measures to (i) understand the ownership and control structure of the customer (ii) determine and verify the natural persons who ultimately own or control the customer. This includes those persons who exercise ultimate effective control over a legal person or arrangement.

Identity documents, wherever required as per updated AML/CFT Regulations, are to be invariably verified by utilizing on-line facility of NADRA VERISYS. Verification of the identity of the customers and beneficial owners shall be completed before business relationship is established or a transaction is processed.

### **4.3. CUSTOMER ACCEPTANCE**

Customer will only be accepted once above given formalities have been completed in letter and spirit. Following accounts will not be opened/maintained by MCB Bank where;

- Identity, beneficial ownership, or information on purpose and intended nature of business relationship is not clear.
- Name of the individual customer/organization (including such individuals who are authorized to operate account(s) and the members of governing body/directors/trustees of an entity) appears in the Proscribed/Sanctioned entities lists
- Proscribed entities and persons or to those who are known to be associated with such entities and persons, whether under the proscribed name or with a different name.
- Anonymous / fictitious (Benami) or numbered accounts.
- The Bank is not able to satisfactorily complete required CDD measures.

#### **4.3.1. CDD FOR WALK-IN-CUSTOMERS:**

Walk-in-customers shall only be entertained, once due diligence measures for transactions relating to such customers as prescribed in CDD & AML/CFT Procedural Handbook have been complied with.

### **4.4. ACCOUNTS AND TRANSACTIONS MONITORING**

Business Groups shall update Expected monthly credit turnover limits in the system and/ or revise CDD profile of customer(s) as per guidelines for ongoing review in AML/CFT procedural handbook, while, the basis of revision shall be documented and customers may be consulted, if necessary.

Such limits will be maintained to make sure that all transactions are consistent with the bank's knowledge of the customer, its business and risk profile and are conducted in accordance with the AML / CFT regulations for Bank, instructions of Financial Monitoring Unit (FMU) and other applicable local /international bodies.

Business must ensure that complete originator information along with unique transaction identifier is available with every domestic and cross border transfer.

SWIFT MESSAGES will be screened as per defined procedures to prevent utilization of MCB Bank's channel by individuals / organizations in Proscribed/Sanctioned entity's list.

Financial transactions will be monitored through Automated Transaction Monitoring System (TMS) based on predefined scenarios and thresholds.

The MCB Bank shall pay special attention to every complex, unusually large and out-of-pattern transaction(s), which have no apparent economic or visible lawful purpose. If MCB Bank suspects

or has reasonable grounds to suspect that the funds are the proceeds of criminal activities or have potential to be used for terrorist activities, it shall report its suspicion to FMU.

In case of suspicion, business shall raise Suspicious Transaction Reports in line with the requirement highlighted under AML Act 2010 and AML / CFT regulations.

For customers / clients whose accounts are dormant, branches shall not allow debit entries in such accounts (except those allowed under AML/CFT Regulations) until the account holder(s) produce(s) attested copy of his/her CNIC if already not available in Business/Branch's record, fulfill all other requirements for activation of the account and Business is satisfied with CDD of the customer.

The employees of MCB Bank are strictly prohibited to disclose the fact to the customer that a suspicious transaction / CTR or related information has been reported to FMU or any other Law Enforcement Agency (LEA).

Currency Transactions (i.e. CTR) exceeding the prescribed limits as defined by FMU from time to time will be reported to FMU through CCG.

In order to adopt additional measures to further strengthen the CDD regime, CDD/EDD Assessment of Top 100 depositors of each branch will be conducted as required by the regulator. The branches shall conduct assessment of such accounts regarding compliance of the CDD/EDD requirements and identify deficiencies and make necessary efforts to regularize the deficiencies identified during the assessment process.

#### **4.5. WIRE TRANSFER**

The bank may act as Ordering Institution, Beneficiary Institution or Intermediary Institution while processing wire transfers/fund transfers. However, Business/ concerned Group shall ensure all requirements as described in CDD & AML/CFT Procedural handbook are completed and other instructions, issued from time-to-time, in this matter are also adhere to.

#### **4.6. RISK MANAGEMENT**

All relationships shall be categorized with respect to their risk levels i.e. High, Medium and Low based on the risk profiling of customer (through e-KYC/CDD application and as guided in CDD & AML/CFT Handbook) for making effective decision whether to perform Simplified Due Diligence (SDD) or Enhanced Due Diligence (EDD) both at the time of opening and ongoing monitoring of business relationship.

MCB Bank has implemented the system based KYC/CDD and Risk Profiling of Customer, through implementation of e-KYC/CDD Application. This application assists the branches for effective and efficient KYC/CDD management in order to mitigate risk related to Money Laundering/Financing of Terrorism. It also supports in resolution of FCCM Alerts at CCG end & satisfy regulatory requirements.



The approval for opening of PEP and Non-Governmental Organizations (NGOs)/Not-for-Profit Organizations (NPOs) and Charities account will be obtained from Senior Management (Business Head) after performing EDD. Further Personal accounts will not be allowed to be used for charity purposes/collection of donations.

Customer KYC / CDD profile will be reviewed and/or updated on the basis of predefined frequency, in accordance with the risk profile of the customer, as per procedure defined in CDD & AML / CFT Handbook.

<b>High Risk</b>	At least Once in a Year or One-off*
<b>Medium Risk</b>	At Least Once in 2 Years or One-off*
<b>Low Risk</b>	At least Once in 3 Years or One-off*

*\*In case of any material change in the relationship or deviation from customer profile, CDD will be conducted and customer profile will be updated immediately without lapse of above defined period.*

CCG will counter-examine the relationships to ensure that due diligence procedures are adhered to in letter and spirit by the concerned staff in business segments.

While formulating procedures and controls, MCB Bank shall take into consideration Money Laundering and Financing of Terrorism threats that may arise from the use of new or developing technologies, especially those having features of anonymity or inconsistency with the spirit of CDD/EDD measures.

## **5. RECORD KEEPING**

The records of identification documents, account opening forms, KYC forms, verification documents and other documents along with records of account files and business correspondence, shall be maintained for a minimum period of ten years after the business relationship is ended.

MCB Bank shall also maintain for a minimum period of ten years all necessary records on transactions for both domestic and cross-border from the date of completion of transaction(s). The data relating to suspicious transactions and currency transactions reported by MCB Bank to FMU will be retained for the period of at least ten years from the date of such reporting.

However, records relating to customers, accounts or transactions will be retained for longer period, which involve litigation or is required by court or other competent authority until otherwise instructed by the relevant body, furthermore, all signature cards and documents indicating signing authorities, and other documents relating to the account/deposit or instrument

surrendered to SBP, shall be kept in the bank's record till such time that SBP informs in writing that same need no longer to be preserved.

## **6. CORRESPONDENT BANKING & MONEY SERVICE BUSINESSES**

The bank will establish correspondent banking relationships with only those foreign banks that have adequate and effective AML / CFT systems and policies in line with the AML / CFT regulations relating to the country in which Bank operates. Bank will pay special attention when establishing or continuing correspondent relationship with banks/ financial institutions which are located in geographical locations or governed by jurisdictions that have been identified by FATF for inadequate and poor AML/CFT standards in the fight against money laundering and financing of terrorism.

“Before establishing new correspondent banking relationship, approval from senior management (EVP and above) shall be obtained” and proper Due Diligence shall be conducted. Ongoing Due Diligence of respondent/correspondent banks and MSBs will be conducted using risk-based approach following the guidelines given in the CDD & AML/CFT procedural Handbook on the under noted frequency.

<b>In High Risk Geography</b>	At least Once in 2 Year or Case to Case Basis
<b>Medium Risk Geography</b>	At Least Once in 3 Years or Case to Case Basis
<b>In Low Risk Geography</b>	At least Once in 4 Years or Case to Case Basis

Bank shall not enter into or continue correspondent banking relations with a shell bank and shall take appropriate measures when establishing correspondent banking relations, to satisfy themselves that their respondent banks do not permit their accounts to be used by shell banks.

## **7. FOREIGN BRANCHES AND SUBSIDIARIES**

The above guidelines are equally applicable to MCB Bank's Foreign Branches and Subsidiaries, in case of foreign branches; MCB Bank will ensure compliance with regulations of SBP or the relevant regulations of the host country, whichever are more exhaustive / stringent to the extent that the law of the host country or jurisdiction so permits. In case overseas branch or subsidiary is unable to fully observe the higher standards, the bank through its head/principle office shall report this to the State Bank of Pakistan and comply with such further directions as may be issued.

## **8. EMPLOYEE DUE DILIGENCE**

In line with AML/CFT regulations, MCB Bank will implement employee due diligence policy for verification and screening of employees so inducted/hired to ensure that person has a clean history.

## **9. TRAINING**

Suitable Employee Training Program will be put in place by Human Resource Management Group (HRMG) on an annual basis to enhance staff capability, to effectively implement the regulatory requirements, bank's own policy & procedural requirements relevant to AML/CFT including alerts analysis, and possible reporting of Suspicious transactions as well as to understand new developments in ML/FT techniques, methods, and trends.

Further, HRMG with support of CCG, wherever required, will continue assessment of bank's employee's knowledge via CKAS test also covering AML / CFT area and its key regulatory requirements in each alternate year.

## **10. CDD & AML/CFT PROCEDURAL HANDBOOK**

Management will develop and implement detailed procedures in compliance with this policy.

## **11. POLICY REVIEW PERIOD**

The CDD & AML / CFT policy will be reviewed on as and when required basis but not later than two years.

**GLOSSARY**

AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
ARC	Aliens Registration Card
CCG	Compliance & Controls Group
CCO	Chief Compliance Officer
CNIC	Computerized National Identity Card
CKAS	Compliance Knowledge Assessment System
CTR	Currency Transaction Report
EDD	Enhanced Due Diligence
FATF	Financial Action Task Force
SSD	Simplified Due Diligence
MSB	Money Service Business
OFAC	Office of Foreign Assets Control
PEP	Politically Exposed Person
FCCM	Financial Crime & Compliance Management