

AML/ KYC POLICY & PROCEDURES

For Prevention of Money Laundering

HABIB BANK LIMITED

**Owner:
GLOBAL COMPLIANCE GROUP**

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Slogan for HBL

‘Compliance is My Responsibility’

INTRODUCTION

Habib Bank ('the Bank') is a pioneer financial institution of Pakistan, having largest domestic network of branches, a well-known brand locally with a substantial international presence.

To protect itself from the increasing danger of organized criminal activity and money laundering, it is essential for the Bank to have a clearly laid down "Anti-Money Laundering" (AML)/"Know Your Customer" (KYC) Policy and Procedure to ensure that the Bank remains protected from the menace of money laundering and is not used by existing and/or prospective customers for any criminal activity.

This Policy and Procedures contain:

- Part A: the Bank's policies and procedures to guard against money laundering and terrorist financing;
- Part B: State Bank of Pakistan relevant Regulations on AML/KYC; and
- Part C: Standard Forms.

Owner

The Policy is of the Global Compliance Group (GCG) of Habib Bank and has been reviewed and approved by the Board of Directors. The Habib Bank Chief Compliance Officer is responsible for the Policy. The Chief Compliance Officer has the authority to add/ amend procedures associated with this Policy for effective management and prevention of money laundering.

Exceptions

Exceptions to this Policy must be approved by the Chief Compliance Officer, or a designee. All exceptions must be documented, with reasons for the exceptions, including expiration or review date and, where necessary, include an action plan and timetable for compliance with the Policy.

Effective Date and Review

This Policy is effective as of November 01, 2006 and supersedes the earlier Policy. The Policy would be reviewed in line with HBL's three year policy review requirement or as and when considered necessary by CCO and / or BoD.

1. METHODOLOGY

1.1 OBJECTIVES OF AML/KYC POLICY AND PROCEDURES

The objectives of these policies and procedures are to ensure that the products and services of the Bank are not used to launder the proceeds of crime and that all of the Bank's staff is aware of their obligations and the need for vigilance in the fight against money laundering.

In case of any clarification contact GCG at comphelp@hblpk.com or MLROs in respective countries.

1.2 SCOPE

These policies and procedures are applicable to the Bank's local as well as overseas operations including business of other banks routed through Habib Bank.

In overseas branches/ subsidiaries, the Bank would ensure compliance with the Regulations of the host country on AML/ KYC or that of the State Bank of Pakistan wherever are more exhaustive. The thresholds defined in this Policy & Procedures shall be applicable on domestic branches and overseas branches shall follow local regulatory thresholds.

Our coverage will include:

- Compliance of SBP Prudential Regulations on AML/ KYC.
- Compliance of local country legislations/ regulations on AML/ KYC & subsequent updates.
- FATF Recommendations (40 plus 8+1) those are relevant to the Bank.
- International Standards and guidelines, including Basel, OFAC, and others.

BANK'S POLICY FOR AML/KYC

2 THE BANK'S POLICY FOR AML/ KYC

2.1 AML

It is the Policy of Habib Bank that:

- Statutory and regulatory obligations to prevent ML and TF are to be met in full.
- Systems and controls will be implemented in order to minimize the risk of the Bank's services being abused for the purposes of ML and TF.
- A money laundering risk assessment of the Bank's services and customer base including correspondent banks and MSBs (Money Service Businesses) will be undertaken and appropriate policies, procedures and due diligence controls will be applied proportionate to that risk.
- Any customer relationship where the customer's conduct gives the Bank reasonable cause to believe or suspect involvement with illegal activities will be reported to Regulators or relevant authorities. Thereafter action will be undertaken in conjunction with the relevant authorities and in accordance with local practice to avoid any risk of the Bank committing a 'tip-off' offence. Wherever possible, the relationship will be terminated.
- In countries where local regulators call for a money laundering compliance reports, respective country MLRO would be responsible for preparation and submission of these reports. CCO would submit a quarterly compliance report to Audit Committee and an annually to the Board, as required under the Compliance Policy.

2.2 KYC

It is a Policy of the Bank that:

- Prior to establishing a relationship with new customer obtain basic information i.e. business, source of income, expected level of activity in the account and reasons for opening the account.
- Prior to establishing relationships with correspondent banks or agents, appropriate steps must be taken to confirm the identity, integrity and due diligence procedures of those representatives or agents and, where necessary, the identities of underlying clients.
- The underlying beneficial ownership of all companies and other legal entities with which the bank conducts business must be established, including the beneficial ownership of all funds or other properties that are handled by the Bank.
- Customer's Information Profile (CIP) must be updated on a regular basis as appropriate and customer activity must be monitored against a pre-determined profile, paying special attention to higher risk customers or activities.

2.3 AML/ KYC ASSOCIATED POLICIES

Following associated policies form an integral part of the AML/ KYC Policy and have been developed specifically to achieve the objectives outlined in the AML/ KYC Policy and the regulatory requirements of the State Bank of Pakistan.

2.3.1 Internal controls and communication

It is a Policy of the Bank:

- To institute controls which comply fully with all applicable anti-money laundering laws and regulations.
- To conduct risk assessment and develop risk profiles of the Bank's products, services and customers and to apply appropriate policies and procedures to manage such risks. Undertaking enhanced due diligence for 'High Risk' products, services and customers.
- To communicate Bank's policies to management and staff and provide them with written procedures and control requirements to ensure ongoing compliance with AML laws and regulatory requirements.

2.3.2 Recognition and reporting of suspicion

It is a Policy of the Bank:

- To establish and follow procedures that requires employees to refer promptly any suspicious activity to GCG or respective country MLRO who will review the transaction to determine whether a report should be filed with the Regulators.
- To be alert to unusual or suspicious transactions or other activities that appear not to make good business or investment sense, or activities that appear to be inconsistent with the counterparty or customer's expected activity, including activities that may be indicative of criminal conduct, terrorism or corruption.
- To act competently and honestly when assessing information and circumstances that might give reasonable grounds to suspect ML or TF.
- To provide GCG or respective country MLRO (at request) access to all customers, correspondents or counterparties information within the Bank.
- To co-operate fully with law enforcement authorities in investigations concerning possible ML or TF within the confines of applicable laws, and in consultation with GCG or respective country MLRO.
- Not to alert or provide any information to any person suspected of illegal activity regarding suspicion or inquiry on his or her account or transactional activities or any indication of being reported to Regulators.

2.3.3 Awareness raising and training

It is a Policy of the Bank:

- To make all management and staff aware of what is expected of them to prevent money laundering or terrorist financing and to advise them of the consequences for them and for the Bank if they fall short of that expectation.
- To provide initial and annual update training for all appropriate personnel, including all personnel who set up and manage customer account opening or transactions, correspondent relationships, and/or are involved in trade finance activity.
- That management and staff will be required to sign a memorandum confirming they have read and understood the Bank's AML/KYC policies and procedures. Format attached (Appendix I)

2.3.4 Record keeping

It is a Policy of the Bank:

- To retain identification and transaction documentation for the minimum period required by applicable Laws and Regulations.
- To retain records of all reports made by staff to GCG or respective country MLRO and all suspicious activity reports made by MLRO to Regulators for an indefinite period unless advised by the Regulator otherwise.
- To be in a position to retrieve, in a timely fashion, records that are required by law enforcement agencies as part of their investigations.
- To keep records of dates when anti-money laundering training was given, the nature of the training and the names of staff who received such training.

2.3.5 Bank's policy on politically exposed persons (PEPS)

2.3.5.1 Policy Rationale

PEPs and related individuals can pose unique reputation and other risks, in particular:

- Some corrupt PEPs around the globe have used traditional banking products and services as safe havens for misuse of funds, illegal activities and associated practices, including money laundering;
- PEPs enjoy prominence and are therefore under continuous public spotlight. Their financial affairs are highly magnified and could easily trigger adverse publicity and franchise risks for the Bank;
- There is a growing attention worldwide to the misuse of public funds and increased reaction against corruption at high government levels;
- There is increasing responsibility and liability for banks and bank personnel to undertake due diligence for establishing source of wealth and investigate fund flows of PEPs.

2.3.5.2 Definition

PEPs are individuals who are or have been entrusted with prominent public functions, for example Heads of State or of Government, senior politicians, senior government, judicial or military officials. Senior executives of state owned corporations, important political party officials, business relationships with family members or close associates of PEPs involve reputation risks similar to those with PEPs themselves. The definition is not intended to cover middle ranking or more junior individuals in the foregoing categories.

2.4 NON COMPLIANCE WITH BANK'S AML/ KYC POLICY AND PROCEDURES

Failure to abide by the Policy and Procedures set by the Bank to prevent money laundering and terrorist financing will be treated as a disciplinary issue. Any deliberate breach will be viewed as gross misconduct. This could lead to termination of employment and could also result in criminal prosecution and imprisonment for the member of staff concerned.

2.5 ACCOUNTABILITIES AND RESPONSIBILITIES

2.5.1 The Board is Responsible for:

- Ensuring that adequate systems and controls are in place to deter and recognize criminal activity, money laundering and terrorist financing.
- Seeking annual money laundering compliance reports from the CCO and taking necessary decisions required to protect the bank from use by criminals for ML & TF.
- Ensuring that GCG and respective country MLRO is provided with adequate resources to carryout their duties effectively.

2.5.2 Management is Responsible for:

- Day-to-day compliance with anti-money laundering and terrorist financing obligations within the areas of the Bank.
- Ensuring that GCG and respective country MLRO is promptly advised where there are reasonable grounds to know or suspect that transactions or instructions are linked to criminal conduct, money laundering or terrorist financing.
- Ensuring that GCG and respective country MLRO is provided with all relevant information to enable a complete assessment of underlying transaction for suspicion.

2.5.3 GCG and AMLD/ MLRO are Responsible for:

- Developing and maintaining policy & procedures in line with evolving statutory and regulatory obligations.
- Undertaking the required money laundering risk assessment for any customer, product or service.
- Developing and ensuring that the internal procedures remain up-dated at all times.
- Monitoring and Identifying transactions which may be out of pattern from the level of transactions conducted routinely by customers.
- Undertaking internal review of out of pattern transactions and determining whether or not such transaction is suspicious in nature requiring disclosure to the Regulator.
- Ensuring that members of staff are aware of their personal obligations and the Bank's procedures and that all relevant staff is adequately trained in prevention of money laundering through banking channels.
- Representing the Bank to all external agencies and any other third party enquiries in relation to money laundering prevention, investigation or compliance.
- Preparing quarterly reports on compliance with money laundering policies and procedures.
- Ensuring that all employees sign-off an undertaking confirming having read and understood Bank's policy on AML/KYC.
- Ensuring and advising management and staff of the names of individuals, institutions, countries and others that are on the negative list.
- Responding promptly to any request for information made by the Regulators or law enforcement agencies.

- Making use of technology and upgrading Bank's systems and procedures in accordance with the changing profile of risks.

2.5.4 All Employees are Responsible for:

- Remaining vigilant to the possibility of money laundering through use of bank's products and services.
- Complying fully with all anti-money laundering policies and procedures in respect of customer identification, account monitoring, record keeping and reporting.
- Promptly reporting to GCG or respective country MLRO where they have knowledge or grounds to suspect a criminal activity or where they have suspicion of money laundering or terrorist financing.
- Ensuring that the customer is not disclosed any information related to inquiry or filing of a suspicious activity report.
- Understanding Bank's Policy and Procedures on AML/ KYC and to sign-off on the required Form.

Employees who violate any of the Regulations or the Bank's AML/ KYC policy and procedures will be subject to disciplinary action.

Abbreviations used AML/KYC Policy and Procedures

GCG	Global Compliance Group
AML	Anti-Money Laundering Department
MLRO	Money Laundering Reporting Officer
ML	Money Laundering
TF	Terrorist Financing
ROCD	Regulatory & Operations Compliance Division
BoD	Board of Directors
CCO	Chief Compliance Officer

Associate procedures are maintained separately by the Bank