नेपालको पहिलो बैंक

नेपाल राष्ट्र बैंकबाट 'क' वर्गको इजाजतपत्र प्राप्त संस्था

नेपाल बैंक लिमिटेड

NEPAL BANK LIMITED

स्थापित वि.सं. १९९३

Anti-Money Laundering (AML) / Combating Financing of Terrorism (CFT) And Know Your Customer (KYC) Policy, 2019

(With Amendments till 2079-01-21B.S.)

Nepal Bank Limited

Head Office Kathmandu, Nepal

Contents

ABBREVIATION

AML	Anti-Money Laundering
BO	Beneficial Owner
BOD	Board of Directors
CDD	Customer Due Diligence
CFT	Combating Financing of
ECDD	Enhanced Customer Due
EU	European Union
FIU	Financial Information Unit
HMT	Her Majesty Treasury
KYC	Know Your Customer
ML	Money Laundering
NCDD	Normal Customer Due Diligence
OFAC	Office of Foreign Assets Control
PEP	Politically Exposed Person
RBA	Risk Based Approach
SCDD	Simplified Customer Due
STR	Suspicious Transaction Report
TF	Terrorist Financing
TTR	Threshold Transaction Report
UN	United Nations

Amendment History

AML/CFT & KYC Policy 2019

1. BOD Approval : Shrawan 19, 2076
2. First Amendment by BOD$^{\infty}$: Ashwin 25, 2078
3. Second Amendment by BOD§ : Baisakh 21, 2079

Preamble

Assets (Money) laundering has been an unforgiving problem around the globe. The launderers, Fraudsters and terrorist mainly use banking channel to legitimate their illicit funds and integrate such proceeds into the economy in a way that makes them appear legitimate.

Taking it into account, Nepal bank Limited (NBL) has already promulgated and implemented AML/CFT policy since July 23, 2012 following the norms and sprits of Assets (Money) Laundering Prevention Act 2008 and Nepal Rastra Bank Unified directives. It has also implemented AML prevention procedures since October 25, 2013. With the passage of time, there have been several changes in the regime of AML/CFT and KYC. In the meantime, NRB directive has revealed so many provisions and clauses to be adjusted in the policy following the prevailing Acts, rules and international standards. Accordingly, NBL had revised its existing policy and procedures as to AML/ CFT and KYC and brought these documentations in an integrated approach with the name Nepal Bank Limited Anti-Money Laundering (AML) /Combating Financing of Terrorism (CFT) and Know Your Customers (KYC) Policy 2019. And again to incorporate with changing provisions and directions, instructions and guidelines of regulatory body , NBL is going to revise its existing policy with the name Nepal Bank Limited Anti-Money Laundering (AML) /Combating Financing of Terrorism (CFT) and Know Your Customers (KYC) Policy 2021.To develop this policy, the board of directors has revised this policy and procedural Guidelines in line with the Assets (Money) Laundering Prevention Act 2064, Assets(Money) Laundering Prevention Rules and Directives of Nepal Rastra Bank and FIU-Nepal.

This policy guideline on AML, CFT and KYC encompass the provisions and guidelines of National laws and international standards for combating of money laundering and financing of terrorism and other provisions as prescribed by Nepal Bank Limited for its applicability.

Chapter-1 General Background

1.1 Introduction to AML/CFT:

For any bank and financial institution, there is a risk of its products and services being used to launder money and finance terrorism. Wealth collected through various predicate offences is brought into financial system with the intention of disguising the original source of wealth. AML/CFT is a strategic mechanism to ensure transparency and stability in financial system to protect broader economy. Its contribution to control financial crime is developing as incredible in the world. The role of banks and financial institution in regard is substantially increasing ever since.

1.1.1 Definitions:

In this Policy, unless the subject or the context otherwise requires,

- The **Bank** shall mean Nepal Bank Limited
- The **Board** shall mean Board of Directors of Nepal Bank Limited.
- **Chairman** shall mean the Chairman of the Board of Directors of Nepal Bank Limited
- **Chief Executive Officer (CEO)** shall mean the person appointed as the Chief Executive Officer of the Bank, appointed by the Board and entrusted with the overall management, administration and operations of the Bank and accountable to the Board.
- **Branch Manager** shall mean the head of branches of the Bank.
- **Department Head** shall mean the head of a particular department of the Bank.
- **Division Head** shall mean the head of a particular division of the Bank.
- **AML Committee** shall refer to the Board level AML/CFT Committee of the Bank.
- **AML/CFT Management Committee** shall refer to the Management level AML/CFT Committee of the Bank
- **Risk Management Committee** shall refer to the Board Level Risk Management Committee of the Bank.
- **The Policy** shall refer to "Nepal Bank Limited AML/CFT & KYC Policy – 2076 (2019)"
- **Financing of Terrorism:** An act committed by any person who in any manner directly or indirectly and willingly, provides or collects funds, support, or attempts to do so in order to use them by knowing that these funds may be used in whole or in part for the execution of a terrorist act or by a terrorist or terrorist organization.
- **Corresponding Banking:** The provision of banking services provided by one bank (the correspondent bank) to another bank (the respondent bank).
- **Natural Person:** Individual person.
- **Legal Person:** Any company, corporation, proprietorship, partnership firm, cooperatives, or any other body corporate.
- **[∞]PEPs:** "PEP" shall mean a politically exposed person. PEPs are individuals who are or have been entrusted with prominent public functions in Nepal and in foreign countries. The term shall also mean the family members and close associates of such persons.

  Family members include the following types of relationship/s:

  a. Grandparents, Parents and Children
  b. Spouse/Partner
  c. Siblings
  d. In-Laws

  Close associates include the following types of relationship/s:

[∞] *Amended as per the decision of Board of Directors dated 2078/06/25 B.S.*

a. Partners outside the family unit
b. Prominent members of the same political party, civil organization, labor or employee union as the PEP
c. Business partners or associates, especially those that share(beneficial)ownership of legal entities with the PEP who are otherwise connected (e.g., through joint membership of a company board)
d. Anyone who has the sole beneficial ownership of a legal entity which is known to have been set up for the de facto benefit of the PEPs etc.

- Domestic Politically Exposed Persons (PEPs): It means the individuals who are or have been entrusted domestically with prominent public functions. For example The President, Vice-President, Prime Minister, Chief Justice, Speaker of House of Representatives, Chairperson of National Assembly, Chief of Province, Council of Ministers, Chief Ministers, Members of Federal Legislature, Members of Constitutional Bodies, Speaker of Province Assembly, Provincial Council of Ministers, Officers of Special Class or equivalent to Special class or above Special Class of Government of Nepal, Judges of Supreme Court and High Courts, Deputy Speaker of Provincial Assemblies, Members of Provincial Assemblies, Central Committee Members of National Level Political Parties, Chiefs and Deputy Chief of District Coordination Committees, Mayors and Deputy Mayors of Metropolitan Cities, Sub Metropolitan Cities and Municipalities, Chairperson and Deputy Chief of Rural Municipalities and Higher Level Office Bearers of Institution partially of fully owned by the Government of Nepal.
- Foreign Politically Exposed Person: It means the individuals who are or have been entrusted with prominent public functions by foreign country, for example, Head/s of the Nation, Head of the Government, Senior Politician, Central member/s of National level political party, Senior Government, Chief Administrative Officer, Chief Judicial or Military Official, higher level office bearers of state-owned corporations of a foreign country.
- International Organizations Politically Exposed Person: It means the persons who are or have been entrusted with a prominent function by an international organization, refers to members of senior management or individuals who have been entrusted with equivalent functions, i.e., directors, deputy directors and members of the board of equivalent functions.

- **Beneficial Owner (BO): BO** shall mean any natural person who, directly or indirectly, owns or controls or directs or influences a customer, an account, or the person on whose behalf a transaction is conducted, or exercises effective control over a legal person or legal arrangement or remains as an ultimate beneficiary or owner of such activities.
- **Customer Due Diligence (CDD)** is a process of identifying a customer trying to maintain a business relationship or has already maintained such relationship or has requested for occasional transactions. It helps the Bank to identify and verify the customers; access and manage risk; develop risk-based, effective and efficient economic control system, and identify further potential businesses.
- **Risk Based Approach (RBA)** shall mean the approach of management which focuses on identifying and addressing potential risks of money laundering and terrorism financing.
- **Shell Bank:** It refers to financial institution or group of financial institutions that has no physical existence in the country of incorporation or license or financial institution or group of financial institutions that is not under any regime of effective regulation and supervision.
- [∞]**Money Laundering (ML):** ML is the illegal process of concealing the origins of money obtained illegally by passing it through a complex sequence of banking /commercial transactions. Moreover, it is the process of making illegally-gained proceeds "dirty money" appear legal "clean". Typically, it involves three steps: placement, layering and integration.

[∞] *Amended as per the decision of Board of Directors dated 2078/06/25 B.S.*

Placement: It is the initial stage of money laundering where launderers introduce their illegal money into the financial system. This might be done by breaking up large amounts of cash into a smaller sum that are then deposited directly into a bank account or by purchasing a series of monetary instruments (like cheques, money order etc.) that are then collected and deposited into accounts at different location.

Layering: The second stage in money laundering is layering. The primary purpose of this stage is to separate the illicit money from its source. The funds might be channeled through the purchase and sales of investment instruments or the launderer might simply wire the funds through a series of accounts at various banks across the globe. By way of layering, launderers make it more difficult to detect a laundering activity.

Integration: The final stage of the money laundering process is termed as integration stage. It is at the integration stage where the money is returned to the criminal after series of transactions from what seem to be legitimate sources. Having been placed initially as cash and layered through a number of financial transactions, the criminal proceeds are now fully integrated into the financial system and can be used for any purpose.

- **Financing of Terrorism (FT):** It refers to providing finance or financial support to individual terrorist or non-state actors.
- [∞]Predicate Offence: Predicate offences in this policy includes the following offences:
  a. Organized Crime
  b. Financing of terrorist activities
  c. Revenue evasion
  d. Offence under existing law on arms and ammunition
  e. Offence under existing law on foreign exchange regulation
  f. Offence under existing law against homicide, theft, fraud, forgery of document, counterfeiting, abduction or hostage taking
  g. Offence under existing law on narcotic drug control
  h. Offence under existing law on national park and wildlife conservation
  i. Offence under existing law against human trafficking and transportation
  j. Offence under existing law on cooperative institution
  k. Offence under existing law on forest
  l. Offence under existing law against corruption
  m. Offence under existing law on bank and financial institution
  n. Offence under existing law on banking offences and penalty
  o. Offence under existing law on ancient monument conservation
  p. Offence under any other law or treaty which Nepal is a party to, as designated by the Government of Nepal through publishing a notice in Nepal Gazette.

1.2 Rationale of AML/CFT-KYC Policy:

Bank is highly committed in to the AML/CFT regime and is in the move to maintain the international standard to address the issue. Bank issues this AML/CFT and KYC Policy 2019 as well as AML/CFT and KYC Procedures-2019. The objective of this policy and procedure is basically designed to adopt Risk Based Approach (RBA) in AML/CFT as well as for effective and efficient implementation of following legal and other persuasive instruments as a general framework against money laundering, financing of terrorism, predicate offences, and other related financial crime.

Bank has been executing AML Policy and Procedures and controlling Money laundering and Terrorism financing activities. It has also been implementing KYC policy through its operation manual part-1, chapter -2. However, some requirements of regulatory provisions driven Banks and Financial

[∞] *Added/amended as per the decision of Board of Directors dated 2078/06/25 B.S.*

Institutions (BFIs) to modify KYC policy with such extended approaches as CDD, ECDD and SCDD so that they could counter ML and TF activities and maintain the stability. In this regards, NBL is practicing AML/CFT and KYC Policy in an integrated approach for effective and efficient implementation of following legal and other persuasive instruments as a general framework against money laundering, financing of terrorism, predicate offences, and other related financial frauds such as:

(a) Asset (Money) Laundering Prevention Act, 2064
(b) Asset (Money) Laundering Prevention Rules, 2073
(c) Nepal Rastra Bank, Unified Directives No.19 on AML/CFT to Banking and Financial Institutions,
(d) Nepal Rastra Bank Directives to Money Value Services (money exchange, remittance)
(e) Assets (Money) Laundering Prevention (Freezing of Properties and Funds of Designated Person, Group and Organization) Rules, 2070
(f) Nepal Rastra Bank, Financial Information Unit (FIU) Directives on TTR/STR
(g) Nepal Rastra Bank, FIU Guidelines STR and TTR
(h) Correspondent Bank's requirements in AML/CFT
(i) Related international standards on AML/CFT

1.2.1 Objectives of the AML/CFT and KYC Policy:

The overall objective of AML/CFT and KYC Policy is to establish internal control system regarding assets (Money) laundering prevention activities and the countering the financing of terrorism.

The specific objectives are to:

(a) Develop a sound mechanism for AML/CFT compliance measures as per the requirement of the legal, regulatory and international banking practices.
(b) Adopt Risk Based Approach (RBA) and functionally adequate system controls.
(c) Have a robust customer identification system in line with the effective implementation of KYC and CDD Program.
(d) Develop a mechanism against suspicious transactions and have a stronger monitoring and reporting to the regulatory body as and when necessary.

1.3 Regulatory Requirement:

Bank and financial institutions are required to apply a risk-based approach to identify, assess, monitor, manage and mitigate AML and CFT risks such as:

a) risk management should be based on countries report on national and sectoral risk evaluation,
b) report of any renowned international institutions on AML/CFT,
c) business relationship, nature and transaction threshold.

Bank will classify risk into high, medium, and low as per regulators direction, international standards, and bank's internal risk-based approach and model.

1.4 AML/CFT Compliance Framework:

§1.4.1 Formation:

An AML committee (Board Level) is formed with Designated Board Member as Co-ordinator, Head of Compliance Department and Head of Risk Management Department as the members and Senior Manager of Compliance Department, who acts as AML/CFT Unit In-charge/Implementation Officer, as Member Secretary. Additional Board Member, the Expert or any Department Head can be invited as invitee as per requirements. The Committee overviews overall function of the Bank in compliance with Bank's AML/CFT & KYC policy & Procedures.

§ §*Amended as per the decision of the Board of Directors dated 2079/01/21 B.S.*

Similarly, Management Level AML/CFT Committee under supervision of Assistant CEO (Compliance Department) is formed to handle operation issues including AML/CFT practice. The CEO / Deputy CEO shall be invited in the meeting if required. Reports/Minutes of such meeting shall be forwarded to the CEO/ Deputy CEO.

1.4.2. Implementation Strategies:

The Bank will materialize the objectives of the AML/CFT and KYC policy by the issuance of AML/CFT and KYC Procedures and establishment of necessary operational and system controls. The Bank concentrates on the systematic approach for:

(a) Customer Due Diligence (CDD),
(b) Enhanced Customer Due Diligence (ECDD),
(c) Risk-Based Approach (RBA),
(d) Monitoring and Fraud Detection,
(e) Reporting,
(f) Internal Controls,
(g) Capacity Building,
(h) Review and Appraisal

1.4.3 Action Plan:

[∞]The Bank will develop annual plans and programs to implement AML/CFT system and conduct a regular review as well as annual appraisals to ensure the functionalism, its effectiveness, and further enhancement. To ensure effective implementation of AML/CFT measures, the Bank will implement standard procedures for Screening of customers while onboarding, Obtaining KYC information, Risk Profiling, Customer due diligence as per risk profile and periodic update, Transaction monitoring, due diligence of correspondent banks, Threshold transaction reporting, Suspicious activity & transaction monitoring and reporting, Screening of counterparty in cross border trade and remit transaction, Implementation of instructions of Law enforcement agencies, Maintaining confidentiality of customer's information, Retention of records and training & capacity building of human resources.

[∞] *Amended as per the decision of Board of Directors dated 2078/06/25*

Chapter-2 Know Your Customer/Customer Due Diligence Policy

2.1 Introduction:

The KYC is the process of identifying and verifying the customers about their identity, address, transactions, profiles based on risk based approach and adopting required measures to protect the bank from being means of money laundering. It is the matter of documented norms for the bank to know legitimacy of its business transactions so as to prevent and control potential risks. It requires due diligence while establishing business relationship. Customer Due Diligence (CDD) is a process of identifying a customer trying to maintain business relationship or has already maintained such relationship or has requested for or already conducted one-off or similar transactions. It is required to identify and verify customers; to assess the risks and manage the risks; to develop risk- based, effective, efficient and economic monitoring system; and to identify further business potential. The CDD process has to be continued to a certain period of time even after such relationship has terminated or transaction has been completed. CDD is a process to review overall activities of a customer and reach to a conclusion. However, bank will take KYC and CDD as per requirement.

2.2 KYC and CDD:

The Bank has following minimum standards set for the KYC/CDD:

(a) No one shall be accepted as a customer or transaction or deal without KYC completed satisfactorily.

(b) No fictitious or anonymous account or transactions or deal will be conducted and no relationship will be established with shell bank or any bank that permits shell bank to have relationships.

(c) Bank shall ensure that Proof of Identity of the person with whom the bank is establishing business relationship or carrying out transaction will be obtained.

(d) Proof of Identity of the person in representative capacity (third party)

(e) Bank shall ensure to obtain power of attorney in required cases to operate bank account or transaction.

(f) Review and update KYC / CDD once a year to those customers who fall in high risk category.

2.2.1 Types of CDD:

Based on different levels of risk, the Bank will adopt following 3 types of CDD.

(a) [∞]Simplified Customer Due Diligence (Simplified CDD): This can be conducted for the accounts that are opened under the government project of opening account of every Nepali Citizen with annual transaction within the limit as specified by regulator from time to time.

(b) [∞]Normal Customer Due Diligence (Normal CDD): This is conducted for medium risk and low risk customers.

(c) [∞]Enhanced Customer Due Diligence (Enhanced CDD): This is conducted for high risk customers. It refers to the additional due diligence to the identity of the customer, family details, source of income, nature and value of transaction and others as instructed by regulator.

The Bank can terminate the relationship with the customers or postpone or terminate transaction if they are unable to comply with CDD and consider due examination thereon.

[∞] *Amended as per the decision of Board of Directors dated 2078/06/25*

2.3 Customer Identification Process:

Customer identification is an integral part of KYC & CDD process. For the purposes of this policy Customer identification process identifies:

2.3.1 Beneficial ownership:

Beneficial Owner is Natural person who, directly or indirectly, owns or controls or directs or influences a customer, an account, or the person on whose behalf a transaction is conducted, or exercises effective control over a legal person or legal arrangement or remains as an ultimate beneficiary or owner of such activities.

The Bank shall deploy sanction screening programs to safeguard itself from establishing, maintaining relationship or carrying out transaction of a person, group or organization in which a party is sanctioned or directly or indirectly linked to a transaction or is Beneficial Owner (BO) or beneficiary. It shall instigate a control measure for safeguarding the Bank against being used as a conduit for ML, TF and other crimes. For these individuals holding at least the share of 10% or more of ownership intermediate or ultimate holding of the company will be covered.

2.3.2 Politically Exposed Persons (PEPs):

The Bank will develop timely update and maintain the list of high ranking officials and politically exposed persons as per the prevailing Nepali laws and NRB Directives. The Bank will also adopt IT system for identifying, monitoring and managing risks associated with this.

2.3.3 ∞Enhanced Customer Due Diligence (ECDD):

Enhanced Customer Due Diligence (ECDD) process is mandatory for all high risk customers. The Bank aims to reach the reality of the customer and transactions through ECDD process. ECDD includes collection of extensive information of the customer and closely watch on overall activities from different sources. The bank shall conduct ECDD of all high risk customers in a separate ECDD form developed by Compliance Department and review the process annually.

2.3.4 KYC for Existing Customers:

Customer Due Diligence Process is also mandatory for all existing customers. The Bank conducts KYC gap analysis in a periodic basis to identify gaps in KYC information then performs CDD of the customers whose mandatory information in the KYC are yet to be recorded.

2.3.5 Walk-in Customer:

Customers that do not have bank account but are taking service from bank by physically presenting themselves in the bank's premises are generally called walk-in-customers. These customers generally come to withdraw money, exchange of currency or to get information. Bank adopts policy of identifying these types of customers depending upon the value of business transaction they perform. In case of customer who has come for withdrawal or exchange of money more than NRs. 100,000, then bank shall conduct due diligence by screening and filling KYC of the customer. In case of business value less than NRs. 100,000, the bank shall get the Identity Proof of the customer.

2.3.6 Non-face-to-face Customer:

For customers performing banking transactions without face-to-face interactions, the bank follows a series of appropriate risk-based policies and procedures to ensure that adequate controls are applied in practice. The type of such procedures required will vary depending upon the nature and scope of the non-face-to-face activities. The extent of verification to be conducted would depend on the nature and characteristics of the product or service requested and bank shall formulate appropriate KYC/CDD.

2.4 Customer Acceptance Procedure:

∞ *Amended as per the decision of Board of Directors dated 2078/06/25 B.S.*

Bank shall adopt the policy of performing business of different customers by accepting valid and required documents as per banks requirements when customers are on-boarded and renewed. Customers are accepted for establishing business relations and/or providing financial services only after following measures are applied:

(a) Identification of the customer
(b) Verification of customer information
(c) Identification of purpose or objective of business relationship
(d) Obtainment of minimum required documents
(e) Application of risk-based approach
(f) Notification and obtainment of approval
(g) Constructive record keeping

2.5 KYC Review and Update:

Review and update of customer's information is essential and critical to better apply KYC system. The Bank has a system of periodical updating of customer identification data (including photograph/s) after the account is opened or transaction is completed. Bank shall update high risk customers KYC once a year.

Chapter-3 Risk Management Policy

The bank incorporates a Risk- Based Approach (RBA) for the implementation of AML/ CFT measures. It ensures effective CDD program is in place by establishing appropriate procedures and their effective implementation based on risk. It shall also cover proper management, oversight, systems, controls, segregation of duty, training and other related matters. All activities of the Bank will be conducted on risk-based approach. Systematic and scientific methods will be applied for the assessment of risks.

3.1 AML/CFT Risks:

3.1.1 ML/FT Risks:

Use of financial systems for money laundering or financing terrorism creates threat to the state, society and the overall economy. Different vulnerability points such as entry of cash into financial system, cross-border flows of cash, transfer within the financial system, acquisition of investments and other assets, incorporation of companies and formation of trusts are used to launder money. Traders also practice money laundering by using legitimate trade to disguise their criminal proceeds from their unscrupulous sources. Trade Based Money Laundering (TBML) involves a number of schemes in order to complete the documentation of legitimate trade transactions, such actions may include: moving illicit goods, falsifying documents, misrepresenting financial transactions and under-over-invoicing the value of goods. Terrorist groups and organizations may find financial support and conduct revenue generating activities via terrorist financing.

3.1.2 Sanctions Risks:

Sanctions designated individuals and entities pose greater threat of money laundering and terrorist financing. Enrolment of such individuals and entities into the financial system, and delivery for financial services are strictly prohibited.

3.1.3 Customer Risks:

Natural as well as legal persons trying to establish relationship with financial system pose certain level of risk as per their background, occupation, affiliated industry, subscribed products, services, and delivery channels, and transactions. Risk profile of each customer is established while enrolling to the Bank, performing transactions, and other routine operations such as regular profile update, sanction lists update, PEP database update etc.

3.2 Customer Risk Rating policy:

Each customer's profile is rated for different level of risk with respect to the prospects of ML/FT activity. The risk rating is conducted in reference to guidelines recommended by regulatory agencies, international trends in ML/FT activity, national trends, and the bank's internal assessment. For risk assessment customers are to be categorized as high risks, medium risks and low risks. It should be based on factors like: geography, nature of business/ occupation, customer, product, channel, etc. as defined by Risk Based Approach (RBA) Module.

(a) [∞]**High Risk:**

- [§]High net worth individuals: The Criteria to identify High Net Worth Individuals shall be specified by AML/CFT & KYC Procedure of the Bank framed under this policy.

[∞] *Amended mentioned (a), (b) & (c) as per the decision of Board of Directors dated 2078/06/25 B.S.*

[§] *Amended as per the decision of Board of Directors dated 2079/01/21 B.S.*

- Customer having transaction with sanctioned countries
- Customers and transaction related to:
  i. Terrorism and financing of terrorist activities
  ii. Money laundering
  iii. Proliferation financing, Arms and Ammunition
  iv. Corruption, Tax evasion, Revenue evasion
  v. Narcotic Drugs and Psychotropic Substances
  vi. Human Trafficking/Organized Crime/ Counterfeiting
- Customers belonging to following industries:
  i. Precious Metals and Gems
  ii. Casino/Gambling/Bar/ Night Club
  iii. Cooperatives
  iv. Trusts/NGOs/Charities/Non- profit organizations receiving donations
  v. Real estate/Personal Investment Companies/Assets Management Services
  vi. Business of valuable herbs, medicines, ancient items
  vii. Remittance Company/Money Transfer/Currency Exchange Transactions
  viii. Import/Export Trade/Travel Agencies
- Politically exposed persons (PEPs), domestic, international and foreign PEPs, their family member and close associates
- Foreign Nationals/ Non-Resident Nepalese (NRN)
- Customer under investigation or prosecution or convicted
- Customer with suspected beneficial Owner
- Customer suspected to be involved in offences related to money laundering and terrorism financing
- Customer who conducts complex, unusual large transaction and unusual patterns of transactions or with no apparent economic or visible lawful purpose
- Transactions which could happen non-face to face from customers who have not yet completed customer identification and verification, however if such accounts are blocked/Debit restricted then such customer need not be kept under high risk.
- Transaction with offshore bank and financial institution
- All other Accounts and Transaction which is classified by FIU as high risk account

All high risks customers shall be subject to Enhanced Customers Due Diligence (ECDD) exploring the details of their information regarding the transaction, its purpose and source of fund and shall be reviewed at least once a year.

(b) **Medium Risk:**

- Transactions which may happen due to maximum use of technology. For example, Debit Card, e-banking, Mobile banking etc.
- Persons engaged in agency works, Stock brokers
- Accounts other than those classified as low risk and high risk
- All such accounts/customers as classified by FIU Nepal as Medium risk accounts, customers etc.

[§]Bank shall conduct Normal Customer Due Diligence (NCDD) for medium risk customers and shall be reviewed in every 5 years.

(c) **Low Risk:**

- Accounts opened for distribution of Pension, social security allowances, grants/ reliefs by Government of Nepal,
- Accounts opened under "Kholau Bank Khata Abhiyan 2076" of Government of Nepal

[§] *Amended as per the decision of Board of Directors dated 2079/01/21 B.S.*

- All such accounts/customers as classified by FIU Nepal as Low risk accounts/customers etc.

[§]Bank shall conduct Normal Customers Due Diligence for Low-risk customers and Simplified Customers Due Diligence for the Accounts Opened under "Kholau Bank Khata Abhiyan 2076" where annual transaction amount is less than NPR One Lakh and shall be reviewed in every 8 years.

Customers whose profile matches with sanctions list, adverse media list, or bank's internal black list are assigned with high risk category and any further relationship is terminated immediately. If any customer's profile matches with PEPs or investigation list, the customer's profile is set as high risk profile. Customers are assigned with high risk, medium risk and low risk with respect to their background, occupation, industry, products subscribed, services subscribed, delivery channel subscribed, geographic footprint, and transaction patterns. During the transaction monitoring process, if a customer's transaction pattern is detected to be of high risk, it may trigger for the customer's profile to be escalated to high risk profile.

Bank Compliance Department shall do the necessary risk assessment of the factors that calculates the risk factors on Risk Based Approach. The factor includes risk weightage of occupation, industries, occupations, bank product and services, geography regions, transaction and different delivery channels offered by bank. The weightage factor is approved by the AML committee and incorporated into bank AML IT system. Such weightage factor is time and again reviewed by bank compliance department and if required are changed on approval from the AML committee of bank.

3.3 Risk Review of Transaction Related to Remittance

Bank is regularly engaged with remittance business. Inward and outward remittance should be assessed by concerned staff and department. Staffs who conduct this business should collect appropriate information and KYC/CDD to know whether the money to be remitted is legal or not. Source and other information's should be collected for the purpose.

3.4 Risk Review of Locker Holders

Locker is provided to the customer who has accounts with the bank. The customer who wants to get this facility must follow the operation procedure as mentioned in operational manual one. Similarly for risk assessment bank should collect KYC/CDD of the customer who has maintained or who is going to maintain accounts. For this purpose the customer availing locker facility should undergo through screening process and will be categorized into low, medium and high risk. PEP and related persons, beneficial owner and related person shall have to be identified and concerned staff should conduct due diligence as it was conducted for opening of other accounts.

3.5 Sanctions Program:

Bank uses United Nations' Sanction List of individuals and entities and OFAC's Specially Designated Nationals list of individuals, entities, cargo, and vessels. Screening against these lists prohibits sanctions designated persons from enrolling into the banking systems as well as restrict further interactions with the bank. Bank shall also use international standard and practices regarding sanction program such as EU, HMT and OFAC etc.

[§] *Amended as per the decision of Board of Directors dated 2079/01/21 B.S.*

3.6 Transaction Surveillance and Monitoring:

Transaction surveillance and monitoring will be conducted for all customers regardless of the risk rating of their customer profile. Detection of a suspicious activity may result into customer's profile review, update on risk rating and ultimately escalating the customer to higher risk profiles.

3.7 [∞]Risk Identification/Assessment:

The bank shall identify different parameters for its inherent risk in terms of money laundering and terrorism financing, Key parameters are mentioned below:

i. Customer: Customer either natural or legal, risk identification and assessment is the major and foremost important priority of the bank. Identification and continuity of relationship of genuine customer is major concern of the bank. Customer may be categorized into normal customer, PEPs, belongingness to sanction countries, adverse media, negatively listed from court, police and risk profiling is made as per their vulnerability to AML/CFT risk.
ii. Occupation: Occupation risk is assessed on the basis of job/business customers involved in and its vulnerability to AML/CFT risk.
iii. Industry: Risk is assessed on the basis of nature of the business/ Industry, customers are involved in and its vulnerability to AML/CFT risk.
iv. Geographic: From the geographical point of view, risks are assessed on the basis of areas where customer resides or business activities are carried out. Generally, customer residing in border areas and carrying business activities in such areas are considered as high risk due to open border, vulnerable to smuggling and prone to illegal activities. Similarly customers are categorized high risk if their transactions are found to be associated with sanctioned countries.
v. Product and Services: People involved in money laundering and terrorism financing have numbers of ways to misuse the products and services the bank offer in their favor. So this parameter includes inherent risk on products and services the bank offer to its customers in terms of money laundering and terrorism financing.
vi. Delivery Channel: Delivery channel is a set of formats and channels made available by the bank to its customers so that the customers can access the various services offered by the bank without the assistance of a bank staff using a variety of mode. There is always more risk from non-face to face customer rather than from face to face and bank shall identify its customers based on the delivery channel.
vii. Transaction Risk: Transaction risk means the risk associated with transaction pattern of the customer such as frequently doing threshold transactions, mismatching of transaction against KYC profile, normal transaction as per KYC profile and risk profiling is done accordingly as per vulnerability to AML/CFT risk.

Bank shall develop the mechanism of risk profiling of customers based on above parameters by providing numeric values and customizing the system accordingly.

3.8 Product Papers and AML Controls:

It shall be ensured that ML/TF risks are identified and assessed in relation to development of new products and new business practices, including new delivery mechanisms and the use of new technology for both new and pre-existing products.

i. Bank shall conduct proper assessment of ML/TF risks prior to launching a new product, adopting new delivery channel
ii. It shall be the responsibility of the concerned product originating department to consider the risks of money laundering /terrorism financing and conduct product assessment prior to forwarding the proposal for approval
iii. The ML/TF risks of all such product should be assessed and categorized into Low, medium or High

[∞] *Added 3.7 & 3.8 as per the decision of Board of Directors dated 2078/06/25 B.S.*

iv. Bank shall launch such products which fall under ML/TF risks of medium or low category. Bank can launch a product with high inherent risk, where appropriate ML/TF controls reduce the residual risk to medium or low category.
v. The AML exercise as specified above shall be evidenced and documented in the product papers.
vi. The procedure relating to product paper and AML controls doesn't apply to already existing products at the time of addition of this provision in the AML/CFT policy and procedures of the bank.

Chapter-4 Monitoring Policy

The Bank will ensure a sound monitoring system in place to detect unusual/ suspicious activities/ transactions. Once the customer is on-boarded, monitoring the relationship, transaction, and activity of customer/s will be the major focus of the Bank. Effectiveness of monitoring will also be the target of the compliance, audit, and the management of the Bank.

∞Automated system shall be the primary tool of monitoring. Every triggered transaction shall be monitored on a regular basis for detection of suspicious transaction and for revaluation of customer risk grading. Branch level staff shall also monitor the transaction pattern as compared to customer capacity and behavioral pattern of the customer and report to compliance department if any suspicion is noted. Thus, human intervention-based monitoring shall also be applied as another tool for monitoring.

For effective monitoring, the bank will adopt strategy of regular KYC/CDD update and review mechanism so as to discover ground truth and realistic picture of the business relationship and activities.

4.1 Threshold Transactions:

The Bank follows NRB's recommendation for monitoring threshold transactions. All cash transactions, in-ward and out-ward remittances, and foreign currency exchanges are monitored for whether the transaction value are exceeding the limits defined and instructed by NRB from time to time.

4.2 ∞Suspicious Transactions:

Customers' transaction pattern shall be monitored for the detection of suspicious transaction on the basis of different parameters developed on AML system such as KYC deviation, under threshold repetition, Occupation deviation, large amount deposit in new account, multiple inward remittances, multiple low cash deposit with high frequency, digital transfer transaction, domestic ATM withdrawal etc. The bank shall regularly update the parameters of suspicious transaction as per NRB's guidelines, directives, international practice and industry standard.

4.3 Customer Profile:

Customers may change their background, occupation, industry, associations, products and services subscribed. Various adverse activities may also occur in relation to the Bank's customers. These changes are reflected into the Bank's AML/CFT measures by regularly monitoring customers' profile as well.

4.4 ∞Lists:

Lists such as sanctions list, PEP list, CIB blacklisted information, and adverse media shall be monitored against any customer existing and on boarding. In addition, International Sanctions list such as UN list, EU list, OFAC list and HMT list shall be screened against any customer making cross-border transaction via wire transfer and trade transaction.

4.5 ∞Suspicious Activity Reporting (SAR):

Branch level staff shall monitor the transaction pattern of the customer as compared to customer's capacity and report to compliance department in case of any suspicion noted with justifying reasons. Department after investigation forward the report to FIU.

∞ *Amended paragraph, 4.2, 4.4 & added 4.5 as per the decision of Board of Directors dated 2078/06/25 B.S.*

Chapter-5 Reporting Policy

[∞]Reporting is cardinal organ of AML/CFT regime. The Bank will make optimum focus in identifying, preparing and submitting qualified reports as follows:

(a) **Regulatory Reports**

(i) Regulatory Reports: NRB reports as per Directives,

(ii) FIU Reports: TTR/Precious Metal Transaction Reporting (PRM) /STR/SAR,

(iii) Internal Reports: Various compliance reports and information.

(b) **Other Reports**

Report as per other law enforcement agencies etc.

5.1 [∞]Threshold Transaction Reports (TTR):

Bank shall report the particulars of transactions following a threshold or in excess of such threshold to Financial Information Unit (FIU) within 15 days from the date of transaction in the prescribed format. The Threshold or transaction amount ceiling for TTR shall be applied and changed as per regulatory requirement of reporting.

5.2 [§]Suspicious Transaction Reports (STR):

Analysts/Officers from AML/CFT Unit of Compliance Department must review the STR flags raised by the AML system, analyze the transaction and forward for review to Implementation Officer. Implementation Officer may override, approve, and reschedule the cases in process of review. Approved STR cases are forwarded to FIU, NRB as per regulatory provision.

5.3 [§]Suspicious Activity Report (SAR):

SAR means reports submitted by financial institutions to FIU which is based on ML/TF prone activities or behaviors of customers and which do not fall under the category of STR. It shall also mean to include attempted suspicious transactions. Suspicious activity of customer reported by branch through monitoring of transaction and behavioral pattern of the customer is also analyzed by AML/CFT unit and submitted to FIU upon the approval from Implementation Officer.

5.4 Others:

The Bank may submit other relevant information related to offences and investigations to regulatory body on demand upon request. In general, the bank usually sends the financial information upon the request made by investigation authority, police administration, courts and law enforcement agencies.

[∞] *Amended Chapter 5 with addition of 5.3 as per the decision of Board of Directors dated 2078/06/25 B.S.*

[§] *Amended as per the decision of Board of Directors on date 2079/01/21 B.S.*

Chapter-6 Governance and Internal Control

[§]Bank Board of Directors constitutes an AML committee (Board Level) headed by Board Member followed by two members including Head of Compliance Department and Head of Risk Management Department and Implementation officer as Member Secretary of the committee. The AML committee is an apex body to have AML regime in the Bank and shall constantly oversight the function related to AML/CFT of the Bank. The roles and responsibilities of AML Committee shall be as specified by NRB Unified Directive, Direction No. 6.

6.1 Organization:

[§]The Bank has formed an AML Committee to coordinate overall AML/CFT activities in the Bank. AML/CFT unit In-charge/ Implementation Officer acts as member secretary of the AML Committee. The committee includes;

(a) Board Member - Coordinator
(b) Head, Risk Management Department – Member
(c) Head, Compliance Department - Member
(d) Implementation Officer (AML/CFT Unit In-charge) - Secretary

6.2 Roles and Responsibilities:

It shall be noted that AML/CFT is responsibility of each and every staff at the Bank. The AML /CFT roles and responsibilities of staff have been already mentioned in existing AML/CFT policy and procedure and shall be provided if special responsibility is to be given to special employee. However, the following staff shall have to play an active role in AML /CFT domain:

(a) [∞] Customer Service Desk has primary role of customer data collection, validation, verification, customer due diligence, customer follow up and record keeping.
(b) [∞] Compliance Officers at branches and branch managers shall require monitoring and reporting AML/CFT activities, and facilitate implementation of AML/CFT policy and procedure.
(c) Other Departments including province office shall support compliance department in detecting, identifying and reporting unusual financial and non-compliance activities.
(d) Head Compliance officer shall review AML/CFT activities, report to Chief Executive officer (CEO), AML/CFT risk committee and Board of Directors. Bank management and Board shall ensure availing of resources to the Compliance Officer.
(e) CEO Shall review compliance related Risk and report to BOD.
(f) AML committee shall govern AML/CFT activities of the Bank.
(g) Internal auditors should audit compliance activities in relation to AML/CFT requirements.
(h) BOD reviews compliance as directed by laws, bylaws and NRB Directive and reports to concerns authority.

[§] As per the decision of Board of Directors on date 2079/01/21 B.S.
[∞] as per the decision of Board of Directors dated 2078/06/25 B.S.

6.3 ∞ Procedure:

The Bank shall develop its AML/CFT procedure based on the guidelines provided by Nepal Rastra Bank, Bank's AML/CFT & KYC policy and bank's business processes. This policy and procedure will be a road map to instruct the Branches, Province Offices as well as head office for the effective implementation of AML/CFT measures. For critical decision-making in AML/CFT workflows, maker-check verification and proceed with approval mechanisms shall be followed. The AML/CFT IT System is designed with the same workflow and decision requirement.

Chapter-7 Others

7.1 Record Keeping:

Bank shall keep a record of every transaction, customer data, and data obtained for the purpose of identification, risk analysis, monitoring and other related information along with the date, time and nature, KYC/CDD documents, correspondence with the customers, sources of fund, as well as all documents related to money laundering activities such as files on suspicious activity reports, documentation of AML account monitoring, etc. These records must be kept for a minimum of 5 years until other policy/act is prescribed for more time.

7.2 ∞Human Resource Management:

(a) Bank shall make a proper recruitment and placement policy based on knowledge and skills required to handle AML/CFT and KYC activities

(b) Bank shall provide necessary learning and education schemes to the entire staff that are needed to have knowledge to understand and handle AML activities.

(c) Performance evaluation and incentives shall also be linked with the handling of AML, CFT and KYC in the branches and departments.

(d) Regarding employee recruitment and retention of highly disciplined employee bank shall align

it with compliance to AML/CFT and incorporate the same into bank HR Policy.

(e) Bank shall orient the employees regarding AML/CFT & KYC measures for effective implementation of policy and procedure.

(f) Bank shall orient the employees regarding Anti-Bribery and Anti- Corruption policy and procedure 2020, to maintain highest level of staff integrity and good governance in the Bank.

7.3 ∞Training and Awareness:

Bank has been conducting training and orientation programs to all existing as well as newly recruited employees on AML/CFT. All employees (including contract or temporary) responsible for carrying out transactions and/or for initiating and/or establishing business relationships shall undergo training and orientation. The Bank shall also spread awareness amongst the customers about AML/CFT/KYC measures and the rationale behind them.

(a) Bank shall prepare the annual AML/CFT training calendar. The Compliance Department shall incorporate the training or **knowledge sharing program** related to AML/CFT under its annual plan for shareholders (holding more than 2% or more share of paid up capital), members of board of directors, top management and employees involved in day to day AML/CFT activities.

∞ *Amended 7.2 & 7.3 as per the decision of Board of Directors dated 2078/06/25 B.S.*

(b) Bank shall make necessary arrangement for national and international exposure to the concerned staff working and supporting the AML/CFT efforts

(c) AML/CFT related online certification course will be introduced to department level as well as branch level to ensure in-depth knowledge of AML/CFT measures and its importance.

7.4 ∞Technology Adaptation:

Bank shall have an AML/CFT/KYC-friendly new technology in system and interface it with the Core Banking System so that they could perform the entire tasks against the money laundering and terrorism financing and take appropriate measures to prevent the damages to the Bank from its customers. The Bank will ensure that appropriate KYC procedures are duly applied to the customers while using new technology driven products. The AML/CFT and KYC system which are being executed these days in the bank shall help control ML and TF activities with multiple functions such as screening, risk assessment and profiling, transaction monitoring and regulatory reporting. The system shall be made as much flexible as required to integrate with bank's CBS and other software's in future.

Bank shall explore and implement the possibility of digitizing AML related documents, including account opening forms, KYC forms and other related documents. And bank will also implement the e-KYC module to facilitate the KYC update through digital platform.

7.5 Policy Update:

Bank shall review and update the policy at least once a year and as per requirement.

7.6 Repeal ad Savings:

The Nepal Bank Limited AML Policy, 2013 is hereby repealed. All actions taken and functions performed before the commencement of this policy shall be considered to have been taken or performed pursuant to this policy.

∞ *Amended as per the decision of Board of Directors dated 2078/06/25 B.S.*