

# **ANTI MONEY LAUNDERING POLICY**



**Birgunj – 13, Adarshnagar, Parsa  
Nepal**

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# Global Bank Limited - Anti Money Laundering (AML) Policy

## **POLICY STATEMENT**

Money Laundering has emerged as the alarming financial crime in the global economy. Hence, the fight against money laundering has become imperative for the global financial systems. In this context, the fight against money laundering is a priority for Global Bank Limited so as to prevent such illicit activities thereby protecting the bank and to entire financial systems from the potential risk posed by such financial crimes.

We understand that the fight against money laundering is a team effort. Adherence to “Anti Money Laundering Policy” is essential for the safety and ethical standards of the Bank’s operations.

We are committed to preventing ourselves from being used for criminal purposes. We are always ready to extend cooperation to regulators, prosecutors and other Government authorities to stop banking channel from being used for illicit activities.

Our policy is to conduct business in compliance with all applicable laws and regulation and stop criminals from using our products and services for the purpose of money laundering.

Our cooperation to our regulators is in its entirety wherein we aim to maintain the highest operating standards to safeguard the interest of our customers, our shareholders, our staff and the communities where we operate.

In conducting business with due skill, care and diligence we always seek to comply with both the letter and spirit of relevant laws, rules, regulation, code and standards of good practice.

We aim to promptly address any irregularities that may arise, as we believe in transparency in our financial and regulatory reporting with swift disclosure of any breaches.

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## 1. Introduction

Money laundering is a process whereby identity of illegally possessed money is changed so that it appears to have originated from a legitimate source. It is the process by which dirty money is made to look clean. In other words, Money Laundering is the process whereby criminals attempt to hide and disguise the true origin and ownership of the fund. The source may include terrorism, organized crime, fraud, drug trafficking, human trafficking, etc. The money earned from above source is called “Dirty Money”.

Money laundering is a major concern to the governments and regulatory authorities all over the world as it poses great threat to the international economy. Managing reputational risk and legal risk are of the top priority in the financial industry. It has been recognized as a major social problem and crime by the governments around the world.

Financial institutions are the medium for channeling the illegally or criminally earned money into the financial system. The simplest way to clean the illegally earned money is to bring-in such money to the financial system through different means such as deposits of cash, traveler’s cheques, drafts, electronic transfers and other financial instruments.

The process involves 3 steps:

1. Placement: Physically placing cash proceeds.
2. Layering: Piling of layers through complex financial transactions to separate the proceeds from illicit and/or criminal activity.
3. Integration: Re-introducing the illicit funds into the economy giving legitimate but false explanations as to the origin of the funds.

Following are the main guiding principles of Anti Money Laundering Policy of the Bank:

- i. To do business only with those clients whose status and identity is fully known to bank.
- ii. To determine and record the identity, background and business of all clients.
- iii. To regularly monitor the relationship in order to identify unusual or suspicious activity to be able to take appropriate action as and when required.

## 2. Consequences of Money Laundering

- i. Unexplained, unusual and rapid changes in supply and demand of money,
- ii. Volatility of capital flows and exchange rates due to un-anticipated cross boarder asset transfers,
- iii. Contamination of legal financial transactions and
- iv. Prudential risks to bank soundness arising from these developments.

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Money laundering may not just involve wealth related to Drug Trafficking, Terrorism financing, etc.,. List of crimes identified as generators of criminal wealth also include:

- i. Illegal arms sales
- ii. Gun running
- iii. Organized crime including drug trafficking and prostitution
- iv. Embezzlement
- v. Smuggling (including movement of nuclear materials)
- vi. Counterfeiting (including making of imitation and copies of original products/goods)
- vii. Fraud, especially computer-supported fraud
- viii. Benefiting from insider trading
- ix. Bribery and kickbacks
- x. Tax evasion
- xi. Under and over –invoicing of trade transactions
- xii. Bogus trade transaction to launder money through round-tripping
- xiii. Facilitating illegal immigration

### 3. Stages of Money Laundering

Usually, Money laundering has three stages as mentioned above. These stages may occur separately, simultaneously or in phases overlapping one another. In all the three stages, the money obtained illegally is brought into the financial system through financial institutions.

#### 3.1 Placement

The physical disposal of cash proceeds derived from illegal activity could be done through:

- i. Depositing a large amount of cash in numerous small amounts (smurfing)
- ii. Setting up a cash business as a cover for banking large amount of money.
- iii. Investing in shares and other investments products and
- iv. Mingling of illegal cash with deposits from legitimate business e.g. car and antiques dealers.

#### 3.2 Layering

Layering is the practice of separation of illegal money from its original source by creating complex layers of financial transactions designed to disguise the audit trail and provide anonymity. The purpose is to confuse the audit trail and break the link from the original crime. The examples are as follows:

- i. A company passes money through its accounts under cover of bogus invoices, merely to generate additional transactions.

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- ii. A customer raises a loan on the security of a deposit (from illegal business) in another bank to help break the connection with illegal funds.
- iii. A customer incurs large credit card debts from an account.

### 3.3 Integration

If the layering process succeeds, integration schemes place the launched funds back into the economy so that they re-enter the financial system appealing to be the fund from legitimate sources so that no one would suspect its origins.

## 4. Examples of Suspicious Transactions

“Suspicious activity” is a difficult concept to define because it can vary from one transaction to another based upon all the circumstances surrounding the transactions. For example, transaction by one customer may be normal because of the knowledge about that customer while similar transactions by another customer may be suspicious. Many factors are involved in determining whether the transactions are suspicious, including the amount of transactions, type of transactions, destination of transactions, actual beneficiary of the transactions, source of funds, etc. These factors should form part of the KYC process to ensure that customer is genuine and transactions are within his means.

*Any one or a combination of the following transactions may indicate the act of money laundering.*

The list of situations given below is intended to understand mainly about the means and basic ways Money laundering process. This list is by no means exhaustive and will require constant updating and adaptation to changing circumstances and new methods of money laundering. As it is solely an aid, it must not be applied as a routine instrument in place of common sense.

The employees need to be cautious if they encounter the following situations/transactions and report to the concerned head of department or the management as deemed necessary.

### A. Transactions that do not make economic sense

- a. Transactions whose form suggests that they might be intended for an illegal purpose or the economic purpose which is not discernible.
- b. A customer-relationship with the bank that does not appear to make economic sense for e.g. a customer having many accounts with the same bank, frequent transfers between different accounts or exaggeratedly high liquidity.

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- c. Transactions in which assests are withdrawn immediately after being deposited, unless the customer's business activities furnish a plausible reason for immediate withdrawal.
- d. Transaction that cannot be reconciled with the usual activities of the customer of the bank.
- e. Transactions, without plausible reasons, result in the intensive use of an account which was previously a relatively inactive account.
- f. Transactions which are incompatible with the bank's knowledge and experience of the customer or with the purpose of the business relationship.
- g. Provisions of Bank guarantees or indemnities and collateral for loans between third parties that are not in conformity with market conditions.
- h. Unexpected repayment of an overdue credit without any plausible explanation and back-to-back loans without any identifiable and legally admissible purpose.

### **B. Transactions involving large amounts of cash**

- a. Exchanging an unusually large amount of small-denomination bank notes for the same amount in large denomination notes.
- b. Frequent changing of large amounts of money without using a customer account and frequent withdrawal of large amount by means of cheques, including traveler's cheques.
- c. Frequent withdrawal of large cash amounts which do not appear to be justified by the customer's business activity.
- d. Company transactions, both deposits and withdrawals, that are denominated by unusually large amounts of cash rather than by way of debts and credits normally associated with the normal commercial operation of the company, e.g. cheques, letter of credit, bills of exchange etc.
- e. Depositing cash by means of numerous credit-slips by a customer such that the amount of each deposit is not substantial.
- f. The deposit of unusually large amounts of cash by a customer to cover requests for banker's draft, money transfers or other negotiable and readily marketable money instruments.

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## **C. Transactions involving transfers abroad**

- a. Transfer of money abroad by an interim customer in the absence of any legitimate reasons.
- b. A customer who appear to have accounts with several banks in the same locality, especially when a bank is aware of regular consolidated process from such accounts prior to a request for onward transmission of the funds elsewhere.
- c. Repeated transfers of large amounts of money abroad accompanied by the instructions to pay the beneficiary in cash.
- d. Large and regular payment that cannot be clearly identified as bona-fide transactions from and to countries associated with the production, processing or marketing of narcotics or other illegal drugs.

Transfers of funds abroad in convertible currencies are basically regulated by Nepal Rastra Bank (Central Bank). However, the employees need to be cautious if transfer of fund abroad by a customer is frequent and appropriate economic sense cannot be established. The transfers if frequent should be informed to the Operations Manager/Branch Manager and if deemed necessary the Branch Manager should investigate the reasons for such transfers without bringing the investigation to the customer's notice and if found suspicious the matter should be referred to senior management such as AGM/DGM or CE. The senior management, with the assistance to the compliance and Concurrent Audits, shall do the needful.

## **D. Transaction Involving authorized institution, employees and agents**

- i. Every employee must be discouraged for transaction beyond his/her salary in the Global Bank. However, any transactions earned out by the employee from outside source must be closely scrutinized.
- ii. Changes in employee characteristics, e.g. lavish life styles.
- iii. Any dealing with an agent where the identity of the ultimate beneficiary or counterpart is undisclosed, contrary to normal procedure for the type of business concerned.

## **E. Investments related transactions**

- i. Purchase of securities to be held by the branch in safe custody where this does not appear appropriate given the customer's apparent standing.
- ii. Back to back deposit/loan transaction with subsidiaries of, or affiliates of, overseas financial institutions from known drug trafficking areas.
- iii. Request by customers for investment management services (either foreign currency or securities) where the source of the funds is unclear or not consistent with the customer's apparent standing.

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- iv. Larger or unusual settlements of securities transactions in cash form.
- v. Buying and selling of a security with no discernible purpose or in circumstances which appear unusual.

### **F. Transaction of secured and unsecured lending**

- i. Customers who pay repay loans unexpectedly.
- ii. Request to borrow against assets held by institution or third party where the origin of the assets is not known or the assets are inconsistent with the customer's standing.
- iii. Request by a customer for branch to provide or arrange finance where the purpose of said finance is unclear.

### **G. Transaction involving unidentified parties**

- i. Provision of collateral by way of pledge or guarantee without any discernible, plausible reason by third parties unknown to the bank and who have identifiable close relationship with the customer.
- ii. Transfer of money to another bank without indication of the beneficiary.
- iii. Payment orders with inaccurate information concerning the person placing the orders
- iv. Use of pseudonyms or numbered accounts for effecting commercial transactions by enterprises active in trade and industry.
- v. Holding in trust shares in an unlisted company whose activities cannot be ascertained.

### **H. Miscellaneous transaction**

- i. Purchase or sale of large amounts of precious metals by interim customer.
- ii. Purchase of Banker's cheques on a large scale by an interim customer.
- iii. Extensive or increased use of sale deposit facilities which do not appear to be justified by the customer's personal or business activities.
- iv. Cash payment remitted to a single account by a large number of different persons.
- v. Request by a customer for investment management services where the source of funds is unclear or not consistent with the customer's apparent standing, and
- vi. Request by a customer for a financial institution to provide or arrange finance where the source of the customer's financial contribution to deal is unclear.

### **I. Special Reporting Requirement for Cash Transactions**

In addition to the reporting of suspicious money laundering transactions (refer to KYC when and how should suspicious transaction be reported), mandatory recording and, if deemed necessary, reporting is required for cash/account receipts

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above USD 100,000 or equivalent. The purpose of this report is to document that due diligence has been done by the responsible employee executing the cash/account receipts above USD 100,000 or equivalent. It must be clear that this reporting requirement for cash/account receipts above USD 100,000 or equivalent is not to be interpreted that due diligence is not required for cash/account receipts below USD 100,000 or above. The principles of "Know Your Customer" and the exercise of due diligence in dealing with the customers must be adhered at all times.

All cash receipts above USD 100,000 or equivalent must be documented on the Customer Transaction Report (*Annex B in KYC*) by the Head Teller upon being informed of transaction by the teller/cashier. In case of account receipt, the same will be done by the Remittance Supervisor upon information by remittance counter staff. It is Head Teller/Operation In-Charge/Customer Support Office's responsibility to check on the customer's source of funds and document it on this report. If the above officials have any doubt on the source, the customer should be requested to submit the report. This mandatory document will form part of the transaction record and must be filed within the source documents in the Global Bank's concerned offices/branches.

The cash withdrawals of USD 100,000 or equivalent must be documented on the declaration for the Use of Funds (*Annex C in KYC*) when a customer's incoming funds above USD 100,000 or equivalent are withdrawn immediately or within one month. This mandatory document will form the part of the transaction record and must be filed with the source of documents in the concerned branches of Global Bank.

On the basis of the findings, if there are doubts of the legality of any transaction, Head Teller, the Customer Service Officers, Relationship Managers, Branch Managers or higher authorities should reject the customer immediately. The matter should be reported to Global Bank management. In constitution with Global Bank management, if there is evidence of money laundering, the account relationship should be terminated. However, in the absence of appropriate evidences of money laundering and in the presence of suspicions the account should be monitored closely.

It must be remembered that the responsibility of reporting all undesirable and suspicious transactions is on the **Employees of Global Bank.**

### 5. Regulations in Nepal

In order to combat money laundering, laws and regulations have been formalized and implemented in various countries. The rules and regulations in combating money laundering may vary from country to country.

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As of date, Nepal does not have any prescribed and documented rules and regulation in combating money laundering. But now, Nepal Rastra Bank (Central Bank) is planning to promulgate an ordinance called “Mudra Nirmalikaran Adhyadesh” which will be the governing document to prevent the money laundering in Nepal.

As activities such as money laundering affects the image and reputation of Global Bank and its employees, it has become imperative for Global Bank to develop and implement appropriate policies and procedures on AML. For developing and designing the policies and procedures on AML, following have been taken into account:

- i. Circulars and directives of Nepal Rastra Bank (Central Bank).
- ii. Global Banks rules and regulations.
- iii. Concerned government authorities’ rules and regulation.
- iv. Fundamental and prudential norms on AML established by international financial institutions.

## 6. Objective of the Policy

The main purpose of this policy is to avoid the movement of illicit money into the financial system of the country. The following are the main objectives of this policy manual.

- i. To set Global Bank’s basic guidelines on Anti Money laundering (AML) and Know Your Customer (KYC) Policy.
- ii. To make Global Bank staff aware of the AML and KYC policies.
- iii. To meet international need and demand of these policies.
- iv. To prevent illicit transfer of money.
- v. To prevent Money Laundering and use of Banking Channel for criminal activities.
- vi. To prevent the opening of anonymous and fictitious accounts.
- vii. To put system in place to verify the identity of prospective customers before they are allowed to establish account relationship.

## 7. Know Your Customers (KYC)

*Know Your Customer (KYC)* policy has been promulgated as the basic tool to fight/prevent the money laundering activities through Global Bank. Basically, KYC enables the bank employees to know about the customer in detail including their identity, address, legal status, existing business and likely transactions to be carried out using our bank. This will further enable to identify/recognize the suspicious transactions, if any, carried out so that the money laundering activities could be prevented.

Primarily, Branch Managers/Customer Relationship Managers or other designated staff are responsible for interviewing the prospective customer and obtain sufficient information on the reputation of the client, legitimacy of the business and nature and source of activity expected in the account. Generally, a business relationship should

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never be established until the identity of the potential customer is satisfactorily established. If a potential customer refuses to provide the requested information, the relation should not be established. Likewise, if the requested follow-up information is not forthcoming, any relationship already begun should be terminated. Branch Managers/Customer Relationship Managers or designated Staff should not approve new accounts unless proper identity of the account holder is established as per the parameters set out in this manual.

Normally, the account opening form will have sufficient information for identification of the customer. Just in case the staff feels that additional information is required from a new customer a KYC interview should be conducted. The KYC interview should be conducted in a very polite manner and it should not amount to a detective investigation. It must be recognized that trade and commerce in Nepal is still largely cash based and undocumented. Every cash transaction or inability to provide supporting documents should not automatically lead to suspicion. In case of doubt, the advice of senior management may be obtained before making a decision.

In case the identity of a prospective customer cannot be satisfactorily established, the refusal to establish relationship should be conveyed and if necessary a reference can be made to this policy and the instruction issued by the Bank's management, Nepal Rastra Bank and the government in this regard.

The purpose of KYC policy is to establish the identity of the prospective customer and to verify the source of large funds which will supplement to achieve the objective of Anti Money Laundering Policy. In other words, KYC is the basic supplementary policy for Anti Money Laundering Policy wherein the guidelines, procedures and formats for identifying the illicit or illegitimate transactions are set which will enable to prevent the money laundering activities.

### **8. Anti Money Laundering Policies and Procedures (AMLPP)**

The policies and procedures on AML have been stated in detail in the KYC which should be abided by the concerned officials, departments and branches of Global Bank Limited in its spirits. The employees of GBL must be exceptionally vigilant to the money laundering activities and at all time observe the guidelines mentioned herein above and the follow the procedures given in KYC to prevent the money laundering.