AL HABIB CAPITAL MARKETS (PVT) LTD. (AHCML)

ANTI-MONEY LAUNDERING (AML) / COUNTERING FINANCING OF TERRORISM (CFT) POLICY

Approved by the Board of Directors: October 3, 2018

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1. Introduction

i. Money Laundering ("ML") and Terrorist Financing ("TF") are economic crimes that threaten a country's overall financial sector reputation and expose financial institutions to significant operational, regulatory, legal and reputational risks.ML refers to the methods criminals use to hide and disguise money from illicit origin. Whereas TF refers to the financing of terrorist acts, and of terrorists and terrorist organization.

ii. An effective Anti-Money Laundering and Countering Financing of Terrorism ("AML/CFT") regime requires financial institutions to adopt and effectively implement appropriate ML and TF control processes and procedures, not only as a principle of good governance but also as an essential tool to avoid involvement in ML and TF.

iii. The SECP AML/CFT Regulations require Securities Brokers to establish systems to detect ML and TF, and thus assist in the prevention of abuse of their financial products and services.

2. Objectives, Scope and Application of the AML/CFT Policy

Primary objective of this policy is to protect AHCML from being used by criminal elements for money laundering or terrorist financing activities. The Policy is intended to achieve the following objectives:

i. To prevent criminal elements from using AHCML for money laundering and terrorist financing activities and thus to protect the reputation of AHCML;
ii. To comply with provisions of applicable laws and regulations of SECP relating to AML/CFT;
iii. To put in place appropriate controls for detection and reporting of suspicious transactions as per laws / regulations; and
iv. To ensure that the concerned staff are adequately trained in AML/CFT laws and regulations.

3. Establishment of an effective AML /CFT Governance and Compliance Regime

i. An effective AML/CFT regime to deter criminals from using financial system for ML or TF purposes will help develop a comprehensive AML/CFT compliance program to comply with the relevant and applicable laws and obligations.

ii. AHCML Board of Directors and senior management will be engaged in the decision making on AML/CFT policies, procedures and controls and take ownership of the risk based approach. They must be aware of the level of ML/TF risk that AHCML is exposed to and take a view on whether it is equipped to mitigate that risk effectively.

iii. AHCML will give due priority to establishing and maintaining an effective AML/CFT compliance culture and must adequately train its staff to identify suspicious activities and adhere to the internal reporting requirements for compliance with the Regulations.

iv. AHCML will establish written internal procedures so that, in the event of a suspicious activity being discovered, employees are aware of the reporting chain and the procedures to be followed. Such procedures should be periodically updated to reflect any legislative changes.

v. To oversee the compliance function, AHCML will appoint a Compliance Officer ("CO") at the management level, who shall be the point of contact with the supervisory authorities including the Commission and the Financial Monitoring Unit (FMU).

vi. AHCML will ensure that any suspicious transaction report must be made by employees to the 'CO', who should be well versed in the different types of transactions which AHCML handles and which may give rise to opportunities for ML/TF.

vii. The 'CO' will be responsible for ensuring that employees are aware of their reporting obligations and the procedure to follow when making a suspicious transaction report.

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4. Programs and Systems to prevent ML and TF

AHCML will make use of the policy following programs and systems to prevent, detect and report ML/TF:

a) Adequate systems to identify and assess ML/TF risks relating to persons, countries and activities which should include checks against all applicable sanctions lists; (KYC/CDD Policy, This Policy).
b) Policies and procedures to undertake a Risk Based Approach ("RBA"). KYC/CDD Policy.
c) Internal policies, procedures and controls to combat ML/TF, including appropriate risk management arrangements.
d) Customer due diligence measures. (KYC/CDD Policy).
e) Record keeping procedures. (This Policy)
f) An audit functions to test the AML/CFT system. (This Policy).
g) Screening procedures to ensure high standards when hiring employees. (HR Policy)
h) An appropriate employee-training program. (This Policy, HR Policy, KYC/CDD Policy)

5. The Three Lines of Defense

i. AHCML has established the following three lines of defense to combat ML/TF;

- ☐ First the front office, customer-facing activity: They should know and carry out the AML/CFT due diligence related policies and procedures and be allotted sufficient resources to do this effectively.
- ☐ Second the Compliance Officer, the compliance function/operations.
- ☐ Third the Internal Audit function

ii. As part of first line of defense, policies and procedures are clearly specified in writing, and communicated to front office employees. These contain a clear description for employees of their obligations and instructions as well as guidance on how to keep the activity of AHCML in compliance with the Regulations, including detecting, monitoring and reporting suspicious transactions.

iii. As part of second line of defense, the 'CO' oversees the effectiveness of AHCML AML/CFT systems, compliance with applicable AML/CFT legislation and provides guidance in day-to-day operations on the AML/CFT policies and procedures.

iv. Internal Audit, the third line of defense, will periodically conduct AML/CFT audits on an institution-wide basis and be proactive in following up its findings and recommendations. As a general rule, the processes used in auditing are consistent with internal audit's broader audit mandate, subject to prescribed auditing requirements applicable to AML/CFT measures.

6. Risk Assessment and Applying a Risk Based Approach

i. The Regulations shift emphasis from one-size-fits-all approach to Risk Based Approach ('RBA'), requiring AHCML to carryout ML/TF risk assessment and apply RBA to prevent or mitigate ML and TF.

ii. AHCML takes into account all the relevant risk factors before determining what is the level of overall risk and the appropriate level and type of mitigation to be applied, such as geography, products and services, delivery channels, types of customers, or jurisdictions within which AHCML customers do business.

iii. The RBA enables AHCML to ensure that AML/CFT measures are commensurate to the

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risks identified and allow resources to be allocated in the most efficient ways. As a part of the RBA, AHCML will:

1) Identify ML/TF risks relevant to it;
2) Assess ML/TF risks in relation to-
   a. AHCML customers (including beneficial owners);
   b. Country or geographic area in which its customers reside or operate;
   c. Products, services and transactions that AHCML offers; and
   d. Their delivery channels.
3) Monitor and evaluate the implementation of mitigating controls and improve systems where necessary;
4) Keep risk assessments current through ongoing reviews by Compliance Officer and, when necessary, update the same;
5) Document RBA including implementation and monitoring procedures and updates of the RBA; and

iv. Under the RBA, where there are higher risks, AHCML has to enhance measures to manage and mitigate those risks; and correspondingly, where the risks are lower, simplified measures may be permitted. However, simplified measures are not permitted whenever there is a suspicion of ML/TF. In the case of some very high- risk situations which are outside the AHCML risk tolerance, AHCML may decide not to take on or accept the customer, or exit from the relationship.

v. The process of ML/TF risk assessment has four stages:

1) Identifying the area of business operations susceptible to ML/TF
2) Conducting an analysis in order to assess the likelihood and impact of ML/TF;
3) Managing the risks; and
4) Regular monitoring and review of those risks.

7. Monitoring AML/CFT Systems and Controls

AHCML will assess the effectiveness of their risk mitigation procedures and controls, and identify areas for improvement, where needed. For that purpose, AHCML should pay attention to the following aspects:

1) The ability to identify changes in a customer profile or transaction activity/ behavior, which come to light in the normal course of business;
2) The potential for abuse of products and services by reviewing ways in which different products and services may be used for ML/TF purposes, and how these may change, supported by typologies/law enforcement feedback, etc.;
3) The adequacy of employee training and awareness;
4) The adequacy of internal coordination mechanisms i.e., between AML/CFT compliance and other functions/areas;
5) The compliance arrangements (such as Internal Audit);
6) The performance of third parties who were relied on for CDD purposes;
7) Changes in relevant laws or regulatory requirements.

8. Documentation and Reporting

i. AHCML will document RBA, documentation of relevant policies, procedures, review results and responses including:

1) risk assessment systems including how the AHCML assesses ML/TF risks;
2) details of the implementation of appropriate systems and procedures, including due diligence requirements, in light of its risk assessment;
3) how it monitors and, as necessary, improves the effectiveness of its systems and procedures; and
4) the arrangements for reporting to senior management on the results of ML/TF

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risk assessments and the implementation of its ML/TF risk management systems and control processes.

ii. AHCML notes that the ML/TF risk assessment is not a one-time exercise and, therefore, AHCML will ensure that their ML/TF risk management processes are kept under regular review which is at least annually. Further, AHCML management reviews the program's adequacy when it adds new products or services, or opens or closes accounts of high-risk customers.

9. New Products and Technologies

i. AHCML has processes in place to identify and assess ML/TF risks that may arise in relation to the development of new products and new business practices, including new delivery mechanisms, and the use of new or developing technologies for both new and pre-existing products such as:

   1) Electronic verification of documentation;
   2) Data and transaction screening systems.

ii. To maintain adequate systems, AHCML ensures that its systems and procedures are kept upto date with such developments and the potential new risks and impact they may have on the products and services offered by AHCML. Risks identified must be fed into the AHCML business risk assessment.

10. Customer Due Diligence (CDD)

AHCML strives to conduct proper Customer Due Diligence (CDD), as per its comprehensive 'Know Your Customer / Customer Due Diligence' Policy (*). AHCML also ensures that no fictitious / anonymous account is maintained. Where AHCML is unable to complete and comply with CDD requirements, it shall not open the account, commence a business relationship, or perform the transaction. If the business relationship has already been established, AHCML may terminate the relationship. Additionally filing of STR to FMU will be considered.

AHCML ensures to take into account the risk of tipping-off when performing the CDD process. If AHCML reasonably believes that performing the CDD or on-going process will tip-off the applicant / customer, it may choose not to pursue that process, and may file an STR. AHCML also ensures that its employees are aware of, and sensitive to, these issues when conducting CDD or ongoing CDD.

a. Simplified Customer Due Diligence:

AHCML performs Simplified Customer Due Diligence on a monthly basis in accordance with the following criteria:

- Top 15 AHCML Clients in terms of Traded Volume / Value (For Individuals and Institutions);
- Top 15 AHCML Clients in terms of Deposits (For Individuals and Institutions);
- Top 15 AHCML Clients in terms of Withdrawals (For Individuals and Institutions);

On quarterly basis, 15 AHCML clients out of those clients not covered above shall be selected on randomly basis;

The Risk Management Function will review deposit and withdrawal activities of clients highlighted on the basis of aforesaid criteria. It will ensure that such deposits were made through banking instruments other than cheques and get required documentary proof to ensure that banking instruments were issued from client's bank account. Where sufficient documentary evidence is not provided by client/trader then Suspicious Transaction Report (STR) shall be filed with copy to PSX and SECP. The Risk rating of the client shall be changed to High.

(*) KYC/CDD policy is the integral part of this policy.

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b. Enhanced Due Diligence:

Enhanced customer due diligence shall be performed in accordance with Securities & Exchange Commission of Pakistan (Anti-Money Laundering and Countering Finance of Terrorism) Regulations 2018 & relevant guidelines.

In this regard, following activities shall be performed.

- AHCML will prepare enhanced due diligence (EDD) report on monthly basis.
- Review the EDD report and identify clients where trading has enhanced significantly viz-a-viz prior history and consider to change the Risk profile of such clients as High. Furthermore, the deposit activity shall also be reviewed to identify any illegal/unauthorized deposit types. If found, the STR shall be filed with SBP under intimation to PSX and SECP.
- Inform department heads (Operational & RM) about opening of a High Risk Client and changing in the risk profile to High category.
- Obtain approval from Senior Management to establish or continue business relations with customers that are identified as high risk.

11. Cross-border Correspondent Relationship

i. Cross-border correspondent relationships are the provision of services by one institution to another institution (the respondent institution). Correspondent institutions that process or execute transactions for their customer's (i.e. respondent institution's) customers may present high ML/TF risk and as such may require EDD.

ii. AHCML endeavor to maintain an ongoing and open dialogue with the respondent institutions to discuss the emerging risks, strengthening AML/CFT controls, and help the respondent institutions in understanding the AHCML's AML/CFT policies and expectations of the correspondent relationship.

12. Record-Keeping Procedures

i. AHCML ensures that all information obtained in the context of CDD is recorded. This includes both:

   a) Recording the documents AHCML is provided with when verifying the identity of the customer or the beneficial owner, and
   b) Transcription into AHCML's own IT systems of the relevant CDD information contained in such documents or obtained by other means.

ii. AHCML will maintain, for at least 5 years after termination, all necessary records on transactions to be able to comply swiftly with information requests from the regulator/government. Such records should be sufficient to permit the reconstruction of individual transactions, so as to provide, if necessary, evidence for prosecution of criminal activity.

iii. Where there has been a report of a suspicious activity or if AHCML is aware of a continuing investigation or litigation into ML/TF relating to a customer or a transaction, records relating to the transaction or the customer should be retained until confirmation is received that the matter has been concluded.

iv. Records relating to verification of identity will generally comprise:

   1) A description of the nature of all evidence received relating to the identity of the verification subject; and
   2) The evidence itself or a copy of it or, if that is not readily available, information reasonably sufficient to obtain such copy.

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v. Records relating to transactions will generally comprise:

1) Details of personal identity, including the names and addresses, of:
   a) The customer;
   b) The beneficial owner of the account or product; and
   c) Any counter-party

2). Details of securities and investments transacted including:
   a) The nature of such securities/investments;
   b) Valuation(s) and price(s);
   c) Memoranda of purchase and sale;
   d) Source(s) and volume of funds and securities;
   e) Destination(s) of funds and securities;
   f) Memoranda of instruction(s) and authority(ies);
   g) Book entries;
   h) Custody of title documentation;
   i) The nature of transaction;
   j) The date of the transaction;
   k) The form (e.g. cash, cheque) in which funds are offered and paid out.

13. Reporting of Suspicious Transactions / Currency Transaction Report

i. A suspicious activity will often be one that is inconsistent with a customer's known, legitimate activities or with the normal business for that type of account. Where a transaction is inconsistent in amount, origin, destination, or type with a customer's known, legitimate business or personal activities, the transaction must be considered unusual, and AHCML should be put "on enquiry". AHCML should also pay special attention to all complex, unusual large transactions, and all unusual patterns of transactions, which have no apparent economic or visible lawful purpose.

ii. A checklist of ML/TF/PF warning signs has been developed by AHCML, as enclosed in Annexure 1 &2.

14. Compliance with sanctions

i. Sanctions are prohibitions and restrictions put in place with the aim of maintaining or restoring international peace and security. They generally target specific individuals or entities; or particular sectors, industries or interests. They may be aimed at certain people and targets in a particular country or territory, or some organization or element within them. There are also sanctions that target those persons and organizations involved in terrorism. AHCML ensures compliance with such 'Sanctions/Prohibitions' by ensuring that compliance with those 'Sanctions' forms an integral part of its AML/CFT compliance program.

ii. Government of Pakistan publishes Statutory Regulatory Orders (SROs) under the United Nations (Security Council) Act, 1948 in the official Gazettes to give effect to the decisions of the UNSC Sanctions Committee and implement UNSC sanction measures in Pakistan. The regularly updated consolidated list is available at the UN sanctions committee's website, at following link;

https://www.un.org/sc/suborg/en/sanctions/un-sc-consolidated-list
https://www.un.org/sc/suborg/en/sanctions/1718/materials
https://www.un.org/sc/2231/list.shtml
http://www.mofa.gov.pk/contentsro1.php
http://www.mofa.gov.pk/contentsro2.php
http://www.secdiv.gov.pk/page/sro-unscr-sanctions

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iii. The Ministry of Interior issues Notifications of proscribed individuals /entities pursuant to the Anti-Terrorism Act, 1997, to implement sanction measures under UNSCR 1373(2001), and the regularly updated consolidated list is available at the National Counter Terrorism Authority's website, at following link;

http://nacta.gov.pk/proscribed-organizations/

iv. AHCML will ensure that no business is conducted with mentioned persons/ entities, and the laws/ regulations applicable to such sanctions/ prohibitions are complied with.

15. Internal Controls (Audit Function, outsourcing, employee Screening and Training)

The Internal Control System at AHCML is comprehensive and proportionate to the nature, scale and complexity of its activities and the ML/TF risks identified. AHCML establishes and maintains internal controls:

(1) Audit function to test AML/CFT systems, policies and procedures;
(2) Review of outsourcing arrangements;
(3) Employee screening procedures to ensure high standards when hiring employees; and
(4) Appropriate employee training program.

Employee Training Program: AHCML conducts special training sessions on quarterly basis to ensure that all its employees realize that KYC and CDD is a continuous process whereby customer information and data is updated regularly. In addition, training related to Anti Money Laundering is also provided to relevant staff.

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ML/TF Warning Signs/ Red Flags

The following are some of the warning signs or "red flags" to which AHCML should be alerted. The list is not exhaustive, but includes the following:

(1) Customers who are unknown to the broker and verification of identity / incorporation proves difficult.
(2) Customers who wish to deal on a large scale but are completely unknown to the broker.
(3) Customers who wish to invest or settle using cash.
(4) Customers who use a cheque that has been drawn on an account other than their own.
(5) Customers who change the settlement details at the last moment.
(6) Customers who insist on entering into financial commitments that appear to be considerably beyond their means.
(7) Customers who accept relatively uneconomic terms, when with a little effort they could have a much better deal.
(8) Customers who have no obvious reason for using the services of the broker (e.g.: customers with distant addresses who could find the same service nearer their home base; customers whose requirements are not in the normal pattern of the service provider's business which could be more easily serviced elsewhere).
(9) Customers who refuse to explain why they wish to make an investment that has no obvious purpose.
(10) Customers who are introduced by an overseas agent based in a country noted for drug trafficking or distribution.
(11) Customers who carry out large numbers of transactions with the same counterparty in small amounts of the same security, each purchased for cash and then sold in one transaction, particularly if the proceeds are also then credited to an account different from the original account.
(12) Customer trades frequently, selling at a loss.
(13) Customers who wish to maintain a number of trustee or customers' accounts which do not appear consistent with the type of business, including transactions which involve nominee names.
(14) Any transaction involving an undisclosed party.
(15) transfer of the benefit of an asset to an apparently unrelated third party, or assignment of such benefit as collateral; and
(16) Significant variation in the pattern of investment without reasonable or acceptable explanation.
(17) Transactions appear to be undertaken in a structured, sequential manner in order to avoid transaction monitoring/ reporting thresholds.
(18) Transactions involve penny/microcap stocks.
(19) Customer requests a securities provider to execute and/or clear a buy order and sell order for the same security or similar or correlated securities (and/or on behalf of the same beneficial owner), in close chronology.
(20) Transfers are made to the same person from different individuals or to different persons from the same individual with no reasonable explanation.
(21) Customer invests in securities suddenly in large volumes, deviating from previous transactional activity.
(22) Customer conducts mirror trades.
(23) Customer closes securities transaction before maturity, absent volatile market conditions or other logical or apparent reason.

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Annexure 2

Proliferation Financing Warning Signs/Red Alerts

AHCML would take note of the following circumstances where customers and transactions are more vulnerable to be involved in proliferation financing activities relating to both DPRK and Iran sanctions regimes:

(a) Customers and transactions associated with countries subject to sanctions;

(b) instruments that could particularly be used to finance prohibited transactions, such as certain trade financing products and services;

(c) customers involved with and/or transactions related to items, materials, equipment, goods and technology prohibited by UNSCRs;

(d) Reasonableness of invoiced goods against market value, inconsistency or discrepancies in trade-related documentation.

In particular, AHCML would be alert to the following non-exhaustive list of factors that are relevant to the DPRK sanctions regime:

(a) Clearing of funds, granting of export credits or guarantees to persons or entities that are associated with trading transactions relating to the DPRK;

(b) Providing insurance or re-insurance services to maritime vessels owned, controlled or operated, including through illicit means, by the DPRK or classification services to vessels which there are reasonable grounds to believe were involved in activities, or the transport of items, prohibited by UNSCRs concerning the DPRK, unless the Security Council 1718 Committee determines otherwise on a case-by-case basis;

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