

ANTI MONEY LAUNDERING AND COMBAT OF TERRORISM FINANCE STANDARDS

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I. INTRODUCTION

Banco Nacional de Comércio de Timor-Leste, S.A. (hereinafter referred to as “BNCTL”) is firm to implement the instruction of the Banco Central Timor Leste (Hereinafter referred to as “BCTL”), number 5/2017 of 25 august, on customer identification, record keeping and transaction reports, to tackle anti money laundering and combating the terrorist financing (hereinafter referred to as “Instruction”), based on the law 17/2011, of 28 December, (hereinafter referred to as a “Law”) as amended, in order to prevent the involvement of BNCTL in unlawful transactions, and to prevent its involvement in organized, economic and financial crime. With this action, besides to comply with the instruction and the Law, BNCTL also prevent itself from being the vehicle of the money laundering or financing of terrorism and improves its market reputation.

II. LAWS AND INSTRUCTIONS ON AML/CFT

National

1. Penal Code approved by Decree Law no. 19/2009, of April 8, as amended by Law no. 6/2009 of July 15, by Law no. 17/2011, of 28 December, and amended again to Law number no. 5/2013, of 28 August, namely article 133.º (terrorist financing); article 313.º (money laundering); article 133.º-A (aggravating circumstances of terrorist financing); article 113.º-B (attenuating circumstances of terrorist financing and article) 313.º-A aggravating circumstance in the crime of money laundering; article 313.º-B (attenuating circumstance in the crime of money laundering).
2. Legal framework for the prevention and combating of money laundering and terrorist financing, approved by Law no. 17/2011 of December 28, as amended by Law no. 5/2013; and
3. Instruction of BCTL no. 5/2017, of August 25, on customer identification, record-keeping and transaction reports.

International

1. The Financial Action Task Force (“FATF”) 40 Recommendations on combating money laundering and the 9 Special Recommendations on combating the financing of terrorism, issued in 2012.

2. International Convention for the Suppression of the Financing of Terrorism, ratified by the state of Timor-Leste on May 2014.

III. NOTION OF THE ANTI-MONEY LAUNDERING (AML) AND COMBATING THE FINANCING OF TERRORISM (CFT)

Money Laundering

Money laundering is the process by which a natural or legal person, who is in possession of assets derived from unlawful activities, introduces them to the financial system to obscure the source of the illegally obtained monies, and making them appear to be legitimate.

Given the nature of the financial operations used for laundering money, it is possible that financial entities be used inadvertently as agents for investing funds coming from illicit or criminal activities, jeopardizing the stability, reliability and credibility of the institutions involved.

Terrorism Financing

Terrorism financing refers to activities that provide financing or financial support to terrorism organization, to be used, in full or in part, to conduct any act intended to cause death or serious bodily injury to a civilian or to any person not to taking any active part in hostilities in event of an arm conflict, when the motive of such act, by its nature or context, is to intimidate a population, or to pressure the government or an international organization to do or to avoid from doing any act.

IV. AML/CFT STANDARDS

BNCTL in compliance with the provisions of the Law and instruction applicable for anti-money laundering and combating a financing of terrorism (“AML/CFT”), following are the standards to be applied;

Customer Identification and verification

1. For AML/CFT purposes BNCTL has taken the action by implementing know your customer (KYC) policies and procedures in its daily business. These policies and procedures are;
 - i) Internal AML/CFT policy for opening an account (annex I);
 - ii) General conditions for opening an account for the singular persons, individual business enterprise and collective legal persons (Annex II); and

- iii) The opening an account forms for singular persons, individual business enterprise and collective persons. (Annex III).
2. BNCTL must refuse to make a transaction with the customer or cease the business relationship in case a customer or a business partner fails to present all the necessary information and documentation in accordance to these policies, procedures and forms.

Together, the mentioned documents guarantee that all customers are correctly identified and that the initial due diligence is applied.

Enhance customer due diligence

1. Notwithstanding the applicable identification and verification process, included on the initial customer due diligence, BNCTL applies enhance due diligence towards clients and operations that, by their nature or characteristics, may reveal a greater risk of AML/CFT, namely, in case of:
 - i) Politically expose persons (PEPs) and their relatives;
 - ii) High net worth individuals;
 - iii) Non-resident customers;
 - iv) Complex legal arrangement without legal personality;
 - v) Intensive cash based business and activities;
 - vi) Individual and companies from location known to the high rate of crime of AML/CFT
 - vii) Business identified by FATF as of higher money laundering and financing of terrorism risk; and
 - viii) Countries with inadequate AML/CFT laws, identified by FATF.
2. BNCTL can also apply enhanced due diligence standards to a high-risk customer or transaction, which includes:
 - i) customers whose activities pattern do not match the initial assessment made by BNCTL;
 - ii) customer that does not cooperate in providing the information or documents needed; and
 - iii) Customers which BNCTL suspects that were rejected by other banks on reasons related to AML/CFT.

3. This enhance due diligence consists in:
 - i) Obtaining more detail information from the customer, shareholders and the beneficial owner and through publicly available information take all reasonable and appropriate measures to establish the source of wealth or funds and the purpose of transactions; and
 - ii) Obtaining approval from senior management or branch manager of the Bank before establishing or continuing the business relationship with customer.

Regarding i), the additional documents or information deemed appropriate to verify the customer financial fitness are (i) copy of customer's income statement, the annual accounts (in case of a collective person);(ii) copy of the customer criminal record of its home country; (iii) ask the client authorization for BNCTL to request additional financial information regarding the client from the Finance Ministry.

On-going monitoring and control of high-risk accounts

1. BNCTL exercises ongoing due diligence with respect to the business relationship with customers and conducting any transactions by:
 - i) Closely examine each transaction carried out to ensure that they are consistent with BNCTL knowledge of such customer;
 - ii) Closely examine customer's commercial activities and risk profile by visiting their local commercial establishment in addition to come in understanding about the source of the funds.

BNCTL set up the activity on dealing with the customer in a prudent manner as always pay attention to the unusual transactions. To ensure that each transaction is evaluated by a competent employee of the bank, BNCTL have established a payment and cash receiving authority charts as annex I.

2. On existing records of customer, BNCTL will conduct regular reviews, especially when:
 - i) A significant transaction is about to take place;
 - ii) There is a material change in the way the account is operated

- iii) The customers documentation standards change substantially; or it discovers that the information held on the customer is insufficient; and
- iv) For the customers that are considered higher risk, based on its risk assessment, BNCTL may require additional information to comply with the customer due diligence standards.

Correspondent banking

1. The matters related to corresponding banking are dealt in the Internal AML/CFT policy for opening an account, annex I of the present AML/CFT standards.

Wire transfer

1. All qualifying wire transfers, in accordance with instruction no. 5/2017 of 25 August, contain the following:
 - i) The name of the originator;
 - ii) The originator account number, where such an account is used to process the transaction;
 - iii) The originator's address or national identity number or customer identification number or date and place of birth;
 - iv) The name of the beneficiary; and
 - v) The beneficiary account number, where such an account is used to process the transaction.
2. To cross border wire transfers below USD 1,000 (a thousand American dollars) BNCTL will apply the standard customer due diligence unless it has a suspicion of AML/CFT in which case enhanced due diligence will be applied.
3. In absence of an account, a unique transaction reference number will be created to permit the traceability of the transaction.
4. The requirements established above for the originator information may be waived where several individual cross-border wire transfers from a single originator are bundled in a batch filed for transmission to beneficiaries, provided that the originator's account number or unique transaction reference number is included and the batch contains required and accurate originator information and full beneficiary information, that is fully traceable within the beneficiary country.

5. ATM wire transfer can only be made between BNCTL's accounts and have a limit of USD 100 (one hundred American dollars) per transference and, additionally, a limit of USD 400 (four hundred American dollars) per day.
6. All other wire transfers will be operated and controlled by the Operational Department.

Record Keeping

1. BNCTL retains all relevant documents and records in an appropriate record keeping system, which consist on a physical archive for every department and is currently implementing a digital record keeping system which will allow BNCTL to centralize its record keeping, allowing it to be able to create an audit trail of individual transaction that are traceable.
2. Copies of the costumer due diligence process (including identity verification of the customer, its beneficial owner or agents), all the correspondence with costumer and documents related to all transactions are kept in record for 10 (ten) years after the transaction has been completed or the business relationship with the customer has ended;
3. All communications between BNCTL and the Financial Information Unit (FIU) will be kept for 5 (five) years.

Reporting of Suspicious transaction

1. All the transactions that BNCTL identifies as suspicious of money laundering or terrorist financing, will be reported to Financial Information Unit (FIU) using the form in annex IV, signed by the Compliance Officer.
2. BNCTL will report to FIU all cash transactions equal and above USD 10,000 (ten thousand Americans dollars), including transactions with checks, traveler's checks, money, postal orders, bank drafts or other monetary instruments in any currency, with the exception of transaction on behalf of other banks or with Banco Central de Timor Leste ("BCTL").
3. Any employee who suspects of a client or a transaction, should report the suspicion, in writing (for instance, via email), to the branch manager. The branch manager shall forward this written communication to the Compliance Officer, accompanied by a written opinion (each can also be an email) regarding the foundation for the suspicions. The branch manager may report, in writing, directly to the compliance officer if he himself has any suspicion.

4. The Compliance Officer will decide if it will report to FIU any suspicion within 10 (ten) business day from the day which received the written communication from the branch manager.
5. Before making this decision, the Compliance Officer can consult the Board of Directors to evaluate the basis of the report.
6. Additionally, BNCTL will report to BCTL the names of customers whose applications for opening an account or transaction that have been refused or declined.
7. Finally, BNCTL will report to BCTL any law enforcement inquiry relevant to AML/CFT being conducted in BNCTL.

Training

1. BNCTL provides regular training related to AML/CFT to its employees.
2. BNCTL works closely with Financial Information Unit (FUI) to provide the training.

Auditing

The AML/CFT program is subject to regular auditing by internal and external auditing according with its relevant internal policies and the applicable law.

Annual Report

1. Annually, the Compliance Officer shall prepare a report to be submit to the Board of Directors in which an assessment regarding the AML/CFT fitness of BNCTL, including:
 - i) A description of BNCTL's system, control objectives and procedures to implement AML/CFT regime according to law;
 - ii) The name, role and responsibilities of the Compliance Officer;
 - iii) The role and responsibilities of the internal audit in reviewing the systems and procedures, with a summary of the audit programs relating to AML/CFT planned and achieved during the year; and
 - iv) A description of the AML/CFT training programs provided for staff during the year.
2. The Board of Directors shall include an assertion to the mentioned report, to be signed by the Chairman, stating that:

- i) The description of the systems and procedures are true and correspond to what was implemented throughout the year;
 - ii) The objectives stated on the description of the system and procedures were suitable for the year;
 - iii) The controls related to objectives of the year operated effectively throughout the year; and
 - iv) The remaining information in the report fairly describes the subject matter and operated effectively throughout the year.
3. Finally, the internal auditor shall issue an opinion which accompanied the report in which:
 - i) Conveys reasonable assurance about the matters in the management assertion;
 - ii) Includes a description of the tests of controls and the results thereof;
 - iii) Draws attention to material shortcomings or weaknesses; and
 - iv) Draws attention to any limitations in the scope of the audit.
4. The report together with the assertion and auditor's opinion shall be submitted to the BCTL within 4 (four) months after the end of each financial year.

V. INTERNAL ORGANIZATION

1. The Compliance Office is Mr. Manuel António da Luz, who directs the Risk Management and Compliance Unit (RMCU) with 5 (five) employees.
2. The Board of Directors approves this AML/CFT standard and its relevant annexes.
3. This AML/CFT standard shall be reviewed by the Compliance department once a year or when is considered necessary and any changes will be submitted to the Board of Directors for approval.
4. BNCTL's Board of Directors and the RMCU, directed by Compliance Officer, monitors in collaboration the implementations of this standard, monitoring its customer and accounts, checking for any alerts, acting on information request from official entities, keeping records of all documents, advising its employees and providing training.

VI. FINAL PROVISIONS

This AML/CFT should adopted and executed by all branches and units of the BNCTL in twelve Municipalities and especial region of Oe-cuse and controlled by the BNCTL Risk Management and Compliance Unit (RMCU), by Compliance Officer and Internal Audit in the head office with supervision from the Board of Directors.

Annex I

Table of Payment and Receiving Authority

Annex II

Internal AML/CFT policy for opening an account

Annex III

General conditions for opening an account for the singular persons, individual business enterprise and collective legal persons

Annex IV

The opening an account forms for singular persons, individual business enterprise and collective persons

Annex V

Report form to Financial Information Unit