



# AML & CFT Procedure Manual

Compliance Department

Version 01

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# 1. Introduction

## 1.1 Background

Softlogic Finance PLC recognizes the critical importance of maintaining a robust Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT) framework. This AML & CFT Procedure Manual outlines the procedures and processes employed by Softlogic Finance PLC to mitigate and manage the risks associated with money laundering and terrorism financing.

## 2. Purpose

### 2.1 Objectives

The primary objectives of this AML & CFT Procedure Manual are as follows:

1. To establish a structured and comprehensive framework for identifying, assessing, and mitigating AML & CFT risks.
2. To ensure compliance with regulatory requirements and international standards.
3. To safeguard the integrity of Softlogic Finance PLC's operations and financial system.

## 3. Regulatory Requirements

Softlogic Finance PLC is committed to complying with all relevant AML & CFT laws, regulations, and guidelines issued by the Financial Intelligent Unit (FIU) at the Central Bank of Sri Lanka (CBSL). The procedures outlined in this manual are designed to meet and exceed the regulatory requirements set forth by the FIU at CBSL.

## 4. AML & CFT Procedures and Background

Softlogic Finance PLC has implemented a comprehensive Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT) system to proactively identify, mitigate, and report instances of money laundering and terrorist financing activities, specifically targeting suspicious transactions. The AML & CFT system is fully automated and equipped with advanced functionalities:

1. UN Consolidated List Integration:
  - The system is integrated with the United Nations (UN) Consolidated List, ensuring a thorough check against internationally recognized sanctioned entities and individuals.
2. PEP Screening:
  - The system integrates a comprehensive list of Politically Exposed Persons (PEPs). Automated alerts are activated for any activities related to these individuals, ensuring heightened scrutiny and risk mitigation.

3. Local Lists Inclusion:
  - In addition to the UN Consolidated List, local lists are incorporated into the system, enhancing its capability to identify entities or individuals involved in illicit activities.
4. Product-Specific Scenarios:
  - Tailored scenarios, specific to different financial products, have been meticulously defined and uploaded into the system. This ensures a nuanced and product-specific approach to detecting potential risks.
5. Automated Alert System:
  - The compliance department receives automated alerts triggered by the system, indicating potential high-risk transactions based on predefined scenarios.
6. Enhanced Due Diligence (EDD) Protocols:
  - Upon receiving alerts, the compliance department initiates Enhanced Due Diligence (EDD) procedures to conduct a more in-depth analysis of the flagged transactions.
7. Escalation Protocols:
  - Depending on the findings, the compliance department has established protocols for escalating matters to regulatory authorities and internal stakeholders when necessary.

Softlogic Finance PLC's AML & CFT procedures underscore a proactive and technology-driven approach to combatting financial crime, aligning with global standards and regulatory requirements.

## 5 Risk Assessment Procedure

### 5.1 Customer Risk Assessment

#### 5.1.a. Procedure

1. KYC Form Submission:
  - Customers are required to submit a Know Your Customer (KYC) form.
2. KYC Risk Assessment Form:
  - Utilization of a KYC Risk Assessment form to systematically assess customer risk.
3. Risk Level Calculation:
  - Calculation of risk level based on KYC information.
4. System Record:
  - Recording of calculated risk level in the system.

### 5.2 Customer Risk Level According to Category

#### 5.2.a. Customer Categories

#### 5.2.b. Procedure

In accordance with the risk assessment conducted during the onboarding process, customers are systematically categorized into low, medium, or high-risk segments. Notably, Politically Exposed Persons (PEPs) typically fall within the high-risk category. Consequently, an Enhanced Due Diligence (EDD) procedure is diligently undertaken for each instance involving customers classified as high risk, ensuring a meticulous and comprehensive risk management approach.

## 5.4 Products, Services, Transactions, or Delivery Channels

### 5.4.a. Assessment Frequency

- Periodic assessment of products, services, transactions, or delivery channels associated with each customer.

A regular evaluation of products, services, transactions, or delivery channels associated with each customer is conducted, employing a likelihood scale to categorize varying degrees of risk. Subsequently, the assessed risk is translated into numeric values, facilitating the identification of the customer's overall risk level based on these key components. This comprehensive approach ensures a dynamic and nuanced understanding of the risk landscape associated with each customer relationship.

### 5.4.b. Analysis and Reporting

- Conducting periodic overall risk analysis.
- Presentation of findings to the Internal Risk Management Committee (IRMC) and the Board of Directors for further action.

## 6. Procedure on ML/FT Measures Related to the Entities

### 6.a. Overview

Softlogic Finance PLC acknowledges the necessity of applying robust Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT) measures to majority-owned foreign subsidiaries. The following procedures outline the steps to be taken:

1. Formal KYC Process:
  - Formal Know Your Customer (KYC) procedures will be applied, including the collection of KYC forms, KYC risk assessment forms, and other necessary documents such as shareholder details and proof of identification.
2. Sanctions Screening:
  - The AML & CFT system will be utilized to search for sanctioned and blacklisted entities. The screening will include a comprehensive check against relevant databases.
3. Wolfsburg Questionnaire:

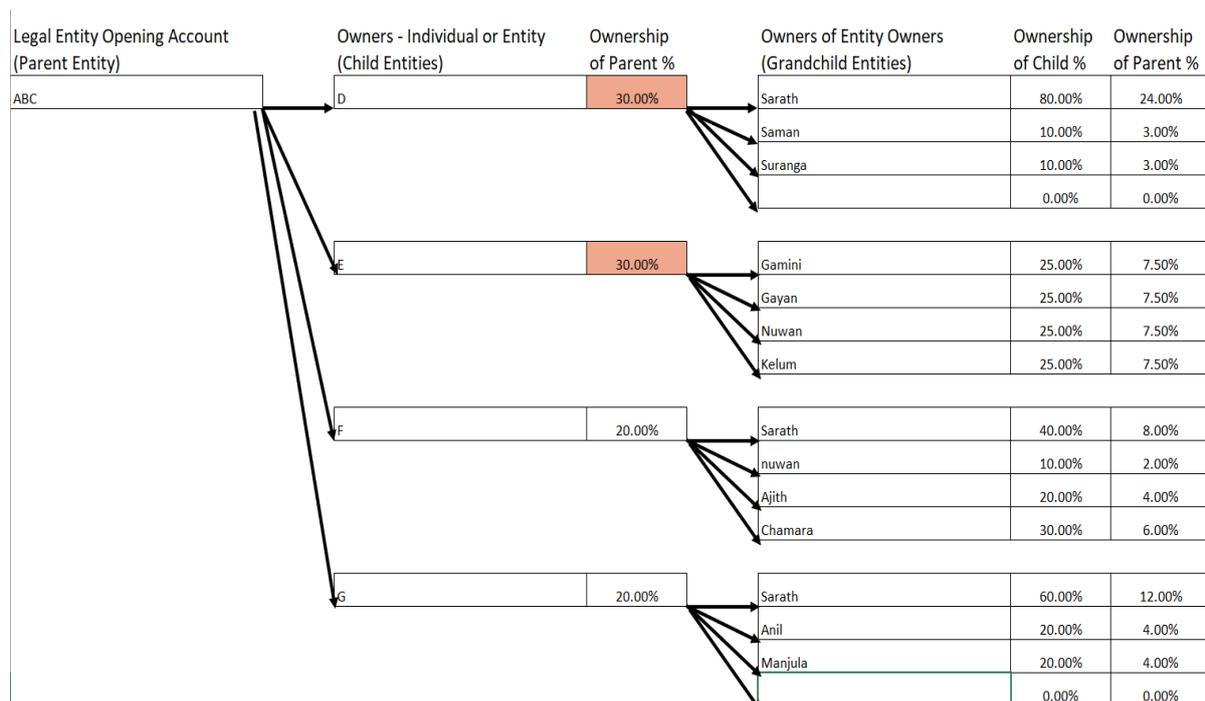
- The Wolfsburg Questionnaire will be administered as part of the due diligence process to assess potential risks and compliance with international AML standards.

## 7. Procedures and Controls for Identifying PEPs and Beneficial Owners of Legal Entities

### 7.d. Overview

Softlogic Finance PLC has established procedures and controls to identify Politically Exposed Persons (PEPs) and beneficial owners of legal entities. The following steps are undertaken:

1. Formal KYC Process:
  - A formal KYC process, including the completion of KYC risk assessment forms, is conducted.
2. PEP Status Capture:
  - The same KYC form captures the PEP status of the individual. This information is essential for enhanced due diligence.
3. PEP List Search:
  - The AML & CFT system is utilized to search for matches in the PEP list. If a match is identified, senior management approval is obtained to proceed.
4. Beneficial Ownership Identification:
  - To identify beneficial owners of legal entities, details of the top 10 shareholders, list of directors, and their identification documents are collected.
5. Evaluation:
  - The collected information is evaluated as per the prescribed format to ensure compliance with AML & CFT regulations.



## 8. Procedure on Review of Information Obtained to Identify Customers

### 8.1 Overview

Softlogic Finance PLC emphasizes the continuous review of customer information to identify and mitigate AML & CFT risks. The following procedures are in place:

1. **Frequency of Review:**
  - Customer information is subject to periodic review to ensure its accuracy and relevance. The frequency of review is established in accordance with regulatory requirements.
2. **Reviewing Entity:**
  - The operational department is designated to conduct reviews. The department will cross-check documents obtained with the details uploaded in the system.
3. **Risk-Based Review:**
  - Periodical reviews are conducted based on the assessed risk level of the customer. Risk levels are categorized as Low, Medium, and High.
  - **Low-Risk Customers:**
    - Reviews for low-risk customers may be conducted at less frequent intervals.
  - **Medium and High-Risk Customers:**
    - More frequent and in-depth reviews are conducted for customers with medium and high-risk levels to ensure the continued appropriateness of the banking relationship.

## 10. Procedure on Reporting Suspicious Transactions

### 10.i. Overview

Softlogic Finance PLC is committed to the timely reporting of suspicious transactions to relevant stakeholders. The reporting procedure involves two distinct steps:

#### a) Branch Staff (FLAs)

- Branch staff (Financial Line Associates - FLAs) are empowered to report suspicious transactions promptly. The process includes:
  - Immediate communication with the Compliance Officer via phone to inform about the suspicious transaction.
  - Sending a detailed email providing information on the suspicious transaction.

#### b) AML & CFT System

- The AML & CFT system is configured to generate alerts based on predefined scenarios. The system-driven reporting process involves a three-layer review:

1. **Assignee Review:**
  - The first layer involves the Assignee reviewing the alert and providing comments on whether it is a suspect or a general transaction. The Assignee then submits the review.
2. **Owner Review:**
  - The second layer comprises the Owner reviewing the alert and commenting on its nature (suspect or general transaction). The Owner then submits the review.
3. **Compliance Officer Review:**
  - The final layer involves the Compliance Officer reviewing both the Assignee and Owner comments. The Compliance Officer conducts further analysis and determines whether to report the transaction under Suspicious Transaction Report (STR) or not.

#### c) Reporting to FIU and Board

- Once a suspicious transaction is identified, the Compliance Officer will report it to the Financial Intelligence Unit (FIU) immediately for further investigation.
- Simultaneously, the Board will be promptly informed of the suspicious transaction, ensuring transparency and adherence to regulatory reporting requirements.

This multi-layered approach, coupled with swift reporting to the FIU and Board, underscores Softlogic Finance PLC's commitment to combating money laundering and terrorist financing activities.

## 11. Procedure for Due Diligence on Unusually Transactions:

Softlogic Finance PLC recognizes the significance of scrutinizing complex and unusually large transactions, including any unusual patterns of transactions. This procedure ensures a comprehensive approach to due diligence, involving Enhanced Due Diligence (EDD) for transactions that meet specific criteria. The steps include:

1. **Criteria for EDD:**
  - Any transaction classified as complex, unusually large, or displaying unusual patterns triggers the initiation of Enhanced Due Diligence (EDD).
2. **EDD Process:**
  - EDD commences with a comprehensive Google search of the entity/individual involved.
  - An ad-hoc screening in the AML & CFT system is conducted to identify any potential risks associated with the transaction.
  - A statement from the particular branch where the customer is associated is obtained to provide additional context.
3. **Document Review and Recording:**
  - Documents obtained during the EDD process, including search results, system screening reports, and branch statements, are thoroughly reviewed.
4. **Nature Assessment:**
  - The nature of the transaction is assessed, and if it raises suspicions, appropriate actions are taken.

5. **Reporting to FIU at CBSL:**

- In case of a suspicious nature, the information, along with the findings, is promptly reported to the Financial Intelligence Unit (FIU) at the Central Bank of Sri Lanka (CBSL) for further investigation.

This detailed procedure ensures that Softlogic Finance PLC remains vigilant in identifying, assessing, and reporting complex and unusually large transactions, reinforcing the commitment to combat money laundering and terrorist financing activities.

## **12. Risk-Based Internal Procedure on Wire Transfers: Compliance with UNSCR, Transaction Execution, and Follow-Up Protocols**

Softlogic Finance PLC has implemented a robust internal procedure for wire transfers, leveraging the capabilities of the Anti-Money Laundering and Countering the Financing of Terrorism (AML & CFT) system. The AML & CFT system is equipped with the UNSCR consolidated list to ensure meticulous scrutiny of transactions. The procedure encompasses:

1. UNSCR Database Check:
  - The AML & CFT system conducts real-time checks against the United Nations Security Council Resolutions (UNSCR) consolidated list.
  - Transactions involving designated persons or entities listed in the UNSCR are promptly identified and subjected to further scrutiny.
2. Transaction Execution Criteria:
  - Criteria are defined to determine the instances for executing wire transfers based on risk assessments and compliance with AML & CFT regulations.
3. Rejection or Suspension Protocol:
  - The AML & CFT system facilitates the identification of transactions falling short of required details, ensuring adherence to regulatory standards.
4. Follow-Up Actions:
  - In instances of rejected or suspended transactions, appropriate follow-up actions are initiated. These may include contacting the involved parties for additional information or clarification.

This risk-based internal procedure on wire transfers underscores Softlogic Finance PLC's commitment to compliance with UNSCR and AML & CFT regulations, ensuring the prevention of transactions with sanctioned entities or individuals.

## **13. Procedure to Precautionary Measures to Identify Informal Money or Value Transfer Systems**

Softlogic Finance PLC has established a comprehensive procedure and special precautionary measures to identify informal money or value transfer systems, acknowledging the potential risks associated with these channels. The procedure encompasses:

## 1. Informal Money Transfer Systems:

Informal money or value transfer systems involve the transfer of funds locally and internationally without the physical movement of cash. Softlogic Finance PLC does not facilitate remittance services and hence no outward facilities to remit transactions.

## 2. Identifications:

Typically, informal money transfers predominantly function autonomously. According to available evidence, integration with formal channels occurs when the Hawalander (agent) is required to disburse a consolidated sum among various individuals. The Hawalander receives instructions from the senders to allocate multiple amounts to distinct receivers in Sri Lanka. Consequently, the primary indicators for identification are either numerous deposits from a single person or substantial withdrawals by an individual.

- For local instances, where multiple transactions performed by customers may indicate informal money transfers, the AML & CFT system is configured to trigger alerts.
- The KYC process captures the purpose of the facilities, providing additional insights to identify any potential risks related to informal money transfer systems.

These precautionary measures are integral to Softlogic Finance PLC's commitment to preventing the misuse of financial services for illicit purposes. The implementation of these measures aligns with regulatory standards and safeguards the integrity of the financial system.

## 14. Procedure on Reporting (CTR/EFTIn and EFTOut)

Softlogic Finance PLC has established a meticulous procedure for the reporting of significant financial transactions to the Financial Intelligence Unit (FIU). This procedure, aimed at enhancing transparency and regulatory compliance, (CTR covers:

### 1. Threshold Criteria:

- Transactions, whether in cash or electronic fund transfers, exceeding Rs. 1,000,000/- or its equivalent in any foreign currency trigger the reporting process.

### 2. Reporting System:

- The reporting of these transactions is facilitated through the Lankafin system.
- Data is generated from the central system and subsequently uploaded into the Lankafin system for reporting.

### 3. Transition to GoAML:

- Effective from January 2024, the reporting of cash transactions and electronic fund transfers exceeding the specified threshold is transitioned to the GoAML system.
- This transition represents Softlogic Finance PLC's commitment to adopting enhanced reporting mechanisms in line with evolving regulatory standards.

This procedure underscores Softlogic Finance PLC's dedication to proactive reporting and adherence to regulatory frameworks. The transition to the GoAML system reflects the institution's commitment to staying current with technological advancements and regulatory requirements.

