

Dalal Securities (Private) Limited

TREC Holder of the Pakistan Stock Exchange Limited.

Policy Update Risk Assessment on (ML) and (TF) in the light of NRA-2023

This policy is formulated to assist the management of Dalal Securities (Private) Limited [DSL] to manage / counter the Compliance, Risk & provide a safe path for its growth & glory in the local market.

The Compliance Risk can be described as the risk of imposition of legal or regulatory sanctions, financial loss or loss to reputation of the entity arising out of its failure to comply with applicable laws of land /regulations governing financial institution, prudential regulations and circulars issued by the regulator i.e. Securities & Exchange Commission of Pakistan & Pakistan Stock Exchange Limited. Compliance with laws, rules and regulation helps DSL to maintain its reputation and meet the expectations of its stakeholders, customers, the markets and society as a whole.

In order to protect the DSL from Compliance Update Risk Assessment on Money Laundering (ML) and Terrorism Financing (TF) to clearly disassociate from the increasing danger of organized activity. DSL has developed a clearly and continuously monitoring in the light of NRA-2023.

The DSL should be able to demonstrate the adequacy of its assessment, management and mitigation of ML/TF risks; its customer acceptance policy; its policies concerning customer identification and verification; its ongoing monitoring and procedures for reporting suspicious transactions; and all measures taken in the context of AML/CFT. The company shall maintain Risk Assessment Tables (see Annexure 1) and AML/CFT Compliance Assessment Template (see Annexure 2) within the period as required by the Commission from time to time.

The NRA 2023 critically considers the country's risk and context to update inherent threats and vulnerabilities ratings. NRA 2023 builds upon previous NRAs and the improved information gathering and effectiveness of Pakistan's AML/CFT regime. Due to reporting on action plans and reforms undertaken by Government authorities, the quality of data and understanding relating to AML/ CFT activities is considerably improved, which helped in assessing the ML/TF risks more accurately. In addition, NRA 2023 adopts a more comprehensive methodology by detailed profiling of each sector, predicate offence, and entity of concern/ terrorist entity by involving all the stakeholders in the risk assessment process. Some sectors' inherent ML/TF vulnerabilities were assessed as high or very high, including for the banking sector, Real Estate dealers and DPMS, while for others, inherent vulnerabilities were downgraded, including CDNS, Lawyers and Accountants. Similarly, the ML threat ratings of predicate offences and TF threat ratings of TOs were also changed in some cases based on updated data and methodology. The emerging risks, as well as the use of sophisticated techniques for ML/TF by criminals and the introduction of new technologies, such as virtual assets, were also highlighted in this NRA.

Pakistan's geo-strategic location, economic and social dynamics and porous border with Afghanistan have been taken into account while conducting the NRA-2023. The contextual factors of Pakistan's demographics, economic situation, literacy rate, undocumented economy and other global, regional and domestic factors were also considered while assessing ML & TF threats and vulnerabilities. NRA 2023 includes a detailed assessment of sectors such as financial sectors, Designated Non-Financial Businesses

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and Professions (DNFBPs), National Savings (NS), Legal Persons & Legal arrangements (LPLAs) and Non-Profit Organizations (NPOs) while the unregulated emerging area of virtual assets and virtual asset service providers was also evaluated to the extent of available data.

This summary of NRA 2023 provides critical ML/TF risk information to stakeholders, including law enforcement authorities, regulators/ supervisors, their regulated sectors/ entities and other competent authorities, so that they can have a clear understanding of the inherent ML/TF risks and can develop and implement the effective preventive measures and controls in line with the risk-based approach on an on-going basis.

TARGETED FINANCIAL SANCTIONS (OBLIGATION)

i. The company shall undertake TFS obligations under the United Nations (Security Council) Act 1948 and/or Anti-Terrorism Act 1997 and any regulations made there under.

ii. The company shall have mechanisms, processes and procedures in an automated manner for screening and monitoring customers, potential customers and beneficial

owners/associates of customers to detect any matches or potential matches with the stated designated/proscribed persons in the SROs and notifications issued by MoFA, under United Nations (Security Council) Act 1948 or intimation from NACTA/ Law Enforcement Agencies/ Home Departments of Provinces/Ministry of Interior regarding additions, deletions and updates in list/SRO under the Anti-Terrorism Act, 1997.

iii. The Company is also required to screen its entire customer database when the new names are listed through UNSC Resolution or the domestic NACTA list.

iv. If during the process of screening or monitoring of customers or potential customers the company finds a positive or potential match, it shall immediately:

a. Freeze the relevant funds and assets without delay the customer's fund/ policy or block the transaction, without prior notice if it is an existing customer in accordance with the respective SRO.

b. Lodge a STR with the FMU, and simultaneously

c. prohibits from making any funds or other assets, economic resources, or financial or other related services and funds in accordance with the respective SRO

d. Reject the transaction or attempted transaction or the customer, if the relationship has not commenced.

e. Notify SECP and the Ministry of Foreign Affairs in case that person is designated under United Nations Security Council Resolutions or the National Counter Terrorism Authority ("NACTA") in case that person is designated under the Anti-Terrorism Act, 1997.

v. The company shall implement any other obligation under the AML Act 2010, United Nations (Security Council) Act 1948 and Anti-Terrorism Act 1997 and any regulations made there under.

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vi. Compliance report on Statutory Regulatory Orders issued by the Ministry of Foreign Affairs under United Nations (Security Council) Act, 1948 or intimation from National Counter Terrorism Authority/Law Enforcement Agencies/Home Departments of Provinces/Ministry of Interior regarding updates in the list of proscribed person(s)/entity(ies) under the Anti-Terrorism Act, 1997, shall be submitted to the Commission within forty-eight (48) hours of receiving the same in the manner as may be instructed from time to time by the Commission. even if nil. However, in case of a true match of a stated proscribed/designated person following actions shall be taken:

a. Freeze the customer's fund and block the transaction after performing necessary due diligence, if it is an existing customer the customer's fund;

b. Notify the SECP;

c. Notify the Ministry of Foreign Affairs in case that person is designated under United Nations Security Council Resolutions, and

d. Notify the National Counter Terrorism Authority (NACTA) in case that person is designated under the Anti-Terrorism Act, 1997.

vii. The Company shall comply with the requirements of Red Flags/ indicators for identification of persons or entities suspected to be acting on behalf of or at the direction of designated/proscribed individuals or entities as detailed in Annexure 4.

viii. The Company is prohibited, on an ongoing basis, from providing any financial services to proscribed/ designated entities and persons or to those who are known for their association with such entities and persons, whether under the proscribed/designated name or with a different name. The company shall monitor its business relationships with the entities and individuals on a continuous basis and ensure that no such relationship exists directly or indirectly, through ultimate control of an account and where any such relationship is found, the Company shall take immediate action as per law, including reporting to the FMU.

Explanation: - expression associates mean persons and entities acting on behalf of, or at the direction, or for the benefit, of proscribed/ designated entities and individuals that may be determined on the basis of appropriate screening of sanctions lists, disclosed nominee/beneficiary information, publicly known information, Government or regulatory sources or reliable media information, etc

ix. The sanctions compliance program shall be an integral part of the overall AML/CFT compliance program.

x. The company shall document and record all the actions that have been taken to comply with the sanctions regime, and the rationale for each such action.

xi. The company shall keep track of all the applicable sanctions, and where the sanction lists are updated, shall ensure that existing customers are not listed. The Company shall maintain list of all SROs as per format given in Addendum 5.

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xii. Results of the screening (manual and or system based) shall be maintained which shall depict the results of the screening. The same shall be reviewed by the compliance officer and reported to the CEO and BODs on immediate basis and monthly basis, respectively. The compliance office shall document the results of the screening with regard to screening performed against - “Al-Qaida and Taliban related entities/individuals mentioned in the UNSC Consolidated List” as per Addendum 6 and - “proscribed persons/organizations list of UN /NACTA” Addendum 7.

xiii. The company shall ensure that while screening the list of client against the sanctioned list, the client list shall include details including but not to be limited to - Main account holder

- All joint account holders
- Nominees
- Major shareholders of legal clients (excluding listed companies)
- Board of Directors
- Trustees
- Authorized signatories
- Office

COUNTER MEASURES AGAINST HIGH-RISK COUNTRIES

i. Certain countries associated with crimes pose a higher potential risk to the company (reputational risk and legal risk). Company should exercise additional caution and conduct enhanced due diligence on individuals and/or entities based in high-risk countries like Afghanistan refugees are not treated.

ii. Caution should also be exercised in respect of the acceptance of certified documentation from individuals/entities based in high-risk countries/territories and appropriate verification checks undertaken

on such individuals/entities to ensure their legitimacy and reliability. In addition, the Company shall apply the countermeasures including but not limited to, enhance due diligence proportionate to the risk as indicated by the Federal Government, pursuant to recommendations by the National Executive Committee and when called upon to do so by the FATF.

iii. The company shall consult publicly available information to ensure that they are aware of the high-risk countries/territories including sanctions issued by the UN, the FATF high risk and non-cooperative jurisdictions (www.fatf-gafi.org), and Transparency international corruption perception index (www.transparency.org)

WIRE Transfer

The DSL will not accept payment through wire transfer other than banks exist in Pakistan.

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Cross Border Financing

i. The company Cross-border correspondent relationships is 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. In order for RPs to manage their risks effectively, they shall consider entering into a written agreement with the respondent institution before entering into the correspondent relationship.

iii. In addition to setting out the responsibilities of each institution, the agreement could include details on how the RP will monitor the relationship to ascertain how effectively the respondent institution is applying CDD measures to its customers, and implementing AML/CFT controls.

iv. Correspondent Institutions are encouraged to maintain an ongoing and open dialogue with the respondent institutions to discuss the emerging risks, AML/CFT policies and expectations of the correspondent relationship.

The main emphasize of the policy is to provide onsite guidance note against the opening of fictitious accounts and to protect the DSL from non compliance threats.

The policies, procedures and controls outlined in this (ML) and (TF) Policy are minimum mandatory compliance requirements and have been designed to be a current document, subject to on-going revisions and updates.

OBJECTIVE

The purpose of this policy is to safeguard DSL against involvement in money laundering activities, terrorist financing and other illegal trades and to guide the employees in the effective and efficient discharge of their duties to ensure compliance with the rules and regulations.

RESPONSIBILITY

The Board of Directors is over-all responsible for development, adoption implementation, and regular monitoring of this policy statement. It is the responsibility of the employees pertinently of Marketing and Sales department to ensure that they are fully aware of the contents of this policy.

POLICY STATEMENT

DSL shall acquire due diligence information pertaining to the customers/clients and the legitimacy of their business/transactions so as to prevent from the potential risks. Due diligence shall be done to identify Company's Customers and ascertain their relevant information, as detailed as possible.

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The Company shall verify that the customers are not on any Sanction List of known fraudsters, terrorists or money launderers from all over the world. Besides sanctions lists, there may be other lists of third party vendors that track links between individuals regarded as high-risk owing to negative reports in the media or in public record. The KYC policy does not merely require name matching with the sanction lists but also monitoring of transactions of the customers against their recorded profile and history in the account(s) and with peers.

Customers shall be identified using due diligence in order to prevent the identity theft/concealment, fraudulent transactions, money laundering, terrorist financing and other suspicious/illegitimate transactions/activities and do the legitimate and ethical business/financial transactions with the all the customers / clients whether newly introduced or otherwise.

PROCEDURES

Customer services and knows your customers

KYC Standards and anti-money laundering Measures would enable DSL to understand its customers, the beneficial owners in case of non-individual entities, the principals behind customers who are acting as agents and their financial dealings. This will help to manage its risks prudently.

The main components of the internal control process are:

- Reputation and integrity of operations will be protected by reducing the likelihood of becoming a vehicle/means for or a victim of financial crime and suffering consequential reputation damage. For this purpose, all measures will be taken to perform an effective due diligence of the customer.
- Appropriate risk management and compliance methodologies shall be followed by providing the basis for identifying, limiting and controlling risk exposures in assets and liabilities, including assets under management.
- The employees shall take reasonable steps to be aware of any unusual transaction activity or activity that is disproportionate to the customer's known business.
- As a general rule, DSL shall not establish a business relationship until the identity of the potential customer is satisfactorily established. If a potential customer refuses to produce any of the requested information, the relationship shall not be established. Likewise, if the potential customer is not forthcoming with requested follow-up information, any relationship already begun shall be terminated.

KYC is based on five key elements

Following are the five crucial elements of the KYC process:

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- Risk classification
- Minimum Information / Documents Required
- Verification of Documents
- On-going Monitoring Processes
- Reporting

Other Anti Money Laundering (AML) Measures are:

- Customer education and awareness
- Channel partner education and awareness
- Staff education and awareness

The procedures to address the five key elements of KYC process are explained in provided in the succeeding paragraphs.

RISK CLASSIFICATION

The level of Money Laundering (ML) risks that the Company is exposed to by an investor relationship depends on:

- Type of the customer and nature of business.
- Type of product / service availed by the customer
- Country where the Customer is domiciled.

Based on the above criteria, the customers may be classified into two Money laundering Risk levels viz., High Risk and Low Risk.

a) Very High

DSL will conduct enhanced due diligence when;

Despite reduction in cases of corruption and bribery-related crimes, keeping in view the continued deterioration in the corruption perception index and other elements indicated above, the ML threat associated with corruption and bribery has been rated as "**Very High.**"

b) High Risk Customers

DSL will conduct enhanced due diligence when;

- i. Dealing with high risk customers, business relationship or transaction including the following;

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- Non-resident & PEP customers;
 - Non-Legal persons or arrangement including non-governmental organizations (NGOs) / not for profit organizations (NFPs) and trusts / charities;
 - Customers belonging to countries where CDD / KYC and anti-money laundering regulations are law;
 - Customers with links to offshore tax heavens;
 - High Net-worth customers with no clearly identifiable source of income; and
 - Customers dealing in high value items.
- ii. There is a reason to believe that the customer has been refused by another financial institution.
- iii. Dealing with politically exposed persons (including foreigners) or customers holding public or high profile positions. For politically exposed persons or holders of public or high profile positions, enhanced due diligence should include the following:
- Relationship should be established and / or maintained with approval of senior management including when an existing customer becomes holder of any public office or high profile position.
 - Appropriate risk management evaluation will be made to determine whether a potential customer, existing customer or the beneficial owner, is a politically exposed person, holder of public office or the holder of high profile position. The sources of wealth / funds of such customers shall be monitored on regular basis.
- iv. Establishing business relationship or transactions with counterparts from or in countries not sufficiently applying Financial Action Task Force (FATF) recommendations.

Country or Geographic Risk Factor:

Due to location of a customer, the origin of a destination of transactions of the Customer, business activities of the Securities Broker itself, its location and location of its geographical units, Country or Geographical Risk may arise. Country or Geographical risk combined with other risk categories provides useful information on potential exposure to ML/TF. DSL may indicate High Risk to its Customers based on following factors:

- Countries identified by credible sources, such as mutual evaluation or detailed assessment reports or published follow-up reports by international bodies such as the FATF, as not having adequate AML/CFT systems;
- Countries subject to sanctions, embargos or similar measures issued by, for example, the United Nations;

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- Countries identified by credible sources as having significant levels of corruption or other criminal activity; and
- Countries or geographic areas identified by credible sources as providing funding or support for terrorist activities, or that have designated terrorist organizations operating within their country.

Product, Service, Transaction or Delivery Channel Risk Factor:

DSL taking into account the potential risks arising from the products, services, and transactions that it offers to its Customers and the way these products and services are delivered, shall consider the following factors:

- Anonymous transactions (which may include cash);
- Non-face-to-face business relationships or transactions;
- Payments received from unknown or un-associated third parties;
- International transactions, or involve high volumes of currency (or currency equivalent) transactions;
- New or innovative products or services that are not provided directly by the Securities Broker, but are provided through channels of the institution;
- Products that involve large payment or receipt in cash; and
- One-off transactions.

c). Low Risk Customers

Where there are low risk and information on the identity of the customer and the beneficial ownership of a customer is publicly available, or where adequate checks and controls exist, DSL may apply simplified or reduced customer due diligence. This will be done in following cases:

Financial institutions provided they are subject to requirements to combat money laundering and terrorist financing consistent with the FATF recommendations and are supervised for compliance with those requirements.

Public listed companies that are subject to regulatory disclosure requirements, Government administration/entities etc.

For all customers, DSL shall determine whether the customer is acting on behalf of another person, and shall then take reasonable steps to obtain sufficient identification data such as copy of CNIC, or other relevant document/information to verify the identity of the beneficiary.

For customers that are legal persons or for legal arrangements, DSL shall take reasonable measures to:

- Understand the ownership & control structure of the customer;

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- Determine that the natural persons who ultimately own or control the customer. This includes those persons who exercise ultimate effective control over a legal person or arrangement.

Government accounts shall not be opened in the personal names of the government official(s). Any such account, which is to be operated by an officer of the Federal / Provincial / Local Government in his /her official capacity, shall be opened only on production of a special resolution / authority from the concerned administrative department duly endorsed by the Ministry of Finance Department of the concerned Government.

Key TF Sources and Channels

LEAs regularly consider and examine possible sources and channels during TF investigations which could be exploited or misused by terrorist organizations to fund their activities. A detailed assessment of these sources has been carried out during NRA 2023, considering their prevalence in TF investigations since 2019, use of the sources by TOs in funding their activities and the perceived TF threat posed by each source. A detailed assessment of the sectoral channels has also been carried out by considering TF investigations involving these channels since 2019, relevant terrorist organizations, if any and perceived TF threats posed by each channel, including potential for misuse in TF. A summary table of risk ratings of all sources and sectoral channels exploited for TF is provided below:

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Table 4.2. Key Sources and Channels exploited for TF		
Sr. No.	Sources	NRA 2023
1	Donations	Very High
2	Extortion	Very High
3	Narcotics trafficking	High
5	Cash smuggling	High
4	Misuse of Properties	Medium
6	Kidnapping for ransom	Medium
7	Goods/ Natural resources smuggling	Medium
8	Skin/ Hides collection	Low
Sr. No.	Channels	NRA 2023
1	Cash/ Cash couriers	Very High
2	Illegal MVTs	Very High
3	Banking	High
5	Branchless Banking	High
4	Virtual Currency	Medium
6	Exchange Companies	Medium
7	Securities	Low
8	Insurance	Low
9	NBFCs & Modaraba	Low
10	Microfinance	Low
11	Legal persons & legal arrangements	Low

Please note that Pakistan has a large, diverse, and vibrant Non-Profit Organization (NPO) sector and an overall assessment revealed that 6.75% of the NPOs are high-risk whereas 43.64% consists of Medium-risk and 49.61% are Low-risk.

VERIFICATION OF DOCUMENTS

Verification is an integral part of KYC and due diligence measures for which DSL shall ensure that;

- Copies of CNIC wherever required are invariably verified. Before opening the account, the Company shall verify CNIC by utilizing online facility of NADRA. In case the Company does not have the online facility, then CNIC shall be verified from the Regional Office of NADRA.

In case the Company is not able to satisfactory complete required KYC and due diligence measures, account shall not be opened, business relationship shall not be established and business transaction shall not be carried out. Instead, reporting of suspicious transaction is considered. Similarly, relationship with existing customer should be terminated and reporting of suspicious transaction be considered if the KYC and due diligence results are found unsatisfactory.

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ON GOING MONITORING

Customer due diligence (CDD) / Know your Customer (KYC) is not a onetime exercise to be conducted at the time of formal relationship with customer / accountholder. This is an ongoing process and to this end DSL is required to;

- Monitor the accounts and transactions on regular basis.
- Update customer information and records, if any.
- Chalk out plan of imparting suitable training to the staff.
- Maintaining proper records of customer identification and to clearly indicate, in writing, if any exception is made in fulfilling the KYC due diligence measures.

The guidelines on policies and procedures are to be monitored by the management on an ongoing basis. Non-adherence to the guidelines and any doubt on customer transaction must be reported to the management without loss of time. To strengthen the monitoring and prevent the money laundering activities, an appropriate training to the employees shall be provided regularly and the policies and procedures shall be amended on a need basis. Any amendment, partly or wholly, shall remain the integral of this KYC.

REPORTING

In normal circumstances, it is not easy to identify money laundering related transactions. A common golden rule is **Know Your Customer**. Management must know its customer including the ultimate beneficial owner (if different from the apparent legal owner), its economic background and/or its normal activities. It is through the knowledge about our customer or other give-away signs that may lead to a gut-feeling that a money laundering activity may be taking place. Mere verifying and collecting the identity and documents of the customer does not amount to “Know Your Customer”. The staff should use their diligence and prudence to judge the customer and his capabilities and should be alert if there are any unusual transactions, which are not typical and compatible to the customer’s background. The staff should try to match the profile of customer with that of the transactions of the customer.

The staff should verify in detail the source of funds and the purpose of transactions to satisfy the genuineness of the transaction. Compliance is the responsibility of the every employee. Therefore, strict compliance is very much necessary with all laws and regulations.

All issues noticed for a new customer shall be reported at appropriate level in Marketing and Sales department, Head of Compliance and Chief Financial Officer by the employee who noticed or surfaced any reportable matter. Appropriate decisions will be taken for such customer after further investigation. In case of existing Customer such matters will be brought into the notice of Chief Executive Officer for decision making.

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RECORD KEEPING & COMPLIANCE

- i. DSL should ensure that all information obtained in the context of CDD is recorded. This includes both;
 - a. recording the documents, the company is provided with when verifying the identity of the customer or the beneficial owner, and
 - b. Transcription into the company's own IT systems of the relevant CDD information contained in such documents or obtained by other means.
- ii. Where there has been a report of a suspicious activity or the company 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.
- iii. The company shall keep and maintain all record related to STRs and CTRs filed by it for a period of at least 10 years after reporting of transaction.
- iv. The company shall maintain, for at least 5 years after termination, all necessary records on transactions (obtained through CDD process including copies of identification documents, account opening forms, Know Your Customer forms, verification documents, other documents and result of any analysis along with records of account files and business correspondence) to be able to comply swiftly with information requests from the competent authorities. Such records should be sufficient to permit the reconstruction of individual transactions, so as to provide, if necessary, evidence for prosecution of criminal activity.
- v. The company shall maintain a list of all such customers/accounts where the business relationship was refused or needed to be closed on account of negative verification.

Tipping-off & Reporting:

A risk exists that Customers could be unintentionally tipped off when the Securities Broker is seeking to complete its CDD obligations or obtain additional information in case of suspicion of ML/TF.

The applicant/customer's awareness of a possible STR or investigation could compromise future efforts to investigate the suspected ML/TF operation.

If the Securities Broker forms a suspicion of ML/TF while conducting CDD or ongoing CDD, it should take into account the risk of tipping-off when performing the CDD process.

If the Securities Broker 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 should file a STR.

The Securities Broker shall ensure that their employees are aware of, and sensitive to, these issues when conducting CDD or ongoing CDD.

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SUSPICIOUS TRANSACTIONS REPORTING (STRS)/ CURRENCY TRANSACTIONS REPORTING (CTRS)

- 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 the company should put "on enquiry". The company shall 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. The Company shall comply with the provisions of the AML Act and rules, regulations and directives issued thereunder for reporting suspicious transactions/currency transactions in the context of money laundering or financing of terrorism
- iii. The company shall conduct CDD and ongoing due diligence on the business relationship and scrutinize transactions undertaken throughout the course of that relationship to ensure that the transactions being conducted are consistent with the company's knowledge of the customer, its business and risk profile, including, where necessary, the source of funds. The company shall enhance its scrutiny level in the following instances as they may prompt filing of STR:
 - a. There is a suspicion of ML/TF. **Annexure 1** gives some examples of potentially suspicious activities or "red flags" for ML/TF, that will help recognize possible ML/TF schemes and may warrant additional scrutiny, when encountered. The mere presence of a red flag is not by itself evidence of criminal activity. Closer scrutiny will assist in determining whether the activity is unusual or suspicious or one for which there does not appear to be a reasonable business or legal purpose; or
 - b. There are doubts as to the veracity or adequacy of the previously obtained customer identification information. The Company shall take steps to ensure that all relevant information is obtained as quickly as possible
 - c. CDD checks raise suspicion or reasonable grounds to suspect that the assets or funds of the prospective customer may be the proceeds of offences and crimes related to ML/TF, the company should not voluntarily agree to open accounts with such customers*
 - d. there is a material change in the way that the customer's account is operated, which is not consistent with the customer's business profile
 - e. the company is unable to complete and comply with CDD requirements as specified in this policy**

* In such situations, the company should file an STR with the FMU and ensure that the customer is not informed, even indirectly, that an STR has been, is being or shall be filed.

** The company shall not operate the account, commence a business relationship, or perform the transaction. If the business relationship has already been established, the company shall terminate the relationship. Additionally, the company shall consider making a STR to the FMU.

- iv. In case of suspicion of ML/TF,:
 - a. The Company should seek to identify and verify the identity of the customer and the beneficial owner(s), irrespective of any specified threshold; and

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- b. Where the enquiries conducted by the company do not provide a satisfactory explanation of the transaction, it may be concluded that there are grounds for suspicion requiring disclosure and escalate the matter to the AML/CFT CO and
- c. Where a customer is hesitant/fails to provide adequate documentation (including the identity of any beneficial owners or controllers), consideration should be given to filing a STR. Also, where an attempted transaction gives rise to knowledge or suspicion of ML/TF that attempted transaction should be reported to the FMU, in accordance with this policy.
- d. The basis of deciding whether an STR is being filed or not, shall be documented and kept on record together with all internal findings and analysis done in relation to a suspicion irrespective of the fact that transaction is subsequently reported or not.
- e. In addition to reporting the suspicious activity, the company shall ensure that appropriate action is taken to adequately mitigate the risk of the company being used for criminal activities. This may include a review of either the risk classification of the customer or account or of the entire relationship itself. Appropriate action shall be to escalate the matter to CEO to determine how to handle the relationship, taking into account any other relevant factors, such as cooperation with law enforcement agencies or the FMU.

Where the company files STR with respect to a customer with whom it has an existing business relationship, and if the company considers it appropriate to retain the customer, then the company shall:-

- 1. substantiate and document the reasons for retaining the customer; and
 - 2. Subject the business relationship to proportionate risk mitigation measures, including enhanced ongoing monitoring.
- f. The Law prohibits tipping-off. However, a risk exists that customers could be unintentionally tipped off when the company is seeking to complete its CDD obligations or obtain additional information in case of suspicion of ML/TF. The applicant/customer's awareness of a possible STR or investigation could compromise future efforts to investigate the suspected ML/TF operation. Therefore, if the company form a suspicion of ML/TF while conducting CDD or ongoing CDD, they should take into account the risk of tipping-off when performing the CDD process. If the company 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 should file a STR. All concerned employees should be aware of, and sensitive to, these issues when conducting CDD or ongoing CDD
- v. Enquiries regarding complex, unusual large transactions, and unusual patterns of transactions, their background, and their result should be properly documented, and made available to the relevant authorities upon request.
- vi. The company is also obligated to file Currency Transaction Report (CTR), for a cash- based transaction involving payment, receipt, or transfer of Rs. 2 million and above. However, for the sake of clarity, the company shall not accept any cash based transaction and or any transaction involving wire transfer/fund transfer to and from a foreign jurisdiction.
- vii. If the company decides that a disclosure should be made, the law require the company to report STR promptly (without delay) to the FMU, in standard form as prescribed under AML

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Regulations 2008. The STR prescribed reporting form can be found on FMU website through the link http://www.fmu.gov.pk/docs/AML_Regulations-2008.pdf.

- viii. The company shall report total number of STRs filed to the Commission on biannual basis within seven days of close of each half year. The CO should ensure prompt reporting in this regard.
- ix. The company shall should maintain register of all reports made to the FMU. Such registers should contain details of:
 - a. the date of the report;
 - b. the person who made the report;
 - c. the person(s) to whom the report was forwarded; and
 - d. Reference by which supporting evidence is identifiable.

The following are some of the GENERAL warning signs or “red flags” to which the Company shall 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 Counter party 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 constantly pay-in or deposit cash to cover requests for bankers drafts, money transfers or other negotiable and readily marketable money instruments;
14. Customers who wish to maintain a number of trustee or customers’ accounts which do not appear consistent with the type of business, including transactions

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which involve nominee names;

15. Any transaction involving an undisclosed party;
16. Transfer of the benefit of an asset to an apparently unrelated third party, or assignment of such benefit as collateral; and
17. Significant variation in the pattern of investment without reasonable or acceptable explanation
18. Transactions appear to be undertaken in a structured, sequential manner in order to avoid transaction monitoring/ reporting thresholds.
19. Transactions involve penny/microcap stocks.
20. 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.
21. Transfers are made to the same person from different individuals or to different persons from the same individual with no reasonable explanation.
22. Unusually large aggregate wire transfers or high volume or frequency of transactions are made with no logical or apparent reason.
23. Customer invests in securities suddenly in large volumes, deviating from previous transactional activity.
24. Customer conducts mirror trades.
25. Customer closes securities transaction before maturity, absent volatile market conditions or other logical or apparent reason.
26. Customers who are unknown to the broker and verification of identity /corporation.

ANNEXURE 1: ML/TF WARNING SIGNS/ RED FLAGS

The following are some of Red Flags/ indicators for identification of persons or entities suspected to be acting on behalf of or at the direction of designated/proscribed individuals or entities:-

I. The following indicators should be used to identify suspected persons:

- a. A customer appears to have conducted transactions on behalf of or at the direction of designated/ proscribed individual.
- b. A customer is an office bearer (trustee/ member/ director/ authorized signatory etc.) of a designated/ proscribed entity.
- c. A customer is a business partner of an office bearer (trustee/ member/ director etc.) of a designated/ proscribed entity.
- d. A customer is a close family member of a designated/ proscribed individual who is also suspected to be associated with the business of the designated/ proscribed individual by way of financial or other assistance.
- e. An entity has a designated/ proscribed individual on its board or management.
- f. Unilateral sanctions listing identify linkage/ association of a customer with a designated/ proscribed individual or entity.
- g. Media (Broadcast/ Print/ Social) news highlights customer's involvement in

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providing financial or other assistance to designated/ proscribed individual or entity.

- h. Inquiry from law enforcement agency/ intelligence agency indicating linkage of a customer with designated/ proscribed individual or entity.

II. Red Flags based on behavior of an Account Holder associated with proscribed individuals or entities:

- a. A customer has provided the same residential/ office address that matches the known residential/ office address of a designated/ proscribed individual or entity
- b. A customer has provided the same personal contact number that matches the contact number provided earlier by a proscribed/ designated customer
- c. A customer depositing funds in the account of a person or entity listed in an international or foreign jurisdiction's sanctions lists maintained in accordance with UNSC resolution 1373
- d. A customer listed in an international or foreign jurisdiction's sanctions list maintained in accordance with UNSC resolution 1373, is depositing funds in another customer's account.

SIMPLIFIED DUE DILIGENCE

- i. The company may apply SDD only where low risk is identified through adequate analysis and risk assessment and any other risk assessment publicly available or provided by the Commission and commensurate with the lower risk factors.
- ii. The decision to rate a customer as low risk shall be justified in writing by the Company.
- iii. SDD measures include the following measures:
 - a. Verifying the identity of the customer and the beneficial owner after the establishment of the business relationship;
 - b. Reducing the degree of on-going monitoring and scrutinizing transactions, based on a reasonable monetary threshold as prescribed or as set out by the Commission;
 - c. Not collecting specific information or carrying out specific measures to understand the purpose and intended nature of the business relationship, but inferring the purpose and nature from the type of transactions or business relationship established.
- iv. Simplified CDD shall not be permitted whenever there is a suspicion of money laundering or terrorist financing.

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COMPLIANCE PROGRAM

In order to implement compliance program, the Company shall implement the following internal policies, procedures and controls:

compliance management arrangements, including the appointment of a compliance officer at the management level, as the individual responsible for the Company's compliance with these Regulations, the AML Act and other directions and guidelines issued under the aforementioned regulations and laws;

- a. screening procedures when hiring employees to ensure the integrity and conduct, skills, and expertise of such employees to carry out their functions effectively;
 - b. an ongoing employee training program; and
 - c. an independent audit function to test the system.
- ii. For the serial no. i (a) above, the company shall ensure that the compliance officer:
- a. reports directly to the board of directors or chief executive officer or committee;
 - b. has timely access to all customer records and other relevant information which they may require to discharge their functions, as well as any other persons appointed to assist the compliance officer;
 - c. has sufficient resources, including time and support staff;
 - d. be responsible for the areas including, but not limited to-
 - i. ensuring that the internal policies, procedures and controls for prevention of ML/TF are approved by the board of directors of the Company and are effectively implemented;
 - i. monitoring, reviewing and updating AML/CFT/CPF policies and procedures, of the Company;
 - i. providing assistance in compliance to other departments and branches of the Company;
 - i. timely submission of accurate data/ returns as required under the applicable laws;
 - ii. monitoring and timely reporting of Suspicious and Currency Transactions to FMU; and
 - iii. ensures regular audits of the AML/CFT/CPF program;
 - vi. maintains various logs, as necessary, which should include logs with respect to declined business, politically exposed person ("PEPs"), and requests from Commission, FMU and Law Enforcement Agencies ("LEAs") particularly in relation to investigations; and
 - vi. Responds promptly to requests for information by the SECP/Law enforcement agency.
 - ix. Provides guidance in day-to-day operations of the AML/CFT/CPF policies and procedures.
 - x. Is entrusted with other responsibilities as the company may deem necessary in order to ensure compliance with the regulatory requirements.

The compliance officer shall also refer all the Rules, Regulations, notices and directives issued by the competent authority along with the policy and procedures to ensure compliance with the applicable regulatory requirements

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CONFIDENTIALITY

This Policy is strictly confidential. No copies of this Policy may be printed, copied or in any way removed from the offices of the Company.

FUTURE AMENDMENTS

The management will review and may amend or otherwise modify this Policy Statement from time to time with the approval of Board of Directors. Such review will preferably be carried out every year and will take into account among others the revisions in applicable regulatory framework specifically.

APPROVAL FROM BOARD OF DIRECTORS

This policy has been approved by the Board of Directors on 31st March 2026 and access has been provided to the employees of DSL.

EFFECTIVE DATE

This policy shall become effective from the 31st March, 2026.