

NAHAR CAPITAL AND FINANCIAL SERVICES LTD.

GUIDELINES ON 'KNOW YOUR CUSTOMER' NORMS AND ANTI MONEY LAUNDERING SERVICES

The Company is mainly engaged in "Investment Activities" directly in Equities, Government Securities, Debt instrument and other financial Securities, as well as through Mutual Funds. Company is not engaged in lending and/or other financial activities with general Public. Hence, guidelines on Know Your Customer (KYC) norms and anti-money laundering are presently not applicable to us.

However, the Company endeavors to frame a proper policy framework on 'Know Your Customer' (KYC) and Anti-Money Laundering as per RBI guidelines. The Board of Directors and the management team of the Company are responsible for the implementation of the KYC norms, whenever required and to ensure that its operations reflect its initiatives to prevent money-laundering activities.

The Reserve Bank of India (RBI) has issued guidelines vide circular no. DNBR (PD) CC No. 051/03.10.119/2015-16 dated July 1, 2015 on Know Your Customer' (KYC) Guidelines – Anti Money Laundering Standards (AML) -'Prevention of Money Laundering Act, 2002' for Non-Banking Finance Companies (NBFCs) thereby setting standards for prevention of money laundering activities and Corporate Practices while dealing with their customers. The Company shall adopt all practices prescribed by the RBI from time to time and shall make appropriate modifications, depending upon the activities of the Company.

For the purpose of KYC/PML policy, a 'Customer' may be defined as a person who is engaged in a financial transaction or activity with the Company and includes a person on whose behalf the person who is engaged in the transaction or activity, is acting.

In terms of KYC/PML Policy a 'person' includes:

- (i) an individual,
- (ii) a Hindu undivided family,
- (iii) a company,
- (iv) a firm,
- (v) an association of persons or a body of individuals, whether incorporated or not,
- (vi) every artificial juridical person, not falling within any one of the above persons (i to v), and
- (vii) any agency, office or branch owned or controlled by any of the above persons (i to vi).

"Transaction" means a purchase, sale, loan, pledge, gift, transfer, delivery or the arrangement thereof and includes-

- (viii) opening of an account;

- (ix) deposits, withdrawal, exchange or transfer of funds in whatever currency, whether in cash or by cheque, payment order or other instruments or by electronic or other non-physical means;
- (x) the use of a safety deposit box or any other form of safe deposit;
- (xi) entering into any fiduciary relationship;
- (xii) any payment made or received in whole or in part of any contractual or other legal obligation; or
- (xiii) establishing or creating a legal person or legal arrangement.

Objective

The objective of KYC guidelines is to prevent the Company from being used, intentionally or unintentionally, by criminal elements for money laundering activities. KYC procedures also enable Company to know/understand their customers and their financial dealings better, which in turn help them, manage their risks prudently.

Customer Acceptance Policy

The Company would develop a clear Customer Acceptance Policy laying down explicit criteria for acceptance of customers. The Customer Acceptance Policy must ensure that explicit guidelines are in place on the following aspects of customer relationship in the company:

- No account is opened in anonymous or fictitious/ benami name(s);
- Classification of customers into various categories on the basis of risk perception
- Identification of the Customers as per Customer Identification Procedures before acceptance of Customers
- Obtaining the relevant information from the customers at the time of truncations carried out for the purpose of risk categorisation

Customer Identification Procedures

The policy approved by the Board of Directors should clearly spell out the Customer Identification Procedure to be carried out at different stages i.e. while establishing a business relationship; carrying out a financial transaction or when the Company has a doubt about the authenticity/veracity or the adequacy of the previously obtained customer identification data. Customer identification means identifying the customer and verifying his/ her identity by using reliable, independent source documents, data or information. The Company will obtain sufficient information necessary to establish, to its satisfaction, the identity of each new customer, whether regular or occasional, and the purpose of the intended nature of business relationship. Being satisfied means that the Company must be able to satisfy the competent authorities that due diligence was observed based on the risk profile of the customer in compliance with the extant guidelines in place. Such risk-based approach is considered necessary to avoid disproportionate cost to Company and a burdensome regime for the customers. Besides risk perception, the nature of information/documents required would also depend on the type of customer (individual, corporate etc). For customers that are natural

persons, the Company will obtain sufficient identification data to verify the identity of the customer, his address/location, and also his recent photograph. For customers that are legal persons or entities, the Company will (i) verify the legal status of the legal person/ entity through proper and relevant documents (ii) verify that any person purporting to act on behalf of the legal person/entity is so authorized and identify and verify the identity of that person, (iii) understand the ownership and control structure of the customer and determine who are the natural persons who ultimately control the legal person. Customer identification requirements in respect of a few typical cases, especially, legal persons requiring an extra element of caution are given in Annex-I for guidance of Company. The Company has framed its own internal guidelines based on their experience of dealing with such persons/entities, normal lender' prudence and the legal requirements as per established practices. Company will take reasonable measures to identify the beneficial owner(s) and verify his/her/their identity in a manner so that it is satisfied that it knows who the beneficial owner(s) is/are. An indicative list of the nature and type of documents/information that may be relied upon for customer identification is given in the Annex-I. In the view of emerging business environment, the documents requirement will be reviewed periodically as and when require updating. The Board of Directors and management team is empowered to make amendment as and when required to the list of document required for Customer Identification Procedure.

Monitoring of Transactions

Ongoing monitoring is an essential element of effective KYC procedures. The Company can effectively control and reduce their risk only if they have an understanding of the normal and reasonable activity of the customer so that they have the means of identifying transactions that fall outside the regular pattern of activity. However, the extent of monitoring will depend on the risk sensitivity of the account. The Company will pay special attention to all complex, unusually large transactions and all unusual patterns, which have no apparent economic or visible lawful purpose in such type of transactions.

The Company will ensure that a record of transactions in the accounts is preserved and maintained as required in terms of section 12 of the PML Act, 2002. It may also be ensured that transactions of suspicious nature and/ or any other type of transaction notified under section 12 of the PML Act, 2002, shall be reported to the appropriate law enforcement authority by the Principal Officer.

Risk Management

The Board of Directors of the Company ensure that an effective KYC programme is put in place by establishing appropriate procedures and ensuring their effective implementation. It will cover proper management oversight, systems and controls, segregation of duties, training and other related matters. Responsibility should be explicitly allocated within the Company for ensuring that the Company's policies and procedures are implemented effectively. The Company may, in consultation with their boards, devise procedures for creating Risk Profiles of

their existing and new customers and apply various Anti Money Laundering measures keeping in view the risks involved in a transaction, account or business relationship.

The Company's internal audit and compliance functions have an important role in evaluating and ensuring adherence to the KYC policies and procedures. As a general rule, the compliance function provides an independent evaluation of its own policies and procedures, including legal and regulatory requirements. The Company should ensure that its audit machinery is staffed adequately with individuals who are well versed in such policies and procedures when needed. Concurrent/ Internal Auditors should specifically check and verify the application of KYC procedures at the branches and comment on the lapses observed in this regard. The compliance in this regard may be put up before the Audit Committee of the Board on quarterly intervals.

The Company must have an ongoing employee-training programme so that the members of the staff are adequately trained in KYC procedures when required. Training requirements should have different focuses for frontline staff, compliance staff and staff dealing with new customers. It is crucial that all those concerned fully understand the rationale behind the KYC policies and implement them consistently.

Customer Education

Implementation of KYC procedures requires Company to demand certain information from customers which may be of personal nature or which have hitherto never been called for. This can sometimes lead to a lot of questioning by the customer as to the motive and purpose of collecting such information. Therefore, the Company needs to prepare specific literature/ pamphlets etc. so as to educate the customer of the objectives of the KYC programme. The front desk staff needs to be specially trained to handle such situations while dealing with customers.

Introduction of New Technologies – Credit cards/Debit Cards/ Smart Cards/Gift Cards

The Company will pay special attention to any money laundering threats that may arise from new or developing technologies including internet banking that might favour anonymity, and take measures, if needed, to prevent their use in money laundering schemes. The Company ensures that appropriate KYC procedures are duly applied before issuing the cards to the customers.

Presently, the Company is not doing Credit Cards/Debit Cards/ Smart Cards/Gift Cards Business but will follow the guidelines as and when required.

Applicability to branches and subsidiaries outside India

The KYC guidelines prescribed by RBI shall also apply to the branches and majority owned subsidiaries located abroad, especially, in countries, which do not or insufficiently apply the FATF Recommendations, to the extent local laws permit. When local applicable laws and regulations prohibit implementation of these guidelines, the same should be brought to the notice of Reserve Bank.

Appointment of Principal Officer

The Company has to appoint a senior management officer to be designated as Principal Officer. Principal Officer shall be located at the head/corporate office of the Company and shall be responsible for monitoring and reporting of all transactions and sharing of information as required under the law. He will maintain close liaison with enforcement agencies, banks and any other institution, which are involved in the fight against money laundering and combating financing of terrorism.

MAINTENANCE OF RECORDS FOR ANTI MONEY LAUNDERING TRANSACTIONS

(As per Rule 3 of PML Rules, 2005)

The records of below mentioned transactions should be maintained:

- (i) all cash transactions of the value of more than rupees ten lakh or its equivalent in foreign currency;
- (ii) Series of all cash transactions individually valued below Rupees Ten Lakh, or its equivalent in foreign currency which have taken place within a month and the monthly aggregate which exceeds rupees ten lakhs or its equivalent in foreign currency. It is clarified that for determining 'integrally connected transactions' 'all accounts of the same customer' should be taken into account.
- (iii) all cash transactions, where forged or counterfeit currency notes or bank notes have been used as genuine and where any forgery of a valuable security has taken place facilitating the transactions;
- (iv) all suspicious transactions whether or not made in cash and in manner as mentioned in the Rules framed by Government of India under the Prevention of Money Laundering Act, 2002.

Preservation of Records

In terms of PML Amendment Act 2012, the records of the Company should be preserved as below:

- (i) The Company should maintain for at least five years from the date of transaction between the Company and the client, all necessary records of transactions, both domestic or international, which will permit reconstruction of individual transactions (including the amounts and types of currency involved, if any) so as to provide, if necessary, evidence for prosecution of persons involved in criminal activity.
- (ii) The Company should ensure that records pertaining to the identification of the customers and their address (e.g. copies of documents like passports, identity cards, driving licenses, PAN card, utility bills, etc.) obtained while opening the account and during the course of business relationship, are properly preserved for at least five years after the business relationship is ended as required under Rule 10 of the Rules *ibid*. The identification of records and transaction data should be made available to the competent authorities upon request.

- (iii) The Company may maintain records of the identity of the clients, and records in respect of transactions referred above in hard or soft format.
- (iv) Every information maintained, furnished or verified, save as otherwise provided under any law for the time being in force, shall be kept confidential.

Reliance on third party due diligence

For the purpose of verifying the identity of customers at the time of commencement of an account-based relationship, The Company may rely on a third party subject to the conditions that-

- 1) the Company immediately obtains necessary information of such client due diligence carried out by the third party;
- 2) the Company takes adequate steps to satisfy itself that copies of identification data and other relevant documentation relating to the client due diligence requirements will be made available from the third party upon request without delay;
- 3) the Company is satisfied that such third party is regulated, supervised or monitored for, and has measures in place for compliance with client due diligence and record-keeping requirements in line with the requirements and obligations under the PML Act;
- 4) the third party is not based in a country or jurisdiction assessed as high risk and
- 5) the Company is ultimately responsible for client due diligence and undertaking enhanced due diligence measures, as applicable

Reporting to Financial Intelligence Unit-India

The Principal Officer of the Company will report information relating to cash and suspicious transactions to the Director, Financial Intelligence Unit-India (FIU-IND) at the following address:

Director, FIU-IND,
Financial Intelligence Unit-India,
6th Floor, Hotel Samrat,
Chanakyapuri,
New Delhi-110021

Dated: 05.08.2015

Place: Ludhiana

Customer Identification Procedure features to be verified and Documents that may be obtained from the customers

Customer/Client	Documents
<p>Accounts of individuals - Proof of Identity and Address</p>	<p>Any one document from the Officially Valid Document is only allowed. They are:</p> <p>(i) Passport (ii) PAN card (iii) Voter's Identity Card issued by Election Commission (iv) Driving License (v) Job Card issued by NREGA duly signed by an officer of the State Govt (vi) The letter issued by the Unique Identification Authority of India (UIDAI) containing details of name, address and Aadhaar number.</p> <p>Where 'simplified measures' are applied for verifying the identity of customers the following documents shall be deemed to be 'officially valid documents:</p> <p>i. identity card with applicant's Photograph issued by Central/State Government Departments, Statutory/Regulatory Authorities, Public Sector Undertakings, Scheduled Commercial Banks, and Public Financial Institutions;</p> <p>ii. letter issued by a gazetted officer, with a duly attested photograph of the person.</p> <p>Where 'simplified measures' are applied for verifying for the limited purpose of proof of address the following additional documents are deemed to be OVDs .:</p> <p>i. Utility bill which is not more than two months old of any service provider (electricity, telephone, postpaid mobile phone, piped gas, water bill);</p> <p>ii. Property or Municipal Tax receipt;</p> <p>iii. Bank account or Post Office savings bank account statement;</p>

	<p>iv. Pension or family pension payment orders (PPOs) issued to retired employees by Government Departments or Public Sector Undertakings, if they contain the address;</p> <p>v. Letter of allotment of accommodation from employer issued by State or Central Government departments, statutory or regulatory bodies, public sector undertakings, scheduled commercial banks, financial institutions and listed companies. Similarly, leave and license agreements with such employers allotting official accommodation; and</p> <p>vi. Documents issued by Government departments of foreign jurisdictions and letter issued by Foreign Embassy or Mission in India.</p>
In case of Companies	<p>(a) Certificate of incorporation;</p> <p>(b) Memorandum and Articles of Association;</p> <p>(c) A resolution from the Board of Directors and power of attorney granted to its managers, officers or employees to transact on its behalf; and</p> <p>(d) An officially valid document in respect of managers, officers or employees holding an attorney to transact on its behalf.</p>
In case of Partnership Firms	<p>(a) Registration certificate;</p> <p>(b) Partnership deed; and</p> <p>(c) An officially valid document in respect of the person holding an attorney to transact on its behalf.</p>
In case of Trusts and Foundations	<p>(a) Registration certificate;</p> <p>(b) Trust deed; and</p> <p>(c) An officially valid document in respect of the person holding a power of attorney to transact on its behalf</p>

<p>Accounts of unincorporated association or a body of individuals</p>	<p>(a) Resolution of the managing body of such association or body of individuals;</p> <p>(b) Power of attorney granted to him to transact on its behalf;</p> <p>(c) An officially valid document in respect of the person holding an attorney to transact on its behalf; and</p> <p>(d) Such information as may be required by the bank to collectively establish the legal existence of such an association or body of individuals.</p>
<p>Accounts of Proprietorship Concerns Proof of the name, address and activity of the concern</p>	<p>Apart from Customer identification procedure as applicable to the proprietor any two of the following documents in the name of the proprietary concern would suffice</p> <p>(a) Registration certificate (in the case of a registered concern).</p> <p>(b) Certificate/licence issued by the Municipal authorities under Shop & Establishment Act,</p> <p>(c) Sales and income tax returns</p> <p>(d) CST/VAT certificate</p> <p>(e) Certificate/registration document issued by Sales Tax/Service Tax/Professional Tax authorities</p> <p>(f) Licence/certificate of practice issued in the name of the proprietary concern by any professional body incorporated under a statute. The complete Income Tax return (not just the acknowledgement) in the name of the sole proprietor where the firm's income is reflected, duly authenticated/ acknowledged by the Income Tax Authorities.</p>