

KNOW YOUR CUSTOMER AND ANTI-MONEY LAUNDERING POLICY

1. The Background:

- 1.1. The Reserve Bank of India has issued a number of circulars and guidelines to ensure that proper Know Your Customer (KYC) norms are followed by NBFCs and that adequate checks and measures are in place to prevent money laundering. This policy document ("**Northern Arc Capital or Company**") shall be read with extant RBI Guidelines on Prevention of Money Laundering and other applicable Guidelines.

2. Preamble:

Through the following Policy Guidelines, Northern Arc Capital stands committed to –

- 2.1. Accept only those clients whose identity is established by conducting due diligence appropriate to the risk profile of the Customer.
- 2.2. Record and preserve audit trail for the transactions conducted by Customers to facilitate investigation.
- 2.3. Report to Financial Intelligence Unit – India, or any other agency designated by the Reserve Bank of India, Securities and Exchange Board of India or any other regulatory body, the details of transactions of all or selected clients if and when requested or at regular frequency as may be suggested by such agencies, and
- 2.4. Cooperate with investigative agencies / law enforcement agencies in their efforts to trace money laundering transactions and persons involved in such transactions.

3. The Objective:

- 3.1. "Money laundering" is the process by which persons with criminal intent or persons involved in criminal activity attempt to hide and disguise the true origin and ownership of the proceeds of their criminal activities, by routing the amounts through legitimate channels such as banks and financial institutions, thereby avoiding prosecution, conviction for such criminal activities.
- 3.2. The objective of KYC guidelines is to prevent Northern Arc Capital from being used, intentionally or unintentionally, by criminal elements for money laundering activities. KYC procedures also enable Northern Arc Capital to know/understand its customers and their financial dealings better which in turn help them manage Northern Arc Capital's risks prudently.

4. The Approach:

- 4.1. The approach towards KYC Standards is based on risk perception and money laundering threats that may be posed by different types of Customers. Northern Arc Capital shall be largely guided by the KYC standards prescribed by RBI for NBFCs.
- 4.2. KYC Standards & AML measures involve a customer acceptance policy and customer identification program that involves enhanced due diligence for higher risk accounts and includes account monitoring for suspicious activities. These standards constitute an essential part of risk management by providing the basis for identifying and controlling risk exposures, which Northern Arc Capital takes to protect itself and its genuine Customers from the risks arising out of Suspicious Transactions/ fraudulent Customers.

5. Definitions:

For the purpose of this policy,

5.1. “Customers or Clients” means

Corporate and other entities who borrow funds from the Company and corporate and other entities whom the Company assists in raising financing through capital market transactions

5.2. “Underwriting Guidelines” means Underwriting Guidelines of Northern Arc Capital as approved by the Board from time to time.

5.3. “Eligibility Criteria” means Eligibility Criteria of Northern Arc Capital as approved by the Board from time to time.

5.4. “Suspicious Transaction” as determined by the Rules notified under the PMLA means a transaction whether or not made in cash which, to a person acting in good faith:

- a) Give rise to a reasonable ground of suspicion that it may involve the proceeds of crime; or
- b) Appears to be made in circumstances of unusual or unjustified complexity; or
- c) Appears to have no economic rationale or bonafide purpose.

6. Customer Acceptance Policy (“CAP”):

Before accepting a Customer, Northern Arc Capital shall ensure the following:

6.1. Any new Customer shall only be accepted after it has passed the Underwriting Guidelines and the Eligibility Criteria through the due-diligence process and has been approved by the Credit Committee.

6.2. The various documents and other information to be collected from different categories of Customers depending on perceived risk as per the classification above and shall be in terms of the requirements of Prevention of Money Laundering Act, 2002 and guidelines issued by Reserve Bank from time to time as given in Annexure I.;

6.3. Northern Arc Capital shall conduct necessary checks with the watch list of the RBI and other watch lists before accepting a new Customer so as to ensure that the identity of the customer does not

match with any person with known criminal background or with banned entities such as individual terrorists or terrorist organizations etc.

6.4. Northern Arc Capital shall prepare a brief customer profile on all its Customers. The customer profile may contain information relating to Customer's identity, social/financial status, nature of business activity, information about the Customer's business and their location etc. The customer profile will be a confidential document and details contained therein shall not be divulged for cross selling or any other purposes.

7. Customer Identification Procedure ("CIP"):

7.1. For Customers that are corporates or other entities, Northern Arc shall

- i. verify the legal status of the corporate / other entity through proper and relevant documents
- ii. verify that any person purporting to act on behalf of the corporate / other entity is so authorized and identify and verify the identity of that person,
- iii. Obtain sufficient information in order to identify persons which beneficially own or have substantial control over such corporate / other entity. Northern Arc Capital will also obtain all the KYC documents of the beneficial owner as per Annexure [II].

- iv. (a) where the client is a company, the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has a controlling ownership interest or who exercises control through other means.

Explanation. - For the purpose of this sub-clause-

- 1. "Controlling ownership interest" means ownership of or entitlement to more than twenty-five percent of shares or capital or profits of the company;
- 2. "Control" shall include the right to appoint majority of the directors or to control the management or policy decisions including by virtue of their shareholding or management rights or shareholders agreements or voting agreements;

(b) where the client is a partnership firm, the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has ownership of/entitlement to more than fifteen percent of capital or profits of the partnership;

(c) where the client is an unincorporated association or body of individuals, the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has ownership of or entitlement to more than fifteen percent of the property or capital or profits of such association or body of individuals;

(d) where no natural person is identified under (a) or (b) or (c) above, the beneficial owner is the relevant natural person who holds the position of senior managing official;

(e) where the client is a trust, the identification of beneficial owner(s) shall include identification of the author of the trust, the trustee, the beneficiaries with fifteen percent or more interest in the trust and any other natural person exercising ultimate effective control over the trust through a chain of control or ownership; and

(f) where the client or the owner of the controlling interest is a company listed on a stock exchange, or is a subsidiary of such a company, it is not necessary to identify and verify the identity of any shareholder or beneficial owner of such companies.

(the list of acceptable KYC documents is available in Annexure [II])

- 7.2. Northern Arc Capital may verify the Customer's identity (including the beneficial owner's identity) using reliable, independent source documents, data and information, if such information is available.
- 7.3. Northern Arc Capital shall also document and implement procedures to resolve information discrepancies and to decline or cease to do business with a Customer when it cannot form a reasonable belief that it knows the true identity of such Customer or cannot adequately complete necessary due diligence. These procedures should include identification of responsible decision makers and escalation paths and detailed standards relating to what actions will be taken if a Customer's identity cannot be adequately verified.
- 7.4. Northern Arc Capital shall implement procedures for providing Customers with adequate notice that Northern Arc Capital is requesting information and taking actions in order to verify their identity. Northern Arc Capital shall determine the appropriate manner to deliver the notice, which shall be reasonably designed to ensure that the Customer is able to view or is otherwise given such notice prior to execution of the transaction.

8. Existing Customers:

- 8.1. The requirements of the earlier sections are not applicable to transactions conducted prior to, on or after the effective date of this Manual by existing Customers, provided that Northern Arc Capital has previously verified the identity of the Customer and Northern Arc Capital continues to have a reasonable belief that it knows the true identity of the Customer. Further, the existing transactions should be continuously monitored and any unusual pattern in the operation of the account should trigger a review of the due diligence measures.

9. Identification of Beneficial Owner:

For opening an account of a Legal Person who is not a natural person, the beneficial owner(s) shall be identified and all reasonable steps in terms of Rule 9(3) of the Rules to verify his/her identity shall be undertaken keeping in view the following:

(a) Where the customer or the owner of the controlling interest is a company listed on a stock exchange, or is a subsidiary of such a company, it is not necessary to identify and verify the identity of any shareholder or beneficial owner of such companies.

(b) In cases of trust/nominee or fiduciary accounts whether the customer is acting on behalf of another person as trustee/nominee or any other intermediary is determined. In such cases, satisfactory evidence of the identity of the intermediaries and of the persons on whose behalf they are acting, as also details of the nature of the trust or other arrangements in place shall be obtained.

10. Reporting:

- 9.1. Northern Arc Capital does not accept deposits and the internal policies of Northern Arc Capital do not permit any cash transactions. Nevertheless, if there were to be any such transactions in future, the business processes shall have a system of internal reporting of Suspicious Transactions and cash transactions, whether such transactions comprise of a single transaction or a series of transactions integrally connected to each other, and where such series of transactions take place within a month;
- 9.2. Further, the Principal Officer shall furnish information of the above mentioned transactions to the Director, Financial Intelligence Unit – India (FIU-IND) at the prescribed address in the formats prescribed in this regard including the electronic filing of reports.
- 9.3. Provided that where the Principal Officer, has reason to believe that a single transaction or series of transactions integrally connected to each other have been valued Rs.5 lakh so as to defeat the provisions of the PMLA regulations, such officer shall furnish information in respect of such transactions to the Director within the prescribed time.

11. Records Retention:

Northern Arc Capital shall document and implement appropriate procedures to retain records of KYC due diligence and anti-money laundering measures. Northern Arc Capital shall implement, at a minimum, the following procedures for retaining records.

“Transaction” shall have the same meaning assigned under Rule 2(h) of the Prevention of Money Laundering (Maintenance of Records) Rules, 2013 i.e.

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

- (i) opening of an account;
- (ii) 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;
- (iii) the use of a safety deposit box or any other form of safe deposit;
- (iv) entering into any fiduciary relationship;
- (v) any payment made or received in whole or in part of any contractual or other legal obligation;
- (vi) any payment made in respect of playing games of chance for cash or kind including such activities associated with casino; and
- (vii) establishing or creating a legal person or legal arrangement.'

11.1. Transactions for which records need to be maintained:

- i. All series of cash transactions integrally connected to each other which have taken place within a month.
- ii. 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.
- iii. All Suspicious Transactions whether or not made in cash.

11.2. Information to be preserved:

The information required to be preserved with respect to the above transactions are the nature of transactions, amount and the currency in which it was denominated, date of transaction and the

parties to the transaction. A copy of this information should be signed by the person heading the transaction and this should be maintained in a separate file along with all the other transaction related documents.

11.3. Periodicity of retention:

The following records shall be retained for a minimum period of ten years from the date of the relevant transaction:

- i) The Customer identification information and residence identification information including the documentary evidence thereof.
- ii) All other necessary records pertaining to the transactions that could be produced as evidence for prosecution of persons involved in criminal activity.
- iii) Further, a description of the methods used to verify Customer identity as well as a description of the resolution of any discrepancies in verification shall be maintained for a period of at least Ten (10) years after such record was created.

It may be noted that the records of identity of customers and records of transactions may be maintained in hard or soft format.

The above records shall be made available to the competent authorities upon request.

12. Enhanced Due Diligence:

- 12.1. Northern Arc Capital does not deal with such category of Customers who could pose a potential high risk of money laundering, terrorist financing or political corruption and are determined to warrant enhanced scrutiny.
- 12.2. The existing credit policies of Northern Arc Capital in respect of its Customers ensure that the Company is not transacting with such high risk Customers.
- 12.3. The Company shall conduct Enhanced Due Diligence in connection with all Customers that are determined to pose a potential high risk and are determined to warrant enhanced scrutiny.
- 12.4. Northern Arc Capital, who may engage appropriate outside investigative services or consult appropriate vendor sold databases when necessary.
- 12.5. Northern Arc Capital shall establish procedures to decline to do business with or discontinue relationships with any Customer when it cannot adequately complete necessary Enhanced Due Diligence or when the information received is deemed to have a significant adverse impact on reputational risk.

13. Monitoring of Transactions:

Ongoing monitoring is an essential element of effective KYC procedures.

- 13.1. Northern Arc Capital can effectively control and reduce the risk only if it has 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 Customer.
- 13.2. Northern Arc Capital should pay special attention to all complex, unusually large transactions and all unusual patterns which have no apparent economic or visible lawful purpose. High-risk Customers have to be subjected to intense monitoring.
- 13.3. Northern Arc Capital shall periodically review and determine the need for applying enhanced due diligence measures based on the risk categorisation of Customers.
- 13.4. Northern Arc Capital, in its loan agreements with Customers, specifies the end-usage of the funding provided. The Company also tracks the end usage of funds through monitoring of the assets created by the Customer from the proceeds of the said funding

14. Risk Management:

- 14.1. Northern Arc Capital's internal audit and compliance functions have an important role in evaluating and ensuring adherence to the KYC policies and procedures.
- 14.2. The compliance in this regard may be put up before the Audit Committee of the Board on quarterly intervals.
- 14.3. Northern Arc Capital shall have an ongoing employee training programme so that the members of the staff conducting the KYC are adequately trained in KYC procedures. It is crucial that all concerned staff fully understand the rationale behind the KYC policies and implement them consistently.
- 14.4. Senior Management for the purpose of KYC Compliance shall include Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Head – Finance & Operations and Chief Legal Counsel.

15. Customer Education:

If required, Northern Arc Capital may prepare specific literature/ pamphlets etc. so as to educate the customer of the objectives of the KYC programme.

16. Applicability to branches and subsidiaries outside India:

- 16.1. Presently, Northern Arc Capital does not have any branches and subsidiaries outside India. However, if Northern Arc Capital establishes such a branch or a majority owned subsidiary, which is located abroad, especially, in countries which do not or insufficiently apply the FATF Recommendations, Northern Arc Capital will ensure that the above guidelines are also implemented in these locations, to the extent local laws permit. When local applicable laws and regulations prohibit implementation of these guidelines, the same shall be brought to the notice of Reserve Bank of India.

17. Appointment of Principal Officer and Designated Director:

17.1. Mr. Saurabh Jaywant, Chief Legal Counsel, shall be designated as Principal Officer for the purpose of compliance with the rules and regulations of this policy. The Principal Officer can be contacted at the following address:

Attn: Mr. Saurabh Jaywant
Northern Arc Capital Limited.
IIT-M Research Park; Phase 1; 10th Floor;
Taramani, Chennai – 600 113
PH: 044 6668 7220

17.2. The Principal Officer shall be responsible for monitoring and reporting of all transactions and sharing of information as required under the law.

17.3. Dr. Kshama Fernandes, Chief Executive Officer cum Managing Director shall be nominated as Designated Director to ensure compliance with the obligations under the Prevention of Money Laundering (Amendment) Act, 2012.

18. Secrecy obligations and sharing of information:

18.1 Secrecy obligations:

(a) The company shall maintain secrecy regarding the customer information which arises out of the contractual relationship between the banker and customer.

(b) While considering the requests for data/information from Government and other agencies, banks shall satisfy themselves that the information being sought is not of such a nature as will violate the provisions of the laws relating to secrecy in the banking transactions.

(c) The exceptions to the said rule shall be as under:

- i. Where disclosure is under compulsion of law,
- ii. Where there is a duty to the public to disclose,
- iii. the interest of bank requires disclosure and
- iv. Where the disclosure is made with the express or implied consent of the customer.

(d) NBFCs shall maintain confidentiality of information as provided in Section 45NB of RBI Act 1934.

18.2 Sharing of information with Central KYC Registry (CKYCR):

The company shall capture the KYC information for sharing with the CKYCR in the manner mentioned in the Rules, as required by the revised KYC templates prepared for 'individuals' and 'Legal Entities' as the case may be with the Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI) as notified by the Government of India.

19. Review

19.1. A review of compliance under this policy would be done by the Management regularly and a consolidated report of such reviews will be submitted to the Board of Directors.

Customer Identification Requirements

A) Transactions with trust/nominee or fiduciaries

1. There exists the possibility that trust/nominee or fiduciary accounts can be used to circumvent the CIP.
2. Northern Arc Capital should determine whether the Customer is acting on behalf of another person as trustee/nominee or any other intermediary. If so, Northern Arc Capital may insist on receipt of satisfactory evidence of the identity of the intermediaries and of the persons on whose behalf they are acting, as also obtain details of the nature of the trust or other arrangements in place.
3. While conducting a transaction with a trust, Northern Arc Capital should take reasonable precautions to verify the identity of the trustees and the settlors of trust (including any person settling assets into the trust), grantors, protectors, beneficiaries and signatories. Beneficiaries should be identified when they are defined. In the case of a 'foundation', steps should be taken to verify the founder managers/ directors and the beneficiaries, if defined.

B) Transactions with companies and firms

1. Northern Arc Capital needs to be vigilant against business entities being used by individuals as a 'front' for conducting transactions with the Company.
2. Northern Arc Capital should examine the control structure of the entity, determine the source of funds and identify the natural persons who have a controlling interest and who comprise the management. These requirements may be moderated according to the risk perception e.g. in the case of a public company it will not be necessary to identify all the shareholders.

C) Transactions with Politically Exposed Persons(PEPs) resident outside India

1. PEPs are individuals who are or have been entrusted with prominent public functions in a foreign country, e.g., Heads of States or of Governments, senior politicians, senior government/judicial/military officers, senior executives of state-owned corporations, important political party officials, etc.
2. Northern Arc Capital should gather sufficient information on any person/Customer of this category intending to establish a relationship and check all the information available on the person in the public domain.
3. Northern Arc Capital should verify the identity of the person and seek information about the sources of funds before accepting the PEP as a Customer.
4. Northern Arc Capital should also subject such transactions enhanced monitoring on an ongoing basis. The above norms may also be applied to transactions with the family members or close relatives of PEPs.

Customer Identification Procedure

Individual Customers are identified and verified based on “officially valid documents” as defined in Clause 2 (d) of the Prevention of Money Laundering (Maintenance of Records) Rules, 2013 as amended from time to time. “Officially valid document” means the passport, the driving license, the Permanent Account Number (PAN) Card, the Voter’s Identity Card issued by Election Commission of India, job card issued by NREGA duly signed by an officer of the State Government, the letter issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number or any other document notified by the Central Government in consultation with the regulator.

Features to be verified and documents that may be obtained from Customers

| Features | Documents |
|--|---|
| For Individuals (for proof of identity and address) | <ul style="list-style-type: none"> i. Passport ii. PAN card iii. Voter’s Identity Card iv. Driving licence v. Letter issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number. vi. Identity card (subject to the bank’s satisfaction) vii. Letter from a recognized public authority or public servant verifying the identity and residence of the customer to the satisfaction of bank viii. Telephone bill ix. Bank account statement x. Letter from any recognized public authority xi. Electricity bill xii. Ration card xiii. Letter from employer (subject to satisfaction of the bank) xiv. (any one document which provides customer information to the satisfaction of the bank will suffice) |
| For companies Information required: - Name of the company - Principal place of business | For all companies: <ul style="list-style-type: none"> i. Certificate of incorporation and Memorandum & Articles of Association ii. Resolution of the Board of Directors and/or power of attorney granted to its managers, officers or employees to transact on its behalf. iii. Copy of PAN allotment letter In case of an NBFC: <ul style="list-style-type: none"> i. Certificate of Registration issued by RBI In case of a section 25 company: |

| | |
|---|--|
| | <ul style="list-style-type: none"> i. A copy of the letter issued by the Regional Director |
| <p>For trusts & foundations</p> <p>Information required:</p> <ul style="list-style-type: none"> - Names of trustees, settlers, beneficiaries and signatories - Names and addresses of the founder, the managers/directors and the beneficiaries | <ul style="list-style-type: none"> i. Certificate of registration, if registered ii. Power of Attorney granted to transact business on its behalf iii. Any officially valid document to identify the trustees, settlors, beneficiaries and those holding Power of Attorney, founders/managers/ directors and their addresses iv. Resolution of the managing body of the foundation/association |

ADDENDUM TO KYC & AML POLICY – RISK CATEGORISATION OF CUSTOMERS

The customer acceptance and identification processes have been defined in Northern Arc Capital's KYC policy.

On acceptance and identification, Northern Arc Capital would adopt a risk based customer categorization based on assessment of the customers. Risk categorisation would be undertaken based on parameters such as customer's identity, social/financial status, nature of business activity, information about the clients' business and their location etc. While considering customer's identity, the ability to confirm identity documents through online or other services offered by issuing authorities would be factored in.

The risk categories are detailed below. The categorization criteria are indicative and a final view would be taken by Northern Arc Capital on a case to case basis. It would be ensured that customer acceptance, identification and risk categorization procedures do not result in inordinate delay or unreasonable denial of services to customers, especially to those who are financially or socially disadvantaged.

a. High Risk – (Category A): High risk customers typically includes:

- Non – resident Customers
- High net worth individuals without an occupation track record of more than 3 years
- Trust, charitable organizations, non govt. organization (NGO), organizations receiving donations
- Firms with sleeping partners
- Politically exposed persons (PEPs) of Indian/ foreign origin
- Non face-to-face customers
- Person/Entity with dubious reputation as per public information available
- Person/Entity in business/industry or trading activity where scope or history of unlawful trading/business activity is considered high
- Micro/Small/Medium enterprises not filing regular ITR with existing track record with Banks/FIs etc.

b. Medium Risk – (Category B): Medium risk customers will include:

- Self-employed professionals (other than HNIs),
- High net worth individuals with occupation track record of more than 3 years
- Companies having close family shareholding or beneficial ownership¹, other than companies regulated by any financial sector regulator
- Micro/Small/Medium enterprises filing regular ITR with existing track record with Banks/FIs etc.

c. Low Risk – (Category C):

¹ Promoters and promoter associates holding beneficial interest of 75% or more
Northern Arc Capital Ltd. (Formerly known as IFMR Capital Finance Ltd.)

Low risk individuals (other than high net worth) and entities whose identities and sources of wealth can be easily identified and all others persons/entities not covered under above two categories. Customer carrying low risk may include the following:

- Salaried employees with well-defined salary structures
- Self-employed customers with business track record for a reasonable period (at least 3 years)
- Government owned companies, Public Limited companies, Private Limited companies (other than closely family held), reputed Multinational Companies, Regulators and statutory bodies
- Companies regulated by any financial sector regulator
- People belonging to lower economic strata of the society whose accounts show small balances and low turnover
- Customers not otherwise classified as High Risk or Moderate Risk

Full KYC exercise will be done at a periodicity not less than once in ten years in case of low risk category customers, not less than once in eight years in case of medium risk category customers and not less than once in two years in case of high risk category customers

Addendum to KYC Policy

Risk Based Categorization of Clients - KYC

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