



First Street Capital (Pvt.) Limited

**ANTI MONEY LAUNDERING,
COUNTERING FINANCING OF TERRORISM
AND
PROLIFERATION FINANCING
POLICY, PROCEDURES AND CONTROLS**

First Street Capital (Pvt.) Limited

INTRODUCTION

Definition of Money Laundering (ML)

Money laundering involves the placement of illegally obtained money into legitimate financial systems so that monetary proceeds derived from criminal activity are transformed into funds with an apparently legal source.

Countering Financing Terrorism (CFT)

Terrorist financing refers to the processing of funds to sponsors involved in or those who facilitate terrorist activity. Terrorist individuals/ groups/ organization derive income from a variety of sources, often combining both lawful and unlawful funding, and where the agents involved do not always know the illegitimate end of that income.

Proliferation Financing (PF)

Proliferation financing is the act of providing funds or financial services which are used, in whole or in part, for the manufacture, acquisition, possession, development, export, transshipment, brokering, transport, transfer, stockpiling or use of nuclear, chemical or biological weapons and their means of delivery and related materials (including both technologies and dual-use goods used for non- legitimate purposes), in contravention of national laws or, where applicable, international obligations.

With respect to entities, any involvement, whether it is to instigate, assist, conceal, or ignore the source, nature, location, ownership or control of money laundering and terrorism financing activities, can lead to both civil and criminal proceedings against both the individual and the entity involved.

For detailed types of Money laundering (ML) transactions refer as below however ML transactions may include but not limited to:

- a. Advising a potential or existing client on how to structure a transaction to avoid reporting and/or record keeping requirements;
- b. Engaging in any activity while willfully or recklessly disregarding the source of the funds or the nature of the Clients transaction;
- c. Engaging in any activity designed to hide the nature, location, source, ownership or control of proceeds of criminal activity;
- d. Dealing in funds to facilitate criminal activity; and
- e. dealing in the proceeds of criminal activity

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Terror Financing (TF) transactions refer following mention two types may include but not limited to:

- i. Financial Support - In the form of donations, community solicitation and other fundraising initiatives. Financial support may come from states and large organizations, or from individuals.
- ii. Revenue Generating Activities - Income is often derived from criminal activities such as kidnapping, extortion, smuggling or fraud. Income may also be derived from legitimate economic activities such as diamond trading or real estate investment.

Purpose and Scope

Anti-Money Laundering and Countering the Financing of Terrorism (“AML/CFT”) regime requires financial institutions to understand their Money Laundering (“ML”), Terrorist Financing (“TF”) and Proliferation Financing (“PF”) risks, adopt and effectively implement an appropriate risk-based ML/TF/PF control framework. By aligning Pakistan’s AML and CTF control framework with FATF recommendations, Pakistan’s integration into the global financial system will be facilitated. This is an essential contribution that all RPs can make to the lawfulness, transparency, and long-term solid growth of Pakistan’s financial sector supported by strong a capital market and the economy as a whole.

Securities and Exchange Commission of Pakistan (“SECP”), in order to maintain the integrity of its regulated financial sector that includes the brokers, insurers, NBFCs and Modarabas notified the Securities and Exchange Commission of Pakistan AML/CFT Regulations, 2018 (“the Regulations”). The SECP AML/CFT Regulations require SECP Regulated Persons (RPs) to establish policies, systems and internal controls to detect and combat ML and TF for preventing the abuse of their financial products and services.



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Anti-Money Laundering (AML)

Policy Compliance and Supervisory Procedures

1. Company's Policy

Anti Laundering ("ML") and Terrorist Financing ("TF") are economic crimes that threaten Pakistan's overall financial sector reputation and expose financial institutions to significant operational, regulatory, legal and reputational risks, if used for ML and TF. In order to avoid ML and TF First Street Capital (Pvt.) Ltd. has adopted effective Anti-Money Laundering and Countering the Financing of Terrorism ("AML/CFT") control processes and procedures in line with the guidelines on Anti-Money Laundering, Countering Financing Of Terrorism, and Proliferation Financing Provided By The Securities And Exchange Commission Of Pakistan ("SECP"). The Securities and Exchange Commission of Pakistan' Anti Money Laundering and Countering Financing of Terrorism Regulations, 2018 ("the Regulations") shall be deemed essential part of this AML Policy and the 40 Recommendations and guidance papers issued by the Financial Action Task Force ("FATF").

It is the policy of the Company to prohibit and actively prevent money laundering and any activity that facilitates money laundering or the funding of terrorist or criminal activities. Money laundering is generally defined as engaging in acts designed to conceal or disguise the true origins of criminally derived proceeds so that the unlawful proceeds appear to have derived from legitimate origins or constitute legitimate assets. Generally, money laundering occurs in three stages. Cash first enters the financial system at the "placement" stage, where the cash generated from criminal activities is converted into monetary instruments, such as money orders or traveler's checks, or deposited into accounts at financial institutions. At the "layering" stage, the funds are transferred or moved into other accounts or other financial institutions to further separate the money from its criminal origin. At the "integration" stage, the funds are reintroduced into the economy and used to purchase legitimate assets or to fund other criminal activities or legitimate businesses. Terrorist financing may not involve the proceeds of criminal conduct, but rather an attempt to conceal the origin or intended use of the funds, which will be used later for criminal purposes. All employees of First Street Capital (Pvt.) Limited are required to receive a copy of the Company's AML policy and are required to follow such policy and procedures. If an employee is caught violating any portion of the Company's AML policies and procedures, a meeting with the AML Compliance Officer will occur, with the employee given written warning of such violation. If the employee violates the AML policies and procedures for the second time, immediate termination will occur.

FSC Compliance Statement

Money laundering (ML) and Countering Financing Terrorism (CFT) and Proliferation financing is conducting or attempting to conduct a financial transaction knowing that the transaction is designed in whole or in part to conceal or disguise the nature, location, source, ownership, or control of the proceeds of specified unlawful activity. FSC will take all necessary steps to comply with applicable AML and CTF laws and regulations. FSC will maintain an AML & CTF program in accordance with the applicable laws and regulations.

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The program is reasonably designed to prevent FSC's services from being used to facilitate money laundering and the financing of terrorist activities and or illegal activities.

FSC is committed to full compliance with all applicable laws and regulations regarding AML & CTF procedures. If FSC, its personnel and/or premises are inadvertently used for ML/CTF or other illegal activities, FSC can be subject to potentially serious civil and/or criminal penalties. Therefore, it is imperative that every officer, director, and employee (each, an "Employee") is familiar with and complies with the policies, procedures and controls set forth in this Compliance Manual.

This Compliance Statement is designed to assist all clients in adhering to FSC's policy, procedures and controls, which if followed thoroughly, are designed to protect themselves, FSC, its Employees, its facilities and its activities from money laundering and terrorism financing or other illegal activities.

To identify and assess ML/TF risks relating to persons, countries and activities which should include checks against all applicable UN Security Council Sanctions List; <https://www.un.org/sc/suborg/en/sanctions/un-sc-consolidated-list>.

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2. Policy, Procedures and Controls:

As required under clause 4 (a) of the SECP AML/CFT Regulations, First Street Capital (Pvt.) Limited shall:

1. develop and implement policies, procedures and controls with the approval of its Board of Directors for enabling First Street Capital (Pvt.) Limited to effectively manage and mitigate the risk that are identified in the risk assessment of ML/TF or notified to it by the Commission;
2. monitor the implementation of those policies, procedures and controls and enhance them if necessary;
3. perform enhanced measures where higher risks are identified, to effectively manage; and mitigate those higher risks;
4. have an independent audit function to test the system.

The Policies, Procedures and Controls shall contain a clear description for employees of their obligations and instructions as well as guidance on how to keep the activity of the reporting entity in compliance with the Regulations. There shall be internal procedures for detecting, monitoring and reporting suspicious transactions.

3. AML Compliance Officer Designation and Duties

The Company will designate a Compliance Officer (“CO”) with full responsibility for the Company’s AML program. The duties of the Compliance Officer will include monitoring the Company’s AML compliance, overseeing communication and training for employees. The Compliance Officer will also ensure that proper AML records are maintained.

The CO shall report directly, and periodically to the Board of Directors (“**Board**”) or to another equivalent executive position or committee. The CO shall be a person who is fit and proper to assume this role and who:

1. has sufficient skills and experience to develop and maintain systems and controls (including documented policies and procedures);
2. has sufficient resources, including time and support staff;
3. Ensure that the internal policies, procedures and controls for prevention of ML/TF/PF are approved by the board of directors and are effectively implemented;
4. monitoring, reviewing and updating AML/CFT/PF policies and procedures;
5. providing assistance in compliance to other departments and branches of the regulated person;
6. timely submission of accurate data/ returns as required under the applicable laws;
7. has access to all information necessary to perform the AML/CFT compliance function;
8. ensure regular audit of the AML/CFT program;
9. maintain various logs, as necessary, which shall include logs with respect to declined business, politically exposed person (“PEPs”), and request from Commission, Financial Monitoring Unit (“FMU”) and Law Enforcement Agencies (“LEAs”) particularly in relation to investigation ; and
10. respond promptly to requests for information by the SECP/LEAs.

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Appointment of Compliance Officer.- First Street Capital (Pvt.) Ltd. shall-

- appoint a management level officer as compliance officer, who shall report directly to the board of directors or to another equivalent executive position or committee;
- ensure that the compliance officer, as well as any other persons appointed to assist him, has timely access to all customer records and other relevant information which they may require to discharge their functions;
- the compliance officer shall primarily be responsible for the areas including, but not limited to-
 - (i) the First Street Capital (Pvt.) Ltd. effective compliance with the relevant provisions of these Regulations, the AML Act, the Anti-Money Laundering Rules, 2008, the Anti-Money Laundering Regulations, 2015 and other directions and guidelines issued under the aforementioned regulations and laws, as amended from time to time;
 - (ii) ensuring that the internal policies, procedures and controls for prevention of ML/TF are approved by the board of directors of the First Street Capital (Pvt.) Ltd. and are effectively implemented;
 - (iii) monitoring, reviewing and updating AML/CFT policies and procedures, of the First Street Capital (Pvt.) Ltd.;
 - (iv) providing assistance in compliance to other departments and branches of the First Street Capital (Pvt.) Ltd.;
 - (v) timely submission of accurate data/ returns as required under the applicable laws;
 - (vi) monitoring and timely reporting of Suspicious and Currency Transactions to FMU; and
 - (vii) such other responsibilities as the First Street Capital (Pvt.) Ltd. may deem necessary in order to ensure compliance with these regulations.

4. Giving AML Information to Law Enforcement Agencies and Other Financial Institutions

We will respond to Law Agencies and Other Financial Institutions request about accounts or transactions by reporting the identity of the specified individual or organization, the account number, all identifying information provided by the account holder when an account was established, and the date and type of transaction.

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We will share information about those suspected of terrorism and money laundering with other financial institutions for the purposes of identifying and reporting activities that may involve terrorist acts or money laundering activities.

5. Monitoring of AML/CFT Systems and Control:

1. First Street Capital (Pvt.) Limited shall, on a regular basis, conduct an AML/CFT review to independently evaluate the effectiveness of compliance with AML/CFT Policies and Procedures;
2. The frequency of the review shall at least be half on yearly basis.
3. The AML/CFT review shall be conducted to assess the AML/CFT systems including:
 - a) to test the overall integrity and effectiveness of the AML/CFT systems and controls;
 - b) to assess the adequacy of internal policies and procedures in addressing identified risks, including;
 - CDD measures;
 - Record keeping and retention;
 - Third party reliance; and
 - Transaction monitoring.
 - c) to assess compliance with the relevant laws and regulations;
 - d) to test transactions in all areas of First Street Capital (Pvt.) Limited, with emphasis on high-risk areas, products and services;
 - e) to assess employees' knowledge of the laws, regulations, guidance, and policies & procedures and their effectiveness in implementing policies and procedures;
 - f) to assess the adequacy, accuracy and completeness of training programs;
 - g) to assess the effectiveness of compliance oversight and quality control including parameters for automatic alerts (if any); and
 - h) to assess the adequacy of First Street Capital (Pvt.) Limited's process of identifying suspicious activity including screening sanctions lists.

MONITORING AML/CFT SYSTEMS AND CONTROLS

- i. FSC controls are in place to monitor the risks identified and assessed as they may change or evolve over time due to certain changes in risk factors, which may include changes in customer conduct, development of new technologies, new embargoes and new sanctions. FSC will update controls as appropriate to suit the change in risks.
- ii. Additionally, FSC will assess the effectiveness of risk mitigation procedures and controls, and identify areas for improvement, where needed. For this purpose, FSC will need to consider monitoring certain aspects which include:
 - 1) The ability to identify changes in a customer profile or transaction activity/behavior which come to light in the normal course of business;
 - 2) The potential for abuse of services by reviewing ways in which different services may be used for ML/TF purposes, and how these ways may change, supported by

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typologies/law enforcement feedback etc.;

- 3) The adequacy of employee training and awareness;
- 4) The adequacy of internal coordination mechanisms i.e. between AML/CFT compliance and other functions/areas;
- 5) The compliance arrangements;
- 6) The performance of third parties who were relied on for CDD purposes;
- 7) Changes in relevant laws or regulatory requirements; and
- 8) Changes in the risk profile of countries to which the RPs or its customers are to exposed

DOCUMENTATION AND REPORTING

i. FSC will be documented its RBA. Documentation of relevant policies, procedures and controls review results and responses will enable FSC to demonstrate to the Commission:

- 1) Risk assessment relating to ML/TF procedures and controls, in the light of National Risk Assessment 2019;
- 2) Implementation of procedures and controls, including due diligence requirements, in light of its national risk assessment;
- 3) Monitoring and, as necessary, improves the effectiveness of procedures and controls; and
- 4) Reporting to BOD on the results of ML/TF risk assessed and implementation status of ML/TF risk management systems and control processes.

ii. FSC believe that the ML/TF risk assessment is not a one-time exercise and therefore, we must ensure that ML/TF risk management processes are kept under regular review which is at least annually. Further, BOD should review the program's adequacy when the reporting entity adds new services, opens or closes accounts with high-risk customers.

iii. FSC will be able to demonstrate to the Commission:

- Adequacy of its assessment, management and mitigation of ML/TF risks;
- Customer acceptance policy;

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- Procedures and policies concerning customer identification and verification;
- Ongoing monitoring and procedures for reporting suspicious transactions; and all types of measure taken in the context of AML/CFT, during the SECP's on-site

inspection. FSC will maintain **Control Assessment Template** within the period as required by the Commission from time to time.

NEW PRODUCTS AND TECHNOLOGIES

- FSC will place systems to identify and assess ML/TF risks that may arise in relation to the development of new products and new business practices, including new delivery mechanisms, and the use of new or developing technologies for both new and pre-existing products such as:
 - Electronic verification of documentation;
 - Data and transaction screening systems.
- FSC will undertake a risk assessment prior to the launch or use of such products, practices and technologies; and take appropriate measures to manage and mitigate the risks.
- FSC will be adopted policies and procedures to prevent the misuse of technological development in ML/TF schemes, particularly those technologies that favor anonymity.

For example, securities trading and investment business on the Internet, add a new dimension to FSC activities. The unregulated nature of the Internet is attractive to criminals, opening up alternative possibilities for ML/TF, and fraud. It is not appropriate that FSC offer on-line live account opening allowing full immediate operation of the account in a way which would dispense with or bypass normal identification procedures. However, initial application forms could be completed on-line and then followed up with appropriate identification checks. The account, in common with accounts opened through more traditional methods, should not be put into full operation until the relevant account opening provisions have been satisfied.

- FSC will maintain adequate systems to ensure that systems and procedures are kept up to date with such developments and the potential new risks and impact they may have on the services offered by FSC. Risks identified must be fed into FSC's business risk assessment.

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INTERNAL CONTROLS (AUDIT FUNCTION, OUTSOURCING, EMPLOYEE SCREENING AND TRAINING)

- i. FSC are expected to have systems and controls that are comprehensive and proportionate to the nature, scale and complexity of its activities and the ML/TF risks they identified. FSC is established and maintain internal controls in relation to:
 - an audit function to test the AML/CFT systems, policies and procedures;
 - outsourcing arrangements;
 - employee screening procedures to ensure high standards when hiring employees; and
 - an appropriate employee training program.

The type and extent of measures to be taken should be appropriate to the ML/TF risks, and to the size of FSC.

a) Audit Function

- i. FSC will, on a regular basis, conduct an AML/CFT audit to independently evaluate the effectiveness of compliance with AML/CFT policies and procedures. The frequency of the audit should be commensurate with market behavior, size of transaction, complexity, and risks identified during the risk assessments. The AML/CFT audits should be conducted to assess the AML/CFT systems which include:
 - Test the overall integrity and effectiveness of the AML/CFT systems and controls;
 - Assess the adequacy of internal policies and procedures in addressing identified risks, including:
 - CDD measures;
 - Record keeping and retention;
 - Third party reliance; and
 - Transaction monitoring;
 - Assess compliance with the relevant laws and regulations;
 - Test transactions in all areas with emphasis on high-risk areas;
 - Assess employees' knowledge of the laws, regulations, guidance, and policies & procedures and their effectiveness in implementing policies and procedures;

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- Assess the adequacy, accuracy and completeness of training programs;
- Assess the effectiveness of compliance quality control; and
- Assess the adequacy controls process of identifying suspicious activity including screening sanctions lists.

b) Outsourcing

- i. FSC maintains policies and procedures in relation to outsourcing where they intend to outsource some of their functions. The Compliance Officer will conduct the due diligence on the proposed service provider to whom it intends to outsource as appropriate and also ensure that the service provider (“OSP”) is fit and proper to perform the activity that is being outsourced.
- ii. FSC decides to enter into an outsourcing arrangement(s), the Compliance Officer will ensure that the outsourcing agreement clearly sets out the obligations of both parties. FSC entering into an outsourcing arrangement will develop a contingency plan and a strategy to exit the arrangement in the event that the OSP fails to perform the outsourced activity as agreed.
- iii. The OSP should report regularly to FSC within the timeframes as agreed upon with FSC. The Compliance Officer has access to all the information or documents relevant to the outsourced activity maintained by the OSP. FSC must not enter into outsourcing arrangements where access to data without delay is likely to be impeded by confidentiality, secrecy, privacy, or data protection restrictions.
- iv. FSC ensure that the outsourcing agreement requires OSPs to file a STR with the FMU in case of suspicions arising in the course of performing the outsourced activity.

c) Employee Screening

- i. FSC maintains adequate policies and procedures to screen prospective and existing employees to ensure high ethical and professional standards when hiring. The extent of employee screening should be proportionate to the potential risk associated with ML/TF in relation to the business in general, and to the particular risks associated with the individual positions.
- ii. Employee screening should be conducted at the time of recruitment, periodically thereafter, i.e., at least annually and where a suspicion has arisen as to the conduct of the employee.
- iii. FSC ensures that their employees are competent and proper for the discharge of the responsibilities allocated to them. While determining whether an employee is

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fit and proper, FSC may:

- Verify the references provided by the prospective employee at the time of recruitment
- Verify the employee's employment history, professional membership and qualifications
- Verify details of any regulatory actions or actions taken by a professional body
- Verify details of any criminal convictions; and
- Verify whether the employee has any connections with the sanctioned countries or parties.

d) Employee Training

- i. FSC ensure that all appropriate staff, receive training on ML/TF prevention on a regular basis, ensure all staff fully understand the procedures and their importance, and ensure that they fully understand that they will be committing criminal offences if they contravene the provisions of the legislation.
- ii. Training to staff should be provided at least annually, or more frequently where there are changes to the applicable legal or regulatory requirements or where there are significant changes to FSC business operations or customer base.
- iii. FSC provides its staff training in the recognition and treatment of suspicious activities. Training should also be provided on the results of risk assessments. Training should be structured to ensure compliance with all of the requirements of the applicable legislation.
- iv. FSC staff has awareness on the AML/CFT legislation and regulatory requirements, systems and policies. They should know their obligations and liability under the legislation should they fail to report information in accordance with internal procedures and legislation. FSC will be encouraged its staff to provide a prompt and adequate report of any suspicious activities.
- v. All new employees should be trained on ML/TF know the legal requirement to report, and of their legal obligations in this regard.
- vi. FSC will consider obtaining an undertaking from their staff members (both new and existing) confirming that they have attended the training on AML/CFT matters, read the RP's AML/CFT manuals, policies and procedures, and understand the AML/CFT obligations under the relevant legislation.
- vii. Staff members who deal with the public such as trading and settlement staff are the first point of contact with potential money launderers, and their efforts

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are vital to FSC's effectiveness in combating ML/TF. Staff responsible for opening new accounts or dealing with new customers should be aware of the need to verify the customer's identity, for new and existing customers. Training should be given on the factors which may give rise to suspicions about a customer's activities, and actions to be taken when a transaction is considered to be suspicious.

- viii. Trading and settlement staff are involved in the processing of transactions have to receive relevant training in the verification procedures, and in the recognition of abnormal settlement, payment or delivery instructions. Staff should be aware of the types of suspicious activities which may need reporting to the relevant authorities regardless of whether the transaction was completed. Staff should also be aware of the correct procedure(s) to follow in such circumstances.
- ix. Trading and settlement staff are vigilant in circumstances where a known, existing customer opens a new and different type of account, or makes a new investment e.g. a customer with a personal account opening a business account. Whilst FSC may have previously obtained satisfactory identification evidence for the customer, the Compliance Officer will take steps to learn as much as possible about the customer's new activities.
- x. FSC Directors and CEO may not be involved in the handling ML/TF transactions, it is important that they understand the statutory duties placed upon them, their staff and the firm itself given that these individuals are involved in approving AML/CFT policies and procedures. Supervisors, managers and senior management (including Board of Directors) should receive a higher level of training covering all aspects of AML/CFT procedures, including the offences and penalties arising from the relevant primary legislation for non-reporting or for assisting money launderers, and the requirements for verification of identity and retention of records.
- xi. The Compliance Officer will receive in-depth training on all aspects of the primary legislation, the Regulations, regulatory guidance and relevant internal policies. He will also receive appropriate initial and ongoing training on the investigation, determination and reporting of suspicious activities, on the feedback arrangements and on new trends of criminal activity.

6.Procedure for Change in Policy:

1. The CO shall update/amend the Policies, Procedures and Controls in line with the changes/amendments in SECP AM/CFT Regulations with the approval of the Board or Equivalent and communicate in writing to all relevant employees; and
2. The CO shall provide amendments in the Policies, Procedures and Controls separately attached to amendment Policies, Procedure and Controls showing impact of such changes on AML/CFT Regime.

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7.Three Lines of Defense:

First Street Capital (Pvt.) Limited shall establish the following three (3) lines of Defense to combat ML/TF:

1. Communication of AML/CFT Policy to Employees:

Policies and procedures shall be clearly specified in writing, and communicated to all employees. Front Office / Dealers/Sale Persons shall be required to know and carry-out the AML/CFT due diligence related policies and procedures when a customer opens an account with First Street Capital (Pvt.) Limited which include the following:

- a) Account Opening Forms shall be completed in the presence of the Customer with mandatory fill-in mandatory fields and all not relevant spaces shall be marked as "Not Applicable or Crossed";
- b) KYC forms shall be completed in the presence of the Customer;
- c) All attachments needed as per Standard Account Opening Forms of CDC and PSX shall be completed;
- d) Account Opening amount shall be accepted in cheque/pay-order/demand draft on the bank of beneficial owner of the customer.
- e) Account Opening confirmation along with all details entered into First Street Capital (Pvt.) Limited 's back-office, CDC and NCCPL shall be communicated to the Customer on his/her registered address/email or handed over to the Customer if physically available.

2. Authority to Compliance Officer :

The Compliance Officer shall have the full authority to oversee the compliance, controls and effectiveness of Company's AML/CFT systems and legislation, and provide guidance in day-to-day operations of the AML/CFT policies and procedures. He will check the account opening forms along with all annexure before allowing the Customer to start Business Relation with First Street Capital (Pvt.) Limited ;

- a) If there is any discrepancy in the Account Opening process, the Compliance Officer shall communicate the same to Front Office/Dealer/Sale Person for rectification before start of Business Relation with First Street Capital (Pvt.) Limited;
- b) The Compliance Officer shall do the Risk Assessment of the Customer as per AML/CFT Risk Assessment Matrix annexed to SECP Guideline on AML/CFT Regulations; and
- c) The Compliance Officer shall do the Risk Profiling of the Customer based on Risk Assessment of the Customer.

3.Internal Audit Process:

The Internal Auditor shall periodically conduct AML/CFT audits on an Institution-wide basis:

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- a) In case of discrepancies/non-compliances observed during audit process, he/she will communicate his/her findings and along with recommendations to the Senior Management including Compliance Officer;
- b) Internal Auditor shall follow-up their findings and recommendation until their complete rectifications.

RISK ASSESSMENT AND APPLYING A RISK BASED APPROACH

- i. FSC shall also follow the methodology for Internal Risk Assessment as required by PNRA Report. The concepts as defined by PNRA report, i.e. threat, vulnerabilities, inherent risk, consequences and likelihood of ML/TF and remedial measures / controls will be taken into consideration. The vulnerabilities will be assessed by considering the products and services offered, the customers, the geographical reach and delivery channels available.

The FSCL adopted SECP AML/CFT Regulations which is shifting its emphasis from one-size-fits-all approach to Risk Based Approach ('RBA'), and FSC carryout ML/TF risk assessment and apply RBA to prevent or mitigate ML and TF.

- ii. FSC, before determining what is the level of overall risk and the appropriate level and type of mitigation to be applied, take into account all the relevant risk factors, such as geography, products and services, delivery channels, types of customers, or jurisdictions within which it or its customers do business. As is the case for an FSC overall risk management, FSC senior management is understand the nature and level of the risks that they are exposed to and ensure that systems and processes are in place to identify, assess, monitor, manage and mitigate ML/TF risks.
- iii. The RBA enables FSC to ensure that AML/CFT measures are commensurate to the risks identified and allocated in the most efficient ways. FSC develops an appropriate RBA for its level to organization, structure and business activities:
 - 1) Identify ML/TF risks relevant to organization, structure and business activities;
 - 2) Assess ML/TF risks in relation to:
 - a. FSC customers (including beneficial owners);
 - b. Country or geographic area in which FSC customers reside or operate and where the FSC operates;
 - c. Products, services and transactions that the FSC offers; and

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- d. FSC delivery channels.
 - 2) The Compliance officer design and implement policies, procedures and controls that are approved by FSC Board of Directors to manage and mitigate the ML/TF risks identified and assessed;
 - 4) The Compliance officer monitors and evaluates the implementation of mitigating controls and improves systems where necessary;
 - 5) The Compliance officer keep customers risk assessments current through ongoing reviews and, when necessary, updates;
 - 6) The Compliance officer document the RBA including implementation and monitoring procedures and updates to the RBA; and
 - 7) The Compliance officer adopts appropriate mechanisms to provide risk assessment information to the Commission.
- iv. Under the RBA, where there are higher risks, the Compliance officer is required to take enhanced measures to manage and mitigate those risks; and correspondingly, where the risks are lower, simplified measures may be permitted. However, simplified measures are not permitted whenever there is a suspicion activity/ transaction of ML/TF. In the case of some very high-risk situation(s) which are outside the FSC risk tolerance, the FSC may decide not to open such account, or to exit from the relationship.
- v. FSC in view of the fact that the nature of the TF differs from that of ML, the risk assessment also includes an analysis of the vulnerabilities of TF. Since the funds used for TF may emanate from legal sources, the nature of the sources may vary when the source of the TF originate from criminal activities, the risk assessment related to ML is also applicable to TF.
- vi. FSC overlaps its CFT measures with AML measures. These may cover, for example, risk assessment, CDD checks, transaction monitoring, and escalation of suspicions and liaison relationships with the PSX, SECP and FMU.
- vii. The process of ML/TF risk assessment has four stages:
 - a. Identifying the area of the business operations susceptible to ML/TF
 - b. Conducting an analysis in order to assess the likelihood and impact of ML/TF;
 - c. Managing the risks; and
 - d. Regular monitoring and review of those risks.

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Risk Assessment.-

1) A First Street Capital (Pvt.) Ltd. shall take appropriate steps to identify, assess and understand, its money laundering and terrorism financing risks in relation to-

- (a) its customers;
- (b) the jurisdictions or countries its customers are from or in;
- (c) the jurisdictions or countries the First Street Capital (Pvt.) Ltd. has operations or dealings in; and
- (d) the products, services, transactions and delivery channels of the First Street Capital (Pvt.) Ltd..

(2) The appropriate steps referred to in sub-regulation (1), shall include-

- (a) documenting the First Street Capital (Pvt.) Ltd. risk assessments;
- (b) considering all the relevant risk factors before determining the level of overall risk and the appropriate type and extent of mitigation to be applied;
- (c) keeping the risk assessments up-to-date;
- (d) categorizing the overall entity level risk as high, medium or low based on the result of risk assessment; and
- (e) having appropriate mechanisms to provide its risk assessment information to the Commission.

First Street Capital (Pvt.) Limited

8. Identification of Customers, Assessment and Understanding Risk:

1. First Street Capital (Pvt.) Limited shall understand, identify and assess the inherent ML/TF risks posed by its:

- a) customer base;
- b) products and services offered;
- c) delivery channels;
- d) the jurisdictions within which it or its Customers do business; and
- e) other relevant risk category.

2. First Street Capital (Pvt.) Limited will measure MT/TF risks using a number of risk categories while applying various factors to assess the extent of risk for each category for determining the overall risk classification, such as

- a) High
- b) Medium
- c) Low

3. First Street Capital (Pvt.) Limited may follow the Probability and Likelihood Risk Rating Matrix as defined in the SECP Guideline for AML/CFT Regulations; however, it will make their own determination as to the risk weights to individual risk factors or combination of risk factor taking into consideration the relevance for different risk factors in the context of a particular Customer relationship.

4. . First Street Capital (Pvt.) Limited shall analyze as a combination of the likelihood that the risk will occur and the impact of cost or damages if the risk occur. The impact of cost or damage may consist of:

- a) financial loss to First Street Capital (Pvt.) Limited from the crime;
- b) monetary penalty from regulatory authorities; and
- c) reputational damages to the business or the entity itself.

5. . First Street Capital (Pvt.) Limited shall analyze and identify the likelihood that these types or categories of risk will be misused for ML and/or for TF purposes. This likelihood is for instance; a) High if it can occur several times per year;

- b) Medium if it can occur once per year; and
- c) Low if it is unlikely, but not possible.

The FATF' International Cooperation Review Group prepares a list of non-cooperative countries and territories. This list will be also being consulted. FATF's primary role is to set global AML standards and ensure the effective implementation of these standards in all jurisdictions. Enhanced global compliance with the standards reduces money laundering risks to the international financial system, and increases transparency and effective international cooperation. In addition to the FATF's evaluation programs and follow- up processes, the FATF uses additional mechanisms to identify and to respond to jurisdictions with strategic deficiencies in their AML regimes that pose a risk to the international financial system and impede efforts to combat money laundering and terrorist financing.

First Street Capital (Pvt.) Limited

Customers Who Refuse To Provide Information

If a potential or existing client either refuses to provide the information described above when requested, or appears to have intentionally provided misleading information, our Company will not open a new account and, after considering the risks involved, consider closing any existing account. The Company will also refuse any account which is determined to be “high risk” by the compliance officer.

Whether or not to accept an account from a high-risk business is determined on a case-by-case basis after taking into account all the facts and circumstances of each case. For example, First Street Capital (Pvt.) Limited will evaluate such criteria such as the size of the account being opened, and FSC’s familiarity with the client. If a high-risk business account is opened, it will be monitored closely on an on-going basis to determine if any unusual cash movement or trading activity is occurring.

9.Risk Management:

1. High-Risk Classification Factors:

a) First Street Capital (Pvt.) Limited shall describe all types or categories of Customers that it provide business to and make an estimate of the likelihood that these types or category of Customers may misuse First Street Capital (Pvt.) Limited for ML or TF, and the consequent impact if indeed occurs. Risk Factor that may be relevant when considering the risk associated with a Customer or a Customer’s beneficial owner’s business include:

b) The business relationship is conducted in unusual circumstances (e.g. significant unexplained geographic distance between First Street Capital (Pvt.) Limited and the Customer);

c) Non-resident Customers;

d) Legal persons or arrangements;

e) Companies that have nominee shareholders;

f) Business that is cash-intensive;

g) The ownership structure of the Customer appears unusual or excessively complex given the nature of the Customer’s business such as having many layers of shares registered in the name of other legal persons;

h) Politically Exposed Persons; Politically exposed persons – are individuals who are or have been entrusted with prominent public functions for example senior politicians, senior government, judicial or military officials, senior executives of state owned corporations, important political party officials. Business relationships with family members or close associates of PEPs involve reputational risks similar to those with PEPs themselves.

- The customer(s) belonging to countries where CDD / KYC and anti-money laundering regulations are lax or if funds originate or go to those countries that are exist in FATF gray list countries in the light of NRA 2019.

- The customer(s) with links to offshore tax havens;

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- The high net worth customers with no clearly identifiable source of income;
 - Any customer(s) with any reason to believe that has been refused brokerage services by another brokerage house;
 - Non-face-to-face / on-line customers;
 - The customer(s) are establishing business relationship or transactions with counterparts from or in countries not sufficiently applying FATF recommendations;

i) Shell companies, especially in cases where there is foreign ownership which is spread across jurisdictions;

j) Trusts and other legal arrangements which enable a separation of legal ownership and beneficial ownership of assets; and

k) Requested/Applied quantum of business does not match with the profile/particulars of client.

FSC strictly refused to open any account of person who involved at any stage in money laundering and terrorist financing or funding.

Non-Cooperative Jurisdiction means any foreign country that has been designated as non-cooperative with international AML and ATF principles or procedures by an intergovernmental group or organization, such as the Financial Action Task Force on Money Laundering (“FATF”)

2. Country or Geographic Risk Factor:

Due to location of a Customer, the origin of a destination of transactions of the Customer, business activities of First Street Capital (Pvt.) Limited 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. First Street Capital (Pvt.) Limited may indicate High Risk to its Customers based on following factors:

a) 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;

b) Countries subject to sanctions, embargos or similar measures issued by, for example, the United Nations;

c) Countries identified by credible sources as having significant levels of corruption or other criminal activity; and

d) 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.

3. Product, Service, Transaction or Delivery Channel Risk Factor:

First Street Capital (Pvt.) Limited shall take 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:

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

4. Low Risk Classification Factor:

Customer risk factors:

- First Street Capital (Pvt.) Limited shall rate a Customer as Low Risk and justify in writing who satisfies the requirements under regulation 11 (2) (a) and (b) of the SECP AML/CFT Regulations and identified in NRA 2019 as under:
- Regulated entities and banks 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 to ensure adequate transparency of beneficial ownership;

5. Product, service, transaction or delivery channel risk factors:

- First Street Capital (Pvt.) Limited rate the product, service, transaction or delivery channel that satisfy the requirement under regulation 11(2) (g) of the SECP AML/CFT Regulations and AML /CFT policies identified in NRA 2019, such as the financial products or services that provide appropriately defined and limited services to certain types of customers, so as to increase access for financial inclusion purposes.

Country risk factors:

- a) Countries identified by credible sources, such as mutual evaluation or detailed assessment reports, as having effective AML/CFT systems.
- (b) Countries identified by credible sources as having a low level of corruption or other criminal activity.

In making a risk assessment, FSC may, when appropriate, also take into account possible variations in ML/TF risk between different regions or areas within a country.

AML AND CTF COMPLIANCE OFFICER

Employee(s) shall immediately notify the Compliance Officer if he/she suspects or has any reason to suspect that any potentially suspicious activity has occurred or will occur if a transaction is completed. Compliance Officer will judge, and thereby assess which suspicious

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matter should be reported to the Regulatory Authority i.e. PSX, SECP, FMU (Financial Monitoring Unit).

Note: The obligation to report does not depend on the amount involved or the seriousness of the offence. There are no the Minims concessions.

The Compliance Officer shall ensure:

- a. Compliance with applicable Rules and Regulations and this Policy, Procedures and controls on continuous basis;
- b. Receive and review any report(s) of suspicious activity from Employees and/ or observed review of system and controls;
- c. Determine whether any suspicious activity as reported by an Employee warrants reporting to the senior management and or the Regulatory Authority i.e. PSX, SECP and FMU (Financial Monitoring Unit);
- d. Conduct Employee training programs for appropriate employees and maintain records evidencing such training;
- e. Responding to both internal and external queries regarding this document.

6. Risk Matrix:

First Street Capital (Pvt.) Limited may use risk matrix annexed as Annexure-1 to SECP Guideline on AML/CFT Regulations as a method of assessing risk in order to identify the types or categories of Customers that are;

- in Low Risk category;
- those that carry somewhat higher risk, but still under acceptable risk; and
- those that carry a high or unacceptable risk of money laundering and terrorism financing.

7. Risk Tolerance:

a) Risk Tolerance is the amount of risk that First Street Capital (Pvt.) Limited is willing and able to accept and correlate its Risk Mitigation Measures and Controls accordingly, for example:

b) If First Street Capital (Pvt.) Limited determines that the Risk associated with a particular type of Customer exceed its Risk Tolerance, it may decide not to accept or maintain that particular type of Customer(s).

c) Conversely, if First Street Capital (Pvt.) Limited determine that the Risk associated with a particular type of Customer are within the bound of its Risk Tolerance, it must ensure that Risk mitigation Measures it applies are commensurate with the Risk associated with that type of Customer(s).

d) Senior Management and the Board of First Street Capital (Pvt.) Limited shall establish their Risk Tolerance, based on which First Street Capital (Pvt.) Limited shall have sufficient capacity and expertise to effectively manage the Risk acceptable in line with their Risk Tolerance and the consequences such as legal, regulatory, financial and reputation, of AML/CFT compliance failure.

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e) If First Street Capital (Pvt.) Limited decides to establish a high-risk Tolerance and accept high risk then it shall have Mitigation Measures and Controls in place commensurate with those high risks.

8. Risk Mitigation and Controls Measures:

First Street Capital (Pvt.) Limited shall consider the following Risk Mitigation Measures:

- a) determining the scope of the identification and verification requirements or ongoing monitoring based on the risks posed by particular customers;
- b) setting transaction limits for higher-risk Customers such as:
 - For Individual Customer, Rs. 5 million net of Sale and Purchase for a particular month;
 - For Corporate Customer, Rs. 25 million net of Sale and Purchase for a particular month.
 - For Foreigner Individual, \$ 1 million net of Sale and Purchase for a particular month.
 - For Foreigner Corporate, \$ 5 million net of Sale and Purchase for a particular month.
- c) requiring senior management approval for higher-risk transactions, including those involving PEPs;
- d) determining the circumstances under which they may refuse to take on or terminate/cease high risk customers;
- e) determining the circumstances requiring senior management approval (e.g. high risk or large transactions, when establishing relationship with high risk customers such as PEPs)

9. Non-cooperative Customers

If a potential or existing client either refuses to provide the information described above when requested, or appears to have intentionally provided misleading information, our Company will not open a new account and, after considering the risks involved, consider closing any existing account.

The Company will also refuse any account which is determined to be “high risk” by the compliance officer. Whether or not to accept an account from a high-risk business is determined on a case-by-case basis after taking into account all the facts and circumstances of each case. For example, First Street Capital (Pvt.) Limited will evaluate such criteria such as the size of the account being opened. If a high-risk business account is opened, it will be monitored closely on an on-going basis to determine if any unusual cash movement or trading activity is occurring.

10. Frequency of Risk Assessment

- a) Once the identification procedures have been completed and the business relationship is established, the First Street Capital (Pvt.) Limited is required to monitor the conduct of the relationship to ensure that it is consistent with the nature of business stated when the relationship/account was opened.
- b) First Street Capital (Pvt.) Limited shall conduct ongoing monitoring of their business relationship with its Customers. Ongoing monitoring helps the First Street Capital (Pvt.) Limited to keep the due diligence information up-to-date, and review and adjust the risk profile of the customers, where necessary.
- c) First Street Capital (Pvt.) Limited conduct on-going due diligence which include scrutinizing the transactions undertaken through the course of business relationship with a Customer.



First Street Capital (Pvt.) Limited

10. Verifying Information

Based on the risk, and to the extent reasonable and practicable, we will ensure that we have a reasonable belief that we know the true identity of our clients by using risk-based procedures to verify and document the accuracy of the information we get about our clients. In verifying client identity, we will analyze any logical inconsistencies in the information we obtain.

We will verify client identity through documentary evidence, non-documentary evidence, or both. We will use documents to verify customer identity when appropriate documents are available. In light of the increased instances of identity fraud, we will supplement the use of documentary evidence by using the non-documentary means described below whenever possible. We may also use such non-documentary means, after using documentary evidence, if we are still uncertain about whether we know the true identity of the customer. We will provide notice to the customer that we are requesting additional information to verify the customer's identity. We will not open a client account if we cannot form a reasonable belief of the client's true identity. If the client's identity cannot be proven, a SAR will be filed if warranted by the compliance officer.

Appropriate documents for verifying the identity of natural persons include the following: An unexpired driver's license, passport, or other government identification showing nationality, residence, and photograph or other biometric safeguard, an unexpired alien registration card or other government issued identification showing nationality, residence and photograph or other biometric safeguard.

11. Customer due diligence ("CDD")

Customer Due Diligence.-(1) First Street Capital (Pvt.) Ltd. shall never open or maintain anonymous account or an account in fictitious name.

(2) First Street Capital (Pvt.) Ltd. shall apply CDD measures when establishing business relationship with a customer and when there is doubt about the veracity or adequacy of previously obtained customer identification data.

(3) Customer due diligence (CDD) in broader term include-

- (a) identifying the customer or beneficial owner and verifying the customer's/beneficial owner's identity on the basis of documents, data or information obtained from customer and/or from reliable and independent sources;
- (b) understanding and, as appropriate, obtaining information on the purpose and intended nature of the business relationship; and
- (c) monitoring of accounts/transactions on ongoing basis to ensure that the transactions being conducted are consistent with the First Street Capital (Pvt.) Ltd. knowledge of the customer, the customer's business and risk profile, including, the source of funds and, updating records and data/

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information to take prompt action when there is material departure from usual and expected activity through regular matching with information already available with First Street Capital (Pvt.) Ltd..

(4) First Street Capital (Pvt.) Ltd. shall obtain such documents from different types of customers as provided in Annexure-I.

(5) First Street Capital (Pvt.) Ltd. should verify the identity of the customer and beneficial owner before or during the course of establishing a business relationship or may complete verification after the establishment of the business relationship, provided that-

- (a) this occurs as soon as reasonably practicable;
- (b) this does not interrupt the normal conduct of business; and
- (c) the ML/TF risks are effectively managed.

(6) First Street Capital (Pvt.) Ltd. shall adopt risk management procedures concerning the conditions under which a customer may utilize the business relationship prior to verification. The types of circumstances where the First Street Capital (Pvt.) Ltd. permits completion of verification after the establishment of the business relationship should be recorded in their CDD policies.

(7) For all persons, First Street Capital (Pvt.) Ltd. should determine whether the person is acting on behalf of a customer and should take reasonable steps to obtain-

- (a) evidence to determine authority of such person to act on behalf of the customer, which shall be verified through documentary evidence including specimen signature of the customer;
- (b) identification and verification of the person purporting to act on behalf of the customer;
- (c) identification and verification of the customer;

(8) Each customer shall be categorized as high or low risk, depending upon the outcome of the CDD process;

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(9) First Street Capital (Pvt.) Ltd. will maintain a list of all such customers/accounts where the business relationship was refused or needed to be closed on account of negative verification;

(10) First Street Capital (Pvt.) Ltd. are required to apply CDD requirement to its existing customers on the basis of materiality and risk and should conduct due diligence on existing relations at appropriate times, taking into account whether and when CDD measures have previously been undertaken and the adequacy of data obtained;

(11) Where First Street Capital (Pvt.) Ltd. are not able to satisfactorily complete required CDD measures, account shall not be opened or any service provided and consideration shall be given if the circumstances are suspicious so as to warrant the filing of an STR and where CDD of an existing customer is found unsatisfactory, the relationship should be treated as high risk and reporting of suspicious transaction be considered in accordance with regulation 14;

(12) Where First Street Capital (Pvt.) Ltd. forms a suspicion of money laundering or terrorist financing, and it reasonably believes that performing the CDD process will tip-off the customer, it may not pursue the CDD process, and instead should file an STR in accordance with regulation 14.

(13) Government entities accounts shall not be opened in the personal names of the government officials and account which is to be operated by an officer of the Federal or Provincial or Local Government in his/her official capacity, shall be opened only on production of a special resolution or authority from the concerned administrative department or ministry duly endorsed by the Ministry of Finance or Finance Department/Division of the concerned Government. The First Street Capital (Pvt.) Ltd. shall also take into account any rules, regulations or procedures prescribed in the governing laws of such entities relating to opening and maintaining of their bank accounts.

Explanation:- For the purposes of this regulation the expression "Government entities" includes a legal person owned or controlled by a Provincial or Federal Government under Federal, Provincial or local law.



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Customer Due Diligence.

For Natural Persons:

First Street Capital (Pvt.) Limited is required to know who its Customers are and it shall not keep anonymous accounts or accounts in fictions names. First Street Capital (Pvt.) Limited shall take the following steps to ensure that its Customers are who they purport themselves to be:

- a) To identify and verify the Customers including their beneficial owners;
- b) To understand the intended nature and purpose of the relationship;
- c) To know actual ownership; and
- d) To know control structure of the Customer.

First Street Capital (Pvt.) Limited shall conduct ongoing due diligence on the business relationship and scrutinize transactions undertaken throughout the course of that relationship to ensure that transactions being conducted are consistent with:

- a) Knowledge of the Customer;
- b) Business and Risk Profile as assessed through Annexure-3 of SECP Guidelines on AML/CFT Regulations;
- c) Where necessary, the source of funds.

First Street Capital (Pvt.) Limited shall conduct CDD when establishing a business relationship if:

- a) There is a suspicion of ML/TF, some examples of potentially suspicious activities or “red flags” for ML/TF; or

Red Flags

Red flags that signal possible money laundering or terrorist financing include, but are not limited to:

- The client exhibits unusual concern about the Company's compliance with government reporting requirements and the Company's AML policies, particularly on his or her identity, type of business and assets, or is reluctant, or refuses to reveal any information concerning business activities, or furnishes unusual or suspect identification or business documents.
- The client wishes to engage in transactions that lack business sense or apparent investment strategy, or are inconsistent with the client's stated business or investment strategy.
- The information provided by the client that identifies a legitimate source for funds is false, misleading, or substantially incorrect.
- Upon request, the client refuses to identify or fails to indicate any legitimate source for his or her funds and other assets.
- The client (or a person publicly associated with the client) has a questionable background, or is the subject of news reports indicating possible criminal, civil, or regulatory violations.
- The client exhibits a lack of concern regarding risks of the investment.

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- The client appears to be acting as an agent for an undisclosed principal, but declines, or is reluctant, without legitimate commercial reasons, to provide information or is otherwise evasive regarding that person or entity. The client has difficulty describing the nature of his or her business or lacks general knowledge of his or her industry.
- The client attempts to make frequent or large deposits of currency, or asks for exemptions from the Company's policies relating to the deposit of cash and cash equivalents.
- For no apparent reason, the client has multiple accounts under a single name or multiple names, with a large number of inter-account or third party transfers.
- The client is from, or has accounts in, a country identified as a non-cooperative country.
- The client's account shows numerous currency or cashier's check transactions aggregating to significant sums.
- The client's account has wire transfers that have no apparent business purpose to or from a country identified as money laundering risk or a bank secrecy haven.
- The client's account indicates large or frequent wire transfers, immediately withdrawn by check or debit card without any apparent business purpose.
- The client makes a funds deposit followed by an immediate request that the money be wired or transferred to a third party, or to another Company, without any apparent business purpose.
- The client makes a funds deposit for purchasing a long-term investment followed shortly thereafter by a request to liquidate the position and transfer of the proceeds out of the account.
- The client engages in excessive journal entries between unrelated accounts without any apparent business purpose.
- The client requests that a transaction be processed to avoid the Company's normal documentation requirements.
- The client maintains multiple accounts, or maintains accounts in the names of family members or corporate entities, for no apparent purpose.
- The client's account has inflows of funds or other assets well beyond the known income or resources of the customer.
- Responding to Red Flags and Suspicious Activity

When a member of the Company detects any red flag he or she will investigate further under the direction of the AML

Compliance Officer. This may include gathering additional information internally or from third party sources, contacting the government, freezing the account.

b) There are doubts as to the veracity or adequacy of the previously obtained customer identification information.

In case of suspicion of ML/TF, First Street Capital (Pvt.) Limited should:

a) Seek to identify and verify the identity of the customer and the beneficial owner(s), irrespective of any specified threshold that might otherwise apply; and

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b) File a Suspicious Transaction Reporting (“STR”) with the FMU, in accordance with the requirements under the Law.

First Street Capital (Pvt.) Limited shall monitor transactions to determine whether they are linked and restructured into two or more transactions of smaller values to circumvent the applicable threshold. First Street Capital (Pvt.) Limited shall verify the identification of a customer using reliable independent source documents, data or information including verification of CNICs from NADRA Verisys. Similarly, RPs shall identify and verify the customer’s beneficial owner(s) to ensure that the RP understands who the ultimate beneficial owner is.

First Street Capital (Pvt.) Limited shall ensure that they understand the purpose and intended nature of the proposed business relationship or transaction. First Street Capital (Pvt.) Limited shall also verify whether that authorized person is properly authorized to act on behalf of the customer while conducting CDD on the authorized person(s) using the same standards that are applicable to a customer and ascertaining the reason for such authorization and obtain a copy of the authorization document.

Beneficial Ownership of Legal Persons and Legal Arrangements

Ownership of Legal Persons and Legal Arrangements.- (1) Where the customer is a legal person, in addition to other measures the First Street Capital (Pvt.) Ltd. shall-

- understand the nature of the customer’s business and its ownership and control structure;
- identify and verify the identity of the natural persons (whether acting alone or together) who ultimately own the legal person by obtaining relevant information from the customer.
- where there is doubt under clause (b) as to whether the natural persons who ultimately own the legal person are the beneficial owners or where no natural persons ultimately own the legal person, identify the natural persons (if any) who ultimately control the legal person or have ultimate effective control of the legal person; and
- where no natural persons are identified under clause (b) or (c), identify the natural persons having executive authority in the legal person, or in equivalent or similar positions.

(2) Where the customer is a legal arrangement, the First Street Capital (Pvt.) Ltd. shall-

- (a) for trusts, identify and verify the identity of the settlor, the trustee, the protector (if any), the beneficiaries (including every beneficiary that falls within a designated characteristic or class), and any natural person exercising ultimate ownership, ultimate control or ultimate

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effective control over the trust (including through a chain of control or ownership); and

- (b) for other types of legal arrangements, identify and verify the identity of persons in equivalent or similar positions, as those described under clause (a).

First Street Capital (Pvt.) Limited shall identify and verify the identity of the customer, and understand the nature of its business, and its ownership and control structure. The purpose of the requirements set out regarding the identification and verification of the applicant and the beneficial owner is twofold:

- first, to prevent the unlawful use of legal persons and arrangements, by gaining a sufficient understanding of the applicant to be able to properly assess the potential ML/TF risks associated with the business relationship; and
- second, to take appropriate steps to mitigate the risks.

If First Street Capital (Pvt.) Limited has any reason to believe that an applicant has been refused facilities by another brokerage house due to concerns over illicit activities of the customer, it should consider classifying that applicant:

- a) as higher-risk and apply enhanced due diligence procedures to the customer and the relationship;
- b) filing an STR; and/or
- c) not accepting the customer in accordance with its own risk assessments and procedures.

First Street Capital (Pvt.) Limited shall accept copies of the documents for identifying a Customer verified by seeing originals during establishing business relationship.

3-Identification of Customers that are not physically present:

First Street Capital (Pvt.) Limited shall apply equally effective Customers identification procedures and ongoing monitoring standards for Customers not physically present for identification purposes as for those where the client is available for interview. Where a Customer has not been physically present for identification purposes, practices will generally not be able to determine that the documentary evidence of identity actually relates to the Customers they are dealing with. Consequently, there are increased risks and practices must carry out at least one of the following measures to mitigate the risks posed:

- a) further verifying the Customer's identity on the basis of documents, data or information referred in Annexure-1 to AML/CFT Regulations, but not previously used for the purposes of verifying the client's identity;
- b) taking supplementary measures to verify the information relating to the client that has been obtained by the practice.

4. Red Flags

Red flags that signal possible money laundering or terrorist financing include, but are not limited to:

- a) The client exhibits unusual concern about the Company's compliance with government reporting requirements and the Company's AML policies, particularly on his or her identity, type of business and assets, or is reluctant, or refuses to reveal any information concerning business activities, or furnishes unusual or suspect identification or business documents.

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- b) The client wishes to engage in transactions that lack business sense or apparent investment strategy, or are inconsistent with the client's stated business or investment strategy.
- c) The information provided by the client that identifies a legitimate source for funds is false, misleading, or substantially incorrect.
- d) Upon request, the client refuses to identify or fails to indicate any legitimate source for his or her funds and other assets.
- e) The client (or a person publicly associated with the client) has a questionable background, or is the subject of news reports indicating possible criminal, civil, or regulatory violations.
- f) The client exhibits a lack of concern regarding risks of the investment.
- g) The client appears to be acting as an agent for an undisclosed principal, but declines, or is reluctant, without legitimate commercial reasons, to provide information or is otherwise evasive regarding that person or entity.
- h) The client has difficulty describing the nature of his or her business or lacks general knowledge of his or her industry.
- i) The client attempts to make frequent or large deposits of currency, or asks for exemptions from the Company's policies relating to the deposit of cash and cash equivalents.
- j) For no apparent reason, the client has multiple accounts under a single name or multiple names, with a large number of inter-account or third party transfers.
- k) The client is from, or has accounts in, a country identified as a non-cooperative country.
- l) The client's account shows numerous currency or cashier's check transactions aggregating to significant sums.
- m) The client's account has wire transfers that have no apparent business purpose to or from a country identified as money laundering risk or a bank secrecy haven.
- n) The client's account indicates large or frequent wire transfers, immediately withdrawn by check or debit card without any apparent business purpose.
- o) The client makes a funds deposit followed by an immediate request that the money be wired or transferred to a third party, or to another Company, without any apparent business purpose.
- p) The client makes a funds deposit for purchasing a long-term investment followed shortly thereafter by a request to liquidate the position and transfer of the proceeds out of the account.
- q) The client engages in excessive journal entries between unrelated accounts without any apparent business purpose.
- r) The client requests that a transaction be processed to avoid the Company's normal documentation requirements.
- s) Responding to Red Flags and Suspicious Activity

When a member of the Company detects any red flag, he/she will investigate further under the direction of the AML Compliance Officer. This may include gathering additional information internally or from third party sources and report the instance to CEO.

5. If Customer Due Diligence Measures are Not Completed:

Where a First Street Capital (Pvt.) Limited is unable to complete and comply with CDD requirements as specified in the Regulations:

a) For New Customers:

- it shall not open the account;

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- commence a business relationship; or
- perform the transaction.

b) For Existing Customers:

- First Street Capital (Pvt.) Limited shall terminate the relationship.
- Additionally, First Street Capital (Pvt.) Limited shall consider making a STR to the FMU.

Reliance on Third Parties

Reliance on Third Parties.- (1) First Street Capital (Pvt.) Ltd. may rely on a third party to conduct CDD on its behalf provided that the First Street Capital (Pvt.) Ltd. shall-

- obtain immediately, the necessary information relating to identification of the customer, identification of the beneficial owner and/or the nature of business of the customer;
 - take steps to satisfy itself that copies of identification data and other relevant documentation relating to CDD requirements will be made available from the third party upon request without delay;
 - satisfy itself that the third party is regulated, and supervised or monitored for, and has measures in place for compliance with, CDD and record-keeping requirements in line with these regulations; and
 - Maintain data/ information confidentiality and non-disclosure agreement with the third party.
- (2) When determining in which countries the third party that meets the conditions can be based, First Street Capital (Pvt.) Ltd. should have regard to information available on the level of country risk.
- (3) For First Street Capital (Pvt.) Ltd. that rely on a third party that is part of the same financial group:
- (a) the group should apply CDD and record-keeping requirements and programs against money laundering and terrorist financing, in accordance with these regulations; and
 - (b) any higher country risk should be adequately mitigated by the group's AML/CFT policies.
- (4) The First Street Capital (Pvt.) Ltd. shall be responsible for ongoing monitoring of its customers and notwithstanding the reliance upon a third party, the First Street Capital (Pvt.) Ltd. shall ultimately remain responsible for its AML/CFT obligations and shall carry out ongoing monitoring of such customer itself.



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12 Enhanced Customer Due Diligence

• **High Risk Persons or Transactions:**

First Street Capital (Pvt.) Limited shall be required to perform Enhanced Due Diligence on the following:

- a) Persons or transactions involving a country identified as higher risk by FATF;
- b) Persons or transactions involving higher risk countries for ML, TF and corruption or subject to international sanctions; and
- c) Any other situation representing a higher risk of ML/TF including those that you have identified in your Risk Assessment.

• **High Risk Business Relationship:**

First Street Capital (Pvt.) Limited shall apply enhanced CDD measures for high risk business relationships include:

- a) Obtaining additional information on the applicant/customer (e.g. occupation, volume of assets, information available through public databases, internet, etc.);
- b) Updating more regularly the identification data of applicant/customer and beneficial owner;
- c) Obtaining additional information on the intended nature of the business relationship;
- d) Obtaining additional information on the source of funds or source of wealth of the applicant/customer;
- e) Obtaining additional information on the reasons for intended or performed transactions;
- f) Obtaining the approval of senior management to commence or continue the business relationship; and
- g) Conducting enhanced monitoring of the business relationship, by increasing the number and timing of controls applied, and selecting patterns of transactions that need further examination.

• **High Risk Countries and Territories:**

First Street Capital (Pvt.) Limited is required to consult the following to identify above persons or transactions to be aware of the high risk countries/territories:

- a) Publicly available information;
- b) Sanctions list issued by the UN;
- c) FATF high risk and non-cooperative jurisdictions;
- d) FATF and its regional style bodies (FSRBs) and Transparency international corruption perception index;
- e) Useful websites include: a) FATF website:www.fatf-gafi.org; and
- b) Transparency International website:www.transparency.org.

• **Complex and Unusual Transactions:**

First Street Capital (Pvt.) Limited shall examine the background and purpose of all complex, unusual large transaction, and all unusual patterns of transactions, that have no apparent economic or lawful purpose and conduct enhanced CDD Measures consistent with the risk identified.

• **Suspicious Accounts:**

First Street Capital (Pvt.) Limited shall apply enhanced CDD measures to the following accounts:

- a) The Customer instructs not to issue any correspondence to the accountholder's address;
- b) Hold Mail" accounts; and
- c) Where the evidence of identity of the account holder is not already in the file.

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Enhanced Due Diligence.- (1) First Street Capital (Pvt.) Ltd. shall implement appropriate internal risk management systems, policies, procedures and controls to determine if any customer presents high risk of ML/TF.

2-For the purposes of sub-regulation (1), circumstances where a customer presents high risk of ML/TF include but are not limited to the following-

- (a) customers/ policy holders belonging to countries which are non- compliant with anti-money laundering regulations according to FATF;
- (b) such body corporate, partnerships, associations and legal arrangements including non-governmental organizations or not-for-profit organizations which receive donations; and
- (c) legal persons or arrangements with complex ownership structures.

(3) First Street Capital (Pvt.) Ltd. shall perform appropriate enhanced due diligence (EDD) measures with customers that are identified as high risk by the First Street Capital (Pvt.) Ltd. or are notified as such by the Commission.

(4) EDD measures include but are not limited to the following-

- (a) obtain approval from First Street Capital (Pvt.) Ltd. senior management to establish or continue business relations with such customers;
- (b) establish, by appropriate means, the sources of wealth and/or funds or beneficial ownership of funds, as appropriate; including First Street Capital (Pvt.) Ltd.' own assessment to this effect; and
- (c) conduct during the course of business relations, enhanced monitoring of business relations with the customer.

- v. In case of accounts where the accountholder has instructed FSC not to issue any correspondence to other joint accountholder's address. Such accounts do carry additional risk to FSC and the Compliance Officer will exercise due caution as a result. It is recommended on a best practice basis that evidence of identity of the accountholder's address should be obtained by the Welcome. "Hold Mail" accounts should be regularly monitored and reviewed and the Compliance Officer will take necessary steps to obtain the identity of the account holder where such evidence is not already in the FSC file.

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vi. If Customer Due Diligence Measures are Not Completed.

Where a Securities Broker is unable to complete and comply with COD requirements as specified in the Regulations

For New Customers:

It shall not open the account, commence a business relationship; or perform the transaction.

For Existing Customers:

The Securities Broker shall terminate the relationship.

Additionally, the Securities Broker shall consider making a STR to the FMU.

a) High-Risk Countries

- i. Certain countries are associated with crimes such as drug trafficking, fraud, corruption and gray list countries in the light of NRA 2019 and high risk non-cooperative jurisdictions identified as high risk by FATF and consequently pose a higher potential risk to FSC. The Compliance Officer has to refuse for conducting a business relationship.
- ii. The Compliance Officer is advised to consult publicly available information to ensure that customers are belonging to high-risk countries/territories. While assessing risk of a country, the Compliance Officer is encouraged to consider among the other sources, sanctions issued by the UN, the FATF high risk and non-cooperative jurisdictions, the FATF and its regional style bodies (FSRBs) and Transparency international corruption perception index.
- iii. Useful websites include FATF website at www.fatf-gafi.org and Transparency International, www.transparency.org for information on countries vulnerable to corruption.

Ongoing Monitoring– (Required under Clause 13 of AML / CFT Regulations)

Ongoing Monitoring.- (1) All business relations with customers shall be monitored on an ongoing basis to ensure that the transactions are consistent with the First Street Capital (

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Pvt.) Ltd.' knowledge of the customer, its business and risk profile and where appropriate, the sources of funds.

(2) First Street Capital (Pvt.) Ltd. shall obtain information and examine, as far as possible the background and purpose of all complex and unusual transactions, which have no apparent economic or visible lawful purpose and the background and purpose of these transactions shall be inquired and findings shall be documented with a view of making this information available to the relevant competent authorities when required.

(3) First Street Capital (Pvt.) Ltd. shall periodically review the adequacy of customer information obtained in respect of customers and beneficial owners and ensure that the information is kept up to date, particularly for higher risk categories of customers and the review period and procedures thereof should be defined by First Street Capital (Pvt.) Ltd. in their AML/CFT policies, as per risk based approach.

(4) In relation to sub-regulation (3), customers' profiles should be revised keeping in view the spirit of Know Your Customer/CDD and basis of revision shall be documented and customers may be consulted, if necessary.

(5) Where First Street Capital (Pvt.) Ltd. files an STR on reasonable grounds for suspicion that existing business relations with a customer are connected with ML/TF and the First Street Capital (Pvt.) Ltd. considers it appropriate to retain the customer-

- (a) the First Street Capital (Pvt.) Ltd. shall substantiate and document the reasons for retaining the customer; and
- (b) the customer's business relations with the First Street Capital (Pvt.) Ltd. shall be subject to proportionate risk mitigation measures, including enhanced ongoing monitoring.

(6) First Street Capital (Pvt.) Ltd. shall not form business relationship with entities/individuals that are:

- (a) proscribed under the United Nations Security Council Resolutions and adopted by the Government of Pakistan;
- (b) proscribed under the Anti Terrorism Act, 1997(XXVII of 1997); and
- (c) associates/facilitators of persons mentioned in (a) and (b).



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(7) The First Street Capital (Pvt.) Ltd. should monitor their relationships 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 First Street Capital (Pvt.) Ltd. shall take immediate action as per law, including freezing the funds and assets of such proscribed entity/individual and reporting to the Commission.

13. Simplified Due Diligence Measures (“SDD”)

• General Principles of SDD:

- First Street Capital (Pvt.) Limited may conduct SDD in case of lower risks identified by it. However, First Street Capital (Pvt.) Limited shall ensure that the low risks it identifies are commensurate with the low risks identified by the country or the Commission. While determining whether to apply SDD, First Street Capital (Pvt.) Limited should pay particular attention to the level of risk assigned to the relevant sector, type of customer or activity.
- SDD is not acceptable in higher-risk scenarios where there is an increased risk, or suspicion that the applicant is engaged in ML/TF, or the applicant is acting on behalf of a person that is engaged in ML/TF.
- Where the risks are low and where there is no suspicion of ML/TF, the law allows First Street Capital (Pvt.) Limited to rely on third parties for verifying the identity of the applicants and beneficial owners.
- Where First Street Capital (Pvt.) Limited decides to take SDD measures on an applicant/customer, it should document the full rationale behind such decision and make available that documentation to the Commission on request.

• Category of Low Risk Customers:

First Street Capital (Pvt.) Limited may rate a Customer as low risk justifying it in writing and low risk Customers may included the following:

- a) First Street Capital (Pvt.) Ltd. and banks 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;
- b) public listed companies that are subject to regulatory disclosure requirements to ensure adequate transparency of beneficial ownership; and
- c) financial products or services that provide appropriately defined and limited services to certain types of customers, so as to increase access for financial inclusion purposes.

• Simplified Due Diligence (“SDD”) Measures:

First Street Capital (Pvt.) Limited shall apply following Simplified Due Diligence measures on Low risk Customer:

- a) reducing the frequency of customer identification updates;
- b) reducing the degree of on-going monitoring and scrutinizing transactions, based on a reasonable monetary threshold; and



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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 transaction or business relationship established.

14. Politically Exposed Persons

Definition:

Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2018 defines that “Politically exposed persons” or “PEPs” includes-

- i. foreign PEPs, individuals who are or have been entrusted with prominent public functions by a foreign country, for example Heads of State or of government, senior politicians, senior government, judicial or military officials, senior executives of state owned corporations, important political party officials;
- ii. domestic PEPs, individuals who are or have been entrusted domestically with prominent public functions, for example Heads of State or of government, senior politicians, senior government, judicial or military officials, senior executives of state owned corporations, important political party officials;
- iii. persons who are or have been entrusted with a prominent function by an international organization, means members of senior management and members of the board or equivalent functions:

Provided that middle ranking or more junior individuals in the above referred categories are not included in the definition of PEPs;

Due to their position and influence, it is recognized that many PEPs are in positions that potentially can be abused for the purpose of committing money laundering (ML) offences and related predicate offences, including corruption, bribery, and conducting activity related to terrorist financing (TF). The potential risks associated with PEPs justify the application of additional anti-money laundering/counter-terrorist financing (AML/CFT) preventative measures with respect to business relationships with PEPs.

Politically Exposed Persons Categories

- **a) Foreign PEPs**
Individuals who are, or have been entrusted with prominent public functions by a foreign country, for example heads of state or government, senior politicians, senior government, judicial or military officials, senior executives of state owned corporations, important political party officials.
- **b) Domestic PEPs**
Individuals who are, or have been entrusted domestically with prominent public functions, for example heads of state or of government, senior politicians, senior government, judicial or military officials, senior executives of state owned corporations, important political party officials.
- **c) International organization PEPs**
Persons who are, or have been entrusted with a prominent function by an international organization, refers to members of senior management or individuals who have been entrusted with equivalent functions i.e. directors, deputy directors, and members of the board or equivalent functions.

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- **d) Family members**
Individuals who are related to a PEP either directly (consanguinity) or through marriage or similar (civil) forms of partnership.
- **e) Close associates**
Individuals who are closely connected to a PEP, either socially or professionally.
- **Procedure of Approval from Senior Management**
Senior Management shall provide approval to CO to determine the nature and extent of EDD where the ML/TF risks are high. In assessing the ML/TF risk of a PEP, First Street Capital (Pvt.) Limited shall consider factors such as whether the PEP:
 - a) Is from a high risk country;
 - b) Has prominent public function in sectors know to be exposed to corruption;
 - c) Has business interests that can cause conflict of interests.

- **Measures to Establish Source of Wealth and Funds**

First Street Capital (Pvt.) Limited shall consider other red flags including:

- a) The information that is provided by the PEP is inconsistent with other (publicly available) information, such as asset declarations and published official salaries;
- b) Funds are repeatedly moved to and from countries to which the PEP does not seem to have ties;
- c) A PEP uses multiple bank accounts for no apparent commercial or other reason;
- d) The PEP is from a country that prohibits or restricts certain citizens from holding accounts or owning certain property in a foreign country.

First Street Capital (Pvt.) Limited shall take a risk based approach in determining whether to continue to consider a customer as a PEP who is no longer a PEP. The factors that they should consider include:

- a) the level of (informal) influence that the individual could still exercise; and
- b) whether the individual's previous and current function are linked in any way (e.g., formally by appointment of the PEPs successor, or informally by the fact that the PEP continues to deal with the same substantive matters).

Additionally, where appropriate, First Street Capital (Pvt.) Limited shall consider filing a STR.

- i. FSC are encouraged to be vigilant in relation to PEPs from all jurisdictions, who are seeking to establish business relationships. FSC in relation to PEPs, in addition to performing normal due diligence measures:
 - FSC deploy appropriate risk management systems to determine whether the customer is a politically exposed person;

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- BOD approval is required for establishing business relationships with such customers;
- The Compliance Officer has to take reasonable measures to establish the source of wealth and source of funds; and conduct enhanced ongoing monitoring of the business relationship.
- ii. The Compliance Officer has to obtain BOD approval to continue a business relationship once a customer or beneficial owner is found to be, or subsequently becomes, a PEP.
- iii. The Compliance Officer has to take a risk based approach to determine the nature and extent of EDD where the ML/TF risks are high. In assessing the ML/TF risks of a PEP, the Compliance Officer has to consider factors such as whether the customer who is a PEP:
 - Is from a high risk country;
 - Has prominent public functions in sectors known to be exposed to corruption;
 - Has business interests that can cause conflict of interests (with the position held).
- iv. The other red flags that the Compliance Officer has to consider include (in addition to the above and the red flags that they consider for other applicants):
 - The information that is provided by the PEP is inconsistent with other (publicly available) information, such as asset declarations and published official salaries;
 - Funds are repeatedly moved to and from countries to which the PEP does not seem to have ties;
 - A PEP uses multiple bank accounts for no apparent commercial or other reason;
 - The PEP is from a country that prohibits or restricts certain citizens from holding accounts or owning certain property in a foreign country.
- v. The Compliance Officer will be followed a risk based approach in determining whether to continue to consider a customer as a PEP who is no longer a PEP. The Compliance Officer may to consider factors included as:
 - The level of (informal) influence that the individual could still exercise; and
 - Whether the individual's previous and current function are linked in any way (e.g., formally by appointment of the PEPs successor, or informally by the fact that the PEP continues to deal with the same substantive matters).

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AML/CFT and PF Red Flags /Warning Signs

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. Customer trades frequently, selling at a loss
12. Customers who constantly pay-in or deposit cash to cover requests for bankers drafts, money transfers or other negotiable and readily marketable money instruments;
13. Customers who wish to maintain a number of trustee or customers' accounts which do not appear consistent with the type of business, including transactions which involve nominee names;
14. Any transaction involving an undisclosed party;
15. transfer of the benefit of an asset to an apparently unrelated third party, or assignment of such benefit as collateral;
16. Significant variation in the pattern of investment without reasonable or acceptable explanation
17. Transactions appear to be undertaken in a structured, sequential manner in order to avoid transaction monitoring/ reporting thresholds.
18. Transactions involve penny/microcap stocks.
19. 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.

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20. Transfers are made to the same person from different individuals or to different persons from the same individual with no reasonable explanation.
21. Unusually large aggregate wire transfers or high volume or frequency of transactions are made with no logical or apparent reason.
22. Customer invests in securities suddenly in large volumes, deviating from previous transactional activity.
23. Customer conducts mirror trades.
24. Customer closes securities transaction before maturity, absent volatile market conditions or other logical or apparent reason.

Proliferation Financing Warning Signs/Red Alerts

1. RPs should take note of the following circumstances where customers and transactions are more vulnerable to be involved in proliferation financing activities relating to both DPRK and Iran sanctions regimes:
2. customers and transactions associated with countries subject to sanctions;
3. instruments that could particularly be used to finance prohibited transactions, such as certain trade financing products and services;
4. customers involved with and/or transactions related to items, materials, equipment, goods and technology prohibited by UNSCRs;
5. reasonableness of invoiced goods against market value, inconsistency or discrepancies in trade-related documentation.

In particular, RPs should be alert to the following non-exhaustive list of factors that are relevant to the DPRK sanctions regime:

1. significant withdrawals or deposits of bulk cash that could potentially be used to evade targeted financial sanctions and activity-based financial prohibitions;
2. opening of banking accounts by DPRK diplomatic personnel, who have been limited to one account each under relevant UNSCRs (including number of bank accounts being held, holding of joint accounts with their family members);
3. clearing of funds, granting of export credits or guarantees to persons or entities that are associated with trading transactions relating to the DPRK;
4. providing insurance or re-insurance services to maritime vessels owned, controlled or operated, including through illicit means, by the DPRK or classification services to vessels which there are reasonable grounds to believe were involved in activities, or the transport of items, prohibited by UNSCRs concerning the DPRK, unless the Security Council 1718 Committee determines otherwise on a case-by-case basis;
5. direct or indirect supply, sale or transfer to the DPRK of any new or used vessels or

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- providing insurance or re-insurance services to vessels owned, controlled, or operated, including through illicit means, by the DPRK, except as approved in advance by the Security Council 1718 Committee on a case-by-case basis; or
6. the leasing, chartering or provision of crew services to the DPRK without exception, unless the Security Council 1718 Committee approves on a case-by-case basis in advance;38 or
 7. using real property that DPRK owns or leases in Pakistan for any purpose other than diplomatic or consular

High Net Worth Individuals (HNWI)

1. High net worth individuals while an attractive customer for FSC, can expose FSC to higher risk of Financial transactions that may be illicit. As per FSC policy standard size of HNWI is 10 million. FSC knows to whom it is offering its products and services, and can establish criterion for HNWI applicable to their particular business.
2. FSC will scrutinize HNWI customers to determine, whether they carry a higher risk of ML/FT and require additional due diligence measures. Such scrutiny must be documented and updated as part of the Risk Assessment of the FSC.

Beneficial Ownership (BO)

The Beneficial Owner is the natural person at the end of the chain who ultimately owns or controls the customer. The definition of BO in the Regulations is as below:

"beneficial owner" in relation to a customer of a regulated person means, the natural person who ultimately owns or control a customer or the natural person on whose behalf a transaction is being conducted and includes the person who exercise ultimate effective control over a person or a legal arrangement".

Non-Profit Organizations (NPOs)

1. Both by international standards and in Pakistan's National Risk Assessment, NPOs are classified as a High Risk Sector for TF.
2. The objective of Enhanced Customer Due Diligence for NPOs is to ensure that NPOs are not misused by terrorist organizations: (i) to pose as legitimate entities; (ii) to exploit legitimate entities as conduits for terrorist financing, including for the purpose of

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escaping asset freezing measures; or (iii) to conceal obscure the clandestine diversion of funds intended for legitimate purposes, but diverted for terrorist purposes.

3. RP who transact with NPOs should understand:
 - a. Beneficiaries and Beneficial Owners including certain donors that maintain decision rights;
 - b. Flow of funds, in particular the use of funds by an NPO.

15. Record Keeping Procedures

First Street Capital (Pvt.) Limited shall ensure that all information obtained in the context of CDD is recorded when verifying the identity of the customer or the beneficial owner and transcription into First Street Capital (Pvt.) Limited 's own systems of the CDD information contained in such documents or obtained by other means.

First Street Capital (Pvt.) Limited shall maintain, for at least 5 years after termination, all necessary records on transactions 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.

Where there has been a report of a suspicious activity or First Street Capital (Pvt.) Limited is aware of a continuing investigation or litigation into ml/ft relating to a customer or a transaction, records relating to the transaction or the customer shall be retained until confirmation is received that the matter has been concluded.

First Street Capital (Pvt.) Limited shall also keep following records of identification data obtained through the customer due diligence process that would be useful to an investigation for a period of 5 years after the business relationship has ended:

- Account files;
- Business correspondence;
- Records pertaining to enquiries about:
 - I. Complex;
 - II. Unusual large transactions; and
 - iii. Unusual patterns of transactions.

Beneficial ownership information must be maintained for:

- At least five (5) years after the date on which the customer (a legal entity) is dissolved or otherwise ceases to exist; or
- five (5) years after the date on which the customer ceases to be a customer of First Street Capital (Pvt.) Limited.

Records relating to verification of identity will generally comprise:

- A description of the nature of all the evidence received relating to the identity of the verification subject; and

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- The evidence itself or a copy of it or, if that is not readily available, information reasonably sufficient to obtain such a copy.

Records relating to transactions will generally comprise:

- Details of personal identity, including the names and addresses, of:
 - I. The customer;
 - II. The beneficial owner of the account or product; and
 - iii. Any counter-party
- Details of securities and investments transacted including:
 - I. The nature of such securities/investments;
 - II. Valuation(s) and price(s);
 - III. Memoranda of purchase and sale;
 - IV. Source(s) and volume of funds and securities;
 - V. Destination(s) of funds and securities;
 - VI. Memoranda of instruction(s) and authority(ies);
 - VII. Book entries;
 - VIII. Custody of title documentation;
 - IX. The nature of the transaction;
 - X. The date of the transaction;
 - xi. The form (e.g. Cash, cheque) in which funds are offered and paid out.

Record Keeping.-

(1) First Street Capital (Pvt.) Ltd. shall maintain all necessary records on transactions, both domestic and international, including the results of any analysis undertaken (e.g. inquiries to establish the background and purpose of complex, unusual large transactions) for a minimum period of five years from completion of the transaction:

Provided that First Street Capital (Pvt.) Ltd. may retain those records for longer period where transactions, customers or accounts involve litigation or it is required by court or other competent authority.

(2) The records shall be sufficient to permit reconstruction of individual transactions including the nature and date of the transaction, the type and amount of currency involved and the type and identifying number of any account involved in the transactions so as to provide, when necessary, evidence for prosecution of criminal activity and the transactions records may be maintained in paper or electronic form, provided it is admissible as evidence in a court of law.

(3) The records of identification data obtained through CDD process like copies of identification documents, account opening forms, Know Your Customer forms, verification documents and other documents along with records of account files and business correspondence, shall be maintained for a minimum period of five years after termination of the business relationship.

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(4) First Street Capital (Pvt.) Ltd. shall ensure, to timely make available, all CDD and transaction records to the Commission, FMU and law enforcement agencies whenever required.

16. Suspicious Transaction Reporting

Definition A suspicious transaction is one for which there are reasonable grounds to suspect that the transaction is related to a money laundering offence or a terrorist activity financing offence. A suspicious transaction can include one that was attempted.

• Course of Action for Employees to Identify Suspicious Transactions:

Staff may assess the following transactions as suspicious where a transaction is inconsistent in amount, origin, destination, or type with a Customer's know how, legitimate business or personal activities;

- a) First Street Capital (Pvt.) Limited shall put on enquiry if transaction is considered unusual.
- b) First Street Capital (Pvt.) Limited shall pay special attention to the following transactions:
 - All complex transactions;
 - Unusually large transactions; and
 - Unusual pattern of transactions that have no apparent economic or visible lawful purpose.

• Confidential Reporting of AML Non-Compliance

Employees will report any violations of the Company's AML compliance program to the Compliance Officer, unless the violations implicate the Compliance Officer, in which case the employee shall report to other firm principals. Such reports will be confidential and the employee will suffer no retaliation for making them.

• Reporting to Compliance Officer:

Where the enquiries conducted by First Street Capital (Pvt.) Limited do not provide a satisfactory explanation of the transactions, respective dealer/sale agent may consider that there are grounds for suspicion requiring disclosure and escalating the matter to the Compliance Officer.

• Reporting to Relevant Authority:

- The Compliance Officer shall conduct enquiries regarding complex, unusual large transaction, and unusual patterns of transactions, their background and document their results properly. He may make such transaction available to relevant authorities upon their request.
- Activities which should require further enquiry may be recognizable as falling into one or more of the following categories:
 - a. any unusual financial activity of the Customer in the context of the Customer's own usual activities;
 - b. any unusual transaction in the course of some usual financial activity;
 - c. any unusually-linked transactions;
 - d. any unusual method of settlement;
 - e. any unusual or disadvantageous early redemption of an investment product;
 - f. any unwillingness to provide the information requested.

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17. Currency Transaction Reporting

First Street Capital (Pvt.) Limited will report the currency transaction report to the relevant authorities as and when required. Currency Transaction Report is a threshold based report of cash transaction undertaken by the customers of Reporting Entities. A CTR has been defined under Section 2(c) of AML Act 2010, according to which, a CTR is a report on currency transaction of such an amount as may be specified by the National Executive Committee by notification in the official Gazette. Section 5 of AML Regulations 2015 further explains that the CTR is filed when a cash-based transaction involving payment, receipt, or transfer of an amount, as specified by the National Executive Committee, on a prescribed format. As per Gazette notification SRO 73 (I)/2015 dated 21-01-2015, the minimum amount for reporting a CTR to FMU is two million rupees. Accordingly, all cash-based transactions of two million rupees or above involving payment, receipt, or transfer are to be reported to FMU as CTR. Likewise, cash-based foreign currency transaction equivalent to two million rupees or above are to be reported as CTR. Every single cash transaction of two million rupees or above is to be reported as CTR.

If First Street Capital (Pvt.) Limited decides that a disclosure should be made, the law requires First Street Capital (Pvt.) Limited to report STR without delay to the FMU, in standard form as prescribed under AML Regulations 2015. The STR prescribed reporting form can be found on FMU website through the link <http://www.fmu.gov.pk/docs/AMLRegulations2015.pdf>.

FSC will inform PSX if, any client want to make his/her payment through cash exceeding Rs.25,000/- to PSX through NCHS system keep the reporting record by the Compliance Officer.

• Reporting to Commission and Financial Monitoring Unit:

First Street Capital (Pvt.) Limited is required to report total number of STRs filed to the Commission on bi-annual basis within seven days of close of each half year.

i. Vigilance systems should require the maintenance of a register of all reports made to the FMU. Such registers should contain details of:

- the date of the report;
- the person who made the report;
- the person(s) to whom the report was forwarded; and
- reference by which supporting evidence is identifiable.

ii. Where an applicant or a Customer is hesitant/fails to provide adequate documentation (including the identity of any beneficial owners or controllers), First Street Capital (Pvt.) Limited shall consider filing a STR.

iii. Where an attempted transaction gives rise to knowledge or suspicion of ML/TF, First Street Capital (Pvt.) Limited shall report attempted transaction to the FMU.

iv. Once suspicion has been raised in relation to an account or relationship, in addition to reporting the suspicious activity First Street Capital (Pvt.) Limited shall ensure that appropriate action is taken to adequately mitigate its risk being used for criminal activities.

v First Street Capital (Pvt.) Limited may include a review of either the risk classification of the Customer or account or of the entire relationship itself.

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vi. Appropriate action may necessitate escalation to the appropriate level of decision-maker to determine how to handle the relationship, taking into account any other relevant factors, such as cooperation with law enforcement agencies or the FMU.

• **Tipping-off & Reporting:**

• **The Law prohibits tipping-off:**

- i. A risk exists that Customers could be unintentionally tipped off when First Street Capital (Pvt.) Limited is seeking to complete its CDD obligations or obtain additional information in case of suspicion of ML/TF.
- ii. The applicant/customer's awareness of a possible STR or investigation could compromise future efforts to investigate the suspected ML/TF operation.
- iii. First Street Capital (Pvt.) Limited 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.
- iv. If First Street Capital (Pvt.) Limited 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.
- v. First Street Capital (Pvt.) Limited shall ensure that their employees are aware of, and sensitive to, these issues when conducting CDD or ongoing CDD.

SANCTIONS COMPLIANCE

i. Sanctions are prohibitions and restrictions put in place with the aim of maintaining or restoring international peace and security. They generally target specific individuals or entities; or particular sectors, industries or interests. They may be aimed at certain people and targets in a particular country or territory, or some organization or element within them. There are also sanctions that target those persons and organizations involved in terrorism. The types of sanctions that may be imposed include:

- Targeted sanctions focused on named persons or entities, generally freezing assets and prohibiting making any assets available to them, directly or indirectly;
- Economic sanctions that prohibit doing business with, or making funds or economic resources available to, designated persons, businesses or other entities, directly or indirectly;
- Currency or exchange control;
- Arms embargoes, which would normally encompass all types of military and paramilitary equipment;
- Prohibiting investment, financial or technical assistance in general or for particular industry sectors or territories, including those related to military or paramilitary equipment or activity;
- Import and export embargoes involving specific types of goods (e.g. oil products), or their movement using aircraft or vessels, including facilitating such trade by means of

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- financial or technical assistance, brokering, providing insurance etc.; and
- Visa and travel bans.
 - ii. The Regulations require, FSC not to establish business relationship with the individuals/entities and their associates that are either, sanctioned under United Nations Security Council (UNSC) Resolutions adopted by Pakistan or proscribed under the Anti-Terrorism Act, 1997.
 - iii. The UNSC Sanctions Committee, maintains the consolidated list of individuals and entities subject to the sanctions covering assets freeze, travel ban and arms embargo set out in the UNSC Resolution 1267 (1999) and other subsequent resolutions, concerning ISIL (Da'esh)/ Al-Qaida and Taliban and their associated individuals.
 - iv. Government of Pakistan publishes Statutory Regulatory Orders (SROs) under the United Nations (Security Council) Act, 1948 in the official Gazettes to give effect to the decisions of the UNSC Sanctions Committee and implement UNSC sanction measures in Pakistan. The regularly updated consolidated list is available at the UN sanctions committee's website, at following link;

www.un.org/sc/committees/1267/aq_sanctions_list.shtml

<https://www.un.org/securitycouncil/content/un-sc-consolidated-list>

<http://mofa.gov.pk/unsc-sanctions/>

<https://nfs.punjab.gov.pk/>

<http://www.secdiv.gov.pk/page/sro-unscr-sanctions>

<https://www.un.org/sc/suborg/en/sanctions/1988/materials>

<https://www.un.org/sc/suborg/en/sanctions/1718/materials>

<http://www.un.org/en/sc/2231/list.shtml>

<https://www.un.org/sc/suborg/en/sanctions/1718/prohibited-items>

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- v. The Ministry of Interior issues Notifications of proscribed individuals/entities pursuant to the Anti-Terrorism Act, 1997, to implement sanction measures under UNSCR 1373(2001), and the regularly updated consolidated list is available at the National Counter Terrorism Authority's website, at following link;

<http://nacta.gov.pk/proscribed-organizations/>

- vi. FSC make its sanctions compliance program an integral part of its overall AML/CFT compliance program and accordingly should have policies, procedures, systems and controls in relation to sanctions compliance. FSC provides adequate sanctions related training to its staff.
- vii. When conducting risk assessments, the Compliance Officer has to take into account any sanctions that may apply (to customers or countries).
- viii. The Compliance Officer has to screen customers, beneficial owners, transactions, and other relevant parties to determine whether they are conducting or may conduct business involving any sanctioned person or person associated with a sanctioned person/country. In the event of updates to the relevant sanctions lists, The Compliance Officer has to may discover that certain sanctions are applicable to one or more of their customers, existing or new.
- ix. Where there is a true match or suspicion, The Compliance Officer takes steps that are required to comply with the sanctions obligations including freeze without delay and without prior notice, the funds or other assets of designated persons and entities and reporting to the Commission, if they discover a relationship that contravenes the UNSCR sanction or a proscription.
- x. The obligations/ prohibitions regarding proscribed entities and persons mentioned in the above lists are applicable, on an ongoing basis, 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 Compliance Officer has to document and record all the actions that have been taken to comply with the sanctions regime, and the rationale for each such action.
- xi. FSC is expected to keep track of all the applicable sanctions, and where the sanction lists are updated, shall ensure that existing customers are not listed.
- xii. In case there is not 100% match but sufficient grounds of suspicion that customer/ funds

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belong to sanctioned entity/ individual, the Compliance Officer may consider raising an STR to FMU.

18. Employees Training on AML/CFT

1. The CO shall clearly specify the Policies, Procedures and Controls duly approved by the Board in writing, and communicated to all employees.
2. The CO has the authority and ability to oversee the effectiveness of First Street Capital (Pvt.) Limited AML/CFT systems, compliance with applicable AML/CFT legislation and provide guidance in day-to-day operations of the AML/CFT Policies and Procedures.
2. As part of First Street Capital (Pvt.) Limited Anti Money Laundering program, all Employees are expected to be fully aware of its Anti-Money Laundering policies and procedures.
3. Each Employee is required to read and comply with this Compliance Manual, address concerns to the Compliance Officer and sign the acknowledgement form confirming that he/she has read and understands SECP AML and CFT Policies and Procedures.
4. To ensure the continued adherence to SECP AML and CFT Policies and Procedures, all Employees are required to reconfirm their awareness of the contents of this Compliance Manual by signing the acknowledgement form annually, or more frequently, as required by the Compliance Officer.
5. All Employees are required;
 - At a time specified by the Compliance Officer, to undertake training programs on AML and CFT Policies and Procedures.
 - To get trained in how to recognize and deal with transactions which may be related to money laundering.
 - To timely escalate and report the matter to the Compliance Officer.
 - To get themselves acquainted with SECP AML & CFT Rules & Regulations.
 - To comply with the requirements of Rules & Regulations.

• Monitoring of Employees' Trading

The Company's compliance officer will conduct a background check, including a check of any criminal records, on all new employees hired by the firm. Any suspicious or questionable background information will be discussed with the Company's managing director prior to making any final employment decision.

If employees have trading accounts, First Street Capital (Pvt.) Limited will subject employee accounts to the same AML procedures as client accounts, under the supervision of the AML Compliance Officer.

Screening and Training.- First Street Capital (Pvt.) Ltd. shall -

- develop and implement a comprehensive employee due diligence policy and procedure to be implemented/ carried out at the time of hiring all employees permanent, contractual, or through outsourcing. This shall include but not limited to verification of antecedents and screening procedures to verify that person being inducted/ hired has a clean history; and

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- chalk out and implement suitable training program for relevant employees on annual basis, in order to effectively implement the regulatory requirements and First Street Capital (Pvt.) Ltd. own policies and procedures relating to AML/ CFT. The employees training shall enable them to understand new developments, money laundering and financing of terrorism techniques, methods and trends. The training should also include their responsibilities relating to AML/ CFT.



First Street Capital (Pvt.) Limited

Analysis of AML/FT Risks Posed to First Street Capital Private Limited

First Street Capital (Pvt.) Limited, a corporate brokerage house, always a pioneer and leader in development and progress of Capital Market of Pakistan. Thereby, FIRST STREET CAPITAL realizes its responsibility to develop functions and procedures for the sustained growth of the Capital Market of Pakistan.

Risk:

Risk In an organization is possibility that the outcome of an action or event could bring up adverse impacts. This impact could not only negatively affect the organization, its stakes holders but also could lead to the negative view of the industry.

Risks must not be viewed and assessed in isolation, not only because a single transaction might have a number of risks but also one type of risks can trigger other risks. Since interactive of various risks could result in diminution or increase in risks, the risk management process should recognize and reflect risks interaction in all business activates as appropriates. While assessing and managing risk the management should have an overall view of risks the institution is exposed to. This requires having a structure in place to look at risk interrelationship across the organization.

Vulnerabilities of FIRST STREET CAPITAL to AML/TF Risks

Until and unless risks are not assessed and measured it will not be possible to control risks. Further a true assessment of risk gives management a clear view of institutions standing and helps in deciding future action plan. FIRST STREET CAPITAL put extreme efforts in minimizing the risks posed by AML/TF by incorporating our AML/TF policy effectively. We ensure provision and verification of complete KYC documentation and execute transactions through specified disclosed bank accounts opened in the names of the clients.

Incremental Aspects Risks:

FIRST STREET CAPITAL performs enhanced Due Diligence and ensures satisfaction to the highest levels of the industry from the clients located in high risks Area before opening their accounts. Moreover FIRST STREET CAPITAL situated in Lahore, an urban and highly regulated area of Pakistan. We always place such clients to high risks and thereby perform enhanced due diligence including provision of enhanced KYC requirements from such clients at the start of our business relationship. In case of any suspicious, FIRST STREET CAPITAL refuses to initiate any business relationship with the potential clients and generate STR's if required.

Moreover, FIRST STREET CAPITAL analyzes the incorporation documents to identify the beneficial ownership of legal persons. We place NPO to the high risk category and allow these clients to open the account and operate only after following complete procedures tailored specifically to such clients.



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Risks to Different Customers Type:

Risks, threats & vulnerabilities vary to difficult type of customer. FIRST STREET CAPITAL has developed comprehensive mechanism to identify and evaluate the risks to every category of customers and steps to mitigate these risks keeping in view of our AML/TF policy.

Products:

Products, which the FIRST STREET CAPITAL offers, carry low risks as these are regulated products and monitored by the regulators.

Geography

Pakistan, due to its location, faced intense inherent risks due to its western neighbors. The Afghan immigrants and their involvement in heinous crimes incurred/ enhance the already high risks to the system.

FIRST STREET CAPITAL has established processes to ensure the enhanced due diligence for the clients from such locations. We ensure complete identification of clients and their financial source before allowing transaction through our system.

Until and unless risks are not assessed and measured it will not be possible to mitigate. Further a true assessment gives management a true view of risk associated to its clients and subsequently to the organization.

FIRST STREET CAPITAL has adopted the highest standard procedure and a policy to identify the risks posed by the clients to adopt a set of our SOP'S to mitigate those risks. We have enshrined in our AML policy adopted by BOD, the possible customer types, risks posed by them and the procedures to mitigate those risks.

Pakistan's geographical landscape and porous borders increase its vulnerability to both ML and TF, heightening in particular Pakistan's TF risks associated to cash smuggling. Pakistan is bordered by India to the east, Afghanistan to the west, Iran to the southwest, and China in the far northeast. Pakistan has longest border with India (3,171 km) followed by Afghanistan (2,600 km) with elevation ranging up to 24,700 feet and Iran (909 km). It is separated narrowly from Tajikistan by Afghanistan's Wakhan Corridor in the northwest, and shares a maritime border with Oman. It has a 1,046 km coastline along the Arabian Sea and Gulf of Oman in the south.

Indian, Afghani and Iranian territory has also been used in past by anti-Pakistani groups to launch anti- state covert operations inside Pakistan. This makes both eastern and western borders vulnerable for ML and TF through drug trafficking, bulk cash movements, and other illicit forms of trade.

Afghan Diaspora

1. Pakistan is host to approximately 1.4 million registered and 1.0 million unregistered
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Afghans. In 2007, Pakistan, Afghanistan and the Office of the United Nations of High Commissioner for Refugees (UNHCR) signed a tripartite agreement, which gave Afghan refugees the right to register and obtain a Proof of Registration (PoR) Card, identifying them as Afghan refugees eligible for protection and support through UNHCR under Pakistan refugee laws.

2. These Afghan refugees have been mostly settled in Khyber Pakhtunkhwa and Balochistan for the last 40 years. Their children are educated and settled in Pakistan. Most second and third generation Afghan refugees are born in Pakistan and are culturally, economically and socially integrated. In some cases, they are also married to Pakistanis and the families are now integrated. In addition, the border areas of Khyber Pakhtunkhwa and parts of Balochistan are highly active, with fast moving populations across the border because of common history, culture, language and blood ties. There are eight formal border crossings jointly managed by the Afghan and Pakistan governments, as well as many informal crossings, which remains permeable despite increased fencing and border management systems.

Conflict and Terror

3. The aftermath of 9/11 and the subsequent 'War on Terrorism' resulted in violence that cost Pakistan the lives of thousands and substantial financial and property losses. The mountainous terrain on the eastern and northern borders also provides isolated and largely hidden routes to organized international groups/organizations. Additionally, maritime frontiers remain vulnerable to illicit trade and trafficking as scores of trespassers are frequently apprehended for crossing into Pakistan "by mistake".

4. The risks maybe greatest in Balochistan, which has the longest border among Pakistan's subnational units, and is relatively arid and unpopulated compared to the rest of Pakistan. Here, Baloch militants, who are largely secular nationalists, operate. Balochistan has historically suffered from ethno-sectarian tensions and politically motivated violence, including violence from an active separatist movement. Separatist groups such as the BLA have targeted and killed ethnic Punjabi settlers and others as part of their terror reign.

5. Various armed Punjabi sectarian groups operate, and are more prevalent in the South. However, they carry out attacks in all provincial capitals, but especially Karachi and Quetta. In Sindh, the existence of economic conflicts among different ethnic groups has a negative effect on the law and order. There is a large Hazara Shi'a population in Quetta, the provincial capital, which has historically been a target for sectarian violence.

6. Large numbers of Afghan refugees have been encouraged to return to Afghanistan since Operation Zarb- e-Azb² and Radd ul-Fasaad³. Operation Zarb-e-Azb (June 2014) was launched against terrorist outfits operating from North Waziristan by the Pakistan Armed Forces. A comparison of pre- and post-Zarb-e-Azb security situation shows that Pakistan's

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security has considerably improved. Underscoring the success of Operation, the review identifies future challenges such as reforming the political status of Federally Administered Tribal Areas (FATA), ensuring economic security of its people and effective Pak-Afghan border management. In February 2017, the Pakistan Army had launched “Operation Raddul-Fasaad” across the country. The aim of this operation is threefold: eliminating the residual threat of terrorism; consolidating the gains made thus far by military operations under Zarb-e-Azb; and de-weaponizing society. However, due to the deteriorating security situation in Afghanistan, the number of refugees electing to return has declined in 2018 due to lack of security, inadequate education facilities, non-availability of clean water and housing facilities. While terrorist attacks declined in 2017 and 2018.

Demography

7. Pakistan is the sixth most populous country in the world with a population of 207.7 million (average annual growth of 2.4%), of which over 31% are between 15 and 29 years old. In addition, there are a large number of Afghan refugees and internally displaced people (IDPs). The United Nations Development Programme (UNDP) ranks Pakistan 150th out of 189 countries in its 2018 Human Development Index. The Multidimensional Poverty Index (MPI) classified nearly 39% of Pakistanis as living in multidimensional poverty. The overall figure masks significant regional variation in poverty incidence, ranging from over 70% in former FATA and Balochistan, to around 30% in Punjab and Azad Jammu and Kashmir. Pakistan has a significant poverty gap between urban (9.3%) and rural (54.6%). There are instances where the same low level of social indicators is exploited by money launderers for identity theft issues.

8. Punjabis form the largest ethnic group (44.7%), followed by Pashtuns (15.4%), Sindhis (14.1%), Saraikis (8.4%), Muhajir (7.6%), Balochi (3.6%), and others (6.3%). Karachi and Lahore are cosmopolitan cities and major business centers; as a result, people from different provinces migrate to these cities. In 2018, the former Federally Administered Tribal Areas (FATA, also now known as the tribal districts) became a part of Khyber Pakhtunkhwa province. The former FATA Agencies (now districts) are governed by a series of interim regulations, distinguishing them from the rest of Khyber Pakhtunkhwa. The population of the border areas of Khyber Pakhtunkhwa and parts of Balochistan are highly mobile, with people moving across borders because of a common history, cultural features, and blood ties. It also creates opportunities for sub-nationalists, hostile agencies, and other problem groups.

Pakistan is host to approximately 1.4 million registered and 1.0 million unregistered Afghans, some of them displaced for nearly 40 years. In 2007, Pakistan, Afghanistan and the Office of the United Nations of High Commissioner for Refugees (UNHCR) signed a tripartite agreement, which gave Afghan refugees the right to register and obtain a Proof of Registration (PoR) Card, identifying them as Afghan refugees eligible for protection and support through UNHCR under Pakistan refugee laws.



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CROSS-BORDER CORRESPONDENT RELATIONSHIP

i For time being First Street Capital (Pvt.) Ltd. have not any cross-border correspondent relationships provision to 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), if First Street Capital (Pvt.) Ltd. enter in to any such arrangement customers may present high ML/TF risk and as such may require EDD.

ii. If in case First Street Capital (Pvt.) Ltd. will transact cross-border, then First Street Capital (Pvt.) Ltd. will manage its risks effectively, 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 First Street Capital (Pvt.) Ltd. will monitor the relationship to ascertain how effectively the respondent institution is applying CDD measures to its customers, and implementing AML/CFT controls in the light of NRA 2019..

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

15. AML/CFT PROGRAM IN A GROUP-WIDE AND CROSS-BORDER CONTEXT

- i. The Regulations require a financial group to have group-wide AML/CFT policies and procedures that are consistently applied and supervised across the group. The group-wide policies should be appropriate to all branches and majority owned subsidiaries of the RP, even though reflecting host jurisdiction. FSC have no such operations and business activities.
- ii. Where the minimum regulatory or legal requirements of the home and host countries differ, offices in host jurisdictions should apply the higher standard of the two. In cases where the host jurisdiction requirements are stricter than the group's, it allows the relevant branch or subsidiary to adopt and implement the host jurisdiction local requirements. FSC have no such operations and business activities.
- iii. Where the AML/CFT requirements of host jurisdiction are less strict than those of Pakistan, it shall ensure to have AML/CFT measures consistent with the requirements of Pakistan. Where the host jurisdiction does not permit the proper implementation of AML/CFT measures consistent with those of Pakistan, it shall inform the same to the Commission along with the appropriate additional measures that they wish to apply to manage ML/TF risks. Where the proposed additional measures are not sufficient to mitigate the risks, the Commission may make recommendations to the it on further action. FSC have no such operations and business activities.

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- iv. Policies and procedures should be designed not merely to comply strictly with all relevant laws and regulations, but more broadly to identify, monitor and mitigate group-wide risks. Every effort should be made to ensure that the group's ability to obtain and review information in accordance with its global AML/CFT policies and procedures is not impaired as a result of modifications to local policies or procedures necessitated by local legal requirements. In this regard, it should have robust information-sharing among the head office and all of its branches and subsidiaries. It's compliance and internal audit staff, in particular the compliance officer should evaluate compliance with all aspects of their group's policies and procedures, including the effectiveness of centralized CDD policies and the requirements for sharing information and responding to queries from head office. FSC have no such operations and business activities.