

**Nalwa Sons Investments Limited**

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**KYC & AML Policy**

<b>Document Control Sheet</b>	
<b>Document Name</b>	KYC & AML Policy
<b>Name of Company</b>	Nalwa Sons Investments Limited
<b>Policy Authorization by</b>	Board of Directors
<b>Review of the policy</b>	As and when required
<b>Board Approval date</b>	November 30, 2023

The Reserve Bank of India has issued comprehensive guidelines on Know Your Customer (KYC) norms and Anti-Money Laundering (AML) standards and has advised all NBFCs to ensure that a proper policy framework on KYC and AML measures be formulated and put in place with the approval of the Board.

The objective of RBI guidelines is to prevent NBFCs being used, intentionally or unintentionally by criminal elements for money laundering activities. The guidelines also mandate making reasonable efforts to determine the identity and beneficial ownership of accounts, source of funds, the nature of customer's business, reasonableness of operations in the account in relation to the customer's business, etc. which in turn helps the Company to manage its risks prudently. Accordingly, the main objective of this policy is to enable the Company to have positive identification of its customers.

Accordingly, in compliance with the guidelines issued by RBI from time to time, the following KYC & AML policy of the Company is approved by the Board of Directors of the Company.

This policy is applicable to all categories of products and services offered by the Company.

### **SCOPE AND APPLICATION OF THE POLICY**

The scope of this policy is:

- To lay down explicit criteria for acceptance of customers.
- To establish procedures to identify of individuals/non-individuals for opening of account.
- To establish processes and procedures to monitor high value transactions and/or transactions of suspicious nature in accounts.
- To develop measures for conducting due diligence in respect of customers and reporting of such transactions.

To fulfil the scope, the following four key elements will be incorporated into our policy:

- Customer Acceptance Policy
- Customer Identification Procedures
- Monitoring of Transactions
- Risk Management

### **COMPLIANCE WITH THE POLICY**

- The Company shall ensure that the compliance with this Policy is being checked in the Internal Audit conducted on the Company.
- The Company shall ensure that the decision-making functions are not outsourced.
- All the procedures namely, CDD procedure, risk management, customer identification process shall be carried out for all the business verticals including co-lending.

### **CUSTOMER ACCEPTANCE POLICY**

Definition of a Customer

- A person or entity that maintains an account and/or has a business relationship with the Company
- One on whose behalf the account is maintained (i.e. the beneficial owner)
- Beneficiaries of transactions conducted by professional intermediaries such as Stock Brokers, Chartered Accountants, Solicitors etc. as permitted under the law, and
- Any other person or entity connected with a financial transaction which can pose significant reputation or other risks to the Company, say a wire transfer or issue of high value demand draft as a single transaction.

A "Person" shall have the meaning as defined under KYC policy of RBI (and any amendment from time to time by RBI) which at present is as follows:

'Person' shall include:

- a. an Individual;
- b. a Hindu Undivided Family;
- c. a Company;
- d. a Firm;
- e. an association of persons or a body of individuals, whether incorporated or not;
- f. every artificial juridical person, not falling within any one of the above person (a to e);
- g. any agency, office or branch owned or controlled by any one of the above persons (a to f)

## **GUIDELINES FOR ACCEPTING CUSTOMERS**

Following norms and procedures will be followed by the Company in relation to its customers who approach the Company for availing financial facilities. While taking decision to grant any one or more facilities to customers as well as during the continuation of any loan account of the customer, the following norms will be adhered to by the Company:

- i. No loan account will be opened, and / or money will be disbursed in a name which is anonymous or fictitious or appears to be a name borrowed only for opening the loan account i.e. Benami Account. The Company shall insist on sufficient proof about the identity of the customer to ensure his physical and legal existence at the time of accepting the application form from any customer.
- ii. No Loan account will be opened where VCPL is unable to apply appropriate Customer Due Diligence measures, either due to non-cooperation of the customer or non-reliability of the documents/information furnished by the customer.
- iii. Circumstances, in which a customer is permitted to act on behalf of another person /entity, shall be clearly spelt out in conformity with the established law and practices, as there could be occasions when an account is operated by a mandate holder or where an account may be opened by intermediary in a fiduciary capacity.
- iv. The Company shall not open any account or give / sanction any loan or close an existing account where the Company is unable to apply appropriate due diligence measures arising due to any of the following circumstances:
  - The Company is unable to verify the identity of the customer
  - The customer without any valid or convincing reasons refuses to provide documents to the Company which are needed to determine the risk level in relation to the customer loan applied for by the customer and his paying capacity
  - Information furnished by the customer does not originate from the reliable sources or appears to be doubtful due to lack of supporting evidence.
  - Identity of the customer, directly or indirectly matches with any individual terrorist or prohibited / unlawful organizations, whether existing within the country or internationally, or if the customer or beneficiary is found, even remotely, to be associated with or affiliated to any illegal, prohibited or unlawful or terrorist organization as notified from time to time either by Govt. of India, State Govt. or any other national or international body / organization.
- v. Subject to the above-mentioned norms and caution, at the same time all the employees of Company will also ensure that the above norms and safeguards do not result in any kind of harassment or inconvenience to bona fide and genuine customers who should not feel discouraged while dealing with the Company.
- vi. The Team shall, at the time of approving a financial transaction/activity, or executing any transaction, verify the record of identity, signature proof and proof of current address or addresses including permanent address of the customer. For co-lending loans, this shall be verified by the NBFC partner. The Company shall however maintain a repository of KYC documents of borrowers under the co-lending programme as well.
- vii. Suitable system is put in place to ensure that the identity of the customer does not match with any person or entity, whose name appears in the sanctions lists circulated by Reserve Bank of India.

- viii. Where an equivalent e-document is obtained from the customer, the Company shall verify the digital signature as per the provisions of the Information Technology Act, 2000 (21 of 2000)

## **RISK LEVEL CATEGORIZATION**

- I. The Company shall categorize its customers based on the risk perceived by the Company. The levels of categorization would be Low Risk, Medium Risk and High Risk. The risk categorization would be a function of the industry the borrower operates in, the geography in which the borrower operates, the shareholding pattern of the entity etc.
- II. The profile of new customers will be prepared on risk categorization basis. Such profile will contain the following information about the new customers:
- Customer's Identity
  - Social/Legal and financial status of the customer
  - Nature of the business activity
  - Information about the business of the customer's clients and their locations
- III. There will be level-wise categorization of customers i.e. Level-I, Level-II and Level-III. Such levels will be decided based on risk element involved in each case which will be determined by considering the following information submitted by the customer:
- Nature of business of the Customer and of his Clients
  - Work place of Customers and of his Clients
  - Country of Origin
  - Source of funds
  - Volume of business six-monthly / annual turn-over
  - Social/Legal and financial status
  - Quantum and tenure of facility applied for and proposed schedule for repayment of loan
- IV. Information to be collected from the customers will vary according to categorization of customer from the point of view of risk perceived. However, while preparing customer profile the Company shall seek only such information from the customer which is relevant to the risk category and is not intrusive to the customer. Any other information from the customer should be sought separately with his/her consent and after opening the account.
- V. For risk categorization, individual (other than High Net Worth) and entities whose sources of wealth can be easily identified and transactions in whose accounts by and large confirm to the known profile, may be categorized as low risk or Level-I category. Normally Level-I customers would be
- Well governed corporates
  - Salaried employees having definite and well-defined salary structure,
  - Employees of Government Departments or Government owned companies, Statutory bodies,
  - Self-employed individuals, however with regular income and good credit behaviour
- ii. Cases where the Company is likely to incur higher than average risk will be categorized as medium or high-risk customers and will be placed in medium or high risk category i.e. Level-II or Level-III category. While placing the customers in the above categories, the Company will give due consideration to the following aspects:
- Customer's background,
  - Country of his origin,
  - Nature and location of his business activities,
  - Sources of funds and profile of customer's clients etc.

In such cases, the Company will apply higher due diligence measures keeping in view the risk level.

- iii. Special care and diligence will be taken and exercised in respect of those customers who happen to be high profile and/or Politically Exposed Persons ("PEP") within or outside country. Such persons will include:
- Foreign Delegates or those working in Foreign High commissions or Embassies,
  - Senior Politicians,

- Senior Judicial Officers,
- Senior Military Officers,
- Senior Executives of State Owned Corporations and
- Officials of important and leading political parties (as explained in Master Direction - Know Your Customer (KYC) Direction, 2016).

About the accounts of PEPs, in the event of an existing customer or the beneficial owner of an existing account subsequently becoming PEP, the Company shall obtain Credit Committee approval in such cases to continue the business relationship with such person, and undertake enhanced monitoring.

- iv. The extent of due diligence requirement will vary from case to case as the same will depend upon risk perceived by the Company while granting credit facilities to customers.

For the purpose of preparing customer profile only such relevant information from the customers will be sought based on which the Company can easily decide about the risk category in which the customers are to be placed. Ordinarily, the customer profile maintained by the Company will be kept confidential except for cases where the customer himself allows and/or gives consent for the use of the information given in customer profile / application form for offering other products / services of other companies / entities belonging to the Company's group or any other legal entity with whom the Company is having any business tie-ups. However, while taking any such permission or consent of the customer for using his above referred information provided to the Company, it will be ensured that such permission / consent of the customer is unambiguous and explicit.

- v. Cases in which the risk level is higher will require intensive due diligence exercise. Such cases will include those where the sources of funds to be used for business operations or sources to repay the loan to the Company are not clearly disclosed or cannot be ascertained from the financial statements submitted by the customer to the Company. Besides above, some of such customers in whose cases the Company will require higher due diligence measures, especially those for whom the source of funds is not clear, are mentioned below:

- NRI Customers
- Trusts (except trusts appropriately set up under a specific regulation)
- Societies
- Charitable Institutions
- NGOs and other organizations receiving donations from within or outside the country
- Partnership firms with sleeping partners
- Family owned companies
- Persons with dubious or notorious reputation as per the information available from different sources like media, newspapers etc
- Companies having close family shareholding or beneficial ownership
- Politically exposed persons (PEPs) of foreign origin means individuals who are or have been entrusted with prominent public functions in a foreign country, e.g. Heads of States or of Governments, Senior Politicians, Senior Government, important political officials
- High net worth individuals
- Non-face to face customers

## **DUE DILIGENCE OF BUSINESS PARTNERS**

The following due diligence must also be performed on prospective Business Partners.

### **A) Verify Identity:**

- i. Obtain and file legible copies of corporate formation and registration documents or public company prospectuses and government filings.
- ii. PAN card of the Directors etc.
- iii. Wherever possible (in the case of privately owned entities), arrange for recommendation from legal counsel to the company.
- iv. Wherever possible (in the case of privately owned entities), obtain from appropriate government entity confirmation of due incorporation and existence of the corporation.

B) Verify Source of Income:

- i. Research for the Company details in available news or business databases and obtain all corporate earnings information available.

The Company shall maintain files on each Business Partner with copies of all data obtained and memorialize in writing all the verification efforts. These files may be maintained electronically and should be accessible quickly when needed.

In addition to above, adequate due diligence shall be carried for co-lending partners. In cases, where co-lending partners are existing clients of the Company, reliance may be placed on existing procedures and reports. However, the Company shall have a separate record maintenance for all co-lending partners incorporating background information necessary for conducting due diligence and substantiate the business arrangement.

### **DUE DILIGENCE ON EMPLOYEES**

The Company shall perform the following Due Diligence on Prospective Employees prior to their date of joining

A) Verify Identity:

- i. Obtain originals of and file legible copies of identification documents that contain photographs of the individual. Acceptable examples include:
  - o Passports (obtain all nationalities an individual may have)
  - o PAN card
  - o Driver's license
  - o UID or Physical Aadhaar card/letter or e-Aadhaar letter

B) Verify Domicile of Residence:

- i. Example: Obtain copies of utility bill receipts or other form of objective verification of Residence, UID or Physical Aadhaar card/letter or e-Aadhaar letter (if the address provided by the customer is the same on the document submitted for identity proof)

C) Verify the previous year's Employment Record:

- i. Obtain and call the previous employer to check the credentials of the prospective employee
- ii. Check and verify the address of employee

D) Check References:

- i. Obtain 2 or more professional employment references from the prospective employee.
- ii. The prospective manager of the employee, or, the Human Resources department, must personally converse with the prospect's references. The Company shall maintain files for each employee hired together with copies of all data obtained. These files may be maintained in electronic or physical form and should be accessible quickly when needed.

Further these files will be classified as confidential data and details contained therein shall not be divulged for cross selling or any other purpose.

### **PURPOSEFUL IMPLEMENTATION**

The purpose of adopting the above measures and norms while taking decisions on the issue of customer acceptance is twofold. Firstly, the Company should not suffer financially at later stage due to lack of proper due diligence exercise and lack of information which is the exclusive possession of the customers.

Secondly, to curb and prevent any such practice by the customers which is aimed to achieve unlawful objectives or any other practice by which the financial institutions can be used to perpetuate any criminal or unlawful activities. However, at the same time, this policy does not aim or intend to deny the benefit of financial services to those who genuinely need such services / facilities due to real lack of their own sufficient financial resources.

## **CUSTOMER IDENTIFICATION PROCEDURE (CIP)**

Customer identification means identifying the customer and verifying his / her identity by using reliable, independent source documents, data or information. The Company needs to obtain sufficient information necessary to establish, to their satisfaction, the identity of each new customer, whether regular or occasional and the purpose of the intended nature of relationship. Being risk perception, the nature of information / documents required would also depend on the type of the customer (individual, corporate etc.)

### **NEED FOR PHOTOGRAPHS**

- In case of change in the authorized signatories, photograph of the new signatory should be obtained duly countersigned by the competent authorities of the concerned institution / organization;
- Where the account is operated by the letters of Authority or Power of Attorney Holder, photograph of the authority holder should be obtained duly attested by the Borrower / Depositor.

### **PROOF OF CUSTOMERS' ADDRESS**

A detailed list of the features to be verified and documents that may be obtained from the Customers are given in Master Direction - Know Your Customer (KYC) Direction, 2016 of this policy document. A Photostat copy of the proofs should be filed along with the loan application. In case of need, the Company Manager can depute an official to visit the account holder / loan applicant at the given address to satisfy about the genuineness of the address.

### **VIDEO – CUSTOMER IDENTIFICATION PROCEDURE**

As per the Clause 18 of the amended Master Direction on KYC dated 10<sup>th</sup> May 2021, the company shall undertake V-CIP to carry out the following:

- i. CDD in case of new customer on-boarding for individual customers, proprietor in case of proprietorship firm, authorised signatories and Beneficial Owners (BOs) in case of Legal Entity (LE) customers. Provided that in case of CDD of a proprietorship firm, the Company shall also obtain the equivalent e-document of the activity proofs with respect to the proprietorship firm, as mentioned in Clause 28 of the Master Directions on KYC, apart from undertaking CDD of the proprietor.
- ii. Conversion of existing accounts opened in non-face to face mode using Aadhaar OTP based e-KYC authentication as per Clause 17 of the Master Directions on KYC.
- iii. Updation/ Periodic updation of KYC for eligible customers.

Further the Company shall adhere to the minimum standards specified in the Master Directions amendment w.r.t V-CIP infrastructure, procedure, record and data management.

The Company shall take assistance of Banking Correspondents (BCs) in facilitating the V-CIP only at the customer end. However, the company shall maintain the details of the BC assisting the customer, incase the service of BCs are utilized. The ultimate responsibility for customer due diligence will be with the Company.

### **PROVISIONS UNDER PMLA**

As per the provisions of Rule 9 of the Prevention of Money Laundering (Maintenance of Records of the Nature and Value of Transactions, The Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of the Banking Companies, Financial Institutions and Intermediaries) Rules, 2005 (hereinafter referred to as PML Rules), the Company shall:

- At the time of commencement of an account-based relationship, identify its clients, verify their identity and obtain information on the purpose and intended nature of the business relationship and
- In all other cases, verify identify while carrying out:
  - ✓ Transaction of an amount equal to or exceeding rupees fifty thousand, whether conducted as a single transaction or several transactions that appear to be connected,
  - ✓ Any international money transfer operations.

In terms of proviso to rule 9 of the PML Rules, the relaxation, in verifying the identity of the client within a reasonable time after opening the account / execution of the transaction, stands withdrawn.

Abiding by the provisions of Rule 9, the Company shall identify the beneficial owner and take all reasonable steps to verify his identity. The said Rule also require that the Company should exercise ongoing due diligence with respect to the business relationship with every client and closely examine the transactions to ensure that they are consistent with their knowledge of the customer, his business and risk profile.

Customer identification requirements shall be as per the provisions of the said rule.

### **PERIODIC UPDATION OF KYC**

<b>S.NO</b>	<b>Basis Risk category</b>	<b>Frequency</b>
1	High risk customers	Once in every two years from the date of opening of the account / last KYC updation
2	Medium risk customers	Once in every eight years from the date of opening of the account / last KYC updation
3	Low risk customers	Once in every ten years from the date of opening of the account / last KYC updation

The company shall obtain self-declaration from Individual customers and non- Individual customers in case of no change in their KYC details. However, in case of change in address of individual customer a self-declaration of such change and proof of new address to be obtained and the declared address shall be verified through positive confirmation within two months, by means such as address verification letter, contact point verification, deliverables etc.

The Company shall obtain a copy of OVD or deemed OVD or the equivalent e-documents thereof, as defined in Section 3(a)(xiii) of Master Direction on KYC, for the purpose of proof of address, declared by the customer at the time of periodic updation.

Incase of change in KYC information of non-individual customer, the Company shall undertake a KYC process which shall be equivalent to on-boarding a new customer.

### **MONITORING OF TRANSACTIONS AND MAINTENANCE OF RECORDS OF TRANSACTIONS**

It is equally essential for the Company to have a clear knowledge and understanding about the normal working pattern and activity of the customer so that the Company can identify all such unusual transactions which would fall outside the normal transactions of the customer.

To achieve this purpose, ongoing monitoring is necessary. The extent of such monitoring will depend upon the level of risk involved in a particular account. Any transaction or activity of the customer which gives rise to suspicion will be given special attention. Such monitoring is important to keep a check on any act or omission of the customer which may amount to money laundering or support any act relating to use of finance for criminal activities.

### **SUSPICIOUS TRANSACTION REPORT (STR)**

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. Throughout this guideline, any mention of a “transaction” includes one that is either completed or attempted.

“Reasonable grounds to suspect” is determined by what is reasonable in the circumstances, including normal business practices and systems within the industry.

There is no monetary threshold for making a report on a suspicious transaction. A suspicious transaction may involve several factors that may on their own seem insignificant, but together may raise suspicion that the transaction is related to the commission or attempted commission of a money laundering offence, a terrorist activity financing offence, or both. The context in which the transaction occurs or is attempted is a significant

factor in assessing suspicion.

An assessment of suspicion should be based on a reasonable evaluation of relevant factors, including the knowledge of the customer's business, financial history, background and behaviour.

An illustrative (but not exhaustive) list of suspicious transactions is furnished in "Annexure-1".

Responsibility:

The Compliance Team in co-ordination with the Institutional Business Team should review the STR Reports generated by the AML system and finalize the transactions to be reported as STR. The Compliance Team is responsible for reporting the same to FIU-IND. The AML software has been implemented to monitor suspicious transactions based on criteria defined in the software at a defined frequency. The following activities will be undertaken in the process of reporting suspicious transactions:

- Monitoring of large value and exceptional transactions based on alerts defined
- Liaison with Institutional Business Teams for responses / clarifications on STR alerts
- Escalation of suspicious transactions to respective business heads / product heads
- Filing Cash Transaction Report (CTR) with the FIU by 15th of subsequent month
- Filing Suspicious Transaction Report (STR) with FIU by 15th of subsequent month from date of establishing of suspicious transaction as per the FIU format in both electronic and manual form
- Scrutinizing sample of customer data against UNSCR and other negative lists as issued by NHB/ other Regulatory / Statutory entities from time-to-time and escalating the same to Business Heads.

The Company shall ensure the following:

- carry out an internal Money Laundering and Terrorist Financing risk assessment periodically involving the below mentioned aspects in relation to the onboarded clients
- identify, assess and take effective measures to mitigate its money laundering and terrorist financing risk for clients, countries or geographic areas, products, services, transactions or delivery channels, etc.
- cognizance of the overall sector-specific vulnerabilities, if any, that the regulator/supervisor may share with REs from time to time
- be commensurate to the size, geographical presence, complexity of activities/structure, etc. of the clients
- apply a Risk Based Approach (RBA) for mitigation and management of the identified risk and should have Board approved policies, controls and procedures in this regard.

### **CASH TRANSACTION REPORTS (CTR)**

All individual cash transactions in an account during a calendar month, where either debits or credit summation, computed separately, exceeding Rupees Ten Lakhs or its equivalent in foreign currency, during the month should be reported to FIU-IND. However, while filing CTR, details of individual cash transactions below Rupees Fifty Thousand may not be indicated.

The Principal Officer should ensure submission of CTR for every month to FIU-IND before 15th of the succeeding month. CTR should contain only the transactions carried out by the Company on behalf of their clients/customers excluding transactions between the internal accounts of the Company.

### **COUNTERFEIT CURRENCY REPORT (CCR)**

A separate Counterfeit Currency Report should be filed for each incident of detection of Counterfeit Indian currency. If the detected counterfeit currency notes can be segregated on the basis of tendering person, a separate CCR should be filed for each such incident. These transactions should be reported to Director, Financial Intelligence Unit, India by not later than the 15th of the succeeding month from the date of occurrence of such transactions.

Compliance to collate all the data and report to NHB / RBI under PMLA, as mentioned above.

### **MONITORING & REPORTING OF TRANSACTIONS**

The Company will keep a continuous vigil, if any of the following acts or events is noticed in relation to the customer's approach or behaviour while dealing with the Company:

- 1) Reluctance of the customer to provide confirmation regarding his identity
- 2) Loan money is used for the purpose other than the one mentioned in the sanction letterform and the real purpose is not disclosed to the Company
- 3) Customer forecloses the loan prior to the stated maturity
- 4) Customer suddenly pays a substantial amount towards partial repayment of the loan
- 5) Customer defaults regularly and then pays substantial cash at periodical intervals i.e. once in six months.

The Company shall pay special attention to all complex, high-risk, unusually large transactions and all unusual or suspicious patterns which have no apparent economic or visible lawful purpose.

The Company may prescribe threshold limits for a particular category of accounts and pay close attention to the transactions that exceed the prescribed threshold limits. Keeping this in view, the Company shall pay particular attention to the cash transactions which exceed the limits of Rs. 10 lakhs, either per transaction or credit and debit summation in a single month. This would include transaction where the customer by way repayment of loan, whether in part or full, deposit Rs. 10 lakhs and above in cash. Such transactions shall be reported to the Risk Department(if have) and the Principal Officer appointed as per this policy. In such cases, the Company shall keep a close and careful watch on the subsequent mode of payments adopted by such customer.

Transactions that involve large amounts of cash inconsistent with the normal and expected activity of the customer shall attract special attention of the Company. Very high account turnover inconsistent with the size of the balance maintained may indicate that funds are being 'washed' through that account. Company shall ensure that proper record of all transactions and cash transactions (deposits and withdrawals) of Rs.10 lakhs and above in the accounts is preserved and maintained as required under the PMLA.

The Company shall introduce a system of maintaining proper record of the following transactions:

1. All cash transactions of the value of more than rupees Ten lakhs to its equivalent in foreign currency;
2. All series of cash transactions integrally connected to each other which have been valued below rupees Ten lakhs or its equivalent in foreign currency where such series of transactions have taken place within a month and the aggregate value of such transactions exceeds rupees Ten lakhs;
3. All transactions involving receipts by non-profit organizations of rupees ten lakhs or its equivalent in foreign currency;
4. All suspicious transactions, where forged or counterfeit currency notes or bank notes have been used as genuine and where any forgery of valuable security or a document has taken place facilitating the transactions;
5. All suspicious transactions whether or not made in cash and by way of as mentioned in the Rules.

The Company shall ensure that it continues to maintain proper record of all cash transactions (deposits and withdrawals) of Rs. 10 lakhs and above. The internal monitoring system shall have an inbuilt procedure for reporting of such transactions and those of suspicious nature whether made in cash or otherwise, to controlling / head office on a fortnightly basis.

The records shall be preserved in the following manner:

- i) The nature of transactions
- ii) The amount of the transaction and the currency in which it was denominated
- iii) The date on which the transaction was conducted
- iv) The parties to the transaction

The information in respect of the transactions referred to in clauses I, II and III referred above will be submitted to the Director - FIU every month by the 15th day of the succeeding month.

The information in respect of the transactions referred to in clause IV referred above will be furnished promptly to the Director - FIU in writing, or by fax or by electronic mail not later than seven working days from the date of occurrence of such transaction.

The information in respect of the transactions referred to in clause V referred above will be furnished promptly by the Director - FIU in writing, or by fax or by electronic mail not later than seven working days

on being satisfied that transaction is suspicious.

Strict confidentiality will be maintained by the Company and its employees of the fact of furnishing / reporting details of such suspicious transactions.

As advised by the FIU-IND, New Delhi; the Company will not be required to submit 'NIL' reports in case there are no Cash / Suspicious Transactions, during a particular period.

The reporting of the requisite information in respect of cash transactions and suspicious transactions shall be as per the provided formats and shall be in accordance with the reporting guide provided by FIU-IND.

The required information will be furnished by the Company directly to the FIU-IND, through the designated Principal Officer.

High risk accounts shall be subjected to intensified monitoring. The Company shall set key indicators for such high risk accounts, taking note of the background of the customer, which will include country of origin, source of funds, the type of transactions involved (like accounts having unusual transactions, inconsistent turnover, etc) and other risk factors. Additionally, the Company shall put in place a system of periodical review of risk categorization of accounts and the need for applying enhanced due diligence measures basis the revised risk categories.

In addition to the Ordinary Monitoring Standards, any high-risk accounts should also receive the following monitoring:

- Conduct periodic (at least quarterly) reviews of all medium to high-risk accounts
- Create additional reports designed to monitor all transactions in an account to detect patterns of potential illegal activities
- Follow up on any expectations detected from the monitoring reports by contacting the account owner personally to inquire about the unusual activity detected and regularly report status of account inquiries to Compliance Officer.

The Company shall monitor and report such transactions in a manner specified in “Annexure 2”.

## **RISK MANAGEMENT**

- I. For effective implementation of KYC policy there will be a proper co-ordination, communication and understanding amongst all the departments of the Company. The Board of Directors shall ensure that an effective KYC program is put in place by establishing proper procedures and ensuring their effective implementation. Heads of all the Departments will ensure that the respective responsibilities in relation to KYC policy are properly understood, given proper attention and appreciated and discharged with utmost care and attention by all the employees of the Company.
- II. The Risk department of the Company will carry out quarterly checks to find out as to whether all features of KYC policy are being followed and adhered to by all the Departments concerned. The Risk Department shall sign off on the KYC documents for corporate entities, before every disbursement.  
  
The Company shall also mandatorily include KYC adherence in its internal audit scope every quarter. For co-lending partners, the Company shall carry out sample quarterly KYC sample audit by independent audit firms to assess adherence with the KYC norms.
- III. Company will take steps to ensure that its internal auditors are made well versed with this policy that will carry out regular checks about the compliance of KYC procedures by all the branches of the Company. Any lapse or short coming observed by the internal auditors will be brought to the notice of Department Heads concerned. There will be quarterly assessment to check the compliance level by a committee to be constituted by the Board.
  - I. Hiring of Employees and Employee training
    - a. Adequate screening mechanism as an integral part of their personnel recruitment/ hiring process shall be put in place.
    - b. On-going employee training shall be provided to all the employees to adequately train them in AML / CFT and KYC procedures, related policies, regulations and issues.

- II. The inadequacy or absence of KYC standards can subject the Company to serious risks especially reputational, operational, legal and concentration risks.
  - a. Reputational risk is defined as the risk of loss of confidence in the integrity of the institution, that adverse publicity regarding the Company's business practices and associations, whether accurate or not causes.
  - b. Operational risk can be defined as the risk of direct and indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.
  - c. Legal risk is the possibility that law suits, adverse judgments or contracts that turn out to be unenforceable can disrupt or adversely affect the operations or condition of the Company.
  - d. Concentration risk although mostly applicable on the assets side of the balance sheet, may affect the liability as it is also closely associated with funding risk, particularly the risk of early and sudden withdrawal of funds by large depositors, with potentially damaging consequences for the liquidity of the Company.

All these risks are interrelated. Any one of them can result in significant financial cost to the Company and diverts considerable management time and energy to resolving problems that arise.

## **POLICY IMPLEMENTATION GUIDELINES**

### **Customer education**

For implementing KYC policy, the Company shall have to seek personal and financial information from the new and intended customers at the time they apply for availing the loan facilities. It is likely that any such information, if asked from the intended customer, may be objected to or questioned by the customers. To meet such situation, it is necessary that the customers are educated and appraised about the sanctity and objectives of KYC procedures so that the customers do not feel hesitant or have any reservation while passing on the information to the Company. For this purpose, all the staff members with whom the customers will have their first interaction / dealing will be provided special training to answer any query or questions of the customers and satisfy them while seeking certain information in furtherance of KYC Policy. To educate the customers and win their confidence in this regard, Company may arrange printed materials containing all relevant information regarding KYC Policy and anti-money laundering measures. Such printed materials will be circulated amongst the customers and in case of any question from any customer, the Company staff will attend the same promptly and provide and explain reason for seeking any specific information and satisfy the customer in that regard.

### **Introduction of new technologies**

As part of the KYC and AML Policy, special attention should be paid to any money laundering threats that may arise from new or developing technologies including on-line transactions that might favour anonymity and adequate measures, if needed, should be taken to prevent their use in money laundering schemes. The Principal Officer should ensure to submit CTR for every month to FIU-IND within the prescribed time schedule.

### **Applicability to branches and subsidiaries outside India**

The KYC and AML Policy will also apply to the branches and majority owned subsidiaries of the Company located abroad, if any. When local applicable laws and regulations prohibit implementation of these guidelines, the same will be brought into the notice of RBI.

### **KYC policy for existing customers**

Although this KYC Policy will apply and govern all the new and prospective customers; some of the KYC procedures laid down in this policy particularly which deal with Customer Identification, Monitoring of Transactions and Risk Management can be effectively applied to the existing customers and their loan accounts. While applying such KYC procedures to the existing loan accounts if any unusual pattern is noticed, the same should be brought to the notice of the Department Heads concerned and the Principal

Officer appointed by the Company as per RBI directives.

In case any existing customer does not co-operate in providing the information required as per KYC policy or conducts himself in such manner which gives rise to suspicion about his identity or credentials, such matters will be brought to the notice of Principal Officer who in turn will make necessary inquiries and if required shall forward the name of such customers to the authorities concerned for appropriate action. Besides above, in such situation the

Company, for reasons to be recorded, may recall the loan granted to such customers and take recourse to legal remedy against the customers as well as security furnished by such customers.

### **APPOINTMENT OF DESIGNATED DIRECTOR**

A "Designated Director" means a person designated by the RE to ensure overall compliance with the obligations imposed under Chapter IV of the PML Act and the Rules and shall be nominated by the Board. (b) The name, designation and address of the Designated Director shall be communicated to the FIU-IND. (c) In no case, the Principal Officer shall be nominated as the 'Designated Director'.

### **APPOINTMENT OF PRINCIPAL OFFICER**

To ensure effective implementation of this KYC Policy and a proper co-ordination and communication between the Company and RBI and other enforcement agencies, the Company shall designate a senior official Principal Officer who will operate from the corporate office of the Company. The job of the Principal Officer will be to maintain an effective communication and liaison with RBI and other enforcement agencies which are involved in the fight against money laundering and combating financing of terrorism, and to take appropriate steps in all such matters which are brought to the notice of the Principal Officer by any department of the Company regard to any suspicious acts or omissions or acts of noncompliance on the part of any customers.

The name of the Principal Officer so designated, his designation and address including changes from time to time, may please be advised to the Director, FUI-IND.

Principal Officer shall be located at the branch office of the Company. and will be the official responsible for ensuring fraud monitoring and reporting in accordance with RBI directions.

### **MAINTENANCE AND PRESERVATION OF RECORDS**

As per the provisions of PMLA, the Company shall maintain records as under:

- a) Records of all transactions referred to in clause (a) of Sub-section (1) of section 12 read with Rule 3 of the PML Rules [referred to in Para 5. Supra] are required to be maintained for a period of ten years from the date of transactions between the Clients and the Company.
- b) Records of the identity of all clients of the Company are required to be maintained for a period of ten years from the date of cessation of transactions between the Clients and the Company.

The Company will ensure that the appropriate steps are taken to evolve a system for proper maintenance and preservation of information in a manner (in hard and soft copy) that allows data to be retrieved easily and quickly whenever required or when requested by the competent authorities.

### **FRAUD MONITORING AND REPORTING**

The Principal Officer is also responsible to continuous monitoring of fraud as per the established monitoring mechanism of the Company and shall ensure submission of all the returns to the Reserve Bank of India and reporting referred to in RBI Directions.

### **REPORTING TO FINANCIAL INTELLIGENCE UNIT - INDIA**

The Principal Officer will report information relating to cash and suspicious transactions if detected, to the Director, Financial Intelligence Unit-India (FIU-IND) as advised in terms of the PMLA rules, in the prescribed formats as designed and circulated by RBI at the following address:

Director, FIU-IND, Financial

Intelligence Unit,

India, 6th Floor, Hotel Samrat, Chanakyapuri,

New Delhi - 110021

Where the Principal Officer has reason to believe that a single transaction or series of transactions integrally connected to each other have been valued below the prescribed value to so to defeat the provisions of PMLA rules, such officer shall furnish information in respect of such transactions to the Director, FIU-IND, within the prescribed time.

A copy of all information furnished shall be retained by the Principal Officer for the purposes of official record.

#### **GENERAL**

The Company shall ensure that the provisions of PMLA and the Rules framed thereunder and the Foreign Contribution and Regulation Act, 1976, wherever applicable, are adhered to strictly.

Where the Company is unable to apply appropriate KYC measures due to non-furnishing of information and /or non-cooperation by the customer, the Company may consider closing the account or terminating the business relationship after issuing due notice to the customer explaining the reasons for taking such a decision. Such decisions need to be taken at a reasonably senior level.

## Annexure I

### Illustrative list of suspicious activities<sup>2</sup> Transactions

#### Involving Large Amounts of Cash

- i. Exchanging an unusually large amount of small denomination notes for those of higher denomination;
- ii. Purchasing or selling of foreign currencies in substantial amounts by cash settlement despite the customer having an account with the bank;
- iii. Frequent withdrawal of large amounts by means of cheques, including traveller's cheques;
- iv. Frequent withdrawal of large cash amounts that do not appear to be justified by the customer's business activity;
- v. Large cash withdrawals from a previously dormant/inactive account, or from an account which has just received an unexpected large credit from abroad;
- vi. Company transactions, both deposits and withdrawals, that are denominated by unusually large amounts of cash, rather than by way of debits and credits normally associated with the normal commercial operations of the company, e.g. cheques, letters of credit, bills of exchange etc.;
- vii. Depositing cash by means of numerous credit slips by a customer such that the amount of each deposit is not substantial, but the total of which is substantial.

#### Transactions that do not make Economic Sense

- i. A customer having a large number of accounts with the same bank, with frequent transfers between different accounts;
- ii. Transactions in which assets are withdrawn immediately after being deposited, unless the customer's business activities furnish a plausible reason for immediate withdrawal.

#### Activities not consistent with the Customer's Business

- i. Corporate accounts where deposits or withdrawals are primarily in cash rather than cheques.
- ii. Corporate accounts where deposits & withdrawals by cheque/telegraphic transfers/foreign inward remittances/any other means are received from/made to sources apparently unconnected with the corporate business activity/dealings.
- iii. Unusual applications for DD/TT/PO against cash.
- iv. Accounts with large volume of credits through DD/TT/PO whereas the nature of business doesnot justify such credits.
- v. Retail deposit of many cheques but rare withdrawals for daily operations.

#### Attempts to avoid Reporting/Record-keeping Requirements

- i. A customer who is reluctant to provide information needed for a mandatory report, to have the report filed or to proceed with a transaction after being informed that the report must be filed.
- ii. Any individual or group that coerces/induces or attempts to coerce/induce a bank employee not to file any reports or any other forms.
- iii. An account where there are several cash deposits/withdrawals below a specified threshold level to avoid filing of reports that may be necessary in case of transactions above the threshold level, as the customer intentionally splits the transaction into smaller amounts for the purpose of avoiding the threshold limit.

#### Unusual Activities

- i. An account of a customer who does not reside/have office near the branch even though there are bank branches near his residence/office.

- ii. A customer who often visits the safe deposit area immediately before making cash deposits, especially deposits just under the threshold level.
- iii. Funds coming from the list of countries/centers which are known for money laundering.

#### Customer who provides Insufficient or Suspicious Information

- i. A customer/company who is reluctant to provide complete information regarding the purpose of the business, prior banking relationships, officers or directors, or its locations.
- ii. A customer/company who is reluctant to reveal details about its activities or to provide financial statements.
- iii. A customer who has no record of past or present employment but makes frequent large transactions.

#### Certain Suspicious Funds Transfer Activities

- i. Sending or receiving frequent or large volumes of remittances to/from countries outside India.
- ii. Receiving large TT/DD remittances from various centers and remitting the consolidated amount to a different account/center on the same day leaving minimum balance in the account.
- iii. Maintaining multiple accounts, transferring money among the accounts and using one account as a master account for wire/funds transfer.

#### Certain Bank Employees arousing Suspicion

- i. An employee whose lavish lifestyle cannot be supported by his or her salary.
- ii. Negligence of employees/willful blindness is reported repeatedly.

#### Some examples of suspicious activities/transactions to be monitored by the operating staff-

- Large Cash Transactions
  - Multiple accounts under the same name
  - Frequently converting large amounts of currency from small to large denomination notes
  - Placing funds in term Deposits and using them as security for more loans
  - Large deposits immediately followed by wire transfers
  - Sudden surge in activity level
  - Same funds being moved repeatedly among several accounts
  - Multiple deposits of money orders, Banker's cheques, drafts of third parties
  - Transactions inconsistent with the purpose of the account
  - Maintaining a low or overdrawn balance with high activity
- Check list for preventing money-laundering activities:
- A customer maintains multiple accounts, transfer money among the accounts and uses one account as a master account from which wire/funds transfer originates or into which wire/funds transfer are received (a customer deposits funds in several accounts, usually in amounts below a specified threshold and the funds are then consolidated into one master account and wired outside the country).
  - A customer regularly depositing or withdrawing large amounts by a wire transfer to, from, or through countries that are known sources of narcotics or where Bank secrecy laws facilitate laundering money.
  - A customer sends and receives wire transfers (from financial haven countries) particularly if there is no apparent business reason for such transfers and is not consistent with the customer's business or history.

- A customer receiving many small incoming wire transfer of funds or deposits of cheques and money orders, then orders large outgoing wire transfers to another city or country.
- A customer experiences increased wire activity when previously there has been no regular wireactivity.
- Loan proceeds unexpectedly are wired or mailed to an offshore Bank or third party.
- A business customer uses or evidences or sudden increase in wired transfer to send and receive large amounts of money, internationally and/ or domestically and such transfers are not consistent with the customer's history.
- Deposits of currency or monetary instruments into the account of a domestic trade or business, which in turn are quickly wire transferred abroad or moved among other accounts for no particular business purpose.
- Sending or receiving frequent or large volumes of wire transfers to and from offshore institutions.
- Instructing the Bank to transfer funds abroad and to expect an equal incoming wire transfer from other sources.
- Wiring cash or proceeds of a cash deposit to another country without changing the form of the currency
- Receiving wire transfers and immediately purchasing monetary instruments prepared for payment to a third party.
- Periodic wire transfers from a person's account/s to Bank haven countries.
- A customer pays for a large (international or domestic) wire transfers using multiple monetary instruments drawn on several financial institutions.
- A customer or a non-customer receives incoming or makes outgoing wire transfers involving currency amounts just below a specified threshold, or that involve numerous Bank or travelers cheques
  - A customer or a non customer receives incoming wire transfers from the Bank to 'Pay upon proper identification' or to convert the funds to bankers' cheques and mail them to the customer or non-customer, when
  - The amount is very large (say over Rs.10lakhs)
  - The amount is just under a specified threshold (to be decided by the Bank based on local regulations, if any)
  - The funds come from a foreign country or
  - Such transactions occur repeatedly.
- A customer or a non-customer arranges large wire transfers out of the country which are paid for by multiple Bankers' cheques (just under a specified threshold).

## **Annexure 2**

### Process for monitoring and reporting of suspicious transactions

#### 1. Raising suspicion

When the concerned officer has reason to believe that a transaction is/ may be a suspicious transaction, which may be linked with terrorist activity or money laundering, s/he must flag the issue forthwith to the senior management. The concerned officer may consider the following for the purpose of flagging such issue:

- Amount involved are related to crimes of money laundering, the financing of terrorism, or the financing of illegal organisations;
- Amount involved are intended to be used in an activity related to such crimes.

#### 2. Identification and evaluation

Once the issue is flagged, a formal due diligence is to be conducted to evaluate the suspicion, which shall factor all the attributes and nature of the transaction and in terms of volume, track record, time of transaction, KYC records, behavioural patterns, customer due-diligence information etc.

Additional details in relation to a client can be obtained to substantiate further information. Once proper documentation is obtained and if the concerned officer is satisfied, the issue shall be closed and recorded.

Mere presence of an indicator of suspicion does not necessarily always mean that a transaction is suspicious and needs to be reported. When determining whether a transaction is suspicious, consideration to be given to the nature of the specific circumstances, including the products or services involved, and the details of the customer in the context of its due diligence profile. In some cases, patterns of activity or behaviour that might be considered as suspicious in relation to a specific customer or a particular product type, might not be suspicious in regard to another.

In case, the concerned officer is not satisfied, it shall be further evaluated, and a formal report shall be submitted to senior management.

#### 3. **Reporting of STR**

The senior management may record the reasons therein and evaluate on onward reporting to FIU-IND. Once the senior management is satisfied, that the suspicious transaction is valid and reportable, the same is reported to FIU-IND in accordance with the prescribed formats.

The fact of furnishing of suspicious transactions shall be strictly kept confidential to ensure that there is no tipping off to the customer at any level.