

NATIONAL TRUST HOUSING FINANCE LIMITED

POLICY ON “KNOW YOUR CUSTOMER” STANDARDS AND “ANTI MONEY LAUNDERING” MEASURES

I. PREAMBLE

The Company has put in place a comprehensive policy framework covering KYC standards and AML measures, in terms of the guidelines issued by National Housing Bank vide its various circulars latest being NHB/ND/DRS/Policy Circular No. 94/2018-19 dated March 11,2019 on KYC Standards and AML Measures.

This policy document is prepared taking into account cognizance of the NHB guidelines and incorporates the Company's approach to customer acceptance, customer identification procedures, customer profiling based on the risk perception and monitoring of transactions on an ongoing basis.

The KYC/AML policy was originally approved by the Board on 25th October 2006, and reviewed periodically thereafter. The last such review was approved by the Board in their 118th Board Meeting dated 30th July 2019.

Policy Objectives

- i. To prevent the Company from being used, intentionally or unintentionally, by criminal elements for money laundering or financing terrorist activities.
- ii. To enable the Company to know/understand the customers and their financial dealings better, which in turn shall help the Company to manage risks prudently.
- iii. To put in place appropriate controls for detection and reporting of suspicious activities in accordance with applicable laws/laid down procedures.
- iv. To comply with applicable laws and regulatory guidelines.
- v. To take necessary steps to ensure that the relevant staff are adequately trained in KYC/AML procedures.

Scope of the Policy

This policy is applicable to all branches and offices of the Company and is to be read in conjunction with related operational guidelines issued from time to time.

The contents of the policy shall always be read in tandem/auto-corrected with the changes/modifications which may be advised by NHB and / or by (PMLA and its amendments)/ or by any regulators and / or by Company from time to time.

Modification and Review

The policy shall be reviewed periodically (at least once in a Financial Year) incorporating changes needed in view of the amendments issued from time to time by NHB and FIU-India. The KYC/AML Policy shall be updated and submitted to the Board of Directors, for approval.

Disclosure

The KYC/AML Policy shall be disseminated among all departments, offices and branches for complying KYC/AML standards.

The Company shall have an on-going employee-training programme so that members of the staff are adequately trained in KYC/AML procedures.

II. KNOW YOUR CUSTOMER [KYC] POLICY

Four key elements to the KYC guidelines

1. Customer Acceptance Policy;
2. Risk Management;
3. Customer Identification Procedures; and
4. Monitoring of Transactions.

Designated Director

Mr. Alok Aggarwal, Managing Director is nominated by the Board of Directors as the Designated Director for the purposes of 'Know Your Customer' and 'Anti-Money Laundering Measures' for the Company. He will ensure overall compliance with the obligations imposed under Chapter IV of the Act

Principal Officer

Mr. Ravi Kannan - Chief Financial Officer has been designated as the Principal Officer for the aforesaid purpose.

Compliance of KYC

Senior Management for the purpose of KYC compliance are as under :

Mr. Ravi Kannan, Chief Financial Officer
Mr. M A Qadir, Vice President – Head Sales
Ms. V Jayashree, Asst. Vice President - Credit
Mr. P. Balaji, Asst. Vice President- Legal

Allocation of responsibility for effective implementation of policies and procedures.

- Customer Acceptance Policy: Head - Sales, Manager- Direct Sales Team & Branch Managers.
- Customer Identification Procedures: AVP-Credit, Sr. Manager–Credit, Manager – Credit Operations & Branch Credit Officers.
- Risk Management: Asst. Vice President –Risk & Recovery.
- Monitoring of Transactions: Sr. Manager –Finance & Accounts & Branch Accountants.
- Independent evaluation of compliance functions of NATRUST's policies and procedures including legal and regulatory requirements: Mr. Vikraman J, Company Secretary & Internal Audit team of NATRUST.
- The Principal Officer designated by the Company in this regard shall have responsibility in managing oversight and coordinating with various functionaries in the implementation of KYC/AML Policy.

- Designated Director shall be responsible for the overall compliance with the obligations under the Act and Rules.

Internal Audit

Internal Audit to verify the compliance with KYC/Anti-Money Laundering (AML) policies and procedures and provide monthly report.

Reporting to Audit Committee.

Company to submit quarterly audit notes and compliance to the Audit Committee.

Definition of Customer

For the purpose of KYC policy, a "Customer" is defined as:

i. A person or entity who/that maintains a loan account and/or has a business relationship with the Company

- (a) an individual
- (b) 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 with any one of the above persons (a to e), and
- (g) any agency, office or branch owned or controlled by any of the above persons (a to f)

ii. One on whose behalf the account is maintained (i.e. the beneficial owner)

Beneficial Owner (BO):

(a) Where the customer is a company, the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has/have a controlling ownership interest or who exercise control through other means.

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

(i) "Controlling ownership interest" means ownership of/entitlement to more than 25 per cent of the shares or capital or profits of the company.

(ii) "Control" shall include the right to appoint majority of the directors or to control the management or policy decisions including by virtue of their shareholding or management rights or shareholders agreements or voting agreements.

(b) Where the customer is a partnership firm, the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has/have ownership off entitlement to more than 15 per cent of capital or profits of the partnership.

(c) Where the customer is an unincorporated association or body of individuals, the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has/have ownership or entitlement to more than 15 per cent of the property or capital or profits of the unincorporated association or body of individuals.

Explanation- Term 'body of individuals' includes societies. Where no natural person is identified under (a), (b) or (c) above, the beneficial owner is the relevant natural person who holds the position of senior managing official.

(d) Where the customer is a trust, the identification of beneficial owner(s) shall include identification of the author of the trust, the trustee, the beneficiaries with 15% or more interest in the trust and other natural person exercising ultimate effective control over the trust through a chain of control or ownership.

III. CUSTOMER ACCEPTANCE POLICY:

The guidelines / criteria for acceptance of customers shall be based on the following:

- No loan account of a customer is opened in anonymous or fictitious / benami name(s).
- No new customer account shall be opened where we are unable to apply appropriate Customer Due Diligence (CDD) measures, either due to non-cooperation of the customer or non-reliability of the documents/information furnished by the customer.
- No transaction or account based relationship is undertaken without following the CDD procedure.
- The mandatory information (Official Valid Documents) to be sought for KYC purpose while opening an account and during the periodic updation as per Annexure I.
- Optional / additional information is obtained with the explicit consent of the customer after the account is opened.
- CDD procedure is followed for all the joint account holders, while opening an account.
- Accept customers after verifying their identity as laid down in Customer Identification Procedures.
- If an existing KYC compliant customer of the company desires to open another loan account, there shall be no need for a fresh CDD exercise.
- A customer is permitted to act on behalf of another person only in case of NRI . In such cases the POA holder should also become party to the loan and should be close blood relative of the NRI say, Father, Mother, son or brother, Father-in-law, Mother-in-law.
- Dedupe to be done before accepting a loan application to ensure that the identity of the customer does not match with any person or entity, whose

name appears in the sanctions lists issued by UN Security Council circulated by National Housing Bank and the sanctions lists circulated by Reserve Bank of India from time to time.

IV. RISK MANAGEMENT

The Company shall adopt a risk-based approach to ensure that an effective KYC programme is put in place by establishing appropriate procedures and ensuring their effective implementation.

A profile for each existing and new customer shall be prepared based on risk categorization. The customer's profile shall contain information relating to customer's identity, background of the customer, nature of business activity/employment, location of customer / activity, country of origin, sources of funds, mode of payments, volume of turnover, social and financial status etc. The nature and extent of due diligence shall depend on the risk categorization of the customer.

c) For the purpose of risk categorization, individuals (other than High Net Worth) and entities whose identities and sources of wealth can be easily identified and transactions in whose accounts by and large conform to the known profile, may be categorized as low risk. Illustrative examples of low risk customers could be salaried employees whose salary structures are well defined, people belonging to lower economic strata of the society whose accounts show small balances and low turnover, Government Departments & Government owned companies, regulators and statutory bodies, etc. In such cases, the policy may require that only the basic requirements of verifying the identity and location of the customer are to be met.

d) Customers that are likely to pose a higher than average risk to the HFC may be categorized as medium or high risk depending on customer's background nature and location of activity, country of origin, sources of funds and his client, profile, etc. HFCs may apply enhanced due diligence measures based on the risk assessment, thereby requiring intensive 'due diligence' for higher risk customers, especially those for whom the sources of funds are not clear.

Examples of customers requiring higher due diligence may include

- non-resident customers,
- high net worth individuals,
- trusts, charities, NGOs and organizations receiving donations,
- companies having close family shareholding or beneficial ownership,
- firms with 'sleeping partners',
- politically exposed persons (PEPs) of foreign origin,
- non-face to face customers, and
- those with dubious reputation as per public information available, etc.

An indicative risk categorization of customers based on customer types is provided in Annexure II, which would be reviewed periodically by the Risk Management Committee of the Company.

While preparing customer profile, care shall be taken to seek only such information from the customer, which is relevant to the risk category and is not intrusive.

The customer profile is a confidential document and details contained therein should not be divulged for cross selling or any other purposes.

The intensive due diligence would be required for higher risk customers, especially those for whom the sources of funds are not clear.

Review of risk categorization of accounts to be done by AVP- Risk & Recovery on a quarterly basis and feed back report to be provided to Head-Sales and Head- Credit to ensure effective implementation of risk management.

A quarterly report shall be placed to Risk Management Committee.

V. CUSTOMER IDENTIFICATION PROCEDURE (CIP)

1. The Customer Identification Procedures are to be carried out at the following cases.

- a) Commencement of an account – based relationship with the customer.
- b) When there is a doubt about the authenticity or adequacy of the customer identification data it has obtained.
- c) Selling third party products as agents, selling their own products and any other product for more than rupees fifty thousand.

For the purpose of verification of identity of customers at the time of commencement of an account based relationship, Company may rely on a third party for Customer Due Diligence procedure subject to the following conditions:

- a) the Company obtains within two to four days necessary information/ records of such customer/s due diligence carried out by the third party or from Central KYC Records Registry;
- b) the Company takes adequate steps to satisfy itself that copies of identification data and other relevant documentation relating to the customer/s due diligence requirements will be made available from the third party upon request without delay;
- c) the Company is satisfied that such third party has measures in place for compliance with customer/s due diligence and record-keeping requirements in line with the requirements and obligations under the Act;
- d) the third party is not based in a country or jurisdiction assessed as high risk; and
- e) the Company shall be ultimately responsible for customer/s due diligence and shall be undertaking enhanced due diligence measures, as applicable.

VI. CUSTOMER DUE DILIGENCE (CDD) PROCEDURE

Documentation required to be submitted by the customer at the time of opening of account are advised to the Branches from time to time through circulars based on NHB and Company's internal guidelines.

The documentation requirements for completing the KYC are reviewed from time to time, based on emerging business needs of the Company.

Procedure for obtaining identification

a) While undertaking CDD, Company shall obtain the following information from an individual while establishing an account based relationship with an 'individual' or dealing with the individual who is a beneficial owner, authorised signatory or the power of attorney holder related to any legal entity:

(i) the Aadhaar number where he is desirous of receiving any benefit or subsidy under any scheme notified under Section 7 of the Aadhaar Act, or certified copy of an Officially Valid Document (OVD) containing details of identity and address, and one recent photograph and

(ii) the Permanent Account Number (PAN) or Form No. 60 as defined in Income-tax Rules, 1962, as amended from time to time.

Explanation 1- Obtaining a certified copy by the Company shall mean comparing the copy of OVD so produced by the client with the original and recording the same on the copy by the authorised officer of the Company.

Explanation 2: The submission of Aadhaar by an individual as a KYC document in cases other than mentioned at (i) above cannot be insisted upon by the Company. However, the individual, if so desires, may provide the same out of his own volition. Customers, at their option, shall submit one of the OVDs.

Explanation 3: Where the customer is submitting Aadhaar, the Company shall be guided by directions issued by Unique Identification Authority of India from time to time.

b) In case the OVD furnished by the customer does not contain updated address, the following documents shall be deemed to be OVDs for the limited purpose of proof of address:-

- i. utility bill which is not more than two months old of any service provider (electricity, telephone, post-paid mobile phone, gas connection, water bill);
- ii. property or Municipal tax receipt;
- iii. pension or family pension payment orders (PPOs) issued to retired employees by Government Departments or Public Sector Undertakings, if they contain the address;
- iv. letter of allotment of accommodation from employer issued by State Government or Central Government Departments, Statutory or regulatory bodies, public sector undertakings, scheduled commercial banks, financial institutions and listed companies and leave and license agreements with such employers allotting official accommodation;

Provided that in case the OVD submitted by a NRI does not contain the details of address, in such case the documents issued by the Government departments of foreign jurisdictions and letter issued by the Foreign Embassy or Mission in India shall be accepted as proof of address.

Provided further that the customer shall submit updated OVD with current address within a period of three months of submitting the above documents.

c) A customer already having an account based relationship with the Company, shall submit his Permanent Account Number or Form No.60, on such date as may be notified by the Central Government, failing which the account shall temporarily cease to be operational till the time the Permanent Account Number or Form No. 60 is submitted by the customer:

Provided that before temporarily ceasing operations for an account, the Company shall give the customer an accessible notice and a reasonable opportunity to be heard.

Explanation: - For the purpose of this clause, "temporary ceasing of operations" in relation an account means the temporary suspension of all transactions or activities in relation to that account by the Company till such time the customer complies with the provisions of this clause;

In case of asset accounts such as loan accounts, for the purpose of ceasing the operation in the account, only credits shall be allowed.

d) If a customer having an existing account based relationship with the Company gives in writing to the company that he/ she does not want to submit his/her Permanent Account Number or Form No.60, as the case may be, the customer's account with the Company shall be closed and all obligations due in relation to the account shall be appropriately settled after establishing the identity of the customer.

Company shall duly inform the customer about this provision while opening the account.

CDD Procedure in case of individuals

Company shall apply the following procedure while establishing an account based relationship with an individual:

- (a) Obtain information as mentioned above under sec VI. CDD procedure
- (b) such other documents pertaining to the nature of business or financial status specified by the company in this policy document.

In case of customers who are unable to provide Permanent Account Number or Form No.60 owing to injury, illness or infirmity on account of old age or otherwise, and such like causes, the company shall accept any other OVD as KYC proof for identity and address.

Provided that information collected from customers for the purpose of opening of account shall be treated as confidential and details thereof shall not be divulged for the purpose of cross selling, or for any other purpose without the express permission of the customer.

CDD Measures for Sole Proprietary Firms

For opening an account in the name of a sole proprietary firm, identification information as mentioned above in respect of the individual (proprietor) shall be obtained.

In addition to the above, any two of the following documents as a proof of business/ activity in the name of the proprietary firm shall also be obtained:

- (a) Registration certificate.
- (b) Certificate/licence issued by the municipal authorities under Shop and Establishment Act.
- (c) Sales and income tax returns.
- (d) CST/VAT/CST certificate (provisional/ final).
- (e) Certificate/registration document issued by Sales Tax/Service Tax/Professional Tax authorities.
- (f) IEC (Importer Exporter Code) issued to the proprietary concern by the office of DCFT/Licence/ certificate of practice issued in the name of the proprietary concern by any professional body incorporated under a statute.
- (g) Complete Income Tax Return (not just the acknowledgement) in the name of the sole proprietor where the firm's income is reflected, duly authenticated/ acknowledged by the Income Tax authorities.
- (h) Utility bills such as electricity, water, and landline telephone bills.

In cases where the Company is satisfied that it is not possible to furnish two such documents, Company may, at its discretion, accept only one of those documents as proof of business/activity. (for LIP cases where entity proof is not available).

Provided Company to undertake contact point verification and collect such other information and clarification as would be required to establish the existence of such firm, and shall confirm and satisfy itself that the business activity has been verified from the address of the proprietary concern.

CDD Measures for Legal Entities

For opening an account of a company, one certified copy of each of the following documents shall be obtained:

- (a) Certificate of incorporation;
- (b) Memorandum and Articles of Association;
- (c) Permanent Account Number of the company;
- (d) A resolution from the Board of Directors and power of attorney granted to its managers, officers or employees to transact on its behalf;
- (e) one copy of an OVD containing details of identity and address, one recent photograph and Permanent Account Numbers of Form 60 of the managers, officers or employees, as the case may be, holding an attorney to transact on its behalf.

For opening an account of a partnership firm, one certified copy of each of the following documents shall be obtained:

- (a) Registration certificate;
- (b) Partnership deed;
- (c) Permanent Account Number of the partnership firm;
- (d) one copy of an OVD containing details of identity and address, one recent photograph and Permanent Account Numbers of Form 60 of the managers, officers or employees, as the case may be, holding an attorney to transact on its behalf.

For opening an account of a trust, one certified copy of each of the following documents shall be obtained:

- (a) Registration certificate;
- (b) Trust deed;
- (c) Permanent Account Number or Form No.60 of the trust;
- (d) one copy of an OVD containing details of identity and address, one recent photograph and Permanent Account Numbers of Form 60 of the managers, officers or employees, as the case may be, holding an attorney to transact on its behalf-

For opening an account of an unincorporated association or a body of individuals, one certified copy of each of the following documents shall be obtained:

- (a) resolution of the managing body of such association or body of individuals;
- (b) Permanent Account Number or Form No.60 of the unincorporated association or a body of individuals;
- (c) power of attorney granted to transact on its behalf;
- (d) one copy of an OVD containing details of identity and address, one recent photograph and Permanent Account Numbers of Form 60 of the managers, officers or employees, as the case may be, holding an attorney to transact on its behalf identification information as mentioned under
- (e) Such information as may be required by the COMPANY to collectively establish the legal existence of such an association or body of individuals.

Explanation - Unregistered trusts/partnership firms shall be included under the term 'unincorporated association' and the term 'body of individuals', includes societies.

For opening accounts of juridical persons not specifically covered in the earlier part, such as Government or its Departments, societies, universities and local bodies like village panchayats, one certified copy of the following documents shall be obtained:

- (a) Document showing name of the person authorised to act on behalf of the entity;
- (b) Aadhaar/PAN/ OVD for proof of identity and address in respect of the person holding an attorney to transact on its behalf and
- (c) Such documents as may be required by the COMPANY to establish the legal existence of such an entity/juridical person.

CDD Measures for Identification of Beneficial Owner

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

- (a) Where the customer or the owner of the controlling interest is a company listed on a stock exchange, or is a subsidiary of such a company, it is not necessary to identify and verify the identity of any shareholder or beneficial owner of such companies.
- (b) In cases of trust/nominee or fiduciary accounts whether the customer is acting on behalf of another person as trustee/nominee or any other intermediary is determined. In such cases, satisfactory evidence of the identity of the intermediaries and of the persons on whose behalf they are acting, as also details of the nature of the trust or other arrangements in place shall be obtained.

VII. ENHANCED DUE DILIGENCE MEASURES

Politically Exposed Persons:

Politically exposed persons are individuals who are or have been entrusted with prominent public functions e.g., Heads of States /f Governments, senior politicians, senior government/judicial/military officers, senior executives of state owned corporations, important political party officials, etc.

- a) sufficient information including information about the sources of funds, accounts of family members and close relatives is gathered on the PEP;
- b) the identity of the person shall have been verified before accepting the PEP
- c) the decision to open an account for a PEP is vested with Management Committee.
- d) all such accounts are subjected to enhanced monitoring on an on-going basis;
- e) In the event of an existing customer or the beneficial owner of an existing account, subsequently becoming a PEP, Management Committee shall approve to continue the business relationship and subject the account to the Customer Due Diligence [CDD] measures as applicable to the customers of PEP category including enhanced monitoring on an ongoing basis. These instructions are also applicable to accounts where PEP is the ultimate beneficial owner.

Accounts of non-face-to-face customers:

Company to ensure that the first payment is to be effected through the customer's KYC-complied account, for enhanced due diligence of non-face to face customers. OVD documents as per the prescribed list to be obtained and verified.

Customer's accounts opened by Professional Intermediaries:

Company shall ensure while opening customer's accounts through professional intermediaries, that:

- (a) Customer shall be identified when client account is opened by a professional intermediary on behalf of a single client.
- (b) Company shall have option to hold 'pooled' accounts managed by professional intermediaries on behalf of entities like mutual funds, pension funds or other types of funds.
- (c) Company shall not open accounts of such professional intermediaries who are bound by any client confidentiality that prohibits disclosure of the client details to the Company.
- (d) All the beneficial owners shall be identified where funds held by the intermediaries are not co-mingled at the level of Company, and there are 'subaccounts', each of them attributable to a beneficial owner, or where such funds are co-mingled at the level of Company, the Company shall look for the beneficial owners.
- (e) Company shall, at their discretion, rely on the CDD done by an intermediary, provided that the intermediary is a regulated and supervised entity and has adequate systems in place to comply with the KYC requirements of the customers.
- (f) The ultimate responsibility for knowing the customer lies with the Company.

VIII. ON GOING DUE DILIGENCE

- a) Special attention to be paid to all complex, unusually large transactions and all unusual patterns which have no apparent economic or visible lawful purpose.
- b) The extent of monitoring shall be aligned with the risk category of the customer. Risk categorization to be reviewed once in ten years in case of low risk category customers, not less than once in eight years in case of medium risk categories and not less than once in two years in case of high risk categories.
- c) High-risk accounts have to be subjected to intensified monitoring. Company should set key indicators for such accounts, taking note of the background of the customer, such as the country of origin, sources of funds, the type of transactions involved and other risk factors.

Periodic Updation

Customer identification data including photograph(s), shall be periodically updated after the account is opened. Periodicity of such updation (obtaining Full KYC) shall not be less than once in ten years in case of low risk category customers, not less than once in eight years in case of medium risk categories and not less than once in two years in case of high risk categories. Fresh photograph will be required to be obtained from minor customer on becoming major.

- a) Company shall carry out
 - i) PAN verification from the verification facility available with the issuing authority and
 - ii) Authentication, of Aadhaar Number already available with the company with the explicit consent of the customer in applicable cases.
 - iii) In case identification information available with Aadhaar does not contain current address an OVD (Officially valid documents) containing current address may be obtained.
 - iv) Certified copy of OVD containing identity and address shall be obtained at the time of periodic updation from individuals except those who are categorised as 'low risk'. In case of low risk customers when there is no change in status with respect to their identities and addresses, a self certification to that effect shall be obtained.
 - v) In case of Legal entities, HFCs shall review the documents sought at the time of opening of account and obtain fresh certified copies.
- b) HFCs may not insist on the physical presence of the customer for the purpose of furnishing OVD or furnishing consent for Aadhaar authentication unless there are sufficient reasons that physical presence of the account holder/holders is required to establish their bona-fides. Normally, OVD / Consent forwarded by the customer through mail/ post, etc., shall be acceptable.
- c) HFCs shall ensure to provide acknowledgment with date of having performed KYC updation.
- d) The time limits prescribed above would apply from the date of opening of the account/ last verification of KYC.

e) Branch Credit Manager or the Branch Manager should invariably verify the Xerox copy of the document with the original and certify on the Xerox copy of the document that “Verified with original” under the signature of authorized official of the Branch.

f) In case of non-compliance of KYC requirements by the customers (under any risk category) despite repeated reminders, Company shall re-call the loan disbursed in such KYC non-compliant accounts after giving due notice of three months initially to the customers to comply with KYC requirement and followed by a reminder for further period of three months.

IX. MONITORING OF TRANSACTIONS

Maintenance of records of transactions

Company should introduce a system of maintaining proper record , of transactions (Nature and value) in such form and for such period as specified under Rule 3 of the PML Rules, at each branch and a consolidated record for all the branches taken together at Registered .

- (i) all cash transactions of the value of more than rupees ten lakh or its equivalent in foreign currency;
- (ii) 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;
- (iii) all transactions involving receipts by non-profit organizations of rupees ten lakhs or its equivalent in foreign currency;
- (iv) all cash transactions were forged or counterfeit currency notes or Company notes have been used as genuine and where any forgery of a valuable security or a document has taken place facilitating the transactions; and
- (v) all suspicious transactions whether or not made in cash and by way of as mentioned in the Rule 3(1) (D).

Company should ensure that their branches continue to maintain proper record of all cash transactions of Rs.10 lakhs and above. The internal monitoring system should 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.

Records referred to above in Rule 3 of the PMLA Rules to contain the following information:-

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

Company should maintain records(in hard and soft copies) that allows data to be retrieved easily and quickly whenever required or when requested by the competent authorities for a period of 8 years .

Reporting to Financial Intelligence Unit-India

In terms of the provisions of the Rule 8 of the Prevention of Money-laundering (Maintenance of records) Rules, 2005. Company shall, inter-alia, furnish to the Director, FIU-IND, within such time and in such form, the information in respect of transactions as referred under sub-rule (1) of rule 3 of the said Rules.

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

Explanation: In terms of Third Amendment Rules notified September 22, 2015 regarding amendment to sub rule 3 and 4 of rule 7, Director, FIU-IND shall have powers to issue guidelines to the reporting entities for detecting transactions referred to in various clauses of sub-rule (1) of rule 3, to direct them about the form of furnishing information and to specify the procedure and the manner of furnishing information.

(iii) In case there are no /Suspicious Transactions, during a particular period, as advised by the FIU-IND , 'NIL' report need not be submitted.

(iv) The reporting formats and comprehensive reporting format guide, prescribed/ released by FIU-IND and Report Generation Utility and Report Validation Utility developed to assist reporting entities in the preparation of prescribed reports to be taken note of.

(v) The editable electronic utilities to file electronic Cash Transaction Reports (CTR)/ Suspicious Transaction Reports (STR) which FIU-IND has placed on its website shall be made use of by the company until such time we install/ adopt suitable technological tools for extracting CTR/STR from their live transaction data.

(vi) Company to have suitable arrangement to cull out the transaction details from branches which are not yet computerized and to feed the data into an electronic file with the help of the editable electronic utilities of CTR/STR as have been made available by FIU-IND on its website <http://fiuindia.gov.in>.

(vii) While furnishing information to the Director, FIU-IND, delay of in not reporting a transaction or delay rectifying a mis-represented transaction beyond the time limit should be avoided .

(viii) HFCs shall not put any restriction on operations in the accounts where an STR has been filed. HFCs shall keep the fact of furnishing of STR strictly confidential. It shall be ensured that there is no tipping off to the customer at any level.

(ix) Robust software, throwing alerts when the transactions are inconsistent with risk categorization and updated profile of the customers may be put in to use as a part of effective identification and reporting of suspicious transactions.

Reporting requirement under Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standards (CRS) (applicable to Institution as defined in Income Tax Rule 114F)

As and when applicable, company shall take following steps for complying with the reporting requirements:

(a) Register on the related e-filing portal of Income Tax Department as Reporting Financial Institutions at the link <https://incometaxindiaefiling.gov.in/> post login --> My Account --> Register as Reporting Financial Institution.

(b) Submit online reports by using the digital signature of the 'Designated Director' by either uploading the Form 61Bor 'NIL' report, for which, the schema prepared by Central Board of Direct Taxes (CBDT) shall be referred to.

Explanation - COMPANYS shall refer to the spot reference rates published by Foreign Exchange Dealers' Association of India (FEDAI) on their website at <http://www.fedai.org.in/RevaluationRates.aspx> for carrying out the due diligence procedure for the purposes of identifying reportable accounts in terms of Rule 114H of Income Tax Rules.

(c) Develop Information Technology (IT) framework for carrying out due diligence procedure and for recording and maintaining the same, as provided in Rule 114H of Income Tax Rules.

(d) Develop a system of audit for the IT framework and compliance with Rules 114F, 114G and 114H of Income Tax Rules.

(e) Constitute a "High Level Monitoring Committee" under the Designated Director or any other equivalent functionary to ensure compliance.

(f) Ensure compliance with updated instructions/ rules/ guidance notes/ PreM releases/ issued on the subject by Central Board of Direct Taxes (CBDT) from time to time.

(ii) In addition to the above, other United Nations Security Council Resolutions (UNSCRs) circulated by the Reserve Bank in respect of any other jurisdictions/ entities from time to time shall also be taken note of

X. OTHER MEASURES

Secrecy Obligations and Sharing of Information:

(i) Company to maintain secrecy regarding the customer information which arises out of the contractual relationship between the lender and customer.

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

An illustrative (but not exhaustive) list of suspicious transactions in housing/ builder / project loans is furnished in Annexure – III for guidance.

Sharing KYC information with Central KYC Records Registry (CKYCR)

Company to capture the KYC information for sharing with the CKYCR in the manner mentioned in the Rules, as required by the revised KYC templates prepared for 'individuals' and 'Legal Entities' as the case may be. Know Your Customer (KYC) data to be uploaded with CERSAI in respect of new individual accounts opened on or after November 01, 2016.

Hiring of Employees and Training

Company shall put adequate screening mechanism in place as an integral part of its recruitment/hiring process of personnel.

On-going employee training programme should be put in place so that the members of staff are adequately trained in KYC/AML Measures policy. The focus of the training should be different for frontline staff, compliance staff and staff dealing with new customers. The front desk staff should be specially trained to handle issues arising from lack of customer education. Proper staffing of the audit function with persons adequately trained and well-versed in KYC/AML policies of the company, regulation and related issues should be ensured.

Selling Third party products:

Company acting as agents while selling third party products shall comply with the applicable laws / regulations, including system capabilities for capturing, generating and analysing alerts for the purpose of filing CTR/STR in respect of transactions relating to third party products with customers.

Adherence to Know Your Customer (KYC) guidelines by the Company and persons authorised by the Company including brokers/agents etc.

(a) Persons authorized by company selling loan related products, their brokers/agents or the like, shall be fully compliant with the KYC guidelines applicable to the company.

(b) All information shall be made available to the National Housing Bank to verify the compliance with the KYC guidelines and accept full consequences of any violation by the persons authorised by company including brokers/ agents etc. who are operating on their behalf.

Company to ensure that the provisions of the PML Act, Rules framed there under and the Foreign Contribution (Regulation) Act, 2010, applicable, are adhered to strictly.

Where the HFC is unable to apply appropriate KYC measures due to non-furnishing of information and / or non-cooperation by the customer, the HFC 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 with the approval of Managing Director.

ANNEXURE-I: OFFICIALLY VALID DOCUMENTS FOR KYC COMPLIANCE

ID proof

1. Pass port
2. Driving License
3. PAN card
4. Voter's Identity card issued by Election Commission of India,
5. Job card issued by NREGA (National Rural Employment Guarantee Act) duly signed by an officer of the State Government
6. Letter issued by the Unique Identification Authority of India containing details of name, address and Aadhaar Number or any other document as notified by the Central Govt. in consultation with the Regulator
7. Identity card with applicant's photographs issued by Central/State Government Departments, statutory/Regulatory Authorities, Public Sector Undertakings, Scheduled Commercial Banks and Public Financial Institution
8. Letter issued by a Gazetted Officer, with a duly attested photograph of the person.

Address Proof

1. Pass port
2. Driving License
3. Voter's Identity card issued by Election Commission of India,
4. Job card issued by NREGA (National Rural Employment Guarantee Act) duly signed by an officer of the State Government
5. Letter issued by the Unique Identification Authority of India containing details of name, address and Aadhaar Number or any other document as notified by the Central Govt. in consultation with the Regulator
6. Identity card with applicant's photographs issued by Central/State Government Departments, statutory/Regulatory Authorities, Public Sector Undertakings, Scheduled Commercial Banks and Public Financial Institution
7. Letter issued by a Gazetted Officer, with a duly attested photograph of the person.
8. Utility bill which is not more than two months old of any service provider i.e., Electricity, telephone(land line), Post-paid mobile phone, gas connection, water bill, Bank account statement with complete address.
9. Property or Municipal tax receipt with full address
10. Pension or family pension payment order (PPOs) issued by retired employees by Government Departments or Public Sector Undertakings, if they contain the address;
11. Letter of allotment of accommodation from employer issued by State Government or Central Government Departments, statutory or regulatory bodies, public sector undertakings, scheduled commercial banks, financial institutions and listed companies and leave and license agreements with such employers allowing official accommodation.

NRI:

- a) Either the original documents have to be verified by the designated officers or in case the NRI is unable to come in person and provide the originals for verification then the copy of ID and address proof documents that are attested by Indian Embassy/Mission in India can be accepted.

- b) In case the OVD submitted by the NRI does not contain the details of address, in such case the documents issued by the Government departments of foreign jurisdictions and letter issued by the Foreign Embassy or Mission in India shall be accepted as proof of address.

However, in case of (b) above the customer shall submit updated OVD with current address within a period of 3 months of submitting the above documents.

ANNEXURE-II

INDICATIVE RISK CATEGORISATION OF CUSTOMER

HIGH RISK

1. Individuals and entities in various United Nations' Security Council Resolutions (UNSCRs) such as UN 1267 etc.
2. Individuals or entities listed in the schedule to the order under section 51A of the Unlawful Activities (Prevention) Act, 1967 relating to the purposes of prevention of, and for coping with terrorist activities.
3. Individuals and entities in watch lists issued by Interpol and other similar international organizations.
4. Customers with dubious reputation as per public information available or commercially available watch lists .
5. Individuals and entities specifically identified by regulators, FIU and other competent authorities as high-risk.
6. Customers conducting their business relationship or transactions in unusual circumstances, such as significant and unexplained geographic distance between the institution and the location of the customer, frequent and unexplained movement of accounts to different institutions, frequent and unexplained movement of funds between institutions in various geographic locations etc.
7. Customers based in high risk countries / jurisdictions or locations.
8. Politically exposed persons (PEPs) of foreign origin, customers who are close relatives of PEPs and accounts of which a PEP is the ultimate beneficial owner;
9. Non-resident customers and foreign nationals
10. Embassies / Consulates
11. Off-shore (foreign) corporation / business
12. Non face-to-face customers
13. High net worth individuals
14. Firms with 'sleeping partners'
15. Companies having close family shareholding or beneficial ownership
16. Complex business ownership structures, which can make it easier to conceal underlying beneficiaries, where there is no legitimate commercial rationale
17. Shell companies which have no physical presence in the country in which it is incorporated. The existence simply of a local agent or low level staff does not constitute physical presence.
18. Investment Management/ Money Management Company / Personal Investment Company. 19. Accounts for "gatekeepers" such as accountants, lawyers, or other professionals for their clients where the identity of the underlying client is not disclosed to the financial institution.

20. Client Accounts managed by professional service providers such as law firms, accountants, agents, brokers, fund managers, trustees, custodians, etc.
21. Trusts, Charities, NGOs/NPOs (especially those operating on a cross-border basis) unregulated clubs and organizations receiving donations (excluding NPOs / NGOs promoted by United Nations or its agencies).
22. Money Service Business: including seller of: Money Orders / Travellers' Checks / Money Transmission / Check Cashing / Currency Dealing or Exchange.
23. Business accepting third party checks (except supermarkets or retail stores that accept payroll checks / cash pay roll checks).
24. Gambling / gaming including "Junket Operators" arranging gambling tours.
25. Dealers in high value or precious goods (e.g. jewel, gem and precious metals dealers, art and antique dealers and auction houses, estate agents and real estate brokers).
26. Customers engaged in a business which is associated with higher levels of corruption (e.g. arms manufacturers, dealers and intermediaries).
27. Customers engaged in industries that might relate to nuclear proliferation activities or explosives.
28. Customers that may appear to be Multi level marketing companies etc.

MEDIUM RISK

1. Non-Bank Financial Institution
2. Stock brokerage
3. Import / Export
4. Gas Station
5. Car / Boat / Plane Dealership
6. Electronics (wholesale)
7. Travel agency
8. Used car sales
9. Telemarketers
10. Providers of telecommunications service, internet café, IDD call service, phone cards, phone center
11. Dot-com company or internet business
12. Pawnshops
13. Auctioneers
14. Cash-Incentive Business such as Restaurants, retail shops, parking garages, fast food stores, movie theaters etc.
15. Sole practitioners or Law Firms (small, little known)

16. Notaries (small, little known)
17. Secretarial Firms (small, little known)
18. Accountants (small, little known firms)
19. Venture capital companies.

LOW RISK:

1. Individuals (Other than included in High/ and Medium Risk categories mentioned above)
2. Salaried employees whose salary structures are well defined.
3. People belonging to low economic strata of the society whose accounts show small balances and low turnover.
4. Government Departments and Government owned companies, regulators and statutory bodies, etc.,
5. Customers who are employment-based or with a regular source of income from a know source which supports the activity being undertaken (this applies equally to pensioners or benefit recipients, or to those whose income originates from their partners' employment).
6. Customers with long term and active business relationship with the Company (who are not coming under High / Medium Risk)
7. NPOs / NGOs promoted by United Nations or its agencies.

ANNEXURE- III

A. ILLUSTRATIVE LIST OF SUSPICIOUS TRANSACTIONS PERTAINING TO BUILDER/PROJECT LOANS:

- a. Builder approaching the COMPANY for a small loan compared to the total cost of the project;
- b. Builder is unable to explain the sources of funding for the project;
- c. Approvals/sanctions from various authorities are proved to be fake;

B. ILLUSTRATIVE LIST OF SUSPICIOUS TRANSACTIONS PERTAINING TO HOUSING LOANS:

Customer is reluctant to provide information, data, documents;

- a. Submission of false documents, data, purpose of loan, details of accounts;
- b. Refuses to furnish details of source of funds by which initial contribution is made, sources of funds is doubtful etc;
- c. Reluctant to meet in person, represents through a third party/Power of Attorney holder without sufficient reasons;
- d. Approaches a branch/office of a COMPANY, which is away from the customer's residential or business address provided in the loan application, when there is COMPANY branch/office nearer to the given address;
- e. Unable to explain or satisfy the numerous transfers in the statement of account/ multiple accounts;
- f. Initial contribution made through unrelated third party accounts without proper justification;
- g. Availing a top-up loan and/or equity loan, without proper justification of the end use of the loan amount;
- h. Suggesting dubious means for the sanction of loan;
- i. Where transactions do not make economic sense;
- j. There are reasonable doubts over the real beneficiary of the loan and the flat to be purchased;
- k. Encashment of loan amount by opening a fictitious bank account;
- l. Applying for a loan knowing fully well that the property/dwelling unit to be financed has been funded earlier and that the same is outstanding;
- m. Sale consideration stated in the agreement for sale is abnormally higher/lower than what is prevailing in the area of purchase;
- n. Multiple funding of the same property/dwelling unit;
- o. Request for payment made in favour of a third party who has no relation to the transaction;
- p. Usage of loan amount by the customer in connivance with the vendor/builder/developer/broker/agent etc. and using the same for a purpose other than what has been stipulated.
- q. Multiple funding / financing involving NGO / Charitable Organisation / Small / Medium Establishments (SMEs) / Self Help Groups (SHGs) / Micro Finance Groups (MFGs)
- r. Frequent requests for change of address / mobile numbers
- s. Overpayment of instalments with a request to refund the overpaid amount