

POLICY ON KNOW YOUR CUSTOMER AND ANTI MONEY LAUNDERING MEASURES

HFCs are required to frame their own KYC & AML policy keeping in view the broad guidelines circulated by NHB in this regard, and implement the same after seeking the requisite Board approval. Accordingly, MAS Rural Housing & Mortgage Finance Limited (MRHMFL) has framed the following KYC & AML Policy.

1. Objective of the Policy

The key objective of the KYC & AML policy is to ensure that the Company's money is not used, intentionally or unintentionally, directly or indirectly, for any unlawful and prohibited activities or purpose particularly those which are covered by Prevention of Money Laundering Act 2002(PMLA). At the same time KYC & AML Policy will also enable the Company to have more transparent and specific information about their customers and their financial dealings which will enable the Company to effectively determine risk level involved in different loan transactions and will help the Company to undertake effective risk management.

KYC & AML Policy will be applicable to all types of customers including individual, partnership firms, employees, corporate entities, associations, trusts, societies or any other entity having a legal status. This policy will also cover those persons who are the real beneficiaries of the credit facilities extended by the Company and those who represent such persons or entities.

2. Key Elements

The following are the key elements of KYC & AML Policy

- Customer Acceptance Policy
- Customer Identification Procedures
- Monitoring of Transactions and Maintenance of records of transactions and
- Risk Management

Customer

For the purpose of KYC policy, a 'Customer' may be defined as:

- 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 person or entity connected with a financial transaction which can pose significant reputational or other risks to the Company, say, a wire transfer or issue of a high value demand draft as a single transaction.

The Company will collect legal name and entity/Identity proof, permanent address proof as per **Annexure 1** for various types of associates/agencies/intermediaries captioned above.

In the formulation of this policy, as suggested by NHB's KYC guidelines, the Company needs to ensure that the adoption of customer acceptance policy and its implementation does not become too restrictive and must not result in denial of housing finance services to general public, especially to those, who are financially or socially disadvantaged.

A Customer Acceptance Policy

Customer Acceptance Policy lays down explicit criteria for the acceptance of customer.

While taking decision to grant any one or more credit facility to customers as well as during the continuation of any loan account of the customer the MRHMFL shall consider the following:

1. No loan account will be opened nor any loan will be disbursed in a name which is anonymous or fictitious or appears to be a name borrowed only for the purpose of opening the loan account i.e. Benami Account. Company shall insist for 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.
2. Documentation requirements and other information to be collected in respect of different categories of customers depending on perceived risk by the company shall be maintained
3. Company shall not open any account or give any loan nor sanction any loan in the following circumstances:
 - Company is unable to verify the identity of the customer;
 - 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 terrorist or prohibited/unlawful organizations, whether existing with in 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.
4. 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 bonafide and genuine customers who should not feel discouraged while dealing with Company.
 5. 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 an intermediary in a fiduciary capacity

Risk Level Categorization

- (i) There will be categorization of customers in levels viz level –I, level II and level III based on the risk element involved in each case which will be determined by considering the following information submitted by the customer:
 - a) Nature of business of the Customer.
 - b) Work place of customer and of his clients.
 - c) Volume of business
 - d) Social and financial status
 - e) Quantum and tenure of loan facility applied for and proposed schedule for repayment of loan
- (ii) Company shall categorize its customers on the basis of the risk perceived. Normally, Level-I customers would be salaried employees having definite and well-defined salary structure, employees of Government Departments or Government owned companies, statutory bodies, people belonging to low income

group whose financial resources although show small balance in their bank accounts and low turn over, but on the other hand indicate regular and consistent flow of financial returns/income showing capacity to repay with out default.

- (iii) Information to be collected from the customers will vary according to categorization of customer from the point of view of risk perceived. 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 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 Annexure – 2)
- (iv) The profile of new customers will be prepared on risk categorization basis. Such profile will contain the following information about the new customers:
 - a) Customer's Identify;
 - b) Social and financial status of the customer;
 - c) Nature of the business activity;
 - d) Information about the business of the customer's clients and their locations;
- (v) In case of customer where the Company is likely to incur higher risk Level-II or Level-III category. In such cases the Company will apply enhanced due diligence measures keeping based on the risk level. While placing the customers in the above categories, the Company will give due consideration to the customer's background, country of his origin, nature and location of his business activities, source of funds and profile of customer's clients etc.
- (vi) Cases in which the risk level is higher will require intensive due diligence exercise. Such cases will include those where the source of funds to be used for business operations or sources to repay the loan to the Company are not clearly disclosed or can not 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 are mentioned below:

- a) NRI Customers
- b) Trusts
- c) Societies
- d) Charitable Institutions
- e) NGOs and other organizations receiving donations from within or outside the country.
- f) Partnership firms with sleeping partners
- g) Family owned Companies;

h) Persons with dubious or notorious reputation as per the information available from different of sources like media, newspapers etc

The Company shall also perform due diligence on prospective Individual Business Patners or Legal Entity Business Partners by verifying the identity, residence or official proofs. In case of employees checking the Banking and references checks given by employees or through his managers will be done to decrease the risk level.

B. Customer Identification Procedure

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 customer (individual, corporate etc).

The photographs of the borrowers and guarantors shall be obtained as a part of KYC Documents.

In case of non individuals, in addition to the identity and address proof of the constitution, the power of attorney of the entity to the authorised person shall also be asked for. The Photographs of the authorized persons shall also be obtained for the verification.

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:

- (a) 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
- (b) in all other cases, verify identity 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, or
 - 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 requires that the Company should exercise ongoing due diligence with respect to the business relationship with every client and closely examine the transactions in order to ensure that they are consistent with their knowledge of the customer, his business and risk profile.

Customer identification requirements keeping in view the provisions of the said rule are given in Annexure - 2 for guidance of the Company.

C. Monitoring of Transactions and maintenance of Records of Transactions

1. 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 case. 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 user of finance for criminal activities
2. The Company will keep a continuous vigil if any of the following acts or events are noticed in relation to the customer's approach or behavior while dealing with the Company:
 - Reluctance of the customer to provide confirmation regarding his identity;
 - Loan money is used for the purpose other than the one mentioned in the loan application form and the real purpose is not disclosed to the Company;
 - Customer deposits with Company substantial cash amount after his EMI cheques have bounced and/or insists for cash payment in future to repay the remaining loan amount;

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

- Conduct periodic (at least quarterly) reviews with the Compliance Officer 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 exceptions 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.

Company will have a system of maintaining proper record of transactions as required under section 12 of the PMLA read with Rule 3 of the PML Rules, as mentioned below:

- (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 lakh 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 lakh;
- (iii) all transactions involving receipts by non-profit organizations of rupees ten lakhs or its equivalent in foreign currency;
- (iv) all cash transactions where forged or counterfeit currency notes or bank notes have been used as genuine and where any forgery of a valuable security 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 will also ensure that their branches continue to maintain proper record of all cash transactions (deposits and withdrawals) of Rs.10 lakh 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 to contain the specified information

Records referred to above will contain the following information:-

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

Maintenance and Preservation of records

Company will maintain records as under:

- (a) records of all transactions referred to above 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 to be maintained for a period of ten years from the date of cessation of transactions between the clients and the company.

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

D 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, appreciated and discharged with utmost care and attention by all the employees of the Company.

(ii) Company will take steps to ensure that its internal auditors are made well versed with this policy who will carry out regular checks about the compliance of KYC procedures by all branches of the Company. Any lapse or short coming observed by the internal auditors will be brought to the notice of Directors

(iii) The Company will conduct at regular intervals training programmes to impart training to its staff members regarding KYC procedures to ensure consistent and highest degree of compliance level. The inadequacy or absence of KYC standards can subject the Company to serious risks especially reputational, operational, legal and concentration risks.

- **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.

- **Operational risk** can be defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.

- **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.

- **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.

E. Other Elements

1. Customer Education

For Implementing KYC procedures Company shall demand certain information from customers which may be of personal nature or which have hitherto never been called for. 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 apprised about the necessity 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.

2. Introduction of New Technologies

The Company shall pay special attention to any money laundering threats that may arise from new or developing technologies including on-line transactions that might favour anonymity, and take measures, if needed, to prevent their use in money laundering schemes.

3. Applicability to branches

The above guidelines shall also apply to the branches of the Company in existence and also to the prospective branches.

4. Appointment of Principal Officer

The Company has appointed a Principal Officer, immediately below the level of CMD of the Company designated as Director Finance. The Principal Officer shall make an effective communication and liaisoning with enforcement agencies, National Housing Bank and any other institution which are involved in the fight against money laundering and combating financing of terrorism.

The name of the Principal Officer so designated, his designation and address including changes from time to time, shall be intimated to NHB. The Director Finance shall be located at the head/corporate office of the Company and shall be responsible for monitoring and reporting of all transactions and sharing of information as required under the law.

5. Reporting to Financial Intelligence Unit-India

As per Section 12 of PMLA, the company will report information of transaction referred to in clause (a) of sub-section (1) of section 12 read with Rule 3 of the PML Rules relating to cash and suspicious transactions etc. to the Director, Financial Intelligence Unit-India (FIU-IND). Where the principal officer of the company 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 this section, the officer shall furnish information in respect of such transactions to the Director within the prescribed time.

The company and its employees will maintain strict confidentiality of the fact of furnishing/ reporting details of suspicious transactions.

The company need not submit 'NIL' reports in case there are no Cash/Suspicious Transactions, during a particular period.

6. General Considerations

Company shall ensure that the provisions of PML, 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 shall taken by the authorized persons.

Annex-1 CUSTOMER IDENTIFICATION PROCEDURE FEATURES TO BE VERIFIED AND DOCUMENTS THAT MAY BE OBTAINED FROM CUSTOMERS

Features	Documents (Certified copy)
<p>Individuals</p> <ul style="list-style-type: none"> - Legal name and any other names used - Correct permanent address 	<p>(i) Passport (ii) PAN card (iii) Voter's Identity Card (iv) Driving license (v) Identity card (subject to the Company's satisfaction) (vi) Letter from a recognized public authority or public servant verifying the identity and residence of the customer to the satisfaction of the Company. (vii) Aadhar Card</p> <p>(i) Telephone bill (ii) Bank Account statement (iii) Letter from any recognized public authority (iv) Electricity bill (v) Ration card (vi) Letter from employer (subject to satisfaction of the Company) (vii) Aadhar Card (any one document which provides customer information to the satisfaction of the Company will suffice)</p> <p>One recent passport size photograph except in case of transactions referred to in Rule 9(1)(b) of the PML Rules.</p>
<p>Companies</p> <ul style="list-style-type: none"> - Name of the company - Principal place of business - Mailing address of the company - Telephone/Fax Number 	<p>(i) Certificate of incorporation (ii) Memorandum & Articles of Association (iii) Resolution from the Board of Directors and Power of Attorney granted to its managers, officers or employees to transact business on its behalf (iv) an officially valid document in respect of managers, officers or employees holding an attorney to transact on its behalf. (v) Telephone Bill.</p>
<p>Partnership Firms</p> <ul style="list-style-type: none"> - Legal name - Address - Names of all partners and their addresses - Telephone numbers of the firm and partners 	<p>(i) Registration certificate, if registered (ii) Partnership deed (iii) Power of Attorney granted to a partner or an employee of the firm to transact business on its behalf (iv) Any officially valid document identifying the partners and the persons holding the Power of Attorney and their addresses. (v) Telephone Bill in the name of firm and partners</p>

Trusts & Foundations - Names of trustees, settlers, beneficiaries and signatories - Names and addresses of the founder, the managers/directors and the beneficiaries - Telephone/fax numbers	(i) Certificate of registration, if registered (ii) trust deed (iii) Power of Attorney granted to transact business on its behalf (iii) Any officially valid document to identify the trustees, settlers, beneficiaries and those holding Power of Attorney, founders/managers/directors and their addresses (iv) Resolution of the managing body of the foundation/association. (v) Telephone Bill.
Unincorporated association or a body of individuals	(i) resolution of the managing body of such association or body of individuals (ii) power of attorney granted to him to transact on its behalf (iii) an officially valid document in respect of the person holding an attorney to transact on its behalf (iv) and such other information as may be required by the Company to collectively establish the legal existence of such as association or body of individuals.

*'Officially valid document' is defined to mean the passport, the driving license, the permanent account number card, the Voter's Identity Card issued by the Election Commission of India or any other document as may be required by the Company

If the address provided by the customer is the same on the document submitted for identity proof, the document can be accepted as a proof of both identity and address. However, if the current address mentioned by the customer is different from the address indicated on the document submitted for proof of identity, a separate proof of address should be obtained.

Annex-2 CUSTOMER IDENTIFICATION REQUIREMENTS INDICATIVE GUIDELINES

Trust/Nominee or Fiduciary Accounts

1. There exists the possibility that trust/nominee or fiduciary accounts can be used to circumvent the customer identification procedures. The Company shall determine whether the customer is acting on behalf of another person as trustee/nominee or any other intermediary. If so, The Company may insist on receipt of satisfactory evidence of the identity of the intermediaries and of the persons on whose behalf they are acting, as also obtain details of the nature of the trust or other arrangements in place. While opening an account for a trust, the Company shall take reasonable precautions to verify the identity of the trustees and the settlors of trust (including any person settling assets into the trust), grantors, protectors, beneficiaries and signatories. Beneficiaries should be identified when they are defined. In the case of a 'foundation', steps should be taken to verify the founder managers/directors and the beneficiaries, if defined. If the Company decides to accept such accounts in terms of the Customer Acceptance Policy, the Company should take reasonable measures to identify the beneficial owner(s) and verify his/her/their identity in a manner so that it is satisfied that it knows who the beneficial owner(s) is/are.

Accounts of companies and firms

2. The Company need to be vigilant against business entities being used by individuals as a 'front' for maintaining accounts with the Company. The Company shall verify the legal status of the legal person/ entity through proper and relevant documents. The Company shall verify that any person purporting to act on behalf of the legal/ juridical person/entity is so authorized and identify and verify the identity of that person. The Company shall examine the control structure of the entity, determine the source of funds and identify the natural persons who have a controlling interest and who comprise the management. These requirements may be moderated according to the risk perception, e.g. in the case of a public company it will not be necessary to identify all the shareholders.

Client accounts opened by professional intermediaries

3. When the Company has knowledge or reason to believe that the client account opened by a professional intermediary is on behalf of a single client, that client must be identified. The Company may hold 'pooled' accounts managed by professional intermediaries on behalf of entities like mutual funds, pension funds or other types of funds. Where the Company relies on the 'customer due diligence' (CDD) done by an intermediary, they shall satisfy themselves that the intermediary is regulated and supervised and has adequate systems in place to comply with the KYC requirements. It is understood that the ultimate responsibility for knowing the customer lies with the Company.

Accounts of Politically Exposed Persons (PEPs) resident outside India

4. Politically exposed persons are individuals who are or have been entrusted with prominent public functions in a foreign country, e.g. Heads of States or of Governments, senior politicians, senior government/judicial/military officers, senior executives of state-owned corporations, important political party officials, etc. Company should gather sufficient information on any person/customer of this category intending to establish a relationship and check all the information available on the person in the public domain. Company shall verify the identity of the person and seek information about the sources of funds before accepting the PEP as a customer. The decision to open an account for PEP should be taken at a senior level which should be clearly spelt out in Customer Acceptance Policy. Company should also subject such accounts to enhanced monitoring on an ongoing basis. The above norms may also be applied to the accounts of the family members or close relatives of PEPs.

Accounts of non-face-to-face customers

5. In the case of non-face-to-face customers, apart from applying the usual customer identification procedures, there must be specific and adequate procedures to mitigate the higher risk involved. Certification of all the documents presented may be insisted upon and, if necessary, additional documents may be called for. In the case of cross-border customers, there is the additional difficulty of matching the customer with the documentation and the Company may have to rely on third party certification/introduction. In such cases, it must be ensured that the third party is a regulated and supervised entity and has adequate KYC systems in place.