



**POLICY ON KNOW YOUR
CUSTOMER (KYC) GUIDELINES AND ANTI
MONEY LAUNDERING (AML) STANDARDS
OF
STAR HOUSING FINANCE LIMITED**

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Policy on Know Your Customer (KYC) Guidelines **and** **Anti Money Laundering (AML) Standards**

I. PREAMBLE

As part of the best corporate practices, STAR Housing Finance Limited ("the Company") has adopted **"Policy on Know Your Customer (KYC) guidelines and Anti Money Laundering (AML) Standards"** for lending/ credit/ operations/ financial dealings, in line with the extant guidelines framed by Reserve Bank of India ("RBI") with reference to the Prevention of Money-Laundering Act, 2002 (PMLA) and the Prevention of Money-Laundering (Maintenance of Records) Rules, 2005 (PMLR), as amended from time to time.

II. OBJECTIVE

The objective of the Policy is to prevent the Company from being used, intentionally or unintentionally, by criminal elements for money laundering/ fraudulent/anti-social activities. KYC procedures also enable the Company to identify/ know/ understand their customers and their financial dealings better, which in turn help to manage risks prudently.

III. DEFINITIONS

- i. **"Money Laundering"** has the meaning assigned to it under Section 3 of the PMLA. "Whosoever directly or indirectly attempts to indulge or knowingly assists or knowingly is a party or is actually involved in any process or activity connected with the proceeds of crime and projecting it as untainted property shall be guilty of the offence of money-laundering."
- ii. **"Aadhaar number"**, means an identification number as defined under sub-section (a) of section 2 of the Aadhaar (Targeted Delivery of Financial and Other Subsidies, Benefits and Services) Act, 2016, henceforth the 'Aadhaar Act'.

***Explanation 1:** In terms of the Aadhaar Act, every resident shall be eligible to obtain an Aadhaar number.*

***Explanation 2:** Aadhaar will be the document for identity and address.*

- iii. **"Act" and "Rules"** means the Prevention of Money-Laundering Act, 2002 and the Prevention of Money-Laundering (Maintenance of Records) Rules, 2005, respectively and amendments thereto.
- iv. **"Authentication"**, as defined under sub-section (c) of section 2 of the Aadhaar Act, means the process by which the Aadhaar number along with demographic information or biometric information of an individual is submitted to the Central Identities Data Repository (CIDR) for its verification and such Repository verifies the correctness, or the lack thereof, on the basis of information available with it;
- v. **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-

- ***"Controlling ownership interest" means ownership of/entitlement to more than 25 per cent of the shares or capital or profits of the Company.***

- *“Control” shall include the right to appoint majority of the directors or to control the management or policy decisions including by their shareholding or management rights or shareholder’s 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 of/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 of/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 any other natural person exercising ultimate effective control over the trust through a chain of control or ownership.

- vi. **“Biometric information”**, as defined in the Section 2(g) of the Aadhaar Act, means photograph, finger print, Iris scan, or such other biological attributes of an individual as may be specified by Aadhaar (authentication) regulations;
- vii. **“Board”** means Board of Directors of the Company.
- viii. **“Cash Transactions”** means "Cash Transactions" as defined under rule 3 of the Rules.
- ix. **“Central Identities Data Repository” (CIDR)**, as defined in Section 2(h) of the Aadhaar Act, means a centralized database in one or more locations containing all Aadhaar numbers issued to Aadhaar number holders along with the corresponding demographic information and biometric information of such individuals and other information related thereto;
- x. **“Central KYC Records Registry” (CKYCR)** means an entity defined under Rule 2(1)(aa) of the Prevention of Money Laundering Rules, to receive, store, safeguard and retrieve the KYC records in digital form of a customer;
- xi. **“Company”** means STAR Housing Finance Limited;
- xii. **“Customer”** means a 'person', who is engaged in a financial transaction or activity with the Company and includes a person on whose behalf the person who is engaged in the transaction or activity, is acting.
- xiii. **“Customer Due Diligence” (CDD)** means “Client Due Diligence” as defined under rule 9 of the Rules and the amendments thereto.
- xiv. **“Customer Identification”** means undertaking the process of CDD.
- xv. **“Demographic information”**, as defined in Section 2(k) of the Aadhaar Act, includes information relating to the name, date of birth, address and other relevant information of an individual, as may be specified by regulations for the purpose of issuing an Aadhaar number, but shall not include race,

religion, caste, tribe, ethnicity, language, records of entitlement, income or medical history;

- xvi. "Designated Director"** means Managing Director or a whole-time Director, duly authorized by the Board of Directors of the Company to ensure overall compliance with the obligations imposed under chapter IV of the Prevention of Money Laundering Act and the Rules;

Explanation. –

- *For the purpose of this clause, the terms "Managing Director" and "Whole-time Director" shall have the meaning assigned to them in the Companies Act, 2013.*

- xvii. "Directors"** mean individual Director or Directors on the Board of the Company.
- xviii. "Digital KYC"** means the capturing live photo of the customer and officially valid document or the proof of possession of Aadhaar, where offline verification cannot be carried out, along with the latitude and longitude of the location where such live photo is being taken by an authorized officer of the company as per the provisions contained in the Act.
- xix. "Digital Signature"** shall have the same meaning as assigned to it in clause (p) of subsection (1) of section (2) of the Information Technology Act, 2000 (21 of 2000).
- xx. "Enrolment number" means "Enrolment ID"** as defined in Section 2(1)(j) of the Aadhaar (Enrolment and Update) Regulation, 2016 which means a 28-digit Enrolment Identification Number allocated to residents at the time of enrolment of Aadhaar;
- xxi. "Equivalent e-document"** means an electronic equivalent of a document, issued by the issuing authority of such document with its valid digital signature including documents issued to the digital locker account of the customer as per rule 9 of the Information Technology (Preservation and Retention of Information by Intermediaries Providing Digital Locker Facilities) Rules, 2016
- xxii. "FATCA"** means Foreign Account Tax Compliance Act of the United States of America (USA) which, inter alia, requires foreign financial institutions to report about financial accounts held by U.S. taxpayers or foreign entities in which U.S. taxpayers hold a substantial ownership interest.
- xxiii. "KYC Templates"** means templates prepared to facilitate collating and reporting the KYC data to the CKYCR, for individuals and legal entities.
- xxiv. "Know your Client (KYC Identifier)"** means the unique number or code assigned to a customer by the Central KYC Records Registry.
- xxv. "Non-face-to-face customers"** means customers who open accounts without visiting the branch/ offices of the HFC or meeting the officials/ authorized representatives of the Company.
- xxvi. "Officially valid document" (OVD)** means the following:
- a) Passport,
 - b) Driving license
 - c) Proof of possession of Aadhaar Number
 - d) Voter's Identity Card issued by the Election Commission of India,
 - e) Job card issued by NREGA duly signed by an officer of the State Government,
 - f) Letter issued by the National Population Register containing details of the name and address.

"Provided also that where the client submits his proof of possession of Aadhaar number as an officially valid document, he may submit it in such form as are issued by the Unique Identification Authority of

India;"

Where the OVD furnished by the customer does not have updated address additional documents as prescribed in the RBI Guidelines and mentioned in the operating manual may be accepted, In case an additional document is taken as address proof in lieu of OVD, customer shall provide an undertaking to submit a OVD with updated address within 90 days period.

Explanation:

- *For the purpose of this clause, a document shall be deemed to be an OVD even if there is a change in the name subsequent to its issuance provided it is supported by a marriage certificate issued by the State Government or Gazette notification, indicating such a change of name.*

- xxvii. "On-going Due Diligence"** means regular monitoring of transactions in accounts to ensure that they are consistent with the customers' profile and source of funds.
- xxviii. "Periodic Updation"** means steps taken to ensure that documents, data or information collected under the CDD process is kept up-to-date and relevant by undertaking reviews of existing records at periodicity prescribed by the National Housing Bank/Reserve Bank of India.
- xxix. "Person"** has the same meaning assigned in the Act and includes:
- 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 persons
 - g. any agency, office or branch owned or controlled by any of the above persons.
- xxx. "Politically Exposed Persons" (PEPs)** are individuals who are or have been entrusted with prominent public functions e.g., Heads of States/ Governments, senior politicians, senior government/ judicial/ military officers, senior executives of state-owned corporations, important political party officials, etc.
- xxxi. "Principal Officer"** means an officer nominated by the Company, responsible for furnishing information as per rule 8 of the Rules;
- xxxii. "Video Based Customer Identification Process (V-CIP)"**; an alternate method of customer identification with facial recognition and customer due diligence by an authorised official of the Company by undertaking seamless, secure, live, informed-consent based audio-visual interaction with the customer to obtain identification information required for CDD purpose, and to ascertain the veracity of the information furnished by the customer through independent verification and maintaining audit trail of the process. Such processes complying with prescribed standards and procedures shall be treated on par with face-to-face CIP for the purpose of this Master Direction.
- xxxiii. "Suspicious transaction" means a "transaction"** as defined below, including an attempted transaction, whether or not made in cash, which, to a person acting in good faith:
- a) gives rise to a reasonable ground of suspicion that it may involve proceeds of an offence specified in the Schedule to the Act, regardless of the value involved; or
 - b) appears to be made in circumstances of unusual or unjustified complexity; or
 - c) appears to not have economic rationale or bona-fide purpose; or gives rise to a reasonable ground of suspicion that it may involve financing of the activities relating to terrorism

Explanation:

Transaction involving financing of the activities relating to terrorism includes transaction involving funds suspected to be linked or related to, or to be used for terrorism, terrorist acts or by a terrorist, terrorist organization or those who finance or are attempting to finance terrorism.

All other expressions unless defined herein shall have the same meaning as have been assigned to them under the Banking Regulation Act or the Reserve Bank of India Act, or the Prevention of Money Laundering Act and Prevention of Money Laundering (Maintenance of Records) Rules, any statutory modification or re- enactment thereto or as used in commercial parlance, as the case may be.

IV. Know Your Customer (KYC) Policy

These Guidelines are framed keeping in mind the below mentioned four key elements:

- i. Customer Acceptance Policy
- ii. Risk management.
- iii. Customer Identification Procedures
- iv. Customer Due Diligence

V. Money Laundering and Terrorist Financing Risk Assessment;

- i. Company shall carry out 'Money Laundering (ML) and Terrorist Financing (TF) Risk Assessment' exercise periodically to 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. The assessment process will consider all the relevant risk factors before determining the level of overall risk and the appropriate level and type of mitigation to be applied. While preparing the internal risk assessment, company shall take cognizance of the overall sector-specific vulnerabilities, if any, that the regulator/supervisor may share with company from time to time.
- ii. The risk assessment will be properly documented and be proportionate to the nature, size, geographical presence, complexity of activities/structure, etc. Further, the periodicity of risk assessment exercise shall be determined by the Board, in alignment with the outcome of the risk assessment exercise. However, it shall be reviewed annually.
- iii. The outcome of the exercise shall be put up to the Risk Management Committee to which power in this regard has been delegated, and shall be available to competent authorities and self-regulating bodies.

The Company will 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. Further, REs shall monitor the implementation of the controls and enhance them if necessary.

VI. Designated Director

Managing Director and CEO of the Company shall be regarded as the "Designated Director" for ensuring overall compliance with the obligations imposed under the PML Act and the applicable Rules.

VII. Principal Officer

The Head of Operations is the "Principal Officer", who shall be responsible for ensuring compliance, monitoring transactions, and sharing and reporting information as required under the law/regulations.

VIII. Compliance of KYC Policy

Senior Management for KYC compliance-

- i. Principal Officer- responsible for overseeing the KYC compliance and suggesting any changes.

- ii. Head- Operations- responsible for obtaining and maintaining all KYC records from the borrowers
- iii. Compliance Officer- responsible for ensuring that the KYC compliance is being met as per regulations prescribed

IX. Customer Acceptance Policy (CAP)

- i. The Company would verify identity of a customer after adherence to Customer Identification procedure before accepting a duly completed application form for placement of deposit or for issue of a sanction letter to a loan customer or to issue an appointment letter to a Business Associate.
- ii. No account shall be opened in anonymous or fictitious/ benami name(s). The Company shall issue necessary guidelines in this regard so as to ensure that the relevant documents are verified to ensure that no account is opened in anonymous or fictitious / benami name(s).
- iii. No account is opened where the Company is unable to apply appropriate CDD measures, either due to non-cooperation of the customer or non-reliability of the documents/ information furnished by the customer.
- iv. No transaction or account-based relationship is undertaken without following the CDD procedure.
- v. The mandatory information to be sought for KYC purpose while opening an account and during the periodic updation, is specified.
- vi. Optional/additional information is obtained with the explicit consent of the customer after the account is opened.
- vii. CDD Procedure is followed for all the joint account holders, while opening a joint account.
- viii. If an existing KYC compliant customer of the Company desires to open another account, there shall be no need for a fresh CDD exercise.
- ix. 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 list issued by UN Security Council circulated by National Housing Bank and the sanctions lists circulated by Reserve Bank of India from time to time.
- x. STAR Housing will not open an account or close an existing account where the Company is unable to apply appropriate customer due diligence measures i.e. it is unable to verify the identity and /or obtain documents required as per the risk categorization due to non-cooperation of the customer or non-reliability of the data/information furnished to the Company. It may, however, be necessary to have suitable built in safeguards to avoid harassment of the customer. For example, decision to close an account will be taken by Principal Officer after giving due notice to the customer explaining the reasons for such a decision.
- xi. Circumstances, in which a customer is permitted to act on behalf of another person/entity, will be clearly spelt out in conformity with the established law and practices.
- xii. Where an equivalent e-document is obtained from the customer, Company shall verify the digital signature as per the provisions of the Information Technology Act, 2000 (21 of 2000).
- xiii. Politically Exposed Persons (PEP) - In terms of the guidelines, the Company shall exercise extra caution while dealing with PEP. In case an existing account holder or a beneficial account holder subsequently becomes PEP, then approval of senior management should be taken to continue business relationship with such a person.

xiv. Customer Acceptance Policy shall not result in denial of financial facility to members of the general public, especially those, who are financially or socially disadvantaged.

xv. Where Permanent Account Number (PAN) is obtained, the same shall be verified from the verification facility of the issuing authority.

X. Risk Management

STAR Housing has ensured that an effective KYC program is in place and has established appropriate procedures and is overseeing its effective implementation. The program covers proper management oversight, systems and controls, segregation of duties, training and other related matters. Responsibility has been explicitly allocated within the Company to ensure that Company's policies and procedures are implemented effectively.

For Risk Management, Company will have a risk-based approach which includes the following.

- i. Customers shall be categorized as low, medium and high-risk category, based on the assessment and risk perception of the Company.
- ii. Risk categorization shall be undertaken based on parameters such as customer's identity, social/financial status, nature of business activity, and information about the clients' business and their location etc. While considering customer's identity, the ability to confirm identity documents through online or other services offered by issuing authorities may also be factored in.

For medium and high risk customers, the Company shall draw up additional precautions to be taken while dealing with such customers. The Company shall formulate a procedure for the risk assessment of such medium and high risk customers.

XI. Risk Categorization (as per Credit Risk Management Policy approved by the Board)

- i. **Low Risk customers:** salaried applicants having formal income proof working with category A and B employers (like government run companies, listed companies etc.).
- ii. **Medium risk customers:** salaried applicants having formal / semi-formal income proof working with category C and D employers, NRI customers, HUFs, self-employed professionals and non-professionals etc.
- iii. **High Risk Customers:** political influence persons, trust (Except for Provident Fund, Gratuity & Superannuation Trust), NGOs etc.

XII. Customer Identification Procedure (CIP)

The primary objectives of CIP are;

- i. To verify the legal status of the customer/ entity through proper and relevant documents.
- ii. To verify that any person purporting to act on behalf of the customer, legal person/entity is so authorized and to verify the identity of such an authorized person.
- iii. To understand the ownership and control structure of the customer and determine who is the natural persons who ultimately has control over the management.

The Customer Identification Procedure shall be carried out by verifying Identity of customer and residence proof of customer. The Company shall draw up the list of documents to be verified and collected for this purpose at the time of establishing a relationship with the customer or while carrying out a financial transaction.

The Customer Identification Procedure is to be carried out at the following two stages.

While establishing a relationship;

- a) In case of a customer who intends to avail a loan, at the time the duly completed application form along with the processing fees is received from the prospective borrower.
- b) In case of a customer who is a business associate (loan agent/ Recovery agent), at the time when duly completed application form is received for enrolment.

Customer identification means identifying the customer and verifying his/ her identity by using reliable, independent source documents, data or information while establishing a relationship. STAR Housing will obtain information stated below necessary to establish, to its satisfaction, the identity of each new customer, whether regular or occasional and the purpose of the intended nature of relationship. Being satisfied means that STAR Housing must be able to satisfy the competent authorities that due diligence was observed based on the risk profile of the customer in compliance with the extant guidelines in place. Besides risk perception, the nature of information/documents required would also depend on the type of customer.

The Company shall undertake identification of customers in the following cases:

- i. Commencement of an account-based relationship with the customer.
- ii. When there is a doubt about the authenticity or adequacy of the customer identification data it has obtained.
- iii. Selling third party products as agents, selling their own products and any other product for more than INR 50,000 (Rupees Fifty Thousand).

For the purpose of verifying the identity of customers at the time of commencement of an account-based relationship, the Company shall at their option rely on CDD done by a third party, subject to the following conditions:

- i. Records or the information of the customer due diligence carried out by the third party is obtained within two days from the third party or from the Central KYC Records Registry.
- ii. Adequate steps are taken by the Company to satisfy itself that copies of identification data and other relevant documentation relating to the customer due diligence requirements shall be made available from the third party upon request without delay.
- iii. The third party is regulated, supervised or monitored for, and has measures in place for, compliance with customer due-diligence and record-keeping requirements in line with the requirements and obligations under the Prevention of Money-Laundering Act.
- iv. The third party shall not be based in a country or jurisdiction assessed as high risk.
- v. The ultimate responsibility for CDD, including done by a third party and undertaking enhanced due-diligence measures as applicable, shall rest with the Company.

XIII. CUSTOMER DUE DILIGENCE (CDD) PROCEDURE

Following are the procedure for obtaining identification of customers:

- a. While undertaking CDD, the Company will 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 OVD containing details of identity and address, and one recent photograph; and
 - ii. the Permanent Account Number (PAN)/equivalent e-document or Form No. 60 as defined in Income-tax Rules, 1962, as amended from time to time.
 - iii. such other documents including in respect of the nature of business and financial status of the customer, or the equivalent e-documents thereof as may be required by the company.
 - iv. The live V-CIP may be carried out by an official of the Company, for establishment of an account based relationship with an individual customer after obtaining his informed consent.

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 authorized 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 may be provided out of 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.

Explanation 3: The KYC documents for Individuals and Non-Individuals shall be obtained from Customers in terms of the requirements specified in the RBI guidelines.

- 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, piped gas, 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 foreign national 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

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

Accounts of Politically Exposed Persons (PEPs):

Company will ensure that:

- i. sufficient information including information about the sources of funds, accounts of family members and close relatives is gathered on the PEP;
- ii. the identity of the person shall have been verified before accepting the PEP as a customer;
- iii. the decision to open an account for a PEP is taken at a senior level in accordance with the Customer Acceptance Policy;
- iv. all such accounts are subject to enhanced monitoring on an on-going basis;
- v. in the event of an existing customer or the beneficial owner of an existing account subsequently becoming a PEP, senior management's approval is obtained to continue the business relationship;
- vi. The CDD measures as applicable to PEPs including enhanced monitoring on an on-going basis are applicable.
- vii. These instructions shall also be applicable to accounts where PEP is the beneficial owner.

XIV. ONGOING DUE DILIGENCE

- A. Ongoing monitoring is an essential element of effective KYC procedures. The Company can effectively control and reduce risk by having an understanding of the normal and reasonable activity of the customer so that it has the means of identifying transactions that fall outside the regular pattern of activity.

- i. The Company will pay special attention to all complex, unusually large transactions and all unusual patterns which have no apparent economic or visible lawful purpose.
- ii. The extent of monitoring shall be aligned with the risk category of the customer. A system of periodic review of risk categorization of accounts, with such periodicity as specified in Company's KYC Policy shall be put in place.
- iii. 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, are 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, only the basic requirements of verifying the identity and location of the customer are to be met.
- iv. Customers that are likely to pose a higher than average risk to the Company are 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. The Company will 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.

B. A system of periodic review of risk categorization of accounts, with such periodicity being at least once in six months, and the need for applying enhanced due diligence measures shall be put in place.

XV. PERIODIC UPDATION

Periodic KYC updation shall be carried out at least once in every two years for high risk customers, once in every eight years for medium risk customers and once in every ten years for low risk customers as per the following procedure:

a) For Individual Customers:

- i. **No change in KYC information:** In case of no change in the KYC information, a self-declaration from the customer in this regard shall be obtained through customer's email-id/ mobile number registered with the Company or any other reliable mode.
- ii. **Change in address:** In case of a change only in the address details of the customer, a self-declaration of the new address shall be obtained from the customer through customer's email-id/mobile number registered with the company, branch, digital channels (such as web portal, mobile application of company), letter etc., 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.

Further, company, may obtain a copy of OVD or deemed OVD or the equivalent e-documents thereof, for the purpose of proof of address, declared by the customer at the time of periodic updation.

b) Customers other than individuals:

- i. **No change in KYC information:** In case of no change in the KYC information of the Legal entity (LE) customer, a self-declaration in this regard shall be obtained from the LE customer through its email id registered with the company, branch, digital channels (such as web portal, mobile application of

company), letter from an official authorized by the LE in this regard, board resolution etc.

- ii. **Change in KYC information:** In case of change in KYC information, company shall undertake the KYC process equivalent to that applicable for on-boarding a new LE customer.

c) Additional measures: In addition to the above, company shall ensure that,

- i. The KYC documents of the customer as per the current CDD standards
- ii. Customer's PAN details, if available, is verified from the database of the issuing authority at the time of periodic updation of KYC.
- iii. Acknowledgment is provided to the customer mentioning the date of receipt of the relevant document(s), including self-declaration from the customer, for carrying out periodic updation.as also the date of updation of KYC details.

XVI. Monitoring of Transactions and maintenance and preservation of records:

Company shall maintain records at each branch and a consolidated record for all the branches taken together at the registered office of the Company in the form and for such period as specified under the rule 3 of the Prevention of Money Laundering (Maintenance of Records) Rules, 2005.

Company shall maintain a record of a transaction of the deposit and loan accounts where there has been a receipt or payment in cash exceeding Rs. 10 lac per transaction; and also monitor and maintain record of loan accounts where there has been a series of cash transactions from the same customer during a month exceeding INR10 lac.

Company will maintain proper records of transactions as prescribed under Rule 3, 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).

Company shall accordingly maintain records of:

- i. all cash transactions of the value of more than INR ten lakh or its equivalent in foreign currency;
- ii. all series of cash transactions integrally connected to each other, which have been valued below INR 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 INR ten lakh;
- iii. all cash transactions where forged or counterfeit currency notes or bank notes have been used as genuine and where any forgery of a valuable security has taken place;
- iv. all suspicious transactions whether or not made in cash and the Principal Officer from time to time will advise a list of possible transaction which could be identified as suspicious transactions.

The Company shall:

- i. maintain all necessary records of transactions between the company and the customer, both domestic and international, for at least five years from the date of transaction;
- ii. preserve the records pertaining to the identification of the customers and their addresses obtained while opening the account and during the course of business relationship, for at least five years after the business relationship is ended;

XVII. Furnishing of information to the Director (FIU-IND):

- i. In terms of the provisions of the Rule 8 of the Prevention of Money-laundering (Maintenance of Records) Rules, 2005. Company will, 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.
- ii. 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. As advised by the FIU-IND, the Company will not submit 'NIL' reports in case there are no Cash/Suspicious Transactions, during a particular period.
- 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 shall be taken note of. 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 which are yet to install/ adopt suitable technological tools for extracting CTR/STR from their live transaction data.
- v. While furnishing information to the Director, FIU-IND, delay of each day in not reporting a transaction or delay of each day in rectifying a misrepresented transaction beyond the time limit as specified in the said Rules shall be constituted as a separate violation.
- vi. Company will not put any restriction on operations in the accounts where an STR has been filed. The Company 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.
- vii. Software throwing alerts when the transactions are inconsistent with risk categorization and updated profile of the customers will be put in to use as a part of effective identification and reporting of suspicious transactions.

XVIII. REPORTING REQUIREMENT UNDER FOREIGN ACCOUNT TAX COMPLIANCE ACT (FATCA) AND COMMON REPORTING STANDARDS (CRS)

Under FATCA and CRS, the Company will adhere to the provisions of Income Tax Rules 114F, 114G and 114H and determine whether they are a Reporting Financial Institution as defined in Income Tax Rule 114F and if so, 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 61B or 'NIL' report, for which, the schema prepared by Central Board of Direct Taxes (CBDT) shall be referred to.

Explanation – Company will 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/ Press releases/ issued on the subject by Central Board of Direct Taxes (CBDT) from time to time.

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.

XIX. Requirements/obligations under International Agreements

- A. Communications from International Agencies –
 - i. Company shall ensure adherence to provisions of Unlawful Activities (Prevention) (UAPA) Act, 1967 and amendments thereto, wherever applicable.
 - ii. Company will take measures to ensure that there is no account/relationship opened in the name of individuals/entities appearing in the lists of individuals and entities, suspected of having terrorist links, which are approved by and periodically circulated by the United Nations Security Council (UNSC) from time to time.
 - iii. In addition to the above, other UNSCRs circulated by the Reserve Bank in respect of any other jurisdictions/ entities from time to time shall also be taken note of.
- B. Freezing of Assets under Section 51A of Unlawful Activities (Prevention) Act, 1967- The Company shall follow the relevant procedure laid down in the UAPA Order dated February 2, 2021 (Annex II of the RBI Master Direction) wherever applicable.
- C. Jurisdictions that do not or insufficiently apply the FATF Recommendations
 - i. FATF Statements circulated by Reserve Bank of India from time to time, and publicly available information, for identifying countries, which do not or insufficiently apply the FATF Recommendations, shall be considered. Risks arising from the deficiencies in AML/CFT regime of the jurisdictions included in the FATF Statement shall be taken into account.
 - ii. Special attention shall be given to business relationships and transactions with persons (including legal persons and other financial institutions) from or in countries that do not or insufficiently apply the FATF Recommendations and jurisdictions included in FATF Statements.
 - iii. The background and purpose of transactions with persons (including legal persons and other financial institutions) from jurisdictions included in FATF Statements and countries that do not or insufficiently apply the FATF Recommendations shall be examined, and written findings together with all documents

shall be retained and shall be made available to Reserve Bank/other relevant authorities, on request.

Secrecy Obligations and Sharing of Information:

- iv. Company will maintain secrecy regarding the customer information which arises out of the contractual relationship between the lender and customer.
- v. While considering the requests for data/ information from Government and other agencies, the Company will 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.
- vi. An illustrative (but not exhaustive) list of suspicious transactions in housing/ builder/project loans is furnished in **Annexure**.

XX. Sharing KYC information with Central KYC Records Registry (CKYCR):

The Company will 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. Government of India has authorised the Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI), to act as, and to perform the functions of the CKYCR vide Gazette Notification No. S.O. 3183(E) dated November 26, 2015.

The Company will upload the Know Your Customer (KYC) data with CERSAI in respect of new individual accounts opened on or after November 01, 2016.

The details on Customer due diligence (CDD) procedure and sharing KYC information with C-KYCR will be as per the regulatory guidelines.

XXI. 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 programme shall be put in place so that the members of staff are adequately trained in KYC/ AML Measures policy. The focus of the training will be different for frontline staff, compliance staff and staff dealing with new customers. The front desk staff will 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 Measures policies of the HFC, regulation and related issues will be ensured.

XXII. Selling Third party products

The Company acting as agents while selling third party products will 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.

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

- a) Persons authorized by the Company for selling loan related products, their brokers/ agents or the like, will be fully compliant with the KYC guidelines applicable to the Company.
- b) All information will 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 the Company including brokers/ agents etc. who are operating on their behalf.
- c) The Company will ensure that the provisions of the PML Act, Rules framed thereunder and the Foreign Contribution (Regulation) Act, 2010, applicable, are adhered to strictly.

- d) 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

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

- i. Builder approaching the HFC for a small loan compared to the total cost of the project;
- ii. Builder is unable to explain the sources of funding for the project;
- iii. Approvals/ sanctions from various authorities are proved to be fake or if it appears that client does not wish to obtain necessary governmental approvals/ filings, etc.;
- iv. Management appears to be acting according to instructions of unknown or inappropriate person(s).
- v. Employee numbers or structure out of keeping with size or nature of the business (for instance the turnover of a company is unreasonably high considering the number of employees and assets used).
- vi. Clients with multijurisdictional operations that do not have adequate centralized corporate oversight.
- vii. Advice on the setting up of legal arrangements, which may be used to obscure
- viii. Ownership or real economic purpose (including setting up of trusts, companies or change of name/ corporate seat or other complex group structures).
- ix. Entities with a high level of transactions in cash or readily transferable assets, among which illegitimate funds could be obscured.

B. ILLUSTRATIVE LIST OF SUSPICIOUS TRANSACTIONS PERTAINING TO INDIVIDUALS:

- i. Legal structure of client has been altered numerous times (name changes, transfer of ownership, change of corporate seat).
- ii. Unnecessarily complex client structure.
- iii. Individual or classes of transactions that take place outside the established business profile and expected activities/ transaction unclear.
- iv. Customer is reluctant to provide information, data, documents;
- v. Submission of false documents, data, purpose of loan, details of accounts;
- vi. Refuses to furnish details of source of funds by which initial contribution is made, sources of funds is doubtful etc.;
- vii. Reluctant to meet in person, represents through a third party/ Power of Attorney holder without sufficient reasons;
- viii. Approaches a branch/ office of a HFC, which is away from the customer's residential or business address provided in the loan application, when there is HFC branch/ office nearer to the given address;
- ix. Initial contribution made through unrelated third party accounts without proper justification;
- x. Availing a top-up loan and/or equity loan, without proper justification of the end use of the loan amount;
- xi. Suggesting dubious means for the sanction of loan;
- xii. Where transactions do not make economic sense;
- xiii. Unusual financial transactions with unknown source.
- xiv. Payments received from un-associated or unknown third parties and payments for fees in cash where this would not be a typical method of payment.
- xv. There are reasonable doubts over the real beneficiary of the loan and the flat to be purchased;

- xvi. Encashment of loan amount by opening a fictitious bank account;
- xvii. 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;
- xviii. Sale consideration stated in the agreement for sale is abnormally higher/ lower than what is prevailing in the area of purchase;
- xix. Multiple funding of the same property/ dwelling unit;
- xx. Request for payment made in favour of a third party who has no relation to the transaction;
- xxi. 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.
- xxii. Multiple funding/ financing involving NGO/ Charitable Organization/ Small/ Medium Establishments (SMEs) / Self Help Groups (SHGs) / Micro Finance Groups (MFGs)
- xxiii. Frequent requests for change of address;
- xxiv. Overpayment of instalments with a request to refund the overpaid amount.
- xxv. Investment in real estate at a higher/lower price than expected.
- xxvi. Clients incorporated in countries that permit bearer shares.
