# MUDRA FINANCIAL SERVICES LIMITED

# KNOW YOUR CUSTOMER (KYC)
# AND
# PREVENTION OF MONEY LAUNDERING (PML)
# POLICY

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## INTRODUCTION:

The Reserve Bank of India (RBI) had issued vide its Master Direction DBR.AML.BC.No.81/14.01.001/2015- 16 dated February 25, 2016 (updated till July 8, 2016) and master circular issued on July 1, 2015 under Prevention of Money-Laundering Act, 2002 and Prevention of Money-laundering (Maintenance of Records) Rules, 2005 advised all NBFCs to revise their KYC policies to incorporated changes suggested in the above Directions/Circulars. Amendment to Prevention of Money-Laundering (Maintenance of Records) Amendment Rules, 2013 dated December 1, 2014 and Obligation of NBFCs under Prevention of Money laundering Act (PMLA), 2002 - Client Due Diligence dated January 2, 2015 advised all NBFCs to revise their KYC policies to incorporate changes suggested in the above circulars.

## OBJECTIVES, SCOPE AND APPLICATION OF POLICY:

The objective of KYC guidelines is to prevent the Company from being used, intentionally or unintentionally, by criminal elements for money laundering activities or terrorist financing activities. KYC procedures shall also enable the Company to know and understand its Customers and its financial dealings better which in turn will help it to manage its risks prudently. Thus, the KYC policy has been framed by the Company for the following purposes:

1. To prevent criminal elements from using Mudra for money laundering activities;
2. To enable the Company to know/ understand its customers and their financial dealings better which, in turn, would help the Company to manage risks prudently;
3. To put in place appropriate controls for detection and reporting of suspicious activities in accordance with applicable laws/laid down procedures;
4. To comply with applicable laws and regulatory guidelines;
5. These policy shall be applicable for all new and existing customer and business partner relationship of Mudra.
6. To ensure that the concerned staff are adequately trained in KYC/AML/CFT procedures.

This KYC Policy is applicable to Mudra and is to be read in conjunction with related operational guidelines issued from time to time. This Policy includes some key elements:

1. Customer Acceptance Policy (CAP).
2. Customer Identification Procedures (CIP).
3. Monitoring of Transactions.
4. Risk Management.
5. Training Programme.
6. Internal Control Systems.
7. Appointment of Principal Officer.
8. Reporting to FIU – India.

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**Definition of Customer**

For the purpose of Mudra KYC policy a 'Customer' means a person as defined under KYC policy of RBI (and any amendment from time to time by RBI) which are at present as under:-

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

**Key elements:**

**I. CUSTOMER ACCEPTANCE POLICY ("CAP"):**

1. Customer Acceptance policy (CAP) lays down the criteria for acceptance of customers. The guidelines in respect of the customer relationship in the Company broadly includes the following:
   a) No account is to be opened in anonymous or fictitious/benami name(s)/entity(ies)
   b) Accept customers only after verifying their identity, as laid down in Customer Identification Procedures. Necessary checks before opening a new account are to be ensured so that the identity of the customer does not match with any person with known criminal background or with banned entities such as individual terrorists or terrorist organizations, etc.
   c) Classify customers into various risk categories and, based on risk perception, apply the acceptance criteria for each category of customers. Also, a profile of each customer will be prepared based on risk categorization.
   d) Documentation requirements and other information to be collected in respect of different categories of Customers depending on perceived risk and compliances with Prevention of Money Laundering Act, 2002 (PMLA) and RBI guidelines.
   e) Not to open an account or close an existing account (except as provided in this Policy), where identity of the account holder cannot be verified and/or documents/information required could not be obtained/confirmed, as per the risk categorization, due to non-cooperation of the customer or non-reliability of the data/ information furnished to the Company. Suitable built - in safeguards shall be provided to avoid any harassment to Customers.
   f) Implementation of CAP should not become too restrictive and result in denial of services to general public, especially to those who are financially or socially disadvantaged.
   g) 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 practice and shall be strictly followed so as to avoid occasions when an account is

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operated by a mandate holder or where an account may be opened by an intermediary in the fiduciary capacity.

2. The Company shall prepare a profile for each new customer during the credit appraisal based on risk categorization as mentioned in this policy. The customer profile shall contain the information relating to the customer's identity, social/financial status, nature of business activity, information about his clients' business and their location, etc. The nature and extent of due diligence will depend on the risk perceived by Mudra. At the time of credit appraisal of the applicant the details are recorded along with his profile based on meeting with the applicant (by the Company representative) apart from collection of applicable document, this will be as per the Credit/ products norms as may be in practice. However, while preparing customer profile, the Company shall seek only such information from the customer which is relevant to the risk category and is not intrusive. Any other information from the customer should be sought separately with his/her consent and after opening the account. The customer profile will be a confidential document and details contained therein shall not be divulged for cross selling or for any other purposes.

3. As per KYC policy, for acceptance and identification, Customers shall be categorized based on perceived risk broadly into three categories - A, B & C. Category A includes high risk customers, Category B contain medium risk customers while Category C customers include low risk. None of the entities will be exempted from KYC procedure, irrespective of the status and relationship with Company or promoter. The above requirement may be moderated according to the risk perception.

**Definition of Customer Risk:**

'Customer risk ' in the present context refers to the money laundering risk associated with a particular customer from a Company's perspective.

**High Risk Customers (Category A):-**

Characteristics of High Risk Customer: Customers whose source of funds are not clear or are not convincing will be categorized as High risk customer. Higher due diligence shall be applied for this category of customers.

**Medium Risk Customers (Category B):**

Characteristics of Medium Risk Customer: Customers those are likely to pose a higher than average risk to the Company may be categorized as medium risk customer.

**Low Risk Customers (Category C):**

Characteristics of Low Risk Customer: Individuals and entities whose identities and source of wealth can easily identifiable and transactions in whose accounts by and large conform to the known profile will come under this category. Customers not covered in the High Risk and Medium Risk category definition will be categorized as low risk customer.

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## II. CUSTOMER IDENTIFICATION PROCEDURES ("CIP"):

1. Customer identification means identifying the customer and verifying his/her identity by using reliable, independent source documents, data or information. The Company shall obtain sufficient information necessary to verify the identity of each new customer along with brief details of its promoters and management, wherever applicable, whether regular or occasional and the purpose of the intended nature of Business relationship. The requirement as mentioned herein may be moderated according to the risk perception like in the case of a public listed company it will not be necessary to identify all the shareholders.

2. Besides risk perception, the nature of information/documents required would also depend on the type of customer (individual, corporate etc). For customers that are natural persons, the Company shall obtain sufficient identification data to verify the identity of the customer, his address/location, and also his recent photograph. For customers that are legal persons or entities, the Company shall

   a) verify the legal status of the legal person/ entity through proper and relevant documents;
   b) verify that any person purporting to act on behalf of the legal person/entity is so authorized and identify and verify the identity of that person;
   c) understand the ownership and control structure of the customer and determine who are the natural persons who ultimately control the legal person. Customer identification requirements keeping in view the provisions applicable of Prevention of Money Laundering & its Rules. An indicative list of the nature and type of documents/information that may be relied upon for customer identification. The Company will frame internal guidelines based on its experience of dealing with such persons/entities, normal prudence and the legal requirements.

3. The Company will formulate and implement a Client Identification Programme to determine the true identity of its clients keeping the above in view. The policy shall also cover the identification procedure to be carried out at different stages, i.e. while establishing a relationship; carrying out a financial transaction or when there is a doubt about the authenticity/veracity or the adequacy of the previously obtained customer identification data.

## III. MONITORING OF TRANSACTIONS:

On-going monitoring is an essential element of effective KYC procedures. Monitoring of transactions and its extent will be conducted taking into consideration the risk profile and risk sensitivity of the account. The Company shall make endeavours to understand the normal and reasonable activity of the customer so that the transactions that fall outside the regular/pattern of activity can be identified, Special attention will be paid to all complex, unusually large transactions and all unusual patterns, which have no apparent economic or visible lawful purpose. The Company may prescribe threshold limits for a particular



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category of accounts and pay particular attention to the transactions which exceed these limits. Transactions that involve large amounts of cash inconsistent with the normal and expected activity of the customer should particularly attract the attention of the Company. Higher risk accounts shall be subjected to intense monitoring.

The Company shall set key indicators for such accounts basis the background of the customer, country of origin, sources of funds, the type of transactions involved and other risk factors which shall determine the extent of monitoring. The Company shall carry out the periodic review of risk categorization of transactions/customer's accounts and the need for applying enhanced due diligence measures at a periodicity of not less than once in six months. The Company shall explore the possibility of validating the new account opening applications with various watch lists available in public domain, including RBI watch list.

## IV. RISK MANAGEMENT:

The Management under the supervision of the Board of Directors of the Company shall ensure that an effective KYC programme is put in place by establishing appropriate procedures and ensuring their effective implementation. It will cover proper management oversight, systems and controls, segregation of duties, training and other related matters. Responsibility will be explicitly allocated within the Company for ensuring that the policies and procedures as applicable to the Company are implemented effectively. The Company shall devise procedures for creating Risk Profiles of their existing and new customers and apply various Anti Money Laundering measures keeping in view the risks involved in a transaction, account or business relationship

## V. TRAINING PROGRAMME

The Company shall have an on-going employee training programs so that the members of the staff are adequately trained in KYC/ AML/ CFT procedures. Training requirements shall have different focuses for front line staff, compliance staff and officer/ staff dealing with new customers so that all those concerned fully understand the rationale behind the KYC policies and implement them consistently.

## VI. INTERNAL CONTROL SYSTEM:

The Company's Internal Audit and Compliance functions will evaluate and ensure adherence to the KYC policies and procedures. As a general rule, the compliance function will provide an independent evaluation of the Company's own policies and procedures, including legal and regulatory requirements. The Management under the supervision of Board shall ensure that the audit function is staffed adequately with skilled individuals. Internal Auditors will specifically check and verify the application of KYC procedures and comment on the lapses observed in this regard.

The compliance in this regard shall be put up before the Board or any Committee of the Board along with their normal reporting frequency. Further, the Company shall have an



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adequate screening mechanism in place as an integral part of their recruitment/ hiring process of personnel so as to ensure that person of criminal nature/ background do not get an access, to misuse the financial channel.

## VII. APPOINTMENT OF PRINCIPAL OFFICER

The Company shall designate a senior employee as 'Principal Officer' (PO) who shall be located at the Head and shall be responsible for monitoring and reporting of all transactions and sharing of information as required under the law. PO shall maintain close liaison with enforcement agencies, NBFCs and any other institution which are involved in the fight against money laundering and combating financing of terrorism.

## VIII. REPORTING TO FINANCIAL INTELLIGENCE UNIT - INDIA:

The PO shall report information relating to cash and suspicious transactions, if detected, to the Director, Financial Intelligence Unit India (FIUIND) as advised in terms of the PML Rules, in the prescribed formats as designed and circulated by RBI at the following address:

Director,
3rd Floor, Vaastu Darshan,
'B' Wing Azad Road,
Andheri (East), Mumbai- 400 069

## AML PROCESS:

Transaction Monitoring On-going monitoring is an essential element of effective KYC procedures. Effective control and reduction of risks is possible only if there is a clear understanding of the normal and reasonable activity of the customer. This would in turn enable Mudra to identify the transactions that fall outside the regular pattern of activity. However, the extent of monitoring shall be dependent on the risk sensitivity of the account. Following are some types of transactions which should be closely monitored:

1. all cash transactions of the value of more than rupees ten lakh or its equivalent in foreign currency;
2. all series of cash transactions integrally connected to each other which have been individually valued below rupees ten lakh or its equivalent in foreign currency where such series of transactions have taken place within a month and the monthly aggregate exceeds rupees ten lakh or its equivalent in foreign currency;
3. 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;
4. all suspicious transactions whether or not made in cash and in manner as mentioned in the Rules framed by Government of India under the Prevention of Money Laundering Act , 2002.

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## INFORMATION TO BE PRESERVED:

Following information in respect of above transactions have to be preserved:

1. the nature of the transactions;
2. the amount of the transaction and the currency in which it was denominated;
3. the date on which the transaction was conducted; and
4. the parties to the transaction.

## CENTRAL KYC RECORDS REGISTERY:

CKYCR means an entity to receive, store safeguard and retrieve the KYC record in digital form of a customer. Mudra Operations Department shall take necessary steps to comply with the norms of CKYCR within specified timelines. Government of India authorize the Central Registry of Securitization Asset Reconstruction and Security Interest of India (CERSAI), to act as, and to perform the functions of the CKYCR.

## REPORTING OF TRANSACTIONS:

The PMLA and the Rules framed thereunder have imposed an obligation on the Principal Officer to report all cash transactions and suspicious transactions to the Financial Intelligence Unit (FIU-IND). There shall be no restrictions on operations in the accounts where an STR has been made. It should be ensured that there is no tipping off to the customer at any level. It is likely that in some cases transactions are abandoned/ aborted by customers on being asked to give some details or to provide documents. Mudra should report all such attempted transactions in STRs, even if not completed by customers, irrespective of the amount of the transaction.

The types of transactions to be reported and the manner of reporting shall be done as detailed hereunder:

## I. REPORTING OF CASH TRANSACTIONS:

The following types of transactions shall be reported to the FIU-IND:

i. All cash transactions of Rs.10 Lakhs and above or its equivalent in foreign currency;
ii. All series of cash transactions integrally connected to each other which have been individually valued below rupees ten lakh or its equivalent in foreign currency where such series of transactions have taken place within a month and the monthly aggregate exceeds rupees ten lakh or its equivalent in foreign currency.

**Time of Reporting:**

i. The reporting of Cash Transactions to the FIU-IND shall be made only through the Principal Officer appointed by the Company.
ii. Upon the receipt of the documents referred above, the Principal Officer shall report the Cash Transaction/s referred to in above Para) to the Director, FIU-IND immediately not later than 15th of the succeeding month to which the transaction



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relates while doing so individual transactions below rupees fifty thousand may not be included.

iii. This reporting shall be done in the format prescribed by RBI.

iv. Utmost confidentiality should be maintained in filing of CTR with FIU-IND.

## II. REPORTING OF SUSPICIOUS TRANSACTION:

Apart from reporting Cash transactions of the above nature, the Principal Officer is also under an obligation to report all transactions of a suspicious nature to the Director, FIU-IND. STRs should be made if there are ground to believe that the transaction involves proceeds of crime generally irrespective of the amount of transaction and/or the threshold limit envisaged for predicate offences in part B of Schedule of PMLA, 2002. The delay in furnishing of information to Director FIU-IND from the prescribed period (even for one day) will be construed as non-compliance.

**Indicative List of Suspicious Activities:**

1. Transactions Involving Large Amounts of Cash: Company transactions that are denominated by unusually large amounts of cash, rather than cheques/Electronic payments etc.
2. Transactions that do not make Economic Sense: Transactions in which assets are withdrawn immediately after being deposited without adequate justification.
3. Activities not consistent with the Customer's Business Accounts with large volume of credits whereas the nature of business does not justify such credits.
4. Attempts to avoid Reporting/Record-keeping Requirements
   a) A customer who is reluctant to provide information needed for a mandatory report.
   b) Any individual or group that coerces/induces or attempts to coerce/induce a Mudra employee not to file any reports or any other forms.
   c) An account where there are several cash transactions below a specified threshold level to avoid filing of reports.
5. Unusual Activities: Funds coming from the countries/centres which are known for money laundering.
6. Customer who provides Insufficient or Suspicious Information
   a) A customer/company who is reluctant to provide complete information regarding the purpose of the business, prior business relationships, officers or directors, or its locations.
   b) A customer/company who is reluctant to reveal details about its activities or to provide financial statements.
   c) A customer who has no record of past or present employment but makes frequent large transactions.
7. Certain Employees arousing Suspicion
   a) An employee whose lavish lifestyle cannot be supported by his or her salary.
   b) Negligence of employees/willful blindness is reported repeatedly.
8. Some examples of suspicious activities/transactions to be monitored by the operating staff.



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a) Large Cash Transactions
b) Multiple accounts under the same name
c) Placing funds in term Deposits and using them as security for more loans
d) Sudden surge in activity level
e) Same funds being moved repeatedly among several accounts

**Time of Reporting:**

i. The reporting of Suspicious Transactions to the FIU-IND shall be made only by the Principal
Officer appointed by the Company.
ii. Upon receipt of the above referred annexures the Principal Officer shall report the Suspicious Transaction/s to the Director FIU-IND within 7 days from arriving at a conclusion that a Suspicious Transaction has taken place.
iii. This reporting shall be done in the format prescribed by RBI
iv. The Principal Officer shall record his reasons for treating any transaction or a series of transactions as suspicious. It should be ensured that there is no undue delay in arriving at such a conclusion once a suspicious transaction report is received from a branch or any other office. Such report shall be made available to the competent authorities on request.
v. It should be further noted that, Suspicious Transaction Reports shall also be filed if there are reasonable ground to believe that the transaction involve proceeds of crime generally irrespective of the amount of transaction and/or the threshold limit envisaged for predicate offences in part B of Schedule of PMLA, 2002.
vi. Utmost confidentiality should be maintained in filing of STR with FIU-IND.

## III. <u>REPORTING OF FORGED OR COUNTERFEIT CURRENCY NOTES OR BANK NOTES:</u>

All cash transactions where forged or counterfeit Indian currency notes or bank notes have been used as genuine and where any forgery of a valuable security has taken place shall be reported to the Principal
Officer in the manner prescribed hereunder.

**Time of Reporting:**

i. The reporting of the above referred transactions to the FIU-IND shall be made only through the Principal Officer appointed by the Company.
ii. Upon the receipt of the CCR, the Principal Officer shall report the said transaction/s to the Director, FIU-IND by the 15th day of the succeeding month of occurrence of such transaction in the format prescribed for Summary Counterfeit Currency Report (CCR). The delay in reporting such transaction shall be construed as non-compliance.

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## RECORD KEEPING:

Central Operations (COPS) shall be responsible for record keeping and retention of all documents as per the PMLA, 2002 Rules. Records of all transactions shall be maintained for a period of 10 years from the date of cessation of transaction between the customer and Mudra. The documents are to be preserved in a hard copy/ digitized manner (as may be intimated) so as to enable reconstruction of individual transactions (including the types and currency of transaction involved, if any) and provide, if necessary, evidence for prosecution of persons involved in criminal activity.

Records pertaining to the identification of the customer and his / her address (e.g. copies of documents like passports, identity cards, driving licenses, PAN, utility bills etc.) obtained while opening the account and during the course of business relationship, would be properly preserved as mentioned above for at least ten years after the business relationship is ended.

The following types of transactions are to be recorded and reported in the manner provided under the;

**Reporting section of this policy:**
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 (pertaining to one customer or link account i.e. code and Group code in SAP / BANCs) 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 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 in manner as mentioned in the Rules framed by Government of India under the Prevention of Money Laundering Act , 2002.

Authenticated By:

Dipenmaheshwari

**Mr. Dipen Maheshwari**
**Managing Director**
**DIN: 03148904**

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