

KYC & AML POLICY

3/7/2014



SWARNA PRAGATI HOUSING

Swarna Pragati Housing Microfinance Pvt. Ltd., 801-807, 8th Floor, Tolstoy House, 15 Tolstoy Marg, E-mail: contact@swarnapragatihousing.com, Phone: +91 11 4309 4309

'KNOW YOUR CUSTOMER' (KYC) GUIDELINES – ANTI MONEY LAUNDERING (“AML”) STANDARDS

With reference to the guidelines regarding 'Know Your Customer' norms issued by the National Housing Bank (“NHB”) in terms of its Circulars No. (1) NHB(ND)/DRS/POL-No-02/2004-05 dated August 25, 2004, (2) NHB(ND)/DRS/POL-No-05/2004-05 dated September 23, 2004, (3) NHB(ND)/DRS/POL-No-08/2004-05 dated March 31, 2005, (4) NHB(ND)/DRS/POL-No-32/2009-10 dated March 16, 2010, (5) NHB/ND/DRS/POL-No-33/2010-11 dated October 11, 2010 and (6) NHB/ND/DRS/POL-No-60/2013-14 dated February 6, 2014 wherein Housing Finance Companies(HFCs) were advised to follow certain customer identification procedure for opening of accounts and monitoring transactions of suspicious nature for the purpose of reporting it to appropriate authority. Swarna Pragati Housing Microfinance Private Limited (SPHM) has designed its policy keeping the above Guidelines in view with the approval of the Board and is committed to its strict compliance.

Background:

The Recommendations made by the Financial Action Task Force (FATF) on Anti Money Laundering (AML) standards and on Combating Financing of Terrorism (CFT) standards have become the international benchmark for framing Anti Money Laundering and combating financing of terrorism policies by the regulatory authorities. Compliance with these standards both by the banks/financial institutions, including HFCs, has become necessary for international financial relationships. The Reserve Bank of India(RBI) has issued revised set of comprehensive 'Know Your Customer' Guidelines to all Non-Banking Financial Companies (NBFCs), Miscellaneous Non-Banking Companies and Residuary Non-Banking Companies in the context of the recommendations made by the Financial Action Task Force(FATF) and Anti Money Laundering (AML) standards and combating financing of terrorism policies by the regulatory authorities and advised all NBFCs to adopt the same with suitable modifications depending on the activity undertaken by them and ensure that a proper policy framework on KYC and AML measures are formulated and put in place with the approval of their respective Boards. The 'Know Your Customer' Guidelines issued by the National Housing Bank for HFCs have been drafted and issued in the above context.

Know Your Customer' Standards

1. The objective of KYC guidelines is to prevent HFCs from being used, intentionally or unintentionally, by criminal elements for money laundering activities. KYC procedures also enable HFCs to know/understand their customers and their financial dealings better which in turn help them manage their risks prudently. SPHM has framed its KYC policy incorporating the following four key elements:
 1. Customer Acceptance Policy;
 2. Customer Identification Procedures;

3. Monitoring of Transactions; and
 4. Risk management.
2. For the purpose of the KYC policy, a 'Customer' is defined as:
- a person or entity that maintains an account and/or has a business relationship with SPHM;
 - 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 SPHM, say, a wire transfer or issue of a high value demand draft as a single transaction.

Customer Acceptance Policy (CAP)

3. SPHM's has developed a clear Customer Acceptance Policy, which lays down explicit criteria for acceptance of customers, ensures the following aspects of the customer relationship:
- No account is opened in anonymous or fictitious/benami name(s);
 - Parameters of risk perception are clearly defined in terms of the location of customer, clients and mode of payments;
 - Volume of turnover, social and financial status, etc. to enable categorization of customers into low, medium and high risk (these customers will require very high level of monitoring);
 - Documentation requirements and other information collected in respect of different categories of customers depending on perceived risk and keeping in mind the requirements of PML Act, 2002 and guidelines issued from time to time;
 - SPHM will not open an account where it is unable to apply appropriate customer due diligence measures, i.e. where SPHM is unable to verify the identity and /or obtain documents required as per the risk categorisation due to non co-operation of the customer or non reliability of the data/information furnished. However, SPHM will have suitable built-in safeguards to avoid harassment of the customer.
 - 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, 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, and
 - Necessary checks before opening a new account to ensure 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.
4. SPHM will prepare a profile for each new customer based on risk categorisation. The customer profile will contain 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 SPHM. However, while preparing the customer profile, SPHM will seek only such information from the customer which is relevant to the risk category and is not intrusive. The customer profile will be a confidential document and details contained therein will not be divulged for cross selling or any other purposes.

5. For the purpose of risk categorisation, 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, will be categorised 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, employees of Government departments & Government owned companies, regulators and statutory bodies, etc. In such cases, the policy requires only the basic requirements of verifying the identity and location of the customer.
6. Customers that are likely to pose a higher than average risk to SPHM will be categorized as medium or high risk depending on the customer's background, nature and location of activity, country of origin, sources of funds and his client profile, etc. SPHM 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. It is highly unlikely that SPHM will have any medium / high risk clients given its focus on the lower income section of society, but for information, examples of customers requiring higher due diligence will include:
 - non-resident customers,
 - high net worth individuals,
 - trusts, charities, NGOs and organizations receiving donations,
 - companies having close family shareholding or beneficial ownership,
 - firms with 'sleeping partners',
 - politically exposed persons (PEPs) of foreign origin,
 - non-face to face customers, and
 - those with dubious reputation as per public information available, etc.

As regards the accounts of PEPs, in the event of an existing customer or the beneficial owner of an existing account subsequently becoming a PEP, SPHM will need to obtain senior management approval to continue the business relationship with such person, and also undertake enhanced monitoring.

It is important to bear in mind that the adoption of Customer Acceptance Policy and its implementation will not result in denial of SPHM's services to the general public, especially to those who are financially or socially disadvantaged.

Customer Identification Procedure (CIP)

7. The Board of SPHM has clearly spelt out the Customer Identification Procedure to be carried out at different stages, i.e. while establishing a relationship; carrying out a financial transaction or when SPHM has a doubt about the authenticity/veracity or the adequacy of the previously obtained customer identification data. Customer identification means identifying the customer and verifying his/ her identity by using reliable, independent source documents, data or information. SPHM will obtain sufficient information 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 SPHM 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 (individual, corporate etc). For customers that are natural persons, which will be most of its clients, SPHM will 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 (very unlikely to be a customer), SPHM will:
- verify the legal status of the legal person/ entity through proper and relevant documents
 - 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 and
 - understand the ownership and control structure of the customer and determine who are the natural persons who ultimately control the legal person.

Where SPHM is unable to apply appropriate KYC measures due to non-furnishing of information and /or non-cooperation by the customer, SPHM 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.

Monitoring of Transactions

8. Ongoing monitoring is an essential element of effective KYC procedures. SPHM can effectively control and reduce its risk only if it has an understanding of the normal and reasonable activity of the customer so that it can identify transactions that fall outside the regular pattern. However, the extent of monitoring will depend on the risk sensitivity of the account. Since SPHM will not have any deposit accounts, this situation will hardly arise, but SPHM will in any case pay special attention to all complex,

unusually large transactions and all unusual patterns which have no apparent economic or visible lawful purpose, or transactions that involve large amounts of cash inconsistent with the normal and expected activity of the customer. SPHM will put in place a system of periodical review of risk categorization of accounts and the need for applying enhanced due diligence measures. SPHM will ensure that a record of transactions in the accounts is preserved and maintained as required in terms of section 12 of the PML Act, 2002 (and the Amended Act, 2009). It will also ensure that transactions of suspicious nature and/or any other type of transaction notified under section 12 of the PML Act, 2002 (and the Amended Act, 2009), is reported to the appropriate law enforcement authority.

Risk Management

9. The Board of Directors of SPHM 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 SPHM to ensure that SPHM's policies and procedures are implemented effectively. The Board of SPHM has devised procedures for creating Risk Profiles of new customers and will apply various Anti Money Laundering measures keeping in view the risks involved in a transaction, account or business relationship.
10. SPHM's internal audit and compliance functions have an important role in evaluating and ensuring adherence to the KYC policies and procedures. The compliance function will provide an independent evaluation of SPHM's policies and procedures, including legal and regulatory requirements. SPHM will ensure that its audit machinery is staffed adequately with individuals who are well-versed in such policies and procedures. Concurrent/ 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 will be put up before the Audit Committee of the Board at quarterly intervals.
11. SPHMs will have an ongoing employee training program so that members of the staff are adequately trained in KYC procedures. Training requirements will have different focuses for frontline staff, compliance staff and staff dealing with new customers.

Customer Education

12. The implementation of KYC procedures requires SPHM to demand certain information from customers, which may be of personal nature, or which has hitherto never been called for. This can sometimes lead to a lot of questioning by the customer as to the motive and purpose of collecting such information. SPHM's front line staff will

therefore personally discuss this with customers and if required, SPHM will also prepare specific literature/ pamphlets, etc. so as to educate the customer on the objectives of the KYC program.

Introduction of New Technologies

13. SPHM will 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 its use in money laundering schemes.

Appointment of Principal Officer

14. SPHM has appointed its Managing Director to be designated as 'Principal Officer'. Per the NHB guidelines, the Principal Officer will be located at the corporate office and will be responsible for monitoring and reporting of all transactions and sharing of information as required under the law. He will maintain close liaison with enforcement agencies, other HFCs and any other institution which are involved in the fight against money laundering and combating financing of terrorism.

Maintenance of records of transactions

15. As unlikely as it will be in SPHM's case, due to its focus on lower income families, SPHM has a system of maintaining proper record of transactions prescribed under Rule 3, of the Prevention of Money-Laundering and value of transactions, the procedure and manner of maintaining and verification and maintenance of records of the identity of the clients of the Banking Companies, Financial Institutions and Intermediaries) Rules, 2005, as mentioned below:

- all cash transactions of the value of more than rupees ten lakh or its equivalent in foreign currency;
- 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;
- 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;
- all suspicious transactions whether or not made in cash and by way of as mentioned in the Rules.

Information to be preserved

16. As per the NHB guidelines, SPHM is required to maintain the following information in respect of transactions referred to in Rule 3:

- the nature of the transactions;
- the amount of the transaction and the currency in which it was denominated;

- the date on which the transaction was conducted; and
- the parties to the transaction.

Maintenance and Preservation of records

17. SPHM has a system for proper maintenance and preservation of account information in a manner that allows data to be retrieved easily and quickly whenever required or when requested by the competent authorities. SPHM will maintain for at least ten years from the date of cessation of transaction between the bank and the client, all necessary records of transactions, both domestic or international, which will permit reconstruction of individual transactions (including the amounts and types of currency involved if any) so as to provide, if necessary, evidence for prosecution of persons involved in criminal activity

SPHM will also ensure that 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, are properly preserved for at least ten years after the business relationship is ended. The identification records and transaction data will be made available to the competent authorities upon request.

Reporting to Financial Intelligence Unit-India

18. In terms of the PMLA rules, SPHM will report information relating to cash and suspicious transactions to the Director, Financial Intelligence Unit-India (FIU-IND) at the following address:

**Director, FIU-IND,
Financial Intelligence Unit-India,
6 th Floor, Hotel Samrat,
Chanakyapuri,
New Delhi-110021**

SPHM will ensure that the provisions of PMLA Rules framed and the Foreign Contribution and Regulation Act, 1976, wherever applicable, are adhered to strictly.

Customer identification procedure features to be verified and documents that will be obtained from customers

Features	Documents
Individuals	
<ul style="list-style-type: none"> ▪ Legal name and any other names used 	<ol style="list-style-type: none"> 1. Passport 2. PAN card 3. Voter's Identity Card 4. Driving license 5. AADHAR 6. Identity card (Subject to SPHM's satisfaction) 7. Letter from a recognized public authority or public servant verifying the identity and residence of the customer to the satisfaction of HFC
<ul style="list-style-type: none"> ▪ Correct Permanent address 	<ol style="list-style-type: none"> 1. Telephone Bill 2. Bank account statement 3. Letter from any recognised public authority 4. Electricity bill 5. Ration card 6. AADHAR 7. Letter from employer (subject to satisfaction of SPHM) <p style="text-align: center;">One recent passport size photograph except in case of transactions referred to in Rule 9(1)(b) of the PML Rules</p>
Companies	
<ul style="list-style-type: none"> ▪ Name of the company ▪ Principal place of business Mailing address of the company ▪ Telephone/Fax number 	<ol style="list-style-type: none"> 1. Certificate of incorporation 2. Memorandum & Articles of Association 3. Resolution from the Board of Directors and Power of Attorney granted to its managers, officers or employees to transact business on its behalf 4. An officially valid document in respect of managers, officers or employees holding an attorney to transact on its behalf. 5. Telephone Bill.

COMPLAINT REDRESSAL

For any complaints please contact

Nihit Srivastava

Swarna Pragati Housing Microfinance Pvt. Ltd.

Registered Office

801-807 Tolstoy House,

15 Tolstoy Marg,

New Delhi 110001

Ph: 011 4309 4309

Or

For speaking in Marathi

Gouri Gajralwar

Swarna Pragati Housing Microfinance Pvt. Ltd.

Regional Office

104 Sundaram, Jagat Housing Society,

Byramji Town

Nagpur 440013

Ph: 0712 6602898

The Complaint Redressal Cell of the National Housing Bank looks into complaints from borrowers of Housing Finance Companies (HFCs). The Complainants who have loan related complaints against HFCs are advised to approach the concerned HFC in the first instance for redressal of their grievances. If you do not receive response from the Swarna Pragati within a reasonable period of time say 30 days or are dissatisfied with the response, you may approach the Complaint Redressal Cell in the Performa given hereunder of the National Housing Bank.

National Housing Bank

Department of Regulation and Supervision,

Core 5A, India Habitat Centre,

Lodhi Road, New Delhi – 110 003.