

**VARASHAKTI HOUSING FINANCE PRIVATE LIMITED (“The Company”  
or “VHFPL”)**

**GUIDELINES ON 'KNOW YOUR CUSTOMER (KYC)' & 'ANTI-MONEY  
LAUNDERING MEASURES (AML)'**

**Introduction**

The National Housing Bank (NHB) Guidelines require Housing Finance Companies (HFCs) to follow certain customer identification procedure and monitoring of suspicious transactions for reporting to the appropriate authority. Further, NHB has also advised the HFCs to put in place a proper policy frame work on KYC & AML duly approved by their Board of Directors.

This Policy has been framed in accordance with the latest National Housing Bank guidelines regarding ‘Know Your Customer (KYC)’ and ‘Anti Money Laundering (AML)’ norms and has the following four key elements:

- i) Customer Acceptance Policy
- ii) Risk management
- iii) Customer Identification procedures and
- iv) Monitoring of transactions

**Applicability:** This Policy shall be applicable to all the verticals/products of the Company, both existing as well as in future. The definitions of various terms in this Policy shall be as mentioned in the Guidelines issued by NHB in this regard, from time to time. The Company is presently not a deposit taking Company and focusing on assets only. The Company shall undertake stringent due diligence process on KYC before granting credit facility to the customer.

Mr C V Sankar, MD shall be the “Designated Director” of the Company to ensure overall compliance of these Guidelines. Dr. Kalpanaa Sankar shall be the “Principal Officer” of the Company.

**Compliance of KYC Policy:**

The Company will ensure time to time compliance with KYC Policy through:

- a) Allocation of responsibility for effective implementation of policies and procedures.
- b) Independent evaluation of the compliance functions of HFC policies and procedures, including legal and regulatory requirements.
- c) Concurrent/internal audit system to verify the compliance with KYC/ Anti-Money Laundering (AML) policies and procedures.

d) Submission of quarterly audit notes and compliance to the Audit Committee. The Company will ensure that decision-making functions of determining compliance with KYC norms are not outsourced.

### **CUSTOMER ACCEPTANCE POLICY**

The Customer Acceptance Policy of VHFPL shall ensure the following aspects of customer relationship:

- a) No account is opened in anonymous or fictitious/benami name(s);
- b) No account is opened where the Company is unable to apply appropriate Customer Due Diligence (CDD) measures, either due to non-cooperation of the customer or non-reliability of the documents/information furnished by the customer.
- c) No transaction or account based relationship is undertaken without following the CDD procedure.
- d) The mandatory information to be sought for KYC purpose while opening an account and during the periodic updation, is specified.
- e) Optional/ additional information is obtained with the explicit consent of the customer after the account is opened.
- f) CDD Procedure is followed for all the joint account holders, while opening a joint account.
- g) If an existing KYC compliant customer of the Company desires to open another account with the Company, there shall be no need for a fresh CDD exercise.
- h) Circumstances in which, a customer is permitted to act on behalf of another person/entity, is clearly spelt out.
- i) 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 lists issued by UN Security Council circulated by National Housing Bank and the sanctions lists circulated by Reserve Bank of India from time to time.

Adoption of Customer Acceptance Policy of the Company and its implementation would not result in denial of the Company's services to general public, especially to those, who are financially or socially disadvantaged. The extent of CDD would be dependent on the risk involved. Confidentiality of customer data would be maintained at all times.

### **RISK MANAGEMENT**

The Board of Directors of the Company shall ensure that an effective KYC program is in place and by establishing appropriate procedures and is overseeing its effective implementation. The program shall cover proper management oversight, systems and controls, segregation of duties, training and other related matters. Responsibility shall be explicitly allocated within the Company to ensure that the Company's policies and procedures are implemented effectively. The Company shall prepare Risk profiles of their existing and new Customers and apply Anti Money Laundering Measures (AML) keeping in view the risks involved.

The Company shall follow a Risk based approach and customers shall be classified as low, medium and high risk category accordingly. Factors such as customer's identity, social status, nature of employment/business shall be considered. The recommendations made by the Financial Action Task Force (FATF) on AML standards and on Combating Financial Terrorism (CFT) shall also be considered.

### **CUSTOMER IDENTIFICATION PROCEDURE**

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

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

### **Customer Due Diligence (CDD) Procedure**

#### **Procedure for obtaining identification**

- a) While undertaking CDD, the Company shall obtain the following information from an individual while establishing an account based relationship with an 'individual' or dealing with the individual who is a beneficial owner, authorised signatory or the power of attorney holder related to any legal entity:
  - (i) the Aadhaar number where he is desirous of receiving any benefit or subsidy under any scheme notified under Section 7 of the Aadhaar Act, or certified copy of an Officially Valid Document (OVD) containing details of identity and address, and one recent photograph; and
  - (ii) the Permanent Account Number (PAN) or Form No. 60 as defined in Income-tax Rules, 1962, as amended from time to time.

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

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

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

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

- (i) utility bill which is not more than two months old of any service provider (electricity, telephone, post-paid mobile phone, 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 the employer issued by State Government and 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/her 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 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.

The CDD Procedure to be followed in case of individuals, sole proprietary firms, legal entities forms Annexure A.

### **Enhanced Due Diligence Measures**

**Accounts of Non-face-to-face customers:** The Company shall ensure that the first payment is to be effected through the customer's KYC-complied account, for enhanced due diligence of non-face to face customers.

#### **Accounts of Politically Exposed Persons (PEPs):**

- (i) The Company may have the option of establishing a relationship with PEPs provided that:
  - (a) sufficient information including information about the sources of funds accounts of family members and close relatives is gathered on the PEP;
  - (b) the identity of the person is verified before accepting the PEP
  - (c) The decision to open an account for a PEP is approved by MD/CEO
  - (d) all such accounts are subjected to enhanced monitoring on an on-going basis
  - (e) In the event of an existing customer or the beneficial owner of an existing account subsequently becoming a PEP, MD's approval is obtained to continue the business relationship;
  - (f) The CDD measures as applicable to PEPs including enhanced monitoring on an on-going basis are applicable.

These instructions shall also be applicable to accounts where a PEP is the beneficial owner.

### **Ongoing Due Diligence**

It is understood that ongoing monitoring is very important to identify transactions outside the normal scope of operations of the customers:

- (a) The Company will ensure special attention to all complex, unusually large transactions and all unusual patterns which have no apparent economic or visible lawful purpose.
- (b) The extent of monitoring will be aligned with the risk category of the customer. A system of periodic review of risk categorisation of accounts shall be put in place.

### **MONITORING OF TRANSACTIONS**

It is understood that ongoing monitoring is an essential element of effective KYC procedures.

#### **Maintenance of records of transactions:**

- (a) The Company shall ensure that there is a system of Maintenance of records, at each branch and a consolidated record for all the branches taken together at the registered

office of the Company, of transactions (nature and value), in such form and for such period as specified under the Rule 3 of the Prevention of Money-laundering (Maintenance of Records) Rules, 2005.

(b) The Company shall maintain all necessary information in respect of transactions prescribed under Rule 3 of the Prevention of Money-laundering (Maintenance of Records) Rules, 2005, so as to permit reconstruction of individual transaction, including the following:

- (a) the nature of the transactions;
- (b) the amount of the transaction and the currency in which it was denominated;
- (c) the date on which the transaction was conducted; and
- (d) the parties to the transaction.

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

#### **Furnishing of information to the Director, Financial Intelligence Unit - India (FIU-IND):**

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

(ii) A copy of information furnished will 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) The Company shall 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 will 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 <http://fiuindia.gov.in>, will be utilised by the Company.

(v) The Company noted that 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 mis-represented transaction beyond the time limit as specified in the said Rules shall be constituted as a separate violation.

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

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

### **Reporting requirement under Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standards (CRS)**

(i) Under FATCA and CRS, the Company shall 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, following steps would be taken 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 – 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 will be referred to.*

(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" (Credit 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.

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

## **OTHER MEASURES**

### **Secrecy Obligations and Sharing of Information:**

- (i) The Company shall maintain secrecy regarding the customer information which arises out of the contractual relationship between the lender and customer.
- (ii) While considering the requests for data/information from Government and other agencies, the Company shall satisfy itself that the information being sought is not of such a nature as shall violate the provisions of the laws relating to secrecy in transactions.

### **Sharing KYC information with Central KYC Records Registry (CKYCR)**

The Company shall capture the KYC information for sharing the same with the Central Registry of Securitization Asset Reconstruction and Security Interest of India (CERSAI), which has been appointed as CKYCR by the Government of India.

### **Hiring of Employees and Employee training**

- (a) Adequate screening mechanism as an integral part of personnel recruitment/hiring process has been 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 shall 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 Company, regulation and related issues shall be ensured.

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

- (a) Persons authorized by the Company for collecting deposits and/ or selling loan related products, their brokers/ agents or the like, shall be fully compliant with the KYC guidelines applicable to the Company.
- (b) All information shall be made available to the National Housing Bank to verify the compliance with the KYC guidelines and accept full consequences of any violation by the persons authorised by the Company including brokers/ agents etc. who are operating on their behalf.

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

Where the Company is unable to apply appropriate KYC measures due to non-furnishing of information and / or non-cooperation by the customer, the Company may consider closing the account or terminating the business relationship after issuing due notice to the customer explaining the reasons for taking such a decision. Such decisions need to be taken only with approval of MD or CEO.

## **ANNEXURE A - CDD PROCEDURES**

### **Part- I CDD Procedure in case of individuals**

The following procedure shall be followed by the Company while establishing an account-based relationship with an individual:

- (a) Obtain information as mentioned in the CDD earlier; and
- (b) such other documents pertaining to the nature of business or financial status specified by the Company in KYC policy / Norms.

The Company shall provide appropriate relaxation for continued operation of accounts of customers who are unable to provide Permanent Account Number or Form No.60 owing to injury, illness or infirmity on account of old age or otherwise, and such like causes. Provided that information collected from customers for the purpose of opening of account will be treated as confidential and details thereof shall not be divulged for the purpose of cross selling, or for any other purpose without the express permission of the customer.

### **Part- II CDD Measures for Sole Proprietary Firms**

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

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

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

In cases where the Company is satisfied that it is not possible to furnish two such documents, the Company may, at its discretion, accept only one of those documents as proof of business/activity. Provided that the Company shall undertake contact point verification and collect such other information and clarification as may be required to establish the existence of such firm, and shall confirm and satisfy itself that the business activity has been verified from the address of the proprietary concern.

### **Part- III CDD Measures for Legal Entities**

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

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

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

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

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

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

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

- (a) Resolution of the managing body of such association or body of individuals;
- (b) Permanent Account Number or Form No.60 of the unincorporated association or a body of individuals;
- (c) Power of attorney granted to transact on its behalf;

(d) one copy of an OVD containing details of identity and address, one recent photograph and Permanent Account Numbers of Form 60 of the managers, officers or employees, as the case may be, holding an attorney to transact on its behalf identification information as mentioned under

(e) Such information as may be required by the company to collectively establish the legal existence of such an association or body of individuals.

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

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

(a) Document showing name of the person authorised to act on behalf of the entity;

(b) Aadhaar/PAN/ OVD for proof of identity and address in respect of the person holding an attorney to transact on its behalf and

(c) Such documents as may be required by the Company to establish the legal existence of such an entity/juridical person.