

POLICY ON KNOW YOUR CUSTOMER (KYC) AND ANTI MONEY LAUNDERING (AML) GUIDELINES

1. PREAMBLE

SFI Financial Services Private Limited (“SFI”) is a private limited company incorporated under the provisions of the Companies Act, 2013 and is a NBFC -Type II ND, registered with the Reserve Bank of India. The policy has been formulated pursuant to the Guidelines issued by the Reserve Bank of India from time to time on ‘Know your Customer’ and is duly approved by the Board of SFI. The guidelines shall also apply to the branches of SFI.

Accordingly, in compliance with the aforesaid directions issued by the RBI, and in supersession of all its existing policies, executive orders, and instructions issued from time to time in this regard, the following KYC Policy has been approved by the Board of Directors of the Company.

The Company shall further ensure compliance with the provisions of the Prevention of Money Laundering Act, 2002, and the Prevention of Money-Laundering (Maintenance of Records) Rules, 2005, as amended from time to time, including operational instructions issued in pursuance of such amendment(s).

Objective of RBI guidelines is to prevent NBFCs being used, intentionally or unintentionally by criminal elements for money laundering activities. The guidelines also mandate making reasonable efforts to determine the true identity and beneficial ownership of accounts, source of funds, the nature of customer’s business, reasonableness of operations in the account in relation to the customer’s business, etc. which in turn helps the Company to manage its risks prudently. Accordingly, the main objective of this policy is to enable the Company to have positive identification of its customers.

2. SCOPE AND COVERAGE OF POLICY

- Process to determine the identity of customer, nature of business, reasonableness of operations which in turn helps us to manage our risks prudently
- Shall place appropriate controls for detection and reporting of suspicious activities.
- Ensure that all the company staff are adequately trained in KYC and AML procedures.

3. DEFINITIONS

- **Beneficial Owner (BO)**

SFI FINANCIAL SERVICES PRIVATE LIMITED

A list of persons who are to be considered as BOs in relation to a customer is given below:

- Public/Private Limited Companies - If the customer is a company, whether alone or together, or through one or more juridical person, ownership of or entitlement to more than 10% of shares or capital or profits of the Company; or "Control" shall include the right to appoint majority of the directors or to control the management or policy decisions including by virtue of their shareholding or management rights or shareholders agreements or voting agreements.
 - Partnership firm - 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 10 per cent of capital or profits of the partnership or who exercise control through other means.
 - *Unincorporated association of persons or body of individuals - 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.
 - d) Trust/ Foundation - 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 10% 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
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- **Customer** - Means a person who is engaged in a financial transaction or activity with SFI Financial Services Private Limited and includes a person on whose behalf the person who is engaged in the transaction or activity, is acting.
 - **Customer Due Diligence (CDD)** - Identifying and verifying the customer and the beneficial owner using 'Officially Valid Documents (OVD)' as a 'proof of identity' and a 'proof of address.
 - **Customer identification** - means undertaking the process of CDD.
 - **Officially valid document (OVD)**
The following documents as mentioned in OVD are allowed to be obtained from all borrowers, co- borrowers and guarantors.

SI no	Document	ID proof	Sign proof	Address proof**	Age proof
1	Passport	Yes	Yes	Yes	Yes
2	Voter ID Card	Yes	No	Yes	Yes
3	Driving License	Yes	Yes	Yes	Yes
4	Job card issued by NREGA duly signed by State govt officer	Yes	No	No	Yes
5	Letter issued by National Population Register containing details of names and address.	Yes	No	Yes	Yes
6	Proof of possession of Aadhaar (As per UIDAI, AADHAR card can be used as OVD only on masking the number)	Yes	No	Yes	Yes

- Mandatory Document: PAN CARD / FORM 60
- Permanent account number (PAN) shall be obtained and verified while undertaking transactions as per the provisions of Income Tax Rule 114B applicable to banks/NBFCs, as amended from time to time.
- Form 60 shall be obtained from persons who do not have PAN or equivalent e-document thereof.

*** Affidavit with Self-declaration shall be obtained in case the current address differs from the address in OVD.*

- a) If the OVD furnished by the customer does not have 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. Bank account or Post Office savings bank account statement;
 - iv. Pension or family Pension payment orders (PPOs) issued to retired employees by Government Departments or PSUs, if they contain address.
 - v. Letter of allotment of accommodation from employer issued by State or Central Government departments, statutory or regulatory bodies, public sector undertakings, scheduled commercial banks, financial institutions and listed companies. Similarly, leave and license agreements with such

employers allotting official accommodation; and vi. Documents issued by Government departments of foreign jurisdictions or letter issued by Foreign Embassy or Mission in India.

- b) The customer shall submit OVD with current address within a period of three months of submitting the documents specified at 'b' above
- c) Where the OVD presented 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 shall be accepted as proof of address
- **Person** - means 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 (a to e), and
 - g) any agency, office or branch owned or controlled by any of the above persons (a to f)
- **Central KYC Records Registry (CKYCR)**
KYC data collected are collated and reported to CKYCR for all borrowers. The captured customer's KYC records have to be uploaded onto CKYCR within 10 days of commencement of an account-based relationship with the customer.
- **Designated Director** means a person designated by the Company to ensure overall compliance with the obligations imposed under chapter IV of the PML Act and the Rules and shall be nominated by the Board.
- **Politically Exposed Persons (PEPs)** are individuals who are or have been entrusted with prominent public functions by a foreign country, including the Heads of States/Governments, senior politicians, senior government or judicial or military officers, senior executives of state- owned corporations and important political party officials.

Principal Officer means an officer at the management level nominated by the Company, responsible for furnishing information as per rule 8 of the Rules.

- **Reporting Entity** for the purpose of this Policy would mean the Company, SFI FINANCIAL SERVICES PVT LTD., (SFI)
- **Suspicious transaction** means a "transaction", 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 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
 - d. gives rise to a reasonable ground of suspicion that it may involve financing of the activities relating to terrorism.
- **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.

4. MONEY LAUNDERING AND TERRORIST FINANCING RISK ASSESSMENT BY SFI

(a) SFI 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 considers all the relevant risk factors before determining the level of overall risk and the appropriate level and type of mitigation to be applied.

(b) The risk assessment shall 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 of SFI, in alignment with the outcome of the risk assessment exercise. However, SFI shall review at least once in a year or at such other intervals as may be decided by the Board.

(c) The outcome of the exercise shall be put up to the Board or any committee of the Board

(d) SFI, shall apply a Risk Based Approach (RBA) for mitigation and management of the identified risk and have Board approved policies, controls and procedures in this regard.

5. KEY ELEMENTS

- Customer Acceptance Policy
- Customer Identification Procedure
- Monitoring of Transactions.
- Risk Management

- **Customer Acceptance Policy (CAP)**

The Customer Acceptance Policy of the Company, which lays down explicit criteria for acceptance of customers, ensures the following aspects of the customer relationship:

- a. SFI shall not open an account in anonymous or fictitious/benami name.
- b. SFI shall not undertake further transactions like additional disbursements, issuance of cheques/ payment orders, additional Top Up loans etc. (except accepting dues, EMIs and inward funds), with the existing customers/ counter party, if proper KYC documents are not in place.
- c. SFI shall not open an account where it is unable to apply appropriate CDD (Customer Due Diligence) measures as specified in Chapter VI of the Know Your Customer Directions, 2016 and reiterated in this policy, either due to non-cooperation of the customer or non-reliability of the documents/information furnished by the customer.
- d. SFI shall not undertake a transaction or account-based relationship is undertaken without following the CDD procedure. . CDD procedure shall also be followed for all the joint account holders while opening a joint account and all parties to the contract.
- e. The mandatory information to be sought for KYC purpose while opening an account and during the periodic updation, is specified.
- f. SFI shall obtain 'Optional' /additional information only with the explicit consent of the customer after undertaking a transaction or establishing an account-based relationship.
- g. A Unique Customer Identification Code (UCIC) shall be allotted while entering into a new relationship with individual customers.
- h. SFI shall apply the CDD procedure at the UCIC (Unique Customer Identification Code) level. Thus, if an existing KYC compliant customer desires to open another account with us or desires to avail additional loan facility, there shall be no need for a fresh CDD exercise.
- i. Circumstances in which, a customer is permitted to act on behalf of another person/entity, is clearly spelt out.
- j. SFI shall ensure that identity of the customer, directly or indirectly, suitable system shall be 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 circulated by Reserve Bank of India.

Subject to the above norms and cautions, it will be ensured that the above norms and safeguards do not result in any kind of harassment or inconvenience to bonafide and genuine customers, especially those who are financially or socially disadvantaged, and they should not feel discouraged while dealing with the Company.

In such exceptional circumstances before rejection of service to customers on the issue of his identity, necessary approval from a level senior to the officer normally taking such decision should be obtained.

- **Customer Identification Procedure (CIP)**

Customer Identification means identifying the customer and verifying his/her identity by using reliable, independent source documents, data, or information. The

Company shall, therefore, obtain sufficient information necessary to establish, to its satisfaction, the identity of each new customer /beneficiary of the relationship/account, whether regular or occasional, and the purpose of the intended nature or relationship. The customer identification will be through existing customers who introduce them, staff members or on the basis of documents provided by the customer as evidence for his identification and proof of his residence.

SFI Financial Services Pvt Ltd will obtain sufficient identification data to verify the identity of the customer, his address/location, .A recent photograph of the customer will be availed.

SFI will 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.

- **Monitoring of transactions/ On-going Due diligence**

Ongoing monitoring is an essential element of effective KYC procedures. The Company can effectively control and reduce the risk only if it has an understanding of the normal and reasonable activity of the customer so that they have the means of identifying transactions that fall outside the regular pattern of activity. However, the extent of monitoring will depend on the risk sensitivity of the account. The Company will put in place a process to identify and review complex and unusual transactions/ patterns which have no apparent economic or visible lawful purpose, or transactions that involve large amounts of cash or are inconsistent with the normal and expected activity of the customer.

The following are the illustrative list of activities which is construed as suspicious transactions :

- Activities not consistent with the customer's business, i.e. accounts with large volume of credits whereas the nature of business does not justify such credits.
- Any attempt to avoid Reporting/Record-keeping Requirements/provides insufficient / suspicious information: (a) A customer who is reluctant to provide information needed for a mandatory report, to have the report filed or to proceed with a transaction after being informed that the report must be filed.(b) An account where there are several cash transactions below a specified threshold level to avoid filing of reports that may be necessary in case of transactions above the threshold level, as the customer intentionally splits the transaction into smaller amounts for the purpose of avoiding the threshold limit.
- Certain Employees of the Company 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.

- Some examples of suspicious activities/transactions to be monitored by the operating staff: (a) Multiple accounts under the same name or refuses to furnish details of source of funds by which initial contribution is made, sources of funds are doubtful etc; (b) There are reasonable doubts over the real beneficiary of the loan or frequent requests for change of address.

Risk Management

- The company has put in place appropriate procedures to ensure effective implementation of KYC guidelines. The implementation procedure covers proper management oversight, system and controls, segregation of duties, training and other related matters. Company's compliance function plays a role in evaluating and ensuring adherence to the KYC policies and procedures. As a general rule, the compliance function also provides an independent evaluation of the company's own policies and procedures, including legal and regulatory requirements.

Risk categorization is carried on in the below mentioned **manner**:

For the purpose of a risk-based approach, the Company has to categorize its customers into three categories as (i) Low Risk: (ii) Medium Risk (iii) High Risk

The risk categorization of the customers is based on various parameters like customer's background, nature and location of activity, country of origin, client profile etc. Individuals whose identities and sources of income/ wealth can be identified and whose transactions conform to the known profile of SFI are considered low risk and SFI conforms with dealing with those categories of customers.

Illustrative list of Low risk customers - Salaries employees wherein the salary reflects in bank statements and self-employed /low income households having fewer and explainable transactions in bank statements; Medium risk customers - Trusts/NGOs/Partners with sleeping partners/High net worth individuals/NRIs with most of family outside India : High risk customers - Politically exposed persons/non face to face customers.

The Company shall have a efficient system in place for periodical updation of customer identification data after the account is opened. Full KYC exercise will be done at a periodicity not less than once in five years in case of low risk category customers, not less than once in two years in case of medium risk/high risk category customers.

Low risk category customers need not submit fresh proofs of identity and address at the time of periodic updation, in case of no change in status with respect to their identities and addresses and a self-certification by the customer to that effect shall suffice in such cases. In case of change of address of such 'low risk' customers, they can forward a certified copy of proof of address by mail/post, etc.

6. Customer Due Diligence

- **IDENTIFICATION**

CDD Procedure: SFI shall obtain the following information from an individual/Sole Proprietor while establishing an account-based relationship with.

Individual –(a). Aadhaar Number (b) Permanent Account Number (PAN) (c) Two recent photograph (d) Passport (e) Voter’s Identity Card (f) Driving License (g) Letter from a recognized public authority or public servant verifying the identity and residence of the customer to the satisfaction of the Company. The information collected from customers for the purpose of opening of account shall 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.

For establishing an account-based relationship, the authorized official to ascertain as to whether the customer already has a Customer ID with the Company. In case the customer has an existing Customer ID, the new account shall be opened with the same existing Customer ID.

KYC verification, once done by one branch or office of the Company, shall be valid for transfer of the account to any other branch or office.

Proprietary Firms – For opening an account in the name of a sole proprietary firm, CDD of the individual (proprietor) shall be carried out. In addition to the above, any two of the following documents or the equivalent edocument thereof as a proof of business/ activity in the name of the proprietary firm shall also be obtained:

(a). Aadhaar Number (b) Permanent Account Number (PAN) (c) Registration Certificate (d) Certificate/license issued by the municipal authorities under Shop and Establishment Act. (e) Sales and income tax returns. (f) CST/VAT/ GST certificate (provisional/final) (g)Certificate/registration document issued by Sales Tax/Service Tax/Professional Tax authorities. (h)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. (i)Utility bills such as electricity, water, and landline telephone bills (j) Telephone/Fax number/E-mail ID; (k) Recent color photograph

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, the Company undertakes contact point verification and collect such other information and clarification as would 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.

Partnership firms – For opening an account of a partnership firm, the certified copies of each of the following documents or the equivalent e-documents thereof shall be obtained:

(a) Registration certificate (b) Partnership deed (c) OVD of authorized person to act on its behalf i.e. Managing partner. (C) Permanent Account Number of the partnership firm

- **VERIFICATION**

SFI will ensure correct identity of the customer through various sources as elaborated below before any transaction with the customer.

- i. Verification through documents: These documents may include, but are not limited to the list of documents that can be accepted as proof of identity and address from customers by the Company. These are appropriately covered in the Credit Policy of the Company. The Company also accepts physical Aadhaar card / letter issued by UIDAI containing details of name, address and Aadhaar number received through post is also accepted as an 'Officially Valid Document'.
- ii. Verification through non-documentary methods: Indeed, the Company mainly depend upon this method: (a) Contacting or visiting a customer; (b) Independently verifying the customer's identity through the comparison of information provided by the customer with information obtained from a consumer reporting agency, public database, or other source; (c) Checking references with other financial institutions; or (d) Obtaining a financial statement.
- iii. Additional verification procedures. The business process verification procedures of the Company also address the following situations where: (a) A person is unable to present an unexpired government-issued identification document that bears a photograph or similar safeguard; (b) The sales executive is not familiar with the documents presented; (c) Where the sales executive is otherwise presented with circumstances that increase the risk that it will be unable to verify the true identity of a customer through documents; and (d) If the sales executive cannot verify the identity of a customer that is other than an individual, it may be necessary to obtain information about persons with authority or control over such account, including signatories, in order to verify the customer's identity. The Credit Head along with Sales Head, advise the credit managers to make a personal visit to entangle the situation. The Company will not do any transactions with non-face-to-face customers.

7. Record management

The Company shall ensure the maintenance of proper record of transactions required under PMLA as mentioned below:

The company 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: (a) all cash transactions of the value of more than rupees ten lakh or its equivalent in foreign currency (b) 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 (c) 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 (d) all suspicious transactions whether or not made in cash and by way of as mentioned in the Rules.

- **Information to be preserved:**

As per the RBI guidelines, the company maintains the following information in respect of transactions referred to in Rule 3 the nature of the transactions (a) the amount of the transaction and the currency in which it was denominated (b) the date on which the transaction was conducted; (c) the parties to the transaction.

- **Maintenance and Preservation of records:**

The company 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. The company will maintain for at least five years from the date of cessation of transaction between the company and the customer, 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. The company also ensures 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 loan account and during the course of business relationship, are properly preserved for at least five years after the business relationship is ended. The identification records and transaction data will be made available to the competent authorities upon request.

8. Enhanced Due diligence Process

Enhanced due diligence is in the nature of keeping the account monitored closely for a re-categorisation of risk, updating of fresh KYC documents, field investigation or visit of the customer, etc., which forms part of the credit policies of the businesses.

The company is primarily engaged in micro loans to MSME and individuals . It does not deal with such category of customers who could pose a potential high risk of money laundering, terrorist financing or political corruption and are determined to warrant enhanced scrutiny. The existing credit policies of the company in respect of its various businesses ensure that the company is not transacting with such high-risk customers.

9. Appointment of Designated Director/Principal Officer

Mr. V.SASIRAMAN, DIRECTOR will be the Designated Director who is responsible for ensuring overall compliance as required under PMLA Act and the Rules.

Mrs. VIDYA SASIRAMAN CEO is designated as Principal Officer who shall be responsible for furnishing of information to FIU-IND.

10. Reporting requirement to FIU-IND

In accordance with the requirements of the PMLA , SFI will ensure that the provisions of PMLA , wherever applicable are adhered to strictly and will furnish the following report, as and when required , to the Director, Financial Intelligence Unit-India (*FIU-IND):

(a) Cash Transaction Report (CTR): If any such transactions detected, Cash Transaction Report (CTR) for each month by 15th of the succeeding month.

(b) Counterfeit Currency Report (CCR): All such cash transactions where forged or counterfeit Indian currency notes have been used as genuine as Counterfeit Currency Report (CCR) for each month by 15th of the succeeding month

©Suspicious Transaction Reporting (STR) : The Company will endeavour to put in place automated systems for monitoring transactions to identify potentially suspicious activity. Such triggers will be investigated and any suspicious activity will be reported to FIU-IND. The Company will file the Suspicious Transaction Report (STR) to FIU-IND within 7 days of arriving at a conclusion that any transaction, whether cash or non-cash, or a series of transactions .

11. Secrecy Obligations and Sharing of Information

Officials of the of the Company shall maintain secrecy regarding the customer information which arises out of the contractual relationship between the Company and customer and requests for data/information from Government and other agencies, the Company shall first 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 mutual dealing except in following circumstances:

- i) Where disclosure is under compulsion of law,
- ii) Where there is a duty to the public to disclose,
- iii) the interest of the Company requires disclosure, and
- iv) Where the disclosure is made with the express or implied consent of the customer.

The Company shall maintain the confidentiality of information as provided in Section 45NB of the RBI Act, 1934.

The Company shall not use the information collected from the customer for the purpose of cross selling or for any other purpose without the express permission of the customer.

12. Sharing KYC Information with Central KYC Records Registry (CKYCR)

The Company will capture the KYC information/ details as per KYC templates and share the same with the CKYCR within the prescribed timelines as prescribed in the Prevention of Money Laundering (Maintenance of Records) Rules, 2005.

13. Reporting requirement under Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standards (CRS)

The Company, if applicable, will adhere to the provisions of Income Tax Rules 114F, 114G, and 114H. If the Company becomes a Reporting Financial Institution as defined in Income Tax Rule 114F, it will take requisite steps for complying with the reporting requirements in this regard.

14. Compliance with Section 51A of Unlawful Activities (Prevention) Act, 1967

The Company will ensure compliance with Section 51A of UAPA Act, 1987 by screening the prospective and existing account holders for UN Sanction List or any other list as per UAPA Act, 1987. In the event, any account holder resembles the name of as per the list, it will be reported to FIU-IND and Ministry of Home Affairs. Further, other requirements including the freezing of assets, shall be followed by the Company.

15. Hiring of Employees/Employee Training:

SFI has put in place employment training and screening process to ensure the staff dealing with KYC/AML/CFT matters have high integrity and ethical standards, good communication and good understanding of KYC/AML/CFT. Adequate and appropriate training will be devised for frontline/compliance and staff dealing with new customers.

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