

**Mahindra Rural Housing Finance Limited  
(MRHFL)**

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

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## Know Your Customer (KYC) and Anti Money Laundering (AML) Policy

The objective of KYC and AML policy of MRHFL is to prevent MRHFL from being used, intentionally or unintentionally, by criminal elements for money laundering activities. KYC and AML procedures will also enable MRHFL to know/understand MRHFL's customers and their financial dealings better, which in turn help MRHFL to manage their risks prudently.

### 1) Definitions

In these Guidelines, unless the context otherwise requires, the terms herein shall bear the meanings assigned to them below:-

- **“Aadhaar number”** shall have the meaning assigned to it in clause (a) of section 2 of the Aadhaar (Targeted Delivery of Financial and Other Subsidies, Benefits and Services) Act, 2016 (18 of 2016).
- **"Act" and "Rules" means the Prevention of Money-Laundering Act, 2002 and the Prevention of Money-Laundering (Maintenance of Records) Rules, 2005, respectively and amendments thereto.**
- **“Authentication”, in the context of Aadhaar authentication, means the process as defined** under sub-section (c) of section 2 of the Aadhaar (Targeted Delivery of Financial and Other Subsidies, Benefits and Services) Act, 2016.
- **“Beneficial Owner” (BO):**
  - a) Where the **customer is a company**, the BO is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has/have a controlling ownership interest or who exercise control through other means.

For the purpose of this sub-clause:-

- 1) "Controlling ownership interest" means ownership of/entitlement to more than 10 per cent of the shares or capital or profits of the company.
  - 2) "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.
- b) Where the **customer is a partnership firm**, the BO 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 exercises control through other means.

Explanation - For the purpose of this sub-clause, “control” shall include the right to control the management or policy decision.

- c) Where the **customer is an Unincorporated Association or Body of Individuals**, the BO is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has/have ownership of entitlement to more than 15 per cent of the property or capital or profits of the Unincorporated Association or Body of Individuals.

**Explanation:** Term 'Body of Individuals' includes Societies. Where no natural person is identified under (a), (b) or (c) above, the BO is the relevant natural person who holds the position of Senior Managing Official.

- d) Where the **customer is a trust**, the identification of BO 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.

Exemption from identification of BO: The exemption from BO identification has been aligned with that provided in the PML Rules, 2005, such that where the customer or the owner of the controlling interest is (i) an entity listed on a stock exchange in India, or (ii) is an entity resident in jurisdictions notified by the Central Government and listed on stock exchanges in such jurisdictions, or (iii) is a subsidiary of such listed entities; it is not necessary to identify and verify the identity of any shareholder or beneficial owner of such an entity.

- **“Certified Copy”** - Obtaining a certified copy by the MRHFL shall mean comparing the copy of the proof of possession of Aadhaar number where offline verification cannot be carried out or officially valid document so produced by the customer with the original and recording the same on the copy by the authorised officer of the MRHFL as per the provisions contained in the Act.

Provided that in case of Non-Resident Indians (NRIs) and Persons of Indian Origin (PIOs), as defined in Foreign Exchange Management (Deposit) Regulations, 2016 {FEMA 5(R)}, alternatively, the original certified copy, certified by any one of the following, may be obtained:

- authorised officials of overseas branches of Scheduled Commercial Banks registered in India,
  - branches of overseas banks with whom Indian banks have relationships,
  - Notary Public abroad,
  - Court Magistrate,
  - Judge,
  - Indian Embassy/Consulate General in the country where the non-resident customer resides.
- **"Central KYC Records Registry" (CKYCR)** means an entity defined under Rule 2(1 ) of the Rules, to receive, store, safeguard and retrieve the KYC records in digital form of a customer.
  - **"Designated Director"** means the Managing Director or a whole-time Director, duly authorized by the Board of Directors of MRHFL to ensure overall compliance with the obligations imposed under chapter IV of the PML Act and the Rules.

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

- **“Digital KYC”** means the capturing live photo of the customer and officially valid document or the proof of possession of Aadhaar, where offline verification cannot be carried out, along with the latitude and longitude of the location where such live photo is being taken by an authorised officer of the MRHFL as per the provisions contained in the Act.
- **“Digital Signature”** shall have the same meaning as assigned to it in clause (p) of subsection (1) of section (2) of the Information Technology Act, 2000 (21 of 2000).
- **“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.
- **“Group”** – The term “group” shall have the same meaning assigned to it in clause (e) of sub-section (9) of section 286 of the Income-tax Act, 1961 (43 of 1961).
- **“Know Your Client (KYC) Identifier”** means the unique number or code assigned to a customer by the Central KYC Records Registry.
- **“Non-profit organization (NPO)”** means any entity or organization, constituted for religious or charitable purposes referred to in (15) of section 2 of the Income tax Act 1961 (43 of 1961), that is registered as a trust or a society under the Society Registration Act, 1860 (21 of 1860) or any similar State legislation or a Company registered under the section 8 of the Companies Act, 2013 (18 of 2013)
- **“Officially Valid Document” (OVD)** means the passport, the driving license, proof of possession of Aadhaar number, the Voter's Identity Card issued by the Election Commission of India, job card issued by NREGA duly signed by an officer of the State Government and letter issued by the National Population Register containing details of name and address.

Provided that,

- a. where the customer submits his proof of possession of Aadhaar number as an OVD, he may submit it in such form as are issued by the Unique Identification Authority of India.
- b. where the OVD furnished by the customer does not have updated address, the following documents or the equivalent e-documents thereof shall be deemed to be OVDs for the limited purpose of proof of address:-
  - i. utility bill which is not more than two months old of any service provider (electricity, telephone, post-paid mobile phone, piped gas, water bill);
  - ii. property or Municipal tax receipt;
  - iii. pension or family pension payment orders (PPOs) issued to retired employees by Government Departments or Public Sector Undertakings, if they contain the address;
  - iv. letter of allotment of accommodation from employer issued by State Government or Central Government Departments, statutory or regulatory bodies, public sector undertakings, scheduled commercial banks, financial institutions and listed companies and leave and licence agreements with such employers allotting official accommodation;

- c. the customer shall submit OVD with current address within a period of three months of submitting the documents specified at 'b' above
- d. 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 or Mission in India shall be accepted as proof of address.

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

- **“Offline verification”** shall have the same meaning as assigned to it in clause (pa) of section 2 of the Aadhaar (Targeted Delivery of Financial and Other Subsidies, Benefits and Services) Act, 2016 (18 of 2016).
- **"Person"** has the same meaning as defined in the Act and includes:
  - a) An individual,
  - b) A Hindu undivided family,
  - c) A company,
  - d) A firm,
  - e) An association of persons or a body of individuals, whether incorporated or not,
  - f) Every artificial juridical person, not falling within anyone 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).
- **Periodic Update**” means steps taken to ensure that documents, data or information collected under the CDD process is kept up-to-date and relevant by undertaking reviews of existing records at periodicity prescribed by the RBI.
- **“Politically Exposed Persons”** - (PEPs) are individuals who are or have been entrusted with prominent public functions in 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 MRHFL, responsible for furnishing information as per rule 8 of the Rules.
- **"Suspicious Transaction"** means a “transaction” as defined below, including an attempted transaction, whether or not made in cash, which, to a person acting in good faith:
  - a. gives rise to a reasonable ground of suspicion that it may involve proceeds of an offence specified in the Schedule to the Act, regardless of the value involved; or
  - b. appears to be made in circumstances of unusual or unjustified complexity; or
  - c. appears to not have economic rationale or bona-fide purpose; or
  - d. gives rise to a reasonable ground of suspicion that it may involve financing of the activities relating to terrorism.

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

- A **'Small Account'** means a savings account which is opened in terms of sub-rule (5) of the PML Rules, 2005. Details of the operation of a small account and controls to be exercised for such account are specified in Section 23.
- **"Transaction"** means means a purchase, sale, loan, pledge, gift, transfer, delivery or the arrangement thereof and includes:
  - a. opening of an account;
  - b. deposit, withdrawal, exchange or transfer of funds in whatever currency, whether in cash or by cheque, payment order or other instruments or by electronic or other non-physical means;
  - c. the use of a safety deposit box or any other form of safe deposit;
  - d. entering into any fiduciary relationship;
  - e. any payment made or received, in whole or in part, for any contractual or other legal obligation; or
  - f. establishing or creating a legal person or legal arrangement.
- **"Video based Customer Identification Process (V-CIP)"**: a method of customer identification by an official of MRHFL by undertaking seamless, secure, real-time, consent based audio-visual interaction with the customer to obtain identification information including the documents required for CDD purpose, and to ascertain the veracity of the information furnished by the customer. Such process shall be treated as face-to-face process for the purpose of these guidelines.

Terms bearing meaning assigned in these guidelines, unless the context otherwise requires, shall bear the meanings assigned to them below:

- i. **"Common Reporting Standards" (CRS)** means reporting standards set for implementation of multilateral agreement signed to automatically exchange information based on Article 6 of the Convention on Mutual Administrative Assistance in Tax Matters.
- ii. **"Customer"** means a person who is engaged in a financial transaction or activity with MRHFL and includes a person on whose behalf the person who is engaged in the transaction or activity, is acting.
- iii. **"Walk-in Customer"** means a person who does not have an account-based relationship with MRHFL, but undertakes transactions with MRHFL.
- iv. **"Customer Due Diligence (CDD)"** means identifying and verifying the customer and the beneficial owner using reliable and independent sources of identification.

Explanation – The CDD, at the time of commencement of an account-based relationship or while carrying out occasional transaction of an amount equal to or exceeding rupees fifty thousand, whether conducted as a single transaction or several transactions that appear to be connected, or any international money transfer operations, shall include:

- I. Identification of the customer, verification of their identity using reliable and independent sources of identification, obtaining information on the purpose and intended nature of the business relationship, where applicable;
  - II. Taking reasonable steps to understand the nature of the customer's business, and its ownership and control;
  - III. Determining whether a customer is acting on behalf of a beneficial owner, and identifying the beneficial owner and taking all steps to verify the identity of the beneficial owner, using reliable and independent sources of identification.
- v. **“Customer identification”** means undertaking the process of CDD.
  - vi. **“FATCA”** means Foreign Account Tax Compliance Act of the United States of America (USA) which, inter alia, requires foreign financial institutions to report about financial accounts held by U.S. taxpayers or foreign entities in which U.S. taxpayers hold a substantial ownership interest.
  - vii. **“IGA”** means Inter Governmental Agreement between the Governments of India and the USA to improve international tax compliance and to implement FATCA of the USA.
  - viii. **“KYC Templates”** means templates prepared to facilitate collating and reporting the KYC data to the CKYCR, for individuals and legal entities.
  - ix. **“Non-face-to-face customers”** means customers who open accounts without visiting the branch/offices of MRHFL or meeting the officials of MRHFL.
  - x. **“On-going Due Diligence”** means regular monitoring of transactions in accounts to ensure that they are consistent with the customers' profile and source of funds.
  - xi. **“Periodic Updation”** means steps taken to ensure that documents, data or information collected under the CDD process is kept up-to-date and relevant by undertaking reviews of existing records at periodicity prescribed by the Reserve Bank.
  - xii. **“Regulated Entities” (REs)** means
    - a. all Scheduled Commercial Banks (SCBs)/ Regional Rural Banks (RRBs)/ Local Area Banks (LABs)/ All Primary (Urban) Co-operative Banks (UCBs) /State and Central Co-operative Banks (StCBs / CCBs) and any other entity which has been licenced under Section 22 of Banking Regulation Act, 1949, which as a group shall be referred as 'banks'
    - b. All India Financial Institutions (AIFIs)
    - c. All Non-Banking Finance Companies (NBFCs), Miscellaneous Non-Banking Companies (MNBCs) and Residuary Non-Banking Companies (RNBCs).
    - d. All Payment System Providers (PSPs)/ System Participants (SPs) and Prepaid Payment Instrument Issuers (PPI Issuers)
    - e. All authorised persons (APs) including those who are agents of Money Transfer Service Scheme (MTSS), regulated by the Regulator.
  - xiii. **“Shell bank”** means a bank that has no physical presence in the country in which it is incorporated and licensed, and which is unaffiliated with a regulated financial group that is subject to effective consolidated supervision. Physical presence means meaningful mind and management located



within a country. The existence simply of a local agent or low-level staff does not constitute physical presence.

- xiv. **“Wire transfer”** means a transaction carried out, directly or through a chain of transfers, on behalf of an originator person (both natural and legal) through a bank by electronic means with a view to making an amount of money available to a beneficiary person at a bank.
- xv. **“Domestic and cross-border wire transfer”**: When the originator bank and the beneficiary bank is the same person or different person located in the same country, such a transaction is a domestic wire transfer, and if the ‘originator bank’ or ‘beneficiary bank’ is located in different countries such a transaction is cross-border wire transfer. (c) All other expressions unless defined herein shall have the same meaning as have been assigned to them under the Banking Regulation Act, 1949, the Reserve Bank of India Act, 1935, the Prevention of Money Laundering Act, 2002, the Prevention of Money Laundering (Maintenance of Records) Rules, 2005, the Aadhaar (Targeted Delivery of Financial and Other Subsidies, Benefits and Services) Act, 2016 and regulations made thereunder, any statutory modification or re-enactment thereto or as used in commercial parlance, as the case may be.

All other expressions unless defined herein shall have the same meaning as have been assigned to them under the Banking Regulation Act, 1949, the Reserve Bank of India Act, 1935, the Prevention of Money Laundering Act, 2002, the Prevention of Money Laundering (Maintenance of Records) Rules, 2005, the Aadhaar (Targeted Delivery of Financial and Other Subsidies, Benefits and Services) Act, 2016 and regulations made thereunder, any statutory modification or re-enactment thereto or as used in commercial parlance, as the case may be.

## Chapter I - General

The process of KYC and prevention of Money Laundering will be implemented through the following four key elements:

1. Customer Identification Procedure;
2. Customer Acceptance Policy;
3. Monitoring of Transactions;
4. Risk management.

### 1. Designated Director:

- a) "Designated Director" means a person designated by MRHFL to ensure overall compliance with the obligations imposed under Section Risk Management of the Policy and nominated by the Board of the MRHFL.
- b) The name, designation and address of the Designated Director, including changes from time to time, shall be communicated to the Director, FIU-IND and also to the Reserve Bank of India
- c) In no case, the 'Principal Officer' shall be nominated as the 'Designated Director'.

**2. Principal Officer:**

- a) MRHFL shall appoint a "Principal Officer" (Preferably of the level of General Manager or immediately below the level of CMD/ED of MRHFL).
- b) The Principal Officer shall be responsible for ensuring compliance, monitoring transactions, and sharing and reporting information as required under the law/regulations.
- c) The name, designation and address of the Principal Officer, including changes from time to time, shall be communicated to the Director, Financial Intelligence Unit - India (FIU-IND)

**3. Compliance of KYC policy:**

MRHFL shall ensure compliance with KYC Policy through:

- a) Specifying as to who constitute 'Senior Management' for the purpose of KYC compliance;
- b) Allocation of responsibility for effective implementation of policies and procedures;
- c) Independent evaluation of the compliance functions of MRHFL policies and procedures, including legal and regulatory requirements.
- d) Concurrent / internal audit system to verify the compliance with KYC/Anti-Money Laundering (AML) policies and procedures.
- e) Submission of quarterly audit notes and compliance to the Audit Committee.

MRHFL shall ensure that decision-making functions of determining compliance with KYC norms are not outsourced.

**Senior Management for the purpose of KYC Compliance:**

1. Senior Management for the purpose of KYC compliance shall mean Designated Director, Principal Officer, Chief Financial Officer, Chief Operating Officer, head of each department and regional business heads in the Company.
2. Senior Management shall assist the Principal Officer/Designated Director in the effective implementation of the KYC Program and submit compliance status report to them.

## Chapter II - Customer Identification Procedure

- 1) MRHFL 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.

- d) Carrying out transactions for a non-account-based customer, that is a walk-in customer, where the amount involved is equal to or exceeds rupees fifty thousand, whether conducted as a single transaction or several transactions that appear to be connected.
  - e) When a MRHFL has reason to believe that a customer (account- based or walk-in) is intentionally structuring a transaction into a series of transactions below the threshold of rupees fifty thousand.
  - f) MRHFL shall ensure that introduction is not to be sought while opening accounts. But references can be taken.
- 2) For the purpose of verifying the identity of customers at the time of commencement of an account-based relationship, MRHFL, shall at their option, rely on CDD done by a third party, subject to the following conditions:
- a) Records or the information of the customer due diligence carried out by the third party is obtained immediately from the third party or from the Central KYC Records Registry.
  - b) Adequate steps are taken by MRHFL to satisfy themselves that copies of identification data and other relevant documentation relating to the customer due diligence requirements shall be made available from the third party upon request without delay.
  - c) The third party is regulated, supervised or monitored for, and has measures in place for, compliance with customer due diligence and record-keeping requirements in line with the requirements and obligations under the Prevention of Money-Laundering Act.
  - d) The third party shall not be based in a country or jurisdiction assessed as high risk.
  - e) The ultimate responsibility for CDD, including done by a third party and undertaking enhanced due diligence measures, as applicable, shall rest with MRHFL.

### **Chapter III - Customer Acceptance Policy**

MRHFL will ensure that elaborate standard procedures are in place on the following aspects of customer relationships in MRHFL.

- a) No account is opened in anonymous or fictitious / benami name
- b) No account is opened where the MRHFL is unable to apply appropriate CDD measures, either due to non-cooperation of the customer or non-reliability of the documents/information furnished by the customer. The Company shall consider filing an STR, if necessary, when it is unable to comply with the relevant CDD measures in relation to 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) Additional information, where such information requirement has not been specified in the internal KYC Policy of the RE, is obtained with the explicit consent of the customer.
- f) CDD Procedure is followed for all the joint account holders, while opening a joint account.
- g) The Company shall allot Unique Customer Identification Code to all its new customers while entering new relationships. If an existing KYC compliant customer desires to open another account with MRHFL, 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.
- j) Where Permanent Account Number (PAN) is obtained, the same shall be verified from the verification facility of the issuing authority.
- k) Where an equivalent e-document is obtained from the customer, MRHFL shall verify the digital signature as per the provisions of the Information Technology Act, 2000 (21 of 2000).
- l) Where the company is suspicious of money laundering or terrorist financing, and it reasonably believes that performing the CDD process will tip-off the customer, it shall not pursue the CDD process, and instead file an STR.
- m) Where Goods and Services Tax (GST) details are available, the GST number shall be verified from the search/verification facility of the issuing authority.

MRHFL shall ensure that the adoption of Customer Acceptance Policy and its implementation shall not result in denial of MRHFL's services to general public, especially to those, who are financially or socially disadvantaged.

## Chapter IV - Monitoring of Transactions

- a) Maintenance of records of transactions:
  - MRHFL shall maintain all necessary records of transactions between MRHFL and the customer, both domestic and international, for at least five years from the date of transaction;
  - MRHFL shall preserve the records pertaining to the identification of the customers and their addresses obtained while opening the account and during the course of business relationship, for at least five years after the business relationship is ended;
  - MRHFL shall make available the identification records and transaction data to the competent authorities upon request;
  - MRHFL shall introduce a system of Maintenance of records, at each branch and a consolidated record for all the branches taken together at the registered office of MRHFL, 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.
  - The Company shall ensure that in case of customers who are non-profit organizations, the details of such customers are registered on the DARPAN Portal of NITI Aayog. If the same are not registered, the Company shall register the details on the DARPAN Portal. and maintain such registration records for a period of five years after the business relationship between the customer and the RE has ended or the account has been closed, whichever is later.
  - MRHFL 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:
    - 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.
- MRHFL 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.

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

- In terms of the provisions of the Rule 8 of the Prevention of Money-laundering (Maintenance of Records) Rules, 2005. MRHFL 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.
- A copy of information furnished shall be retained by the 'Principal Officer' for the purposes of official record.
- It has been advised by the FIU-IND that MRHFL need not submit 'NIL' reports in case there are no Cash/Suspicious Transactions, during a particular period.
- The reporting formats and comprehensive reporting format guide, prescribed/ released by FIU-IND and Report Generation Utility and Report Validation Utility developed to assist reporting entities in the preparation of prescribed reports shall be taken note of. The editable electronic utilities to file electronic Cash Transaction Reports (CTR)/ Suspicious Transaction Reports (STR) which FIU-IND has placed on its website shall be made use of by MRHFL in case it is yet to install/ adopt suitable technological tools for extracting CTR/STR from their live transaction data. The Principal Officers of MRHFL, in case all branches are not fully computerized, shall have suitable arrangement to cull out the transaction details from branches which are not yet computerized and to feed the data into an electronic file with the help of the editable electronic utilities of CTR/STR as have been made available by FIU-IND on its website <http://fiuindia.gov.in>.
- 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.
- MRHFL shall not put any restriction on operations in the accounts where an STR has been filed. MRHFL shall keep the fact of furnishing of STR strictly confidential. It shall be ensured that there is no tipping off to the customer at any level.
- Robust system, 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.
- Confidentiality and Prohibition against disclosing Suspicious Activity Investigations and Reports- The Company, its directors, officers, and all employees shall, maintain utmost confidentiality in investigating suspicious activities and while reporting CTR/ CCR/ STR to the

FIU-IND/ higher authorities. However, the Company may share the information pertaining to the customers with the statutory/ regulatory bodies and other organizations such as banks, credit bureaus, income tax authorities, local government authorities etc or with Companies within the Group in accordance with Section 4(b) of Master Direction - Know Your Customer (KYC) Direction, 2016.

- c) Reporting requirement under Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standards (CRS)
- o Under FATCA and CRS, MRHFL shall adhere to the provisions of Income Tax Rules 114F, 114G, and 114H and determine whether it is a Reporting Financial Institution as defined in Income Tax Rule 114F and if so, shall take following steps for complying with the reporting requirements:
    - 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
    - Submit online reports by using the digital signature of the 'Designated Director' by either uploading the Form 61Bor 'NIL' report, for which, the schema prepared by Central Board of Direct Taxes (CBDT) shall be referred to.
    - 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.
    - Develop a system of audit for the IT framework and compliance with Rules 114F, 114G and 114H of Income Tax Rules.
    - Constitute a "High Level Monitoring Committee" under the Designated Director or any other equivalent functionary to ensure compliance.
    - Ensure compliance with updated instructions/ rules/ guidance notes/ PreM releases/ issued on the subject by Central Board of Direct Taxes (CBDT) from time to time.
- d) Requirements/obligations under International Agreements Communications from International Agencies
- o MRHFL shall ensure that in terms of Section 51A of the Unlawful Activities (Prevention) (UAPA) Act, 1967 and amendments thereto, they do not have any account in the name of individuals/entities appearing in the lists of individuals and entities, suspected of having terrorist links, which are approved by and periodically circulated by the United Nations Security Council (UNSC). The details of the two lists are as under:
    - (a) The "ISIL (Da'esh) & Al-Qaida Sanctions List", which includes names of individuals and entities associated with the Al-Qaida. The updated ISIL & Al-Qaida Sanctions List is available at <https://scsanctions.un.org/fop/fop?xml=htdocs/resources/xml/en/consolidated.xml&xsl=htdocs/resources/xsl/en/al-qaida-r.xsl>

- (b) The “Taliban Sanctions List”, established and maintained pursuant to Security Council resolution 1988 (2011), consisting of individuals (Section A of the consolidated list) and entities (Section B) associated with the Taliban which is available at <https://scsanctions.un.org/3ppp1en-taliban.htm>
- (c) The Company shall also ensure to refer to the lists as available in the Schedules to the Prevention and Suppression of Terrorism (Implementation of Security Council Resolutions) Order, 2007, as amended from time to time. The aforementioned lists, i.e., UNSC Sanctions Lists and lists as available in the Schedules to the Prevention and Suppression of Terrorism (Implementation of Security Council Resolutions) Order, 2007, as amended from time to time, shall be verified on daily basis and any modifications to the lists in terms of additions, deletions or other changes shall be taken into account by the REs for meticulous compliance.
  - Details of accounts resembling any of the individuals/entities in the lists shall be reported to FIU-IND apart from advising Ministry of Home Affairs as required under UAPA notification dated February 2, 2021 (Annex II of the Master Direction). In addition to the above, REs shall take into account – (a) other United Nations Security Council Resolutions (UNSCRs) and (b) lists in the first schedule of UAPA, 1967 and any amendments to the same for compliance with the Government orders on implementation of Section 51A of the UAPA and section 12A of the WMD Act
  - Vide Section 52, REs have been mandated that they shall verify every day, the ‘UNSCR 1718 Sanctions List of Designated Individuals and Entities’ as available at <https://www.mea.gov.in/Implementation-of-UNSC-Sanctions-DPRK.htm>, to take into account any modifications to the list by way of additions, deletions or other charges and also ensure compliance with the ‘Implementation of Security Council Resolution on Demographic People’s Republic of Korea Order, 2017’, as amended from time to time by the Central Government.
  - The company may leverage latest technological innovations and tools for effective implementation of name screening to meet the sanctions requirements.
- e) Freezing of Assets under Section 51A of Unlawful Activities (Prevention) Act, 1967
  - The procedure laid down in the UAPA Order dated 54February 2, 2021(Annex II of the Master Direction) shall be strictly followed and meticulous compliance with the Order issued by the Government shall be ensured. The list of Nodal Officers for UAPA is available on the website of Ministry of Home Affairs.
- f) 107Obligations under Weapons of Mass Destruction (WMD) and their Delivery Systems (Prohibition of Unlawful Activities) Act, 2005 (WMD Act, 2005):
  - (a) REs shall ensure meticulous compliance with the “Procedure for Implementation of Section 12A of the Weapons of Mass Destruction (WMD) and their Delivery Systems (Prohibition of

Unlawful Activities) Act, 2005” laid down in terms of Section 12A of the WMD Act, 2005 vide Order dated January 30, 2023, by the Ministry of Finance, Government of India

(b) In accordance with paragraph 3 of the aforementioned Order, REs shall ensure not to carry out transactions in case the particulars of the individual / entity match with the particulars in the designated list.

(c) Further, REs shall run a check, on the given parameters, at the time of establishing a relation with a customer and on a periodic basis to verify whether individuals and entities in the designated list are holding any funds, financial asset, etc., in the form of bank account, etc.

(d) In case of match in the above cases, REs shall immediately inform the transaction details with full particulars of the funds, financial assets or economic resources involved to the Central Nodal Officer (CNO), designated as the authority to exercise powers under Section 12A of the WMD Act, 2005. A copy of the communication shall be sent to State Nodal Officer, where the account / transaction is held and to the RBI. REs shall file an STR with FIU-IND covering all transactions in the accounts, covered above, carried through or attempted.

It may be noted that in terms of Paragraph 1 of the Order, Director, FIU-India has been designated as the CNO.

(e) REs may refer to the designated list, as amended from time to time, available on the portal of FIU-India.

(f) In case there are reasons to believe beyond doubt that funds or assets held by a customer would fall under the purview of clause (a) or (b) of sub-section (2) of Section 12A of the WMD Act, 2005, REs shall prevent such individual/entity from conducting financial transactions, under intimation to the CNO by email, FAX and by post, without delay.

(g) In case an order to freeze assets under Section 12A is received by the REs from the CNO, REs shall, without delay, take necessary action to comply with the Order.

(h) The process of unfreezing of funds, etc., shall be observed as per paragraph 7 of the Order. Accordingly, copy of application received from an individual/entity regarding unfreezing shall be forwarded by RE along with full details of the asset frozen, as given by the applicant, to the CNO by email, FAX and by post, within two working days.

## **INTRODUCTION OF NEW TECHNOLOGIES**



Company shall identify and assess the ML/TF risks that may arise in relation to the development of new products and new business practices, including new delivery mechanisms, and the use of new or developing technologies for both new and pre-existing products.

Further, Company shall ensure:

- (a) to undertake the ML/TF risk assessments prior to the launch or use of such products, practices, services, technologies; and
- (b) adoption of a risk-based approach to manage and mitigate the risks through appropriate EDD measures and transaction monitoring, etc.

## Chapter V - Risk Management

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

For Risk Management, MRHFL shall have a risk based approach which includes the following:

- a) Customers shall be categorized as low, medium and high risk category, based on the assessment and risk perception of MRHFL.
- b) Broad principles may be laid down by the REs for risk-categorisation of customers.
- c) The Risk categorization shall be undertaken based on parameters such as customer's identity, social, financial status, nature of business activity, geographical risk covering customers as well as transactions, type of products/ services offered, delivery channel used for delivery of products/ services, types of transaction undertaken and information about the clients' business and their location etc. While considering customer's identity, the ability to confirm identity documents through online or other services offered by issuing authorities may also be factored in.
- d) For the purpose of risk categorization, individuals (other than High Net Worth) and entities whose identities and sources of wealth can be easily identified and transactions in whose accounts by and large conform to the known profile, may be categorized as low risk. Illustrative examples of low risk customers could be salaried employees whose salary structures are well defined, people belonging to lower economic strata of the society whose accounts show small balances and low turnover, Government Departments & Government owned companies, regulators and statutory bodies, etc. In such cases, the policy may require that only the basic requirements of verifying the identity and location of the customer are to be met.
- e) Customers that are likely to pose a higher than average risk to MRHFL may be categorized as medium or high risk depending on customer's background, nature and location of activity, country

of origin, sources of funds and his client profile, etc. MRHFL may 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. The company shall treat the risk categorization and reasons for risk categorization of customers as confidential and shall not be revealed to the customer to avoid tipping off the customer.

f)

Examples of customers requiring higher due diligence may 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

g) Those with dubious reputation as per public information available, etc.

h) Accordingly, For the purpose of a risk based approach, MRHFL has categorized it's customers into three categories as given below:

1. **Low Risk**: Customers whose identities and sources of wealth can be easily identified and transactions in whose accounts by and large conform to their known profile
  - Salaried Persons
  - Self Employed Non-Professionals (Small businesses with periodic and regular cash flows)
  - Farmers
  - Daily Wagers
2. **Medium Risk**: Customers who have slightly more complex transactions.
  - Non Resident Indians
  - High Net-Worth Individuals (Individuals who have an annual income of Rs. 50 lakhs or more)
3. **High Risk**: Customers who due to their locations, influence, complexity of transactions pose higher risk:
  - Politically exposed persons (PEPs) (For definition, refer Pg No. 5)
  - Non-face to face customers (Those customers who haven't met any MRHFL officials), and
  - Those with dubious reputation as per public information available

MRHFL shall ensure that various other information collected from different categories of customers relating to the perceived risk, is non-intrusive and the same shall be specified in MRHFL's KYC policy. The recommendations made by the Financial Action Task Force (FATF) on Anti-money Laundering

(AML) standards and on Combating Financing of Terrorism (CFT) standards shall also be used in risk assessment.

#### 4. Money Laundering and Terrorist Financing Risk Assessment by MRHFL:

- a. The money laundering and terrorist financing risk for MRHFL are likely to be low due to the following reasons:
  - The Company does not operate in other countries /geographies;
  - The Company does not source/originate loans from other countries/geographies, and its customer base consists of Indian nationals only;
  - The Company extends loans to identified borrowers for which rigorous KYC checks have been put in place.
  - The Company verifies the end use of the loan
  - The Company does not offer banking, liabilities and insurance products; and
  - The Company offers loans/credit facilities with defined end-use.
  
- b. However, in accordance with the regulatory requirements, MRHFL shall carry out 'Money Laundering (ML) and Terrorist Financing (TF) Risk Assessment' exercise periodically to identify, assess and take effective measures to mitigate its money laundering and terrorist financing risk for clients, countries or geographic areas, products, services, transactions or delivery channels, etc.

The assessment process will consider all the relevant risk factors before determining the level of overall risk and the appropriate level and type of mitigation to be applied. While preparing the internal risk assessment, MRHFL shall take cognizance of the overall sector-specific vulnerabilities, if any, that the regulator/supervisor may share with REs from time to time.
- c. The risk assessment by the MRHFL shall be properly documented and be proportionate to the nature, size, geographical presence, complexity of activities/structure, etc. of MRHFL. Further, the risk assessment exercise will be done by the company on half yearly basis and outcome of risk assessment exercise will be placed in the Board / Risk committee annually for their review.
- d. The outcome of the exercise shall be put up to the Board or any committee of the Board to which power in this regard has been delegated, and should be available to competent authorities and self-regulating bodies.

The Company shall apply a Risk Based Approach (RBA) for mitigation and management of the risks. The Company shall implement a CDD programme, having regard to the ML/TF risks identified and the size of business. Further, Company shall monitor the implementation of the controls and enhance them if necessary.

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## Chapter VI - Customer Due Diligence (CDD) Procedure

### 1. Procedure for obtaining identification

- a) While undertaking CDD, MRHFL 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 BO, 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
  - ii. The proof of possession of Aadhaar number where offline verification can be carried out. In such cases offline verification will be carried out by MRHFL; or
  - iii. The proof of possession of Aadhaar number where offline verification cannot be carried out and one recent photograph; or
  - iv. Certified copy of an OVD or the equivalent e-document thereof containing details of identity and address, and one recent photograph; **and**
  - v. The Permanent Account Number (PAN) or the equivalent e-document thereof or Form No. 60 as defined in Income-tax Rules, 1962, as amended from time to time; **and**
  - vi. Such other documents including in respect of the nature of business and financial status of the customer, or the equivalent e-documents thereof as may be required by MRHFL

Provided that for a period not beyond such date as may be notified by the Government for HFCs, instead of carrying out digital KYC, MRHFL will obtain a certified copy of the proof of possession of Aadhaar number or the OVD and a recent photograph where an equivalent e-document is not submitted.

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

MRHFL shall, where its customer submits a proof of possession of Aadhaar Number containing Aadhaar Number, ensure that such customer redacts or blacks out his Aadhaar number through appropriate means.

- 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:-
- o Utility Bill which is not more than two months old of any service provider (electricity, telephone, post-paid mobile phone, piped gas, water bill);
  - o Property or Municipal tax receipt;

- Pension or family pension payment orders (PPOs) issued to retired employees by Government Departments or Public Sector Undertakings, if they contain the address;
- Letter of Allotment of Accommodation from employer issued by State Government or Central Government Departments, Statutory or Regulatory Bodies, public sector undertakings, scheduled commercial banks, financial institutions and listed companies and leave and license agreements with such employers allotting official accommodation;

Provided that in case the OVD submitted by a foreign national does not contain the details of address, in such case the documents issued by the Government departments of foreign jurisdictions and letter issued by the Foreign Embassy or Mission in India shall be accepted as proof of address.

Provided further that the customer shall submit updated OVD with current address within a period of three months of submitting the above documents.

- c) Video based Customer Identification Process (V-CIP), if conducted for KYC verification, will be done as per guidelines and process defined in RBI Master Direction - Know Your Customer (KYC) Direction, 2016 RBI/DBR/2015-16/18, Master Direction DBR.AML.BC.No.81/14.01.001/2015-16 issued and updated by RBI from time to time.
- d) A customer already having an account based relationship with MRHFL, shall submit his Permanent Account Number or Form No.60, on such date as may be notified by the Central Government, failing which the account shall temporarily cease to be operational till the time the Permanent Account Number or Form No. 60 is submitted by the customer:

Provided that before temporarily ceasing operations for an account, MRHFL shall give the customer an accessible notice and a reasonable opportunity to be heard.

- e) If a customer having an existing account based relationship with MRHFL 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 MRHFL shall be closed and all obligations due in relation to the account shall be appropriately settled after establishing the identity of the customer.

MRHFL shall duly inform the customer about this provision while opening the account.

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

- a) MRHFL shall apply the following procedure while establishing an account based relationship with an individual:
  - Obtain information as mentioned under the section titled Procedure for Obtaining Identification above; and

- Such other documents pertaining to the nature of business or financial status specified by the MRHFL in their KYC policy.

MRHFL will set measures to 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 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. REs shall ensure that transaction alerts, OTP, etc., are sent only to the mobile number of the customer registered with Aadhaar. REs shall have a board approved policy delineating a robust process of due diligence for dealing with requests for change of mobile number in such accounts.

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

- a) For opening an account in the name of a sole proprietary firm, identification information as mentioned under the section titled Procedure for Obtaining Identification above in respect of the individual (proprietor) shall be obtained.
- b) In addition to the above, any two of the following documents or equivalent e-document thereof as a proof of business/ activity in the name of the proprietary firm shall also be obtained:
  - Registration certificate including “Udyam Registration Certificate (URC) issued by the Government”.
  - Certificate / License issued by the municipal authorities under Shop and Establishment Act.
  - Sales and income tax returns.
  - CST/VAT/GST certificate (provisional/ final).
  - Certificate/registration document issued by Sales Tax/Service Tax/Professional Tax authorities.
  - IEC (Importer Exporter Code) issued to the proprietary concern by the office of DGFT/Licence/ Certificate of Practice issued in the name of the proprietary concern by any professional body incorporated under a statute.
  - 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.
  - Utility bills such as electricity, water, and landline telephone bills.
- c) In cases where MRHFL is satisfied that it is not possible to furnish two such documents, MRHFL may, at their discretion, accept only one of those documents as proof of business / activity.

Provided MRHFL 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.

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

- a) For opening an account of a company, one certified copy of each of the following documents or equivalent e-document thereof shall be obtained:
- Certificate of incorporation;
  - Memorandum and Articles of Association;
  - Permanent Account Number of the company;
  - A resolution from the Board of Directors and power of attorney granted to its managers, officers or employees to transact on its behalf;
  - One copy of an OVD containing details of identity and address, one recent photograph and Permanent Account Numbers of Form 60, relating to beneficial owner, the managers, officers or employees, as the case may be, holding an attorney to transact on its behalf.
  - the names of the relevant persons holding senior management position and
  - the registered office and the principal place of its business, if it is different.
- b) For opening an account of a partnership firm, one certified copy of each of the following documents or equivalent e-document thereof shall be obtained:
- Registration certificate;
  - Partnership deed;
  - Permanent Account Number of the partnership firm;
  - One copy of an OVD containing details of identity and address, one recent photograph and Permanent Account Numbers of Form 60 relating to the beneficial owner, the managers, officers or employees, as the case may be, holding an attorney to transact on its behalf.
  - the names of all the partners address of the registered office, and the principal place of its business, if it is different.
- c) For opening an account of a trust, one certified copy of each of the following documents or equivalent e-document thereof shall be obtained:
- Registration certificate;
  - Trust deed;
  - Permanent Account Number or Form No.60 of the trust;
  - One copy of an OVD containing details of identity and address, one recent photograph and Permanent Account Numbers of Form 60 relating to the beneficial owner, the managers, officers or employees, as the case may be, holding an attorney to transact on its behalf.

- the names of the beneficiaries, trustees, protector, if any and authors of the trust and the address of the registered office of the trust and
  - list of trustees and documents, as are required for individuals for those discharging role as trustee and authorised to transact on behalf of the trust.
- d) For opening an account of an unincorporated association or a body of individuals, one certified copy of each of the following documents or equivalent e-document thereof shall be obtained:
- Resolution of the managing body of such association or body of individuals;
  - Permanent Account Number or Form No.60 of the unincorporated association or a body of individuals;
  - Power of attorney granted to transact on its behalf;
  - One copy of an OVD containing details of identity and address, one recent photograph and Permanent Account Numbers of Form 60 relating to the beneficial owner, the managers, officers or employees, as the case may be, holding an attorney to transact on its behalf identification information as mentioned under
  - Such information as may be required by MRHFL to collectively establish the legal existence of such an association or body of individuals.

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

- e) For opening account a customer who is of juridical person not specifically covered in the earlier part, such as Government its Departments, societies, universities and local bodies like village panchayats, one certified copy of the following documents or equivalent e-document thereof shall be obtained:
- Document showing name of the person authorised to act on behalf of the entity;
  - Aadhaar / PAN / OVD for proof of identity and address in respect of the person holding an attorney to transact on its behalf and
  - Such documents as may be required by MRHFL to establish the legal existence of such an entity/juridical person.

Provided that in case of a trust, the Company shall ensure that trustees disclose their status at the time of commencement of an account-based relationship or when carrying out transactions as specified in clauses (b), (e) and (f) of Section 13 of Master Direction - Know Your Customer (KYC) Direction, 2016.

#### **Part-IV CDD Measures for Identification of Beneficial Owner**

- a) For opening an account of a Legal Person who is not a natural person, the beneficial owner(s) shall be identified and all reasonable steps in terms of Rule 9(3) of the Rules to verify his/her identity shall be undertaken keeping in view the following:



- Where the customer or the owner of the controlling interest is a company listed on a stock exchange, or is a subsidiary of such a company, it is not necessary to identify and verify the identity of any shareholder or beneficial owner of such companies.
- In cases of trust/nominee or fiduciary accounts whether the customer is acting on behalf of another person as trustee/nominee or any other intermediary is determined. In such cases, satisfactory evidence of the identity of the intermediaries and of the persons on whose behalf they are acting, as also details of the nature of the trust or other arrangements in place shall be obtained.

### **Part-V Enhanced Due Diligence Measures**

a) Accounts of Non-face-to-face customers:

- i. Company to establish relationship with the customer without meeting the customer physically or through V-CIP. Such non-face-to-face modes for the purpose of this Section includes use of digital channels such as CKYCR, DigiLocker, equivalent e-document, etc., and non-digital modes such as obtaining copy of OVD certified by additional certifying authorities as allowed for NRIs and PIOs.

Following EDD measures shall be undertaken by the Company for non-face-to-face customer onboarding (other than customer onboarding in terms of Section 17):

- ii. In case Company has introduced the process of V-CIP, the same shall be provided as the first option to the customer for remote onboarding. It is reiterated that processes complying with prescribed standards and procedures for V-CIP shall be treated on par with face-to-face CIP for the purpose of this Master Direction.
- iii. In order to prevent frauds, alternate mobile numbers shall not be linked post CDD with such accounts for transaction OTP, transaction updates, etc. Transactions shall be permitted only from the mobile number used for account opening.
- iv. Apart from obtaining the current address proof, Company shall verify the current address through positive confirmation before allowing operations in the account. Positive confirmation may be carried out by means such as address verification letter, contact point verification, deliverables, etc.
- v. Company shall obtain PAN from the customer and the PAN shall be verified from the verification facility of the issuing authority.
- vi. First transaction in such accounts shall be a credit from existing KYC-complied bank account of the customer.
- vii. Such customers shall be categorized as high-risk customers and accounts opened in non-face to face mode shall be subjected to enhanced monitoring until the identity of the customer is verified in face-to-face manner or through V-CIP.

b) Accounts of Politically Exposed Persons (PEPs):

The Company will have the option of establishing a relationship with PEPs (whether as customer or beneficial owner), provided that apart from performing normal customer due diligence:

- a. Company has in place appropriate risk management systems to determine whether the customer or the beneficial owner is a PEP;
- b. Reasonable measures are taken by the Company for establishing the source of funds / wealth.
- c. sufficient information including information about the sources of funds accounts of family members and close relatives is gathered on the PEP;
- d. the identity of the person shall have been verified before accepting the PEP as a customer;
- e. the approval to to open an account for a PEP is obtained from senior management in accordance with the Company's Customer Acceptance Policy;
- f. all such accounts are subjected to enhanced monitoring on an on-going basis;
- g. in the event of an existing customer or the beneficial owner of an existing account subsequently becoming a PEP, senior management's approval is obtained to continue the business relationship;
- h. the CDD measures as applicable to PEPs including enhanced monitoring on an on- going basis are applicable.
- i. The above will also be applicable to accounts of family members or close associates of PEPs.
- o As defined in FATF recommendations

c) Customer's accounts opened by Professional Intermediaries:

- o MRHFL shall ensure while opening customer's accounts through professional intermediaries, that:
  - i. Customer shall be identified when client account is opened by a professional intermediary on behalf of a single client.
  - ii. MRHFL shall have option to hold 'pooled' accounts managed by professional intermediaries on behalf of entities like mutual funds, pension funds or other types of funds.
  - iii. MRHFL shall not open accounts of such professional intermediaries who are bound by any client confidentiality that prohibits disclosure of the client details to MRHFL.

- iv. All the beneficial owners shall be identified where funds held by the intermediaries are not co-mingled at the level of MRHFL, and there are 'subaccounts', each of them attributable to a beneficial owner, or where such funds are co-mingled at the level of MRHFL, MRHFL shall look for the beneficial owners.
- v. MRHFL shall, at their discretion, rely on the CDD done by an intermediary, provided that the intermediary is a regulated and supervised entity and has adequate systems in place to comply with the KYC requirements of the customers.
- vi. The ultimate responsibility for knowing the customer lies with MRHFL.

## Chapter VII - Ongoing Due Diligence

- a) Ongoing monitoring is an essential element of effective KYC procedures. MRHFL can effectively control and reduce their risk only if they have 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.
  - o MRHFL shall pay special attention to all complex, unusually large transactions and all unusual patterns which have no apparent economic or visible lawful purpose.
  - o The extent of monitoring shall be aligned with the risk category of the customer. A system of periodic review of risk categorization of accounts, with such periodicity being at least once in six months, and the need for applying enhanced due diligence measures shall be put in place.
  - o Company may consider adopting appropriate innovations including artificial intelligence and machine learning (AI & ML) technologies to support effective monitoring.

### b) Periodic Updation

MRHFL shall adopt a risk-based approach for periodic updation of KYC. However, periodic KYC updation shall be carried out at least once in every two years for high risk customers, once in every eight years for medium risk customers and once in every ten years for low risk customers from the date of opening of the account / last KYC updation, as per the following procedure. Furthermore, Company will ensure that the information or data collected under CDD is kept up-to-date and relevant, particularly where there is high risk.

#### i. Individual Customers:

##### a) No change in KYC information:

In case of no change in the KYC information, a self-declaration from the customer in this regard shall be obtained through customer's email-id registered with MRHFL, customer's mobile number registered with MRHFL, ATMs, digital channels (such as online banking / internet banking, mobile application of MRHFL), letter etc.

Aadhaar OTP based e-KYC in non-face to face mode has been permitted to be used for periodic updation.

**b) Change in address:**

In case of a change only in the address details of the customer, a self-declaration of the new address shall be obtained from the customer through customer's email-id registered with MRHFL, customer's mobile number registered with MRHFL, ATMs, digital channels (such as online banking / internet banking, mobile application of MRHFL), letter etc., and the declared address shall be verified through positive confirmation within two months, by means such as address verification letter, contact point verification, deliverables etc.

Alternatively, MRHFL may obtain a copy of OVD or deemed OVD or the equivalent e-documents thereof, for the purpose of proof of address, declared by the customer at the time of periodic up-dation.

Declaration of current address, if the current address is different from the address in Aadhaar, shall not require positive confirmation in this case. REs shall, however, ensure that the mobile number for Aadhaar authentication is same as the one available with them in the customer's profile, in order to prevent any fraud.

**ii. Customers other than individuals:**

**a) No change in KYC information:**

In case of no change in the KYC information of the Legal Entity (LE) customer, a self-declaration in this regard shall be obtained from the LE customer through its email id registered with MRHFL, ATMs, digital channels (such as online banking / internet banking, mobile application of MRHFL), letter from an official authorized by the LE in this regard, board resolution etc. Further, MRHFL shall ensure during this process that Beneficial Ownership (BO) information available with them is accurate and shall update the same, if required, to keep it as up-to-date as possible.

**b) Change in KYC information:**

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

Aadhaar OTP based e-KYC in non-face to face mode has been permitted to be used for periodic updation.

Declaration of current address, if the current address is different from the address in Aadhaar, shall not require positive confirmation in this case. REs shall, however, ensure that the mobile number for Aadhaar

authentication is same as the one available with them in the customer's profile, in order to prevent any fraud.

- iii. **Additional measures:** In addition to the above, MRHFL shall ensure that
- a) The KYC documents of the customer as per the current CDD standards are available. This is applicable even if there is no change in customer information but the documents available with MRHFL are not as per the current CDD standards. Further, in case the validity of the CDD documents available with MRHFL has expired at the time of periodic updation of KYC, MRHFL shall undertake the KYC process equivalent to that applicable for on boarding a new customer.
  - b) Customer's PAN details, if available with MRHFL, is verified from the database of the issuing authority at the time of periodic updation of KYC
  - c) An acknowledgment is provided to the customer mentioning the date of receipt of the relevant document(s), including self-declaration from the customer, for carrying out periodic updation. Further, it shall be ensured that the information / documents obtained from the customers at the time of periodic updation of KYC are promptly updated in the records / database of MRHFL and an intimation, mentioning the date of updation of KYC details, is provided to the customer.
  - d) In order to ensure customer convenience, MRHFL, in addition to the above, may consider making available the facility of periodic updation of KYC at any branch.
  - e) MRHFL shall adopt a risk-based approach with respect to periodic updation of KYC.

REs shall advise the customers that in order to comply with the PML Rules, in case of any update in the documents submitted by the customer at the time of establishment of business relationship / account-based relationship and thereafter, as necessary, customers shall submit to the REs the update of such documents. This shall be done within 30 days of the update to the documents for the purpose of updating the records at RE's end.

## Chapter VIII - Other Measures

- a) **Secrecy Obligations and Sharing of Information:**
  - o MRHFL shall maintain secrecy regarding the customer information which arises out of the contractual relationship between the lender and customer.
  - o While considering the requests for data/information from Government and other agencies, MRHFL shall satisfy themselves that the information being sought is not of such a nature as will violate the provisions of the laws relating to secrecy in transactions.
  - o MRHFL shall maintain confidentiality of information as provided in Section 45NB of RBI Act 1934.

- b) CDD Procedure and sharing KYC information with Central KYC Records Registry (CKYCR)
- Government of India has authorised the Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI), to act as, and to perform the functions of the CKYCR vide Gazette Notification No. S.O. 3183(E) dated November 26, 2015.
  - In terms of provision of Rule 9(1A) of PML Rules, the REs shall capture customer's KYC records and upload onto CKYCR within 10 days of commencement of an account-based relationship with the customer.
  - Operational Guidelines for uploading the KYC data have been released by CERSAI.
  - REs shall capture the KYC information for sharing with the CKYCR in the manner mentioned in the Rules, as per the KYC templates prepared for 'Individuals' and 'Legal Entities' (LEs), as the case may be. The templates may be revised from time to time, as may be required and released by CERSAI.
  - The 'live run' of the CKYCR started from July 15, 2016 in phased manner beginning with new 'individual accounts'. Accordingly, Scheduled Commercial Banks (SCBs) are required to invariably upload the KYC data pertaining to all new individual accounts opened on or after January 1, 2017, with CKYCR. SCBs were initially allowed time up-to February 1, 2017, for uploading data in respect of accounts opened during January 2017. REs other than SCBs were required to start uploading the KYC data pertaining to all new individual accounts opened on or after from April 1, 2017, with CKYCR in terms of the provisions of the Rules *ibid*.
  - REs shall upload KYC records pertaining to accounts of LEs opened on or after April 1, 2021, with CKYCR in terms of the provisions of the Rules *ibid*. The KYC records have to be uploaded as per the LE Template released by CERSAI.
  - Once KYC Identifier is generated by CKYCR, REs shall ensure that the same is communicated to the individual/LE as the case may be.
  - In order to ensure that all KYC records are incrementally uploaded on to CKYCR, REs shall upload/update the KYC data pertaining to accounts of individual customers and LEs opened prior to the above mentioned dates as per (e) and (f) respectively at the time of periodic updation as specified in Section 38 of this Master Direction, or earlier, when the updated KYC information is obtained/received from the customer.
  - REs shall ensure that during periodic updation, the customers are migrated to the current CDD standard.
  - Where a customer, for the purposes of establishing an account based relationship, submits a KYC Identifier to a RE, with an explicit consent to download records from CKYCR, then such RE shall retrieve the KYC records online from the CKYCR using the KYC Identifier and the customer shall not be required to submit the same KYC records or information or any other additional identification documents or details, unless –
    - (i) there is a change in the information of the customer as existing in the records of CKYCR;
    - (ii) the current address of the customer is required to be verified;
    - (iii) the RE considers it necessary in order to verify the identity or address of the customer, or to perform enhanced due diligence or to build an appropriate risk profile of the client.
    - (iv) the validity period of documents downloaded from CKYCR has lapsed.
    - (v) the KYC Identifier with an explicit consent to download records from CKYCR

- c) Hiring of Employees and Employee training
- Adequate screening mechanism as an integral part of their personnel recruitment/hiring process shall be put in place.
  - 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 shall 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 MRHFL, regulation and related issues shall be ensured. Company shall endeavour to ensure that the staff dealing with / being deployed for KYC/AML/CFT matters have: high integrity and ethical standards, good understanding of extant KYC/AML/CFT standards, effective communication skills and ability to keep up with the changing KYC/AML/CFT landscape, nationally and internationally. Company shall also strive to develop an environment which fosters open communication and high integrity amongst the staff.
- d) Selling Third party products:
- MRHFL acting as agents while selling third party products shall comply with the applicable laws/regulations, including system capabilities for capturing, generating and analyzing alerts for the purpose of filing CTR/STR in respect of transactions relating to third party products with customers.
  - .
- e) MRHFL shall ensure that the provisions of the PML Act, Rules framed there under and the the Foreign Contribution (Regulation) Act, 2010, applicable, are adhered to strictly.
- f) Where MRHFL is unable to apply appropriate KYC measures due to non-furnishing of information and / or non-cooperation by the customer, MRHFL may consider closing the account or terminating the business relationship after issuing due notice to the customer explaining the reasons for taking such a decision. Such decisions need to be taken at CFO / COO level.

MRHFL shall formulate business/product specific risk profile of the customer and procedure manuals for compliance of this policy.

### Updated Annex – 1

KYC documents given below are applicable for both Rural and Affordable Housing business.

#### A. Individual Clients<sup>1</sup>

##### I. Proof of Identity (PoI):

Certified documents of any one of the following documents can be collected (officially valid document)

1. Valid Passport;
1. Voter Id Card;
2. Pan Card;
3. Valid Driving License;
4. **Proof of possession of Aadhar Card or Aadhar Number** (If customer is willing to avail any subsidy or benefit under a govt scheme such as PMAY Urban or PMAY Gramin (whenever launched) etc then the Aadhar card is mandatory.);
5. NREGA Job Card duly signed by an officer of the State Government;
6. Any document notified by the central government (Employee ID card - government employees; such document should bear a valid identification number);

Where customer submits a proof of possession of Aadhaar Number containing Aadhaar Number, please ensure that such customer redacts or blacks out his Aadhaar number through appropriate means.

##### II. Proof of Address (PoA):

Certified documents of any one of the following documents can be collected

1. Valid Passport;
2. Voter Id Card;
3. Valid Driving License;
4. **Proof of possession of Aadhar Card ;**
5. NREGA Job Card duly signed by an officer of the State Government;

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

- i. Utility Bill which is not more than two months old of any service provider (electricity, telephone, post-paid mobile phone, piped gas, water bill);
- ii. Property or Municipal tax receipt;
- iii. Pension or family pension payment orders (PPOs) issued to retired employees by Government Departments or Public Sector Undertakings, if they contain the address;
- iv. Letter of Allotment of Accommodation from employer issued by State Government or Central Government Departments, Statutory or Regulatory Bodies, public sector undertakings, scheduled commercial banks, financial institutions and listed companies and leave and license agreements with such employers allotting official accommodation;

<sup>1</sup> Updates conforming to Annexure I - NHB(ND)-DRS-Policy Circular-76-2016-17



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.

B. For other legal entities, following certified documents to be collected for client being:

| Features                 | Documents (Certified copy)  |
|--------------------------|---|
| <b>Company</b>           | <ul style="list-style-type: none"> <li>i. Certificate of incorporation;</li> <li>ii. Memorandum and Articles of Association;</li> <li>iii. Permanent Account number of Company;</li> <li>iv. A resolution from the Board of Directors and power of attorney granted to its managers, officers or employees to transact on its behalf;</li> <li>v. One copy of an OVD containing details of identity and address, one recent photograph and Permanent Account Numbers or Form 60* of beneficial owner, the managers, officers or employees, as the case may be, holding an attorney to transact on its behalf.</li> <li>vi. the names of the relevant persons holding senior management position</li> <li>vii. the registered office and the principal place of its business, if it is different</li> </ul> <p>KYC as per KYC norms for individual relating to beneficial owner, the managers, officers or employees, as the case may be, holding an attorney to transact on the company's behalf.</p> |
| <b>Partnership Firms</b> | <ul style="list-style-type: none"> <li>i. Registration certificate;</li> <li>ii. Partnership deed;</li> <li>iii. Permanent Account Number (PAN) of the partnership firm;</li> <li>iv. the names of all the partners and</li> <li>v. address of the registered office, and the principal place of its business, if it is different.</li> <li>vi. One copy of an OVD containing details of identity and address, one recent photograph and Permanent Account Numbers or Form 60* of the beneficial owner, the managers, officers or employees, as the case may be, holding an attorney to transact on its behalf.</li> </ul> <p>KYC as per KYC norms for individual relating to beneficial owner, the managers, officers or employees, as the case may be, holding an attorney to transact on the firm's behalf.</p>  |

|   |   |
|---|---|
| <p><b>Trust</b></p>   | <ul style="list-style-type: none"> <li>iv. Registration certificate;</li> <li>v. Trust deed;</li> <li>vi. Permanent Account Numbers or form 60* of the trust;</li> <li>vii. One copy of an OVD containing details of identity and address, one recent photograph and Permanent Account Numbers or Form 60 of the beneficial owner, managers, officers or employees, as the case may be, holding an attorney to transact on its behalf.<br/>KYC as per KYC norms for individual relating to beneficial owner, managers, officers or employees, as the case may be, holding a power of attorney to transact on its behalf, for those discharging role as trustee and authorized to transact on behalf of the trust</li> <li>viii. the names of the beneficiaries, trustees, settlor, protector, if any and authors of the trust</li> <li>ix. the address of the registered office of the trust;<br/>List of trustees</li> </ul> |
| <p><b>Unincorporated association or a body of individuals</b></p> | <ul style="list-style-type: none"> <li>i. Resolution of the managing body of such association or body of individuals;</li> <li>ii. Power of Attorney granted to him to transact on its behalf;</li> <li>iii. Permanent Account Number or Form 60* of the unincorporated association of body of individuals ;</li> <li>iv. One copy of an OVD containing details of identity and address, one recent photograph and Permanent Account Numbers or Form 60 of the beneficial owner, managers, officers or employees, as the case may be, holding an attorney to transact on its behalf identification information as mentioned under</li> <li>v. Such information as may be required by MRHFL to collectively establish the legal existence of such an association or body of individuals.</li> </ul>  |

\*As defined in the Income-tax Rules, 1962

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## Updated Annex – 2

### A. Illustrative list of suspicious transactions pertaining to builder Project / corporate clients:

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

### B. Illustrative list of suspicious transactions pertaining to individuals:

- 1) Legal structure of client has been altered numerous times (name changes, transfer of ownership, change of corporate seat).
- 2) Unnecessarily complex client structure.
- 3) Individual or classes of transactions that take place outside the established business profile, and expected activities/ transaction unclear.
- 4) Customer is reluctant to provide information, data, documents;
- 5) Submission of false documents, data, purpose of loan, details of accounts;
- 6) Refuses to furnish details of source of funds by which initial contribution is made, sources of funds is doubtful etc.;
- 7) Reluctant to meet in person, represents through a third party/Power of Attorney holder without sufficient reasons;

- 8) Approaches a branch/ office of a MRHFL, which is away from the customer's residential or business address provided in the loan application, when there is MRHFL branch / office nearer to the given address;
- 9) Unable to explain or satisfy the numerous transfers in account/ multiple accounts;
- 10) Initial contribution made through unrelated third party accounts without proper justification;
- 11) Availing a top-up loan and/ or equity loan, without proper justification of the end use of the loan amount;
- 12) Suggesting dubious means for the sanction of loan;
- 13) Where transactions do not make economic sense;
- 14) Unusual financial transactions with unknown source.
- 15) Payments received from un-associated or unknown third parties and payments for fees in cash where this would not be a typical method of payment.
- 16) There are reasonable doubts over the real beneficiary of the loan and the flat to be purchased;
- 17) Encashment of loan amount by opening a fictitious bank account;
- 18) Applying for a loan knowing fully well that the property/dwelling unit to be financed has been funded earlier and that the same is outstanding;
- 19) Sale consideration stated in the agreement for sale is abnormally higher / lower than what is prevailing in the area of purchase;
- 20) Multiple funding of the same property/dwelling unit;
- 21) Request for payment made in favor of a third party who has no relation to the transaction;
- 22) Usage of loan amount by the customer in connivance with the vendor/builder/developer/broker/agent etc. and using the same for a purpose other than what has been stipulated.
- 23) Multiple funding / financing involving NCO / Charitable Organization / Small/ Medium Establishments (SMEs) / Self Help Groups (SHCs) / Micro Finance Groups (MFCs)
- 24) Frequent requests for change of address;
- 25) Overpayment of installments with a request to refund the overpaid amount.
- 26) Investment in real estate at a higher/lower price than expected.
- 27) Clients incorporated in countries that permit bearer shares.