



UTKARSH COREINVEST LIMITED

KYC & AML Policy

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1. BACKGROUND

Utkarsh CoreInvest Ltd. (erstwhile Utkarsh Micro Finance Ltd.) is the promoting institution for 'Utkarsh Small Finance Bank'. Utkarsh Micro Finance started its operations way back in September 2009 to provide financial and non-financial services in its area of operations to the unbanked population who have the skill but are in need of capital. Utkarsh CoreInvest Ltd. (erstwhile registered as NBFC -MFI), started with credit under Joint Liability Group (JLG) model in FY 2009. Subsequently, it added Micro Enterprise Loan (MEL), Housing Loan and Micro Pension Products to its product bouquet.

With effect from May 03, 2018, Reserve Bank of India vide its letter no. 21.01.582/2107 -18 issued a certificate for conversion of the company i.e. Utkarsh CoreInvest Ltd. (UCL) from NBFC-MFI-ND-SI to NBFC-CIC-ND-SI (Core Investment Company - Non-Deposit taking - Systemically Important) entity. All CIC-ND-SIs are required to follow the Know Your Customer (KYC) Direction, 2016 issued and as amended from time to time by the Department of Banking Regulation, Reserve Bank of India.

Prevention of Money Laundering Act, 2002 (PMLA) is enacted to prevent money laundering and provides for confiscation of property derived from, or involved in money laundering. The Act initially came into force from July 1, 2005 and was amended vide the Prevention of Money Laundering (Amendment) Act, 2012 (PMLA) and by Ministry of Finance, Department of Revenue vide Gazette notification dated June, 01 2017.

Reserve Bank of India (RBI), the regulator for Banks and Non-Banking Financial Companies in India formulates guidelines on Anti Money Laundering (AML) / Know Your Customer (KYC) / Combating the Financial Terrorism (CFT) standards for banks and financial institutions, based on obligations of banks under PMLA, Recommendations made by the Financial Action Task Force (FATF) on AML / CFT, and the paper issued on Customer Due Diligence (CDD) for banks, by the Basel Committee on Banking Supervision. Securities and Exchange Board of India (SEBI), the regulator for financial intermediaries also issues guidelines on AML/KYC/CFT.

Financial Intelligence Unit-India (FIU-IND) (FIU) a Government of India body is primarily responsible for coordinating and strengthening efforts of national and international intelligence, investigation and enforcement in pursuing global efforts against money laundering and related crimes. Indian Banking Association, a voluntary association of banks in India also issues guidance / consultation papers on the subject of AML/KYC/CFT.

The company's policy on Know Your Customer (KYC) Norms / Anti-Money Laundering (AML) Measures / Combating the Financing of Terrorism (CFT) / Obligations is in line with the regulatory expectations and guidelines issued in this context issued by regulators and law agencies, from time to time.

2. OTHER APPLICABLE LAWS AND REGULATIONS

KYC / AML as a theme has been covered by various other regulations which would apply to Banks and NBFCs. The company would comply with the following applicable guidelines related to AML / KYC / CFT and would also include requirements of various regulations issued from time to time:

- a. Foreign Contribution Regulation Act, 2010
- b. Remittance guidelines issued under FCRA, and shall have procedures thereof.
- c. The Unlawful Activities (Prevention) Act, 1967

3. SCOPE & OBJECTIVE OF THE POLICY

3.1. Scope

This Policy outlines the minimum general unified standards of internal KYC / AML control which would be adhered to by the company in order to mitigate the legal, regulatory, reputational, operational, and as a consequence financial risks.

3.2. Objectives

The objective of the guidelines is to prevent the company from being used, intentionally or unintentionally, by criminal elements for money laundering or terrorist financing activities. The Policy also enables the company to know / understand the KYC status of its Investors / Clients / Vendors and their financial dealings better, to manage risks including reputation.

4. KNOW YOUR CUSTOMER (KYC) / CUSTOMER DUE DILIGENCE (CDD) GUIDELINES

As per the mandate under PMLA, the company is required to obtain customer / investor information for performing all AML procedures. This serves as a critical element in effective management Money Laundering and Terrorist Financing (ML / TF) risks. As per the guidelines, the KYC / CDD measures include recording and verification of the identity of the customers / investors and obtaining information on the purpose and intended nature of the business relationship, as the case may be.

The Policy would also ensure that a uniform standard procedure is followed while identifying domestic and foreign investors.

4.1. Customer Identification & Due Diligence

Customer identification means identifying the customer / investor and verifying her / his identity, address and other requisite profile details by using reliable, independent source documents, data or information.

- i. The company would obtain documents and other information in respect of different categories of customers / investors depending on perceived risk and keeping in mind the requirements of PMLA and instructions / guidelines issued by regulators from time to time. The nature and extent of the due diligence shall depend on the risks perceived by the company.
- ii. The company would strictly adhere to the guidelines issued by regulators of obtaining valid documents for identification purpose;
- iii. A standard set of applicable identification documents for various categories of investors / customers is prepared and is part of KYC Manual. The KYC manual is enclosed with this policy as **Annexure I**
- iv. For customers / investors that are natural persons, the company shall obtain sufficient identification to verify the identity of the customer, her / his address / location, and also her / his recent photograph as per the instructions issued by RBI through Know Your Customer (KYC) Direction, 2016, issued and as amended from time to time by the Department of Banking Regulation, Reserve Bank of India.

- v. For customers / investors that are legal persons or entities, the company shall
 - a. verify the legal status of the legal person / entities such as Trust / Society, Proprietorship Firm, Partnership, Private / Public Limited Company / Foreign Company through proper and relevant documents;
 - b. verify that any person purporting to act on behalf of the legal person / entity is so authorized and identify and verify the identity of that person;
 - c. understand the source of funds, ownership and control structure of the customer and determine who are the natural persons, who ultimately control the legal person.
- vi. The identity of the authorized signatories & the beneficial owners would be ascertained.

The company would take reasonable measures to identify the beneficial owner(s) of accounts / relations and verify her / his / their identity in a manner that it is satisfied that it knows who the beneficial owner(s) is / are. The beneficial owner is the natural person or persons who ultimately own, control or influence a customer and / or persons on whose behalf a transaction is being conducted. It also incorporates those persons who exercise ultimate effective control over a legal person or arrangement.

For the purpose of this sub-clause-

- a. "Controlling ownership interest" means ownership of / entitlement to more than 25 per cent of the shares or capital or profits of the company.
- b. "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.
- c. Where the customer / investor 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 15 per cent of capital or profits of the partnership.
- d. Where the customer / investor 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.

Explanation: Term 'body of individuals' includes societies, where no natural person is identified under (a), (b) or (c) above, the beneficial owner is the relevant natural person who holds the position of senior managing official.

- e. Where the customer / investor is a trust, the identification of beneficial owner(s) shall include identification of the author of the trust, the trustee, the beneficiaries with 15% 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.

5. AML GOVERNANCE STRUCTURE & RISK MANAGEMENT MACHINERY

The Board of Directors of the company shall be ultimately responsible for effective implementation of its KYC / AML program. All employees shall ensure complete compliance with the Policy and all extant procedures.

5.1. Designated Director

The company shall appoint the MD & CEO as the 'Designated Director', to ensure overall compliance with the obligations under PMLA.

The company shall communicate the name, designation and address of the Designated Director to the Director, Financial Intelligence Unit – India (FIU-IND).

5.2. Principal Officer

The company shall appoint the Compliance officer or Company Secretary or any other Senior Executive of the company as Principal Officer as per the requirements of PMLA who would be able to act independently and report directly to the senior management or to the Board of Directors.

The role and responsibilities of the Principal Officer shall include the following but not limited to:

- i. Overseeing and ensuring overall compliance with regulatory guidelines on KYC / AML issued from time to time and obligations under PMLA, rules and regulations made thereunder, as amended from time to time.
- ii. Review adequacy of AML systems and controls.
- iii. Monitoring of transactions, timely submission of various applicable reports & information to FIU-IND and regulators as per extant laws & regulations.
- iv. Close liaison with enforcement agencies, banks and any other institution which is involved in the fight against money laundering and combating the financing of terrorism.

Principal Officer and his team shall have timely access to AML / KYC / CFT related information in the company. Principal Officer's team shall formulate procedures and manuals related to their function, and the same shall also have mention of roles and responsibilities.

5.3. Audit Committee of the Board & Concurrent / Internal Auditors

The Audit Committee of the Board shall supervise the overall compliance with the guidelines.

The scope of internal audit of the company shall also include testing of compliance with the AML / KYC Policy and procedures. Concurrent / Internal Auditors shall specifically check and verify the application of AML / KYC policy and procedures, and comment on the lapses observed in this regard. The compliance in this regard shall be put up before the Audit Committee of the Board at quarterly intervals.

5.4. Escalation Process

All units / departments / offices /branches of the company shall escalate any identified suspicious activity or transaction to the Principal Officer, immediately after establishing reasonable grounds for suspicion. The Principal Officer shall report to the FIU-IND all suspicious activities / transactions in accordance with the PMLA rules, within 7 days from the date of arriving at such conclusion that any transaction, whether cash or non-cash, or a series of integrally connected transactions are of suspicious nature.

6. DATA MANAGEMENT & RECORD PRESERVATION

Section 12 of the PMLA, casts certain obligations on the Banking and Non-Banking Financial companies in regard to preservation and reporting of customer account information. The records and information shall be maintained and preserved by the company as per extant guidelines / laws, so that it can be retrieved easily and quickly whenever requested by internal competent authorities or regulators / government agencies. As per Rule 5 of PMLA, the company may maintain records of the identity of customers / investors, and records in respect of transactions of its customers in hard or soft format.

6.1. Data Management and Repository

As required under Rule 10, the company shall preserve the KYC information / data of the customer including beneficial owners (wherever applicable) obtained while onboarding customer and during the course of business relationship, for at least 5 years after the business relationship is ended or account is closed, whichever is later.

The company shall have a system of maintaining and preserving all necessary information in respect of transactions, to permit reconstruction of individual transactions, including the following information but not limited to:

- i. the nature of the transactions;
- ii. the amount of the transaction and the currency in which it was denominated;
- iii. the date on which the transaction was conducted; and
- iv. the parties to the transaction.

As per SEBI guidelines, the company shall retain the following information of its customers / investors in order to maintain a satisfactory audit trail:

- i. the beneficial owner;
- ii. the volume of the funds flowing; and
- iii. for selected transactions:
 - a. the origin of the funds;
 - b. the form in which the funds were offered or withdrawn, e.g. cheques, demand drafts etc.
 - c. the identity of the person undertaking the transaction;
 - d. the destination of the funds;
 - e. the form of instruction and authority.

The company shall retain certain records, e.g. customer identification, account files, and business correspondence, for periods which may exceed those required under the SEBI Act, Rules and Regulations framed there-under PMLA, other relevant legislations, Rules and Regulations or Exchange bye-laws or circulars.

In terms of the RBI master circular, records of all suspicious transactions, regulatory reports and due diligence / scrutiny conducted thereof shall be preserved for 10 years. As required by SEBI guidelines, in cases of records relating to on-going investigations or transactions which have been the subject of a suspicious transaction reporting, records would be retained until it is confirmed that the case has been closed.

The company shall co-operate with the regulators & designated law enforcement, local bodies and investigative agencies, as per extant laws and regulations.

7. EMPLOYEE HIRING / ACCOUNTABILITY

As one of the Human Resource functions, verifying identity of the potential employees (payroll / outsourced) and screening their names against negative / criminal lists would be carried out such that the risk of criminal, entering as employee can be minimized to a large extent by the company.

Employees would be expected to adhere to the stipulated procedures / responsibilities efficiently. Any indifferent or suspicious behavior of an employee(s) shall be dealt suitably by the company.

8. REVIEW

This policy would be reviewed annually taking into account the various amendments to guidelines and regulations (if any), Business models and would be placed to Board for their approval. However, if there are any substantial changes in the guidelines by regulators, before the annual cycle, the company would take necessary steps and review the policy.

9. CONFIDENTIALITY

The information in this policy is strictly confidential to the company and should not be disclosed to any other person. It may not be reproduced in whole, or in part, nor may any of the information contained therein be disclosed without the prior consent of the compliance officer in pdf format.

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