

# CHALLANI CAPITAL LIMITED

## KYC POLICY

### **Preamble:**

Reserve Bank of India has been issuing guidelines with regard to KnowYourCustomer (KYC) standards to be followed by NBFC and measures to be taken in regard to Anti Money Laundering (AML)/ Combating Financing of Terrorism (CFT).

NBFCs are required to put in place a comprehensive policy framework, duly approved by the Board of Directors or competent authority authorized by Board of Directors, in this regard. This policy document has been prepared in line with the RBI guidelines. This policy is applicable to all categories of products and services offered by the Company.

### **Objectives, Scope and Application of the Policy:**

The primary objective is to prevent the Company from being used, intentionally or unintentionally, by criminal elements for money laundering activities or terrorist financing activities. KYC procedures also enable NBFCs to know/understand their Customers and their financial dealings better which, in turn, help them manage their risks prudently. Accordingly, NBFCs have been advised to frame their KYC policies, incorporating the following four key elements:

- (i) Customer Acceptance Policy;
- (ii) Customer Identification Procedures;
- (iii) Monitoring of Transactions
- (iv) Risk management

### **Customer Acceptance Policy:**

The Company shall follow the following norms while accepting and dealing with its customers:

- Parameters of risk perception are clearly defined in terms of the nature of business activity, location of customer and his clients, mode of payments, volume of turnover, social and financial status etc. to enable categorization of customers into low, medium and high risk. The illustrative list of such risk categorisation is provided in annexure –I.
- The customer profile contains information relating to customer's identity, social/financial status, nature of business activity, information about his clients' business and their location etc. The nature and extent of due diligence will depend on the risk perceived by the Company. However, while preparing customer profile the Company will seek only such information from the customer which is relevant to the risk category and is not intrusive. The customer profile will be a confidential document and details contained therein will not be divulged for cross selling or any other purpose.

- The intent of the Policy is not to result in denial of financial services to general public, especially to those, who are financially or socially disadvantaged. While carrying out due diligence, the Company will ensure that the procedure adopted does not result in denial of services to any genuine customers.
- The Company shall carry out customer due diligence (CDD) before opening an account. When the true identity of the account holder is not known, the Company shall file Suspicious Transaction Reporting (STR).

### **Customer Identification Procedures:**

Customer identification means identifying the customer and verifying his /her identity by using reliable and independent source of documents, data or information to ensure that the customer is not a fictitious person. The Company shall obtain sufficient information necessary to establish, to its satisfaction, the identity of each customer and the purpose of the intended nature of business relationship.

An effective Customer Identification Program (“CIP”) is an important part of the effort by the Company to know its customers. The Company’s CIP is integrated into the AML( Anti Money Laundering ) program for the company in terms of the Prevention of Money Laundering Act, 2002 and the relevant rules notified there under (PMLA), which contains provisions requiring the business processes to:

1. Verify the identity of any person transacting with the Company to the extent reasonable and practicable;
2. maintain records of the information used to verify a customer’s identity, including name, address and other identifying information and
3. Consult lists of known or suspected terrorists or terrorist organizations provided to the Company by any applicable government agency to determine whether a person opening an account or an existing customer appears on any such list.

The Company will perform appropriate, specific and where necessary, due diligence on its customers that is reasonably designed to know and verify the true identity of its customers and to detect and report instances of criminal activity, including money laundering or terrorist financing. The procedures, documentation, types of information obtained and levels of KYC due diligence to be performed will be based on the level of risk associated with the relationship (products, services, business processes, geographic locations) between the Company and the customer and the risk profile of the customer. The customer identification requirement is given in annexure II

All the customers shall be identified by a unique identification code to identify customers, track the facilities availed, monitor financial transactions in a holistic manner and to have a better approach to risk profiling of customers.

Each business process shall implement procedures to obtain from each customer, prior to transacting, the following information as may be relevant, to that business:

1. Name - procedures require business processes to use reasonable efforts to ensure that the name recorded on the company systems as the customer will be exactly the same as (and not merely similar to, or a variation of) the name that appears on any identifying documentation reviewed in connection with the loan;
2. For individuals - age / date of birth; For a person other than individual (such as corporation, partnership or trust) - date of incorporation;
3. Address including the documentary proof thereof;
  - i. For an individual ,a residential or business street address;
  - ii. For a person other than an individual (such as a corporation , partnership ,or trust), the principal place of business, local office, or other physical location;
4. Telephone/Fax number/E-mail ID;
5. Identificationnumber:
  - a) A taxpayer identification number; passport number and country of issuance; letter issued by Unique Identification Authority of India containing AADHAAR number; alien identification card number; or number and country of issuance of any other government issued document evidencing nationality or residence and bearing a photograph or similar safeguard. When opening an account for a person (other than an individual) that does not have an identification number ,the business process must request alternative government issued documentation certifying the existence of the business or enterprise;
  - b) For a customer who has applied for, but has not received an identification number, loan may be sanctioned, but each business process shall implement procedures to confirm that the application was filed before the loan issanctioned to customer and to obtain the identification number within a reasonable period of time before disbursal of loan.
  - c) The list of documents that can be accepted as proof of identity and address from customers across various products offered by the Company is given as annexure III to this policy. These are appropriately covered in the credit policies of the respective businesses and communicated to the credit approving authorities.

Verification: Each business process as a part of the credit policy will document and implement appropriate risk-based procedures designed to verify that it can form a reasonable belief that it knows the true identity of its customers. Verification of customer identity should occur before transacting with the customer .Procedures for each business process shall describe acceptable methods of verification of customer identity, which may include verification through documents by documentary verification methods (such as telecalling, personal visit etc) that are appropriate given the nature of the business process, the products and services provided and the associated risks.

### **Monitoring and reporting of Transactions:**

Monitoring of transactions will be conducted taking into consideration the risk profile of the account. Company shall make endeavors to understand the normal and reasonable activity of the customer so that the transactions that fall outside the regular/pattern of activity can be identified, special attention will be paid to all complex, unusually large transactions and all unusual patterns, which have no apparent economic or visible lawful purpose.

Background of the customer, country of origin, sources of funds, the type of transactions involved and other risk factors shall determine the extent of monitoring. Higher risk accounts shall be subjected to intensify monitoring. Company shall carry out the periodic review of risk categorization of transactions / customers and the need for applying enhanced due diligence measures at a periodicity of not less than once in six months.

Company shall explore the possibility of validating the new accounts opening application with various watch lists available in public domain, including RBI watch list. After due diligence, any transactions or suspicious nature will be duly reported by principal officer to Director, Financial Intelligence Unit- India (FIU\_IND).

To ensure monitoring and reporting of all transactions and sharing of information as required under the law for KYC, Board may nominate any Director or authorized MD or any other officer(s) duly authorized by MD to be designated as Company's Principal Officer with respect to KYC/ AML/CFT . Illustrative list of suspicious transactions is given annexure IV.

### **Principal Officers for KYC/AML/CFT:**

Principal Officer(s) for KYC will act independently and report directly to the concerned Director/MD or to the Board of Directors. The role and responsibilities of the Principal Officer(s) should include overseeing and ensuring overall compliance with regulatory guidelines on KYC/AML/CFT issued from time to time and obligations under the Prevention of Money Laundering Act, 2002, rules and regulations made there under, as amended from time to time.

**Closure of Accounts / Termination of Financing/ Business Relationship:**

Where Company is unable to apply appropriate KYC measures due to non furnishing of information and/or non-operation by the customer, Company shall terminate financing/ business relationship after issuing due notice to the customer explaining the reasons for taking such a decision. Such decision shall be taken with the approval of Director, CEO or Principal Officer.

**General**

Information collected from the customer shall be treated as confidential and details there of are not to be divulged for crossselling or any other like purposes. Company is not intrusive and is in conformity with the guidelines issued by RBI in this regard. Company shall ensure that any remittance of funds by way of demand draft, mail/telegraphic transfer or any other mode for any amount is affected by cheques and not against cash payment.

**Risk Management:**

The Company has put in place appropriate procedures to ensure effective implementation of KYC guidelines .The implementation procedure covers proper management oversight, systems and controls, segregation of duties, training and other related matters.

Company's internal audit and compliance functions play a role in evaluating and ensuring adherence to the KYC policies and procedures.

As a general rule, the compliance function also provides an independent evaluation of the company's own policies and procedures, including legal and regulatory requirements.

Internal Auditors shall specifically check and verify the application of KYC procedures at the branches and comment on the lapses observed in this regard.

The compliance in this regard is put up before the Audit Committee of the Board on quarterly intervals.

**Risk Categorisation:**

The Company shall put in place a system of periodical review of risk categorization of accounts and the need for applying enhanced due diligence measures in case of higher risk perception on a customer. Such review of risk categorization of customers will be carried out at a periodicity of not less than once in six months.

The Company shall have a system in place for periodical updation of customer identification data after the account is opened. The periodicity of such updation shall be not less than once in ten years in case of low risk category customer , once in five years for medium risk category and not less than once in two years in case of high categories.

All the customers under different product categories are categorized into low, medium and high risk based on their profile. The Credit manager while appraising the transaction and rendering his recommendation/ approval will prepare the profile of the customer based on risk categorization. An indicative categorization for the guidance of businesses is provided in Annexure - I. Each business process adopts the risk categorization in their respective credit policies subject to confirmation by compliance based on the credit appraisal, customer's background, nature and location of activity, country of origin, sources of funds, client profile, etc., Where businesses believe that a particular customer falling under a category mentioned below is in his judgement falling in a different category, he may categorise the customer so, so long as appropriate justification is provided in the customer file.

#### **Customer Education & Awareness:**

The above policy along with relevant forms shall be hosted on Company's website i.e. [www.agriwise.com](http://www.agriwise.com) to educate the customer of the objectives of the KYC /AML/ CFT programme. While dealing with customers, Dealing Officer sand Staff in SFL shall take special care in obtaining required information from the client.

#### **Employee's Training:**

Company shall have an ongoing employee training programme so that the Team members are adequately trained in KYC/AML/CFT procedures. Training requirements shall have different focuses for frontline staff, compliance staff and officer/staff dealing with the new customers. It is crucial that all those concerned fully understand the rationale behind the KYC policies and implement them.

#### **Updation in KYC Policy of Company**

Managing Director/CEO of the Company will be authorized to amend/ modify the KYC/ AML/ CFT Policy or such other related guidance notes of Company, to be in line with RBI or such other statutory authority's requirements/updates/ amendments time to time.

## **Annexure I**

### **Indicative list for Risk Categorisation**

Individuals (other than High Net Worth) and entities whose identities and sources of wealth can be easily identified and transactions in whose accounts by and large conform to the known profile, shall be categorised as low risk.

Illustrative examples are:

Salaries employees whose salary structure is well-defined

1. People belonging to lower economic strata of the society whose accounts show small balances and low turnover
2. Government departments and Government-owned companies
3. Statutory bodies & Regulators

### **Medium & High Risk Category**

Customers that are likely to pose a higher than average risk 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.

Illustrative examples are:

#### **Medium Risk**

1. High Networth Individuals
2. Companies having close family shareholding or beneficial ownership
3. Businesses dealing mostly in Foreign currency

#### **High Risk**

1. Firms with 'sleeping partners'
2. Politically Exposed Persons (PEPs) of Indian /Foreign Origin
3. Non face-to-face customers
4. Those with dubious reputation as per public information available
5. Accounts of bullion dealers and jewelers
6. Non-Resident customers
7. Trust, charities, NGO's and Organization receiving donations

## **Annexure II**

### **Customer Identification Requirements**

#### **Trust/Nominee or Fiduciary Accounts:**

In the case of any application from trust/nominee or fiduciary accounts, the Company determines whether the customer is acting on behalf of another person as trustee/nominee or any other intermediary.

If in doubt of the persons behind the customer, the Company may insist on receipt of satisfactory evidence of the identity of the intermediaries and of the persons on whose behalf they are acting, as also obtain details of the nature of the trust or other arrangements in place. Company takes reasonable precautions to verify the identity of the trustees and the settlors of trust (including any person settling assets into the trust), grantors, protectors, beneficiaries and signatories.

#### **Accounts of companies and firms:**

Company needs to be vigilant against business entities being used by individuals as a 'front' for transactions. Company should examine the control structure of the entity and identify the natural persons who have a controlling interest and who comprise the management.

These requirements may be moderated according to the risk perception e.g. in the case of a public company.

#### **Client accounts opened by professional intermediaries:**

Where the transaction is with a professional intermediary who in turn is on behalf of a single client, that client must be identified.

#### **Accounts of Politically Exposed Persons (PEPs) resident outside India:**

Politically exposed persons are individuals who are or have been entrusted with prominent public functions in a foreign country, e.g., Heads of States or of Governments, senior politicians, senior government/ judicial/ military officers, senior executives of state-owned corporations, important political party officials, etc.

The Company offers products primarily to Indian residents only. The Company if extending any finance to non residents should check if he is PEP and check all the information available about the person in the public domain. The decision to transact with the PEP should be taken only by the Head of credit of the respective businesses supported by appropriate verification. The Company is also required to subject such accounts to enhanced monitoring on an ongoing basis. The above norms may also be applied to the contracts of the family members or close relatives of PEPs.



In the event of an existing customer or the beneficial owner of an existing account, subsequently becoming PEP, the Company shall obtain the approval of Management Committee to continue the business relationship and subject the account to the KYC due diligence measures as applicable to the customers of PEP category including enhanced monitoring on an ongoing basis.

### **Identity of Beneficial Owner**

The Company shall identify the beneficial owner and take all reasonable steps to verify his identity. The term "beneficial owner" has been defined as the natural person who ultimately owns or controls a client and/or the person on whose behalf the transaction is being conducted and includes a person who exercises ultimate effective control over a juridical person. Government of India has since examined the issue and has specified the procedure for determination of Beneficial Ownership

Where the client is a person other than an individual or trust, the Company, as the case may be, shall identify the beneficial owners of the client and take reasonable measures to verify the identity of such persons, through the following information:

- i. The identity of the natural person, who, whether acting alone or together, or through one or more juridical person, exercises control through ownership or who ultimately has a controlling ownership interest.

Explanation: Controlling ownership interest means ownership of/entitlement to more than 25 per cent of shares or capital or profits of the juridical person, where the juridical person is a company; ownership of/entitlement to more than 15% of the capital or profits of the juridical person where the juridical person is a partnership; or, ownership of/entitlement to more than 15% of the property or capital or profits of the juridical person where the juridical person is an unincorporated association or body of individuals.

- ii. In cases where there exists doubt under (i) as to whether the person with the controlling ownership interest is the beneficial owner or where no natural person exerts control through ownership interests, the identity of the natural person exercising control over the juridical person through other means.

Explanation: Control through other means can be exercised through voting rights, agreement, arrangements, etc.

- iii. Where no natural person is identified under (i) or (ii) above, the identity of the relevant natural person who holds the position of senior managing official.

Where the client is a trust, the Company shall identify the beneficial owners of the client and take reasonable measures to verify the identity of such persons, through the identity of the settler of the trust, the trustee, the protector, 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.

Where the client or the owner of the controlling interest is a company listed on a stock exchange, or is a majority-owned subsidiary of such a company, it is not necessary to identify and verify the identity of any shareholder or beneficial owner of such companies.

**Accounts of non-face-to-face customers:** The Company will not do any transactions with non-face-to-face customers.

**AnnexureIII**  
**Customer Identification Procedure**  
**Features to be verified and documents that may be obtained from customers**  
**KYC Documents for Identification and verification**

**For Applicant and Co-Applicant:**

Document	Identity	Residence Address*	DOB and Age Proof
Voter ID	√	√	√
Passport	√	√	√
Driving License	√	√	√
PAN Card (Mandatory if Loan greater than 5 lacs )	√		√
Aadhar Card (Mandatory and must be linked to mobile)	√	√	√

**Proof of Business Continuity** (*Either Applicant or Co-Applicant must submit any of the following to validate Business Experience*)

- a. Shops and Establishment Licence Certificate
- b. MSME Registration Certificate (mandatory for PSL )
- c. Current Account Statement
- d. Utility Bill in the name of Firm / Company's Name
- e. Any other Government issued license
- f. 3-year old Purchase Bill (To be verified through Trade Reference Check)

**Additional Requirement for Partnership Firms and Companies**

- a. Copy of Partnership deed
- b. Copy of Memorandum and Articles of Association with Certificate of Incorporation
- c. PAN card of Firm / Company
- d. Authority letter signed by Partners
- e. Board Resolution

## **Annexure IV**

### **Illustrative list of activities which would be construed as suspicious transactions**

- Activities not consistent with the customer's business, i.e. accounts with large volume of credits whereas the nature of business does not justify such credits.
- Any attempt to avoid Reporting/Record-keeping Requirements/provides insufficient / suspicious information:
  - A customer who is reluctant to provide information needed for a mandatory report, to have the report filed or to proceed with a transaction after being informed that the report must be filed.
  - Any individual or group that coerces/induces or attempts to coerce/induce the Company employee from not filing any report or any other forms.
  - An account where there are several cash transactions below a specified threshold level to avoid filing of reports that may be necessary in case of transactions above the threshold level, as the customer intentionally splits the transaction into smaller amounts for the purpose of avoiding the threshold limit.
- Certain Employees of the Company arousing suspicion:
  - An employee whose lavish lifestyle cannot be supported by his or her salary.
  - Negligence of employees/willful blindness is reported repeatedly.
- Some examples of suspicious activities/transactions to be monitored by the operating staff:
  - Multiple accounts under the same name
  - Refuses to furnish details of source of funds by which initial contribution is made, sources of funds is doubtful etc;
  - There are reasonable doubts over the real beneficiary of the loan
  - Frequent requests for change of address