



“KNOW YOUR CUSTOMER” (KYC) AND ANTI MONEY LAUNDERING (AML) POLICY

Version History

Ver. No	Revision Date	Amended By	Approved By	Change History
V 2.0	20-03-2025	RMD	BoD	Group wide AML Policy
V 1.0	28-12-2016	RMD	BoD	-

Preamble:

The Reserve Bank of India (RBI) has issued comprehensive 'Know Your Customer' (KYC) Guidelines to all Non-Banking Financial Companies (NBFCs) in the context of the recommendations made by the Financial Action Task Force (FATF) and Anti Money Laundering (AML) standards and Combating Financing of Terrorism (CFT) policies. RBI has advised all NBFCs to ensure that a proper policy framework on KYC and AML measures be formulated and put in place with the approval of the Board.

Muthoot Microfin Limited ("the Company or MML") is Microfinance Institution which is categorized as a Systemically Important Non-deposit taking NBFC (Regulated Entity as defined under these Directions). Accordingly, in compliance with the guidelines issued by RBI from time to time, the following KYC & AML Policy has been adopted by the Board suitably.

Definitions:

"Customer" for the purpose of this Policy would have the same meaning as assigned to it under the RBI's Guidelines on 'Know Your Customer' and Anti-Money Laundering Measures, as amended from time to time

"Customer Due Diligence (CDD)" means identifying and verifying the customer using 'Officially Valid Documents' or 'Identification information as mentioned under section 15 of the RBI's Guidelines, as a 'proof of identity' and a 'proof of address' in the manner provided under this Policy read along with the manner prescribed under the RBI's Guidelines on "Know Your Customer" and Anti-Money Laundering Measures, as amended from time to time.

"Officially Valid Documents (OVDs)" means the passport, the driving license, the Voters Identity Card, Job Card issued by NREGA, letter issued by National Population Register containing details of Name & address. iv. **"Central KYC Records Registry" (CKYCR)** means the Company, to receive, store, safeguard and retrieve the KYC records in digital form of a customer.

"Reporting Entity" for the purpose of this Policy would mean the Company, Muthoot Microfin Limited.

"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:

- 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
- appears to be made in circumstances of unusual or unjustified complexity; or
- appears to not have economic rationale or bona-fide purpose; or
- gives rise to a reasonable ground of suspicion that it may involve financing of the activities relating to terrorism.

Objectives:

The objective of KYC & AML Policy is to prevent the Company from being used, intentionally or unintentionally, by criminal elements for money laundering activities. KYC procedures shall also enable the Company to know and understand its Customers and its financial dealings better which in turn will help it to manage its risks prudently. Thus, the said policy has been framed by the Company for the following purposes:

- (i) put in place an effective system and procedure for customer identification and verifying his/ her identity and residential address based on the risk factor associated with each customer;
- (ii) have in place a system of assessing and monitoring the risk factors associated with each customer;
- (iii) put in place a system of checks and balances to ensure formulation and effective implementation of procedures to help control and mitigate the risk of occurrence of financial frauds, swiftly identify probable transactions of money laundering and related suspicious activities and safeguarding the Company from being unwittingly used as a conduit for transfer or deposit of funds derived from criminal activity or for financing of terrorism, irrespective of whether such money can be traced to a specific act of terrorism or not;

Customer Acceptance Policy (CAP)

MML has formulated a robust CAP which aims to verify the identity and address of customer by using reliable, independent source documents, data or information. It will, however, be ensured that CAP does not lead to any customer harassment or leads to denial of financial service to customers. The guidelines in respect of the customer relationship are as follows:

- a) No loan account will be opened, and / or money will be disbursed in a name which is anonymous or fictitious or appears to be a name borrowed only for opening the loan account i.e. Benami Account. The Company shall insist on sufficient proof about the identity of the customer to ensure his physical and legal existence at the time of accepting the application form from any customer
- b) Accept customers only after verifying their identity, as laid down in Customer Identification Procedures.
- c) Documentation requirements and other information to be collected, as per PMLA and RBI guidelines/instructions, to be complied with
- d) Identity of a new customer to be checked so as to ensure that it does not match with any person with known criminal background
- e) Given the low ticket size of our loans and type of clients, which includes low income household, all our customers are considered to be of “low risk”
- f) MML will not give a loan to any applicant and shall close any existing loan where MML is unable to apply appropriate customer due diligence measures i.e. where MML is unable to verify the identity and/or obtain documents required as per the extant policies of MML due to the non-cooperation of the applicant/customer or non-reliability of the data/information furnished by such applicant/customer. The decision to close any existing loan account due to failure to meet CAP shall be taken by Principal Officer

- g) The Company shall not open any account or give / sanction any loan or close an existing account where the Company is unable to apply appropriate due diligence measures arising due to any of the following circumstances:
- The Company is unable to verify the identity of the customer
 - The customer without any valid or convincing reasons refuses to provide documents to the Company
 - Information furnished by the customer does not originate from the reliable sources or appears to be doubtful due to lack of supporting evidence.
 - Identity of the customer, directly or indirectly matches with any individual terrorist or prohibited / unlawful organizations, whether existing within the country or internationally, or if the customer or beneficiary is found, even remotely, to be associated with or affiliated to any illegal, prohibited or unlawful or terrorist organization as notified from time to time either by Govt. of India, State Govt. or any other national or international body / organization.
- h) Subject to the above-mentioned norms and caution, at the same time all the employees of Company will also ensure that the above norms and safeguards do not result in any kind of harassment or inconvenience to bona fide and genuine customers who should not feel discouraged while dealing with the Company.

Risk Level Categorization

The Company shall categorize its customers based on the risk perceived by the Company. The levels of categorization would be Low Risk, Medium Risk and High Risk. Risk categorization shall be undertaken based on parameters such as customer's identity, social/financial status, nature of business activity, and information about the clients' business and their location etc. All clients of MML can be categorized as Low Risk Customers because

- i. all of them are low income household and Indian nationals;
- ii. their identity and residence address are established respectively from their Aadhaar card and Ration Card or Voter ID card and also from personal visits by Relationship officer of MML;
- iii. they belong to the lower socio- economic strata whose annual household income do not exceed Rs. 3 Lakhs;
- iv. all of them live in rural / semi-urban / urban India pursuing agriculture / allied activities / small enterprise financed by own source of funds supplemented by small borrowings from MML or other such financial institutions.
- v. their level of annual income / turnover is below the threshold limit of Rs.10 lakhs. They borrow from MML within the undermentioned threshold limit as part of the JLGs or as individual members.

Customer Identification Procedure

Customer identification means identifying the customer and verifying his/ her identity by using reliable, independent source documents, data or information. MML will obtain sufficient information necessary to establish, to its satisfaction, the identity of each new customer, whether regular or occasional and the purpose of the intended nature of relationship. Being satisfied means that MML must be able to satisfy the competent authorities that due diligence was observed in compliance with the extant guidelines in place.

The Company will perform appropriate, specific and where necessary, Enhanced 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.

For undertaking CDD, the list of documents that can be accepted as proof of identity and address from various customers across various products offered by the Company is given as annexure I to this policy.

Required KYC Due Diligence for all customers:

The Company shall take reasonable measures to ascertain and verify the true identity of all customers who transact with the Company. MML will ensure that relevant documents as listed in Annexure I are obtained from prospective customers in order to carry out the necessary due diligence for establishing their identity.

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. The Field staffs of MML are aware that no loan accounts will be created unless the KYC procedures are adhered to completely.

MML through its Internal Audit Team will directly evaluate and ensure adherence to the KYC & AML policy and procedures, including legal and regulatory requirements. The Internal Audit Wing of MML is tasked with checking the robustness of this Policy while carrying out their audits. Responsibility has also been explicitly allocated within the company for ensuring that the company's policies and procedures are implemented effectively. The nature and extent of due diligence will depend on the risk perceived by the branch/company. However, while preparing customer profile branches should take care to seek only such information from the customer which is relevant to the risk category and is not intrusive

Enhanced Due Diligence:

The Company is primarily engaged in microfinance lending. It does not deal with such category of customers who could pose a potential high risk of money laundering, terrorist financing or political corruption and are determined to warrant enhanced scrutiny. The Company shall conduct Enhanced Due Diligence in connection with all customers or accounts that are determined to pose a potential high risk and are determined to warrant enhanced scrutiny. Enhanced Due Diligence shall be coordinated and performed by the Company, who may engage appropriate outside investigative services or consult appropriate vendor sold databases when necessary. Business vertical shall establish procedures to decline to do business with or discontinue relationships with any customer when the Company cannot adequately complete necessary Enhanced Due Diligence or when the information received is deemed to have a significant adverse impact on reputational risk.

The following are the indicative list where the risk perception of a customer may be considered higher:

- i. Customers requesting for frequent change of address/contact details

- ii. Sudden change in the loan account activity of the customers
- iii. Frequent closure and opening of loan accounts by the customers

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

Fixation of Threshold Limits-

Fixing threshold limit based on transaction profile of customer is one of the essential features of Transaction Monitoring and facilitates monitoring of transactions / borrowings at the Branch level. The upper limit of lending to clients of NBFC-MFIs fixed by RBI is Rs 1,50,000. To reduce over-indebtedness, RBI / MFIN have stipulated that a borrower can borrow at a time from not more than two NBFC-MFIs. Hence, MML will lend only to such borrowers who have outstanding borrowal facility from only one NBFC-MFI. This will be verified from internal Credit Bureau check conducted by MML.

Monitoring of Transactions-

The Employees of MML should exercise ongoing due diligence with respect to the business relationship with every customer and closely examine the transactions in order to ensure that they are consistent with their knowledge of the client, her business and risk profile and where ever necessary, the source of funds. Monitoring clients' activities and transactions that take place throughout a relationship helps MML to know their customers, assess risk and provides greater assurance that MML is not being used for the purposes of financial crime. Thus monitoring means analysis of a customer transactions to detect whether the transactions appear to be suspicious from an AML perspective. MML will close non- KYC complied accounts.

Being an NBFC, the Company is not empowered to seize any counterfeit currency like in the case of banks. However, the following incidents of counterfeit currency at the cash counters would be recorded and repeated occurrence would be reported.

- Bulk counterfeit currency of more than 10 pieces at a time;
- Repeated event within a week from a collection executive or Customer;

All such transactions would be reported to and reviewed by Principal Officer – PMLA who would enquire into the matter and decide whether the transaction would qualify to be termed as a suspicious transaction. When it is believed that we no longer are satisfied that we know the true identity of the customer, STR would be filed with FIU-IND. The Principal Officer - PMLA would file the Suspicious Transaction Report (STR) with the Director, Financial Intelligence Unit-India (FIU-IND) within 7 days of identifying them. After filing STR, transactions would be allowed to be continued in the account unhindered and the Customer would not be tipped in any manner.

Money Laundering and Terrorist Financing Risk Assessment by REs:

The Company will 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, geographic areas, products, services, transactions or delivery channels, etc. The internal risk assessment carried out by the Company

should commensurate to its size, geographical presence, complexity of activities/structure, etc. and shall apply a Risk Based Approach for mitigation and management of the identified risks. Respective businesses shall have standard operating procedures for identification, mitigation, controls and procedures for management of the identified risk, if any. The risk assessment processes shall be reviewed periodically to ensure its robustness and effectiveness.

Training of Employees:

As part of induction process, employees of the Company are trained in KYC guidelines through training module. Updation and modifications, if any, in the guidelines are also cascaded to the entire team to keep them abreast of the changes

Record Keeping:

Maintenance of records of transactions: As unlikely as it will be in the Company's case, due to its focus on lower income individuals, the Company has a system of maintaining proper record of transactions prescribed Section 12 of the PMLA read with Rule 3 of the Prevention of Money Laundering Rules, 2005 (PML Rules) as mentioned below:

- a) All cash transactions of the value of more than Rupees Ten Lakhs (Rs. 10,00,000/-) or its equivalent in foreign currency, though by policy the Company neither accepts cash deposits nor transactions in foreign currency.
- b) All series of cash transactions integrally connected to each other which have been valued below Rs. 10,00,000/- (Rupees Ten Lakhs) or its equivalent in foreign currency where such series of transactions have taken place within a month.
- c) All transactions involving receipts by non-profit organizations of Rs. 10,00,000/- (Rupees Ten Lakhs) or its equivalent in foreign currency.
- d) All cash transactions, where forged or counterfeit currency notes or bank notes have been used as genuine and where any forgery of a valuable security has taken place; any such transactions.
- e) All suspicious transactions whether or not made in cash and in manner as mentioned in the PML Rules framed by the Government of India under PMLA. An Illustrative List of suspicious transaction pertaining to financial services is given in Annexure II.

Records to contain the specified information: The Records referred to above in Rule 3 of PML Rules to contain the following information:

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

Maintenance and preservation of records: The following steps shall be taken regarding maintenance, preservation and reporting of customer account information, with reference to provisions of PML Act and Rules

- a) maintain all necessary records of transactions between the Company and the customer, for at least five years from the date of transaction;

- b) preserve the records pertaining to the identification of the customers and their addresses obtained during the course of business relationship, for at least five years after the business relationship is ended;
- c) make available the identification records and transaction data to the competent authorities upon request;
- d) maintain records of the identity and address of their customer, and records in respect of transactions in hard or soft format.

Appointment of Designated Director & Principal Officer

Mr. Thomas Muthoot John, Executive Director of the Company has been appointed as “Designated Director” in compliance with of the Prevention of Money laundering (Amendment) Act, 2012 in terms of RBI Circular No. DNBS (PD) CC.No. 378/03. 10.42/ 2012-13 dated May 29, 2014 and Mr. Sadaf Sayeed, CEO has been designated as ‘Principal Officer’.

Reporting of information with the FIU-IND

The Principal Officer will report information relating to cash and suspicious transactions if detected, to the Director, Financial Intelligence Unit-India (FIU-IND) as advised in terms of the PMLA rules, in the prescribed formats as designed and circulated by RBI, at the following address:

The Director,
Financial Intelligence Unit - India,
6th Floor, Hotel Samrat,
Chanakyapuri,
New Delhi - 110 021.

The employees of the Company shall maintain strict confidentiality of the fact of furnishing/ reporting details of suspicious transactions.

CDD Procedure and sharing KYC information with Central KYC Records Registry (CKYCR)

The Company shall capture the KYC information for sharing with the CKYCR in the manner mentioned in the Rules, RBI KYC Direction issued from time to time, as required by the KYC templates prepared for ‘individuals’ and ‘Legal Entities’ as the case may be.

Assessment and Review:

The Company shall also undertake periodic (at least annual) assessment of KYC/AML policies and procedures to ensure that compliance functions continue to function effectively.

Group-wide AML policy

In terms of PML Rules, MML, in conjunction with its RBI-regulated group entities, for the purpose of discharging obligations under the provisions of Chapter IV of the PML Act, 2002. (15 of 2003), shall implement a group-wide programme against money laundering and terror financing, including policies for sharing information required for the purposes of client due diligence and money laundering and terror finance risk management. Such programmes shall include adequate safeguards on the confidentiality and use of information exchanged, including safeguards to prevent tipping-off.

Under this policy, the AML Committee is authorised by the Board to define and document the Standard Operating Procedure (SOP) that shall cover all such aspects as prescribed by RBI to adhere to the Group-wide AML policy execution.

Annexure 1 – KYC documents to be verified

Proof of identity/existence	<p>As per the guidelines from MFIN customers are required to submit 2 KYC documents.</p> <ul style="list-style-type: none"> • UID • Voter ID • Passport • Driving License • Scheduled Bank passbook with applicant's photograph on the same which is duly attested by bank officials. The respective account should be active. • Letter issued by the Mandal Officer/Revenue Officer/ Village Administrative Officer. • KYC documents' photocopies only need to be taken. (Originals not required) • KYC documents must be self-attested by applicant and co-applicant respectively.
Address proof	<ul style="list-style-type: none"> • Voter ID • UID • Driving License • Passport • Electricity, Telephone, Water bills –not older than 90 days • Other Utility Bills - not older than 90 days • Life Insurance Policy or latest Premium receipt • Rent agreement • Consumer Gas Connection Card/Book • House Allotment letter from Government organizations • Bank statements / Passbook cover page with address being mentioned • Photocopies of the documents should be self attested by the respective person. <p>BRM should ensure that the address mentioned is matching with the current address of customer. If customer is living in a rented house then ensure the proof of their permanent address.</p>

ANNEXURE II - Illustrative List Of Suspicious Transaction Pertaining To Financial Services

Broad categories of reason for suspicion and examples of suspicious transactions for Non- Banking Financial Companies are indicated as under:

1. Identity of client:

- a) False identification documents
- b) Identification documents which could not be verified within reasonable time
- c) Accounts opened with names very close to other established business entities.

2. Background of Client:

Suspicious background or links with known criminals.

3. Multiple Accounts:

- a) Large number of accounts having a common account holder, introducer or authorized signatory with no rationale:
- b) Unexplained transfers between multiple accounts with no rationale.

4. Activity in accounts:

- a) Unusual activity compared with past transactions- Sudden activity in dormant accounts;
- b) Activity inconsistent with what would be expected from declared business.

5. Nature of transactions;

- a) Unusual or unjustified complexity;
- b) No economic rationale or bonafide purpose;
- c) Frequent purchases of drafts or other negotiable instruments with cash;
- d) Nature of transactions inconsistent with what would be expected from declared business.

6. Value of Transactions:

- a) Value just under the reporting threshold amount in an apparent attempt to avoid reporting.
- b) Value inconsistent with the client's apparent financial standing.

7. Illustrative list of Suspicious Transactions:

- a) Reluctant to part with information, data and documents;
- b) Submission of false documents, purpose of loan and detail of accounts;
- c) Reluctance to furnish details of source of funds of initial contribution;
- d) Reluctance to meet in person, representing through power of attorney;
- e) Approaching a distant branch away from own address;
- f) Maintaining multiple accounts without explanation;
- g) Payment of initial contribution through unrelated third party account;
- h) Suggesting dubious means for sanction of loan;
- i) Where transactions do not make economic sense;
- j) Where doubt about beneficial ownership;
- k) Encashment of loan through a fictitious bank account;
- l) Sale consideration quoted higher or lower than prevailing area prices;
- m) Request for payment in favor of third party with no relation to transaction;
- n) Usage of loan amount for purposes other than stipulated in connivance with vendors, or agent;
- o) Multiple funding involving NGO, Charitable organization, small and medium establishments, self-help groups, micro finance groups, etc;
- p) Frequent request for change of address;
- q) Over-payment of installments with a request to refund the overpaid.