



KYC/ AML/ CFT POLICY

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1. INTRODUCTION

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.

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. BACKGROUND

ESAF Financial Holdings Private Limited (Formerly Known as ESAF Microfinance and Investments Private Limited) ("the Company) is the promoting institution for 'ESAF Small Finance Bank'.

The company was registered as a non-deposit accepting Non-Banking Financial Company (NBFC-ND) with the Reserve Bank of India ('RBI') vide Certificate of Registration number B.07.00652 dated 22 August, 2007 and got classified as a Non-Banking Financial Company - Micro Finance Institution ('NBFC-MFI') with effect from 7 January 2014. The Company was primarily engaged in providing Microfinance services to the weaker sections of society, and mainly women who are organized in Joint Liability Groups.

On 18th November, 2016, the company received approval from Reserve Bank of India ('RBI') to set up a Small Finance Bank, pursuant to the same, the company executed an agreement to transfer its business undertaking to its wholly owned subsidiary ESAF Small Finance Bank Limited ('The Bank'). The Bank Commenced operations w.e.f 10 March, 2017, on which date the company ceased to operate as a Microfinance Company. Based on the Licensing guidelines of RBI applicable to the Bank and pursuant to above changes, the company submitted an application for registration as Core Investment Company ('CIC') on 18th March, 2019. The Company surrendered its NBFC-MFI license and received the approval of the Reserve Bank of India ('RBI') on 26th February 2020, as 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 and comply with the provisions of Prevention of Money Laundering Act, 2002 (PMLA) and Rules to combat money laundering.

3. SCOPE & OBJECTIVE OF THE POLICY

3.1. Scope

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

3.2. Objectives

The policy aims to develop a diligent and compliance sensitive culture in the Company through a focused approach on customer/ investor acceptance and identification procedures and prevention of money laundering and financing of terrorism. The key objectives of the policy are as below:

- To prevent the company from being used, intentionally or unintentionally, by criminal elements for money laundering or terrorist financing activities.
- Develop a relevant KYC/ AML/ Combating Financing of Terrorism (CFT) programme in line with the applicable regulatory requirements covering systems and controls, awareness for staff and management oversight and ensure its effective implementation.
- Facilitate a robust control environment for detection and reporting of suspicious activities in line with applicable laws and regulations.
- Enable the company to know/understand its customers/ investors and their financial dealings better and manage its risks in a prudent manner.
- Assign responsibility for effective implementation of policy.

4. GOVERNANCE STRUCTURE

The Company shall have a robust governance structure to monitor compliance with KYC/ AML/ CFT guidelines across all functions of the Company.

4.1 Roles And Responsibilities:

1) Board of Directors

The Board of Directors of the company shall be responsible for putting in place the KYC / AML / CFT Policy in line with the regulatory guidelines. Board shall review the policy at periodic intervals, at least on an annual basis, to ensure that all the regulatory requirements are incorporated and shall provide the senior management with clear guidance and directions regarding execution of the policy.

2) Designated Director

The Board shall appoint the Managing Director as the 'Designated Director', as per the requirements of PMLA. The name, designation and address of the Designated Director shall be communicated to the FIU-IND.

3) Principal Officer

The Chief Financial Officer or other Senior Executive of the company shall be appointed as the 'Principal Officer' as per the requirements of PMLA, who would be able to act independently and report directly to the Board of Directors. The Principal Officer shall be principally responsible for the effective implementation of KYC/AML/CFT policy in the company.

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.

4) Risk Management Committee of the Board

The Risk Management Committee (RMC) of the Board shall actively monitor the KYC/AML/ CFT framework. RMC shall reinforce the culture and awareness of KYC/AML/CFT guidelines throughout the organization.

5) Audit Committee of the Board

The Audit Committee of the Board (ACB) shall supervise the overall compliance with the guidelines. ACB shall periodically review the KYC/AML processes and the lapses and mistakes if any, pointed out by the internal and external auditors. ACB shall initiate steps for transactional/process rectification and submit action taken report in the next ACB meeting.

4.2. Escalation Process

Officers of the company shall confidentially escalate any identified suspicious activity or transaction, if any, without tipping off to the client, 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.

5. KEY ELEMENTS OF THE POLICY

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.

5.1. 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 enclosed with this policy as **Annexure I**
- iv. 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 as listed out in Annexure I;
 - 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.
- v. 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 10 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 10 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.
- vi. Considering the level of operations of the company, since there are no much dealings/ interaction with customers, the customer/ investor identification and due diligence shall be conducted through proper manual process.

5.2. Transaction Monitoring – AML/ CFT

Transaction monitoring is an essential and critical aspect of due diligence and is required in order to monitor and reduce potential money laundering, terrorist financing and fraud related exposure of the company. It involves identifying and reviewing unusual or unrelated or suspicious transactions on an on-going basis. All the transactions shall be monitored closely to ensure that they are consistent with customer's profile and source of funds. Analytical methods shall be used to determine when a transaction shows out-of-pattern or anomalous behaviour. In addition to this, suitable velocity checks shall be built in to ensure that transaction limits as prescribed under regulatory requirements are not breached.

5.3. Risk Management

The Company shall develop an effective KYC/ AML/ CFT policy through establishment of appropriate procedures and allocate responsibility to senior management for effective

implementation of the policy. The policy shall cover aspects such as systems and controls, management oversight, segregation of duties, awareness to staff and other related matters. A risk-based approach shall be adopted to address the management and mitigation of various AML/ CFT risks. The Management shall conduct independent evaluation to assess the effectiveness of implementation of regulatory guidelines and internal policies and procedures.

6. REPORTING REQUIREMENTS

The Company shall furnish to the Director, Financial Intelligence Unit-India (FIU-IND), information referred to in Rule 3 of the PML (Maintenance of Records) Rules, 2005 in terms of Rule 7, upon occurrence of any such transactions in the company.

7. MAINTENANCE & PRESERVATION OF RECORDS

Section 12 of the PMLA, casts certain obligations on the Non-Banking Financial companies with respect to maintenance and preservation of records. 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.

As required under Rule 10, the company shall preserve the KYC information / data of the customer/ investor including beneficial owners (wherever applicable) obtained while onboarding them 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.
- v. the mismatch between the customer profile, quantum, and frequency of transaction

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.

8. EMPLOYEE HIRING / ACCOUNTABILITY

As one of the Human Resource functions, verifying identity of the potential employees (payroll / outsourced) and appropriate due diligence of the employees would be carried out such that the risk of undesirable candidates, entering as employee can be minimized to a large extent by the company and proper background screening will mitigate the risk.

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.

9. POLICY REVIEW

This policy shall be reviewed once in a year or at increased frequencies for incorporating changes, based on revised and modified instructions issued by Reserve Bank of India/Government of India/Financial Intelligence Unit/other competent authorities from time to time. In any case, regulatory and statutory norms and directions as issued and modified from time to time will prevail over the provisions of this Policy and the Policy shall be treated as amended to such effect, pending formalisation through revision of this document.

Company's Secretariat shall be the custodian of the Policy responsible for periodic review and modification with the approval of Board of Directors.

List of Valid KYC Documents or equivalent e-document

Officially Valid Documents (OVDs) that may be obtained from customers/ investors:

A) INDIVIDUAL (Note : All Category of Individuals including NRI/OCI/PIO/Foreign nationals are required to mandatorily submit either PAN or FORM 60)		
1.	For Individuals	<p>Officially Valid Documents (Any One)</p> <ul style="list-style-type: none"> • Passport • Driving license with photo • Proof of possession of Aadhaar number • Voter's Identity Card issued by Election Commission of India, • Job card issued by NREGA duly signed by an officer of the State Government. • Letter issued by the National Population Register containing details of Name and Address.
		<p>Deemed Officially Valid Documents, In case OVD does not contains updated / current address (Any One)</p> <ul style="list-style-type: none"> • Utility bill of any service provider i.e. electricity, telephone, post-paid mobile bill, piped gas, water bill (not more than two months old) • 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 or Central Government departments, statutory or regulatory bodies, and public sector undertakings, scheduled commercial banks, financial institutions and listed companies. Similarly, leave and license agreements with such employers allotting official accommodation.
2.	For Non-Resident Indian (NRI)	<p>Official Valid Documents for Current Address (Any One)</p> <ul style="list-style-type: none"> • Passport • Driving License • Proof of possession of Aadhaar number • Voters ID Card issued by Election Commission of India • Job card issued by NREGA duly signed by an officer of the State Government • Letter issued by the National Population Register containing details of name and address <p>In addition to above, following documents establishing Overseas address should be submitted; Overseas Proof of Address (Any One)</p>
3.	For PIO/OCI	<ul style="list-style-type: none"> • Passport • Driving License • Government issued National ID having address at country of Residence • Utility Bill (Electricity, Water, Gas, Telephone, Post-paid Mobile) - Not more than 2 months old • Registered Tenancy / Rent / Lease Agreement • Property or Municipal Tax Receipt • 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

		<p>such employers allotting official accommodation;</p> <ul style="list-style-type: none"> Original latest overseas bank account statement carrying overseas address -Not more than 2 months old Employer's Certificate confirming overseas address. Address proof of the blood relative (spouse, father mother, sister, brother and child) with whom NRI is staying along with supporting proof of relationship (Passport, PAN card, Driving license, Voters Identity Card, Aadhaar card, Marriage Certificate, Birth Certificate) along with declaration from customers relative. Letter/ Certificate/ ID issued by foreign college/ University. <p>In case of OVDs presented by OCI/PIO does not contain details of Address, in such cases letter issued by foreign embassy / mission in India or OCI / PIO Card having overseas address may be accepted along with OVDs.</p> <p>Further copy of suitable documents to ascertain the status of NRI/PIO/OCI be provided.</p>
4.	For Foreign Nationals	<p>Overseas Address proof (Any One)</p> <ul style="list-style-type: none"> Passport Driving license Documents issued by Govt. Dept. of foreign jurisdictions i.e. National Identification Card, Green Card and Social Security Card etc. having Name and overseas Address of the Applicant (In case OVD does not contain detail of overseas address) <p>Current Address proof (Any One)</p> <ul style="list-style-type: none"> OVD or Deemed OVD Letter Issued by Foreign Embassies or Mission in India having Name and current Address. FRRO Certificate having name and current address
B) NON-INDIVIDUAL		
1.	For Companies	<p>Officially Valid Documents (Any One)</p> <ul style="list-style-type: none"> Certificate of Incorporation Memorandum & Articles of Association PAN No. of the Company Resolution of the Board of Directors and Power of Attorney granted to its managers, officers or employees to transact on its behalf; The names of the relevant persons holding senior management position The registered office and the principal place of its business, if it is different; and Any of OVD and PAN/FORM60 in respect of Beneficial Owner (BO), the managers, officers or employees holding an attorney to transact on its behalf with his / her photograph
2.	For Sole Proprietary firms	<p>Officially Valid Documents (Any two)</p> <ul style="list-style-type: none"> Registration certificate including Udyam Registration Certificate (URC) issued by Government. Certificate/ license issued by the municipal authorities under Shop and Establishment Act. Sales and income tax returns. CST/ VAT/ GST certificate. 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 or License / 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

		<p>authenticated/acknowledged by the Income Tax authorities.</p> <ul style="list-style-type: none"> Utility bills such as electricity, water, and landline telephone bills not older than two months. <p>AND Any one OVD and PAN / Form 60 of the proprietor.</p>
3.	For Partnership firms (Registered)	<p>Officially Valid Documents (Any One)</p> <ul style="list-style-type: none"> Registration certificate, Partnership deed; and PAN No. of the Firm, The names of all partners Address of the registered office, and the principal place of its business, if it is different; and Any of OVD and PAN / FORM60 in respect of Beneficial Owner (BO), the managers, officers or employees holding an attorney to transact on its behalf with his / her photograph
4.	For Trusts & Foundations	<p>Officially Valid Documents (Any One)</p> <ul style="list-style-type: none"> Registration Certificate Trust Deed; Resolution of Board of Trustees PAN / Form 60 of Trust Registration under Section 12AB of Income Tax Act, if applicable. The names of the beneficiaries, trustees, settlor, protector, if any and authors of the trust The address of the registered office of the trust List of trustees and documents viz. any one OVD and PAN/Form 60, for those discharging the role as trustee and authorized to transact on behalf of the trust. Any of OVD and PAN/Form 60 in respect of Beneficial Owner, Trustees, settlers, beneficiaries and persons holding Power of Attorney, Founders/Managers Directors/Signatories with his/her photograph.
5.	For Unincorporated Associations (Including Unregistered Trust/partnership firm) or body of individuals (Including Society/ Clubs/SHG)	<p>Officially Valid Documents (Any One)</p> <ul style="list-style-type: none"> Resolution of the Managing body of such association or body of individuals; PAN / Form 60 Bye Laws Power of Attorney granted to transact on its behalf; Any of OVD and PAN/FORM60 in respect of Beneficial Owner, Office bearers / Signatories and persons holding Power of Attorney to transact on its behalf with his/her photograph. Any one of the below mentioned list of documents to collectively establish the legal existence of such an associations or body of individuals. <ul style="list-style-type: none"> i. Partnership Deed/ Trust Deed (mandatory in case of registered partnership & registered trust) ii. Certificate/ license issued by the municipal authorities under Shop & Establishment Act, iii. Sales Tax Returns, iv. CST / VAT/ GST certificates (provisional/final) v. Certificate / registration document issued by Sales Tax / Service Tax / Professional Tax authorities. vi. IEC (Importer Exporter Code) issued by the office of DGFT/ License/ certificate of practice issued in the name of the concern by any professional body incorporated under a statute. vii. Complete Income Tax return (not just the acknowledgement) in the name of concern where the income is reflected, duly authenticated/ Acknowledged by the Income Tax Authorities.

		<p>viii. Any other registration certificate issued by state/ central government departments.</p> <p>ix. Utility bill such as electricity, water and landline telephone bill in the name of the concern (not older than two months)</p>
6.	For Hindu Undivided Family	<p>Officially Valid Documents (Any One)</p> <ul style="list-style-type: none"> • PAN Card in the name of HUF. • Declaration from the Karta. • Any One of the Official valid document (OVD) and PAN / FORM60 of the Karta / Authorized Signatories with his / her photographs. • HUF Letter / Declaration signed by all the coparcener and Karta