

PURPLE FINANCE LIMITED

KYC POLICY

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KYC Policy

Background:-

The Recommendations made by the Financial Action Task Force (FATF) on Anti Money Laundering (AML) standards and on Combating Financing of Terrorism (CFT) standards have become the international benchmark for framing Anti Money Laundering and combating financing of terrorism policies by the regulatory authorities. The Reserve Bank of India (RBI) has issued revised set of comprehensive 'Know Your Customer' 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 policies by the regulatory authorities and advised all NBFCs to adopt the same with suitable modifications depending on the activity undertaken by them and ensure that a proper policy framework on KYC and AML measures are formulated and put in place with the approval of their respective Boards. The 'Know Your Customer' Guidelines issued by Purple Finance Limited (PFL/Company) have been drafted and issued in the above context.

What is Money Laundering?

Money Laundering can be defined as engaging in financial transactions that involve income derived from criminal activity, transactions designed to conceal the true origin of criminally derived proceeds and appears to have been received through illegitimate sources/origins. The money laundering activities as defined under Section 3 of The Prevention Of Money-Laundering Act, 2002

Prevention of Money Laundering Act, 2002

Prevention of Money Laundering Act, 2002 (PMLA 2002) form the core of the legal framework put in place by India to combat money laundering. PMLA 2002 and the Rules notified there under came into force with effect from July1, 2005. The PMLA 2002 and Rules notified there under impose an obligation on intermediaries to verify identity of clients, maintain records and furnish information to the financial intelligence Unit (FIU)-INDIA.

Financial Intelligence Unit (FIU)-INDIA

The Government of India set up Financial Intelligence Unit-India (FIU-IND) on November 18, 2004 as an independent body to report directly to the Economic Intelligence Council (EIC) headed by the Finance Minister.

FIU-IND has been established as the central national agency responsible for receiving, processing, analyzing and disseminating information relating to suspect financial transactions. FIU-IND is also responsible for coordinating and strengthening efforts of national and international intelligence and enforcement agencies in pursuing the global efforts against money laundering and related crimes.

Policy of Purple Finance Limited

Purple Finance Limited (“PFL/Company”) is a non-deposit taking NBFC. PFL has resolved that it would, as an internal policy, take adequate measures to implement a KYC policy based on the RBI guideline on the same matter, after making suitable changes as per PFL’s business and AML risk perception.

Money Laundering and Terrorist Financial Risk Assessment

The Company shall carry out ‘Money Laundering (ML) and Terrorist Financing (TF) Risk Assessment’ exercise periodically to identify, assess and take effective measures to mitigate its money laundering and terrorist financing risk for clients, countries or geographic areas, products, services, transactions or delivery channels, etc.

The assessment process should consider all the relevant risk factors before determining the level of overall risk and the appropriate level and type of mitigation to be applied. While preparing the internal risk assessment. The risk assessment by the Company shall be properly documented and be proportionate to the nature, size, geographical presence, complexity of activities/structure, etc. of the Company. The risk assessment shall be conducted at least in half yearly basis. The outcome of risk assessment shall be approved by Risk Management Committee of the Company.

Implementation of this Policy:-

Principal Officer who will be responsible for;

- Compliance of the provisions of the PMLA and AML Guidelines
- Act as a central reference point and play an active role in identification & assessment of potentially suspicious transactions
- Ensure that PFL discharges its legal obligation to report suspicious transactions to the concerned authorities.

Name, Designation and Contact details of the Principal Officer shall be communicated to FIU-IND and RBI.

CFO of PFL shall be designated as the Principal Officer for the purpose of this policy

Compliance with KYC Policies

- ED, CEO and Head – Operations shall constitute as senior management for the purpose of KYC compliance
- Head – Operations shall ensure effective implementation of the policies while the CEO shall ensure compliance.

- Internal Audit system shall be implemented to verify compliance with KYC/AML policies and procedures and identify lapses if any and suggest corrective measures.
- No activity related to KYC compliance shall be outsourced.

The objective of KYC guidelines is to prevent PFL (“PFL”/ “Purple Finance”/ “the company”) from being used, intentionally or unintentionally, by unscrupulous entities in the garb of customer for money laundering activities. KYC procedures also enable PFL to know/understand their customers and their financial dealings better which in turn help them manage their risks prudently. PFL has framed its KYC policy incorporating the following elements:

- Customer Acceptance Policy;
- Customer Identification Procedures (CIP);
- Customer Due Diligence Procedures (CDD);
- Monitoring of Transactions; and
- Risk management

Customer Acceptance Policy

- No Account shall be opened without physical visit of the PFL official representative to the address given as address proof and confirming that the applicant stays there. **(An account is a loan account as we are a lending company and the account is considered open only when the loan is disbursed and applicant, co-applicants and guarantors are all considered as customer)**
- No account shall be opened where the customer fails to provide adequate documents or does not cooperate to satisfactorily complete CDD procedure.
- CDD procedure is mandatory to be carried out.
- CDD procedure shall be applicable for all applicants and co-applicants and guarantors in the loan account.
- CDD procedure shall be carried out for each new account being opened by the customer or where there is a change in Address of the customer, new proof of address verification as per CDD procedure has to be carried out.
- Documentation required for carrying out CDD procedure for various types of entities is listed in the Annexure 1.
- Optional/Additional information may be obtained with the explicit consent of the customer after the account is opened.
- PAN shall be mandatorily checked through verification facility of the issuing authority and is mandatory for loan applicants. However Form 60 can be collected for all Co-applicants along with other valid documents for customer identification.
- Aadhaar Number if collected shall be checked through verification facility of the issuing authority
- Where GST details are available, the same shall be verified from the verification facility of the issuing authority.
- Wherever other OVDs or deemed to be OVDs are taken in absence of required documents, they may be checked with verification system of issuing authority wherever possible.
- PFL shall check the lists of black listed customers/entities issued by RBI and other national and international agencies before accepting their application.

Customer is defined as

- a person or entity that maintains an account and/or has a business relationship with PFL (account means a loan account as mentioned above);
- one on whose behalf the account is maintained (i.e. the beneficial owner);

Beneficial Owner (BO) is defined as:

- a. Where the customer is a company, the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has/have a controlling ownership interest or who exercise control through other means.

Explanation- For the purpose of this sub-clause- 1. "Controlling ownership interest" means ownership of/entitlement to more than 10 per cent of the shares or capital or profits of the company. 2. "Control" shall include the right to appoint majority of the directors or to control the management or policy decisions including by virtue of their shareholding or management rights or shareholders agreements or voting agreements.

- b. Where the customer is a partnership firm, the 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.

- b. Where the customer 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.

- d. Where the customer 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.

Customer Identification Procedure

- I. PFL has clearly spelt the Customer Identification Procedure to be carried out at different stages, i.e. while establishing a relationship; carrying out a financial transaction or when PFL has a doubt about the authenticity/veracity or the adequacy of the previously obtained customer identification data. Customer identification means identifying the

customer and verifying his/ her identity by using reliable, independent source documents, data or information. PFL 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 the nature of information/documents required would also depend on the type of customer (individual, corporate etc). For customers that are natural persons, which will be most of its clients, PFL will obtain sufficient identification data to verify the identity of the customer, his address/location, and also capture his recent photograph. For customers that are legal persons or entities PFL will:

- verify the legal status of the legal person/ entity through proper and relevant documents
 - 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 and
 - understand the ownership and control structure of the customer and determine who are the natural persons who ultimately control the legal person
- II. While undertaking customer identification, PFL shall ensure that :
- a. Decision-making functions of determining compliance with KYC norms shall not be outsourced.
 - b. Introduction shall not be sought while opening accounts.
 - c. The customers shall not be required to furnish an additional OVD, if the OVD submitted by the customer for KYC contains both proof of identity and proof of address and matches with his current address. However PAN may be additionally asked since PFL might have to report various financial transactions with PAN number as an identifier to various authorities including CICs.
 - d. A customer shall be required to furnish separate proof of current address, if it is different from the address recorded in the OVD. In such cases, the company may carry out a physical verification at the address and/or verify the document from the verification facility provided by issuing authority of such document or any other form of KYC process that is valid and acceptable under RBI guidelines on KYC.

Customer Due Diligence (CDD) Procedure

The main aspect of this policy is the Client Due Diligence Process which means,

- Obtaining sufficient information about the client in order to identify who is the actual beneficial owner or on whose behalf transaction is conducted
- Verify the Client's identity using reliable, independent source document, data or information.

Conduct on-going due diligence and scrutiny of the account/client to ensure that the transaction conducted are consistent with the client's background/financial status, its activities and risk profile.

I. CDD Procedure in case of Individuals

PFL shall obtain the following documents from an individual while establishing an account based relationship:

- a. one self-certified copy of an OVD or e-verified OVD as mentioned in Annexure- I for identity and address;
- b. one recent photograph or live photograph; and
- c. documents pertaining to the nature of business or financial status

Provided that information collected from customers for the purpose of opening of account shall be treated as confidential and details thereof shall not be divulged for the purpose of cross selling, or for any other purpose without the express permission of the customer. Explanation: Customers, at their option, shall submit one of the five OVDs for proof of identity and proof of address.

II. CDD Measures for Sole Proprietary firms: Refer Annexure 1

In cases where it is satisfied that it is not possible to furnish two documents as per Annexure 1, only one of those documents as proof of business/activity can be accepted with contact point verification by a PFL official or authorized representative of PFL, personal discussions and collect such other information and clarification as would be required to establish the existence of such firm, and shall confirm and satisfy itself that the business activity has been verified from the address of the proprietary concern

III. CDD Measures for Legal Entities: Refer Annexure 1**IV. Identification of Beneficial Owner**

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

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

out in the RBI guidelines.

1. Physical KYC – Photocopies of the Documents mentioned in annexure 1 shall be self-attested by the customer and countersigned as “Original Seen and Verified” by the employee of PFL with Employee Name, Employee Number and Date. These documents shall be kept in record as per the record management policy
2. E-KYC – Documents collected shall be verified online from the issuing authority either directly or third party as the case may be. The requests to and responses from the authority shall be stored in the IT system of PFL for record purposes. An employee of PFL shall be present while this being carried out online
3. Digital KYC – This is a digitized version of the Physical KYC process mentioned above and PFL systems are being upgraded to follow the steps prescribed by RBI in their KYC guidelines. An employee of PFL shall take photograph of the originals in the presence of the customer and take confirmation from the customer regarding details captured in the system before putting his/her own confirmation.

PFL shall make every efforts to carry out online authentications as they are more accurate and devoid of any chance of fraud. However, in circumstances where online verification fails, PFL shall carry out other methods accepted and prescribed by RBI for verification and complete the due diligence process. ***PFL will issue an internal circular mentioning the step by step procedure to complete KYC.***

Risk Management

Risk Management shall be done based on the risk categorization of the customer which shall be known as Low, Medium and High.

- a) Customers shall be categorized as low, medium and high-risk category, based on the assessment and risk perception of the company.
- b) The company shall undertake risk categorization based on the following parameters on a scale of 1-10. Please refer annexure 2.
 - a. Type of Customer (Entity type)
 - b. Financial Status
 - c. KYC Verification (Docs verified with authorities or not and the mode)
 - d. Amount of the transaction (Loan Amount)
- c) All customers scoring more than ≥ 10 shall be considered as low risk, those between 7-10 as medium risk and rest as high risk.
- d) PFL shall identify customers whose reverification is due in the next six months. This process shall be done every six months (This identification shall be based on risk categorization of the customer)
- e) PFL shall contact those customers whose Re-KYC is due and carry out CDD procedure as applicable to new customers at that point in time.
- f) Re-KYC is mandatory wherever the customer informs us/or PFL comes to know about a change in address/change in business of the customer.
- g) The CDD for such Re-KYC shall remain the same as mentioned in the policy.
- h) In case of change in mobile number, contact point verification shall be done through a call/SMS and the number may be updated as contact number

Record Keeping and Reporting.

- All KYC records (physical or digital) shall be stored for 5 years after the account has been closed
- There should be audit trail of all the digital verifications done of these KYC documents with issuing authorities and shall be stored for at least 5 years after the account has been closed.
- CKYC Database to be uploaded for all new customers or any change in KYC of existing customers within 10 days of being onboarded.
- FIU-IND reporting to be done for suspicious transaction/cash transaction of INR 200000 (Rupees Two Lacs) or above in a day as per PMLA rules.
- Where cash collected from a customer per day is INR 50000 (Rupees Fifty Thousand) or more, company representative shall collect PAN of the person doing the transaction and report to Income tax and other authorities as per law.
- PFL is not empowered to seize any counterfeit currency. However the following incidents of counterfeit currency at the cash counter 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 client.

Designated Director and Principal Officer

To ensure compliance with the obligations under the Act and Rules, Board may appoint/nominate designated director and principal officer required under provisions of the Prevention of Money Laundering (Maintenance of Records) Rules, 2005.

Designated Director for PFL shall be the Executive Director who shall be responsible for the overall compliance with the obligations imposed under chapter IV of the PML Act and the rules.

The name, designation, address and contact details of the Designated Director shall be communicated to the FIU-IND as well as to the RBI.

Principal Officer shall be separate from the Designated Director. CFO shall be the Principal Officer

Principal Officer shall be responsible for ensuring implementation, monitoring and sharing and reporting of information as required under the law and regulations.

The name, designation, address and contact details of the Principal Officer shall be communicated to the FIU-IND as well as to the RBI.

Compliance of KYC policy

PFL shall ensure compliance with KYC Policy through:

- i. PFL Senior management comprising of the Executive Director, CEO ad Head – Operations for the purpose of KYC compliance.
- ii. Allocation of responsibility for effective implementation of policies and

- procedures.
- iii. Independent evaluation of the compliance functions of its policies and procedures, including legal and regulatory requirements.
 - iv. Concurrent/internal audit system to verify the compliance with KYC/AML policies and procedures.
 - v. Submission of quarterly audit notes and compliance to the Audit Committee.

Annexure 1

Customers/Clients	Documents (Certified copy of the following OVDs)
<p>Accounts of individuals</p> <ul style="list-style-type: none"> - Proof of Identity and Address 	<p>Any one document from the Officially Valid Document is only allowed. They are:</p> <p>(i) Passport (ii) Voter’s Identity Card issued by Election Commission (iii) Driving License (iv) Job Card issued by NREGA duly signed by an officer of the State Govt (v) The letter issued by the Unique Identification Authority of India (UIDAI) containing details of name, address and Aadhaar number.</p> <p>Where latest address is not mentioned in the above documents the following documents shall be deemed to be 'officially valid documents' for the limited purpose of proof of address:</p> <ul style="list-style-type: none"> a) Utility bill which is not more than two months old of any service provider (electricity, telephone, postpaid mobile phone, piped gas, water bill) in the name of the individual; b) Property or Municipal Tax receipt; c) Bank account or Post Office savings bank account statement; d) Pension or family pension payment orders (PPOs) issued to retired employees by Government Departments or Public Sector Undertakings, if they contain the address; e) 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; <p>The customer shall submit OVD with current address within a period of 3 months of submitting the documents mentioned above.</p>

Customers/Clients	Documents
<p>Accounts of Companies</p>	<ol style="list-style-type: none"> 1. Certificate of incorporation; 2. Memorandum and Articles of Association; 3. Permanent Account Number of the Company; 4. A resolution from the Board of Directors and power of attorney granted to managers, officers or employees to transact on its behalf; 5. A copy of the latest electricity or telephone bill (not more than 2 months old) as a proof of its registered and principal palce of its business if it is different and 6. An officially valid document in respect of managers, officers or employees holding an attorney to transact on its behalf. OVDs applicable to individuals shall apply.
<p>Accounts of Partnership Firms</p>	<ol style="list-style-type: none"> 1. Registration certificate; 2. Partnership deed; 3. Permanent Account number of the firm; 4. The names of all partners and their OVD 5. An officially valid document in respect of the person holding an attorney to transact on its Behalf 6. Latest Utility Bill (Electricity/Telephone not more than 2 months old) in the name of the firm as a proof of its registered office
<p>Accounts of unincorporated association or a body of individuals including societies</p>	<ol style="list-style-type: none"> 1. Resolution of the managing body of such association or body of individuals; 2. PAN or Form 60 of the unincorporated association or body of individuals 3. Power of attorney granted to authorized person to transact on its behalf; 4. An officially valid document in respect of the person holding an attorney to transact on its behalf; and Such information as may be required by PFL to collectively establish the legal existence of such an association or body of individuals.

<p>Accounts of Proprietorship Concerns</p>	<p>a) Certified copy of an OVD containing details of identity and address of the individual (proprietor) shall be obtained.</p> <p>In addition to the above, any two of the following documents as a proof of business/activity in the name of proprietary firm shall also be obtained.</p> <p>a) Registration Certificate including Udyam Registration Certificate issued by the government</p> <p>b) Certificate/License issued by the municipal authorities under shop and establishment act.</p> <p>c) Sales and income tax returns.</p> <p>d) GST certificate.</p> <p>e) Certificate/registration document issued by GST/Professional Tax authorities.</p> <p>f) IEC (Importer Exporter Code) issued to the proprietary concern by the office of DGFT/License/certificate of practice issued in the name of the proprietary concern by any professional body incorporated under a statute.</p> <p>g) Complete Income Tax Return (not just the acknowledgement) in the name of the sole proprietor where the firm's income is reflected, duly authenticated or acknowledged by the Income Tax authorities.</p> <p>h) Utility bills such as electricity, water, and landline telephone bills which is not more than two months old, of any service provider</p>
<p>Accounts of Trusts and Foundations</p>	<ol style="list-style-type: none"> 1. Registration Certificate, if registered 2. Trust Deed 3. Power of Attorney granted to transact the business on its behalf, 4. Any officially valid document (OVD) to identify the trustees, settlers, beneficiaries and those holding Power of Attorney 5. Founders/managers/Directors and their addresses 6. Resolution of managing body of the Foundation/Association 7. Copy of latest Telephone/Electricity Bill in the name of the trust & foundations (not more



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	than 2 months old) as a proof of the address of the registered office of the trust
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Annexure 2

Risk Categorization Scoring

Parameter	Values	Points
Customer Type	Individual	4
	Partnership/LLP	3
	Company	2
	Trust/AOP	1
Financial Status – Annual Income	INR <12 Lacs PA	4
	INR 12-18 Lacs PA	3
	INR 18-30 Lacs	2
	INR >30 Lacs	1
KYC verification Status	OVD - EKYC	4
	Digital KYC	3
	OVD-Physical	2
	Deemed OVD	1
Loan Amount	< 10 Lacs	4
	10-15 Lacs	3
	15-20 Lacs	2
	>20 Lacs	1

Risk Category	Scoring
Low	≥ 10
Medium	≥ 7 and < 10
High	≤ 6

Customer Risk Categorization rules may be configured in LOS and the data will be spooled every six months for review as was mentioned under the sub-head of Risk Management above

Customers identified as Medium or High risk category based on above risk categorization matrix shall be reported to Risk Management Committee (RMC)