

## **Fraud Risk Management Policy**

### **1. Objective**

This Policy on Fraud Risk Management ("Policy") of Credifin Limited ("Company") has been developed in compliance with the RBI Master Directions DOS. CO. FMG. SEC. No. 7/23.04.001/2024-25 dated July 15, 2024. The purpose of this Policy is to providing a framework to the Company for prevention, early detection and timely reporting of incidents of fraud to Law Enforcement Agencies (LEAs), Reserve Bank of India (RBI) and National Housing Bank (NHB) and matters connected therewith or incidental thereto.

### **2. Governance Structure for Fraud Risk Management**

The Company has a Board approved Policy on fraud risk management delineating roles and responsibilities of Board / Board Committees and Senior Management of the Company. The Policy incorporates measures for ensuring compliance with principles of natural justice in a time-bound manner which includes:

- Issuance of a detailed Show Cause Notice (SCN) to the Persons, Entities and its Promoters / whole-time and Executive Directors against whom allegation of fraud is being examined. The SCN provides the complete details of transactions / actions / events basis which declaration and reporting of a fraud is being contemplated under RBI Directions.
- A reasonable time of not less than 21 days shall be provided to the Persons / Entities on whom the SCN was served to respond to the said SCN.
- The Company have a well laid out system for issuance of SCN and examination of the responses / submissions made by the Persons / Entities prior to declaring such Persons / Entities as fraudulent.
- A reasoned Order shall be served on the Persons / Entities conveying the decision of the Company regarding declaration / classification of the account as fraud or otherwise. Such Order(s) contains the relevant facts / circumstances relied upon, submission made against the SCN and the reasons for classification as fraud or otherwise.

3. The Fraud Risk Management Policy shall be reviewed by the Board at least once in three years, or more frequently, as may be prescribed by the Board.

### 3.1 Special Committee of the Board for Monitoring and Follow-up of cases of Frauds

The Company constituted a Committee of the Board known as 'Special Committee of the Board for Monitoring and Follow-up of cases of Frauds' (SCBMF) headed by one of the Independent Directors. The members of the Committee are as follows:

<b>Special Committee of the Board for Monitoring and Follow-up of cases of Fraud (SCBMF)</b>		
1.	Mr. Ashwani Kumar Jindal	Chairman, Independent Director
2.	Mr. Vijay Kumar Sareen	Member, Whole Time Director
3.	Mr. Kumar Shalya Gupta	Member, Chief Executive Officer
4.	Ms. Aditi Kapur	Member, Independent Director

The SCBMF oversee the effectiveness of the fraud risk management in the Company.

- The SCBMF shall review and monitor the cases of frauds, including root cause analysis, and suggest mitigating measures for strengthening the internal controls, risk management framework and minimizing the incidence of frauds. The coverage and periodicity of such reviews shall be decided by the Board of the Company.
- The Senior Management shall be responsible for implementation of the fraud riskmanagement policy approved by the Board of the Company. A periodic review of incidents of fraud shall also be placed before Board / Audit Committee of Board (ACB), as appropriate, by the Senior Management of the Company.
- The Company shall put in place a transparent mechanism to ensure that Whistle Blower complaints on possible fraud cases / suspicious activities in account(s) are examined and concluded appropriately under their Whistle Blower Policy.

3.2 The Company shall set-up an appropriate organizational structure for institutionalization of fraud risk management within their overall risk management functions / Department. A sufficiently senior official shall be responsible for monitoring and reporting of frauds.

3.3 The Company shall disclose the amount related to fraud reported in the company for the year in their Financial Statements – Notes to Accounts.

#### **4. Framework for Early Warning Signals for Detection of Frauds**

- A Board Level Committee shall oversee the effectiveness of the framework for EWS. The Senior Management shall be responsible for implementation of a robust Framework for EWS within the Company.
- The Company shall identify appropriate early warning indicators for monitoring credit facilities / loan accounts and other financial transactions. These indicators shall be reviewed periodically for their effectiveness. Suspicion of fraudulent activity thrown up by the presence of one or more EWS indicators shall alert / trigger deeper investigation from potential fraud angle and initiating preventive measures.
- The EWS framework shall be subject to suitable validation in accordance with the directions of the Board Level Committee so as to ensure its integrity, robustness and consistency of the outcomes.

#### **5. The EWS Framework shall provide for, among others:**

- i. A system of robust EWS which is integrated with Core Banking Solution (CBS) or other operational systems;
- ii. Initiation of remedial action on triggers/ alerts from EWS System in a timely manner; and
- iii. Periodic review of credit sanction and monitoring processes, internal controls and systems.

#### **6. EWS Framework for Credit Facilities / Loan Accounts**

- The EWS system shall be comprehensive and designed to include both the quantitative and qualitative indicators to make the framework robust and effective. The broad indicators which the EWS system may illustratively capture could be based on the transactional data of accounts, financial performance of borrowers, market intelligence, conduct of the borrowers, etc.
- Generation of EWS alert(s) / trigger(s) shall necessitate examination whether the account needs to be investigated from potential fraud angle.

#### **7. Credit facility / Loan account / Other financial transactions - indication of fraudulent activities**

The Company shall monitor activities in credit facility / loan account / other financial transactions and remain alert on activities which could potentially turn out to be fraudulent.

- In case where there is a suspicion / indication of wrongdoing or fraudulent activity, the company

shall use an external audit or an internal audit as per the Board approved Policy for further investigation in such accounts.

- The Company shall frame a policy on engagement of external auditors covering aspects such as due diligence, competency and track record of the auditors, among others. Further, the contractual agreement with the auditors shall, *inter alia*, contain suitable clauses on timeline for completion of the audit and submission of audit report to the company within a specified time limit, as approved by the Board.
- The loan agreement with the borrower shall contain clauses for conduct of such audit at the behest of lender(s). In cases where the audit report submitted remains inconclusive or is delayed due to non-cooperation by the borrower, The Company shall conclude on status of the account as a fraud or otherwise based on the material available on their record and their own internal investigation / assessment in such cases.
- The Company (sole lending, multiple banking arrangement or consortium lending) shall ensure that the principles of natural justice are strictly adhered to before classifying / declaring an account as fraud.
- In case an account is identified as a fraud by the company, the borrowal accounts of other group companies, in which one or more promoter(s)/ whole-time director(s) are common, shall also be subjected to examination by the company concerned from fraud angle under these Directions.
- In cases where Law Enforcement Agencies (LEAs) have *suo moto* initiated investigation involving a borrower account, The Company shall follow the process of classification of account as fraud as per their Board approved Policy.

#### **8. Independent confirmation from the third-party service providers including professionals**

The Company place reliance on various third-party service providers as part of pre-sanction appraisal and post-sanction monitoring. Therefore, the company may incorporate necessary terms and conditions in their agreements with third-party service providers to hold them accountable in situations where wilful negligence / malpractice by them is found to be a causative factor for fraud.

#### **9. Staff Accountability**

- The Company shall initiate and complete the examination of staff accountability in all fraud cases in a time-bound manner in accordance with their internal policy.
- Government-NBFCs shall conduct examination of staff accountability as per the guidelines issued by the Central Vigilance Commission (CVC). In terms of CVC Order, Applicable NBFCs in the public

sector shall also refer all fraud cases of amount involving ₹3 crore and above for examining the role of all levels of officials / whole-time directors (including ex-officials / ex-WTDs) to the Advisory Board for Banking and Financial Frauds (ABBFF) constituted by the CVC.

- In cases involving very senior executives of the company (MD & CEO / Executive Director / Executives of equivalent rank), the ACB shall initiate examination of their accountability and place it before the Board. However, in case of the company in the public sector, such cases shall also be referred to the ABBFF.

#### **10. Penal Measures**

- Persons / Entities classified and reported as fraud by the company and also Entities and Persons associated with such Entities, shall be debarred from raising of funds and / or seeking additional credit facilities from financial entities regulated by RBI, for a period of five years from the date of full repayment of the defrauded amount / settlement amount agreed upon in case of a compromise settlement.
- Lending to such Persons / Entities being commercial decisions, the lending company shall have the sole discretion to entertain or decline such requests for credit facilities after the expiry of the above mandatory cooling period .

#### **11. Treatment of accounts under Resolution**

- In case an entity classified as fraud has subsequently undergone a resolution either under IBC or under the resolution framework of RBI resulting in a change in the management and control of the entity / business enterprise, the company shall examine whether the entity shall continue to remain classified as fraud or the classification as fraud could be removed after implementation of the Resolution Plan under IBC or aforesaid prudential framework. This would, however, be without prejudice to the continuance of criminal action against erstwhile promoter(s) / director(s) / persons who were in charge and responsible for the management of the affairs of the entity / business enterprise.
- The penal measures shall not be applicable to entities / business enterprises after implementation of the resolution plan under IBC or aforesaid prudential framework.
- The penal measures shall continue to apply to the erstwhile promoter(s) / director(s) / persons who were in charge and responsible for the management of the affairs of the entity / business enterprise.

#### **11. Reporting of Frauds to Law Enforcement Agencies (LEAs)**

- The Company shall immediately report the incidents of fraud to appropriate LEAs, viz. State Police authorities, etc., subject to applicable laws.
- The Company shall establish suitable nodal point(s) / designate officer(s) for reporting incidents of fraud to LEAs and for proper coordination to meet the requirements of the LEAs.

## **12. Reporting of Incidents of Fraud to Reserve Bank of India (RBI)**

To ensure uniformity and consistency while reporting incidents of fraud to RBI through Fraud Monitoring Returns (FMRs) using online portal, The Company shall choose the most appropriate category from any one of the following:

- (i) Misappropriation of funds and criminal breach of trust;
- (ii) Fraudulent encashment through forged instruments;
- (iii) Manipulation of books of accounts or through fictitious accounts, and conversion of property;
- (iv) Cheating by concealment of facts with the intention to deceive any person and cheating by impersonation;
- (v) Forgery with the intention to commit fraud by making any false documents/electronic records;
- (vi) Wilful falsification, destruction, alteration, mutilation of any book, electronic record, paper, writing, valuable security or account with intent to defraud;
- (vii) Fraudulent credit facilities extended for illegal gratification;
- (viii) Cash shortages on account of frauds;
- (ix) Fraudulent transactions involving foreign exchange;
- (x) Fraudulent electronic banking / digital payment related transactions committed on the company; and
- (xi) Other type of fraudulent activity not covered under any of the above.

## **13. Modalities of Reporting Incidents of Fraud to RBI**

- The Company shall furnish FMR in individual fraud cases, irrespective of the amount involved, immediately but not later than 14 days from the date of classification of an incident / account as fraud.
- Incidents of fraud at overseas branches of Indian NBFCs shall also be reported to the concerned overseas LEAs in accordance with the relevant laws/ regulations of the host countries.
- The Company shall also report frauds perpetrated in their group entities to RBI separately, if such entities are not regulated / supervised by any financial sector regulatory / supervisory authority.

However, in case of overseas financial group entity of Indian company, the parent company shall also report incidents of fraud to RBI. The group entities will have to comply with the principles of natural justice before declaration of fraud.

- The Company shall adhere to the timeframe prescribed in the policy for reporting of fraud cases to RBI. The Company must examine and fix staff accountability for delays in identification of fraud cases and in reporting to RBI.
- While reporting frauds, the company shall ensure that persons / entities who / which are not involved / associated with the fraud are not reported in the FMR.
- The Company may, under exceptional circumstances, withdraw FMR / remove name(s) of perpetrator(s) from FMR. Such withdrawal / removal shall, however, be made with due justification and with the approval of an official at least in the rank of a director.

#### **14. Closure of Fraud Cases Reported to RBI**

- The Company shall close fraud cases using 'Closure Module' where the actions as stated below are complete:
  - (i) The fraud cases pending with LEAs / Court are disposed of; and
  - (ii) The examination of staff accountability has been completed.
- The Company are allowed, for limited statistical / reporting purposes, to close those reported fraud cases involving amount upto ₹25 lakh, where examination of staff accountability and disciplinary action, if any, has been taken and:
  - (iii) The investigation is going on or charge-sheet has not been filed in the Court by LEA for more than three years from the date of registration of First Information Report (FIR); or
  - (iv) The charge-sheet is filed by the LEAs in trial court and the trial in the court has not commenced or is pending before the court for more than three years from the date of registration of FIR.
- In all closure cases of reported frauds, the company shall maintain details of such cases for examination by auditors.

#### **15. Other Instructions**

##### **15.1 Legal Audit of Title Documents in respect of Large Value Loan Accounts**

The company shall subject the title deeds and other related title documents in respect of all credit

facilities of ₹ 1 Crore and above to periodic legal audit and re-verification, till the loan is fully repaid. The scope and periodicity of legal audit shall be in accordance with the Board approved policy.

### **15.2 Treatment of Accounts classified as Fraud and sold to other Lenders / Asset Reconstruction Companies (ARCs)**

The Company shall complete the investigation from fraud angle before transferring the loan account / credit facility to other lenders / ARCs. In cases where company concludes that a fraud has been perpetrated in the account, they shall report it to RBI / NHB before selling the accounts to other lenders / ARCs.

### **15.3 Role of Auditors**

- During the course of the audit, auditors may come across instances where the transactions in the account or the documents point to the possibility of fraudulent transactions in the account. In such a situation, the auditor should immediately bring it to the notice of the senior management and if necessary, to the Audit Committee of the Board (ACB) of the company for appropriate action.
- Internal Audit in the company shall cover controls and processes involved in prevention, detection, classification, monitoring, reporting, closure and withdrawal of fraud cases, and also weaknesses observed in the critical processes in the fraud risk management framework of the Company.

### **15.3 'Date of Occurrence', 'Date of Detection' and 'Date of Classification' of Fraud for the purpose of reporting under FMR**

- The 'date of occurrence' is the date when the actual misappropriation of funds has started taking place, or the event occurred, as evidenced / reported in the audit or other findings.
- The 'date of detection' to be reported in FMR is the actual date when the fraud came to light in the concerned branch / audit / department, as the case may be, and not the date of approval by the competent authority of the company.
- The 'date of classification' is the date when due approval from the competent authority has been obtained for such a classification, and the reasoned order is passed.

### **15.4 Reporting Cases of Theft, Burglary, Dacoity and Robbery**

- The Company shall report instances of theft, burglary, dacoity and robbery (including attempted cases), to Fraud Monitoring Group (FMG), Department of Supervision, Central



Office, Reserve Bank of India, immediately (not later than seven days) from their occurrence.

- The Company shall also submit a quarterly Return (RBR) on theft, burglary, dacoity and robbery to RBI using online portal, covering all such cases during the quarter. This shall be submitted within 15 days from the end of the quarter to which it relates.

## **16. Review of Policy**

The Board shall review and amend this policy as and when required.

If at any point a conflict of interpretation/information between the policy and any regulations, rules, guidelines, notification, clarifications, circulars, master circulars/ directions issued by relevant authorities (“Regulatory Provisions”) arises, then interpretation of the Regulatory Provisions shall prevail.

In case of any amendment(s) and/or clarification(s) to the Regulatory Provisions, the policy shall stand amended accordingly from the effective date specified as per the Regulatory Provisions.

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