RISK MANAGEMENT POLICY

Created By:	Risk
Reviewed and Approved by:	Board of Directors
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AUTHUM

RISK MANAGEMENT POLICY

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1. Overview

Company operates in dynamic environment & given the markets, growth & structure, elements of risk are inherent. The Board of the Company recognizes the importance of identifying and controlling risks and ensuring that required internal controls and procedures have been established which are designed to safeguard assets and interests of the Company and ensuring the integrity of reporting.

The purpose of this policy is to:

- Facilitate proactive risk management.
- Enhance understanding of all risks faced by Company.
- Facilitate the prioritization of risks.
- Enhance the effectiveness of risk management activities.

This will allow management to make better business decisions through focus on risk & return which in turn will enhance the value for business & preserve its soundness & profitability over time.

Risk Management deals with risks and opportunities affecting value creation or preservation &takes a broad perspective on identifying the risks that could cause an organization to fail to meet its strategies & objectives.

2. Objective

Key objectives of this policy are to:

- Endorse a structured approach to identify current and future potential risks to organization.
- Establish and maintain a system of internal controls to promote effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations.
- Mandate the allocation of each risk to a risk category so that appropriate governance structures and policies & procedures can be developed and implemented.
- Facilitate the making of informed decisions including the prioritization of identified risks consistent with risk tolerance.
- Facilitate the monitoring and reporting on status of all key risks to appropriate management/committees & Board of Directors.
- Provide reasonable assurance with respect to organization’s ability to achieve its strategicand business objectives.

3. Policy Guidelines & Principles

These guidelines recognize that the activities undertaken by organization with respect to the achievement of its strategies and business objectives are ultimately tied to decisions about the nature and level of risk it is prepared to take and the most effective means to manage andmitigate those risks.

The risk management framework which shall govern the related management policies and procedures shall be premised upon common understanding and application of followingprinciples:

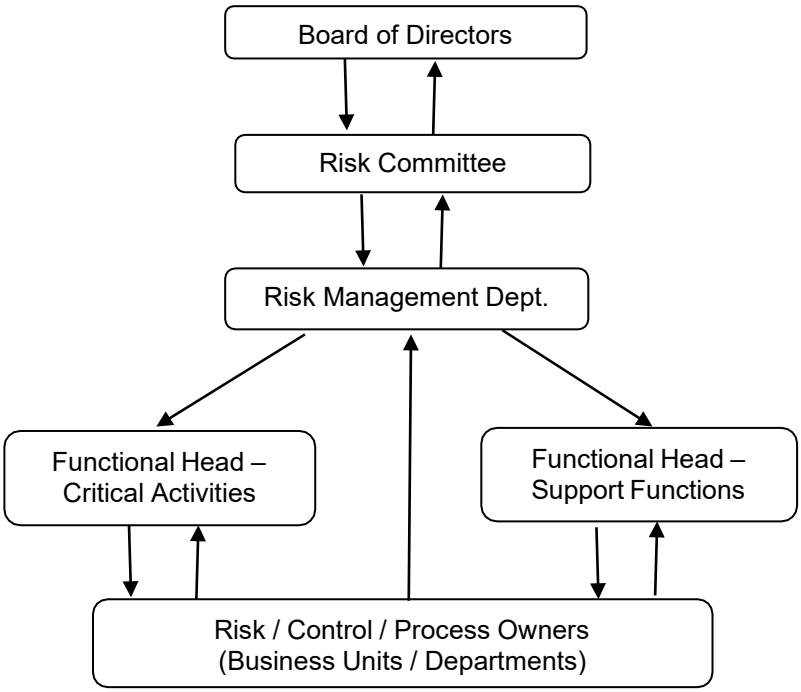
- The informed acceptance of risk is an essential element of good business strategy.
- Risk management is an effective means to enhance and protect the value of businessover time.
- A common definition and understanding of risks is necessary in order to better managethose risks and make more consistent and informed business decisions.
- The management of risk is an anticipatory, proactive process, to be embedded incorporate culture and a key part of strategic planning & operational management.
- All risks are to be identified, assessed, measured, managed, monitored and reported onin accordance with management policies and procedures.
- All business activities are to adhere to risk management practices which reflect effectiveinternal controls that are appropriate for business.

The principles on which this policy document is based and the guidelines set out herein shall be reviewed periodically to ensure that they remain appropriate, in light of changing circumstances and to ensure that such principles and policies are effectively implemented.

4. Risk Organization Structure

A robust organizational structure for managing and reporting on risks is a pre-requisite for an effective risk management process. The risk organization structure for the Company is depicted below:

Risk Management Organization



5. Risk Management Committee

Risk Management Committee is established to assist the Board in its responsibility for ensuring that appropriate risk management and internal control system is in place and for regularly reviewing the effectiveness of same. The Company has framed the risk assessment and minimization procedure which is periodically reviewed by the Audit Committee and the Board. Risk Committee is responsible for monitoring the adherence to the risk policy and guidelines and reviewing the overall risk management system in the light of changes in external and internal environment within which the Company operates.

6. Roles and Responsibilities

i. Role of Board of Directors

The Company's Board of Directors has the responsibility for overseeing all risks associated with the activities of business, establish a strong internal control environment and risk framework that fulfills the expectations of stakeholders of business.

The Board of Directors will review this policy statement on an annual basis, or sooner, depending on the circumstances facing the organization.

ii. Role of Risk Management Committee

The Risk Management Committee provides an overall assessment of risks impacting the activities of the Company and meets on periodic (quarterly) basis or whenever events warrant. The Risk Committee is responsible for the following activities:

- The Risk Management Committee would monitor on overall process of evaluation and assessment, progress of evaluation of control effectiveness, key control deficiencies observedand counter measures to address these. Monitoring would also include significant changes in assessment of key risks or new risks identified, if any.
- Review and approve modifications to existing policies, procedures, and other risk parameters on
  a periodic (at least annual) basis.
- Comprehensive review of this policy document on an annual basis.

iii. Role of Head Risk (CRO)

Head Risk has overall responsibility for the development and implementation of risk control principles,frameworks, limits and processes across all categories of risks faced by organization. A key responsibility of Head Risk includes:

- Providing the overall leadership, vision and direction for risk management.
- Developing risk management policies including the quantification of management's risk appetite.
- Developing risk assessment methodology that is aligned with business objectives at strategic, tactical and operational level.
- Ensuring effective information systems exists to facilitate overall risk management within institution including designing of reporting system.
- Developing the analytical systems and data management capabilities to support risk management.
- To provide periodical updates to Risk Management Committee/Audit Committee/Board on the progress and the implementation of risk management process, key risk identified, and action taken in respect of the same.
- Since the AUM is less than Rs. 5000 crs. the statutory position is left vacant. However, the role of CRO (Chief Risk Officer) is done by Risk manager reporting to CEO (Chief Executive Officer) and Risk management committee.

iv. Role of Functional Heads and Risk and Control Owners

Risk and Control Owners are the personnel who are best placed to influence and manage the risk / control or are best placed to report on the risk/ control. On an ongoing basis, Risk and Control Ownersmonitor their areas for new risks/events or assess changes in risk exposure; as well as carry out periodic assessment of controls in line with the above and report on the same.

Specifically risk and control owners within the business and departments are responsible for:

- Ongoing identification and evaluation of risks within the business and operations;
- Selecting and implementing risk measures on a day to day basis; if any
- Managing certain specified risks under the guidance of the Risk Management Committee;
- Reviewing the effectiveness, efficiency and suitability of the risk management process andaddressing weaknesses;
- Maintaining efficient and cost effective risk handling mechanisms or control framework in line withchanges in the business.

7. Risk Management Process

Risk management process of the Company aims at providing reasonable assurance that the policies and procedures that are in place are adequate considering the scope of business and its activities andare reviewed on an ongoing basis.

Key risk categories for which Company would have policies & procedures in place include:

- Credit Risk including settlement risk
- Market Risk
- Operational Risk
- Fraud Risk
- Legal and Compliance Risk
- Information Security Risk

Extensive and strict norms have been stipulated in identification of the borrower and evaluation of credit proposals. Extensive product programme guidelines have been developed to suit variousproduct requirements. Appropriate delegation and deviation grids have been put in place. Each credit proposal is evaluated on various lending parameters both in qualitative and quantitative terms. Proper security, industry norms and ceilings have been prescribed to ensure well spreading out of risks andto avoid concentration risk. Cross references to credit bureau data are made to assess the credit behaviour of the prospective customers. The credit evaluation process is thus standardized and institutionalized. Market defaulter data are regularly updated through various sources including the Reserve Bank of India (RBI) from time to time and check is done on all applications received. All regulatory requirements are monitored on daily basis and concerned departments are updated for execution.

Risk management process endeavors to identify, assess, monitor and report the risks in terms of above categories with any significant risk being reported to Risk Management Committee. Since the internal and external environment within which the Company operates is exposed to change continuously, the risk management process is kept sufficiently flexible to accommodate new situationsas they arise.

Keeping in view the Directions issued by the Reserve Bank of India (RBI) on Corporate Governance, the Company shall put in place proper risk management mechanism / procedures for complying with the requirements. Necessary reporting and reviewing systems including formation of any Committee shall be established and disclosures made in the Balance Sheet wherever necessary, in line with the requirements of Directions or Rules or Regulations issued or made by any regulatory or statutory authorities, from time to time.

AUTHUM

Fraud Risk Management Policy

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1. OBJECTIVE

The Fraud Risk Management Policy has been framed to provide a system for prevention and detection of fraud, reporting of any fraud that is detected or suspected and fair dealing of matters pertaining to fraud.

The policy will ensure and provide for the following:

- To ensure that management is aware of its responsibilities for prevention and detection of fraud and for establishing procedures for preventing fraud and/or detecting fraud when it occurs.
- To provide a clear guidance to employees and others dealing with Company, forbidding them from involvement in any fraudulent activity and the action to be taken by them when they suspect any fraudulent activity.
- To conduct investigations into fraudulent activities.
- To provide assurances that any and all suspected fraudulent activity will be fully investigated & reported.

2. SCOPE OF POLICY

The policy applies to any fraud involving employees of company (all full time, part time or employees appointed on adhoc/temporary/contract basis) and representatives of vendors, suppliers, contractors, consultants, customers, service providers or any outside agencies doing any type of business with the Company.

3. DEFINITION OF FRAUD

"Fraud" is a willful act committed by an individual - by deception, suppression, cheating or any other fraudulent or any other illegal means, thereby, causing wrongful gains to self or any other individual and wrongful loss to others. Many a times such acts are undertaken with a view to deceive/mislead others, leading them to do or prohibiting them from doing a bonafide act or take bonafide decision which is not based on material facts. Frauds have been classified as under based mainly on the provisions of theIndian Penal Code as specified by Reserve Bank of India vide its circular DNBS.PD.CC. No. 256
/03.10.042 / 2011-12 dated March 02, 2012.

- Misappropriation and criminal breach of trust.
- Fraudulent encashment through forged instruments, manipulation of books of account or throughfictitious accounts and conversion of property.
- Unauthorised credit facilities extended for reward or for illegal gratification.
- Negligence and cash shortages.
- Cheating and forgery.
- Irregularities in foreign exchange transactions.
- Any other type of fraud not coming under the specific heads as above.

An effective, business-driven fraud risk management approach is one that isfocused on three objectives:

- **Prevention** controls designed to reduce the risk of fraud from occurringin the first place.
- **Detection** controls designed to discover fraud when it occurs.
- **Response** controls designed to take corrective action and remedy the harm caused by fraud .

4. FRAUD PREVENTION

Preventive controls are designed to help to reduce the risk of fraud and misconduct from occurring in thefirst place. These controls are categorized based on:

- Governance
- Roles and Responsibilities
- Internal Audit Function
- Fraud risk assessment

i. Governance based Fraud Prevention

ControlsCode of Conduct

Company's code of conduct is one of the most important communications vehicles that management usesto communicate to employees on key standards that define acceptable business conduct. Code of conduct in place is based on below key attributes:

- High-level endorsement from the organization's leadership, underscoring a commitment to integrity
- Simple, concise, and positive language that can be readily understood by all employees
- Ethical decision-making tools to assist employees in making the right choices
- A designation of reporting channels and viable mechanisms that employee can use to report concernsor seek advice without fear of retaliation.

Employee & Third Party Due Diligence

- An important part of an effective fraud prevention strategy is the use of due diligence in the hiring, retention, and promotion of employees, agents, vendors, and other third parties.
- Due diligence begins at the start of an employment or business relationship and continues through out. For instance, taking into account behavioral considerations such as adherence to

the organization's core values in performance evaluations provides a powerful signal that management cares about not only what employees achieve but also that those achievements were made in amanner consistent with the company's values and standards.

Communication and Training

Making employees aware of their obligations concerning fraud prevention control begins with practical communication and training. In formulating a training and communications plan, the Company will consider developing fraud awareness initiatives that are:

- Comprehensive and based upon job functions and risk areas.
- Integrated with other training efforts, whenever possible.
- Regular and frequent, covering the relevant employee population.

Training can help to raise staff awareness of the risks of fraud and the importance of compliance with internal control procedures and security checks to prevent such frauds. And close monitoring of staff compliance with these controls helps ensure their consistent application.

Whistle Blower Policy & Mechanism

The Company has formulated a Whistle Blower policy & put in place Ombudsperson mechanism for administration of the process. The Company encourages the "Speak-Up" culture for disclosing in goodfaith any wrongful conduct on matters of public concern involving violation of any law, mismanagement, fraudulent practices, gross waste or misappropriation of funds. The Company maintains the confidentiality of the whistle blower and ensures no retaliation or adverse action initiated against them who disclose the details in good faith.

ii. Roles & Responsibilities Board Oversight

Board of Directors of the Company plays an important role in the oversight and implementation of controls to mitigate the risk of fraud. The Board, together with senior management, is responsible for ensuring that appropriate internal controls and risk management system is in place & to regularly review the effectiveness of same.

The board has delegated principal oversight for fraud risk management to Risk Management Committee(RMC), which is tasked with, among other things:

- Reviewing and discussing the internal and external auditor's findings on the quality of theorganization's antifraud controls and checks.
- Periodically reporting to Board on occurrence of fraud incident and required action taken.

Board is responsible for administration, interpretation, application and revision of this policy. The policywould be reviewed and revised annually or in exceptional circumstances as and when needed.

Risk Management Committee

The Risk Management Committee (RMC) is responsible for this policy and will maintain, interpret andcommunicate the policy in Company. The Committee is responsible for the following activities:

- To initiate and oversee a prompt investigation of any suspected fraudulent act or omission or non-compliance with the policy's requirement.
- Review the issues identified during entity's fraud risk assessment as well as during internal andexternal audit.
- To ensure that this policy and related guidelines are communicated, updated and made available to allemployees and representatives within Company.
- To ensure that Board of Directors are informed on occurrence of any fraud incident through periodicalreporting process.

To review the fraud incidents at the Company and to ensure the compliance of this policy, any fraud incident at the Company will be reviewed in Operational Risk Management Committee (ORMC). The minutes of the ORMC meeting will be placed to RMC meeting.

Risk Containment Unit (RCU)

To help & ensure that fraud prevention controls remain effective and in line with standards, Risk Containment Unit (RCU) will be responsible for the Company's fraud risk management. Direct responsibility for antifraud efforts would reside with a RCU - Head, who will work in co-ordination withother operational & support functions as may be required. While discharging its function, RCU inter-alia adopts the following proactive fraud risk management strategy:

a) **Understanding and Profiling** – **K**nowing **Y**our **C**ustomers and **V**endors by means of evaluation, verification, detailed checks of their financial and business conditions before getting into a relationship with them.

b) **Deterring Fraud** - Conduct fraud awareness trainings across organisation so as to create a general awareness amongst all groups/vendors, informing them about the general frauds prevailing in the market and the consequences of getting involved in a fraud.

c) **Preventing Fraud** -
   - Use various techniques like Intelligent Seeding/Mystery Shopping;
   - Cross verification of reports (Field Investigation / Document Verification / Technical

Reports / Legal Reports / Valuation Reports) to proactively prevent frauds.

- Networking with Financial Institutions/Law enforcement agencies/Insurance companies/Telecom companies etc., so as to proactively gather information about latest market happenings which would subsequently help in preventing frauds.

d) **Detecting fraud** –
   - Applicant fraud is detected by a process called Application Sampling – Physical and Transaction exception monitoring through a Fraud rule engine. Sampled applications are further used to detecta false positive or a confirmed fraud.
   - Additionally, as a support to detect fraud there is a Strong and Dynamic In-house Negative Database with a dedupe engine.
   - Usage of CIBIL (Credit Information Bureau of India Ltd.) for Velocity Monitoring.
   - Post Disbursal Asset Verification is being conducted on a sample basis to detect whether any asset fraud has happened.

e) **Investigating Fraud** – Conduct investigations on confirmed frauds to identify loopholes in process, systems and people compromise so as to plug these loopholes.

f) **Sanctions** – Post investigations of fraud, identify erring parties who have perpetrated the frauds and initiate measures for levying necessary penalties or blacklist them and for other actions including disciplinary actions and reporting & resorting to law enforcing agencies.

g) **Redress** – Findings from Fraud Investigations are quickly downloaded to the Policy, Underwritingand other relevant teams so as to avoid the same kind of frauds hitting the system.

In terms of Process, this is achieved by doing:

- Vendor evaluation
- Two tier Trigger Based application sampling – Physical and Transaction exception monitoring througha Fraud rule engine.
- Validation services – Profile and Documents
- Strong and dynamic Negative Database
- CIBIL – Velocity monitoring
- Market information
- Post Disbursal Asset Verification
- Intelligent Seeding
- Mystery Shopping
- Cross verification of reports (FI/Document verification/Technical/Legal/Valuation/Site visits)
- Networking with Financial Institutions/Law enforcement agencies/Insurance companies/Telecomcompanies etc.
- Fraud Investigation
- Fraud awareness trainings

- Setting deterrents

Functional Heads, Employees and Representatives

- All functional heads shall share the responsibility of prevention and detection of fraud. It will beensured that there are mechanisms in place within their area of control to:
  a. Familiarize each employee with the types of improprieties that might occur in their area.
  b. Educate employees about fraud prevention and detection.
  c. Create a culture whereby employees are encouraged to report any fraud or suspected fraud whichcomes to their knowledge, without any fear of victimization.
  d. Help in minimizing the impact of fraud and mitigating the loss arising out of it.

- Every employee (full time, part time, adhoc, temporary, contract), representative of vendors, suppliers, contractors, consultants, service providers or any other agencies doing any type of business with the company is expected and shall be responsible to ensure that there is no fraudulent act being committed in their areas of responsibility/control. As soon as it is learnt that a fraud or suspected fraud has taken or is likely to take place they should immediately apprise the same to the concerned as per the procedure.

iii. Internal Audit Function

Internal audit would be responsible for:

- Planning and conducting the evaluation of design and operating effectiveness of anti-fraud controls.
- Assisting in the organization's fraud risk assessment and helping draw conclusions as to appropriatemitigation strategies.
- Reporting to the Risk Committee on internal control assessments and related activities.

iv. Fraud Risk Assessment

Fraud risk assessment helps to understand the risks that are unique to the business, identify gaps or weaknesses in control to mitigate those risks, and develop a practical plan for targeting the right resourcesand controls to reduce risk.

It would be ensured that such an assessment is conducted across the entire organization as a part of overall enterprise wide risk review plan, taking into consideration the entity's significant business units, processes, and functions.

With input from process owners as to the relevant risks to achieving organizational objectives, a fraud risk assessment includes the steps listed in below diagram:

5. FRAUD DETECTION

Detective controls are designed to uncover fraud when it occurs. Frauds are detected by various belowmethods among others:

- Whistle blower Policy
- Internal or external tip-off
- Hindsight and risk reviews
- Audit: Internal / External
- Customer Complaints
- Negative customer data
- Investigation based on regulatory requirements
- Periodical evaluation of external vendor both pre and post empanelment
- Document/Asset Verification

i. Internal Control and Continuous Monitoring

Internal control measures and monitoring systems that are reasonably designed to detect fraud are important tools that management uses to determine whether organization's controls are working as intended. Management develops a comprehensive internal control and monitoring plan that is based on risks identified through the organization's fraud risk assessment process.

An internal control and monitoring plan would thus encompass activities that are tailored in depth to the nature and degree of the risk involved, with higher-risk issues receiving priority treatment. Internal control review activities (an evaluation of past events) and monitoring activities would be performed in, but are notlimited to, areas where:

- There are specific concerns about a key process or function
- The company has a history of occurring fraud in respective area
- There is high employee turnover or organizational change

- Laws and regulations have changed significantly

The effectiveness of the internal control systems & monitoring mechanisms are subjected to independent evaluation by the internal audit.

ii. Proactive Data Analysis

Many of the indicators of fraud, both actual and potential, reside within an organization's financial, operational, and transactional data, and are identified using data analysis tools and techniques. Such proactive data analysis is based on analytical tests, computer-based cross matching, and non-obvious relationship identification to highlight the potential fraud. Techniques such as data matching, generating alerts etc., used for analyzing the data. Benefits of such an analysis includes, among others:

- Identification of hidden relationships between people, organizations, and events
- A means to analyze suspicious transactions
- An ability to assess the effectiveness of internal controls intended to prevent or detect fraudulentactivities
- The potential to continually monitor fraud threats and vulnerabilities

iii. Reporting of Suspected Fraud

- With the oversight and guidance of senior management, Company should provide employees withmultiple channels for reporting concerns about fraud.
- When an employee or representative suspects that a fraudulent act has occurred, he or she should report this immediately to his/her immediate supervisor. If the employee or representative does not feel comfortable reporting to his/her superior, he/she should directly report to the **Risk Office (Head – Risk Containment Unit or Chief Risk Officer)**. He or She can also report to Ombudsperson as per Whistle Blower Policy.
- The Risk Officer may communicate such incident to relevant functionaries depending upon the exigencies, at his/her discretion. The reporting person's identity in any follow up discussion or enquiries should be kept in confidence to the extent appropriate and permitted by law.
- Officer receiving input about any suspected fraud should ensure that all relevant records, documents and other evidence is being immediately taken into custody and being protected from being tampered, destroyed or removed by suspected perpetrators of fraud.
- A mischievous or malicious allegation of fraud or suspected fraud will constitute a breach of the code of conduct. Any reprisal, retaliation or disciplinary action against employee or representatives for reporting suspected fraud in good faith should be prohibited.

6. FRAUD RESPONSE

Response controls are designed to investigate and take corrective action to remedy the harm, caused byfraud.

i. Investigation

When information relating to actual or potential fraud is uncovered, management conduct a comprehensive investigation with the objective to:

- Assess and document the facts of case, prevent the fraud from continuing and to protect the innocent.
- Provide basics for appropriate consequences, upto and including the termination of employment orcontract and taking legal action where appropriate.
- Taking legal actions against the culprits if necessary.
- Recovery of loss if any suffered for fraudulent act.
- Improve the controls to prevent the future fraudulent acts.

Investigation is highly sensitive, and it is therefore critical that it is conducted in a prescribed manner involving only those people who require the information to conduct a proper investigation. Further, it is conducted in accordance with applicable laws and the rights as well as privacy of all parties involved should be respected to the extent required.

Below is brief about investigation process:

- Head - RCU before initiating any investigative action should consult CEO for determining the courseof action. Other departments to be consulted on need to know basis only.
- Wherever need be a team of officials can also be formed for conducting such investigations.
- The means to carry out the investigation should be within the bounds established by law.
- The investigation should be conducted diligently with high professional standards without any bias.
- All investigation should be carried out in an independent manner with due regard for the individual's rights but without regard to length of service, position held or relationship with the company.
- All investigation must be kept confidential. Information related to the suspected fraud may not be revealed other than to the functional heads of the finance team, human resources team, and legal team, senior management and or others on a need to know basis.
- Care must be taken in an investigation of suspected fraud to avoid mistaken accusations or alerting suspected individuals that an investigation is underway.
- The result of investigations should be disclosed by the investigating officers to only those individuals who require the information to perform their roles.
- Investigation should be completed within the reasonable time frame.

- Investigating officer / team to submit comprehensive report including the modus operandi, people behind the perpetration of fraud, traces of frauds, gaps in the systems & processes, gaps in adherence & compliance, primary & contributing factors leading to such frauds, suggestions forstrengthening the systems & plugging the gaps.
- Submission of interim or flash reports apprising the status may also be considered as & when felt necessary.
- The report should be, wherever necessary, supported & substantiated by evidences, disclosures, confession statements, statement by witnesses. All the material & documents collected prior & during the investigation should be kept confidential & under proper custody of Head – Risk Containment Unit or nominated persons.
- The findings of the investigation need to be discussed out with all concerned for ensuring cross sectional views and for addressing the other requirements.
- Incidents of fraudulent acts or omissions should be reported to appropriate regulatory and/or law enforcement agencies if same is the requirement.
- History of all the investigations needs to be maintained & tracked.

ii. Corrective Action

A consistent and credible disciplinary system is a key control for deterring fraud. Well-designed disciplinary process is communicated to all employees and external parties to ensure that all concerned are aware about consequences in terms of verbal warning, written warning, suspension, pay reduction, location transfer, demotion, termination, taking legal action or imposing financial penalty.

Once fraud has occurred, management considers taking action to remedy the harm caused. The Company considers fraudulent activity to be a very serious offence. Actions up to and including termination of employment or contract for just cause should be pursued when warranted. In addition, the Company:

- May take action to recover losses incurred as a result of fraudulent acts or omissions; and
- May refer the matter to law enforcement, regulatory agencies or external organizations for thepurpose of further investigation or prosecution.

In no circumstance will any decision be taken to discipline, suspend or terminate an individual's employment or contract without notification to, and approval of head of human resources function. Furthermore, matter will be referred to law enforcement, regulatory agency or external organization for thepurpose of further investigation or prosecution with the approval of Chief Executive Officer, Risk Management Committee Head and Compliance Officer. In case of exigencies action can be taken with the approval of any of the above.

7. REPORTING

Fraud incident reporting requirements are based on circular issued by Reserve Bank Of India (RBI) on September 23, 2003 vide reference no. RBI (ND)/RCF/(P&D)/2391/2003 or as may be issued from time- to-time. Accordingly, reporting is to be done as below:

Reporting to RBI DNBS.PD.CC. No. 256/03.10.042 / 2011-12 dated March 02, 2012.

i. Report on occurrence of fraud incident

- Company should report fraudulent transactions as and when detected to RBI immediately and in any case not later than three weeks from the date of detection as per the format prescribed by RBI in Annexure 1 of above mentioned circular.
- The reporting contains brief particulars of the fraud such as:
  - ✓ Branch in which the fraud occurred
  - ✓ Name and address of party in whose account the fraud occurred
  - ✓ Date of occurrence and date of detection
  - ✓ Estimated loss
  - ✓ Nature of fraud
  - ✓ Modus Operandi in brief
  - ✓ Serious irregularities observed
  - ✓ Steps taken / proposed to be taken to avoid such incidents

ii. Report on Follow Up

Company is also required to send detailed information to RBI regarding the action taken by on the fraudulent cases within six months from the date on which the fraud was detected as per the format prescribed in Annexure 2 of above mentioned circular.

A. Reporting to Board

- Company will report to Board on all fraud incidents promptly on their detection.
- Company will conduct an annual review of the frauds and place a note before the Board of Directors. Review will be done for upto period ended December in respective financial year and will be put up to Board before the end of March of following year. Key aspects that will be covered as a part of review will include:
  - ✓ Whether the systems in place are adequate to detect frauds, once they have taken place, within the shortest possible time.
  - ✓ Whether frauds are examined from staff angle.
  - ✓ Whether deterrent punishment is meted out, wherever warranted, to the persons found responsible.

- ✓ Whether frauds have taken place because of laxity in following the systems & procedures and if so, whether effective action has been taken to ensure that the systems & procedures are scrupulously followed by the staff concerned.
- ✓ Whether frauds are reported to local Police, as the case may be, for investigation.

B. Reporting to Police

- In the following scenario, cases will be referred to Local Police depending upon the severity and natureof fraud. Such referrals to local police will be at the joint discretion of the Risk Head, Human Resources (HR) Head & CEO.

  - ✓ Cases of fraud committed by employees, when it involves funds exceeding Rs.10,000/-.

8. ANNEXURE

Below annexures are attached to this Fraud Risk Management Policy:

- **Annexure - I** : Annexure 1 (Reporting to RBI - Details of Fraudulent Cases Detected)
- **Annexure - II** : Annexure 2 (Reporting to RBI - Details of Fraudulent Cases - Follow Up)

Annexure - I

Annexure 1: Details of Fraudulent Cases

DetectedName of the NBFC:

Certificate of Registration (Number):

1.	Name of the Branch in which the fraud occurred	
2.	Name & Address of the party in whose account the fraud occurred	
3.	If a builder loan, details of the proprietors/partners/directors	
4.	Name & Address of associate concerns	
5.	Nature of account	
6.	Date of sanction	
7.	Date of occurrence of fraud	
8.	Date of detection	
9.	Estimated loss to the HFC	
10.	Nature of fraud (in detail indicating specific instances of fraudperpetrated by the concerned party) (modus operandi, serious irregularities, etc.)	
10 (i)	Modus Operandi	
10 (ii)	Serious irregularities observed	
10 (iii)	Causative factors	
10 (iv)	How fraud was detected?	
11.	Steps taken/proposed to be taken to avoid such incidents	

CEO / CFO

Date:

Annexure - II

Annexure 2: Details of Fraudulent Cases - Follow Up

(Quarterly Report for the quarter ended_____)

Name of the NBFC:

1.	Date of first reporting and amount involved.	
2.	Branch in which fraud occurred.	
3.	Name & Address of the party in whose account the fraud occurred.	
4.	Date of Reporting to the Board of Directors of the company.	
5.	i. Whether criminal complaint filed with CBI/Police. If so, give name of branch/office of CBI/Police, date of reference and present position of the case. If not, reasons therefore. ii. Date of filing of civil suit against the concerned borrower and further developments in the matter. If not, reasons therefore. iii. Whether the HFC has conducted departmental enquiry in the matter and examined the staff side of the case. Ifnot, state reasons. iv. Progress/Position of Departmental Enquiry against each member of staff involved. v. Punishment awarded (with names, designation and nature of punishment) vi. Prosecution/conviction/acquittal etc. in respect of officials involved with details.	
6.	Action taken/proposed to be taken by the NBFC against the staff responsible for the lapses.	
7.	The date on which last internal inspection/audit was conductedat the branch during the period between the date of first occurrences of the fraud and its detection.	
8.	Any other Developments.	

Note: Information to be furnished within six months from the date on which the fraud was detected inrespect of each fraud.

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AUTHUM

AUTHUM INVESTMENT & INFRASTRUCTURE LIMITED

CIN : L51109MH1982PLC319008

Addendum to Risk Management Policy

(Fraud Risk Management Policy)

Created By:	Risk
Reviewed and Approved by:	Board of Directors
Approved On:	October 21, 2024

This addendum is made to the existing risk management policy which is duly approved by the board of directors.

Requirement –

This addendum is required to be in compliance with the Hon'ble Supreme Court's judgement delivered in November 2023 in State Bank of India & Ors vs. Rajesh Agarwal and Ors, wherein the Apex Court has upheld the rights of the borrowers and have asked Bank's / NBFC's to incorporate principles of 'Natural Justice' while identifying a borrower(s) as fraudulent.

These directions are issued by the Reserve Bank Of India (RBI) vide circular number RBI/DOS/2024-25/120 DOS.CO.FMG.SEC.No.7/23.04.001/2024-25 dated 15th July, 2024 in exercise of the powers conferred by Sections 45K, 45L and 45M of the Reserve Bank of India Act, 1934 (Act 2 of 1934) and Sections 30A, 32 and 33 of the National Housing Bank Act, 1987.

These Directions shall supersede the earlier Directions on the subject, namely, the Master Direction – Monitoring of Frauds in NBFCs (Reserve Bank) Directions, 2016 dated September 29, 2016.

The changes in this addendum are to be read in conjunction with point 4 under heading 7 of Risk Management Policy.

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Chapter 1

1.1 **Applicability -** All Non-Banking Financial Companies[1] (including Housing Finance Companies) in the Upper Layer, Middle Layer and in the Base Layer (with asset size of ₹500 crore and above). Hence, the same is applicable to our company.

1.2 **Purpose – (a)** These Directions are issued with a view to providing a framework for the company in 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.

(b) This policy lays down the process framework for fraud management.

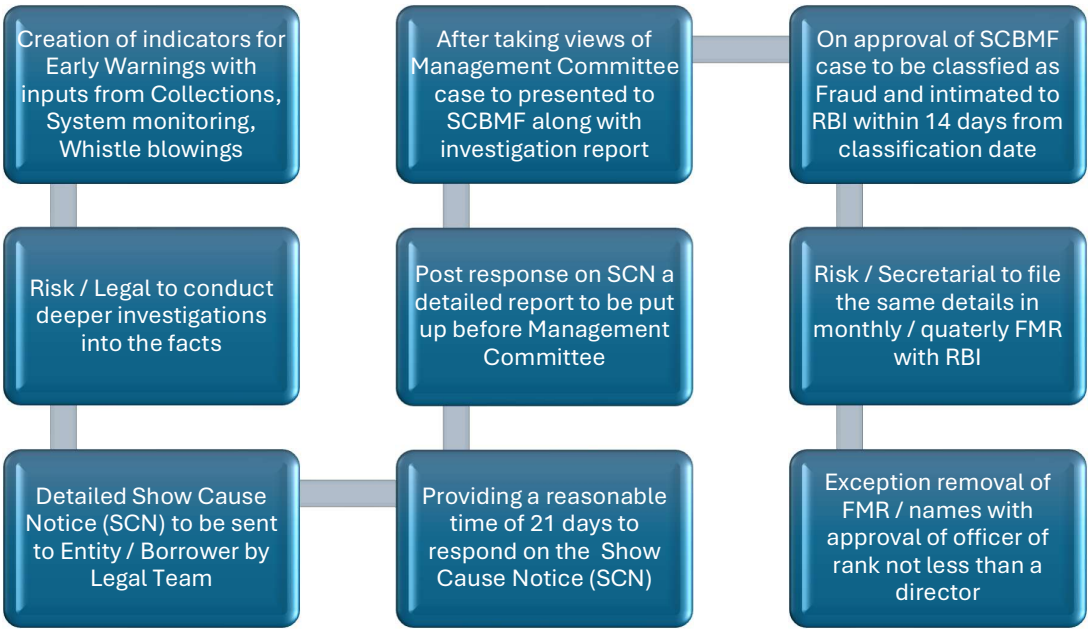
(c) This Policy also shall delineate roles and responsibilities of Committees and Senior Management responsible to monitor and control fraud.

(d) The Policy also incorporates measures for ensuring compliance with principles of natural justice in a time-bound manner.

(e) This policy also provides guidelines on reporting and closure procedures.

Chapter 2 – **Process Framework**

2.1 The following flowchart represents the process to be followed to identify, investigate, classify and report a case as fraud to RBI & other Law Enforcement Agencies (LEA's):



(i) Early Warning System (EWS) to trigger indicators which can be from collections team, monitoring of systems, whistle blowing mechanisms, etc. highlighting potentially fraudulent activities, such cases can also be highlighted by Risk / Credit team which may come up during analysis. The company shall have such systems in place within the next 6 months.

(ii) On identifying the case, Risk / Credit and Legal to conduct deeper investigations into the facts of the case. If needed an external auditor to be appointed by the company for further investigation.

(iii) After preparation and finalisation of the audit report / internal investigation report, Legal Team to issue a SCN to the Persons, Entities, Promoters, Whole-Time and Executive Directors against whom fraud is being examined. Such SCN should incorporate complete details of the transaction / actions which forms the basis for contemplating fraud.

(iv) Upholding the principles of 'Natural Justice', company shall provide a time of 21 days for the reply on SCN. Giving the borrower(s) / Entity(s) time and right to be heard.

(v) After receiving the reply and internal investigation / auditors report along with relevant facts of the matter, case shall be placed before the Management Committee.

(vi) On receiving the views of the Management Committee, the case along with facts and investigations report shall be presented to the 'Special Committee of the Board for Monitoring and Follow-up of cases of Frauds' (SCMBF).

(vii) On receipt of concurrence of the SCBMF for classifying an account as fraud same shall be intimated to the RBI immediately but not later than 14 days from the date of classification of account as a fraud.

(viii) An Order shall be served to such Persons / Entities conveying the decision of the company with regards to declaring the account as fraudulent. Such Order(s) shall contain relevant facts, response made against the SCN and reasons for classification as fraud or otherwise.

(ix) As per directions of the regulator, company shall also strive to report the frauds in group entities to RBI separately, if they do not have a regulator.

(x) While filing the FMR, Risk / Secretarial department shall make sure that details of persons / entities not involved in the fraud are not mentioned in the report.

(xi) Regulator has provided an exception to withdraw the FMR / names of perpetrator(s) subject to due justification and with the approval of an official at least in the rank of a director.

(xii) This policy along with the Risk Management Policy shall be reviewed by Board Committee during RMC at least annually or otherwise as the Board may prescribe.

(xiii) The Risk / Credit department shall be responsible for placing such incidents along with its review before the Board / Audit Committee.

(xiv) The complaints received under the route of Whistle Blower Mechanism on possible fraud / suspicious accounts activity shall also be examined and concluded. A senior risk official shall be responsible for monitoring and reporting of frauds.

2.1 – **Closure Process of Fraud cases Reported to RBI** –

(i) Company has the right to close the following cases of fraud which were reported to RBI –

a. The fraud cases pending with LEAs / Court are disposed of.
b. The examination of staff accountability has been completed.
c. As per RBI directives, company can close the reported fraud cases of amount upto Rs. 25 Lakhs subject to staff accountability and disciplinary action has been taken.
d. Cases where charge-sheet by LEA have not been filed for more than 3 years from the date of First Information Report (FIR).
e. Post filing of charge sheet in trail court, and the trial in the court has not commenced or is pending before the court for more than 3 years from the date of First Information Report (FIR).

f. Data of all cases closed, shall be made available to the auditors for examination.

Chapter 3 - **Governance for Fraud Risk Management.**

3.1 **Special Committee of the Board for Monitoring and Follow-up of cases of Frauds:** The Company shall constitute a Board to be known as "Special Committee of the Board for Monitoring and Follow-up of cases of Frauds' (SCBMF), which shall consist of not less than 3 Board members including the Chief Executive Officer (CEO) and two independent directors. This committee shall be headed by an independent director. (**refer Schedule 1**).

3.1 (a) As per the direction of RBI, middle layer NBFC's shall have the option of constituting a Committee of the Executives (CoE) with a minimum of three members, at least one of whom shall be a Whole-time director or equivalent rank Official for the purpose of performing the roles and responsibilities of SCBMF as required under these Directions.

3.1 (b) the SCBMF shall oversee the effectiveness of fraud risk management policy. Same committee shall also conduct root cause analysis (RCA), monitoring of fraud cases, suggesting measures to strengthen internal controls and minimize incidents of frauds. The period of such reviews shall be after one financial year.

Schedule 1 –

Proposed SCBMF committee members –

Members –

1) Mr. Amit Dangi – Whole Time Director
2) Mr. Akash Suri – Whole Time Director and Group CEO
3) Mr. Rahul Bagaria – Independent Director
4) Mrs. Bhaviika Jain- Independent Director

To be Headed By –

By an independent director (as the management committee decides).

Chapter 4 - **Framework for Early Warning Signals for Detection of Frauds.**

4.1 The Company shall ensure to have an Early Warning System (EWS) under this policy which shall be overseed by the Board and implemented by senior management for its robustness.

4.1.1 The company shall review those cases from fraud angle on a regular basis which amount to sanction amount of Rs. 1 cr and above.

4.1 (a) The EWS shall have indicators such as evergreening, repeated cash transactions, etc. to monitor the loans. These indicators shall be reviewed periodically for their effectiveness.

4.1 (b) Suspicious fraudulent activity thrown up basis EWS shall trigger for deeper investigation from fraud angle and initiate preventive measures.

4.1 (c) Such EWS shall be made by involving views from Risk /Credit, Finance, Operations and Legal Team.

4.2 Such EWS shall be integrated into the main systems of the company to identify potential frauds, trigger timely remedial measures, periodic review of credit sanction process, and internal controls.

4.3 Credit / Risk to monitor, analyze financial transactions including transactions done via digital platforms, understand patterns, which could alter towards prevention of fraudulent activities.

4.4. The Early warnings can also come from the collections team as identified in their due course of work.

4.5 Early warnings can also come from the monitoring of systems, and also whistle blower mechanisms.

Chapter 5 – **Legal and Audit Measures:**

5.1 In case of indication of fraudulent activity the company, shall appoint an external auditor on contractual basis to conduct the audit and submit the report in a timely manner.

5.2 Legal Team to make sure that the loan agreements with each borrower shall contain such clauses to conduct such audit at behest of lender(s).

5.3. On resistance of the borrower(s) to co-operate in such audits, which delays the audit report, the company reserves the right to declare such accounts as fraudulent based on the internal investigations conducted and facts available.

5.4 The company shall make sure that in declaring an account as fraudulent utmost priority is given to incorporate principles of 'Natural Justice' while deciding the outcome.

5.4 (a) The principles of 'Natural Justice' include Audi Alteram Partem (hear the other side) and Nemo Judex in Causa Sua (no one can be a judge in their own case), and the right to a reasoned decision.

5.5 The company also reserves the right to examine such directors / promoters of such companies which are classified as fraudulent.

5.5 (a) Cases where Law Enforcement Agencies (LEA) have *suo motu* power to investigate a borrower, there the lending company shall follow the process of this fraud risk management policy to classify the account as fraudulent. (refer Chapter 2 point 2 sub-points (i) to (vii)).

5.6 The company shall hold accountable the third party agencies including professionals whose services are used as part of pre and post sanction of loans.

5.6 (a) Legal team to make sure that agreements made with such third party agencies shall have such clause to take action on malpractice / wilful negligence.

5.6 (b) On identification of any malpractice / wilful negligence by such agencies / professionals a full investigation shall be conducted by Risk / Credit Team and appropriate action(s) shall be taken by Legal team if allegations are found to be true.

I. Penal Measures – Post investigation and classification of Persons and Entities as fraudulent, and the Entities and Persons associated with such Entities shall be debarred from raising funds from financial institutions which are regulated by the RBI for a period of 5 (five) years from the date of full repayment of the defrauded amount / settlement amount agreed upon in case of a compromise settlement.

II. Treatment of Accounts under Resolution – In case of entities which are classified as fraud and have undergone IBC or resolution framework of RBI (as amended from time to time) resulting in change of management and control of entity, the company shall reserve the right to examine whether that entity shall continue to be classified as fraud or to be removed post implementation of resolution under IBC or aforesaid RBI resolution framework.

II (a). However, this decision shall be without prejudice to continuance of criminal action against such promoters, directors, persons in charge of management of entity transactions.

Chapter 6 - **Reporting of Frauds to Law Enforcement Agencies (LEAs)**

6.1 On classification of entities as fraudulent by the Board, Legal shall intimate about the same to LEA's such as State Police, etc.

6.1 (a) Company shall have a nodal officer from Legal team to act as a point of contact for LEA's.

Chapter 7 - **Reporting of Incidents of Fraud to Reserve Bank of India (RBI)**

7.1 As per the guidelines by the apex body, company shall file the monthly and quarterly fraud monitoring returns (FMR's) with the RBI.

7.2 Above filing activity is carried out jointly by Risk / Credit and Secretarial Team.

7.3 However, to ensure uniformity and consistency, RBI has provided a list of categories applicable while reporting such frauds in FMR's:

(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 NBFCs and

(xi) Other type of fraudulent activity not covered under any of the above.

7.4 Amounts of frauds shall be recorded in companies yearly financial statements – Notes to Accounts.

7.5 The company shall conduct a legal audit of all title deeds and other title related documents of all loan facilities of Rs. 1 cr and above once in 3 (three) years till the loan is fully repaid.

7.6 The company shall make sure by conducting an investigation from fraud angel before transferring the loan to ARC's / other lenders. In case a fraud is identified, same shall be reported to the RBI before transferring it to ARC's / other lenders.

7.7 **Definitions for the purpose of FMR** –

(a) 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.

(b) 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 Applicable NBFC.

(c) 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.

7.8 As per the directives of the RBI, 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.

7.9 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.

7.9.1 Above activities shall be complied with by the Risk / Secretarial team of the company.

Chapter 8 – **Staff Accountability** –

8.1 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.

8.2 In cases involving senior executives of the company, as defined by the Companies Act, 2013 the Audit Committee of Board (ACB) shall conduct an investigation and place the report before the Board.

8.3 It is to be noted here that, in such cases such senior executive(s) (point 8.2) shall not participate in the meeting of the Board / SCBMF in which their accountability is to be considered.

Chapter 9 – **Role of Auditors -**

9.1 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.

9.2 Internal Audit 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.

Chapter 10 – **Repeal**

10.1 With the issue of these Directions, the instructions / guidelines contained in the Circulars issued by the Reserve Bank of India listed in Appendix stand repealed, as the contents of the same have been incorporated in the Master Directions. All the instructions / guidelines contained in these Circulars shall be deemed as given under these Directions.

Appendix:

No.	Circular No.	Circular date	Subject
1.	DOS.CO.FMG.No.S 96/23.04.001/ 2022-23	06-06-2022	Introduction of XBRL based online fraud-reporting system for NBFCs
2.	DOS.CO.FMG.No.S 127/23.04.001/ 2022-23	01-07-2022	Commencement of XBRL based online fraud-reporting system for NBFCs
3.	DOS.CO.FMG.No.S 233/23.14.021/2022 -23	03-10-2022	Migration of historical/legacy FMRs reported by 'Applicable NBFCs'

Annexure – RBI Policy along with it's salient features:

RBI Notification:

INTRODUCTION

In exercise of the powers conferred by Sections 45K, 45L and 45M of the Reserve Bank of India Act, 1934 (Act 2 of 1934), and Sections 30A, 32 and 33 of the National Housing Bank Act, 1987, the Reserve Bank of India being satisfied that it is necessary and expedient in the public interest and in the interest of banking policy to do so, hereby, issues the Directions hereinafter specified.

CHAPTER I

1.1 Short Title and Commencement

1.2
These Directions shall be called the Reserve Bank of India (Fraud Risk Management in NBFCs) Directions, 2024.

1.3 Applicability

The provisions of these Directions shall, unless otherwise provided, apply to:

1.2.1 All Non-Banking Financial Companies[1] (including Housing Finance Companies) in the Upper Layer, Middle Layer and in the Base Layer[2] (with asset size of ₹500 crore and above[3]).

[1] Non-banking financial company as defined in Section 45 I(f) of the Reserve Bank of India Act, 1934 (Act 2 of 1934).

[2] Please refer to the Reserve Bank's guidelines on 'Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs' dated October 22, 2021.

[3] Asset size as per audited balance sheet as on 31st March of the immediate preceding Financial Year.

[4] HFCs shall report the incidents of fraud to NHB as hitherto.

1.2.2 These NBFCs shall hereinafter collectively be referred to as 'Applicable NBFCs' for the purpose of these Directions.

1.3. Purpose

These Directions are issued with a view to providing a framework to Applicable NBFCs 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[4] (NHB) and matters connected therewith or incidental thereto. 3

CHAPTER II

2. Governance Structure in Applicable NBFCs for Fraud Risk Management

2.1 There shall be a Board[5] approved Policy[6] on fraud risk management delineating roles and responsibilities of Board / Board Committees and Senior Management of the Applicable NBFC. The Policy shall also incorporate measures for ensuring compliance with principles of natural justice[7] in a time-bound manner which at a minimum shall include:

2.1.1 Issuance of a detailed Show Cause Notice (SCN) to the Persons[8], Entities and its Promoters / whole-time and Executive Directors against whom allegation of fraud is being examined[9]. The SCN shall provide complete details of transactions / actions / events basis which declaration and reporting of a fraud is being contemplated under these Directions.

2.1.2 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.

2.1.3 Applicable NBFCs shall 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.

2.1.4 A reasoned Order shall be served on the Persons / Entities conveying the decision of the Applicable NBFCs regarding declaration / classification of the account as fraud or otherwise. Such Order(s) must contain relevant facts / circumstances relied upon, submission made against the SCN and the reasons for classification as fraud or otherwise. 4

5 Board of Directors of the Applicable NBFC.

6 The policy shall *inter alia* contain measures towards prevention, early detection, investigation, staff accountability, monitoring, recovery and reporting of frauds.

7 Please refer to the judgement of the Hon'ble Supreme Court dated March 27, 2023 on Civil Appeal No.7300 of 2022 in the matter of State Bank of India & Ors Vs. Rajesh Agarwal & Ors. and connected matters, read with the Order dated May 12, 2023 passed by the Hon'ble Supreme Court in Misc. Application. No.810 of 2023, specifically in relation to serving a notice, giving an opportunity to submit a representation before classifying Persons / Entities as fraud and passing a reasoned order. The orders of the Hon'ble High Court of Bombay dated August 7, 2023 in Writ Petition (L) No. 20751 of 2023 and the Hon'ble High Court of Gujarat dated August 31, 2023 in Special Civil Application No. 12000 of 2021 and connected matters shall be referred to.

8 Including Third Party Service Providers and Professionals such as architects, valuers, chartered accountants, advocates, etc.

9 As non-whole-time directors (like nominee directors and independent directors) are normally not in charge of, or responsible to the company for the conduct of business of the company, Applicable NBFCs may take this into consideration before proceeding against such directors under these Directions.

2.2 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.

2.3 **Special Committee of the Board for Monitoring and Follow-up of cases of Frauds:** Applicable NBFCs shall constitute a Committee of the Board to be known as 'Special Committee of the Board for Monitoring and Follow-up of cases of Frauds' (SCBMF) with a minimum of three members of the Board, consisting of the Chief Executive Officer[10] and two Independent Directors. The Committee shall be headed by one of the Independent Directors. Applicable NBFCs categorised as Middle Layer and Base Layer for regulatory purposes[11], shall have the option of constituting a Committee of the Executives (CoE) with a minimum of three members, at least one of whom shall be a Whole-time director or equivalent rank Official for the purpose of performing the roles and responsibilities of SCBMF as required under these Directions.

2.3.1 SCBMF shall oversee the effectiveness of the fraud risk management in the Applicable NBFC.
2.3.2 SCBMF shall review and monitor cases of frauds, including root cause analysis, and suggest mitigating measures for strengthening the internal controls, risk management framework and minimising the incidence of frauds. The coverage[12] and periodicity of such reviews shall be decided by the Board of the Applicable NBFC.
2.4 The Senior Management shall be responsible for implementation of the fraud risk management policy approved by the Board of the Applicable NBFC. 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 Applicable NBFC.

2.5 Applicable NBFCs shall put in place a transparent mechanism to ensure that Whistle Blower complaints on possible fraud cases / suspicious activities in accounts(s) are examined and concluded appropriately under their Whistle Blower Policy[5].

2.6 Applicable NBFCs shall set-up an appropriate organisational structure for institutionalisation of fraud risk management[13] within their overall risk management functions / Department. A sufficiently senior official shall be responsible for monitoring and reporting of frauds.

2.7 Applicable NBFCs shall disclose the amount related to fraud reported in the company for the year in their Financial Statements – Notes to Accounts.

[10] Managing Director where the Chief Executive Officer is not a whole-time director.
[11] Please refer to the Reserve Bank's guidelines on 'Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs' dated October 22, 2021.
[12] The coverage may include, among others, categories/trends of frauds, industry/sectoral/ geographical concentration of frauds, delay in detection/classification of frauds and delay in examination/conclusion of staff accountability, etc

[13] i.e. prevention, early detection, investigation, staff accountability, monitoring, recovery, analysis and reporting of frauds, etc. and other related aspects under the Board approved Policy.
[14] The Directions prescribed under Chapter III shall be applicable to NBFCs in the Upper Layer and Middle Layer only.
[15] i.e. Risk Management Committee or any other Committee having similar functions.

CHAPTER III

3.1 Framework for Early Warning Signals for Detection of Frauds

3.1.1 NBFCs in the Upper Layer and Middle Layer (NBFCs – UL & ML) shall have a framework for Early Warning Signals (EWS) under the overall Fraud Risk Management Policy approved by the Board.

3.1.2 A Board Level Committee[15] 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 NBFCs – UL & ML.

3.1.3 NBFCs – UL & ML 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.

3.1.4 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.

3.2 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 [6]

/ alerts from EWS System in a timely manner; and (iii) Periodic review of credit sanction and monitoring processes, internal controls and systems.

3.3 EWS Framework for Credit Facilities / Loan Accounts

3.3.1 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.

3.3.2 Generation of EWS alert(s) / trigger(s) shall necessitate examination whether the account needs to be investigated from potential fraud angle.

3.4 EWS Framework for other financial / non-credit related transactions[16]

3.4.1 NBFCs – UL & ML shall develop / strengthen their EWS system by identifying suitable indicators and parameterising them in their EWS system for monitoring other financial / non-credit related transactions. NBFCs – UL & ML shall strive to continuously upgrade the EWS system for enhancing its integrity and robustness, monitor other financial / non-credit related transactions efficiently and prevent fraudulent activities. Further, the effectiveness of EWS system shall be tested periodically.

3.4.2 The design and specification of EWS system shall be robust and resilient to ensure that integrity of the system is maintained, personal and financial data of customers are secure and transaction monitoring for prevention / detection of potential fraud is on real-time basis[17]. NBFCs – UL & ML shall remain vigilant in monitoring transactions / unusual activities, specifically in the non-KYC compliant and money mule accounts etc., so as to contain unauthorised / fraudulent transactions and to prevent misuse of banking / financial channel.

3.4.3 The dedicated MIS Unit or other Analytics Setup in NBFCs – UL & ML shall extensively monitor and analyse financial transactions, including transactions carried out through digital platforms / applications, in order to identify unusual patterns and activities which could alert the NBFCs – UL & ML in time for initiating appropriate measures towards prevention of fraudulent activities. [7]

[16] i.e., other than those transactions covered under Para 3.3.
[17] or with a minimum time lag without compromising the effectiveness of the outcome of EWS system in prevention / detection of potential frauds.

3.5 NBFCs – UL & ML shall put in place / suitably upgrade their existing EWS system within six months from the date of issuance of these Directions.

CHAPTER IV

4. Credit facility / Loan account / Other financial transactions - indication of fraudulent activities

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

4.1 In case where there is a suspicion / indication of wrongdoing or fraudulent activity, Applicable NBFCs shall use an external audit[18] or an internal audit as per their Board approved Policy for further investigation in such accounts.

4.1.1 Applicable NBFCs 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 Applicable NBFC within a specified time limit, as approved by the Board.

4.1.2 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, Applicable NBFCs 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[19]. 8

18 Auditors who are qualified to conduct audit under relevant statutes.

19 Applicable NBFCs shall ensure that principles of natural justice are strictly adhered to before classifying / declaring an account as fraud (Please refer to Para 2.1 ibid).

4.1.3 Applicable NBFCs (sole lending, multiple banking arrangement or consortium lending) shall ensure that the principles of natural justice[20] are strictly adhered to before classifying / declaring an account as fraud.

[20]Please refer to the judgement of the Hon'ble Supreme Court dated March 27, 2023 on Civil Appeal No.7300 of 2022 in the matter of State Bank of India & Ors Vs. Rajesh Agarwal & Ors. and connected matters, read with the Order dated May 12, 2023 passed by the Hon'ble Supreme Court in Misc. Application. No.810 of 2023, specifically in relation to serving a notice, giving an opportunity to submit a representation before classifying Persons / Entities as fraud and passing a reasoned order. The orders of the Hon'ble High Court of Bombay dated August 7, 2023 in Writ Petition (L) No. 20751 of 2023 and the Hon'ble High Court of Gujarat dated August 31, 2023 in Special Civil Application No. 12000 of 2021 and connected matters shall be referred to (Please refer to Para 2.1 ibid).

[21] As listed in the Standard Operating Procedure dated September 15, 2021 for making references to ABBFF issued by CVC.

4.1.4 In case an account is identified as a fraud by any Applicable NBFC, 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 Applicable NBFCs concerned from fraud angle under these Directions.
4.1.5 In cases where Law Enforcement Agencies (LEAs) have *suo moto* initiated investigation involving a borrower account, Applicable NBFCs shall follow the process of classification of account as fraud as per their Board approved Policy and in tune with the process as given under Para 2.1 ibid.

4.2 Independent confirmation from the third-party service providers including professionals

Applicable NBFCs place reliance on various third-party service providers as part of pre-sanction appraisal and post-sanction monitoring. Therefore, Applicable NBFCs 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.

4.3 Staff Accountability

4.3.1 Applicable NBFCs shall initiate and complete the examination of staff accountability in all fraud cases in a time-bound manner in accordance with their internal policy.
4.3.2. Government-NBFCs[21] 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)[22] constituted by the CVC 9

[22] Please refer to the Vigilance Manual issued by Central Vigilance Commission (CVC), CVC Office Order No. 02/01/22 dated January 06, 2022 and CVC Office Order No. 10/03/22 dated March 14, 2022 updated from time to time.

[23] Such executive shall not participate in the meeting of the Board / ACB / SCBMF in which their accountability is to be considered.

[24] (a) if it is an entity, another entity will be deemed to be associated with it, if that entity is (i) a subsidiary company as defined under clause 2 (87) of the Companies Act, 2013 or (ii) falls within the definition of a 'joint venture' or an 'associate company' under clause (6) of section 2 of the Companies Act, 2013.

(b) in case of a natural person, all entities in which she / he is associated as promoter, or director, or as one in charge and responsible for the management of the affairs of the entity shall be deemed to be associated.

[25] Prudential Framework for Resolution of Stressed Assets dated June 7, 2019 (as amended from time to time) issued by the RBI.

4.3.3 In cases involving very senior executives of the Applicable NBFCs (MD & CEO / Executive Director / Executives of equivalent rank)[23], the ACB shall initiate examination of their accountability and place it before the Board. However, in case of Applicable NBFCs in the public sector, such cases shall also be referred to the ABBFF.

4.4 Penal Measures

4.4.1 Persons / Entities classified and reported as fraud by Applicable NBFCs and also Entities and Persons associated[24] 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.

4.4.2 Lending to such Persons / Entities being commercial decisions, the lending Applicable NBFCs shall have the sole discretion to entertain or decline such requests for credit facilities after the expiry of the above mandatory cooling period as mentioned at Para 4.4.1 above.

4.5 Treatment of accounts under Resolution

4.5.1 In case an entity classified as fraud has subsequently undergone a resolution either under IBC or under the resolution framework of RBI[25] resulting in a change in the management and control of the entity / business enterprise, the Applicable NBFC 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

4.5.2 The penal measures as detailed in Para 4.4 shall not be applicable to entities / business enterprises after implementation of the resolution plan under IBC or aforesaid prudential framework.
4.5.3 The penal measures detailed in Para 4.4 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.

CHAPTER V

5. Reporting of Frauds to Law Enforcement Agencies (LEAs)

5.1 Applicable NBFCs shall immediately report the incidents of fraud to appropriate LEAs, viz. State Police authorities, etc., subject to applicable laws.
5.2 Applicable NBFCs 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.

CHAPTER VI[26]

6.1 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, Applicable NBFCs 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;

[26] The reporting requirements prescribed under Chapter V are not applicable to HFCs. They shall report incidents of fraud to NHB in the manner and in Returns / Formats as prescribed by NHB.

(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 NBFCs; and

(xi) Other type of fraudulent activity not covered under any of the above.

6.2 Modalities of Reporting Incidents of Fraud to RBI

6.2.1 Applicable NBFCs shall furnish FMR[27] in individual fraud cases, irrespective of the amount involved, immediately but not later than 14 days from the date of classification[28] of an incident / account as fraud.

6.2.2 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.

6.2.3 Applicable NBFCs shall also report frauds perpetrated in their group entities[29] to RBI separately[30], if such entities are not regulated / supervised by any financial sector regulatory / supervisory authority. However, in case of overseas financial group entity of Indian NBFC, the parent NBFC 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[31].

6.2.4 Applicable NBFCs shall adhere to the timeframe prescribed in these Master Directions for reporting of fraud cases to RBI[32]. Applicable NBFCs must examine and fix staff accountability for delays in identification of fraud cases and in reporting to RBI12.

[27] Updates to the FMR shall be provided through FMR Update Application (FUA).
[28] As defined under Para 7.4.3.
[29] Group entities mean both the domestic and overseas subsidiaries, affiliates, joint ventures etc. as defined under applicable accounting standards, whether engaged in financial and non-financial services.
[30] However, the FMR shall be furnished through e-mail (fmgconbfc@rbi.org.in) only.
[31] Please refer to Para 2.1.
[32] Delay in reporting of frauds, and the consequent delay in alerting other NBFCs could result in similar frauds being perpetrated elsewhere.

6.2.5 While reporting frauds, Applicable NBFCs shall ensure that persons / entities who / which are not involved / associated with the fraud are not reported in the FMR.
6.2.6 Applicable NBFCs 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.

6.3 Closure of Fraud Cases Reported to RBI
6.3.1 Applicable NBFCs 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.

6.3.2 NBFCs 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:
(i) 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

(ii) 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.

6.3.3 In all closure cases of reported frauds, Applicable NBFCs shall maintain details of such cases for examination by auditors.

CHAPTER VII
7. Other Instructions

7.1 Legal Audit of Title Documents in respect of Large Value Loan Accounts
Applicable NBFCs 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 referred to in clause 2.1 above.

7.2 Treatment of Accounts classified as Fraud and sold to other Lenders / Asset Reconstruction Companies (ARCs)[33]

Applicable NBFCs shall complete the investigation from fraud angle before transferring the loan account / credit facility to other lenders / ARCs. In cases where Applicable NBFCs conclude that a fraud has been perpetrated in the account, they shall report it to RBI / NHB[34] before selling the accounts to other lenders / ARCs[35].

7.3 Role of Auditors

7.3.1 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 Applicable NBFCs for appropriate action.

7.3.2 Internal Audit in Applicable NBFCs 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 Applicable NBFC[36].

7.4 'Date of Occurrence', 'Date of Detection' and 'Date of Classification' of Fraud – for the purpose of reporting under FMR

7.4.1 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.

7.4.2 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 Applicable NBFC14.

[33] Reference is invited to Master Direction – Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021 (ref:DOR.STR.REC.51/21.04.048/2021-22 dated September 24, 2021) as updated from time to time.

[34] HFCs shall report to NHB.

[35] In cases where accounts are sold to ARCs, Applicable NBFCs shall continue to report subsequent developments in such accounts to RBI / NHB, by obtaining requisite information periodically from the concerned ARCs.

[36] Including delay in reporting, non-reporting, conduct of staff accountability examination, prudential provisioning, etc.

7.4.3 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.

CHAPTER VIII[37]

[37] The reporting requirements prescribed under Chapter VII are not applicable to HFCs. They shall report incidents of theft, burglary, dacoity and robbery to NHB in the manner and in Returns / Formats as prescribed by NHB.

[38] In the prescribed format 'Report on Bank Robbery, Theft, etc. (RBR) through e-mail (fmgconbfc@rbi.org.in)
The format is available on RBI website (https://www.rbi.org.in/scripts/BS_Listofallreturns.aspx).

8. Reporting Cases of Theft, Burglary, Dacoity and Robbery

8.1 Applicable NBFCs shall report[38] 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.

8.2 Applicable NBFCs 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.

Chapter IX

9. Repeal

With the issue of these Directions, the instructions / guidelines contained in the Circulars issued by the Reserve Bank of India listed in Appendix stand repealed, as the contents of the same have been incorporated in the Master Directions. All the instructions / guidelines contained in these Circulars shall be deemed as given under these Directions.

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Appendix

List of Circulars Repealed S. No.	Circular No.	Circular date	Subject
1.	DOS.CO.FMG.No.S 96/23.04.001/ 2022-23	06-06-2022	Introduction of XBRL based online fraud-reporting system for NBFCs
2.	DOS.CO.FMG.No.S 127/23.04.001/ 2022-23	01-07-2022	Commencement of XBRL based online fraud-reporting system for NBFCs
3.	DOS.CO.FMG.No.S 233/23.14.021/2022 -23	03-10-2022	Migration of historical/legacy FMRs reported by 'Applicable NBFCs'