



## IKF Finance Limited

| Fraud Risk Management Policy |                           |
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| Prepared By                  | Chief Risk Officer        |
| Proposed By                  | Risk Management Committee |
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# Fraud Risk Management Policy

## 1. Introduction

IKF Finance Limited's Fraud Risk Management Policy is established in alignment with the guidelines provided by the Reserve Bank of India (RBI) under its Master Directions issued in 2024. This policy aims to create a comprehensive framework for preventing, detecting, and reporting frauds in a timely manner. It applies to all operations within the company, ensuring the protection of its assets and maintaining regulatory compliance.

## 2. Chapter I: General Provisions

### 2.1 Short Title and Commencement

This policy shall be known as the "***Fraud Risk Management Policy of IKF Finance Limited***" and shall come into effect from 13<sup>th</sup> August 2024.

### 2.2 Applicability

The provisions of this policy extend to all activities, transactions, and operations conducted by IKF Finance Limited, including those involving employees, management, and third-party service providers.

### 2.3 Purpose

The purpose of this policy is to outline a structured approach for the prevention, early detection, and timely reporting of frauds. It also ensures compliance with RBI guidelines and facilitates the dissemination of fraud-related information to relevant authorities.

## 3. Chapter II: Governance Structure for Fraud Risk Management

IKF Finance Limited recognizes that effective fraud risk management is contingent upon a robust governance structure. The following outlines the key components of our governance framework for managing fraud risks:

### 3.1 Board Roles & Responsibilities

- The Board of Directors at IKF Finance Limited shall approve a comprehensive Fraud Risk Management Policy that clearly delineates the roles and responsibilities of the Board, its Committees, and Senior Management.
- The Board actively oversees the implementation of fraud risk management practices and ensures that these practices are aligned with regulatory guidelines.
- Additionally, the Board monitors the effectiveness of the preventive measures in place and makes adjustments as necessary to maintain the integrity of the organization's operations.

### 3.2 Special Committee of the Board for Monitoring and Follow-up of Fraud Cases (SCBMF)

IKF Finance Limited shall establish a Special Committee of the Board, referred to as the 'Special Committee of the Board for Monitoring and Follow-up of Fraud Cases' (SCBMF) as specified by the regulator. The SCBMF shall be chaired by one of the independent or non-executive directors.

The SCBMF is tasked with overseeing the effectiveness of the fraud risk management framework within the company. The committee shall review and monitor all fraud cases, conduct root cause analyses, and recommend measures to strengthen internal controls and the risk management framework, thereby minimizing the incidence of fraud. The Board shall determine the scope and frequency of these reviews.

### 3.3 Senior Management Responsibility

The Senior Management is responsible for the implementation of the fraud risk management policy as approved by the Board. Senior Management shall also conduct periodic reviews of fraud incidents, which shall be presented to the Board or the Audit Committee of the Board (ACB), as appropriate.

### 3.4. Whistle Blower Policy (WBP)

A transparent mechanism is in place to ensure that whistleblower complaints regarding possible fraud or suspicious activities are thoroughly examined and concluded appropriately under the WBP framework.

### 3.5 Organization Structure

IKF Finance Limited to establish an appropriate organizational structure to institutionalize fraud risk management within the company's overall risk management functions or department.

## 4. Chapter III: Early Detection of Frauds

This section outlines the implementation of Early Warning System (EWS) framework aimed at proactively identifying potentially fraudulent activities within the organization. By establishing clear procedures for data analysis, identifying early warning indicators, and implementing response protocols, the EWS enhances the company's fraud prevention efforts and safeguards its assets.

### 4.1 Establishing EWS Framework

The Early Warning Signals (EWS) and Red Flagging of Accounts (RFA) framework at IKF Finance Limited shall encompass the following key components:

- The identification of Early Warning Signals (EWS) at IKF Finance Limited is carried out through a set of predefined internal processes. Once identified, these signals are appropriately red-flagged, and the corresponding accounts are reviewed on a monthly basis in coordination with Senior Management.
- Timely initiation of remedial actions based on alerts or triggers generated by the EWS system, to address potential risks promptly.
- Periodic review of credit sanctioning and monitoring processes, internal controls, and systems to ensure they remain effective and aligned with best practices

## 4.2 EWS Framework for Credit Facilities / Loan Accounts

The EWS system at IKF Finance Limited shall be comprehensive, incorporating both quantitative and qualitative indicators to establish an effective framework. This framework will monitor broad indicators, including transactional data, financial performance of borrowers, market intelligence, and borrower conduct, with these assessments conducted through manual identification processes.

## 4.3 Alert Generation and Response

Designated staff members are tasked with reviewing data to identify potential red flags. Any suspicious activities identified should be escalated to the appropriate authority for further investigation. A log of all flagged cases and the actions taken should be maintained to ensure accountability.

# 5. Chapter IV: Handling Red-flagged Accounts and Reporting of Fraud

## 5.1 Investigation and Classification of Red-flagged Accounts

When a loan account is classified as a red-flagged account, IKF Finance Limited undertakes an investigation using internal or external auditors as necessary. The process of classifying an account as fraudulent is conducted in strict adherence to the principles of natural justice, with all investigations completed within 180 days of red flagging.

## 5.2 Independent Confirmation from Third-Party Service Providers

IKF Finance Limited relies on independent third-party service providers for pre-sanction appraisals and post-sanction monitoring wherever necessary. Contracts with these service providers include terms that hold them accountable for any negligence or malpractice that could contribute to fraud.

5.1(a) The company shall issue 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 shall consist complete details of transactions / actions / events basis which declaration and reporting of a fraud is being contemplated under these Directions. The company shall provide 30 days time to the Persons / Entities on whom the SCN was served to respond to the said SCN.

5.1(b) The company shall examine of the responses / submissions made by the Persons/Entities prior to declaring such Persons / Entities as fraudulent.

5.1(c) 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) shall contain relevant facts / circumstances relied upon, submission made against the SCN and the reasons for classification as fraud or otherwise.

## 5.3 Staff Accountability

The company initiates and completes staff accountability reviews in all fraud cases promptly. IKF Follows Central Vigilance Commission (CVC) guidelines for examining staff accountability in cases involving significant fraud amounts.

## 5.4 Penal Measures

Individuals and entities classified as fraudsters are reported to the Reserve Bank of India (RBI) to enforce penal measures. The regulator prohibits on raising funds or seeking credit facilities from any financial entities for a period of five years.

## 5.5 Treatment of Accounts Under Resolution

If an entity classified as fraudulent undergoes resolution, the company will re-evaluate whether the fraud classification should be removed following the successful implementation of the Resolution Plan.

# 6. Chapter V: Reporting of Frauds to Law Enforcement Agencies (LEAs)

IKF Finance Limited reports all fraud incidents to the appropriate Law Enforcement Agencies (LEAs) based on the severity and nature of the fraud. IKF Finance Limited ensures that all reporting is done in a timely and accurate manner to assist in law enforcement investigations.

# 7. Chapter VI: Reporting of Fraud to RBI and Central Fraud Registry

## 7.1 Reporting of Incidents to RBI

All fraud incidents are reported to the Reserve Bank of India (RBI) using the Fraud Monitoring Returns (FMRs) within 14 days of classification. This ensures uniformity and consistency in reporting.

## 7.2 Central Fraud Registry (CFR)

IKF Finance Limited utilizes the Central Fraud Registry (CFR) to enhance fraud risk management and ensure that relevant information is disseminated across the banking sector to prevent fraud.

## 7.3 Closure of Fraud Cases Reported to RBI

Fraud cases are closed using the 'Closure Module' only after all required actions, including law enforcement and internal accountability reviews, have been completed.

# 8. Chapter VII: Cheque-Related Frauds

The responsibility for reporting cheque-related frauds involving forged or fake instruments lies with the paying banker, who must notify Law Enforcement Agencies (LEAs) and report the fraud to the RBI. The presenting bank must promptly hand over the instrument to the paying bank when requested. In cases where a genuine instrument leads to fraudulent payments, the presenting bank, if defrauded, must file a fraud report with the RBI and inform LEAs for further investigation and legal action.

# 9. Chapter VIII: Other Instructions

## 9.1 Legal Audit of Title Documents

The title deeds and related documents for all credit facilities of ₹1 crore and above are subjected to legal audit and re-verifications as and when the account is classified as Fraud in the predefined parameters.

## 9.2 Treatment of Accounts Classified as Fraud and Sold to Other Lenders/ARCs

Before transferring any loan account to another lender or Asset Reconstruction Company (ARC), IKF Finance Limited completes a thorough fraud investigation and reports any detected fraud to the RBI.

## 9.3 Role of Auditors

Auditors play a crucial role in identifying and reporting fraudulent activities during their audits. They are responsible for alerting the management and the Audit Committee of the Board (ACB) if any suspicious activities are detected.

## 9.4 Dates of Occurrence, Detection, and Classification of Fraud

IKF Finance Limited meticulously records the dates of occurrence, detection, and classification of fraud for accurate reporting and accountability.

9.4(a)-The company shall disclose the amount related to fraud reported in the company for every year in their Financial Statements.

# 10. Chapter IX: Reporting Cases of Theft, Burglary, Dacoity, and Robbery

All incidents of theft, burglary, dacoity, and robbery are reported to the RBI and relevant authorities within seven days of occurrence. The company also submits a quarterly return on such incidents to the RBI.

*This policy will be renewed annually in line with the guidelines specified by the Reserve Bank of India and other regulatory bodies.*

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