



## **IDFC FIRST Bharat Limited**

### **Fraud Risk Management Policy**

**Version : 5.0**

**Approval Date : April 21, 2025**

### Creation and Revision History

Creation				
Version	Date of Approval	Creator & Approver		Review
1.0	21.07.2017	Creator:	Legal and Compliance	As deemed fit by the Board of Directors
		Approver:	Board of Directors	
1.1	July 19, 2019	Revised	Head RCR,Fraud Reporting and Vigilance	Modifications incorporated in order to align the policy with that of the Bank
		Approver	Board of Directors	
2	October 20, 2020	Reviewed	Head - RCR,Vigilance & FCU	No Modifications
		Approver	Board of Directors	
3	October 20, 2021	Reviewed	Head - RCR,Vigilance & FCU	No Modifications
		Approver	Board of Directors	
4	January 12, 2023	Reviewed	Head - RCR,Vigilance & FCU	Modifications incorporated in order to align the policy with that of the Bank
		Approver	Board of Directors	
5	October 17, 2023	Reviewed	Head - RCR,Vigilance & FCU	Modifications incorporated in order to align the policy with that of the Bank
		Approver	Board of Directors	
6	April 21, 2025	Reviewed	Head - RCR,Vigilance & FCU	Formation of Fraud Monitoring Review Committee and issuance of Show cause notice and reasoned letter as per new RBI's Master Directions
		Approver	Board of Directors	

## 1. Introduction

Fraud (internal/external) is a major operational risk impacting Company's reputation, assets, information and stake holder's interest. IDFC FIRST Bharat Ltd recognizes this and hence intends to manage fraud risk on a proactive basis by putting in place a Fraud Risk Management Policy to provide guidance on prevention, detection, monitoring and investigation of suspected or confirmed frauds.

This policy has been drafted in accordance with the IDFC FIRST Bank's Fraud Risk Management Policy, which is further guided by RBI Master Circular on Frauds – Classification and Reporting (Reference No: RBI/2015-16/75 DBS.CO.CFMC.BC.No.1/23.04.001/2015-16) and updated as per Master Directions on Frauds – Classification and Reporting (Reference No. RBI/DBS/2016-17/2 DBS.CO. CFMC. BC. No.1 /23.04.001/ 2016-17 as of July 03, 2017).

This policy has been drafted in alignment with the IDFC FIRST Bank's Fraud Risk Management Policy and is guided by the Reserve Bank of India's (RBI) regulatory framework. It follows the RBI Master Circular on Frauds - Classification and Reporting (Reference No: RBI/2015-16/75 DBS.CO.CFMC. BC.No.1/23.04.001/2015-16) and incorporates updates from the Master Directions on Frauds - Classification and Reporting (Reference No: RBI/DBS/2016-17/2 DBS.CO.CFMC. BC.No.1/23.04.001/2016-17, dated July 03, 2017). Furthermore, the policy reflects the most recent updates issued by the RBI through directions vide Reference No: RBI/DOS/2024-25/118 DOS.CO.FMG.SEC. No.5/23.04.001/2024-25, dated July 15, 2024. This ensures compliance with the latest regulatory requirements and best practices.

## 2. Objectives

The objective of this policy is to provide a governance framework and mechanism to manage fraud risk on a proactive basis to protect Company reputation and assets from loss or damage resulting from suspected or confirmed incidents of frauds.

## 3. Scope

This policy applies to IDFC FIRST Bharat Limited and all the employees including contractual staff and directors, agents, service providers, vendors, contractors, consultants, prospective and existing customers and/or other parties having a business relationship with the Company.

## 4. Definition

The Report of RBI Working Group on Information Security, Electronic Banking, Technology Risk Management and Cyber Frauds, defines "Fraud" as under: -

"A deliberate act of omission or commission by any person, carried out in the course of a banking transaction or in the books of accounts maintained manually or under computer system in Company resulting into wrongful gain to any person for a temporary period or otherwise, with or without any monetary loss to the Company".

## 5. Classification of frauds

*To ensure uniformity and consistency while reporting fraud incidents, RBI vide Master Directions on Fraud Risk Management dated July 15, 2024, have classified frauds as under:*

- (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) (v) Forgery with the intention to commit fraud by making any false documents/electronic records;
- (vi) Willful falsification, destruction, alteration, mutilations 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 banks; and
- (xi) Other type of fraudulent activity not covered under any of the above.

## 6. Governance Structure

The frauds under IDFC FIRST Bharat Limited are governed by various committees as mentioned below.

### a) **Fraud Monitoring Review Committee (FMRC)**

*The committee has been formed to strengthen fraud risk governance by ensuring a transparent investigation process and compliance with regulatory guidelines. All investigated cases will be presented during the FMRC meetings. The FMRC will review these cases, ensure that the principles of natural justice are upheld, oversee the issuance of Show Cause Notices (SCNs) to the suspected individuals, and recommend control measures to further strengthen the Bank's fraud risk management framework.*

### b) **Fraud Monitoring Committee (FMC)**

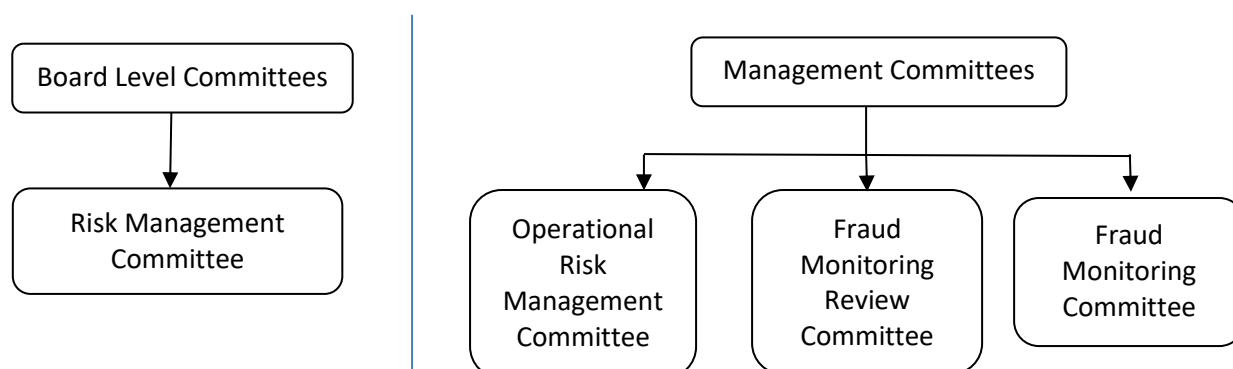
The committee shall meet once in two months or as and when any such necessity arises. All the reported cases will be projected during the FMC meeting. FMC will decide on the steps to be taken to avoid any instances of frauds in future.

### c) **Operational Risk Management Committee (ORMC)**

Operational Risk Management committee (ORMC) of IFBL is a committee of Senior Executives of IFBL. The committee has the responsibility and powers set forth in this charter and is responsible for ensuring implementation and maintenance of the approved operational risk management policy within IFBL. At the end of every quarter the fraud incidents occurred in that quarter will be presented in ORMC.

### d) **Risk Management Committee (RMC)**

The cases of fraud identified and reported to be disclosed in the Board (RMC) separately under the framework of Fraud & Risk management policy.



## **7. Fraud Risk Management**

The Fraud Risk Management process of the Company will consist of

### **7.1 Prevention and Detection of frauds**

Fraud prevention is a pre-requisite for proactive fraud risk management. Following are indicative guidelines for prevention/ minimization of frauds –

- ✓ Design and implement an appropriate control programme
- ✓ Maintain effective internal controls for executing risk and control procedures on a day to day basis
- ✓ Identify, assess, control and mitigate fraud risk to facilitate development and implementation of internal policies and procedures
- ✓ Implement corrective actions to address process and control deficiencies

Systems and procedures prescribed by the organization shall adequately facilitate timely detection of frauds. Following are the indicative measures that could help in identifying suspected fraud -

- ✓ Complaints from employees/ customers
- ✓ Whistle blower mechanism
- ✓ Internal/ External Audits
- ✓ Customer communication using various medium to cover their account status updates, literacy on managing their loans, etc.
- ✓ Regular & Surprise Branch review/Center visits carried out by the Vigilance/RCR team of IFBL.
- ✓ Reports of different nature and frequencies use to review business
- ✓ Rotation of staff on a regular basis
- ✓ Escalation matrix such as Principal Nodal Officer's email ID and contact details of all Supervisors are displayed in the notice board for easy escalation of disputes by customer.

### **7.2 Investigation**

Company has put in place investigation mechanism for resolution of all suspected frauds/alerts. Vigilance / RCR team will conduct investigations of all suspected/identified fraud cases as per the investigation manual put in place.

### **7.3 Issuance of Show Cause Notice (SCN) and Reasoned Order**

Upon completion of investigation, a detailed report will be submitted to the FMRC. The FMRC will review each case to ensure compliance with the principles of natural justice. Based on the review, the FMRC will provide an approval for issuing the Show Cause Notices (SCN) to suspected perpetrators, entities, and their promoters or executive directors against whom allegations of case are being examined, providing a fair opportunity to respond. A Show Cause Notice (SCN) will be issued to individuals or entities against whom allegations have been made, providing complete details of the findings. A minimum period of 21 days will be granted for submitting a response to the SCN. The FMRC will ensure fair examination of the responses before making any decision. A well-reasoned order will be issued, clearly explaining the facts, findings, and conclusions. Following this assessment, the FMRC will recommend further actions to the Bank's RCU team.

### **7.4 Corrective action, staff accountability and disciplinary actions**

Disciplinary Action Policy acts as a guide to identify employees with regard to the relevant lapses according to the attributable role they have played in discharging duties and fix staff accountability. The policy has been documented by HR as part of crew book.

### **7.5 Confidentiality**

All information received by reporting authorities are treated confidentially. Any employee who suspects dishonest or fraudulent activity shall notify the authorities immediately and should not attempt to personally conduct investigations or interviews related to any suspected fraud.

## **8. Reporting Framework**

- i. All employees shall promptly communicate any actual or suspected incident of fraud on a confidential basis. The incident of actual or suspected fraud must be documented and must contain details such as nature of the incident, name of the personnel involved, amount involved, controls existing, modus operandi amongst others. This is to ensure the concerned authority has a clear understanding of the issue.
- ii. Alerts which have been identified as fraud or suspected fraud are reported to the Bank's RCU team who assesses the same from RBI regulatory perspective.
- iii. The established fraud cases are reported to the RCU team of the bank for further necessary actions and suggestion.
- iv. Cases related to Principle of natural justice/Customer to be heard are also to be a part of the investigation/legal proceedings.

## **9. Violations under this policy**

Any violations, deviation or other breaches of this policy regardless of where in the Company, or by whom, they are committed, be reported and dealt with in a timely manner. Appropriate action must be imposed, and suitable remediation completed. Violations could result in criminal charges as well as employment or disciplinary consequences under the applicable regulations for employees, third parties and claims for damages against by the Company.

## **10. Training and Awareness**

### **Employee training**

Employee awareness is crucial to fraud risk management. Regular trainings and awareness provided to employees on fraud management.

### **Customer Awareness**

Company will aim to continuously educate its customers and solicit their participation in various preventive and detective measures. It is the responsibility of all the groups in the Company to create fraud risk awareness amongst their respective customers.

## **11. Review of FRM Policy**

Policy shall be reviewed as and when necessary and at least at annual intervals.

## **12. Amendments**

The Company reserves the right to amend the Policy to comply with any applicable laws / rules / regulations that come into effect from time to time. Any such amendment shall be made by the Managing Director & CEO of the Company, which shall be noted at the next Board meeting of the Company held after such amendment.

## **Fraud Monitoring Committee- Terms of Reference**

Particulars	Details
<b>Approved by</b>	Praveen Kumar Vecha - MD&CEO
<b>Monitoring and Records Maintenance</b>	Risk Control & Review (RCR) Department
<b>Objectives</b>	The purpose of the Fraud Monitoring Committee (the "Committee") shall ensure that proper actions are initiated and implemented against the persons who involved in fraudulent activities against the Company / Customers of the Company.
<b>Constitution of Committee</b>	<p><b><u>Members:</u></b>  Membership of the committee shall be as under :</p> <ol style="list-style-type: none"> <li>1. MD &amp; CEO</li> <li>2. Chief Operating Officer (COO)</li> <li>3. Head - RCR</li> <li>4. Head - Legal &amp; Company Secretary</li> <li>5. Head - Support Functions</li> <li>6. Head - HR</li> </ol> <p>The person who committed a fraud / supported the fraud committed by other individual is related (subordinate) to any of the existing members of the Committee then such related member shall be replaced (for that particular case) by a new member whom shall be decided by the remaining members of the Committee.</p> <p><b><u>Chairperson:</u></b>  MD &amp; CEO of the Company shall Chair the Committee in his absence the members of the Committee shall elect a Chairperson from amongst themselves.</p> <p><b><u>Quorum:</u></b>  The quorum for meetings shall be one-third of its total strength or 3 members, whichever is higher.</p>
<b>Reporting by the Committee</b>	<p>The Chairman of the Fraud Monitoring Committee shall report to the Risk Management Committee of the Board and /or to the Board of Directors of the Company and present adequate safety measures taken by the company to manage the fraud cases</p> <p>The decisions taken by The Committee on the frauds reported will be presented to the Operational Risk Management Committee (ORMC) on a Quarterly basis.</p>
<b>No. of Meetings</b>	The Committee shall meet once in two months or as and when any such necessity arises.

Particulars	Details
<b>Scope of Committee</b>	<p>The Scope of the Fraud Monitoring Committee shall include:</p> <ol style="list-style-type: none"> <li>1. To ensure compliance as mandated by the regulators.</li> <li>2. Monitor progress of Police investigation and recovery position.</li> <li>3. Decide the action to be taken on the instances reported.</li> <li>4. Review the efficacy of the remedial action taken to prevent recurrence of frauds, such as strengthening of internal controls.</li> <li>5. To carry out any other function as referred by the Board from time to time or enforced by any statutory notification / amendment or modification as may be applicable.</li> </ol>
<b>Delegation of Authority</b>	<p>The Committee may form and delegate authority to sub-Committees when deemed appropriate.</p>
<b>Powers</b>	<ol style="list-style-type: none"> <li>1. To seek and obtain external legal and professional advice and assistance, if considered necessary, at the cost of the Company.</li> <li>2. To have full access to information contained in the records of the Company.</li> </ol>
<b>Review</b>	<p>The Charter of Fraud Monitoring Committee of the Company shall be reviewed as and when required and changes shall be made in the light of the latest requirement, the legislation and industry standards.</p>
<b>Confidentiality</b>	<p>The members of the Fraud Monitoring Committee may not disclose the information contained in the confidential reports they receive or the contents of confidential discussions. They shall also ensure that any employees appointed to support them likewise comply with this rule.</p>



### **Fraud Monitoring Review Committee- Terms of Reference**

<b>Areas</b>	<b>Purpose</b>
<b>Committee Members</b>	<p>The FMRC will comprise the following members:</p> <p><b><u>Presenter:</u></b> Head– FCU</p> <p><b><u>Chairperson:</u></b> Chief Operating Officer (COO)</p> <p><b><u>Members:</u></b></p> <p>Head– Legal</p> <p>Head– Business</p> <p>Head – Human Resource</p> <p>Head – Operations</p>
<b>Quorum Requirement</b>	For the FMRC meetings to be valid, the presence of at least three members, including the Chairperson or the Presenter, will be required. In case of the absence of any member due to leave or unavoidable circumstances, the committee shall be postponed to a subsequent date of availability of the members.
<b>Governance</b>	The Committee will operate under the governance of the Fraud Monitoring Committee (FMC), the Operational Risk Management Committee (ORMC), and the Risk Management Committee (RMC).
<b>Roles and Responsibilities</b>	<ul style="list-style-type: none"> <li>• Review the investigation of fraud cases, ensuring compliance with the principles of natural justice as per the RBI circular dated 15th July 2024.</li> <li>• Ensure a transparent and effective review mechanism for complaints received through various channel.</li> <li>• Oversee the issuance of Show Cause Notices (SCN) to suspected perpetrators, providing a fair opportunity to respond.</li> <li>• Conduct root cause analyses and recommend control measures to strengthen the bank’s fraud risk management framework.</li> </ul>
<b>Show Cause Notice (SCN)</b>	A Show Cause Notice (SCN) will be issued to individuals or entities against whom allegations of fraud are under examination, providing complete details of the findings. A minimum period of 21 days will be provided for a response to the SCN. The FMRC will ensure fair examination of the responses before making any decision. A well-reasoned order will be issued, clearly explaining the facts, findings, and conclusions.
<b>Timelines and Reporting</b>	Fraud investigations must be concluded within the specified timelines. An additional 30 days will be allocated for the issuance of the Show Cause Notice, receipt of responses, and issuance of a final order. The FMRC will deliberate on the responses before making a final recommendation. After thorough assessment, the Committee will recommend further actions to the Bank's RCU team for implementation.
<b>Meetings and Documentation</b>	The FMRC shall meet on the 2nd and 4th Wednesday of each month. In case of a non-working day, the meeting will be held on the next working day. Detailed Minutes of Meetings (MoM) will be maintained for reference and compliance.