

FRAUD RISK MANAGEMENT POLICY

(Approved by the Board of Directors on October 30, 2023)

1) Scope of Policy

This policy applies to any actual or suspected fraud(s) in **KLM Axiva Finvest Limited** (herein after referred to as "the Company") involving employees of all categories as well as shareholders, Investors, vendors, suppliers, service providers, lenders, borrowers, outside agencies and or any other party or parties having business relationship with the Company.

2) Objectives

This policy has been framed to enforce effective controls so as to have a system of detection and prevention of fraud also to have a proper recording and reporting system in place in accordance with Reserve Bank of India (RBI) Master Direction DNBS. PPD.01/66.15.001/2016-17 dated 29th September 2016. An officer not below the rank of general manager or equivalent will be authorized and responsible for submitting all the returns. The company shall take enough precautions while reporting the fraud to the Fraud monitoring cell/Regional office of the Non-banking supervision under RBI. The company also should ensure to disclose the amount related to fraud in the company annual financials.

3) Classification of Frauds

In view of having uniformity in reporting frauds have been classified as per provisions of Indian penal code and their classifications are as under:

1. Misappropriation and criminal breach of trust;
2. Fraudulent encashment through forged instruments, manipulation of books of account or through fictitious accounts and conversion of property;
3. Unauthorized credit facilities extended for reward or for illegal gratification;
4. Negligence and cash shortages;
5. Cheating and forgery;
6. Irregularities in foreign exchange transactions; and
7. Any other type of fraud not coming under the specific heads as above.

The following cases where fraudulent intention is not suspected / proved, at the time of detection, will be treated as fraud and reported accordingly:

- a) Cases of cash shortage more than Rs.1000/- and
- b) Cases if cash shortage more than Rs.5000/- if detected by the inspecting officer/auditor not reported on occurrence by the person responsible for handling cash.

4) Reporting of frauds to Reserve Bank of India
a. Frauds involving Rs.1 lakhs and above

- Fraud reports should be submitted in all cases of fraud of Rs.1 lakh and above done through misrepresentation, breach of trust, manipulation of books of accounts, fraudulent encashment of cheques/ other such instruments of the company, unauthorized handling of securities charged to company, misfeasance, embezzlement, misappropriation of funds, conversion of properties, cheating, shortage, other irregularities etc.
- Frauds report should also to be submitted in cases where any central investigating agencies have initiated criminal proceedings and or where RBI has directed that they have to be reported as frauds.
- The company should also report frauds occurred in their subsidiaries and joint ventures. Whereas such frauds not to be included on outstanding report and quarterly reports of fraud.
- If the amount involved in fraud is Rs.1 crore and above the reports should be sent within 21 days of detection of fraud to: Central Fraud Monitoring Cell, Department of Banking Supervision, Reserve Bank of India, 10/3/8, Nrupathunga Road, P. B. No. 5467, Bangalore PIN- 560001 and also to the Regional office of the department of Non-banking supervision of RBI under whose jurisdiction the registered office of the company falls.
- If the amount of fraud is less than Rs.1 crore reports in FMR-1 should only to be sent to the Regional office of the Non-banking supervision of RBI where the registered office of the company within 21 days of detection of fraud.
- Fraud Update Application (FUA) (progress report on frauds) shall be furnished as and when developments occur on any reported frauds on as and when basis.

b. Frauds involving Rs.1 crore and above

If the amount involved in fraud is Rs.1 crore and above in addition to the normal requirements the company shall report the fraud by means of DO letter addressed to the Chief General Manager in charge of the Department of Banking supervision, Reserve Bank of India, Central office within a week of detection of fraud. The letter should contain detailed particulars, amount involved, nature of fraud, mode of operandi, names of parties/officials involved including details of complaint lodged with police if any. A copy of DO letter shall also to be send to Regional office of DNBS.

c. Frauds involving less than Rs.1 Lakhs

Separate register/excel file shall be maintained by the Company recording all frauds involving below Rs. 1 lakhs.

d. Reporting cases of Theft, Burglary, Dacoitiy and Robberies

Cases of Theft, Burglary, Dacoitiy and Robberies shall be reported to RBI immediately on occurrence of the event irrespective of the amount involved to The General Manager, Fraud Monitoring Group, Department of Supervision, Central Office, Reserve Bank of India, Bengaluru - 560001 and the Regional office of RBI, Department of Supervision of the state in which the theft, burglary, dacoity and robbery has taken place. The report shall in the format (Annex I) provided in RBI Circular No. DOS. CO.FMG. No.S96/23.04.001/2022-23 dated June 06, 2023 or as updated from time to time.

Apart from the above, a separate quarterly return (FMR-4) shall be submitted to RBI to report security incidences i.e., Theft, Burglary, Dacoity and Robbery within 15 days of the end of the quarter to which it relates. Nil report to be filed if there are no such instances.

e. Monthly reporting of frauds

Monthly certificate in respect of submission of fraud cases, stating the details of fraud cases which were reported to RBI during the month shall be submitted by the Company within 7 days from the end of every month to Fraud Monitoring Group, Department of Supervision, Central Office, Reserve Bank of India, Bengaluru – 560001 and to the respective SSM.

The certificate shall in the format (Annex II) provided in RBI Circular No. DOS.CO.FMG. No.S96/23.04.001/2022-23 dated June 06, 2023 or as updated from time to time.

5) Closure of Fraud cases

The company is permitted to close the fraud cases only after prior approval from respective regional office of DNBS. Also the closure action will be considered complete when:

- a) The fraud cases pending with Police/Court has been disposed of;
- b) The examination of staff accountability has been completed;
- c) The amount of fraud has been recovered or written off;
- d) Insurance claim has been received and settled.

The company shall extend all possible assistance to the Police/Court for investigation/trial and vigorous follow-up with the investigating authorities/court for final disposal of fraud cases.

6) Reporting of Frauds to the Board of Directors and Audit Committee

- The company should ensure all fraud cases Rs.1 lakhs and above are reported to board promptly.
- All frauds involving an amount of Rs.1 Crore and above should be monitored and reviewed by the Audit Committee of the Board.
- All individual cases attempted frauds involving Rs. 25 lakh or more should be continued to be placed before the Audit Committee. The report submitted to the Audit Committee should contain the modus operandi of the attempted fraud, near miss report if any, measures taken for strengthen the system, controls and procedures, etc.

If any failure is found on the part of the concerned officials which leads to fraud reported, appropriate action against the responsible officials is to be taken.

7) Quarterly review of Frauds

A quarterly review of frauds shall be conducted by the board of directors. The board decision should contribute effectively to the preventive measures of fraud cases reported.

8) Annual review of Frauds



The company should conduct an annual review of fraud and place a note before the directors. The reviews of the year should be placed before the board in the next quarter following the year. These reports should be made available before RBI inspecting officers for verification.

The annual review of frauds may include the following:

- a. Whether the systems in company are adequate to detect frauds, once they have taken place with in short period of time.
- b. If the frauds are occurred from staff angle;
- c. whether deterrent punishment is meted out, wherever warranted, to the persons found responsible;
- d. Whether the frauds are taken place because of laxity in following the systems and procedures and if so, whether effective measures are ensured for corrections, if any and such procedures are implemented;
- e. Whether applicable cases are reported to police as the case may be for investigation.
- f. The annual reviews shall include the following details:
 - i. Total number of frauds detected during the year and the amount involved as compared to the previous two years;
 - ii. Analysis of frauds according to different categories;
 - iii. Modus operandi of major frauds reported during the year along with their present position;
 - iv. Detailed analyses of frauds of ₹ 1 lakh and above;
 - v. Estimated loss to the NBFC during the year on account of frauds, amount recovered and provisions made;
 - vi. Number of cases (with amounts) where staff are involved and the action taken;
 - vii. Time taken to detect frauds;
 - viii. Position with regard to frauds reported to Police;
 - ix. Number of frauds where final action has been taken by the Company and cases disposed of;
 - x. Preventive/punitive steps taken by the Company during the year to reduce/minimise the incidence of frauds;
 - xi. Timely reporting of frauds to the concerned authorities.

9) Guidelines for reporting frauds to police

Frauds in relation to unauthorised credit facilities extended by the applicable NBFC for illegal gratification, negligence and cash shortages, cheating, forgery, etc. shall be report to the state police authorities.

The following cases should invariably be referred to the state police:

- i. Cases of fraud involving an amount of Rs.1 lakh and above, committed by outsiders on their own and/or with the connivance of Company staff;
- ii. Cases of fraud committed by employees of the Company, when it involves funds exceeding Rs. 10,000/-.



The company shall report the frauds to the state police authorities if any fraud is detected related unauthorized credit facilities extended for illegal gratification, negligence and cash shortages, cheating, forgery etc.

10) Fraud Prevention

The Company shall ensure detection and prevention of frauds by establishing new procedures and implementing amendments in existing procedures, checks and controls to prevent fraud and also measures to detect when it occurs. In addition, the management shall take steps to educate its employees to take necessary precautions for prevention of frauds and encourage them to report any suspected fraud which comes to their knowledge.

11) Review of Policy

In the event of any inconsistency between this Policy and the applicable laws, the applicable laws will prevail.

The company reserve right to alter, modify, add, delete or amend any of the provisions in the policy.

