

# AQUILA FINANCE LTD.

## POLICY ON FRAUD RISK MANAGEMENT

**AFL/POL/10/25-R003-17**

History of the Document	Adopted by	Date of Adoption/Review
Originally Adopted	Board of Directors	01-04-2025
Review	Board of Directors	25-10-2025

### 1. Introduction

This policy is framed in compliance with the Master Directions on Fraud Risk Management in Non-Banking Financial Companies (NBFCs) issued by the Reserve Bank of India (RBI) vide DOS.CO.FMG.SEC.NO.7/23.04.001/2024-25 dated July 15, 2024 (the "Master Direction").

### 2. Purpose

To establish a robust framework within AQUILA for the prevention, early detection, investigation, reporting, and mitigation of frauds. The policy aims to safeguard the company's assets, reputation, and stakeholder interests.

### 3. Governance Structure

#### i. Committee of Executives (CoE):

The CoE, under the Board's supervision, shall have the overall responsibility for the fraud risk management framework.

- Composition:
  - o Managing Director & CEO - Chairman
  - o Head of Risk & Compliance - Member & Secretary
  - o Head of Credit and Operations - Member
  - o Head of Finance - Member
- Key Responsibilities:
  - o Oversee the effectiveness of the fraud risk management framework.
  - o Review and monitor all fraud cases, including root cause analysis.
  - o Ensure principles of natural justice are followed before classifying an account as fraud.
  - o Approve the classification of an account/transaction as fraud.
  - o Review information from the whistle-blower mechanism.

ii. Senior Management: Responsible for the implementation of this policy across the organization.

#### **4. Identification and Internal Reporting**

a. Early Warning Signals (EWS): Departments shall develop and monitor EWS based on past experiences, regulatory inputs, and industry trends to trigger alerts for remedial action.

b. Internal Reporting of Suspected Frauds:

- Any suspected fraud must be reported immediately to the Internal Audit department.
- A brief initial intimation must be sent via email within 2 working days of detection.
- A detailed report in the prescribed format must be submitted to the Audit Department within 10 working days of detection.

#### **5. Manner of Dealing with Suspected Frauds**

i. Initial Verification: The Vigilance/Internal Audit department shall promptly verify the suspected case.

ii. Interaction with Account Holder: The operations/credit team, with the CoE's concurrence, shall reach out to the account holder for their explanation. A reasonable time, not exceeding 7 working days, may be granted for regularization, subject to approval limits (MD for amounts  $\leq$  ₹1 Lakh, CoE for amounts  $>$  ₹1 Lakh).

iii. Classification: Based on the evidence and response, the CoE shall classify the account using appropriate categories (e.g., misappropriation, forgery, cheating).

#### **6. Principles of Natural Justice**

Before final classification as fraud:

- A detailed Show Cause Notice (SCN) must be issued to the concerned persons/entities.
- A minimum of 21 days shall be provided for a response.
- The response must be examined by the CoE.
- A reasoned order must be issued, conveying the final decision.

#### **7. Reporting to Authorities**

a. Reporting to Law Enforcement Agencies (LEAs):

- Upon classification as fraud, a police complaint shall be filed immediately with the appropriate LEA.

- Monetary Thresholds for Mandatory Police Complaints:
  - o ₹10,000 and above if committed by a staff member.
  - o ₹1,00,000 and above if committed by a customer or external party.

For amounts below these thresholds, the CoE shall decide on filing a police complaint based on the case's merits.

b. Reporting to RBI:

- A Fraud Monitoring Return (FMR) must be filed for all frauds immediately but not later than 14 calendar days from the date of classification by the CoE. The 'Date of Occurrence,' 'Date of Detection,' and 'Date of Classification' shall be determined as per the Master Direction.

### **8. Staff Accountability**

- A staff accountability exercise must be conducted in all fraud cases.
- An inquiry shall be conducted by an officer senior to the concerned employee or by an independent practicing lawyer, as decided by the CoE.
- The inquiry must be concluded within a reasonable period.

### **9. Penal Measures**

- Persons/Entities classified as fraudulent shall be debarred from accessing financial services from RBI-regulated entities for 5 years from the date of repayment/settlement.
- Their Unique Customer IDs shall be blocked within AQUILA.

### **10. Other Provisions**

- Closure of Frauds: Fraud cases reported to RBI shall be closed as per the Master Direction, using the Closure Module only after prescribed actions are complete.
- Role of Auditors: Internal and external auditors must report any suspected frauds to the CoE immediately.
- Theft, Burglary, etc.: Instances of theft, burglary, dacoity, and robbery shall be reported to RBI's FMG within 7 days of occurrence.

### **11. Review and Effective Date**

This policy shall be effective from the date of its approval by the Board of Directors and shall be reviewed annually or as necessitated by regulatory changes

**BY THE ORDER OF THE BOARD OF DIRECTORS**

**For AQUILA FINANCE LIMITED**