FRAUD RISK MANAGEMENT POLICY

Standard Capital Markets Limited

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Fraud Risk Management Policy

DOCUMENT IDENTIFICATION INFORMATION

Document Name	Fraud Risk Management Policy
Index	Corporate Governance/Compliance/Fraud Risk Management Framework
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Approving Authority	Board of Directors
Review Frequency	Annually or earlier, if warranted by any regulatory changes, operational requirements, or business needs, to ensure its continued suitability, adequacy, and effectiveness in alignment with applicable laws, guidelines, and the Company's objectives.

This policy is issued by Standard Capital Markets Limited (hereinafter referred to as "SCML" or "Company") and encompasses all affiliated entities, employees, and stakeholders associated with SCML operations.

1. Policy Statement

1.1. The Reserve Bank of India under *Clause 2.1 of Master Directions on Fraud Risk Management in Non-Banking Financial Companies (NBFCs), 2024 dated July 15, 2024,* has mandated the compliance of board-approved Fraud Risk Management Policy.

1.2. The purpose of this policy is to provide a framework for prevention, early detection and timely reporting of incidents of fraud to Law Enforcement Agencies, RBI and National

Housing Bank and matters connected therewith or incidental thereto.

1.3. This policy incorporates measures for ensuring compliance with principles of natural justice in a time-bound manner.

2. Governance Framework

2.1. In the event of alleged fraud being investigated by the SCML the following procedure is followed to ensure compliance with the principle of natural justice:

2.1.1. Issue a Show Cause Notice (SCN) to the persons including Third Party Service Providers and Professionals such as architects, valuers, chartered accountants, advocates, etc., entities, and their promoters, whole-time directors, and executive directors involved in the alleged fraud being investigated.

2.1.2. The SCN shall include detailed information regarding the transactions, actions, or events that form the basis for the proposed fraud declaration and reporting.

2.1.3. A reasonable time of no less than 21 days is provided to the recipients of the SCN to respond.

2.1.4. SCML has a structured system to issue SCNs and review the responses or submissions made by individuals or entities before declaring them fraudulent.

2.1.5. The Company serves a reasoned order containing relevant facts/circumstances, submissions against SCN, and reasons for the declaration/classification of the account as fraud or otherwise.

3. Governance Framework

3.1. SCML has established a committee of the Board, known as the *"Special Committee of the Board for Monitoring and Follow-up of Fraud Cases"* (SCBMF). This committee consist of three Board members, having Managing Director and two Independent Directors, with one of the Independent Directors serving as the Chairperson.

3.2. SCML has the option to establish a Committee of Executives (CoE) at its discretion with a minimum of three members. Having one Whole-time director or equivalent rank Official for the purpose of performing the roles and responsibilities of SCBMF as required under these Directions.

3.3. The SCBMF is responsible for overseeing the effectiveness of fraud risk management within SCML.

3.4. The SCBMF is responsible to review and monitor fraud cases, including conducting root cause analysis, and recommend measures to strengthen internal controls, enhance the risk management framework, and minimize the occurrence of fraud.

3.5. SCML shall follow an appropriate organizational structure for fraud risk management within their overall risk Department. A senior official be designated to be responsible for monitoring and reporting of frauds.

3.6. The scope and frequency of the reviews are determined by the Board of SCML. The scope 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.

3.7. The Senior Management are responsible for implementation of this board approved policy and place a periodic review of

incidents of fraud before the Audit Committee of Board/ Board of Directors.

3.8. SCML has a well-established transparent mechanism in alignment with Whistleblower Policy ensuring Whistle Blower complaints on possible fraud cases/suspicious activities are examined and concluded appropriately.

3.9. SCML discloses the amount related to reported fraud cases in their Financial Statements under the Notes to Accounts.

4. Early Warning Signal Framework

4.1. An Early Warning Signals (EWS) framework as outlined in this policy are adhered by the Company.

4.2. The Risk Management Committee oversees the effectiveness of the EWS framework. Senior Management are responsible for implementing a robust EWS framework within the company.

4.3. SCML identify and monitor early warning signal indicators for credit facilities, loan accounts, and other financial transactions, with periodic reviews of these indicators.

4.4. The presence of one or more EWS indicators suggesting fraudulent activity prompt a more in-depth investigation and the initiation of preventive measures.

4.5. SCML's EWS framework validate in accordance with Risk Management Committee directives to ensure its integrity, robustness, and consistency of results.

4.6. The EWS Framework provides:

(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 from EWS System in a timely manner; and

(iii) Periodic review of credit sanction and monitoring processes, internal controls, and systems.

4.7. EWS Framework for Credit Facilities or Loan Accounts:

(i) The EWS system incorporate both quantitative and qualitative indicators to ensure its robustness and effectiveness. Potential indicators may include transactional data, borrower financial performance, market intelligence, and borrower conduct.

(ii) EWS triggers prompt an examination to determine if the account warrants an investigation for potential fraud.

4.8. EWS Framework for other financial or non-credit related transactions:

(i) The Company have an EWS system with suitable indicators and parameters for monitoring financial or non-credit related transactions. The system continuously update to enhance its integrity, efficiency, and fraud prevention capabilities.

(ii) The effectiveness of the EWS system are periodically tested by the Company.

(iii) The EWS system being a robust and resilient maintain system integrity, secure personal and financial data, and enable real-time monitoring for fraud prevention and detection.

(iv) The company actively monitor transactions and unusual activities, especially in non-KYC compliant and money mule accounts, to prevent unauthorized or fraudulent transactions and misuse of financial channels.

4.9. The dedicated Analytics Setup in SCML 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

SCML in time for initiating appropriate measures towards prevention of fraudulent activities.

5. Monitoring of Fraudulent Activities

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

5.1. In the event of suspicion/indication of wrongdoing or fraudulent activity, the Company shall use the method of either of internal or external audit for further investigation in such account.

5.2. SCML has an onboarded policy on the Engagement of External Auditors covering aspects of due diligence, competency and track record of the auditors, among others. Furthermore, this policy outlines the significant clauses that shall be specified in the loan agreement with the auditors, such as the time span for completion of the audit and submission of the audit report to the Company.

5.3. The loan agreement between the company and the borrower contains specific clauses as mandated by the RBI under the referred direction, including a clause for audit conduct at the behest of lenders.

5.4. Wherein the audit report remains inconclusive or is delayed due to non-cooperation by the borrower, SCML may 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.

5.5. SCML ensures that the principles of natural justice are strictly adhered to before classifying or declaring an account as fraud.

5.6. In case an account is identified as a fraud by any company the borrowal accounts of other group companies, in which

one or more promoter(s)/whole-time director(s) are common, are subjected to examination by SCML with regard to fraud.

5.7. In cases where Law Enforcement Agencies (LEAs) have Suo moto-initiated investigation involving a borrower account, SCML follows the process of classification of account as fraud as per their Board approved Policy and in tune with the process directed under Clause 2 of this policy.

5.8. SCML may place reliance on various third-party service providers as part of pre-sanction appraisal and post-sanction monitoring. It may incorporate necessary terms and conditions in its 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.

6. Staff Accountability

6.1. SCML initiate and finalize the examination of staff accountability in all fraud cases within a specified timeframe.

6.2. For cases involving senior executives, including the MD & CEO, Executive Director, or Executives of equivalent rank, the Audit Committee of the Board (ACB) initiate the examination of their accountability and present the findings to the Board.

6.3. Auditors:

(i) During an audit, if auditors identify transactions or documents suggesting possible fraudulent activity, they promptly notify senior management and, if necessary, the Audit Committee of the Board (ACB) of SCML for appropriate action.

(ii) The Internal Audit at SCML review controls and processes related to the prevention, detection, classification, monitoring, reporting, closure, and

withdrawal of fraud cases, as well as weaknesses observed in the critical processes of the company's fraud risk management framework.

7. Penal Measures

7.1. Individuals or entities classified and reported as fraud by SCML, as well as those associated with them (*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; 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*) are barred from raising funds or seeking additional credit facilities from RBI-regulated financial entities for five years following the full repayment of the defrauded or settlement amount agreed upon in a compromise settlement.

7.2. After the expiration of the mandatory cooling period, SCML have sole discretion to approve or reject any requests for credit facilities from such individuals or entities.

8. Treatment of Accounts under Resolution

8.1. In cases where an entity classified as fraud undergoes resolution under the IBC or RBI frameworks leading to a change in management and control, SCML assess whether the fraud classification can be revoked post-resolution. This assessment will not affect ongoing criminal proceedings against the previous promoters, directors, or responsible management personnel.

8.2. Penal measures are not applicable to the entity or business enterprise following the successful implementation of the resolution plan under the IBC or the relevant prudential framework.

8.3. Penal measures remain applicable to former promoters, directors, or individuals who were responsible for managing the entity or business enterprise prior to the resolution.

9. Reporting Fraud Incidents to the Law Enforcement Agency

9.1. SCML promptly report any incidents of fraud to relevant Law Enforcement Agencies (LEAs), including State Police authorities subject to applicable laws.

9.2. SCML have designated specific nodal points or officers for reporting fraud incidents to LEAs and ensuring effective coordination to meet LEA requirements.

10. Reporting to RBI

10.1. The Company shall select the most appropriate category from the following options, to ensure uniformity and consistency while reporting incidents of fraud to RBI through Fraud Monitoring Returns (FMRs) on the online portal:

(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 SCML; and

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

10.2. SCML report incidents of theft, burglary, dacoity, and robbery (including attempted cases) to the Fraud Monitoring Group (FMG) in the prescribed format at the Department of Supervision, Central Office, Reserve Bank of India, within seven days of occurrence.

10.3. SCML shall submit a quarterly Return on theft, burglary, dacoity, and robbery to the RBI via the online portal as and when such incident occurs. This return, covering all such cases from the quarter, must be submitted within 15 days following the end of the respective quarter.

11. Modalities of Reporting Incidents of Fraud to RBI

11.1. SCML shall submit the Fraud Monitoring Return (FMR) for individual fraud cases, regardless of the amount, within 14 days of classifying an incident or account as fraud.

11.2. Fraud incidents occurring at SCML's overseas branches in future, if any shall be reported to the concerned law enforcement agencies in accordance with the relevant laws and regulations of the host countries.

11.3. SCML separately report occurring of frauds in their group entities to the RBI if those entities are not regulated or

supervised by any financial sector authority. For overseas financial group entities affiliated with SCML, the parent company must report fraud incidents to the RBI. Group entities must also adhere to principles of natural justice before declaring fraud.

11.4. SCML follow the reporting timeframes set forth in this policy and address staff accountability for any delays in identifying and reporting fraud cases to the RBI.

11.5. When reporting frauds, SCML shall ensure that individuals or entities not involved in the fraud are not reported in the FMR.

11.6. Under exceptional circumstances, SCML may withdraw an FMR or remove names of perpetrators from the FMR, provided such actions are justified and approved by an official at least at the rank of director.

12. Closure of Fraud Cases Reported to RBI

12.1. SCML close fraud cases using the '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.

12.2. For statistical and reporting purposes, SCML close reported fraud cases involving amounts up to ₹25 lakh if:

(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; or

(ii) The charge-sheet is filed by the LEAs in the 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.

12.3. SCML maintain detailed records of all closed fraud cases for review by auditors.

13. Miscellaneous

13.1. Legal Audit of title Documents in respect of Large Value Loan Accounts: SCML subject the title deeds and related documents for all credit facilities of ₹1 crore and above to periodic legal audits and re-verifications until the loan is fully repaid. The scope and frequency of these audits adhere to the Board-approved policy.

13.2. Treatment of Accounts classified as Fraud and sold to other Lenders/Asset Reconstruction Companies (ARCs): SCML complete the investigation into potential fraud before transferring a loan account or credit facility to other lenders or Asset Reconstruction Companies (ARCs). If SCML determines that fraud has occurred, they are responsible to report it to the RBI before selling the accounts to other lenders or ARCs.

13.3. 'Date of Occurrence'/ 'Date of Detection' and 'Date of Classification' of Fraud

13.3.1. 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.

13.3.2. 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 SCML.

13.3.3. 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.

14. Approval, Update and Review

14.1. This policy shall be at least annually reviewed and approved by the Board of the SCML and shall be updated as and when there are any changes introduced by the guidelines/directions issued by the RBI.