

THE PRATAP CO-OP. BANK LTD.

FRAUD RISK MANAGEMENT (FRM)

POLICY

2024-2025

Resolution No: 12(w)

Date: 23.08. 2024

“FRAUD RISK MANAGEMENT POLICY”

This policy is based on RBI Master Direction No: RBI/DOS/2024-25/119 DOS.CO.FMG.SEC. No.6 /23.04.001/2024-25 dated 15.07.2024 on Fraud Risk Management for UCBs. The purpose of this policy is to have our fraud framework for:

- **Scope** – This Policy is applicable to any instances of fraud, whether confirmed or suspected, involving employees, external agencies, and individual relationship with The Pratap Co -Operative Bank Ltd.
- **Objective** - This policy aims to instill a proactive approach within the company for identifying, analyzing, and managing the risk of fraud. The Bank will maintain a zero-tolerance stance toward fraud across all levels and will implement measures to prevent fraud

The Policy is designed to achieve the following objectives:

Establishing procedures and controls that facilitate fraud detection and prevention.

Providing guidance to Veritas employees on fraud prevention, identification, and detection.

Developing internal controls.

Promptly documenting and reporting fraud incidents.

Offering essential training to Veritas staff to enhance their awareness and capabilities in fraud prevention.

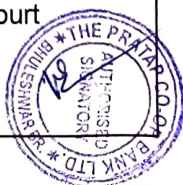
prevention, early detection and timely reporting of incidents of fraud to

- Law Enforcement Agencies (LEAs) like Police, CBI and ED etc,
- Reserve Bank of India (RBI)
- dissemination of information by RBI and matters connected therewith or incidental thereto.

1. Governance Structure for Fraud Risk Management

1.1.1 This policy contains measures towards: (i) prevention (ii) early detection (iii) investigation (iv) staff accountability (v) monitoring (vi) recovery and (vii) reporting of frauds on fraud risk management delineating roles and responsibilities of: (i) Board (ii) Board Committees and (iii) Senior Management of our Bank. The Policy also incorporate measures for ensuring compliance with principles of natural justice on the basis of the judgement of the:

- Hon'ble Supreme Court dated March 27, 2023 on Civil Appeal No.7300 of 2022 in the matter of State Bank of India & Others Vs. Rajesh Agarwal & Others and connected matters, read with the order dated May 12, 2023 passed by the Hon'ble Supreme Court



in Misc. Application. No.810 of 2023:

- i. specifically in relation to serving a notice
 - ii. giving an opportunity to submit a representation before classifying Persons / Entities as fraud and
 - iii. passing a reasoned order.
- The orders of the Hon'ble High Court of Bombay dated August 7, 2023 in Writ Petition (L) No. 20751 of 2023 and the Hon'ble High Court of Gujarat dated August 31, 2023 in Special Civil Application No. 12000 of 2021 and connected matters shall be referred to: in a time-bound manner which at a minimum shall include:
- i. Issuance of a detailed Show Cause Notice (SCN) to the: (A) Persons including Third Party Service Providers and (B) Professionals such as: (i) architects (ii) valuers (iii) chartered accountants (iv) advocates (v) Entities and its Promoters / Whole-time and Executive Directors against' whom allegation of fraud is being examined.
 - ii. As non-whole-time directors like nominee directors and independent directors are normally not in charge of, or responsible to the Organization for the conduct of business of the Organization, we take this into consideration before proceeding against such directors under these Directions.
 - iii. The SCN shall provide complete details of transactions / actions / events basis which declaration and reporting of a fraud is being contemplated under these Directions.

1.1.2 A reasonable time of not less than 21 days shall be provided to the Persons / Entities on whom the SCN was served to respond to the said SCN.

1.1.3 We shall have a well laid out system for issuance of SCN and examination of the responses / submissions made by the Persons / Entities prior to declaring such Persons / Entities as fraudulent.

1.1.4 A reasoned Order shall be served on the Persons / Entities conveying the decision of our Bank regarding declaration / classification of the account as fraud or otherwise. Such Order(s) must contain relevant facts / circumstances relied upon, the submission made against the SCN and the reasons for classification as fraud or otherwise.

1.2 Special Committee of the Board for Monitoring and Follow-up of cases of Frauds:

1.2.1 Our Bank shall constitute a Committee of the Board to be known as 'Special Committee of the Board for Monitoring and Follow-up of cases of Frauds' (SCBMF) with a minimum of three members of the Board, consisting of the Chief Executive Officer and two directors (i.e. directors with suitable banking experience or with relevant professional qualification in the fields of law, accountancy or finance). The Committee shall be headed by one of the directors.

1.2.2 SCBMF shall oversee the effectiveness of the fraud risk management in the Bank. SCBMF shall review and monitor the cases of frauds, including root cause analysis, and suggest mitigating measures for strengthening the internal controls, risk management framework and minimising the incidence of frauds. The coverage will include: (i) categories/trends of frauds (ii) industry (iii) sector (iv) geographical concentration of frauds (v) delay in detection (vi) classification of frauds (vii) delay in examination/conclusion of staff accountability. The periodicity of such reviews shall be on quarterly basis.



- 1.2.3 The Senior Management shall be responsible for implementation of this fraud risk management policy duly approved by Board. A quarterly periodic review of incidents of fraud shall also be placed before Board / Audit Committee of Board (ACB) of the Bank.
- 1.2.4 We shall put in place a transparent mechanism to ensure that Whistle Blower complaints on possible fraud cases / suspicious activities in accounts(s) are examined and concluded appropriately under our Whistle Blower Policy.
- 1.2.5 We shall set-up an appropriate organizational structure for institutionalization of fraud risk management (i.e. prevention, early detection, investigation, staff accountability, monitoring, recovery, analysis and reporting of frauds, etc.) within our overall risk management functions / Department. A sufficiently senior official shall be responsible for monitoring and reporting of frauds.

2. Credit facility / Loan account / Other banking transactions - Indication of fraudulent activities:

We shall monitor activities in credit facility / loan account / other banking transactions and remain alert on activities which could potentially turn out to be fraudulent.

- 2.1 In cases where there is a suspicion / indication of wrongdoing or fraudulent activity, we shall use an external audit (Auditors who are qualified to conduct audit under relevant statutes) or an internal audit as per our Board Approved Policy for further investigation in such accounts.

2.1.1 We shall frame a policy on engagement of external auditors covering aspects such as due diligence, competency and track record of the auditors, among others. Further, the contractual agreement with the auditors shall, *inter alia*, contain suitable clauses on timeline for completion of the audit and submission of audit report to our Bank within a specified time limit, as approved by the Board.

2.1.2 The loan agreement with the borrower shall contain clauses for conduct of such audit at the behest of lender(s). In cases where the audit report submitted remains inconclusive or is delayed due to non-cooperation by the borrower, we shall conclude on status of the account as a fraud or otherwise based on the material available on our record and our own internal investigation / assessment in such cases we shall ensure that principles of natural justice are strictly adhered to before classifying / declaring an account as fraud.

2.1.3 We shall ensure that the principles of natural justice specifically in relation to serving a notice, giving an opportunity to submit a representation before classifying Persons / Entities as fraud and passing a reasoned order. We shall strictly adhere to the above said judgement and order of the courts before classifying / declaring an account as fraud.

2.1.4 In case an account is identified as a fraud by us, the borrowal accounts of other group companies, in which one or more promoter(s) / whole-time director(s) are common shall also be subjected to examination from fraud angle by us.

2.1.5 In cases where Law Enforcement Agencies (LEAs) have *suo moto* initiated investigation involving a borrower account, we shall follow the process of classification of account as fraud as per our Board approved Policy and in tune with the process as given under Para 2.1 mentioned above.

2.2 Independent confirmation from the third-party service providers including professionals



We place reliance on various third-party service providers as part of pre-sanction appraisal and post-sanction monitoring. Therefore, we may incorporate necessary terms and conditions in the 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.

2.3 Staff Accountability

2.3.1 We shall initiate and complete the examination of staff accountability in all fraud cases in a time-bound manner in accordance with our internal policy.

2.3.2 In cases involving very senior executives of our MD & CEO, such executive shall not participate in the meeting of the Board / ACB / SCBMF in which their accountability is to be considered. The ACB shall initiate examination of their accountability and place before the Board.

2.4 Penal Measures

(i) Persons / Entities classified and reported as fraud by our Bank and also Entities and Persons associated as: subsidiary company, joint venture. In case of a person, all entities in which she / he is associated as promoter, or director with such Entities, shall be debarred from raising of funds and / or seeking additional credit facilities from financial entities regulated by RBI, for a period of five years from the date of full repayment of the defrauded amount / settlement amount agreed upon in case of a compromise settlement.

(ii) Lending to such Persons / Entities, being commercial decisions, we shall have the sole discretion to entertain or decline such requests for credit facilities after the expiry of the mandatory cooling period as mentioned at Para 2.4.(i) above.

2.5 Treatment of accounts under Resolution:

2.5.1 In case any borrowing entity classified as fraud has subsequently undergone a resolution either under IBC or under the resolution framework of RBI resulting in a change in the management and control of the entity / business enterprise, then we shall examine whether the borrowing entity shall continue to remain classified as fraud or the classification as fraud could be removed after implementation of the Resolution Plan under IBC or aforesaid prudential framework. This would, however, be, without prejudice to the continuance of criminal action against erstwhile promoter(s)/ director(s)/ persons who were in charge and responsible for the management of the affairs of the entity / business enterprise.

2.5.2 The penal measures as detailed in Para 2.4 shall not be applicable to entities / business enterprises after implementation of the resolution plan under IBC or aforesaid prudential framework.

2.5.3 The penal measures detailed in Para 2.4 shall continue to apply to the erstwhile promoter(s)/ director(s)/ persons who were in charge and responsible for the management of the affairs of the entity / business enterprise.

3. Reporting of Frauds to Law Enforcement Agencies (LEAs)

3.1 We shall immediately report the incidents of fraud to appropriate LEAs viz. State Police authorities, etc. subject to applicable laws.



- 3.2 We shall establish suitable nodal point(s) / designate officer(s) for reporting incidents of fraud to LEAs and for proper coordination to meet the requirements of the LEAs.

4.1 Reporting of Incidents of Fraud to Reserve Bank of India (RBI)

To ensure uniformity and consistency while reporting incidents of fraud to RBI through Fraud Monitoring Returns (FMRs) using online portal, we shall choose the most appropriate category from any one of the following:

- (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, 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 our bank; and
- (xi) Other type of fraudulent activity not covered under any of the above.

4.2 Modalities of Reporting Incidents of Fraud to RBI

4.2.1 We shall furnish FMR [Updates to the FMR shall be provided through FMR Update Application (FUA)] in individual fraud cases, irrespective of the amount involved, immediately but not later than 14 days from the date of classification as defined under Para 6.4.3 below of an incident / account as fraud.

4.2.2 We shall adhere to the timeframe prescribed in the RBI Master Direction for reporting of fraud cases to RBI. We must examine and fix staff accountability for delays in identification of fraud cases and in reporting to RBI.

4.2.3 While reporting frauds, we shall ensure that persons / entities who / which are not involved / associated with the fraud are not reported in the FMR.

4.2.4 We may, under exceptional circumstances, withdraw FMR / remove name(s) of perpetrator(s) from FMR. Such withdrawal / removal shall, however, be made with due justification and with the approval of an official at least in the rank of a director.

4.3.1 Closure of Fraud Cases Reported to RBI

4.3.2 We shall close fraud cases using 'Closure Module' where the actions as stated below are complete:

4.3.2.1 The fraud cases pending with LEAs / Court are disposed of; and

4.3.2.2 The examination of staff accountability has been completed.



4.3.3 In all closure cases of reported frauds, we shall maintain details of such cases for examination by auditors.

5. Cheque Related Frauds – Reporting to LEAs and RBI

5.1 To ensure uniformity and avoid duplication, reporting of frauds involving forged instruments, including fake / forged instruments sent in clearing in respect of truncated instruments, shall continue to be done by the paying banker and not by the presenting banker. In such cases the presenting Cooperative Bank shall immediately handover the underlying instrument to the drawee / paying Cooperative Bank, as and when demanded, to enable them to inform LEAs for investigation and further action under law and to report the fraud to RBI.

5.2 However, in the case of presentment of an instrument which is genuine but payment has been made to a person who is not the true owner; or where the amount has been credited before realisation and subsequently the instrument is found to be fake / forged and returned by the paying Cooperative Bank, the presenting Cooperative Bank which is defrauded or is put to loss by paying the amount before realisation of the instrument shall file the fraud report with the RBI and inform the LEAs for investigation and further action under law.

6. Other Instructions

6.1 Legal Audit of Title Documents in respect of Large Value Loan Accounts

We shall subject the title deeds and other related title documents in respect of all credit facilities of ₹1 crore and above to periodic legal audit and re- verification, till the loan is fully repaid. The scope and periodicity of legal audit shall be in accordance with the Board approved policy referred to in para 1.1 above.

6.2 Treatment of Accounts classified as Fraud and sold to other Lenders / Asset Reconstruction Companies (ARCs) We shall complete the investigation from fraud angle before transferring the loan account / credit facility to other lenders / ARCs. In cases where we conclude that a fraud has been perpetrated in the account, we shall report it to RBI before selling the asset to other lenders / ARCs. In cases where accounts are sold to ARCs, we shall continue to report subsequent developments in such accounts to RBI by obtaining requisite information periodically from the concerned ARCs.

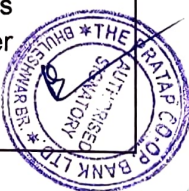
6.3 Role of Auditors

6.3.1 During the course of the audit, auditors may come across instances where the transactions in the account or the documents point to the possibility of fraudulent transactions in the account. In such a situation, the auditor should immediately bring it to the notice of the senior management and if necessary, to the Audit Committee of the Board (ACB) of the Bank for appropriate action.

6.3.2 Our Internal Audit shall cover controls and processes involved in prevention, detection, classification, monitoring, reporting, closure and withdrawal of fraud cases, and also weaknesses observed in the critical processes in the fraud risk management framework of our Bank including delay in reporting, non-reporting, conduct of staff accountability examination, prudential provisioning, etc.

6.4 'Date of Occurrence', 'Date of Detection' and 'Date of Classification' of Fraud – for the purpose of reporting under FMR

6.4.1 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.

6.4.2 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 our Bank.

6.4.3 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.

7. Reporting Cases of Theft, Burglary, Dacoity and Robbery

7.1 We shall report in the prescribed format 'Report on Bank Robbery, Theft, etc. (RBR)' through e-mail fmgcoub@rbi.org.in. The format is available on RBI website https://www.rbi.org.in/scripts/BS_Listofallreturns.aspx instances of theft, burglary, dacoity and robbery (including attempted cases), to Fraud Monitoring Group (FMG), Department of Supervision, Central Office, Reserve Bank of India, immediately (not later than seven days) from their occurrence.

7.2 We shall also submit a quarterly Return (RBR) on theft, burglary, dacoity and robbery to RBI using online portal, covering all such cases during the quarter. This shall be submitted within 15 days from the end of the quarter to which it relates.

8. The Fraud Risk Management Policy shall be reviewed by the Board at least once in three years or as and when fresh RBI instructions are issued.

For, The Pratap Co-operative Bank Ltd.



[Signature]
CEO