

NIHON

NIHON IMPEX PRIVATE LIMITED

FRAUD RISK MANAGEMENT POLICY

(Adopted by the Board of Directors on March 20, 2025)



Introduction

The Fraud Risk Management Policy of Nihon Impex Private Limited (Nihon or the Company) has been amended / modified by the Board at its meeting held on March 20, 2025 due to the introduction of revised Master Directions on Fraud Risk Management in July 2024 by the Reserve Bank of India (RBI).

Inspired by the 2023 judgement of the Supreme Court of India in *State Bank of India v. Rajesh Agarwal*, an appeal which stemmed from challenges to the Master Directions on Frauds, RBI has now mandated the observance of principles of natural justice before any entity/person is classified as fraudulent. In particular, the Supreme Court had held that for the purpose of preventing arbitrariness, the rule of *audi alteram partem* (i.e., each party is entitled to a fair hearing and must be given an opportunity to respond to evidence against them) must be read into regulatory directions on fraud.

Objective

This policy aims to provide a robust framework for the prevention, early detection, and timely reporting of frauds in the Company. It aims to strengthen the role of Boards in overseeing fraud risk management, enhance internal audit and control frameworks and ensure compliance with principles of natural justice.

Scope

The scope of this policy is to –

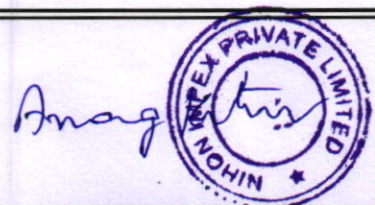
- Put in place a framework for detection and early reporting of frauds;
- Take timely actions like reporting to investigating agencies so that fraudsters are quickly brought to book;
- Examine staff accountability and effective fraud risk management;

Classification of Frauds

Fraud is defined as any intentional act committed to secure unlawful or unfair gain, in cash or in kind. Misconduct includes any acts of violation of law, regulations, internal policies or code of conduct of the Company.

Examples of fraud and misconduct

- Misappropriation of funds or assets.
- Improper handling or reporting of financial transactions.
- Soliciting or accepting material benefits from customers or service providers.
- Criminal breach of trust and misappropriation.
- Fraudulent cashing of forged instruments, manipulation of financial records, or using fictitious accounts.



- Unauthorized extension of credit for illicit gains.
- Negligence of duty leading to frauds.
- Cheating and documents forgery.
- Fraudulent transactions involving foreign exchange;
- Fraudulent electronic banking / digital payment related transactions committed on NBFCs; and
- Any other fraudulent activities not covered by the above categories.

Detection of Frauds

Fraud detection involves identifying actual or potential instances of fraud. Some of the sources of unearthing frauds could be –

- a) Complaints from customers/alerts from investigating agencies
- b) Electronic/print media/other sources
- c) Customer details through centralised database
- d) Re-conciliation of inter-office accounts
- e) Controller's visits
- f) Audits/inspections by inside and outside agencies
- g) Information given by whistle blowers

Further, as per RBI's revised Master Directions on Fraud Risk Management NBFCs in the Upper Layer and Middle Layer shall have a framework for Early Warning Signals (EWS)* through appropriate early warning indicators for monitoring credit facilities/loan accounts and other financial transactions.

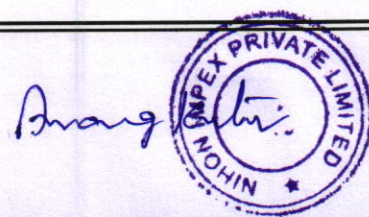
A Board Level Committee, similar to Risk Management Committee shall review the EWS framework for its suitable validation in accordance with its directions.

The framework shall cover the below mentioned:

- EWS triggers and monitoring of the same,
- Remedial actions for the triggers
- Periodic review of portfolio and control mechanisms

The early warning indicators can be from

- A. Risk based calling: Carried out by Internal CRM team
- B. Pre-disbursement sample customer visits by Field Risk Officers
- C. Post Disbursement trigger based customer visits by Credit & Risk team
- D. Customer Complaints: Complaints from customers can trigger fraudulent practices
- E. Credit Monitoring: Unusual Portfolio Behaviour indicating potential fraud



- F. Whistleblowers: Employees or insiders who notice suspicious activities can report them
- G. Audits: Regular audits can help detect irregularities or frauds
- H. Legal Actions: Legal proceedings or Litigation process can bring out fraudulent activities

Detection and Investigation of Fraud

The Head (Internal Audit) has the primary responsibility for the detection/investigation of all actual/suspected fraudulent acts as defined in the policy. However, the responsibility of reporting of any fraud shall not be limited to the Head of the Internal Audit Department, and any person/employee of the company who comes across any fraudulent activity shall promptly report the activity to the Internal Audit Department, to avoid occurrence of any fraud.

The person detecting the fraud or the investigating team must ensure proper procedures so as to avoid mistaken accusations or alerting suspected individuals that an investigation is under way.

An employee who discovers or suspects fraudulent activity will inform the Audit Head immediately.

The reporting individual will be advised:

- Not to contact the suspected individual directly, in an effort to determine facts.
- Not to discuss the case, facts, suspicions, or allegations with any other person

Fraud Reporting

Company shall issue an extensive Show Cause Notice (SCN) to the individuals, organizations, and promoters, as well as the executive directors and full-time employees, against whom the fraud allegations are under investigation. The Show Cause Notice shall capture the details about the transactions, acts, and occurrences which constitute the basis for the declaration and reporting of fraud.

Minimum of 21 days shall be provided to the Persons / Entities on whom the SCN was served to respond.

Staff Accountability

In all fraud cases, staff accountability will be mandatorily explored. It is required to

- a) confirm whether there was any lapse / mala-fide on part of employee which led to fraud and



- b) if so then to take action against the staff concerned.

Company 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 Whistle Blower Policy.

Special Committee

A Special Committee to Monitor and Follow-up (SCMF) shall be formed in line with regulatory guidelines, Middle layer NBFCs shall constitute a committee, headed by one Whole-Times Director to oversee the effectiveness of the fraud risk management in the Company and to review and monitor cases of frauds.

(I) Reporting to the Board:

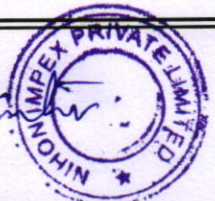
In addition to the actions set out by the policy above, the risk team shall also notify the RMC/Board of Directors of the Company as follows:

- a) Information relating to frauds for the quarters ending March, June and September shall be placed before the Board of Directors during the subsequent month of the following quarter.
- b) Irrespective of the quantum, all instances of Fraud will be reported to the Managing Director/Executive Committee.
- c) Where the quantum of the fraud exceeds Rs.1,00,000/- (Rupees One Lakh), the fraud shall be promptly reported to the Managing Director and Board after the same are proved in the preliminary investigation.
- d) It is to be ensured that information relating to all the attempted frauds involving Rs. 25 lakhs or more shall be placed before the Audit Committee of the Board (with details of fraud).
- e) In addition to the above, Veritas shall conduct an annual review of the frauds and place a note before the Board.

(II) Reporting to Regulator via XBRL:

- a) FMR -1 for reporting new frauds of Rs. 1,00,000 and above within three weeks (21 days) from the date of detection
- b) FMR-3/FUA for reporting the developments in respect of frauds already reported (as and when basis)
- c) FMR-4 (Quarterly Reporting of Theft, Robbery, Dacoit and Burglary): If there no incidents to report 'Nil' submission to be done in the XBRL
- d) Paper based Monthly Certificate to be submitted by 7th of every month in the prescribed format

Amang Kumar



(III) Reporting under Legal Governance:

As a general rule, the following cases should invariably be referred to the State Police:

- a) Cases of fraud involving an amount of Rs. 1,00,000 and above, committed by outsiders on their own and/or with the connivance of staff/officers;
- b) Cases of fraud committed by employees, when it involves the Veritas's funds exceeding Rs. 10,000/-

The said activity would be taken up by internal/external Legal Counsel for further processes and updates through Disciplinary Committee.

Closure of Fraud Cases

The Company shall report to RBI and concerned authorities as per the RBI Master Direction, the details of fraud cases of Rs. 1,00,000 and above (or as amended) closed along with reasons for the closure after completing the process as given below.

The Company should - close only such cases where the actions as stated below are complete and prior approval is obtained from the concerned authorities.

- The fraud cases pending with CBI/Police/Court are finally disposed of.
- The examination of staff accountability has been completed.
- The amount of fraud has been recovered or written off.
- Insurance claim wherever applicable has been settled.
- The Company has reviewed the systems and procedures, identified as the causative factors and plugged the lacunae and the fact of which has been certified by the appropriate authority (Board / Audit Committee of the Board)

The Company should also pursue vigorously with CBI for final disposal of pending fraud cases especially where the Company have completed staff side action. Similarly, the Company may vigorously follow up with the police authorities and/or court for final disposal of fraud cases.

The Company is allowed, for limited statistical/reporting purposes, to close those fraud cases involving amounts up to Rs. 25,00,000 after complying with the conditions specified in the RBI Master Direction.

The Company is required to follow the guidelines relating to seeking prior approval for closure of such cases from the concerned authorities and follow up of such cases after closure as per the guidelines of the RBI Master Direction, as amended.



Prevention of Fraud

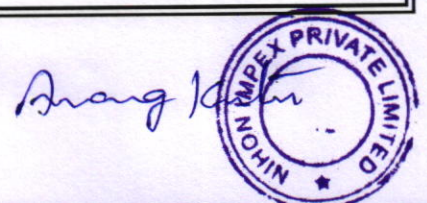
Through this policy the Company shall strive to adopt a preventive approach for identifying, analysing and managing the risk of Fraud. The Company shall follow zero tolerance to Fraud, at all levels. The Company shall take steps to prevent the occurrence of fraud by:

- Performing background checks, and verifying documents pertaining to borrowers, employees and others with whom Company has a business relationship.
- Circulating information regarding the modus operandi in frauds that have occurred, on a quarterly basis, to all branches for their information and necessary action.
- Adopting digital channels for disbursements and collections with the objective of eliminating cash transactions with clients.
- Conducting regular meetings with the staff members.
- Conducting surprise visits at branches to check the records and documents.
- Conducting exit interviews for all employees.
- Conducting Training Programmes and Seminars on frauds for all employees on a regular basis.

Updates or revisions

The Policy shall be updated periodically and any revision of this policy shall be placed before the Board of Directors for approval.

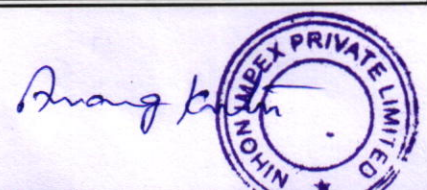
*****The End*****



Annexure – 1

List of the Early Warning Signals (EWS)

- Default in undisputed payment to the statutory bodies as declared in the Annual report.
- Bouncing of high-value cheques.
- Frequent change in the scope of the project to be undertaken by the borrower.
- Delay observed in payment of outstanding dues.
- Frequent invocation of BGs and devolvement of LCs.
- Underinsured or overinsured inventory.
- Invoices devoid of TAN and other details.
- Dispute on the title of collateral securities.
- Funds coming from other banks to liquidate the outstanding loan amount unless in normal course.
- Request received from the borrower to postpone the inspection of the godown for flimsy reasons.
- Funding of the interest by sanctioning additional facilities.
- Exclusive collateral charged to several lenders without NOC of existing charge holders.
- Concealment of certain vital documents like master agreement, insurance coverage.
- Floating front/associate companies by investing borrowed money.
- Critical issues highlighted in the stock audit report.
- Liabilities appearing in ROC search report, not reported by the borrower in its annual report.
- Frequent request for general-purpose loans.
- Frequent ad hoc sanctions.
- Non-routing of sales proceeds through consortium/member bank/lenders to the company.
- LCs issued for local trade/related party transactions without underlying trade transaction.
- High-value RTGS payment to unrelated parties.
- Heavy cash withdrawal in loan accounts.
- Non-production of original bills for verification upon request.
- Significant movements in inventory, disproportionately differing vis-a-vis change in turnover.



- Significant movements in receivables, disproportionately differing vis-a-vis change in turnover and/or increase in aging of the receivables.
- Disproportionate change in other current assets.
- Increase in borrowings, despite huge cash and cash equivalents in the borrower's balance sheet.
- Frequent change in accounting period and/or accounting policies.
- Costing of the project which is in wide variance with the standard cost of installation of the project.
- Claims not acknowledged as debt high.
- Substantial increase in unbilled revenue year after year.
- Significant increase in working capital borrowing as a percentage of turnover.
- Increase in Fixed Assets, without corresponding increase in long-term sources (when project is implemented).
- Large number of transactions with interconnected companies and large outstanding from such companies.
- Substantial related party transactions.
- Material discrepancies in the annual report.
- Significant inconsistencies within the annual report (between various sections).
- Poor disclosure of materially adverse information and no qualification by the statutory auditors.
- Raid by Income tax/sales tax/central excise duty officials.
- Significant reduction in the stake of promoter/director or increase in the encumbered shares of promoter/director.
- Resignation of the key personnel and frequent changes in the management.

Aravind Kumar

