

Meenakshi Mercantiles Limited.

FRAUD RISK MANAGEMENT POLICY

BACKGROUND:

Meenakshi Mercantiles Limited is an NBFC registered with the Reserve Bank of India (RBI). The Company is classified as a __middle_ layer NBFC (NBFC-__) pursuant to Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023.

This policy is being framed and adopted as per the Master Directions on Fraud Risk Management in Non-Banking Financial Companies issued on 15th July, 2024.

Keeping in view the RBI Guidelines as cited above, the following internal guiding principle are therefore laid out by the Board of Directors of Meenakshi Mercantiles Limited (the “Company”). This policy should always be read in conjunction with RBI guidelines, directives, circulars, and instructions.

OBJECTIVE:

The aim of this policy is to establish a robust framework for managing fraud risks across all business activities of the Company and to promote a culture of integrity, ethical behavior, and zero tolerance towards fraud. This policy aims to provide a framework for prevention, early detection and timely reporting of incidents of fraud Reserve Bank of India (RBI) and other Regulators, and matters connected therewith or incidental thereto.

DEFINITIONS:

“**Board**” means Board of Directors of the Company.

“**Company**” means __Meenakshi Mercantiles Limited

“**Senior Management**” The Key Managerial Personnel of the Company and the employees who are categorized as the Senior Management by the Audit Committee of the Company.

“**Policy**” means Fraud Risk Management Policy.

“**RBI**” means Reserve Bank of India.



“Fraud” means any deliberate act of deception intended for personal gain or to damage another party. This includes but is not limited to misrepresentation, embezzlement, and bribery.

“Fraud Risk Management” means the process of identifying, assessing, controlling, and monitoring the risk of fraud within the organization.

GOVERNANCE STRUCTURE FOR FRAUD RISK MANAGEMENT:

The Board approved Policy on fraud risk management delineating roles and responsibilities of Board / Board Committees and Senior Management of the company. This Policy also incorporate measures for ensuring compliance with principles of natural justice in a time-bound manner which at a minimum shall include:

To issue of a detailed Show Cause Notice (SCN) to the Persons, Entities and its Promoters / whole-time and Executive Directors against whom allegation of fraud is being examined. The SCN shall provide complete details of transactions / actions / events basis which declaration and reporting of a fraud is being contemplated under these Directions.

- To issue a detailed SCN to individuals, entities, promoters, whole-time, and executive directors under examination for fraud allegations. The SCN will include comprehensive details of transactions, actions, or events forming the basis for potential fraud declaration and reporting under applicable guidelines.
- A minimum of 21 days to respond comprehensively to the recipients of the SCN.
- To establish a structured process for issuing SCNs and reviewing responses before declaring individuals or entities as fraudulent.
- To put in place a transparent mechanism to ensure that Whistle Blower complaints on possible fraud cases / suspicious activities in account(s) are examined and concluded appropriately under their Whistle Blower Policy.
- Senior Management shall be responsible for implementation of the fraud risk management policy approved by the Board of the company. A periodic review of incidents of fraud shall also be placed before Board / Audit Committee of Board (ACB), as appropriate, by the Senior Management of the company.
- To disclose the amount related to fraud reported in the company for the year in their Financial Statements – Notes to Accounts.



FRAMEWORK FOR EARLY WARNING SIGNALS FOR DETECTION OF FRAUDS:

- A framework for Early Warning Signals (EWS) under the overall Fraud Risk Management Policy is approved by the Board.
- A Board Level Committee shall oversee the effectiveness of the framework for EWS. The Senior Management shall be responsible for implementation of a robust Framework for EWS within the company.
- The company shall identify appropriate early warning indicators for monitoring credit facilities / loan accounts and other financial transactions. These indicators shall be reviewed periodically for their effectiveness. Suspicion of fraudulent activity thrown up by the presence of one or more EWS indicators shall alert / trigger deeper investigation from potential fraud angle and initiating preventive measures.
- The EWS framework shall be subject to suitable validation in accordance with the directions of the Board Level Committee so as to ensure its integrity, robustness and consistency of the outcomes.

EWS FRAMEWORK FOR OTHER FINANCIAL / NON-CREDIT RELATED TRANSACTIONS:

To identify suitable indicators and integrate them into their EWS for monitoring financial and non-credit related transactions. The Company will continuously upgrade the EWS system to enhance its integrity and robustness. This system will efficiently monitor transactions to prevent fraudulent activities. Additionally, __Meenakshi Mercantiles Limited will periodically test the effectiveness of the EWS to ensure its reliability and efficiency.

COMMITTEE OF THE EXECUTIVES (CoE):

The company constituted a committee of executives consisting of minimum of three members, at least one of whom shall be a Whole-time director or equivalent rank Official for the purpose of for Monitoring and Follow-up of cases of Frauds and perform following roles & responsibilities:

- To oversee the effectiveness of the fraud risk management.
- To review and monitor 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 and periodicity of such reviews shall be decided by the Board of the company.



TYPES OF RISK:

Reputational Risk	Where the practices followed by the Company are not in consonance with industry as well as internally prescribed standards.
Credit & Concentration Risk	Where the overall industry has considerable exposure to one service provider and hence the company may lack control over the service provider.
Regulatory & Compliance Risk	Where privacy, consumer and prudential laws are not adequately complied with by the service provider
Human Resource Risk	Where the employee related factors are not handled cautiously such as safety, security, compensation, etc.

MITIGATION OF RISK:

_Meenakshi Mercantiles Limited mitigates the day to day risks with the following ideologies:

- **Compliance with Fair Practices Code:** All employees are trained and instructed to follow fair practices as per RBI prescribed guidelines in all their dealings with the customers.
- **Grievance Redressal Mechanism (GRM):** The Company has a defined GRM in place and the same is communicated to all customers at the time of sanction of loan. This is also available on the website of the Company.
- **Delinquency Management:** The Company does not resort to any coercive recovery practices and all recoveries are made in accordance with the Recovery policy and Fair Practice Code of the Company.
- **Legal Obligations:** All employees, vendors and associates are required to sign legal contracts wherein specific clauses related to non-disclosure are entered so as to ensure the Company from any reputational risks.
- **Market Risk:** Management regularly reviews its business model including the areas it wants to operate. The management carries out regular competitive analysis of its peers in the industry so as to remain in competition and change its markets if required.



- **Whistle Blower/Fraud Prevention Policy:** The Company encourages all its employees to report any non-compliance of stated company processes or policies without fear. We have a formal policy that details the manner in which such issues are handled – background investigation. All issues reported are categorized for nature and severity:
 - Financial or Non-Financial
 - Major or Minor
 - Procedural Lapse or Gross Violation
 - Breach in Process or Disciplinary Issue

- **Technology Infrastructure:** At the facilities where back office and financial operations take place, alternate/back-up connectivity has been provisioned such that in the event connectivity is lost with one service provider, the alternate connection can be utilized.

- **Financial Risk:** Measuring and managing liquidity needs are vital for effective operations of the company. The Company has constituted Asset and Liability CO) to identify any short term liquidity gaps and thereby take corrective actions to bridge the same.

- **Credit Risk:** A strong credit risk management process helps in containing the portfolio quality of the company. Key elements of the credit risk management include a structured and standardized credit approval process supported by a strong system, effective training programs, legal and technical due diligence, monitoring and a robust credit risk management strategy at a senior management level.

- **Compliance Risk:** The responsibility for ensuring compliance with regulatory requirements and directives on a day-to-day basis rests with the Heads, who will comply with the Compliance requirements of the Company. The Internal Audit function assures audit of the compliance levels. Relevant Committees of the board provide oversight for the management of these compliances.

REPORTING:

The Company's reporting process will adapt in response to changing requirements and the evolving best practices in risk management. On an annual basis, the reporting content will encompass a risk profile that outlines the most critical risks confronting the Company. For each of these risks, the reporting will include the following:

- A clear description of the risk.



- Comprehensive documentation of the essential activities and controls implemented to mitigate and manage the risk.
- Identification of any remaining or residual risk.
- Reference to any action plans in place to rectify any vulnerabilities or weaknesses in risk management.
- The formulation of a risk appetite statement for each key strategic risk.

MONITORING & REVIEW:

The Board is hereby authorized to review the Fraud Risk Management Policy of the Company on a periodical basis, so as to keep the same updated as per the market/regulatory trends in the Country.

For Meenakshi Mercantiles Limited
Jayesh Vora
Director