GEECEE FINCAP LIMITED

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INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

POLICY ON INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

DATE OF APPROVAL/REVIEW

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INTRODUCTION:

Reserve bank of India (RBI) vide its circular "RBI/2021-22/112 DOR.CRE.REC.No.60/03.10.001/2021-22 October" 22, 2021 and notification RBI/2022-23/129 DOR.CRE.REC.No.78/03.10.001/2022-23 dated October 11, 2022 has come up with revised regulatory framework for Non-Banking Finance Companies (NBFCs) viz. Scale Based Regulation (SBR) and further clarified that applicable NBFCs that are part of a common Group or are floated by a common set of promoters should not be viewed on a standalone basis and thus to determine the layer in which the Company would be classified total assets of all the NBFC's in a group would be considered. The objective of the SBR frame work is to align risk of the NBFCs with its size and complexity. On the basis of size, activity and the perceived risk, the frame work divides the NBFCs in four broader layers which are as under –

1. Base layer (NBFC – BL)
2. Middle layer (NBFC – ML)
3. Upper layer (NBFC – UL)
4. Top layer (NBFC – TL)

Thus in view of the aforementioned RBI circular and notification, GeeCee Fincap Limited is classified under Middle Layer as the total asset size of all the Companies in the Group exceeds Rs. 1000 crore. The NBFC Companies in the group that were taken into consideration for classification include Winro Commercial (India) Ltd, Saraswati Commercial (India) Limited and Singularity Holdings Limited. Accordingly, it has to follow the frame work guidelines applicable for middle layer category. Among the various facet of SBR, it is required for NBFCs to put in place board approved Capital Adequacy Assessment Process to maintain adequate capital to absorb the potential business risk. This document describes how the capital adequacy is assessed and maintained by the Company.

OBJECTIVE:

Basic objective of Internal Capital Adequacy Assessment Process (ICAAP) is to align Company's capital with the risk associated with its business model and complexity of the business in various scenarios including unforeseen business scenarios. Assessment of risk will be done from time to time but at least once in a year to ensure Company is maintaining required capital to meet out its planned business growth and to be in compliant with the regulatory requirements set out by the regulators.

CAPITAL ADEQUACY ASSESSMENT PROCESS:

The Company is engaged pre-dominantly in lending, investing in securities and mobilization of capital. The Company uses its surplus funds for the short-term lending purposes. Currently, the Company is providing revolving unsecured lending to its group Companies and Short-term unsecured term loan to Corporates. The company is not into retail lending.

Company's capital requirement changes with the type of risk the company is exposed with. Being an investment and credit company, GeeCee Fincap Limited is exposed with following risks –

1. Market risk
2. Credit risk
3. Operational risk

The Company reviews these risks from time to time and takes necessary steps to mitigate it. Section below elaborates the risk assessment process and its mitigation strategy in detail and also analyse impact of these risks on Company's Capital.

1. **Market Risk:**
   Market risk is the risk that changes in market prices – such as interest rates and commodity prices– will affect the Company's income or the value of its holdings of financial instruments. Market risk is attributable to all market risk sensitive financial instruments including payables and debt. Company's market risk is primary

related to its investments in securities. Thus, Company's exposure to market risk is a function of investing activities and revenue generating and operating activities. The objective of market risk management is to mitigate market risk by diversification.

a. Interest Rate Risk:

Company is exposed to interest rate risk. To mitigate the risk, company closely reviews the impact of interest fluctuation on its borrowing cost of overall borrowing exposure. Revised, Reserve Bank of India (RBI) guideline has given a head room to adjust the interest rate of on- lending in consonance with fluctuating borrowing cost. This helps the company to mitigate the interest rate risk, however Company is very sensitive and keeps in consideration all important aspects while revising the on-lending interest rate.

Interest rate risk can be either fair value interest rate risk or cash flow interest rate risk. Fair value interest rate risk is the risk of changes in fair values of fixed interest bearing investments because of fluctuations in the interest rates. Cash flow interest rate risk is the risk that the future cash flows of floating interest bearing investments will fluctuate because of fluctuations in the interest rates.

b. Price Risk:

Price risk is related to the change in market reference price of the instruments in quoted and unquoted securities. The majority of the Company's investments are listed on the BSE Ltd and the National Stock Exchange (NSE) in India. To manage its price risk arising from investment in securities, the Company diversifies its portfolio.

The company is exposed to market risk which may arise from the following factors:

(a) Higher stock price volatility
(b) Volatilities in Global market condition
(c) Company specific issues
(d) Other socio, political and economic challenges

2. Credit Risk:

Any lending activity by the Company is exposed to credit risk arising from repayment default by borrowers and other counterparties. Despite best efforts, there can be no assurance that repayment default will not occur and, in such circumstances, may have an effect on its results of operations. A failure to recover the expected value of collateral security could expose the Company to a potential loss. Any such losses could adversely affect the Company's financial condition and results of operations.

3. Operational Risk:

Based on the GeeCee Fincap own experiences, following are the key operational risks that Geecee Fincap limited may encounter. These risks are analysed in light of their impact on Company's capital.

a. Internal fraud:

The Company has digitized its majority of the process; the scope of fraud exists when there are cash transactions. In a few of the Company's processes, cash transaction is involved which exposes it to internal fraud risk. To mitigate this risk, the company has taken due care by keeping minimum cash transaction, setting upvarious check points such as verification of cash transactions. Nature of this risk is of low frequency and low impact therefore it does not have any significant impact on Company's Capital.

b. Employment practices and workplace safety;

This risk may arise due to breach in all statutory payments. In order to mitigate such risks Company keeps track on timely payment and remittance of all dues. As the Company has established a proof system of cross checking by the accounts team on monthly basis and it also verified by the statutory auditors every quarter, the perceived risk with respect to employee practices is considered insignificant.

Risk with regards to workplace safety may arise due to discrimination, sexual harassment or general liability because of damage incurred by the Company's staff. The Company policies have zero tolerance on such issues and take a strict disciplinary action, including even termination of such errant employee from his/her job. Because of such strict policy being in place perceived risk with respect to workplace safety is quite low. Impact on Capital from both of these risks is also low.

c. Business disruption and system failures:

Business disruption risks due to unforeseen circumstances such as pandemic, political unrest, government policy decision such as demonetization etc. are the high risk for the Company. As the Company do not have control over such kind of external risk, the company mitigate this risk by maintaining adequate Capital and taking appropriate measures well in time.

Impact of Risk of system failures is very low as the Company has adopted adequate measures to mitigate this risk. Moreover, Company does not perceive significant impact on Capital because of this risk.

POLICY ON MAINTAINING MINIMUM CAPITAL:

Based on the assessment of the various risks, it is clear that there are two risks which can majorly impact the Company's Capital - credit risk and market risk. This is because; it majorly impacts the Investment portfolio which is the major assets of the Company. Though the market risk is impacting price of investment in various securities but the risk is limited as the Company has diversified its portfolio.

The Company has been comfortably managing the perceived risks by maintaining the Capital at RBI prescribed capital limit of Capital to Risk Weighted Assets (CRAR) of 15%, with Tier I capital more than 100% of Tier II capital. The company management has decided to keep the CRAR at slightly higher than RBI prescribed CRAR rate. Company will try to keep minimum CRAR at 20%. If it is reduced below the limit set by Company then Company will reduce exposure by selling shares and securities and receiving loans repayment & if required Company will raise funds by ways of issuing additional shares. The Risk management committee of the Company periodically reviews DNBS-03 - statement of capital funds, risk asset ratio, etc. in quarterly meeting.

REVIEW OF POLICY:

This policy will be reviewed periodically with the board approval.