Risk Management and Credit Risk Policy

For GeeCee Fincap Limited

(Effective Date: 18th May, 2017)
Reviewed & Updated by the Board of Directors

PART - A

RISK MANAGEMENT POLICY

PREAMBLE

GeeCee Fincap Limited (GCFL) is Non-Banking Financial Company prone to inherent business risks like any other organization. This document is intended to formalize a risk management policy the objective of which shall be identification, evaluating, monitoring, and minimizing identifiable risks. The Company's primary activity is lending, investing in securities and mobilisation of Capital. The risk associated with the Company's activity is unlikely to cause any serious impact on company financial and workings. Therefore, this policy mainly covers the risks associated with the primary business of the Company.

The Board of Directors ("Board") of GeeCee Fincap Limited ("Company" or "GCFL"), has adopted the following policy which encompasses practices relating to identification, assessment, monitoring and mitigation of various risks to the business. Risk Management Policy of the Company seeks to minimize unfavourable impact on the business objectives and develop stakeholder value. Further, the risk management practices seek to sustain and enhance long-term competitive advantage for the Company.

This is in compliance with Non- Banking Financial Company- Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 and Companies Act, 2013; which requires GCFL to lay down procedures about the risk assessment and risk minimization.

PURPOSE OF POLICY

This Policy has been framed in accordance with the Risk Management framework as issued by Reserve Bank of India **("RBI")** vide Master Direction DNBR. PD. 008/03.10.119/2016-17 dated September 01, 2016 **("RBI Circular")** and amendments thereon.

The purpose of this policy is to address unanticipated and unintended losses to the human resources & financial assets of the Company without unnecessarily limiting the activities that advance its mission and goals and to ensure that all the current and future material risk exposures of the company are identified, assessed, quantified, appropriately mitigated, minimized and managed i.e. to ensure adequate systems for risk management

DEFINITIONS

- **"Board"** means Board of Directors of the Company.
- **"Company/GCFL"** means GeeCee Fincap Limited
- **"Directors"** mean individual Director or Directors on the Board of the Company.
- **"Policy"** means Risk Management and Credit Risk Policy
- **"RBI"** means Reserve Bank of India
- **"RCM"** means Risk Control Matrix

POLICY

GCFL recognizes that Risk management as one of the key drivers of growth and further to enhance corporate governance. Accordingly, the Board has framed the following Risk Management Policy:

- To continuously thrive for available risks in the organization which directly or indirectly effect the functioning of the organization.

- Selecting, maintaining and enhancing the risk management tools used by the Program to provide analyses that inform and support the investment actions of the entire Organization.

IDENTIFICATION, MEASUREMENT AND ASSESSMENT OF RISK

- Management's responsibility is to operationalize the Risk Management Program and ensure that formal procedures are put in place to identify and define risk with input from representatives across the businesses.

- Measurement of risk is completed considering both quantitative and qualitative means using the likelihood and impact criteria as developed by Management.

- The management has identified certain inherent and residual risks which have been divided in accordance with likelihood and its impact on the business.

- Following risks have been identified by the organization:

    1. Strategic Risk
    2. Operational Risk
    3. Market Risk
    4. Financial Risk
    5. Reputational Risk
    6. Credit Risk
    7. Regulatory & Compliance Risk

- **Strategic Risk** – This risk is related to the overall business strategies and the related Economic / business environment

- **Operational Risk**- Arising out of technology failure, fraud, error, inadequate financial capacity to fulfil obligations and/ or to provide remedies, outsourcing of activities to vendors.

- **Market Risk**- Risks related to changes in various markets in which the Company operates.

- **Financial Risk**- These risks includes movement in interest rates and also liquidity risks inherent to the business.

- **Reputational Risk** – Where the practices followed by the Company are not in consonance with industry as well as internally prescribed standards.

- **Credit Risk** – Where the overall industry has considerable exposure to one service provider and hence the NBFC 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.

RISK CATERGORIZATION AND MITIGATION FACTORS

The following broad categories of risks have been identified in our risk management framework along with possible mitigation factors:

- **Strategic Risk**

  - **Risk**: It is the risk to earnings and capital arising from lack of responsiveness to changes in the business environment and/or adverse business decisions, besides adoption of wrong strategies and choices.

- **Mitigation**: The management is proactive in its approach towards changes in economic/business environment as the business strategies are regularly discussed with the senior officials of the organization so that adequate steps can be taken.

- **Reputational risk**

- **Risk:** Reputational risk is related to adverse perception of the image or the company, on the part of customers, counterparties, shareholders, investors and regulators. It refers to the potential adverse effects, which can arise from the company's reputation getting tarnished due to factors such as unethical practices, regulatory actions, customer dissatisfaction and complaints leading to negative publicity

The risk can emanate from:

- Non-Compliance with Regulations
- Customer Dissatisfaction
- Misrepresentation of facts and figures in public

- **Mitigation:** Considering the business model the following aspects have been put in place to reduce vulnerability related to reputational risk:

- **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.

- **Delinquency Management**: The Company does not resort to any coercive recovery practices and all recoveries are made in accordance with the Fair Practice Code of the Company.

- **Market Risk**

- **Risk:** Risks emanating out of the choices we make on markets, resources and delivery model that can potentially impact our long-term competitive advantage.

- **Mitigation:** 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.

- **Operational Risk**

- **Risk:** Risks inherent to business operations including those relating to client acquisition, service delivery to clients, business support activities, information security, physical security, human resource and business activity disruptions.

- **Mitigation:**
  - **Document Storage and Retrieval**: GCFL recognizes the need for proper storage of documents as also their retrieval for audit and statutory requirements.
  - **Physical Storage:** All the documents / papers are stored in safe condition at the registered office of the Company.
  - **Scanned Copies:** All the documents / papers are of the loan are stored in scanned copies for easy retrieval especially for audit purposes where physical documents are not required.
  - **Internal Audits:** Internal Audit at the Corporate Office is carried out on a yearly basis by an independent audit firm appointed by the Board. The scope of this Internal Audit covers all key functions including Operations, Credit, Administration, Finance and Accounts. The firm also audits the company's adherence to all Statutory and Regulatory Guidelines that are applicable to the Company.

- **Financial Risk**

- **Interest Risk:** Interest rate risk is the risk where changes in market interest rates might adversely affect an NBFC's financial condition. The changes in interest rates affect company in some way. The immediate impact of changes in interest rates is on company's earnings (i.e. reported profits) by changing its Net Interest Income (NII). As such GCFL is into providing of loans which are always fixed rate loans. The company manages this risk on NII by pricing its loan products to customers at a rate which covers interest rate risk.

- **Liquidity Risk:** Measuring and managing liquidity needs are vital for effective operations of an NBFC. The importance of liquidity transcends individual institutions, as liquidity shortfall in one institution can have repercussions on the entire system. Though assets commonly considered as liquid, like government securities and other money market instruments, could also become illiquid when the market and players are unidirectional. Therefore, liquidity has to be tracked through maturity or cash flow mismatches.

- **Maturity Mismatch:** Liquidity Risk arises largely due to maturity mismatch associated with assets and liabilities of the company.

- **Funding Concentration Risk:** Concentration of a single source of funds exposes the Company to an inability to raise funds in a planned and timely manner and resort to high cost emergency sources of funds. Further, concentration of funding sources can also result in a skewed maturity profile of liabilities and resultant Asset-Liability mismatch.

- **Asset-Liability Mismatch**: A skewed asset-liability profile can lead to severe liquidity shortfall and result in significantly higher costs of funds; especially so during times of crises.

- **Leverage Risk:** A high degree of leverage can severely impact the liquidity profile of the company and lead to default in meeting its liabilities.

- **Mitigation:** The key liquidity management policies being followed at GCFL include:

  - **Lender Exposure Updates**: The exposure profile to the lenders is regularly updated to ensure that skewness does not creep in in respect of the sources of external funds.

  - **Capital Adequacy:** GCFL targets to maintain healthy levels of capital adequacy - historically, in excess of 50%. The Company maintains a strong capital position with the capital ratios well above the thresholds defined by the regulatory authorities through continuous and timely capital infusion.

- **Credit Risk**

  - **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.

  - **Mitigation:** 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, legal and technical due diligence, monitoring and robust credit risk management strategy at a senior management level.

"A DETAILED CREDIT RISK MECHANISM IS PROVIDED IN PART B OF THIS POLICY"

- Regulatory and Compliance Risk

  - **Risk:** The company is exposed to risk attached to various statutes and regulations. The company is mitigating the risk through regular review of legal compliances carried out through internal as well as external compliance audit. Non- Compliance can result in stringent actions and penalties from the Regulator and/or Statutory Authorities and which also poses a risk to Company's reputation.

    These risks can be:
    - Non-Compliance with RBI Regulations
    - Non-Compliance with Statutory Regulations
    - Non-Compliance with covenants laid down by Lenders

  - **Mitigation:**
    - The compliance status of the Company is quarterly reported to the Board.
    - Internal Auditor conducts audit of compliance function on a yearly basis wherein all regulatory compliances are reviewed in detail.

REPORTING REQUIREMENTS

On a quarterly basis, updated information materially affecting the risk profile (e.g. market developments) will be provided which will enable the Board to understand the likely future risk profile of the Enterprise. These will be reported to the Board by top management personnel as soon as practicable.

PART -B
CREDIT RISK POLICY

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. Thus in order to mitigate such loss the Company has laid down some check in process before loans are sanctioned.

As per the business operations of the Company the lending is categorised as below:

- **Inter Corporate / Other Corporate Lending**: Inter corporate lending consists of unsecured lending within Companies in the Group and unsecured lending with other Body Corporates.

- **Funding to Real Estate Developers (Not Housing Finance):** Under this, lending will be made to entities / Companies engaged in real estate business /construction and requires funds. This will not include housing finance.

  As the credit risk is higher in case of real estate lending (Not Housing Finance) other than the Corporate Lending the entire process and procedure shall be applied for funding to real estate developers required for construction.

CREDIT APPROVAL AUTHORITY

Credit Approval Authority resides ultimately with the Credit Committee (CC) and Lending Committee (LC) of the Board. The Proposal for Credit Lending to real estate developers for construction will be deliberated in details in the credit committee on various parameters and there after decision will be taken for sanction of loan. Once the project is found to be viable to be funded the credit committee would sanction the loan and the lending committee after reviewing that the pre-disbursement documentation is done will disburse the loan.

PORTFOLIO NORMS

In evaluating credit proposals, the CC will also be keeping in mind certain exposure norms. These are in addition to the norms on single borrower and group exposures and similar guidelines that have been imposed by the RBI.

The norms below are suggestive in nature, barring specific prescriptive norms:-

- **Geographic Concentration**: It is recognized that a major proportion of our business will come from the metros and their suburbs more specific in Mumbai and Pune. However, we need to ensure that we do not have an inordinate concentration on small geographical areas.

- **Sector Norms:** All financings must be given a Sector Classification. Of all the financings for a sector 100% sector cap if on Real estate. Other than real estate there is no other sector in which lending would be made. In case it is desired for financing in some other sector than prior approval from Board would be required.

- **Unsecured Borrowings:** Unsecured Borrowings (i.e. without any tangible security to which a monetary value can be ascribed) shall be subject to the applicable concentration norms prescribed by RBI through its directors/ circulars / notification from time to time.

FINANCING TENOR

The final maturity of financings provided by GCFL will adhere to the following limits.

- Secured Financing : 5 years
- Unsecured Financing: As agreed by the Borrower and GCFL

CREDIT APPROVAL PROCESS FLOW

The credit approval will include the below process / steps:

A. Credit Appraisal (CA)
B. Investment Committee
C. Completion of KYC

D. Execution of Security Documentation
E. Disbursal of financing

A. Credit Appraisal / Credit Proposal (CA)

Credit Appraisal or Credit Proposal; used interchangeably (CA) is the document which will form the basis of discussions and decision of the Credit Committee. The author of the credit proposal will be held responsible for the accuracy of the information provided in the CA.

Each proposal must cover, inter alia:-

1. Background of Project
2. Nature of financing including specifics on the structure and instrument

3. Client financial strength, leverage levels, promoter strength, credit history (of client and promoter's CIBIL ratings), business and cashflow analysis, debt profile including other lenders and details of borrowing. This should include description of interaction with the borrower and the originator's impression.

4. Repayment sources: - Primary, Secondary (and Tertiary if applicable), Status of the project, time required for completion of the project, Cash Liquidity, Units Sold/ Unsold.

5. Key risks and mitigants:-

   – Reputation / Anti-Money Laundering risks if any else NIL comment
   – Financial
   – Regulatory
   – Structure and instrument risk – especially around any subordination of our rights in an enforceability situation.

6. Security structure: - This should detail the security on offer. While the CC will decide on the final security structure, it is expected that most financings will be provided on the basis of atleast 2 times cover. Coverage below 1.5 times must be highlighted to the CC.

   Debt Service Reserve Account (DSRA) and Escrow Account mechanisms are expected to be part of most security packages. Any specific deviation from expected security structure for a type of financing that may open GCFL up to additional risk must be highlighted in the Credit Committee.

7. Discussion on enforceability of security.

8. Key terms and conditions of the financing.

The CC may, if it deems suitable provide a specific format in which Credit Proposals are to be presented. The above list of information required in the CC is not exhaustive. Authors of the CC are expected to provide all relevant information needed by the CC for making a credit decision. The CC, along with any additional conditions that the CC may impose as part of the approval process will be the source document on the basis of which the financing will be provided and security structure executed. The CA is to be placed and discussed at the CC meeting.

CREDIT COMMITTEE (CC)

- Decisions of the CC are deemed to be valid only if the quorum is present.
- CC meetings will be minuted in detail and these minutes will form the basis of approvals.
- CC decision on a credit proposal will incorporate the CA, any follow-up questions and conditions that the CC or its members impose in writing and any comments made during the CC meeting.

– All the CC minutes are to be placed before the Board of Directors.

- Clients must furnish all authenticated documents necessary for completing the KYC process. This includes all charter and incorporation documents, proof of address and business, financial statements and also the KYC documents for important stakeholders and authorized signatories.

- The Board of GCFL are expected to put in place a separate KYC policy that is to be fulfilled.

PERFECTION OF SECURITY AND EXECUTION OF DOCUMENTATION

Our standard documents (Loan Agreement; Mortgage Agreements; Pledge Agreements; Guarantees etc.) will be the basis of security documentation. Legal Counsel (in house or external counsel) will suitably modify our standard documents to incorporate the credit approval conditions of the CC and also any relevant regulatory clauses that are deemed necessary for the financing. It is expected that there will be some negotiation with the client on the drafting of the security documents.

The Security documents will be executed by the Borrower and the GCFL once the loan is sanctioned. Responsibility for drafting and finalizing the security documents lies with the Legal Counsel. Scanned copies of the security documentation must be stored in the client folders and easily accessible to the team at all times.

It is also the responsibility of the documentation team to ensure that the necessary filings with regulators or government agencies are done within the prescribed time periods.
After the perfection of security documentation and the necessary filings have been completed, the senior most staff has to put a note confirming that documentation is complete into the client files.

DISBURSAL OF FINANCING

Disbursal of the financing will be done by the Finance and Accounts team after receiving approval from the lending committee. This is done on the basis of a confirmation from the Documentation team that documentation is complete and any Conditions Precedent (CP) has been completed.

In making the disbursal, it is to be ensured that disbursal of funds is made to an account of the Borrower.

ENFORCEMENT OF SECURITY AND RECOVERY ACTIONS

- The secured loan granted by GCFL will be secured by executing mortgage deeds and creating equitable mortgage on the immovable properties of the borrower.
- The Borrower shall at all the times maintain security cover of minimum 2 (Two times) of outstanding facility amount along with accrued interest during entire tenure of the facility.
- The lender shall have the right to assign, transfer, sell, pledge or hypothecate all its rights, title, and interest created hereunder or under the Facility Agreement and Security Agreement including the Facility, receivables, the security, without prior notice to the Borrower/Mortgagor/Guarantors, to any other Bank/NBFC/Financial Institution.

REVIEW OF THE POLICY

The policy and any act under this policy should be reviewed as and when found suitable by the Board of Directors.

EFFECTIVE DATE

The Policy is effective from the date of receiving approval from the board of directors i.e. 18th May, 2017