FINQUEST FINANCIAL SOLUTIONS PRIVATE LIMITED
CREDIT RISK POLICY

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Version control:

Particulars	Date	Version No.
Adopted in the Board Meeting held on	02/02/2017	V. 1
Revision in the Board Meeting held on	19/04/2022	V. 2
Revision in the Board Meeting held on	02/03/2023	V. 3

CREDIT RISK POLICY

1. Introduction

Finquest Financial Solutions Pvt Ltd ("FFSPL/the Company") is registered with the Reserve Bank of India (RBI) as a Non- Banking Financial Company (NBFC) not accepting public deposits. The Company falls under the Base Layer (NBFC-BL) as per the Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs ("SBR Framework")

In accordance with the RBI Master Direction Non-Banking Financial Company Non-Systemically Important Non Deposit taking Company (Reserve Bank) Directions, 2016 dated September 1, 2016 (updated from time to time), (the Master Directions) and the SBR Framework, the Board of Directors of the Company (the Board) has adopted the following Credit Risk Policy (the Policy) of the Company.

One of the objectives of the Company is to become a credible, relevant and leading financier / NBFC in its chosen business segment(s). In pursuing its chosen business segment(s), the Company will operate according to the highest ethical and compliance standards and constantly seek to follow best practices in the industry. Under no circumstances will contravention of applicable laws and relevant regulations be tolerated.

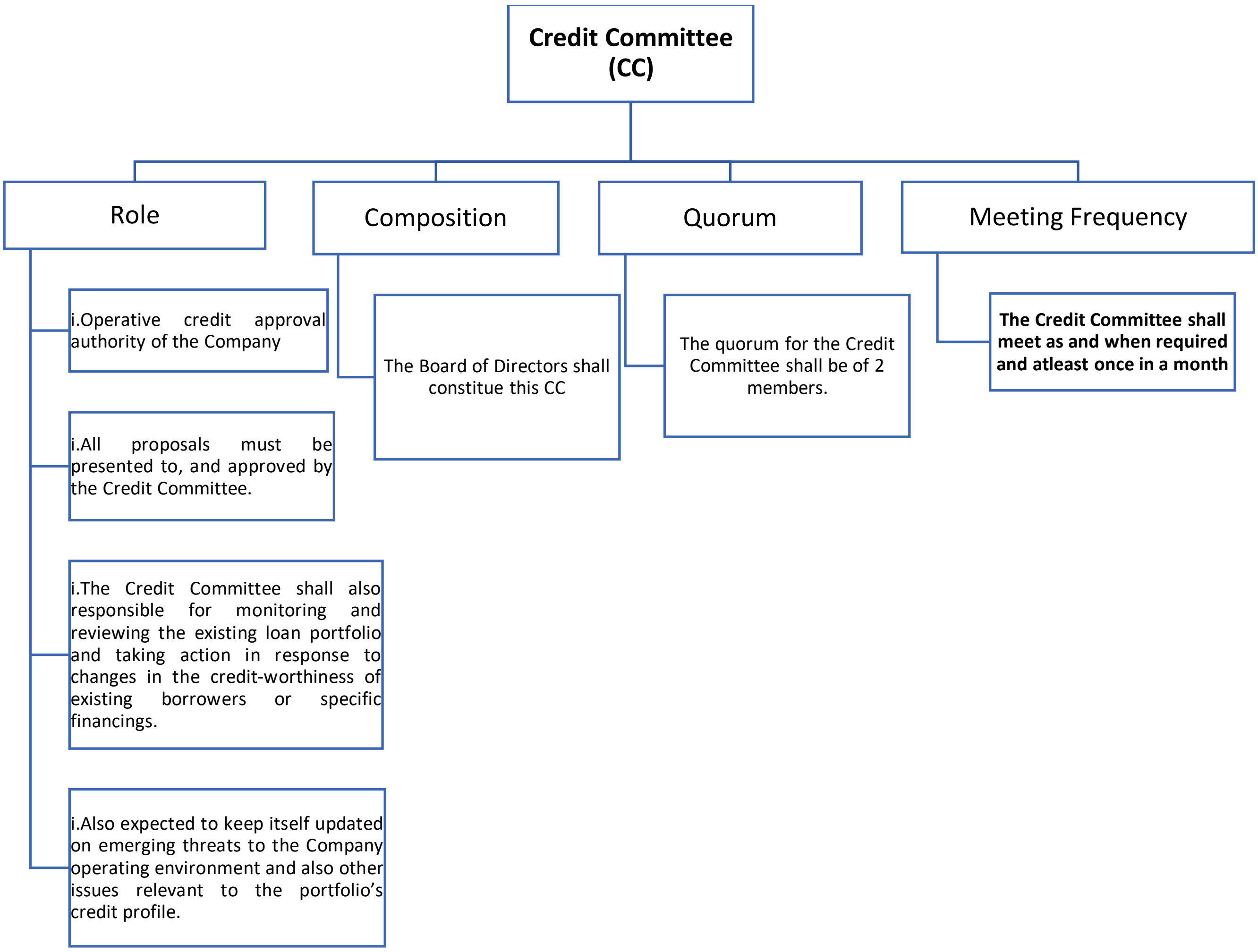
2. Objective of the Credit Risk Policy

- The Credit Risk Policy is the governing and guiding document for credit appraisal, approval, disbursement and post-approval and disbursement monitoring and enforcement. The Policy will therefore be the reference document on any issues related to credit appraisal, approval, disbursement, post-approval and disbursement monitoring and enforcement and process connected / related to the same. The purpose of the Policy is also to ensure that the financing portfolio of the Company remains of sound quality, the portfolio growth is supported and that the Company is in a position to manage its Credit Risk in a manner that minimizes creation of Non-Performing Assets (NPAs) and/or Stressed Assets.
- The Credit Risk Policy shall be read and followed in consonance with the relevant laws and regulations governing the business of the Company and in the case of any conflict or divergence between the Credit Risk Policy and relevant regulations and laws, the regulations and laws shall override the Credit Risk Policy.
- The Credit Risk Policy must also be read with other risk and process guidelines of the Company as may be relevant.
- The Credit Risk Policy will be reviewed periodically and will be amended /updated from time to time in the light of changing business dynamics, economic environment and regulatory changes. The Credit Risk Policy shall be reviewed at least every 12 months and any amendments in the Policy shall be approved by the Board.
- It is also an objective of the Credit Risk Policy that the Company continues to provide financings where the returns reflect the risk taken, and are positive from a Return on Equity and Return on Capital Employed perspectives. The business seeks to be profitable and add value to all its stakeholders viz. – the Shareholders, Management, employees and its clients /customers.
- It is reiterated that all times the Company and its employees will follow and comply with the applicable / necessary regulations and guidelines issued by the regulators i.e. the Reserve Bank of India, Ministry of Finance, the Ministry of Corporate Affairs etc.

2. Credit Approval Authority

- The Board shall constitute a Credit Committee of the Company.
- All credit approval and delegation of credit approval authority shall rest with the Credit Committee.
- The Powers of the Credit Committee shall also include any subsequent deviation from approved credit terms in respect of any borrowers of the Company. Any such deviation approved by the Credit Committee shall be brought to the notice of the Board or the Risk Management Committee in the immediate next meeting for their record and review.
- The Credit Committee shall report to the Board of Directors of the Company and the Board shall monitor the functioning of Credit Committee.

4. Credit Committee (CC)



5. Portfolio Norms

In evaluating the credit proposals, the Credit Committee will also be guided by the exposure norms and concentration norms, to the extent applicable on the Company. These are in addition to the applicable norms on single borrower and group exposures and similar guidelines as may be specified by the Reserve Bank of India (RBI) from time to time, to the extent applicable on the Company.

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

- **Correlation across Borrowers and Financings**: On an ongoing basis, the Credit Committee shall endeavour to ensure that the Company get the full benefits of portfolio diversification on its exposures. It is recommended that any correlations with other exposures e.g. multiple borrowers selling to the same client; geographical etc. shall also be kept in mind while providing credit approvals.
- **Geographic Concentration**: It is recognized that a major proportion of the business of the Company will come from the metros and their suburbs.
- **Sector Norms**: All financings must be given a Sector Classification.
    - Further, the exposure on any borrower or group of borrower must be within the following sectoral limits: [Limits as % of total AUM as on the last day of the previous month]
        - Commercial Real Estate Exposure (including non-fund based (NFB) limits)- 30%
        - Capital Market Exposure on listed shares and securities (direct as well as indirect)- 10%
        - Manufacturing Industries – 50%
        - Other (including advisory company & individuals and service providers) – 10%
- **Unsecured Lending**: At no point should Unsecured Lending (i.e. without any tangible security to which a monetary value can be ascribed) exceed 80% of the portfolio of the Company to lending other than group company(ies) or Subsidiary Company(ies) of the Company.
- **Loans with bullet repayment:** The Credit Committee shall evaluate the loan proposals with bullet repayment and ensure the following:
    - The rationale for sanctioning these loans is properly documented;
    - The loan amount sanctioned as well as outstanding amount, at any point of time, is within the aforesaid overall limit for such loans;
    - The loan tenure is not more than 24 months.

1. Financing Tenor / period

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

- Secured Financing: Maximum 5 years
- Unsecured Financing: Maximum 24 months

Any deviation from the above will need to be specifically approved by the Board.

2. Credit Evaluation and Approval Process Flow

Credit Approval Process in brief includes the following steps:

Client Eligibility → a.Credit Appraisal (CA) → Credit Committee → Completion of KYC → Execution of Security Documentation → Disbursal of Financing

All financing and creation of security will be in line with the Company's license conditions and the relevant applicable laws and regulations and the RBI Directions. The Company will be open to finance all types of client entities provided they have the requisite authority and legal power to avail of financing / borrow the amount from the Company and are of required credit worthiness. This includes Individuals, Hindu HUF, Trusts, Partnership firms, Corporates, Body Corporates and Limited Liability Partnership Firms and /or SEBI Registered Intermediaries etc. High risk clients (entities) like Trusts and Partnership firms should be subject to greater scrutiny while evaluating their financing proposal.

The Company shall be fully compliant with the Income Tax Act,1961, the Prevention of Money Laundering Act (the PMLA) and the Rules and Regulations made and the instructions and Circulars issued thereunder from time to time and shall be extra careful and more vigilant while dealing with the Politically Exposed Persons (PEPs).

The Company's credit appraisal process will typically check and evaluate the following important factors:

Personal	Financial	Compliance with Statutory Authorities	Loans
• Age • Income • Work Experience	• Financing Pattern • Assets owned • Future liabilities	• For Direct Taxes • For Indirect Taxes • For Acts governed by Reserve Bank of India	• Present & former loans • Loan repayment capacity

a. Client Eligibility

The objective of the Company is to partner bona-fide businesses and provide financing solutions to the Borrowers. As such, prior to detailed work on the credit proposal, client suitability and client check / due diligence shall be clearly established.

Client suitability check / due diligence has to be checked through multiple criteria – which may be evolved over a time but must cover issues of reputation and regulatory risk, and any concerns over money-laundering activities.

- **Regulator Notices, Orders and alerts :** The list of the defaulters/watch-lists issued by the relevant regulatory bodies and exchanges viz. RBI, Government of India (especially Ministry of Finance, Ministry of External Affairs, the Ministry of Corporate Affairs), SEBI, Competition Commission of India, Registrar of Companies, NSE/BSE/Other exchanges, NCLT and other debt recovery institutions.
- **Watch out List / Press Check-** Review of Press and Social Media for adverse publicity and news about the potential borrower.

- **Global crime and Default Databases**– To the extent available for public use within Public Domain.

No issues or findings of concern or a NIL findings comment shall be mandatorily part of the credit appraisal.

b. Credit Appraisal/ Credit Proposal

- The Credit Proposal and/or Credit Appraisal, used interchangeably is the document which will form the basis of discussions and decision of the Credit Committee. The Credit Proposal and/or Credit Appraisal report is required to be prepared by the relevant originator/structurer. The author of the credit proposal will be held responsible for the accuracy of the information provided in the Credit Proposal and/or Credit Appraisal.
- The following delegation matrix for loan sanction has been implemented by the Company:

Sanction Limit	Designation
Less than INR 10,00,000/-	Credit Manager & above
INR 10,00,000/- to INR 30,00,000/-	Senior Credit Manager & above
More than INR 30,00,000/-	Credit Committee & above

- Each proposal must cover, inter alia the list as mentioned in Annexure 1 to the Policy.
- The credit decisions of the Company are based on prudent credit norms of the Company and may broadly include:
  - Quantitative assessment of the customer
    - Initial KYC Verification
    - Credit Information Report (CIR)
  - Qualitative assessment of the customer
    - Past track record
    - Defaulter's list
    - Registration/license verification
    - Internal Scoring/ Credit Rating
    - Nature of business/profession
  - Such other factors that the sanctioning authority may deem appropriate

c. Internal Scoring / Credit Rating

- The Company follows an approach of assigning an internal score to the borrowers. The credit scoring is done by an automated Credit Evaluation Model using machine learning algorithm. The output of the model comprises of credit score on a scale of 1 to 5 where 1 is low risk and 5 is high risk, risk-based credit limit in case a loan application is approved, and the corresponding risk bucket, rate of interest and tenure

- Based on the aforesaid internal scoring, the Company arrives at the minimum interest rates at which the Company shall lend to the ultimate borrower.

- The complete data set as obtained by the Company from the borrower and other sources is used for generating 'Credit Score'. The Credit Score Card would contain Risk Amount, Risk Bucket, Risk Interest Rate and Risk Tenure and each application is categorized in different Risk

Buckets (high, medium and low) which is based on PD (Probability of Default). Basis the risk categorization a corresponding multiplier is assigned to arrive at the loan amount.

- In case of rejection of application, the corresponding rejection reason is triggered by the system.

- In case of approval of application, the terms and conditions are triggered by the system which includes sanctioned amount, interest rate, tenure, processing fees, etc and any other additional documents, if required

d. **Credit Committee**

- Decisions of the Credit Committee shall be deemed to be valid only if the quorum is present in the meeting of the Credit Committee.
- The Minutes of the Credit Committee meetings shall be recorded in detail and the minutes shall form the basis of credit approvals.
- The decision of the Credit Committee on a credit proposal will incorporate the Credit Appraisal, any follow-up questions and conditions that the Credit Committee or its members impose in writing and any comments made during the meeting of the Credit Committee.

e. **Know Your Client**

- The Clients shall furnish all authenticated / certified documents necessary for completing the Know Your Client (KYC) process. This will include 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 and/or the MD & CEO of the Company shall put in place a separate KYC and AML Policy which shall be complied with.

f. **Execution of Security Documentation**

- The standard documents (Loan Agreement; Mortgage Agreements; Pledge Agreements; Guarantees etc.) of the Company shall be the basis of security documentation.
- Legal Counsel (in house or external counsel) will suitably modify the standard documents of the Company to incorporate the credit approval conditions of the Credit Committee 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.
- Any deviations in the documents from the Credit Committee approval conditions must be approved / ratified by the Credit Committee.
- The MD & CEO of the Company shall have the authority to approve minor deviations which (as confirmed by the Legal Counsel) will not materially impact the security position and interest of the Company. Similarly, the MD & CEO of the Company may allow disbursal of financing pending minor security perfection issues e.g. opening of escrow account etc.
- It is to be ensured by the back-office team that the finalized security document cannot be amended or otherwise changed in any manner by the borrower prior to execution.
- Security documentation is the primary responsibility of the back-office support team. The MD & CEO will nominate the specific individuals/teams who will be responsible for execution of security documentation. The origination/structuring staff responsible for

managing the client relationship and originating the financing proposal must provide all necessary assistance in perfecting the security.

- Responsibility for drafting and finalizing the security documents lies with the Legal Counsel. Any material deviation from the Legal Counsel's drafting must be approved by the MD & CEO or staff delegated by the MD & CEO.
- Scanned copies of the security documentation must be stored in the client folders and easily accessible to the team at all times. The original documents must at all times be secured in the safe and logged under "Four Eye Principle".
- 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.

g. <u>Disbursal of Financing</u>

- Disbursal of the financing will be done by the Finance and Accounts Team of the Company. This is done on the basis of a confirmation from the Documentation team that documentation is complete and any Conditions Precedent (CP) have been completed.
- In making the disbursal, it is to be ensured that disbursal of funds is made in the Bank Account of the Borrower. Any disbursal to a third party must be approved on the basis of a detailed rationale by the MD & CEO.

h. <u>Details to be captured in the Loan Management System of the Company</u>

- The Company will implement and put in place a software solution for Loan Management ("LMS/ System") to automatically capture and calculate Days Past Due (DPD) on loan accounts.
- The System shall also generate alerts on the due date in case of non-receipt of EMIs and tag such accounts as per the appropriate Special Mention Account (SMA) classification.
- Necessary details such as loan disbursement, repayments, KYC details of the borrowers, etc. shall be integrated into the LMS of the Company.

3. Ongoing Client Engagement and Monitoring: Annual Review

- The Company shall ensure that the team of the Company remains fully engaged with the client and in a position to remain updated about credit developments with the client is critical to maintaining a high quality credit portfolio.

a. <u>Ongoing Client Engagement:</u>

It is expected that at least once a calendar quarter, each originator/structurer will conduct a detailed client discussion and review covering all issues that impact the client credit profile. Additionally, the originator/structurer must fulfil the following duties:

i. Ensure receipt of audited and unaudited financials from the borrower as mandated in loan agreements, but in any case, not less than once every six months.
ii. Analyse the said financials and related performance data and highlight major developments positive and negative to the Board and CEO.

iii. Monitor the press and social media for any adverse reporting.
iv. Loans will be added to the watch list in the case of any significant internal/external rating downgrade, significant payment delays or any other material news and an action such as increasing the collateral cover, accelerating the loan repayment, loan recall etc. may be taken.
v. Conduct an independent assessment of the end-use for corporate loans, high-ticket personal loans, and loans against shares.

b. Monitoring:

The Company shall ensure monitoring the end use of the funds, value of security against which financing has been provided (LTV ratio) as well as the conduct of the client, including the timely repayment, on a regular basis. Timely action shall be taken in case there is any deterioration either in enforceability or value.

4. Enforcement of Security and Recovery Actions

In cases where client has failed to meet their debt servicing requirements, the Company may need to enforce security and recovery actions to recover its dues. Important aspects to be followed in such an event:

- In all action being undertaken for recovery, the Company will strictly follow the law of the land and will act as a responsible member of the community. While ensuring that the Company's rights are protected and dues recovered, it shall treat counter-parties with respect and fairness.
- Enforcement of security including disposal of assets pledged to us needs to be specifically approved by the CEO or IC.
- Litigation for recovery of dues has to be approved specifically by the Credit Committee
- There should be no delay in taking action to dispose off the marketable securities.
- For the purpose of disposal of real-estate assets, it is recommended that at least 2 intermediaries are used for the sale to realize the best possible value on the security.

Annexure 1- Credit Appraisal Document

It will be ensured that the following are exclusively covered in the Credit Appraisal document for carrying out the credit underwriting of the borrower:

1. Background of client
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. Group exposure: - In cases where the Company has more than one financing to a client group or are dealing with more than one client group entity, the entire group exposure should be clearly laid out. There should be a clear justification that the group exposure remains acceptable and also does not create client concentration risk for the loan portfolio.
5. Repayment sources: - Primary, Secondary (and Tertiary if applicable)
6. 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 Company's rights in an enforceability situation.

7. Security structure: - This should detail the security on offer. While the Credit Committee will decide on the final security structure, it is expected that most financings will be provided on the basis of at least 1.5 times cover. Coverage below 1.5 times must be highlighted to the Credit Committee. The 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 so that the Company is exposed / may open to additional risk must be highlighted in the CA.**
8. Discussion on enforceability of security.
9. Internal Scoring/ Credit Rating
10. Returns analysis: - At least IRR of the financing; going forward Company's objective is to also provide a Return on Assets (RoA) and Return on Equity (RoE) on each transaction.
11. Key terms and conditions of the financing.

- The Credit Committee 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 Credit Appraisal is not exhaustive. Authors of the Credit Appraisal are expected to provide all relevant information needed by the Credit Committee for making a credit decision.
- The Credit Appraisal along with any additional conditions that the Credit Committee 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 Credit Appraisal is to be circulated to the Credit Committee at least 3 business days prior to the meeting of the Credit Committee.