



FINSTARS CAPITAL LIMITED

RISK MANAGEMENT POLICY



INTRODUCTION

The Risk Management Policy of Finstars Capital Limited is a cornerstone of the business model of the company which aspires to fulfil its Mission, Vision and Values.

VISION

- To be the leader in SME, underserved and organised and unorganised sectors Finance in the country
- To maximise wealth.
- To create value for all stakeholders by building a profitable business providing financial access for housing, commercial space and business sustenance in hitherto underserved areas

VALUES

- To place the customer's interest first
- To be transparent and ethical in approach in all dealings
- To be sensitive towards social and environmental concerns
- To encourage teamwork, professionalism and a culture of learning & innovation

Non Banking Financial companies (NBFCs) form an integral part of the Indian financial system. NBFCs are required to ensure that a proper policy framework on Risk Management Systems with the approval of the Board is formulated and put in place.

The purpose of the Policy is to set out the broad risk guidance and guide the company in effectively supervising, monitoring and managing its Risks arise from Lending Portfolio and Market Volatility. The policy is framed to allow for sufficient flexibility in the management and oversight process while setting forth reasonable parameters to ensure prudence and care in the execution of its lending plan. The policy is consistent with the prescribed regulatory framework; however, in case of any contradiction, the regulatory requirement will prevail.

Risk Management system is a scientific process to be implemented by company to prevent company from known and unknown risks, either internal or external. The Board will from time to time review the current situations and bring necessary changes and risk mitigation process and procedures in place.

Any deviation from the policy would require approval by the Board.

GENERAL PROVISIONS

This Policy represents the basic standards of Risk Assessment to be followed by the Company. Changes in the Policy will become effective upon approval by the Board of Directors of the Company.



RISK MANAGEMENT

Risk management is a business facilitator by making more informed decision with balanced risk-reward paradigm. The Company shall follow a disciplined risk management process and has been taking business decisions, ensuring growth and balancing approach on risk reward matrix.

There are mainly three types of risk associated with our business which are detailed as under:

Credit Risk

A risk of loss due to failure of a borrower/counterparty to meet the contractual obligation of repaying his debt as per the agreed terms, is commonly known as risk of default.

Risk Mitigation

- Credit risk shall be managed using a set of credit norms and policies. The Company shall have defined roles and responsibilities for originators and approvers. All credit exposure limits shall be approved by authorized persons of the Company.
- There shall be a structured and standardized credit approval process to ascertain the credit worthiness of the borrower.
- The Company shall develop internal evaluation team to make credit decisions more robust and in line to manage collateral risk.
- The Company shall follow a process of time-to-time revisiting the credit policy and processes, on the basis of experience and feedback.

Operational Risk

Any eventuality arising from the act relating to people, technology, infrastructure and external factors, which can give rise to some type of loss in the organisation, is termed as Operational Risk. Majorly it is internal and unknown.

Issuance of clear operational guideline, vigilance on personnel, obtaining insurance for risks where available credit and general insurance where possible, ensuring adherence to guidelines, quick reconciliation of cash receipts, exchange of information with borrowers etc. are some of the measures to mitigate operational risks. Therefore, the persons responsible shall keep continuous watch and shall gather the symptoms/warning signals to manage Operational risk.

We have identified Title risk whereby Non-availability of legal and proper title deeds is the biggest stumbling block in providing loans against property to the borrowers. Even when formal titles have been issued and registered many of the property rights revert to informality as subsequent titles and transfers from inheritances are not documented in the registry. So abstention of paralegal documents and registration in Panchayat Records can mitigate this defect. Further formally registering these documents with the offices of Sub-registrar will bring such properties into the main foray of creation of tenure records with the govt authorities.



Market risk

This is majorly external market dynamics, which gives rise to Risks like Liquidity risk, Interest Rate risk and Funding risk. Liquidity risk is the inability to meet financial obligations in a timely manner and without stress. The Company shall resort to proper ways to manage such risks.

Any exposures taken on behalf of the client are ensured by the adequate margin based on the internal RMS process of the company. Additional margin calls are made in event of volatility and appropriate action to be taken by the dealing team as per the internal RMS process.

In case of exposure taken on the basis of shares margin the payment is required to be made before the exchange pay in date otherwise it will be liable to square off after the pay in time or any time due to shortage of margin.

Risk Mitigation

As a contingency plan the Company shall maintain sufficient approved but undrawn credit lines on a continuous basis as buffer to manage eventuality of liquidity constraints.

The Company shall be compliant in terms of regulatory norms and therefore shall effectively manage regulatory risk. Effective Customer redressal mechanism and fair practices shall keep legal risk under control.

The Company shall have processes in place, to manage the risk of fraud and the suspected frauds are reported, wherever necessary.

RISK ASSESSMENT OF BORROWERS

It is generally recognized that certain borrowers may be of a higher or lower risk category depending on the customer's background, type of business, our references, borrowers net worth and the ability to fund and pay interest etc. As such, based on the due diligence measures on risk sensitive basis each of the customers shall be divided in three categories HIGH, MEDIUM AND LOW which shall be reviewed every year. Initially, all the new clients are to be marked as high – risk category, however they may be subsequently recategorized depending on their performance based on our own experiences. The basic principle enshrined in this approach is that the concerned persons should adopt an enhanced customer due diligence process for higher risk customers. Conversely, a simplified customer due diligence process may be adopted for lower risk categories of customers. In line with risk based approach, the type and amount of information and documents shall vary depending on the risk category of a particular borrower and should be collected from the client. The beneficial owners working should be done for all corporate clients and background check of all directors. In case of a borrower who subsequently has turned out to be a Politically Exposed person, proper risk management system should be put in place to determine the beneficial ownership from such clients or potential clients. Once we are privy to such publicly available information or the commercial electronic database of PEPs, we should seek additional relevant information from such client pertaining to ownership issues and other risks associated with such persons and take call whether such exposure to him or his company we should continue or terminate the relationship after giving notice in advance. As a policy without concurrence of top management, no such identified PEP account is to be granted loan.



BOARD OF DIRECTORS MEETINGS AND REVIEW

The Board of Directors, in their board meetings, will oversee the implementation of the system and review its functioning periodically.

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