RISK MANAGEMENT POLICY

(U/s 134 (3)(n) of the Companies Act, 2013 and Clause 49 of the Amended Listing Agreement)

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1. INTRODUCTION

Risk management in today's competitive environment is attempting to identify and then manage threats that could severely impact or bring down the organization. This involves reviewing operations of the organization, identifying potential threats to the organization and the likelihood of their occurrence and then taking appropriate actions to address the most likely threats.

Section 134 (3)(n) of the Companies Act, 2013 requires every company to attach to its Board Report a statement indicating development and implementation of a Risk Management Policy for the Company including identification therein of element of risks, if any, which in the opinion of the Board may threaten the existence of the Company.

Clause 49 of the Amended Listing Agreement between listed companies and the Stock Exchanges, inter alia, provides for a mandatory requirement for all listed companies to formulate 'Risk Management Policy'.

It has therefore become mandatory for the listed Companies to prepare a comprehensive framework of risk management for assessment of risks and determine the responses to these risks so as to minimize their adverse impact on the organization.

2. PURPOSE AND SCOPE:

This policy establishes the process for the management of risks faced by Gilada Finance and Investments Limited ("GFIL"). The aim of the policy is to provide competitive investment return ensuring constant liquidity with no risk to the loss of principal. Investment decisions should not place the objective of greater return over and above the principal protection and the ability to access cash when the company requires it.

Effective risk management allows the Company to:

- Embed the management of risk as an integral part of its business processes;
- Establish an effective system of risk identification, analysis and treatment;
- Make informed decisions;
- Avoid exposure to significant reputational or financial loss;
- Assess the benefits and costs of implementation of available options and controls to manage risk.

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- Strengthen corporate governance procedures

Thus, it is the responsibility of all Board members, Senior Management and employees to identify, analyse, evaluate, respond, monitor and communicate risks associated with any activity, function or process within their relevant scope of responsibility and authority.

3. RISK STRATEGY:

GFIL recognizes that risk is an integral and unavoidable component of business and is committed to managing the risk in a proactive and effective manner. The common risks for GFIL are financial risks, which further include credit risk, liquidity risk, market risk etc.

The Company will identify periodically the risks it faces in trying to achieve the objectives. Once these risks are identified, the Company would need to evaluate these risks to see which of them will have critical impact on the Company and which of them are not significant enough to deserve further attention.

4. RISK MANAGEMENT FRAMEWORK:

Risk mitigation is also an exercise aiming to reduce the loss or injury arising out of various risk exposures. GFIL adopts a systematic approach to mitigate risks associated with accomplishment of objectives, operations, revenues and regulations. The Company believes that this would ensure mitigating risks proactively and help to achieve stated objectives.

The Company will consider activities at all levels of the organization and its Risk Management with focus on three key elements, viz.,

(1) Risk Assessment- study of threats and vulnerability and resultant exposure to various risks.

(2) Risk Management and Monitoring- the probability of risk assumption is estimated with available data and information.

(3) Risk Mitigation- Measures adopted to mitigate risk by the Company.

5. RISKS SPECIFIC TO THE COMPANY AND THE MITIGATION MEASURES ADOPTED:

We have divided the financial risks associated with the Company into four categories, namely:-

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(I) CREDIT RISKS

These includes:-

- Loss due to Counterparty Default in or failure of Payment.
- Loss due to a rating-downgrade (Increasing probability of default)

Risk mitigation measures:

- 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.

- 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.

- Provisions for bad and doubtful debts are appropriately made in books of accounts.

- Appropriate recovery management and follow-up.

(II) 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 organization, is termed as Operational Risk. Majorly, it is internal and unknown. Therefore, the persons responsible shall keep continuous watch and shall gather the symptoms/warning signals to manage operational risks.

(III) MARKET RISK:

This is majorly external market dynamics, which give 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 risk.

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Risk mitigation measures:

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.

In addition of above company has formed a Risk Management Committee and composition of the same is as follows:

1. Mr. Rajgopal Gilada (Managing Director)
2. Mr. Kothakote Venkobarao Prabhakar (Independent Director)
3. Mr. Gopal D N (Independent Director)
4. Mr. Om Prakash Asava (Independent Director)

Following are main objectives of the said committee:

- The total process of risk management which includes opening of new branches along with review of existing branches in different States and review of internal control system.
- The Committee is constituted to assist the Board in the discharge of its duties and responsibilities in this regard.
- The duties and responsibilities of the members of the Committee are in addition to those as a member of the Board of Directors.
- Assets Liabilities Management based on ALM statements on half yearly basis.

Other major responsibilities of the Committee are covered under terms of reference of the committee.

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

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

6. CLASSIFICATION OF FRAUDS:

In order to have uniformity in reporting, frauds have been classified as under, based mainly on the provisions of the Indian Penal Code:

a. Misappropriation and criminal breach of trust.

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b. Fraudulent encashment through forged instruments, manipulation of books of accounts or through fictitious accounts and conversion of property.
c. Unauthorized credit facilities extended for reward or for illegal gratification.
d. Negligence and cash shortages.
e. Cheating and forgery.
f. Irregularities in foreign exchange transactions.
g. Any other type of fraud not coming under the specific heads as above.

It is taken into consideration that there are instances where the borrower does not intend to defraud or cheat the lender but instead merely defaults on abiding by the procedure though mistake or negligence or due to insufficient funds.

Thus, the directions further clarify that where there is suspected fraud under the 'Negligence and cash shortages' category or the 'Irregularities in foreign exchange transactions' categories, in such cases the intention to cheat or defraud must be looked at before reporting the instance to the Central Fraud Monitoring Cell. Where the same is not the case, the instances should be treated as fraud and reported accordingly only when:

(a) Cases of cash shortages is more than Rs. 10,000/- and
(b) Cases of cash shortages is more than Rs. 5000/- if detected by management /auditor /inspecting officer and not reported on the occurrence by the persons handling cash.

7. REPORTING OF FRAUDS

1. On the basis of Quantum –

The RBI *vide* the direction have even classified frauds on the basis of the quantum of the defrauded amount and lays out separate procedure and authorities for reporting.

a. In case of frauds over the quantum of Rs. 1 lakh but less than Rs. 1 Crore:
In such cases of fraud, the report should be submitted in the form FMR – 1 to the Regional Office of the Department of Non-Banking Supervision of the Bank under whose jurisdiction the Registered Office of the applicable NBFC falls, within three weeks from the date of detection of the fraud.

b. In case of frauds over the quantum of Rs. 1 Crore:
In such cases of fraud, the NBFC shall report the fraud by means of a D.O. letter addressed to the Chief General Manager-in-charge,

Department of Banking Supervision, Reserve Bank of India as well as the Frauds Monitoring Cell. Further, a copy must also be endorsed to the Chief General Manager-in-charge of the Department of Non-Banking Supervision, RBI. All these must be sent within a week of such frauds coming to the notice of the applicable NBFC.

2. Quarterly Reports and Annual Review of Fraud

The NBFC's are supposed to update the authority on a regular basis on the status of frauds. Therefore, they are directed to submit a copy of the Quarterly Report on Frauds Outstanding in the format given in FMR – 2 to the Regional Office of the Bank within 15 days of the end of the quarter.

Such report has been divided in 3 Parts.

Part A covering the details of frauds outstanding as at the end of the quarter

Part B contain all the category-wise details of the frauds during the quarterly year.

Similarly, Part C of the report should contain all the perpetrator-wise details of frauds reported during the quarter

The RBI wants to ensure that besides identification, there should also be action taken against the fraudsters and thus case-wise quarterly progress reports on frauds involving Rs. 1 lakh and above in the format given in FMR – 3 are also required to be submitted within 15 days of the end of the quarter

Thus, the Directions also contain strict procedure for closing of cases of Fraud and they are allowed only where the actions are complete and prior approval is obtained from the respective Regional Offices of Department of Non-Banking Supervision (DNBS).

3. In case of Attempted Fraud

In an attempt to strengthen mechanisms and take punitive actions on even attempted fraudsters the NBFC's are directed to report even those attempted frauds involving Rs. 25 lakhs to the Audit Committee. The report containing attempted frauds which is to be placed before the Audit Committee of the Board which inter-alia has to cover the following:

- The modus operandi of the attempted fraud;
- How the attempt did not materialize in the fraud or how the attempt failed /was foiled;
- The measures taken by the applicable NBFC to strengthen the existing systems and controls;
- New systems and controls put in place in the area where fraud was attempted;

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Further, on March 31st of every year an yearly review must be submitted of the cases (of attempted fraud) detected through the year as well as the abovementioned list of details of such cases.

In order for the effective submission of the reports and review's specified under these Directions the NBFC's have been directed to nominate an official of the rank of General Manager or equivalent submitting all the returns to the Bank.

4. Reporting Frauds to Police

The NBFCs in cases of fraud/embezzlement, should not merely act because of the necessity of recovering the amount involved, but should also be motivated by public interest and the need for ensuring that the guilty persons do not go unpunished.

Therefore, NBFCs in the following cases should invariably approach State Police: Cases of fraud involving an amount of Rs. 1 lakh and above, committed by outsiders on their own and/or with the connivance of applicable NBFCs staff/officers; Cases of fraud committed by employees of applicable NBFCs, when it involves the NBFC funds exceeding Rs. 10,000/-

THE IMPLICATIONS

The Directions issued by the RBI are aimed towards establishing a robust fraud monitoring system in an NBFC in order to ensure that such NBFCs have in place a system to take preventive steps to safeguard NBFCs from Fraudulent activities and protect the interest of its consumers.

The Directions issued by the RBI provide stringent guidelines to be followed by the NBFCs to prevent fraudulent activities, by establishing a detailed Fraud Risk Management system in conjunction with a reconciliation mechanism which identifies and blocks suspicious transactions.

The Directions are likely to enhance the security and stability of NBFCs, as proper implementation of the guidelines prescribed will ensure reduced occurrence of various risks associated with Cyber Frauds.

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, borrower's net worth and the ability to refund and pay interest etc. As such, the concerned person shall apply to each of the customers due diligence measures on a risk sensitive basis. Initially, all the new clients are to be marked as high – risk category, however they may be subsequently re-categorized depending on their performance based on our own experiences. In line with risk based approach, the type and amount of information and documents should be collected from the client for the purpose of verification.

RESPONSIBILITY FOR RISK MANAGEMENT

Management is responsible for the development of risk mitigation plans and the implementation of risk reduction strategies. Risk management processes should be integrated with other planning processes and management activities.

8. COMPLIANCE AND CONTROL:

All the Senior Executives under the guidance of the Chairman and Board of Directors has the responsibility for over viewing management's processes and results in identifying, assessing and monitoring risk associated with Organization's business operations and the implementation and maintenance of policies and control procedures to give adequate protection against key risk. In doing so, the Senior Executive considers and assesses the appropriateness and effectiveness of management information and other systems of internal control, encompassing review of any external agency in this regards and action taken or proposed resulting from those reports.

9. AMENDMENTS:

This policy may be amended subject to the approval of Board of Directors, from time to time in line with the business requirement of the company or any statutory enactment or amendment thereto and shall be reviewed at least every year to ensure it meets the requirements of legislation and the needs of organization.

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