NBFC process note and policy

Wellworth Financial Services Pvt. Ltd.

Document Version 1.0

Confidential

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1.1 Exposure Management: -(Credit line Appraisal Matrix)

The stock market is unpredictable and largely very volatile given the fact of ever changing macro and micro economy condition and other factors related to companies listed with stock exchanges. It would be prudent to prescribe limits on exposure to a single borrower. The borrower exposure limit should be aligned to each borrower repayment capability which is based on client latest Net-Worth, Annual Income and Experience in dealing.

Accordingly, client exposure can be categorized as per below norms:-

<u>Norms for customer categorization</u>

Net-worth		Annual Income	Experience in dealing with leveraged products	Categorization
= >INR 1/-Cr		> INR 10/- lacs	= >2 Years	LOW RISK
= <INR 1/-Cr		>INR 7.5/-lacsup to 10/- lacs	>1 Years	MEDIUM RISK
= >NR 50/- Lacs		=>INR 5/- Lacs up to 7.5/- lacs	= < 1 Year	HIGH RISK

Based on the above mentioned norms, if client's meet any 1 of the above norms shall be categorized as "Low Risk".

<u>Credit norms based on customer categorization</u>

Categorization	Maximum Loan value (INR)	LTV (%)	Maintenance Margin to be called if LTV rises to (%)	Level of LTV triggering square-up
LOW RISK	1/-Cr *	80	85	90
MEDIUM RISK	75/- Lacs	80	85	90
HIGH RISK	50/- Lacs	80	85	90

* The same can be relaxed by the credit committee based on customer net-worth, customer relationship and track record of the customer. Minimum loan value for all categories can be INR 2/- lacs.

1.2 Enhancement Exposure Management:-(Credit Appraisal Matrix)

The client can request additional exposure (credit line facility) than the one as stipulated based on exposure matrix norms as defined above in 1.1. The same can be applied by filling in the creditline enhancement form along with required income supporting documents like a) Latest Net-worth Certificate (Duly CA Certified) B) ITR returns/ Form-16. The credit committee at its sole discretion may approve OR reject the full or partial amount so requested.

The credit committee shall consist of 2 groups. Namely as define below.

Group A	
Designation	**Email Id**
Mr. Chetan Mehta	chetan.mehta@wellworthgroup.co
Mr. Manan Mehta	manan.mehta@wellworthgroup.co

Group B	
Designation	**Email Id**
Mr. Pravin Shah	pravin.shah@wellworthgroup.co
Mr. Amish Gandhi	amish.gandhi@wellworthgroup.co
Mr. Ashwath Shetty	ashwath.shetty@wellworthgroup.co

Any 1 Member from group 'A' and Any 1 member from Group 'B' can approve the credit line and / or approve the enhancement.

OR

All 2 members from group 'A' and/ or All 3 member from group 'B' can approve the credit line and/ or approve the enhancement.

2. RISK MANAGEMENT

Risk management is the most important aspect of Margin Funding activity. Stock markets are volatile and any laxity in risk management could result in huge losses to the financier. The risk of default in this business is moderately high, especially in volatile periods. In order to manage the risk of multiple borrowers, the financer not only needs to have well defined processes, he also needs automated systems to implement decisions in the shortest possible time. Given below are some prudent risk management policies that the financer should follow.

2.1 Scrip selection criteria

The financier should offer this facility only with respect of liquid scrips. It is always easy to sell these scrips at the smallest possible loss in case of borrower default. Even though there is no single criterion of scrip selection that is universally recognized as most prudent, multiple models have evolved over the last couple of years that are widely used in the market.

1. The list of securities as selected by management from time to time shall be eligible
for NBFC funding.

2.2 Initial Margin

An initial margin of 20% (LTV of 80%) that is payable up-front will be prudent and acceptable. However, in the case of specific large borrowers this may have to be brought down to 20% (LTV of 80%). The said margin can be collected in form of cash and approved securities selected as approved shall be accepted as initial margin. Haircut can be applied at 20% to 30% on their market value. Acceptance of collateral other than cash will necessitate very sophisticated systems to monitor the realizable value of collateralized securities on daily basis, adjust the initial margin with mark to market difference of these collateralized securities on daily basis and to track the margin calls and topping up the collaterals as initial margin. This is necessary to ensure that collateral received as initial margin (IM) is always adequate.

The shares purchased by the borrower under NBFC Margin Funding are pledged in favor of the financier and returned to borrower only when all the dues are paid or excess over and above maintenance margin.

It is recommended that to start with LTV criteria of 80% as per the risk categorization of the borrower and other parameters as applied.

2.3 Maintenance Margin

Normally if the initial margin falls below 20%(i.e., LTV rises to 80.01%) of the funded amount due to mark to market losses then borrower should be asked to pay additional margin to bring back the IM to20% (i.e., to bring down LTV to 80%) respectively. The said margin can be collected in cash and / or in form of approved securities from respective borrowers. However, the said margin needs to be paid by the borrower by nextday.

2.4 Contraction Matrix

As a prudent risk management and to safeguard the interest of borrower and mitigate the risk of funding associated with the securities it calls for adherence to concentration policy in such a way that the portfolio risk is mitigated as far as possible. In order to the same the ideal portfolio should consist at least (Minimum) 3 scripswhere the funding is => 1/-Cr. That mean clients should have at least 3 scrip's or more in the portfolio depending upon the size of funding and sanction limit. The client whose funding size is =< 1/-Cr there must be at least 2 scrips in the portfolio. (Means Borrower should have minimum 2 scrips in portfolio at all the time)

2.5 Withdrawal of client's limit (Credit limit / Sanction Limit)

The agreement between the financier and borrower provides for the right to financier withdraw the credit limit by giving at least 15 days prior notice in case client hasopen position and outstanding loan with financier is for more than 3 months and withImmediate effects where in the client has no open position and the account isin-active for more than 3 months.

2.6 Squaring up of borrowers' position by financier

The agreement between the financier and borrower provides for square up by the financier without giving any advance intimation to the borrower in case borrower fails to meet the margin call requirements as stipulated above. If Initial margin as % of funded amount falls below a particular % (generally 10%/15%-i.e., LTV rises to 90%/80%) then also the financier reserves the right to square up borrower's position without giving any prior notice.

2.8 Penal Interest

In the event of default by the borrower, the financier charges penal interest @ 24% or more per annum as decided by management from time to time. This interest is directly debited on a daily/weekly/ monthly basis to the borrower's account and is calculated on total overdue amount including principal and interest.

2.9 Exceptional Clause

The stated policy and procedure are the most prudent market practice that every financier should follow to mitigate the risk of market volatility, risk of financing and risk of concentration. However, the exception allowable, if any, shall be subject to sole discretion of the management taking intoconsideration of various aspect like Cost of funding, funding risk, borrower financial position and Macro-Micro economic condition as stipulated from time to time.

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ADDENNDUM to theNBFC process note and policy

Wellworth Financial Services Pvt. Ltd.

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Dated: - 21/09/2021

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The Margin call for maintenance margin must be made by email by the financier by the end of working hours on the day, it becomes due.

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