

QGO Finance Limited

POLICY on Compromise settlements and technical writeoffs



Version Control:

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1.	Compromise settlements and technical writeoffs	V1.0	November 4, 2024	Policy document approved.

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1 Introduction

QGO Finance Limited ('QGO') is classified as a Category 'B' Non-Banking Financial Institution by the Reserve Bank of India (RBI), allowing it to operate as a Non-Banking Financial Company without accepting public deposits. In line with the RBI's Scale-Based Master Directions, the company is categorized as a Base Layer NBFC (NBFC-BL).

The Reserve Bank of India (RBI) vide its notification dated June 8, 2023 on Framework for Compromise Settlements and Technical Write-offs, has issued a comprehensive regulatory framework for governing compromise settlements and technical write-offs for resolution of stressed asset. In terms of said framework, the Company is required to adopt a policy on compromise settlements and technical write-offs with the customers of the Company, which shall spell out the process to be followed for all compromise settlements and technical write-offs, with specific guidance on the necessary conditions precedent such as minimum ageing, deterioration in collateral value etc.

The objective of said policy is to maximize the possible recovery from Company's distressed borrower(s) at minimum expense.

2 Compromise Settlements:

In the ordinary course of business, the Company may approve compromise settlement for certain loan account(s)/stressed assets.

Compromise settlement shall refer to any negotiated arrangement with the borrower(s) of the Company to fully settle their claims in cash. Such settlement may entail some sacrifice of the amount due from the borrower(s) with corresponding waiver of claims of the Company against the borrower to that extent. Further, any arrangement involving part settlement with the borrower(s) shall fall under the definition of restructuring as defined in the Prudential Framework and shall be governed by the provisions thereto.

Any compromise settlements where the time for payment of the agreed settlement amount exceeds 3 months shall be treated as restructuring as defined in terms of prudential framework on resolution of stressed assets.

The power to approve any compromise settlement with any customer shall be delegated as below:

Sanctioning authority	Loan products	Loan sanction amount	Compromise settlement approving authority
Admin Committee	All loan products including project loans, loan against property, retail loans and business loans.	Upto Rs. 50 Lakhs	Audit Committee
Audit Committee		Rs. 50 Lakhs and above	Board of Directors

In case compromise settlement negotiation with the borrower is undertaken during the pendency of recovery proceedings; the consent decree will be obtained from concerned judicial authorities, if required.

Further, following factor(s)/criteria(s) shall be considered by the Compromise settlement approving authority while assessing the compromise settlements of any borrower loan account(s):

- The need to settle a loan account with the customer shall be the sole discretion of the Company.
- The amount to be compromised shall be based on the realizable value of the property secured, expected time for realization, ageing of the loan, financial condition of the customer, legal position of the Company pertaining to the security, charges incurred towards recovery & legal action taken, provisions made, impact of waiver / loss on profitability etc.
- A compromise should be negotiated settlement, which would ensure recovery of the dues to the maximum extent possible at minimum expense and within shortest possible timeframe.
- While arriving at a negotiated settlement, the advantage available to the Company for prompt recycling of funds should be weighted in comparison to the likely recovery through legal or through receivable management or any protracted course of action.
- A compromise settlement should be made if an account has been classified as a nonperforming asset. However, if there are any genuine reasons, compromise settlement can be made for a performing asset as well.
- If the borrower fails to meet the compromise settlement commitment, the Company should proceed with legal proceedings for recovery of dues.
- The amount agreed upon during the compromise settlement should be recognized basis the actual receipt.
- To the extent possible, settlement amount should be recovered in a lump-sum. In case if the same is not possible, a maximum time period of upto three months can be allowed. Compromise settlements where the time for payment of the agreed settlement amount exceeds three months shall be treated as restructuring as per RBI guidelines.
- The compromise settlement with the wilful defaulter shall be in terms of the policy and the policy shall include guidelines on staff accountability examination, reporting of the compromise/ settlement to the board, higher upfront payment if any, etc.

2.1 Minimum Ageing

The loan account who have completed at least 6 months shall only be considered by the compromise settlement approving authority for compromise settlement. Any exception to the above can be approved by the compromise settlement approving authority if it deems fit.

Further, the loan of the borrower(s) should be overdue by principal and/or interest and should be appearing as per the NPA norms classified in the Scale based master directions. In case there are multiple loans to the borrower, at least one of the facilities should meet these criteria. Further, the facility would be determined case based.

2.2 Collateral & Realisable Value

Valuation certificate for immovable property should not be older than 6 months from the date of approval of compromise settlement proposal. Further, the compromise settlement approving authority shall have the power to finalise the methodology to be followed by the Company for arriving the realizable value of the loan account.

2.3 Maximum permissible sacrifice

The Comprise Settlement Approving Authority shall have the power to finalise the maximum permissible sacrifice on case to case basis. The settlement amount shall be finalised by the Compromise Settlement Approving Authority only after prudently reckoning the current realisable value of the security and the timeline for realisation.

2.4 Staff Accountability:

All cases to be analyzed for staff accountability by the Admin Committee. The process for investigation shall be approved by the Admin Committee as it deems fit.

2.5 Cooling Period

In case a settlement is approved by the Approving Authority, the Company shall not sanction any fresh loan(s) to such customer(s) for atleast 12 months from the date of approval for such compromise settlement.

3 Technical Write-offs:

Technical write-off shall refer to writing-off (fully or partially) customer loan account(s) which are non-performing assets and are outstanding. Such write-off shall be only for the purpose of accounting, without involving any waiver of claims against the customer, and without prejudice to the recovery of same.

In the ordinary course of business, the Company may approve technical write-off for certain loan account(s) which are categorised as SMA 1, SMA 2 or NPA and are outstanding.

The technical write-off(s) shall be approved by the Audit Committee based on the recommendation received from the Chief Financial Officer or Chief Operating Officer of the Company.

3.1 Treatment of partial technical write-offs

In case of partial technical write-offs, the prudential requirements in respect of residual exposure, including provisioning and asset classification, shall be with reference to the original exposure. Provided that the amount of provision including the amount representing partial technical writeoff shall meet the extant provisioning requirements, as computed on the gross value of the asset.

3.2 Cooling Period

Further, in case a technical write-off case is approved by MD/ CFO, the Company shall not sanction any fresh loan(s) to such customer(s) for atleast 3 months from the date of such approval.

4 Treatment of accounts categorized as fraud and wilful defaulter

In case of fraud and wilful defaulter case, the Board of Director shall approve the compromise settlement in all such cases. In case of fraud and wilful defaulter case, the MD / CFO of the Company shall have the power to take decision with respect to technical write-offs of such cases.

The Company may undertake compromise settlements or technical write-offs in respect of accounts categorised as wilful defaulters or fraud without prejudice to the criminal proceeding underway against such Borrowers.

5 Reporting and Oversight by the Board:

All the cases which are approved by the relevant approving authority under the compromise settlement and technical write-off arrangement shall be placed before the Board of Directors on quarterly basis including coverage of the following aspects at the minimum: (i) trend in number of accounts and amounts subjected to compromise settlement and/or technical write-off (q-o-q and y-o-y); (ii) out of (i) above, separate breakup of accounts classified as fraud, red-Flagged, wilful default and quick mortality accounts; (iii) amount-wise, sanctioning authority-wise, and business segment / asset-class wise grouping of such accounts; (iv) extent of recovery in technically written-off accounts.

6 Amendment

Any amendment in this Policy may be carried out with the approval of the Board of Directors of the Company. In case any amendments, clarifications, circulars and guidelines as issued by the regulatory body(ies)/authority(ies) and such amendments, clarifications, circulars and guidelines are not consistent with the requirements specified under this Policy, then the provisions of such amendments, clarifications, circulars and the guidelines shall prevail and accordingly this Policy shall stand amended effective from the date as laid down under such amendments, clarifications, circulars and guidelines.