**MANAPPURAM ASSET FINANCE LTD.**

**LOAN POLICY**

As amended up to 11-08-2017

## A) INTRODUCTION

The Loan Policy shall act as a guiding post for the top management of the Company in conducting the business within acceptable risk tolerances and thus ensure both long term profitability and stability in lending operations.

## B) OBJECTIVES

The main objectives of the Lending Policy are to:

i) Ensure a healthy balance between loan levels, profits and quality of assets.
ii) Comply with the regulatory requirements / directives such as Capital Adequacy, LTV, Interest rates etc.
iii) Lay down controls for assumption and monitoring of large exposures.
iv) Develop and inculcate 'internal values' in the business of lending.
v) Facilitate sustained growth without deterioration in the asset quality.
vi) Lay down proper system & procedures, appraisal standards at various levels in the organization with sturdy internal controls.
vii) Adequately protect the collaterals pledged from any possible loss.
viii) Detail risk management practices and internal audit procedures into the Lending Policy
ix) Enable the Company to successfully and consistently cope with competition.
x) Improve the capabilities and credit skills of the employees and officers connected with loan portfolio at various levels.
xi) Meet with the expectations on corporate social responsibility and actively participate in 'financial inclusion' programme.

## C) GOLD LOAN

i) NATURE, TYPE AND TENOR OF LOANS

a) The Company will normally accept only Household Used Jewellery as security since they are presumed to carry the invaluable 'emotional attachment' of the owner. New gold ornaments may also be selectively accepted, subject to laid down controls, provided there are no other adverse indications.

b) Loan schemes shall be devised in conformity with the Loan Policy of the Company and also the regulatory directives of RBI as applicable. Loan schemes and terms & conditions thereof shall keep in view the NPA / Income recognition classification norms laid down by the RBI.

c) Suitable norms, encompassing inherent / typical risk factors (e.g. restricted items, prohibited items, large number of similar items, large weight items etc.) should be devised, approved internally and periodically reviewed. Loans against coins, biscuits, bars etc may not be granted in compliance with RBI directives. Suitable controls, both system (IT) & non-system based, should be put in place and compliance monitored.

d) The tenure of the loans shall be decided by market practices and regulatory directives, as applicable.

e) Loans against pledge of gold ornaments should be sanctioned immediately against acceptance of the gold ornaments as security. Accordingly, all loans shall be sanctioned and disbursed within a reasonable time the same day keeping in view the due diligence requirements , number / nature of items, quantum of loan etc. and also customer satisfaction benchmarks.

f) Interest rate and other charges on loans shall comply with the Interest Rate Policy and regulatory directives as may be applicable.

ii) RESTRICTION, PROHIBITION ON LENDING TO CERTAIN CATEGORIES OF CUSTOMERS / PERSONS

a) Loans to categories of customers perceived having higher than normal risk shall be restricted as far as feasible keeping in balance business compulsions and the consequential risks emanating therefrom. For example, loans to goldsmiths, jewellers etc. shall be judiciously controlled and adequate credit risk assessments undertaken especially when exposure reaches high levels.

b) Loans to staff members shall be restricted to Rs 200,000 per employee. Such loans shall be on the same terms and conditions applicable to the public. However, changes, if any, in the limit or terms and conditions may be approved by the Managing Director on CEO / CFO.

c) Loans to borrowers having a history of pledging spurious / low quality ornaments or stolen gold ornaments or those who have earlier deliberately put the company to material loss of any kind should not be entertained. Suitable limits defining 'material' loss should be defined internally and got approved by the Managing Director on the recommendations of CEO/CFO/Risk Head. Procedures for immediate "freezing / blocking" such Customer IDs must be implemented. The Company shall maintain an updated list of such 'blacklisted' / 'caution' customers.

iii) LOAN APPLICATION FORMS, LOAN SANCTION LETTER

a) Loans shall be disbursed only against fully completed and properly signed loan application form which will be preprinted in the relevant local language. Separate loan application form must be obtained for each disbursal. Loan application forms and documentation requirements should comply with the Fair Practice Code and KYC Policy of the Company.

b) The various loan schemes (loan per gram, interest rate structure, penal interest, compounding if any, other charges etc.) should be explained to the prospective borrower and an appropriate scheme offered based on the borrower's needs / preferences.

c) Immediately upon sanction the loan sanction letter (pawn ticket) in duplicate should be given to the borrower for acceptance. The pawn ticket, which serves as a receipt for the gold ornaments delivered by the borrower, will also operate as a loan sanction letter incorporating the terms & conditions of the loan. The acknowledged copy of the pawn ticket should be carefully retained along with the loan application form for future verification and reference.

iv) KNOW YOUR CUSTOMER (KYC), DUE DILIGENCE

a) In compliance with RBI directives all customers availing loan facility from the Company shall be required to submit suitable and acceptable evidences of Identity and Address commonly understood as KYC documents. Documents in support of KYC compliance need be normally submitted at the time of the first loan when the "Customer ID" (master) is created in the system. Loans should be sanctioned only after full compliance with the KYC policy as laid down by the Company.

b) Clear and visible photograph of the borrower using the web camera should be captured and stored in the system.

c) The system of capturing and confirming the mobile phone numbers across the counters should also be extended to cover maximum number of customers.

d) Adequate due diligence shall be ensured, to the extent feasible and desirable, before the loan is sanctioned. There should be no prima facie circumstances to indicate that the prospective borrower's title to the gold ornaments could be defective. The loan application form must also contain an undertaking of the borrower certifying his/her undisputed ownership of the gold ornaments.

e) A valid pledge and charge over the security shall be created only after ensuring the ownership of the gold, in line with the relevant regulatory norms. Towards this requirement, suitable clauses may be added in the loan documents and the same shall be mandatorily got signed by the Customer before disbursement of loans. The title of the gold ornaments will be satisfied with before the gold is accepted as security. However, in the case of gold ornaments it may not be easy to confirm "ownership" in a full proof manner, as compared to say lending against property, vehicles etc. To tide over this issue and also to be in line with the relevant provisions as regards methods of establishment of ownership of gold , measures in the nature of obtaining undertaking of ownership in the loan application form, collection of other relevant documents regarding the ownership namely bills, receipts etc, and /or authorization to effect pledge on behalf of the rightful owner, ensuring proper KYC procedure, meaningful interaction with loan applicants and other prima facie checks will be made before the gold is accepted as security. However, in the process of interaction about personal details it will be ensured that no offense or embarrassment is caused to the loan applicant.

v) APPRAISAL OF SECURITY (GOLD), DELEGATION OF FINANCIAL POWERS

a) Gold ornaments shall be accepted as security for loans only after proper appraisal by the staff before the loans are sanctioned. Gold ornaments of purity below 70% shall not be accepted.

b) The Company already has laid down the appraisal techniques to be used by the operating staff such as nitric acid test, color, sound / smell test etc. observance of which should be ensured and monitored. Colored gold ornaments may not be accepted. Proper facilities for appraisal of gold must be provided at the branches.

c) Additionally, the existing risk graded system, related to the amount involved, for pre-disbursement verification of gold ornaments shall be continued – the guiding principle being that for larger loans more senior / experienced employee(s) should reconfirm the appraisal done by a junior / less experienced employee. Accordingly, for all loans atleast 2 employees at the branch should independently assess the purity as mentioned in the table below. The limits must be reviewed periodically and modifications, if required, put up for approval of the Managing Director duly recommended by the CEO and CFO. Staffing structure and the accounting process at branches should facilitate implementation of controls.

*d) The appraisal of gold ornaments shall be carried out as per table hereunder***

| *Amt of individual Loan Amt* | *Initial appraisal by employee designated as* | *Final/Re appraisal by employee designated as* |
|---|---|---|
| *Upto 10 gm* | *GL1* | *GL2*<br>*(In case of non-availability of the GL2, either ABH*<br>*or BH/BM may do the reappraisal)* |
| *Above 10 gm and upto 20 gm* | *GL1 & GL2* | *ABH*<br>*(In case of non-availability of the ABH, BH/BM may do the final /reappraisal)* |
| *Above 20 gm* | *GL1,GL2 & ABH* | *BH / BM* |

*The management shall review the above said procedure from time to time taking into account the external and internal factors and effect changes thereof.*

vi) LOAN TO VALUE (LTV) OR LOAN PER GRAM

a) The LTV should be in compliance with RBI directives in force from time to time. Flexibility in the fixation of differential LTV for specific customer categories, branches, areas / locations, periods etc. may be provided within the overall lending policy. The Head of the Marketing Department shall prepare a reasoned proposal, obtain the recommendations CEO / CFO and put up to the Managing Director for approval.

b) The total eligible amount of the loan shall be calculated by the system (IT) based on the weight of the gold ornaments net of stone weight and subject to deductions for lower purity, wastages as applicable. Deductions applicable on account of purity, wastage, local variations etc. should be got periodically approved by the Managing Director on the recommendations of CEO/CFO.

c) Considering the risk gradation arising from differential rates, as a general rule, LTV and interest rate on the loan should be positively correlated i.e. a lower LTV loan shall get the benefit a lower rate of interest. However, exceptional deviations could be made to accommodate various contingencies such as competition, local issues, special / temporary offers etc. Such deviations shall be approved by the Managing Director based on the recommendations of the CEO / CFO.

vii) HIGH / LARGE VALUE LOANS, MAXIMUM EXPOSURE PER BORROWER

a) Undue reliance on high value loans to accelerate growth should be discouraged considering the inherent risks. Emphasis must be placed on acquisition of small / medium value loans considering the benefits arising from broad basing the customers.

b) High value loans to single customer (or closely connected group of individuals) should be controlled and monitored as such customers may fall under ‘high risk’ category. Limits up to which branches may sanction loans to a single borrower (including closely connected group of individuals) should be defined and reviewed periodically.

Such limits shall be got approved by the Managing Director on the recommendations of the CEO/CFO/Risk Head. Maximum lending limit may be linked to risk perception in different regions / states. Any exposure beyond the limit should be subject to sanction at Head Office by an empowered authority (para viii below).

c) A structured credit check /profiling format should be used (form MS143) for recommending limits higher than the maximum permissible at the branch level. Further, in all cases where the loan exposure to a borrower touches Rs 5 lakh address of the borrower must be verified. Due care in large value accounts would also be necessitated by the RBI provisions relating to Anti Money Laundering / Finance for Terrorist Activities. Credit check / profiling / address verification should be done in a discreet manner without offending the borrower.

d) Within the prudential limit mentioned in (d) above it shall be further ensured that the exposure taken on a single borrower does not exceed Rs 1.5 cr (Rupees one crore fifty lakh). A single borrower shall include a family unit, a closely associated group such as employer-employee etc.

e) Loans to large value customers (say above Rs 10 lakh per customer) must not exceed 15% of the total loan book.

viii) HIGH INDIVIDUAL EXPOSURES - DELEGATION OF FINANCIAL / SANCTION POWERS.

High value exposures to individual borrowers (or closely related / connected group) shall be sanctioned as under

| Region / Area / Branches | Individual Maximum Exposure Limit |
|---|---|
| In Thrissur District Branches | 25 Lakhs |
| In Kerala branches except Thrissur District | 25 Lakhs |
| Outside Kerala Branches | 20 Lakhs |

Detailed instructions for appraisal of enhanced limits along with responsibility areas, documents required, procedures etc. should be defined and put up to the Managing Director for sanction by Risk Management Department duly recommended by CEO. The above mentioned table of delegation of powers may be reviewed periodically and approved by the Managing Director on the recommendations of CEO / CFO/ Risk Head.

ix) CUSTODY OF GOLD, STORAGE ARRANGEMENTS, SECURITY

a) As an internal control mechanism Gold ornaments and Cash shall be in the joint custody of the 2 senior most officials/ employees in the branch, normally designated as Branch Head / Manager and Assistant Branch Head. Suitable control systems should be in place so as to ensure that the same official / employee does not get custody of the 2 different keys even if at different points of time during posting at the branch. The duplicate keys shall be retained either in the Head Office or as per suitable arrangements made by Head Office for safe custody thereof.

b) A proper and systematic procedure should be laid down for handing over charge from one official to another arising from transfer, leave, resignation etc. so that accountability can be clearly fixed where required. No Branch Head should be normally relieved of charge unless the gold packets are subject to minimum verification (consisting of confirming intactness of the packing, affixation of security sticker, packet count and tare weight) by the reliever.

c) Overnight storage of pledged gold ornaments and cash shall be in burglar proof safes (non-strong room branches) or in steel almirahs / lockers (in strong room branches) with secure locking facility complying with high safety standards. Interim storage during transaction time at the counters should be kept to the bare minimum by quickly transferring the gold ornaments into the safes / strong room.

d) Security arrangements (both security guards and electronic devices) should be in tune with risk perception based on the location of the branch, working hours, business levels etc. Internal guidelines which are already in place must be periodically reviewed and improved as required. The use of technology through IP Based Cameras and IP Based Intruder Alarm System preferably with centralized monitoring capability and having a proper escalation mechanism should be adopted for greater effectiveness and to reduce costs.

e) All gold ornaments and cash whether in the safe room, at the counters or in transit must be adequately insured against various risks such as burglary, fidelity, transit etc. with a reputed insurance company. Keeping in view the Company's liability to compensate the borrower for any unforeseen loss the gold ornaments must be insured at 'replacement value' through adequate inclusion of 'making' charges along with the market value of the gold in the cover policy.

**D) Loan Against Property, Business Loans and Hypothecation Loans (HP Loans)**

i) There shall be well defined guideline governing the documentation required and relevant procedure to be complied with, while extending loans Loan against property, Business loan and HP Loans to borrowers and same should be within the scope of the relevant directions issued by RBI from time to time and other statutory directions in place.

ii) Restricted Profiles/Properties

Company will abstain from lending to Individuals /Firms/Companies etc, declared are willful defaulters by RBI. Further Company will not lend against the security of properties in which constructions are prohibited by any law in force.

iii)Credit Appraisal of Loan Against property, Business Loans and HP Loans

In case of Loan Against property, HP Loans and Business Loans Company may form internal committees and procedures for appraisal credit worthiness of the customers. Credit score of the customer from at least one Credit Information Company (CIC) should be considered for analyzing customer's credit worthiness. Minimum two persons should guarantee the proposed loan, of which at least one should be an External guarantor (person outside the family circle of the loan applicant).

iv) Post sanction Monitoring and Re-Valuation of Security in Loan Against property, Business Loans and HP Loans

a)End use verification

End use verification of loans above Rs 5 lakhs shall be done by a company official within 3 months of date of sanction of loan.

b) Re-Valuation and Verification of Security

In case of Loan against Property re-valuation of the property provided as security shall be made at least once in every 3 years by an outside valuator.

In case of Business Loans where the primary security is stock in trade, stock statement from the borrowers shall be collected at least once in every 6 months.
In case of HP loans verification and revaluation of assets hypothecated to the company should be made at least once in every year.

v) Any subsequent amendments to the directions or tightening or relaxation of norms shall be approved by MD on recommendation of CEO.

**E. Prudential norms on Asset classification**

Company shall, after taking into account the degree of well defined credit weaknesses and extent of dependence on collateral security for realisation, classify its loans and advances and any other forms of credit into the following classes, namely:

i. Standard assets;
ii. Sub-standard assets;
iii. Doubtful assets; and
iv. Loss assets.

"standard asset" means the asset in respect of which, no default in repayment of principal or payment of interest is perceived and which does not disclose any problem nor carry more than normal risk attached to the business;

"non-performing asset" ( "NPA") means:

a) an asset, in respect of which, interest has remained overdue for a period of three months or more;

b)a term loan inclusive of unpaid interest, when the instalment is overdue for a period of three months or more or on which interest amount remained overdue for a period of three months or more;

c)a demand or call loan, which remained overdue for a period of three months or more from the date of demand or call or on which interest amount remained overdue for a period of three months or more;

d)a bill which remains overdue for a period of three months or more;

e)the interest in respect of a debt or the income on receivables under the head 'other current assets' in the nature of short term loans/ advances, which facility remained overdue for a period of three months or more;

f) any dues on account of sale of assets or services rendered or reimbursement of expenses incurred, which remained overdue for a period of three months or more;

g) the lease rental and hire purchase instalment, which has become overdue for a period of three months or more;

h) in respect of loans, advances and other credit facilities (including bills purchased and discounted), the balance outstanding under the credit facilities (including accrued interest) made available to the same borrower/ beneficiary when any of the above credit facilities becomes non-performing asset:

“sub-standard asset” means:

1)an asset which has been classified as non-performing asset for a period not exceeding 12 months;

2) an asset where the terms of the agreement regarding interest and/ or principal have been renegotiated or rescheduled or restructured after commencement of operations, until the expiry of one year of satisfactory performance under the renegotiated or rescheduled or restructured terms:

“doubtful asset” means:
a) a term loan, or
b) a lease asset, or
c)a hire purchase asset, or
d)any other asset,
which remains a sub-standard asset for a period exceeding 12 month

“loss asset” means:

a)an asset which has been identified as loss asset by the company or its internal or external auditor or by the Reserve Bank of India during the inspection to the extent it is not written off by the company; and

b)an asset which is adversely affected by a potential threat of non-recoverability due to either erosion in the value of security or non-availability of security or due to any fraudulent act or omission on the part of the borrower;

(2) The class of assets referred to above shall not be upgraded merely as a result of rescheduling, unless it satisfies the conditions required for the up gradation.

**F. Provisioning Norms**

Company shall, after taking into account the time lag between an account becoming non-performing, its recognition as such, the realisation of the security and the erosion over time in the value of security charged, make provision against sub-standard assets, doubtful assets and loss assets as provided hereunder:-

Loans, advances and other credit facilities including bills purchased and discounted-

(1) The provisioning requirement in respect of loans, advances and other credit facilities shall be as under:

| | |
|---|---|
| (i) Loss Assets | The entire asset shall be written off. If the assets are permitted to remain in the books for any reason, 100% of the outstanding should be provided for; |
| (ii) Doubtful Assets | (a) 100% provision to the extent to which |

| | |
|---|---|
| | the advance is not covered by the realisable value of the security to which the non-banking financial company has a valid recourse shall be made. The realisable value is to be estimated on a realistic basis;<br>(b) In addition to item (a) above, depending upon the period for which the asset has remained doubtful, provision to the extent of 20% to 50% of the secured portion (i.e. Estimated realisable value of the outstanding) shall be made on the following basis:- |
| Period for which the asset has been considered as doubtful | Per cent of provision |
| Up to one year | 20 |
| One to three years | 30 |
| More than three years | 50 |
| (iii) Sub-standard assets | A general provision of 10 per cent of total outstanding shall be made. |

Provision for standard assets

Company shall make provision for standard assets at 0.4 percent of the outstanding, which shall not be reckoned for arriving at net NPAs. The provision towards standard assets need not be netted from gross advances but shall be shown separately as ‘Contingent Provisions against Standard Assets’ in the balance sheet.

**G) TAKEOVER OF LOANS**

a) Takeover of loans from other companies, banks etc. should not be freely permitted considering the risks involved. However, the Company may frame suitable instructions with proper internal controls for takeover of loans and review them from time to time.

**H) FUNDING OF ASSETS**

Owned funds should supplement a suitable mix of bank borrowing / credit lines,NCDs AND Subdebts . Resources for funding the loans should be well diversified and adequate to meet with growth plans. Tenure of funding should, as far as possible, match with the loan maturity profile (historical repayment data/trends may be extrapolated)

**I) RECOVERY OF LOANS, SENDING OF NOTICES, AUCTION OF SECURITY**

Going by the inherent nature of the security it may be reasonably expected that most borrowers will service the interest and repay the loan of their own accord. However, as a matter of good practice and measure of caution, monitoring repayments should be accorded close attention since there would be many borrowers who repay only after receiving reminders for interest dues, loan repayment etc. On the other hand there could be a few borrowers who pose challenges for smooth recovery.

**J) OTHER DIRECTIONS**

a) The Company shall not undertake unsecured loans in the normal course of business. Unsecured loans, if granted, shall be subject to proper and acceptable credit appraisal procedures and within the overall limits laid down by regulatory guidelines if any and the Loan Policy with the sanction from MD on recommendation of CEO.

b) Loans will be disbursed by way of single / one time debit to each account and which will then be monitored for interest servicing and final closure along with other accounts, if any, of the same borrower. Borrower wise exposure must be available at any point of time to the operating functionaries.

c) Terms and conditions of loans should be in compliance with the Fair Practices Code of the Company.

d) Loans to directors, their relatives and related entities shall not be sanctioned

e) Loans to persons of doubtful integrity (to the extent known), customers engaging in illegal/ unlawful business (to the extent known) etc. shall not be entertained even if the quality of the security offered is beyond doubt.

f) The maximum credit exposure per customer shall be within prudential limits. For this purpose the Company shall not take an exposure exceeding 15% of its capital funds on a single borrower.

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