**MANAPPURAM ASSET FINANCE LTD.**

**LOAN POLICY**

As amended up to 20-07-2022

## 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.

**g)** Company may provide facility for ‘‘online gold loan” once the gold ornaments through Company website or mobile app, whereby customers can avail service 24 hours a day.

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

**a)** Loans to categories of customers like goldsmiths, jewellers etc. shall be prohibited.

**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.

f) Further in case if the gold ornaments pledged by the borrower at the time or cumulative loan outstanding is more than 20 grams, over and above the exercise of above mentioned ownership verification procedure, BH/ABH shall provide an ownership verification report regarding the pledge created.

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) A system will be in place for separation of duties of staffs regarding mobilization, execution and approval of loans and preventing frauds by staffs themselves or in collusion with the customers.

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. The maximum LTV will be 75% of preceding 30 days' average of the closing price of 22 carat gold as per the rate as quoted by India Bullion and Jewellers Association Ltd. (IBJA) .

b) 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.

c) 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

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.

a) 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).

b) 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.

c) 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.

d) 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.

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.

x) Charges

In case of gold loans reasonable charges on various transaction may be fixed from time to time with the approval Managing Director .

**D) Loan Against Property, Business Loans, Hypothecation Loans (HP Loans) and Micro-Finance Loans (MFL)**

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 , HP Loans(including two wheeler loans) and Miro Finance 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 HP Loans and MFL**

In case of Loan Against property, HP Loans (including two wheeler loans) and Business Loans Company should have 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). Repayment track in similar loans taken by applicant should also be taken into consideration. In case of MFL, credit appraisal shall be as per its credit policy document.

**(iv) Valuation of security**

a) In case Loan Against Property, where immovable property is security, least of the following will be considered as value of the security
   (1) Guideline value issued by the government
   (2) Fair value assessed at by a valuer (internal or outside valuer).
   (3) Fair value assed by company official.

b) In case of HP Loans, where vehicles or Genset are provided as security, least of the following will be considered as value of the security
   (1) Depreciated value
   (2) Fair value assessed at by a valuer (internal or outside valuer).
   (3) Fair value assed by company official.

c) In case of Business loan where stock is the primary security, value of the stock as assessed by the company official will be considered as value of the security.

**v) Loan Ceiling**

Maximum loan amount for a single customer in case of business loans and Vehicle loans will be Rs 50 lakhs and in case of Loan against Property maximum loan amount will be Rs 1 crore.

**vi) Loan to Value (LTV)**

Maximum LTV will be capped at 60% for Loan against Property and Business loan. For Vehicle loan Maximum LTV will be 90%

**vii) Maximum Tenure**

Maximum tenure in case of Business Loan will be 5 years and for Loan against Property and Vehicle

Loan maximum tenure will be 7 years.

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

**a) Post sanction Monitoring**

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. If deviation is reported regarding end use of the loan, a report regarding the same will placed before the Board for necessary action.

**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.

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.

**ix)** 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;

| Categories of Special mention Accounts (SMA) | Basis for classification (Principal or interest payment or any other amount wholly or partly overdue) |
|---|---|
| SMA-0 | Upto 30 days |
| SMA-1 | 31 to 60 days |
| SMA-2 | 61 – 90 days |

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 as per RBI guidelines in this regard from time to time

**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) Joint Lending with Other NBFCs, Banks and Co-origination of Loans with Banks**

RBI has permitted commercial banks to engage with NBFCs to Co-originate loans for creation of priority sector assets. This arrangement involves sharing of risks and rewards between banks and NBFCs.MD shall be authorized to approve the lending arrangements with other NBFC and Banks.

**K) Regulatory Restrictions on Loans and Advances**

**Loans and advances to Directors** - Compay shall not grant Rs 5 cr & above loans and advances unless sanctioned by the Board of Directors / Committee of Directors, to -

i) their directors (including the Chairman/ Managing Director) or relatives of directors.
ii) any firm in which any of their directors or their relatives is interested as a partner, manager, employee or guarantor.
iii) any company in which any of their directors, or their relatives is interested as a major shareholder, director, manager, employee or guarantor.

A director or his relatives shall be deemed to be interested in a company, being the subsidiary or holding company, if he is a major shareholder or is in control of the respective holding or subsidiary company.

The director who is directly or indirectly concerned or interested in any proposal should disclose the nature of his interest to the Board when any such proposal is discussed. He should recuse himself from the meeting unless his presence is required by the other directors for the purpose of eliciting information and the director so required to be present shall not vote on any such proposal.

The proposals for credit facilities of an amount less than Rs 5 cr may be sanctioned by the appropriate authority in the NBFC under powers vested in such authority, but should be reported to the Board.

Loans granted to Directors will be subject to regulatory restriction under Companies Act 2013 and rules made thereunder.

**Loans and advances to Senior Officers –** Company shall abide by the following while granting loans and advances to its senior officers:

i) Loans and advances sanctioned to senior officers shall be reported to the Board.
ii) No senior officer or any Committee comprising, *inter alia*, a senior officer as member, shall, while exercising powers of sanction of any credit facility, sanction any credit facility to a relative of that senior officer. Such a facility shall be sanctioned by the next higher sanctioning authority under the delegation of powers.

In respect of grant of loans and advances to directors / senior officers and their relatives:-

i) Company shall obtain a declaration from the borrower giving details of the relationship of the borrower to their directors/ senior officers for loans and advances aggregating Rs 5 cr & above. NBFCs shall recall the loan if it comes to their knowledge that the borrower has given a false declaration.

**L) Gradation of Risk of interest rate and Pricing of Loan**

The Lending Rate will be different for different categories of borrowers, considering profile of the customer, tenure of customer relationship, past repayment track record, customer segment, market reputation, inherent credit and default risk in the products, subventions and subsidies available, ancillary business opportunities, future potential, group strength and value to lender group, overall customer yield, Loan-to Value (LTV) ratio, nature and value of primary and collateral security etc. The Lending Rate is determined on a case to case basis**.**

**M) OTHER DIRECTIONS**

a) 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.

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

c) 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.

d) 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.