

KANAKADURGA FINANCE LIMITED

GOLD LOAN POLICY

A. INTRODUCTION

The Gold 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

- a. The objective of this document is to outline the process to be followed for granting loans Against Gold.
- b. Provide to the customers effective overview of practices followed by the Company in respect of financial facilities and services offered by the Company to its Customers
- c. Enable customers to take informed decision about the financial facilities and services offered by the Company
- d. Promote good, fair, transparent and trustworthy practices by setting minimum standards in dealings with customers
- e. Enable customers to have better understanding of what they can reasonably expect of the services offered by the Company
- f. Reckon with market forces, through competition and strive to achieve higher operating standards
- g. Foster fair and cordial relationship between the customers and the Company.

C. PRODUCT FEATURES

Gold loans are provided to any individual that meet the KYC guidelines under the General Category against Gold ornaments pledged as collateral.

The Purpose of the loans will be for consumption, business or as specified as end use by the borrower, and not for any illegal or illegitimate purpose.

Loan Type	Term loan against pledge of Gold Loan
Tenor	Max 180 days with renewal options
Loan Amount	Rs.1,500/- to Rs.25,00,000/- for all loan amount other than specified limits will require approval from Board of Directors.
Agreement	Application cum Pledge Agreement
Gold Valuation	Based on Market Value, Gold rate per gram will be fixed by Board of Directors and it will be circulated by Regional Manager.
Loan to Value(LTV)	Rate will be fixed according to Carat /fineness of the Gold
Renewal	Loan can be renewed on maturity for the further period of up to 180/270 days upon payment of Mark-to-market

	differential amount & Interest.
Repayment	<ul style="list-style-type: none"> • Payment of Interest & Principal on Maturity Date for all loans with tenor upto 180 days. • Monthly interest Payment for all loans.
Partly Release	Partly release of loan can be done as per customer request. Gold needs to be revalued as on date and LTV norms to be maintained
Part payment	Part payment facility is available in all schemes; Borrower has to pay full interest + Part payment (If any).
Disbursement	Cash disbursement of all loans. However Cheque disbursal can be done on customer request.
Eligibility	<ul style="list-style-type: none"> • KYC Compliance mandatory • Fineness & Purity Gold
Quality Assessment	Quality of the Jewellery / ornaments are assessed by in house Valuers as per Company guidelines
Stamp duty	Pledge Value above Rs.1 Lakh-0.1% of Pledge Value.
Penal Interest	Normal Interest + 3%p.a.on Principal + Principal due as on due date
Age	Minimum 18 years
Distance from Branch Location	20 KM's Limit
Schemes	Gram rates will be revised from time to time by duly assessing market conditions.
ROI	As per Schemes

D. GOLD PLEDGE PROCEDURE

- The Customer when approaches a branch for a gold loan he /she should be directed to meet the Gold Loan Appraiser entrusted to handle the Gold loan product at the branch.
- Gold Loan Appraiser updates basic information like customer name, contact name and source in the Walk-in-Register and tries to assess customer requirement based on which GL-1 suggests the different schemes.
- Valuation of Gold (by rubbing stone, acid, oil, wax and weighing machine) is done and GL-1 slip is updated.
- KYC documents to be taken and verified. Application cum DPN with revenue stamp to be signed by customer. Customer photo to taken via webcam.
- Second Valuation done by ABM & SRBM and authorizes application form and GL-1 slip.
- Credit checks to be conducted and status recorded on application form.
- GL-1 to update the system and he will do the application processing.
- BM to approve on system and update Application Approval.
- Post authorization on documents by BM, the entire kit with Gold to be handed over to the Asst Branch Manager / GL-2. Gold to be revalued and kept in a sealed & labelled pouch in the presence of BM. Gold storage Register to be updated. Original GL-1 slip

to be kept inside the pouch. Post valuation document kit to be handed over to cashier for disbursal.

- Cashier to verify the documents and handover cash & stamped copy of pawn ticket to the customer. Customer's sign to be taken in the branch copy of pawn ticket. Update the cash book (manual & Excel) and authorize the disbursal.
- Cashier to file the Pawn ticket in one file, Duplicate GL-1 Slip, Application form in one file, KYC documents to be filled in another file.
- At regular intervals, Gold to be stored in the vault under dual custody of BM & ABM.

E. 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. 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 will 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 there from. 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 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. 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 printed in local language. Separate loan application form must be obtained for each disbursement. 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) will 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 S3G Software in system.
- c) The contents of the KYC shall be thoroughly checked / verified by the Sr Branch Manager/Branch Manager through the respective websites and they have to certify the genuineness of the Customers proof.
- 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 foolproof 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 offence or embarrassment is caused to the loan applicant.

f) Documentation

<p>Proof of age: Standard documents:</p> <ul style="list-style-type: none">• Pan Card• Govt employee card with DOB• Passport• Class X Board Certificate with DOB• Birth Certificate issued by municipal authority <p>Non-Standard documents:</p> <ul style="list-style-type: none">• Driving License• Latest Acknowledgement copy of ITR• Notarized Affidavits• Voter ID Card
<p>Proof of ID: Standard Acceptable ID Proofs:</p> <ul style="list-style-type: none">• Aadhar Card• Passport• Voter ID• PAN Card• Driving License• ID Card issued by Govt/ recognized companies /Professional bodies <p>Non Standard ID Proof</p> <ul style="list-style-type: none">• Notarized Affidavit.

Address Proof:**Standard Address Proof:**

- Aadhar Card
- Passport
- Voter ID Card
- Utilities Bill (Electricity /Water / Telephone/ Gas Bill)
- Copy of registered Sale Deed /Lease Deed
- Municipal tax receipt
- Driving License

Non Standard Address Proof:

- LIC receipt
- Bank Statement
- Acknowledged copy of ITR
- Notarized Affidavit

Identity Proof:-

Aadhar Card/ Passport /Pan Card/Driving License/ Voter ID card/Ration Card any other identity card issued by a government authority, PSU or nationalized bank, containing the photograph of the customer.

Address Proof:-

If any of the documents taken as identity proof also contains the address of the borrower, no separate address proof is mandatory. In other cases, the following documents are taken towards address proof. Ration card/Latest electricity /Land line telephone bills/ House tax receipt/ Valid rent agreement/Gas Connection allotment letter/Bank pass book or Any other documents issued by a government authority, PSU or nationalized bank, containing the address of the customer

Unique Customer Identification code

Unique Customer Identification code for customers is an RBI requirement and it will help us to identify customers, track the services availed, monitor financial transactions in holistic manner and enable us to have better approach to risk profiling of customers.

Unique Customer identification code is allotted to every new customer and there is no multiplication of customer ID, with the help of One Customer Id we can create no of accounts but the ID will be Unique.

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

The ornaments / Jewellery shall be weighed by approved valuers, in Electronic weighing Machine. For the purpose of lending, only the weight of gold will be considered i.e. exclusion of weight of stones /beads etc.

- a) Proper appraisal procedure for jewellery accepted as collateral security.
- b) Declaration shall be obtained from the borrower confirming ownership of gold jewellery
- c) 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 75% shall not be accepted.

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 & Director duly recommended by the Regional Manager. Staffing structure and the accounting process at branches should facilitate implementation of controls.

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. Regional Manager shall prepare a proposal and put up to the Managing Director & 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 (Carat), wastage, local variations etc. should be got periodically approved by the Managing Director & Director.
- 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.

LTV FIXATION

- a. Fixing uniform gold loan LTV based on Mumbai Market value of Gold. Maximum LTV shall be 75% of the Mumbai 22ct Gold Market rate.
- b. Closing Mumbai gold rates of Fridays shall be taken as base on Saturday to fix LTV for forthcoming week. / LTV fixation shall be based on gold rate published in website of Association of Gold Loan companies, India (AGLOC).

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

- 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 upto 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 /Director on the recommendations of the Regional Manager. Any exposure beyond the limit should be subject to sanction at Head Office.
- b) A structured credit check/Profiling Format should be used 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.2 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) Maximum limit taken for single borrower does not exceed Rs.50 Lakhs. 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 lakhs per customer) must not exceed 15 % of the total loan book.

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

- a) High Value exposures to individual borrowers (or closely related /connected group) If the amount is crossing more than 3 lakhs –The pledge can be approved by Regional Manager. If the amount is crossing more than 10 lakhs-The pledge can be sanctioned by Director to enhance the exposure limit to the borrower.
- b) Detailed Instruction for appraisal of enhanced limits along with responsibility areas, documents required procedures etc. It should be approved by Managing Director/Director duly recommended by the Regional Manager.

ix) CUSTODY OF GOLD, STORAGE ARRANGEMENTS, SECURITY

- a).All branches shall have proper storage facility of Safes conforming to ISI Standards of approved make to store the jewellery in safe custody. The keys to the safe shall be held

separately by two officials/Custodians and the operations thereof shall be done jointly. The staff shall be imparted training on a continuous basis to ensure that the guidelines covering security issues are strictly adhered to. The gold items shall be periodically inspected by the internal auditors to ensure quality, quantity and proper storage

b) 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 Senior Branch Manager/Branch Manager and Assistant Branch Manager. 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.

c) 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 Manager 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.

d) Overnight storage of pledged gold ornaments and cash shall be in burglar proof safes 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 safe room.

e) 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.

f) Burglary Alarm & Close Circuit Television (CCTV). We are using Ezone Burglary Alarm & CCTV system in Branches and it will be operated by Joint custodians of Branch. The system will be linked online and it will be closely monitored by ezone customer service point in Vijayawada.

g) 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.

F.POLICY ON INTEREST RATE FIXATION

The Board of Directors of the Company while fixing interest rates on Gold Loan Schemes shall be guided by this policy document on Interest Rate Fixation. In addition to cost factors set out hereunder, the Board or the Committee shall be guided by the market conditions and various rules and regulations, if any, prescribed by the Reserve Bank of India or such other competent authority from time to time. Interest charged under various Gold Loan Schemes shall have the following components: Basic Interest Rate Risk Interest Rate Penal Interest Rate

G.BASIC INTEREST RATE

Basic Interest Rate represents the rate chargeable under every Gold Loan Scheme irrespective of the risk weight attached to the schemes or the type of scheme. Basic Interest shall be arrived at after considering the following aspects: Cost of Working Capital Funds: This component represents the interest and other incidental charges payable by the Company for servicing the borrowed funds deployed by the Company. Major contributing factor to this component includes interest payable on Secured, Interest on Bank Borrowings and other incidental charges thereto. Overhead Cost: This represents the Employee cost to the Company and other operating & miscellaneous overheads. Return on Capital Employed: After considering the above cost factors, the Board shall take into consideration a fair return on capital employed which is to be generated by the management for servicing the owners capital employed in the business. Thus the basic interest rate for the gold loan schemes shall be determined by considering the cost of working capital, overhead cost and fair return on capital employed.

H. RATE OF INTEREST

The rate of interest and approach for gradation of risk and rationale for charging different rates of interest to different category of customers is based on the details/attributes of the loan scheme vis-à-vis Loan to Value (LTV), tenure of the loan and amount of the loan extended. The present rate of interest charged to our customers is in the range of 12% to 24 % p.a. payable monthly.

a. The Company shall frame appropriate internal principles and procedures for determining the interest rates and other charges, if any and also to ensure that they are not excessive. The Company shall, at the time of disbursement, ensure that the interest rate and other charges, if any, on loan and advances are in strict adherence to above referred internal principles and procedures.

Mode of Calculation

- Interest rate will be quoted on annualized basis only.
- Interest amount will be calculated on the daily outstanding balance in the loan account at the contracted rate.
- Interest will be calculated for the number of days and the loan remains outstanding including the date of loan disbursement and date of repayment.
- Minimum interest will be charged for seven days.

- Interest will be calculated on the basis of 365 days a year.
- Monthly Compounding for all loan schemes.
- All loans carry the fixed contracted rate till closure of account

Risk related rate of Interest

- Since a higher LTV (Loan per gram) translates to a higher risk interest rate and LTV will be correlated.
- Assuming all other factors to be the same a higher LTV loan will attract a correspondingly higher interest rate as compared with a lower LTV loan.
- The interest rate applicable will vary from time to time and will be mentioned against the specific operative scheme /loan products.

Maximum Interest Rate

- The maximum interest rate chargeable has been fixed at 30% p.a.

Penal /Overdue Interest

- When the loan remains outstanding beyond the 'normal' tenure overdue /penal interest will be charged at 3% pa on the amount due and payable till the account is regularized /closed.

I.OPERATIONAL SCHEMES

Cir No: 121 (Gold Loan Schemes are attached)

J.General Terms & Conditions

1. The Borrower confirms to have fully read and understood the various schemes offered by the Company and based thereon, the Borrower has requested/selected to avail the Loan under the scheme (with interest rates as applicable) as mentioned in pawn ticket.
2. The Borrower confirms that the stones fixed in the pledged gold ornaments/items, if any, do not have any market value and that the said gold ornaments /items is/ are the absolute and unencumbered property of the Borrower and no other person has any right, title, interest or claim thereon.
3. The Borrower confirms that all particulars/details given in the applications are true and correct and no information has been suppressed/ with held. The Borrower acknowledges that the Company shall have no liability for any consequence arising out of any erroneous/misleading details provided by the Borrower for which the Borrower shall be solely liable. The Company may sanction, at its sole discretion, loans of such amount, as the Company may deem fit, for such purpose(s), as set out in the application form.
4. The Borrower shall pay interest at the rate specified in the Pawn ticket and incidental charges as applicable to the loan. When interest is not paid at monthly intervals, the interest shall be compounded on a monthly basis. Interest will be calculated on the basis of 365 days a year on the amount outstanding. If the loan is not repaid on demand within the loan tenure, as specified in the pawn ticket, the Company shall have the right to levy overdue interest @3% p.a after expiry of the loan tenure, as

specified in the pawn ticket on the amount of loan plus interest in default. Interest will be payable from the date of the loan till the account is closed, both dates inclusive.

5. The loan is based on the weight, purity and existing market value of the Gold.
6. The Company will make only a preliminary verification of the Gold and the Company has the right to further check the purity / weight of the Gold internally or by experts at any point of time if required, at the Company's sole discretion, at the cost and expense of the Borrower. The Company shall, at its discretion, have the right to open the packets, melt all or any portion of the Gold, at any time during the currency of the Loan.
7. Notwithstanding anything mentioned herein, the Borrower shall repay the entire dues/outstanding under the Loan including principal, interest and other charges, immediately on demand, if the Company observes, after verification internally or by experts, that the whole or part of the Gold is not of the prescribed weight / purity or if the title of the Borrower to the Gold is found defective or if the same is disputed by any other person. The certificate issued by the Company stating the exact grams of the gold after translating the same to 22 carat is based on the preliminary verification made at the time of granting the loan and may be treated as provisional and not final.
8. The period of Loan is as mentioned in the pawn ticket and the Borrower is required to repay the loan along with interest on or before the completion of loan tenure, as specified in the pawn ticket from the date of disbursement. However, the Borrower shall have the option to foreclose the loan at anytime during the currency of the loan by paying the principal loan amount along with interest and other Incidental charges as applicable to the loan. Similarly, the Company may, at its sole and absolute discretion, have the right to further extend the tenure of the loan for such periods, but not exceeding 6 months from the date of disbursement of the loan. Borrower can also make part payments of principal or interest at any time during the currency of the loan. Pre-payment charges, if any, will be mentioned in the pawn ticket. Notwithstanding anything mentioned herein, the Company shall be entitled to recall / cancel the Loan at any time at its discretion without assigning any reasons and thereafter the Dues shall immediately become payable to the Company.
9. The postage charges, as revised from time to time at the discretion on the Company, shall be recovered from the respective account.
10. If full repayment of the loan, along with interest and charges, is not made within the period of the loan (as specified in the pawn ticket) or within such period as demanded by the Company, the Company shall have the right to sell or otherwise dispose of the Gold through public auction at the risk and cost of the Borrower. The Borrower, out of his/her free will, authorizes the Company to dispose of the Gold by public auction at any time after 1 week from the date of notice to the Borrower at the given address and adjust from the net proceeds of such sale, all amounts, including interest and other charges, due to the Company in respect of the loan. In case of any shortfall after disposal of the Gold, the Company shall have the right to resort to legal proceedings against the Borrower to recover the shortfall.
11. Notwithstanding anything referred above, if the Company is convinced, at its sole discretion, that the estimated realizable value of the gold at any time is less than the

total amount due by way of principal, interest and other charges on this loan or on any other loans availed by the Borrower at any of the branches of the Company or there exists any other circumstance, which in the sole opinion of the Company, is prejudicial to the interest of the Company, the Company reserves the right to sell the gold by public auction at any time during the currency of the loan after serving a registered notice to the Borrower.

12. Further, the Borrower understands and acknowledges that the Company shall subject to auction, all accounts remaining fully or partially unsettled after expiry of the loan tenure, as specified in the pawn ticket or otherwise. The Company shall intimate the Borrower by registered letter or courier service or SMS or telephone or personal intimation or e-mail or any other mode of communication its intent to subject the Gold to public auction well before the proposed auction date. The auction shall be conducted as per the guidelines issued by the Board of Directors from time to time. The list of accounts subject to auction along with the date and venue for auction shall be displayed at the concerned branch of the Company and shall also be published in News Paper as per the guidelines issued by the Board of Directors from time to time.
13. In the event of loss of pledged Gold due to theft, burglary or for any other reasons from the custody of the Company, the liability of the Company shall be limited to replacing the lost Gold with equal net weight as mentioned in the loan application form / pawn ticket.
14. The Company shall have the right to exercise lien on the Gold offered as security for this loan to secure the repayment of any other liability of the Borrower to the Company, which is due and payable, until such other liability is also fully settled. Exercise of such lien will be duly intimated to the Borrower by letter, courier service, email, SMS, telephone or any other mode of communication.
15. The Company shall have the right to assign or transfer or securitize the rights to obtain necessary advance or financial facility from any Bank or Financial Institution or other organizations or for any other lawful purpose, at any time during the currency of the loan.
16. The address for all communications to the Borrower shall be the one furnished in the loan application form by the Borrower. Unless any change of address is duly intimated by the Borrower to the Company in writing and duly acknowledged, any communication sent to the Borrower in the address furnished in the loan application shall tantamount to valid receipt / acceptance of the communication sent by the Company. The Borrower shall also keep the Company duly intimated about any changes in the recorded landline phone or mobile phone number to facilitate communications. The Borrower understands and agrees that the Company may contact the Borrower over phone to pass on transactional as well as promotional communication and the Borrower consents for the same. It is also understood and agreed by the Borrower that such conversation may also be recorded by the Company for future use.
17. In the event the Borrower fails to produce the pawn ticket at the time of settlement, the Company may, at its sole discretion, deliver the pledged Gold of the Borrower after completion of the prescribed formalities and subject to payment of processing charges, as may be applicable from time to time.

18. The rate of interest and the approach for gradation of risk and rationale for charging different rates of interest to different category of customers is based on the details/attributes of the loan scheme vis-a-vis Loan to Value (LTV), tenure of the loan and the amount of the loan extended.
19. The Company shall have the right to make disclosure to Credit Information Bureau of India Ltd. (CIBIL) or such other similar agencies.
20. All disputes, differences and/or claims arising out of or touching upon this loan, whether during its subsistence or thereafter, shall be settled by arbitration in accordance with the provisions of the Arbitration and Conciliation Act, 1996, or any statutory amendments thereof and shall be referred to the Arbitration of a Sole Arbitrator to be appointed by the Company. The award given by such Sole Arbitrator shall be final and binding on the Borrower and the Company. The venue of arbitration shall be in Vijayawada-A.P.

L. 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.
- b) Maximum amount for takeover shall be limited to Rs.10 lakhs on a single day for a customer.
- c).Head office approval is must for all takeover loans.

M. MARKETING & PROMOTION

- i)The company shall not deliberately promote a product with any ulterior/selfish motives or contrary to the customer requirements or expectations as disclosed by the customer. The company will ensure that its personnel engaged in marketing and operations are suitably trained and instructed so as to preclude selling of its products by misrepresentation to the customer /prospective customer.
- ii) The Company will not indulge in profiteering by charging usurious rates of interest on loans or take undue advantage of adverse market conditions. The rates of interest will be based on variables such as cost of funds, risk premium, loan scheme, loan per gram, profit margin etc. and shall be in conformity with the Interest Rate policy of the Company and Regulatory Guidelines from time to time. It shall also, by and large, be in tune with industry practices and benchmarks.
- iii) Full and updated information regarding loan schemes, rate of interest, loan per gram, charges etc. Will be displayed in the branches. Complete or select information will also be made available through various media channels, posters, brochures, notices, displays etc. based on the decisions of the management of the Company from time to time.

N. RECOVERY OF DUES, EXERCISE OF LIEN & DELIVERY OF SECURITY

- i) The Company will not, as a matter of fair dealing, normally recall the loan before the initially agreed tenure except in unanticipated or abnormal circumstances where the Company's interests are adversely affected e.g. when the security value diminishes substantially, when the quality of gold is not found to be acceptable, due to any regulatory / government directives etc. In all such cases proper and reasonable notice shall be given to the customer recalling the loan before expiry of the normal tenure
- ii) The Company will make all possible soft or persuasive efforts to get the customer to repay the dues without resorting to disposal of the security. The Company does not accept nor will it encourage the use any coercive or hard measures to recover its dues from the customer
- iii) The Company will deliver the security (gold) to the customer immediately upon settlement of the loan in the same condition as was at the time of sanction of the loan. In case of any damage caused to the security (gold) due to mishandling by its employees, the Company shall at its cost get the damage repaired or alternately pay reasonable compensation to the customer on a case to case basis. If the security (gold) has signs of damage thereon, before being taken custody of by the Company at the time of sanction of loan, the fact will be briefly incorporated in the sanction letter (pawn ticket).
- iv) The Company will exercise only legitimate right of lien over the pledged security or such cash surplus as may arise upon settlement of existing loans at any time. Such right of lien shall arise only if the customer has any other dues, either directly or as guarantor, and will be subject to proper intimation of such right of lien being given to the customer by the Company.
- v) The Company shall issue a signed and, normally, a system generated receipt for all cash payments made by the customer immediately
- vi) Even though the loan sanction letter (pawn ticket) contains all applicable terms and conditions of the loan the Company shall, nevertheless, endeavour, on a best effort basis, to send advices, reminders etc. regarding due date for payment of interest, principal etc. by letter, courier service, telephone , SMS etc.
- vii) The Company shall, on demand, provide the customer or his duly authorized representative with a statement of the loan account at any time during the currency of the loan or immediately upon closure.
- viii) The Company will resort to disposal of security (gold) only as a last resort and that too after adequate and proper notice is served on the customer to repay the dues. Such notice will be as per the terms contained in the sanction letter (pawn ticket) and also in compliance with applicable laws and regulatory guidelines. The disposal of the security (gold) will be taken up through public auction when the customer does not positively respond to the communications sent by the Company to close the loan account along with interest and other charges
- ix) Where the Company proposes to dispose of the security even before the normal tenure of the loan based on the rights conferred on the Company vide loan application and loan sanction letter (pawn ticket) adequate and proper notice will be served on the customer before such action is initiated for recovery of dues.

x) The Company prefers and encourages customers to take back delivery of the security immediately upon full settlement of all dues. However, should there be exceptional instance of the Customer being unable to take delivery of the security (gold), not attributable to the inability of the Company, after closure of the loan account reasonable safe custody charges may be payable which will be duly advised to the customer or displayed in the branch premises.

xi) The Company will not interfere in the affairs of the customers except for the purposes mentioned in the terms & conditions of the loan or when constrained to do so due to inadequate or false disclosures made by the borrower at the time of putting through the transactions

O. SETTLEMENT OF PLEDGE

When a customer repays the loan amount with interest and any other dues, if any, thereby closing his gold loan account, it is called settlement of the loan.

Types of Settlement

- 1) **Normal Settlement:** Normal Settlement of pledge means “settlement of a pledge within the loan period”.

Ornaments are normally released to the pawner himself and not to anyone else unless the pawner has duly authorized someone else. While releasing securities, the pawner is required to sign on the reverse side of the original pawn ticket and branch people has to ensure his signature is one at the time of pledging the ornaments.

Interest Calculation

$$\text{Interest due} = \left\{ \frac{\text{Loan amount} \times \text{Percentage of Interest} \times \text{Number of Days}}{365} \right\}$$

2) Release Procedure

- 1) Receipt of customer copy of pawn ticket
- 2) Retrieval of the office copy of pawn ticket
- 3) Verification of signature and photograph of the customer with the office copy of the pawn ticket.

Once the pawn ticket is handed over to the Assistant, he verifies the signature and address with the signature and address recorded on the office copy of Pawn ticket and DPN available with the Branch. The Original Pawn Ticket is handed over to Branch Manager / Assistant Branch Manager who in turn retrieves the gold from safe room.

- 3) **Overdue Settlement:** Overdue settlement means settlements of the pledge after the due date. Overdue interest has to be charged according to the rates applicable for different days and is calculated over the sum of principal and interest due up to the due date. In the case of overdue loans, if postage charges have been incurred by the company, it would also be added to the settlement amount.

Settlement Amount Calculation

$$\text{Interest due} = \left\{ \frac{\text{Loan Amount} \times (\% \text{ of Interest} + \text{Overdue Interest}) \times \text{No. of days} + (\text{Applicable Letter Charge})}{365} \right\}$$

4. Repledge Procedures

The same procedures as involved in a new pledge are repeated at the time of re-pledging the gold. This happens on maturity of the pledge and also when customers want to extend the pledge duration beyond what is mentioned in the Pawn ticket.

A customer may re-pledge his gold in four different ways.

- 1) He may pledge the same items which are already pledged at the branch.
- 2) He may take back some items from among the items which are already pledged and only the remaining items are re-pledged.
- 3) He may add some additional items to the items which he had already pledged at the branch and
- 4) He may take back some items from among the already pledged items, add some additional items to the remaining, and re-pledge the new lot.

For re-pledging, the gold has to be taken out from the locker for reappraisal and related documentation work.

5. Special Cases- If the customer loses the original Pawn Ticket

If a customer comes without the original Pawn ticket, Customer should execute Rs.100/- indemnity bond on stamp paper. BM/ABM can release the gold by completing Indemnity Bond by customer name. The gold will be released only after obtaining a declaration by the pawner. The signature should be complete along with the name and address of the pawner written by him in the same language and style as recorded by him in the DPN at the time of pledge. A penal charge of Rs.50/- shall be levied from the pawner and credited to Pawn ticket missing charges account.

6. Release of Securities through Authorised Persons

There may be occasions where the pawner may not be able to come to the branch and release his/her pledge due to some unavoidable circumstances. In such cases, the pawner can authorize a responsible person to collect the gold. For the authorization prescribed format of authorisation will be used. Only original copy of this form is to be submitted by the customer. Scanned copy or photo copy shall not be accepted from the customer. Branch Manager at his discretion may release the pledge provided his satisfied with the genuineness.

7) Formalities to Release Gold in the Case of Death of Pawner

As a matter of fact, the pledged gold can be released only to the customer concerned, unless or otherwise the pawner has authorized someone else to receive the gold. If the pawner

expires (i.e., in cases where the customer passes away the gold can be released back to his/her family legal heirs subject to the fulfilment of certain terms and conditions put forwarded by the company.

Documents Required

1. Death Certificate
2. ID Proof of the Deceased person.
3. Original Pawn Tickets(Office copy and Customer Copy)
4. Authorization letter from legal heirs authorizing one person as nominee to settle the pledge (signatures should be duly attested by notary public)
5. Request letter of nominee
6. Legal heirship certificate or family membership certificate from village office or notarized affidavit proving the relationship with the deceased person.
7. Id proof (having photo) of all the legal heirs.
8. Notarized Indemnity bond worth of Rs.100/- in company format signed by legal heirs.

Upon receiving the above listed documents, the Branch Manager, along with a covering letter, should forward to Head office to obtain necessary sanctioning. After obtaining sanction from the R.M in the Head office, Branch Manager shall release the gold to the authorized person.

8. In Case of Death of Pawner (Without Pawn Ticket)

In the above case all the legal formalities mentioned above are followed along with a line in the Indemnity Bond that pawn ticket is missing, upon receiving the above listed documents, the Branch Manager concerned forwards it to Head Office for sanctioning. After sanction from the Head Office, Branch Manager shall release the gold to the authorised person.

P. AUDIT

Internal Audit

We are conducting Internal Gold Audit on every month. If any error finds during the audit we will rectify the same mistake or error then and there. The audit includes counting of No of Packets physical verification of Open Ornaments and tally with Gross Weight and Net Weight etc..

We are giving instructions to concerned branches to rectify the irregularity within 10 days / compulsorily before commitment of the next audit.

We appointed qualified & experienced Gold Smith for assessment of the Gold Ornaments

External Audit

We conduct external audit on quarterly basis, the auditor come from reputed company of Chartered accountant the audit contains checking of day to day operations, cash balances,

voucher verification & leakage of income it also contains Physical verification of Gold Packets as per the System Inventory Report.

Verification of fixed assets like safes, furniture and also checking of Security measurements.

Q. INSURANCE

- a) The jewellery accepted as collateral security shall be appropriately insured.
- b) Cash Insurance Limit is 3 to 5 lakhs per branch.

AUCTION POLICY

R. INTRODUCTION

- i. The core business of Kanakadurga Finance Ltd (the company) consists of lending against the collateral security of gold ornaments (gold), normally 'Household used Jewellery' (HUI). The inherent strength in such security is that it ensures automatic and prompt repayment of loans on the basis of the presumed 'emotional attachment of the borrower to such HUI.
- ii. Most borrowers repay the loan in the normal course and some others after receiving reminders/notices from the company. Yet, there could still be a small proportion of the borrowers who fail to liquidate the loans within the normal tenure despite all soft and persuasive efforts. In some of these 'hardcore' cases even notices sent by registered post do not evoke a positive response. Consequently, the only option left for the company to settle such overdue accounts is to go in for Auction of the pledged gold to realize its dues. The normal tenure of a loan as of now is 6 Months within which period the borrower is expected to liquidate the account.

S. AUCTION PROCEDURES

A. Public Auction

The term "Auction" used in the policy shall mean realization of the security through 'Public Auction' only. As a general rule auction process shall be initiated for all accounts wherein interest for 6 months (from disbursement) has not been serviced in FULL except as otherwise stated in the Auction Policy.

B. Organisation Structure for Auction Proceedings

- 1) The Company shall have a dedicated Auction Department at the Head Office (Auction Dept) to initiate, supervise and monitor the auction procedure including adherence to the approved policy. The Department Head will function under overall control of Board of Director
- 2) As and when required dedicated Recovery Head/Regional Manager for assisting the Auction process at various branches may be posted under the overall supervision

of the auction proceedings and he will be entrusted the responsibility for the proper conduct of Auction.

C. Auction in the Normal course (after completion of tenure of the loan)

Auction process must be commenced in respect of all accounts on completion of the tenure of the loan which interest due has not been serviced in FULL or where the account has not been settled. The auction must be completed within 6 months of completion of the tenure of the loan.

In accounts completing 6 months from disbursement where the borrower has regularly and FULLY serviced interest due on the account (i.e. NIL ‘Interest due’) but the principal has not been repaid, in part or full, the borrower has to repledge the loan to avail new loan account number. Auction Head will closely monitor such accounts to ensure regular payment of Interest.

An auction can be deferred at the request made by the customers on reasonable ground, Such proposals for deferment of auction submitted by Recovery Manager shall be recommended by Regional Manager and approved by the Board of Director.

D. Selection and Approval of Auction Centres, Safe Custody, Security Arrangements

- 1) Auction shall be conducted only in Approved Auction Centres /Branches. Auction Branches shall be finalized by the Board of Directors.
- 2) Auction branches are provide with appropriate, adequate and accessibility, CCTV Cameras, Burglary Alarm
- 3) Physical transfer of gold from various branches to regional auction centres shall be carried out in line with the regulatory/internal norms /directions which shall be subject to modification from time to time

E) Authorisation for Auction of Gold

- i) Once the accounts have been identified and listed for auction by the Auction Department the proposal, shall be put up to Board of Director approval. The Auction Department shall ensure that the list is accurate, complete and in compliance with the approved Auction Policy.

F) Mode and Periodicity for Sending Notices, Intimation to the Borrower

Type of Notice	Notice Date
Ordinary Notice	A Normal Notice in Local Language will be sent to customer on 60 day to pay Interest without overdue.
Register.AD-	Auction Notice will be sent on 120 th day. To Repldge the Gold

Auction Notice	without auctioning
Register.AD-Final Re-Pledge Notice	Final Register Notice with A.D Card will be sent on 150 th day to Renewal the Gold. If customer is not coming to pay the Interest/Difference in Principal amount, the gold will be sent to auction.
Personal Intimation	Personal Intimation letter will be in English format. Intimation letter will be served to all “Auctionable” pledges furnishing the date and Branch of auction on atleast 10 days before the proposed date of auction by Direct Intimation or by registered post AD requesting the borrower to immediately pay the full dues failing which the security would be liable to be put on auction, without further notice, for recovery of the dues.

ii) If the AD Card is not received within a reasonable period of the Auction Head/Branch Manger shall apply to the post office obtain a certificate of delivery to the addressee from the post office. Alternatively, if the AD card is not available the auction notice may served on the borrower personally by an employee of the company and signature of the borrower obtained in the duplicate copy of the notice.

iv) The acknowledgement card (or certificate of delivery from the post office) or the unopened cover (letter returned undelivered cases), as applicable, should be carefully preserved and systematically stored for easy future retrieval. Such records shall be under the direct custody and control of the Auction Dept for a period of atleast 1 year from the auction date. Thereafter, such records shall be transferred along with the other records for proper storage in Head office.

G) Public Notification of Auction, Display of Information

i) The list of accounts taken up for auction shall be displayed at the concerned Branches, before scheduled date of auction for frequent follow-up by Branches and it will be monitored by Regional Manager

ii) Conduct of auction proceedings shall be announced through advertisement in two newspapers - Two in Local Language. Such notification in the newspapers should be published atleast 7 days before the scheduled auction date. When the auction is rescheduled

to another date for any reason whatsoever a revised notification shall be published in the same manner.

iii) The format, content, size and clauses in the advertisement shall be standardized and got approved by the Board of Director. The notification should clearly mention that identification documents must be carried by those desiring to participate in the auction. The advertisement should also indicate that the gold ornaments will be auctioned on 'as is where is' basis.

H) Convenient Auction Lots, Fixation of Reserve Price, Security, Insurance

i) Pledges taken up for Auction must be segregated into appropriate / convenient Branch lots to facilitate disposal based on various parameters such as assessed purity, quantity of gold, expected participation of bidders, prevailing market prices etc.

ii) Each Branch lot shall be separately taken up for bidding for security reasons and better realization prospects.

iii) Participants shall have the right to inspect the gold ornaments, preferably one after another, before commencement of auction in the presence of the Regional Manager, Sr Branch Manager/Internal Auditor entrusted the responsibility to oversee the Auction procedure.

vi) The proposal with recommendations for fixation of the reserve price for each auction shall be approved by the Director. In order that the auction attracts bidders and is successfully completed the reserve price by prevailing market price.

vii) When there are no bidders at the reserve price fixed the reasons therefore shall be ascertained and the auction will be cancelled.

I) Due diligence on Participants, Earnest Money Deposit (EMD)

i) Proper and acceptable documents for identification of the participants in an auction should be obtained before permitting them into the auction hall. The usual documents taken for customer account KYC compliance may be accepted.

ii) A reasonable amount EMD should be insisted upon from every participant. The mode of payment, amount and procedure should be got internally approved by the Director.

J) Mode of Payment by Successful Bidders & Delivery of Gold to Successful Bidders,

The mode (Cash deposit in Bank) of receipt of bid amount shall be decided by the management.

ii) A minimum of 20% of the bid amount including the EMD shall be insisted upon from the successful bidders on the date of the auction itself. Successful bidders should be given a letter in a pre-approved format alongwith the terms and conditions. The balance shall be payable within 3 working days after auction date. If the full amount is not received within the 3 working days after auction date penalty will be impose to the bidder.

iii) Delivery of gold to successful bidders should be made only after confirmation of full payment .Gold Packets will be handover to Bidder by Auction Head/Regional Manager according to Approved Auction List.

K) Auction under Exceptional Circumstances

1) Auction department shall regularly monitor the realizable value of gold in any instance where the realizable value of gold is less than the actual value, such accounts shall be taken up for auction even before the completion of the tenure of the loan and in accordance with the directions laid down by the management from time to time.

2) Auction of Gold Ornaments Identified as Spurious / Low quality

a) Accounts in which pledge of spurious /Low quality gold ornaments have been detected subsequent to disbursement may be taken up for auction even before the completion of the tenure of the loan, from date of pledge subject to the under mentioned compliances. The said procedures shall also be followed for spurious/ low quality accounts/pledges, identified at the auction centre or at the time Internal Audit after completion of the tenure of the loan.

b) Proper notice/Intimation shall be served upon the borrower.

c) Before serving the above notice the purity of the gold ornaments shall be re-verified internally through Gold Internal Auditor/ Purity Analyzer Machine.

3). Re-Auction of Gold Ornaments Not Successfully Auctioned (Normal Gold /Spurious or Low Quality Gold

If the gold ornaments and no bidders at the reserve price the course of auction as under should be adopted.

- i) The auctioneer shall submit in writing that no bid was made at the reserve price fixed due to the poor quality of gold difficulty in assessing the correct purity. This shall be certified by the Internal Auditor and Regional Manager.
- ii) Such gold ornaments shall be taken up for melting, either in-house or through a reliable outside agency, in the same lots as taken up for auction. Auctioneer/his representative shall remain present during the melting activity along with a competent Internal Auditor of the Company who will certify accordingly in a register to be maintained for the purpose.
- iii) The melted bars shall then be assayed for purity and put up for auction in such form with a fresh reserve price fixed.
- iv) Compliance with the above steps shall be periodically subject to internal audit.

M) Eligibility Criteria for Participating / Bidding in Auctions, Guarding Against Cartels / Groups

- i) Persons, entities having known criminal background shall not be allowed to participate in the Auctions.
- ii) Cartel formation by groups of bidders with ulterior purpose should be guarded against through appropriately tweaking the strategies from time to time.

N) Bidding for Gold by Company / Related Entities, Maintaining Arm's Length Relationship

- i) The Company or any of its related entities shall not participate in the Auctions. Further, there shall be an arm's length relationship in all transactions during the auction including with group companies and related entities.

O) Maintenance of registers / records

- i) All registers and records mandatorily required under law and as per instructions issued by the Company shall be properly maintained and updated under the safe custody of Recovery Manager/Regional Manager.

T.CUSTOMER SERVICE & GRIEVANCE REDRESSAL

- i) The Company will implement all possible steps to prevent and minimize customer complaints / grievances

ii) The Company will facilitate the customer to pay the whole or part of the dues at any of the branches of the Company subject to the condition that delivery of the pledged security shall be made only at the branch where loan was originally disbursed.

iii) The Company will put in place an effective Customer Grievance Redressal mechanism details of which will be displayed in all the branches. The mechanism will specify interalia the names & designations of the officials with whom complaints can be registered, their postal address / telephone numbers/ email address, escalation matrix, time limit for acknowledging receipt of complaint, time limit for dealing with the complaint etc.

iv) The Company will put in place an effective training system to ensure that employees of the Company are customer friendly and do not resort to rude, inappropriate or unethical behaviour.

v) The Company will endeavour to work out and display the time norms for putting through and completing the various transactions.

vi) The Company will have a sympathetic approach to the problems faced by the customer especially the poor and underprivileged sections.

U.MISCELLANEOUS

i) The Company shall display the normal business hours at the respective branches, the list of holidays and notify the changes, if any, by way of a notice displayed in the premises of the branch.

ii) Personal information of the customer will not be shared with unauthorized persons or agencies or third parties by the Company. However, the Company will be bound to honour and comply with legal or regulatory requirements, if any, in this matter obligating it to part with such information even without notice to the customer.
