

Kanakadurga Finance Limited
NPA POLICY

A Non-performing asset (NPA) is defined as a credit facility in respect of which the interest and/or installment of principal has remained 'past due' for a specified period. Every NBFC is required to have a policy in accordance with the RBI guidelines for managing the non-performing assets of the company. The Board of Directors of every NBFC granting loans shall frame a policy for the company and implement the same in terms of RBI circular no. DNBS. 157/CGM(CSM)-2002 dated April 22, 2002.

Vehicle Loans

If more than Three Instalments are Overdue from the customer, then all the loan accounts will be considered as non-performing (NPA) loans until total arrears of the customer has been paid and suitable provisions as envisaged by RBI from time-to-time is provided for by the company.

Gold Loans

Normal tenor of a gold loan can be up to a period of 12 months from the date of disbursements and the customer is offered attractive interest rate if interest is paid on monthly else the interest rate will be high on a compound basis. The loan becomes overdue on next day immediately after the maturity date. To be categorized as NPA, the loan should have remained overdue for a period of more than 90 days from the date of maturity.

PRUDENTIAL NORMS ON INCOME RECOGNITION, ASSET CLASSIFICATION, AND PROVISIONING.

Income from NPA is not recognized on accrual basis but is treated as income only when it is received.

CLASSIFICATION OF ASSETS AND PROVISION REQUIREMENTS

As an NBFC, after considering the degree of well-defined creditworthiness and extent of dependence on collateral security for realization, we are required to classify loans and any other forms of credit into the following classes:

Standard asset where no default in repayment of principal or interest is perceived and which does not disclose any problem nor carry more than normal risk attached to the business.

Provision requirements – not less than 0.4% as general provision. This provision should not be reckoned for arriving at net NPAs.

Substandard asset is the one that has remained NPA for a period not exceeding 12 months. In such cases, the current net worth of the borrower or the current market value of the security is not enough to ensure recovery of the dues.

Provision requirements – general provision of not less than 10%

Doubtful assets are accounts that fall under substandard category and have remained as NPA for period exceeding 12 months.

Provision requirements - 100% of the extent to which the advance is not covered by realizable value of security.

with regards to secured portion:

Up to one year after treated as doubtful asset - 20%

One to three years 30%

More than 3 years 50%

Loss assets are those where loss has been identified by us or Internal/external auditors or during RBI inspection, but the amount has not been written off wholly or partly.

Accounts with erosion in value of security/ frauds committed by borrowers should not go through various stages of asset classification.

Provision requirements – 100% Provision if not written off

If the realizable value of security is less than 50% of the outstanding, the asset should be classified as Doubtful and if it falls below 10%, It should be categorized as loss asset.

Advances against gold ornaments are not exempted from provisioning requirements.

MANAGEMENT

Management of NPA begins with a better understanding of the underlying credit risk and initiating corrective measures starting from the branch levels. Relevant to the nature of our lending operations, reasons for an asset turning bad can be broadly identified as follows:

1. Laxity in Identification of customers' background and adhering to KYC norms.
2. Lack of proper Credit appraisal and risk assessment
3. Improper / inadequate documentation
4. Incorrect assessment of security
5. Inadequate post disbursement follow up.
6. Fraud

PRECAUTIONS BY VARIOUS FUNCTIONARIES

Branch Staff

'Know your customer' guidelines should be strictly adhered to before granting loans to anybody. If KYC requirements are not complied with in respect of existing borrowers, Managers should take necessary steps to ensure compliance with KYC norms immediately.

Special attention to be given to the following:

- (a) The address in the ID proof and that in our records as given at the time of granting of loan should be same. Discrepancies, if any, shall be adequately questioned and satisfactory explanation to the same shall be obtained.
- (b) Frequent contact with the borrowers, particularly in the case of high value loans of say 1 lakh and above through personal visits and face-to-face discussions with the borrowers may be undertaken for ensuring prompt repayment of loans.
- (c) The quality of the gold ornaments shall be checked/ tested, before accepting the same as security for the loan, by the employee responsible for the same. Weight of the extraneous items should be assessed properly and shall be reduced from the gross weight of the gold ornament. Net weight of the gold ornament shall be taken into consideration for arriving at the allowable limit of loan.
- (d) DPN shall be fully filled up and properly executed by the borrower.
- (e) The branch staff should be vigilant enough to be aware of developments in the area to identify and avoid undesirable customers with dubious past track records.
- (f) All the other laid down systems and procedures should be followed strictly.

RECOVERY OF NON-PERFORMING ASSETS

Vehicle Loans

If the customer became the NPA and regularly paying the EMI, then treat the customer as critical and do the rigorous follow up with the customer to get in the standard by clearing the overdue amount.

If the Customer became the NPA and not paid the Two Consecutive EMI's then initiate the below mentioned procedure

Vehicle Repossession

- Repossession of vehicle should take place if customer has not paid for "TWO" consecutive months.
- After sending the RPAD Receipt of KFL Notice to HO/FM/ZM/BM, branch can seize the vehicle.
- Authorization to Repossession the vehicle (seizing letter) to be signed only by

- the BM & copy must be given to the customer with his acknowledgement.
- Police intimation through speed post after Repossession to the police station at which the vehicle has been Repossessed.
- Immediately within 24 hours, notice 2 must be sent to the borrower after the repossession of the vehicle through RPAD and the scanned copy receipt of RPAD must be sent to HO.
- On completing 1 week after repossession, notice 3 must be sent to the borrower through RPAD and the scanned copy receipt of RPAD must be sent to HO.

Sale of Repossessed Vehicles

- RAPD notice should be sent immediately, and second notice should be sent after 1 week.
- Vehicle valuation should be done through the new App within 15 days.
- The sale process should be started on the 30th day of repo if customer has not taken back the vehicle.
- The company will put all the vehicle which have crossed 30 days for online auction twice a month and share the quotation received to all the concerned.
- The team should revert within 3 days with if quotations available with them.
- All the approvals will be tracked centrally, and payment should be collected within a week.
- Separate procedure would be in place for vehicle which are workshop for repairs.
- If any repairs are being taken up by us it should be completed within a week.

Release of Repossessed Vehicles

Outright sale: Total sale Amount Receipt, with bank Deposit Details is Mandatory. Release Order issued by HO on the letter head.

Sale Finance Continuation: Down payment receipt and HO File approval in S3g is mandatory, Release Order issued by HO on the letter head.

Release by Customer: Total Pending Outstanding Amount Receipt with OD and Arrears and current demand. Release Order issued by HO on the letter head.

Gold Loans

All loans outstanding beyond the loan validity will be disposed off within three months from the expiry of the loan period. To undertake this, the company requires a well-oiled gold loan monitoring, follow-up & disposal mechanism in place. With a view to have a proper monitoring mechanism, we have already set up an Overdue Loans Cell at Corporate Office under Business Head. The OLC will interact with branches & their controllers for speedy recovery of all loans which has exceeded the stipulated loan tenor. Since disposal of gold loans through individual branches is not feasible, due to small numbers and the high cost of auctioning, it will be desirable to dispose them off through a centralized disposal set up. The operational workflow for a centralized GL disposal set up will be

- (a) Identification of potential overdue gold loans by OLC of Corporate Office and advising them to concerned branches.
- (b) Sending first notice to borrowers latest by 15 days prior to the loan becoming overdue
- (c) Personal visit by branch manager/ staff member on the defaulting customer within 7 days from the date of notice
- (d) If no result forthcoming, serving of second repayment notice after a maximum gap of 15 days from the date of personal visit and/or the first notice.
- (e) If the loan remains outstanding even after this, takeover of the gold ornaments by the Regional Manager within a span of one month and transfer the loan account to Corporate Office overdue Loan Pool account
- (f) All gold loans & underlying ornaments taken over by the RM should be either be auctioned

at the HQ branch if sizeable number of loans are available or will be transferred to specified auction centers periodically.

- (g) At any point of time before the loan is transferred to Auction center in case the borrower approaches the company for redemption of pledged ornaments, this will be carried out by the concerned branch (Originating or HQ) in the normal manner.
- (h) Auctions will be carried out only after publishing the auction date and venue in two vernacular dailies being circulated around concerned branches. Also, the concerned branches will also display the auction date and center in their notice boards well in advance.
- (i) As further concession to customers, the company may also consider settlement of loan dues by way of concessions in interest as a one-time settlement on a case- to-case basis with approval from Corporate Office.

APPOINTMENT OF AN AUCTIONEER

Since as per the revised RBI guidelines, the company or its promoters cannot participate actively in the auction, a qualified and experienced auctioneer will be appointed by the company to carry out the auction on behalf of the company. The broad terms of engagement of an auctioneer will be as under

- a. The company will give full list of articles to be auctioned to the auctioneer who will have to furnish the details of auction as per the format given by the company.
- b. The auction proceeds should be credited to the Company's account within a Maximum period of 5 days from the date of auction.
- c. The auctioneer and company will enter into a written agreement for conducting the auction.
- d. The fees payable to the auctioneer will be pre-fixed subject to a ceiling 5% of the auction proceeds.
- e. The auctioneer's tenure will be one year with reappointment every year.

SPURIOUS/LOW QUALITY GOLD

In case of loan accounts becoming NPA because of the security being spurious or of low quality a proper investigation must be initiated immediately to examine the staff accountability. If there is deviation from the laid down instructions, then the recovery must be affected from the concerned employee / (ies) Concurrently the Branch Team must contact the borrower and recover the money using our usual methods including legal procedures. If there are no lapses on the part of the employees, then the borrower must be proceeded against legally to recover our dues.

STOLEN/ THONDY ARTICLES

In case of loan accounts becoming NPA an account of the security being confiscated by the police with respect to any crime or as stolen gold, the Branch Team must immediately contact the borrower/his family members and resort to hard core recovery measures. If the dependents of the borrower are in penury condition, then, the outstanding must be assessed for the purpose of write off. An enquiry must be conducted to examine staff accountability, if any, which contributed to the loss to the company. If there are any lapses found in the enquiry, then the delinquent staff should make good the amount as per the report of the enquiry officer.

OTHER REASONS INCLUDING FRAUDULENT ACTS

In all other cases, staff accountability should be examined and if any lapses are found then the delinquent staff should be made responsible for the loss, and he/she should be made responsible for the loss in proportion to his/her responsibility. The timelines for such staff accountability exercise should be Same as laid down in our policy on frauds.

PROVISIONING AND WRTE OFF

Based on guidelines of RBI as outlined above, provisioning requirements should be assessed at Corporate Office depending on the financial status of an account. In the case of loss assets, proposals should be submitted to the board for approval for write off. Wherever the CO feels that there could still be a possibility for recovery, 100% provisioning must be done in such cases.

Asset categorization and provisioning requirements should be ideally reviewed on a quarterly basis and to be submitted to the board for approval. Write off proposals can be taken up on an annual basis during the last quarter of a financial year.

STAFF ACCOUNTABILITY

As listed above, reasons for an asset drifting to the non-performing category are primarily on account of laxity in exercise of controls and lack of follow up at the branch level itself. Staff collusion is also a major reason. It has hence become necessary to define staff accountability in such cases. The timelines for such staff accountability exercise should be as per guidelines laid down in our policy on frauds.

Even at the occurrence of an asset sliding to the substandard category, the BM duly guided by the respective RM must initiate steps to regularize the account and recorded proof should be retained at branch levels for scrutiny by RM/ Audit/ CO officials. Every branch auditor should review these records and comment in their respective reports.

Relevant provisions of our fraud policy will be applicable about disciplinary proceeds against the staff. Quality assurance will be made part of performance management of staff at all levels.

MEMORANDUM TO THE BOARD

Risk Management Policy Every organization is subject to different types of risks in its day-to-day operations. Risk Management is

- Identification of risk
- Measurement of risk
- Prevention or containment of risk

To identify, monitor and contain potential risks, The Board of Directors at their meeting held on xxxxxxxx approved the risk management policy of the company and formation of a risk management Committee.