



LOAN POLICY

Approved by the Board of Directors in their meeting held on 7th May 2024

1. Preface

This paper has been drawn by way of consolidation, updation and additions to our existing lending norms with a view to present a comprehensive policy document for favour of the Board's approval. The policy seeks to maintain consistent improvement in asset quality, improvement in net interest margins and operational efficiency particularly in the areas of compliances and risk management.

2. Regulatory regime

As a Non-Banking Financial services company registered under the Reserve Bank of India Act , our lending policy is guided by the directives and guidelines issued by The Reserve Bank of India from time to time . As such, this policy document is subject to review based on periodic changes in regulatory norms.

1. Single / Group Exposure norms - Lending to any single borrower will not exceed 15% of Tier 1 Capital and to any single group of borrowers not to exceed 25% of Tier 1 Capital and the overall exposure norms shall be as prescribed by RBI.
2. Maintain a Capital to risk weighted asset ratio of 15%.
3. Prudential lending norms - Asset classification, provisioning requirements as per RBI Prudential norms.
4. Fixation of maximum loan per gram based on the Loan to Value (LTV) guidelines of RBI
5. Compliance with Anti money laundering / countering financing of Terrorist Activities as elucidated in our Anti Money Laundering (AML) policy

3. Risk management

We have a zero tolerance policy on risk. The different tiers of control already implemented, begins at the branch level. Regional Managers, Audit Managers and Vigilance Managers have a clear job role to enforce routine check on enforcement of quality assurance measures. CO functionaries will also undertake random check on related issues, whenever they visit the branches.

The Risk Management Committee, of the Board, is entrusted with the task of identification, measurement, monitoring and mitigation of the risk factors on an ongoing basis.

As a part of our ongoing risk mitigation initiatives, the Company has implemented rating matrix system to assess vulnerability at branch as well as at corporate office levels. This rating exercise will be a part of periodic audits.

Notwithstanding, given the short term nature of our Loan assets cushioned well by net interest margins, the secured nature of business, vulnerability to credit, operational as well as market risks is limited.

4. Resources

Our funding needs are presently sourced out of debentures and also partly through working capital facilities from Banks. Reckoning our ambitious growth plans, steps have been initiated to source additional banking facilities, in addition to periodical issue of non-convertible debentures.

As a part of our initiative to raise cheaper source of funds and also to draw parity with our assets maturity profile, alternative short term sources of funding would also be added to the resources.

5. Loan Pricing policy

The interest rates on gold loans will be fixed by the company on the basis of the following internal valuations.

1. The company lends varying amounts per gram of the gold (LTV) depending upon the market value and the purity of the gold. As per the risk assessment of the company a higher LTV is riskier than a lower LTV. Accordingly, lower LTV attracts lower rate of interest and higher LTV attracts higher interest rate. Further, in case of schemes where the interest rate varies with tenor of the loan, the borrower can remit the monthly interest alone and continue to enjoy the loan at lower interest rate.
2. In terms of RBI guidelines, maximum LTV rate that can be fixed should not exceed 30day average of the closing rate for standard gold (22k) fixed by India Bullion and Jewellery Association.
3. No allowance has been provided for add-ons such as making charge, sales tax, etc.
4. The maximum permissible LTV (Loan-to-Value) of the pledged ornaments will, however, be within the ceilings stipulated by RBI from time-to-time (The maximum permissible LTV is 75% at present).
5. Cost of funds: Interest on loans will be levied as a markup on the current cost of funds. The current cost of funds for this purpose means the incremental cost of borrowings of the company, its operating cost, loan loss provision and taking into account the operating margins required for growth of the Company.

6. The interest rates charged by the Company shall be expressed in compound rates with monthly rests.

6. Products

i) Gold Loans

The Company's assets are advances granted against the security of gold. Therefore the products profiles are reviewed regularly with a view to customize products in line with market expectations, availability of funds and competitor analysis. Variants of loan products through different schemes within the policy framework are done after periodic review of market conditions, duly approved by the board.

Gold loan schemes of the company are having a maximum period of up to 24 months from the date of initial sanction.

Gold loan products are reviewed from time to time.

Online Gold Loan procedure is as per Annexure-1 attached

ii) Loan Against Property

Loan against Property is given against equitable mortgage of property.

The Board of Directors will sanction each loan on case to case basis after considering the valuation report on the property and legal opinion on the property documents.

iii) Microfinance Loans

Microfinance loans are loans given to Female clients for Income Generating Activities on the basis of joint liability. Loans are repayable in equated instalments over a period of time.

Loans are given for declared legal end use, like business expansion, working capital needs, purchasing raw material, purchasing livestock, Marriage, education, debt consolidation etc. Clients are organized in center consist of 5-25 females divided in to sub groups and each woman takes joint liability for the other members of the group. The clients have weekly/fortnightly /monthly meetings where they pay back the loans to the field officers called Relationship officers of the company. All process and procedures are formulated based on RBIs NBFC – MFI guidelines issued from time to time.

7. Purpose

The loans are granted for productive and personal consumption and KYC requirements are required to be met. The funds raised out of our gold loans are not to finance terrorist activities, hoarding and/ or for money laundering purposes or any other illegal purposes.

8. KYC Procedure

As per RBI Regulations, 100% KYC compliance is mandatory for all Transactions in Financial Institutions.

The circular issued on KYC Compliance bearing No. CO/CIR/OP/SW: 22/61 dated 02/11/2022 had in detail given all the guidelines to be followed while collecting KYC and how to document it. It is therefore being advised to collect permissible KYC Documents for all New Customers as well as old customers from whom KYC was not obtained (both ID & Address proof)

Collecting KYC, Verification and updating the relevant details in the module at periodic intervals (one year) for Existing and Old customers is necessary. If the customer is from a distant place and having the KYC of that place, the local address proof should be collected. In case of KYC documents having Expiry period, care should be taken to ensure that the same is valid.

Both the address and ID Proof should be collected. If both the ID and address proof are in a single KYC document like Passport, Driving license etc., one copy of the same is enough. The entire details of the entered customer details should match with the KYC obtained and ensure that the documents collected are self-attested. The Branch in charge will verify the copy with the originals and attest with their signature and filed in the order of the client ID.

A declaration is to be executed jointly by Branch In Charge (BIC) and Joint Custodian (JC) at the time of sanctioning each loan in the authorized format. The declaration is to be part of loan documents in respect of each and every loan.

Spot images of the borrowers will be captured at the time of availing the loan.

9. Quantum of advance and discretionary limits

i) Discretionary limits

While no minimum loan level is prescribed, company has stipulated that the minimum quantum of gold ornaments that can be pledged at one time will be two grams of gold content.

Maximum loan - no maximum cap, though individual loans up to Rs. 5,00,000/- and aggregate single borrower exposure upto Rs. 25,00,000/- will be approved by the Branch Manager. Individual loans above 5,00,000/- and aggregate single borrower exposure from Rs. 25,00,000/- upto Rs. 50,00,000/- should bear the respective RM's approval (can also be done post facto) . ZMs can approve loans to individual

borrowers above RS 25,00,000/- (Twenty five lakhs only) subject to strict compliance with quality as well as rate per gram criteria (LTV). In such cases ZMs should reconfirm that KYC norms have been fully complied with. Loans to individuals above the value of Rs 25 lakhs and upto 50 lakhs should bear Zonal Head's prior approval.

Loans above value of Rs. 50 Lakhs will be pre -approved by the corporate office of the Company with recommendation of the Zonal Head before disbursal.

ii) High Value Loan approvals and Customer Profiling

A "High Value Loan Alert" mail is sent to the respective RMs/AMs for all loans disbursed above 5 lakhs. Pan card is mandatory for all loans (transactions) above 5 lakhs

Apart from this, if a customer avails a single loan of Rs.10 lacs and above or total loan outstanding of the customer crosses 10 lacs and above, a "High Value Loan Alert" mail is sent to the respective RMs/AMs. RM/AM should do a customer profiling for which a questionnaire is in place. As such, RM/ZM (as the case may be) should verify/prepare customer profiling and get it approved

10. Margin

Maximum loan amount is restricted to 75% of market value on the date of advance. Rate per gram in all cases will be as per CO guidelines issued from time to time. Branches do not have the discretion to offer different per gram rates than the one circulated. Company has decided to adhere to the maximum rate per gram LTV computed on the basis of monthly average rate of 22 carat gold published by India Bullion and Jewellers Association (IBJA).

11. Verification of Ownership of Gold

Where the gold jewellery pledged by a borrower at any one time or cumulatively on loan outstanding is more than 20 grams, branch shall keep a record of the verification of the ownership of the jewellery. The ownership verification need not necessarily be through original receipts for the jewellery pledged but a suitable document shall be prepared to explain how the ownership of the jewellery has been determined, particularly in each and every case where the gold jewellery pledged by a borrower at any one time or cumulatively on loan outstanding is more than 20 grams.

We have an Ownership Verification process in place. The ownership of the ornaments should be verified through various methods, signed by an employee and countersigned by the sanctioning authority of the branch in the prescribed format with all the details filled up. The signed declaration is uploaded in the system while making the transaction entry. A signed ownership declaration also obtained from the borrower having single/aggregate loan above 25 lakh.

12. Standardisation of Value of Gold

The gold jewellery accepted as collateral by the company shall be valued by the following method:

- a) The gold jewellery accepted as collateral by the Company shall be valued by taking into account the preceding 30 days' average of the closing price of 22 carat gold as per the rate as quoted by the India Bullion and Jewellers Association(IBJA).
- b) If the purity of the gold is less than 22 carats, the Corporate Office shall translate the collateral into 22 carat and state the exact grams of the collateral. In other words, jewellery of lower purity of gold shall be valued proportionately subject to the condition that the purity of the ornaments is not below 19 carats.
- c) Company, while accepting gold as collateral, should certify that they have assayed the gold and state the purity (in terms of carats) and the weight (gross and net weights) of the gold pledged with suitable caveats to protect themselves against disputes during redemption. The certified purity shall be applied both for determining the maximum permissible loan and the reserve price for auction.

13. Assaying procedure-

We have implemented the Maker Checker Process for all the loans disbursed from the branches. By this process, both the Appraising employee and sanctioning employee has to verify the quality of the gold and the customer credentials which is also confirmed in the module while disbursing each Loan.

14. General Conditions

1. Muthoottu Mini Financiers Ltd refrains from interference in the affairs of the borrower except for the purpose of loan provided in the terms and conditions of the agreement unless a new information not earlier disclosed by the borrower has come to the notice of the company.
2. All gold loans will be sanctioned on the basis of a preliminary assaying of the purity of the pledged ornaments. These will be verified later on by qualified/ experienced gold assayers appointed by the company and in case the purity of the pledged ornaments are below the minimum

accepted level of purity approved by the company, the company reserves the right to recall such loans without delay or notice.

3. Since gold loans are sanctioned instantaneously, no acknowledgment of loan application will be given.
4. The company does not resort to use muscle power or unlawful coercion methods for recovery of loans granted by the company.
5. All loans are sanctioned at the sole discretion of the company

15. Storage and Insurance

The Company shall ensure that a minimum level of physical infrastructure and facilities and a strong building, with reach and visibility etc are available for the branches engaged in financing against gold jewellery. The pledged gold shall be stored systematically, serial number wise to facilitate easy check and location.

The pledged ornaments will be stored in vaults/ strong rooms and will be duly insured against theft, dacoit, etc. All the pledged ornaments will also be insured for their gold content at current market rate .

Gold stored in the Vaults/ strong room will have the following additional safety measures

The vaults/Strong room shall have a double lock system. There shall be two keys for operating the vaults/strong room, entrusted to two separate officials, one to the Branch Head (custodian) and the other to a senior official (Joint custodian) in the Branch. The vaults/strong room can be opened only when the two keys are used.

A register shall be maintained at Branch to enter the time of entry and exit, name of authorized person, whenever the vault/strong room is opened. . No person other than the Custodian shall open the vault/strong room unless otherwise authorized by the competent authority.

The vault/strong room shall have additional security features like CCTV Camera at the most vantage point(s) to keep round the clock surveillance. The monitoring of such CCTV Camera shall be done by the Audit/Vigilance department during their routine visits.

Adequate training is given to the employees regarding the storage policy and its operations and verified during the periodic inspections by the authorized persons and audit personnel.

This will be in force till such time it is modified or amended by the Board of Directors

16. Auction procedures

i) Criteria for sending Prior notices

The company has an approved auction policy in detail. A set of norms is specified for identifying the accounts to be included for Auction. For the eligible loans, intimation is sent to the borrowers, the periodicity for sending notices is already laid down in the policy. A notice in the local language is sent to the borrowers (eligible for auction account) by registered post with acknowledgement requesting them to pay the full dues as and when the accounts become overdue. If the customer fails to settle the dues even after 20 days from the due date, the Company shall send a registered auction notice with acknowledgment due, requesting the borrower to immediately pay the full dues, failing which the security would be liable to be put on public auction/e-auction, without further notice, for recovery of dues.

ii) Self-Bidding and Disclosure in the Annual Report and refund of Surplus, recovery of Shortfall

MMFL or any of its related entities shall not participate in the public auctions. The company will disclose in its annual report the details of the auctions conducted during the financial year including the number of loans, outstanding amount and Value realized. Refund of Surplus, recovery of shortfall is specified.

iii) Auction announcement

The list of accounts taken up for auction shall be announced through advertisement in National daily and in a vernacular language. Such notification in the newspapers should be published at least 14 calendar days before the scheduled auction date.

The company shall resort to realization of the “auction accounts” only through Public auction/e-auction in “as is where is” and “as is what is” condition except as otherwise stated in the auction policy.

The proposal for fixing the reserve price for each auction shall be above 85% of the previous 30 day average closing price of 22 carat gold as declared by the Bombay Bullion Association Ltd (Now India Bullion and Jewelers Association Ltd) and the value of the jewellery of lower purity in terms of carat should be proportionately reduced.

Procedure for Legal, Low quality and Spurious accounts is defined in the Auction policy. The policy includes the Earnest Money Deposit (EMD) and Documents to be submitted by the Bidder

iv) Empanelment of Auctioneer:

Auction shall be carried out only through Auctioneers /E –Auctioneers empanelled by the Company with the approval of the Auction Committee. In centres, where such Auctioneers are not available the auction must be conducted by

- a. Lawyers with more than one year experience.
- b. Professionally qualified, work experience with auction and related activity in any financial Institution or Bank for more than 3 years.
 - i) The charges, fees payable to the auctioneers shall be fixed after proper internal approvals and reviewed periodically.
 - ii) Considering the number of auctions and the availability of auctioneers, company reserves the right of empanelling one or more auctioneers in an area.

v) Other conditions

All registers and records relating to public auction will be kept in the auction center, in case of public auction, under the joint custody of RMs concerned and bid confirmation, lot details, KYC and authorization, newspapers, copy of participants register and lot register will be kept at the corporate office under the custody of Asset quality department, subject to periodical internal audit.

The brief of the Auction procedure is available in the terms and conditions in the loan document and duly acknowledged by the borrower.

17. Systems and procedures put in place for dealing with fraud

Fraud reporting to RBI- Timely intimation of fraud incidents detected and filing of police complaint.

With reference to the captioned subject, following directions are notified for strict compliance.

Intimation on Fraud incidents

It may be noted that in the instance of a fraud being detected, intimation (details in brief) shall be provided to the operations department with a copy to the legal department immediately on detection and/or conclusion of the incident as fraud, by the concerned RMs where the fraud has occurred at the regional/branch level . Further, a detailed report in the prescribed format shall be submitted within 10 days of such detection.

Filing of Police complaint

In all incidents where the commitment of fraud has been detected/confirmed, police complaint should compulsorily be filed against those involved in the following instance.

Amount involved in fraud is Rs.10,000 /- & above, committed by staff/ customers/external parties.

The above instructions are in line with the RBI's Directions/Circular (Master direction: "Monitoring of frauds in NBFCs directions, 2016 "DNBS. PPD.01/66.15.001/2016-17, dated September 29, 2016 and Master Circular: "Future approach towards monitoring of frauds in NBFCs", DNBR (PD)cc.No.058/03.10.119/2015-16) on reporting requirement concerning fraud.

18. Way forward

We realize the need to constantly review and upgrade lending policy to review the products profile as well as terms to be able to be competitive in the market.

With our vision to become a preferred service provider in the financial services segment and to migrate to become a financial supermarket, product innovation, customization, addition and modification will remain a continuing process.

Annexure-1

Process Flow for Online Gold Loan (OGL)

In recent years, the financial landscape has witnessed a significant shift towards digital platforms, and one area that has embraced this transformation is the lending sector. Online gold loans have emerged as a popular and convenient financial instrument, allowing individuals to leverage the value of their gold assets without the hassle of traditional lending processes.

Upon a customer's initiation of a Gold loan request at the branch, the staff will initially ascertain the customer's status, distinguishing between existing and new clientele. If identified as a new customer, the branch representative will proceed to gather requisite KYC details and generate a new customer identification. Subsequently, the branch personnel will conduct a comprehensive verification of the gold presented by the customer.

For Online Gold Loan (OGL) it may be noted that the customer has to mandatorily visit the branch first for getting the ornaments appraised and thereafter the sanctioned loan amount is disbursed directly to the customer's account.

During the Online Gold Loan (OGL) registration process, the customer is required to furnish the previously assigned customer ID. The registration page will automatically populate the address and other pertinent details associated with the provided customer ID. Concurrently, the branch is tasked with gathering the customer's banking information for the seamless transfer of the Gold loan amount to their account. Documentation substantiating the bank details, such as a copy of a cheque leaf, the front page of the bank passbook, or a bank statement, will be collated and uploaded on the OGL registration page. Upon the successful completion of the registration process, the branch is authorized to initiate the disbursement through the Online Gold Loan (OGL) disbursement page. Following disbursement, the corresponding amount will be deducted from the corporate account, presently maintained with South Indian Bank, and subsequently transferred directly to the customer's account. The transfer method employed is Immediate Payment Service (IMPS) for amounts below Rs 5.00 lakhs and Real-Time Gross Settlement (RTGS) for amounts exceeding Rs 5.00 lakhs. The maximum loan amount for a single loan is capped at Rs 10.00 lakhs.

The Interest Payment, Part Payment and top up (Online) Process Flow for customers who have availed a gold loan from us is as follows:

1. Smart Pay Option:

- a. Customers initiate interest payments through Smart Pay, accessible on our official website.
- b. Registration to be done using the mobile number provided during the loan application.
- c. Upon login, customers can view their active loans and proceed to make interest payments.
- d. Payment options include debit card, net banking, or UPI.
- e. It's important to note that Smart Pay exclusively facilitates interest payments and does not support part payments.

2. MyMuthoottu Mobile App Option:

- a. Customers have an alternative payment option through our dedicated mobile app, MyMuthoottu.
- b. The app is currently available for Android users on the Google Play store, with an iOS version under development.

- c. Registration is done using registered mobile number provided during the loan application process.
 - d. Once the registration is completed and upon logging in, customers gain access to a comprehensive view of their active loans.
 - e. This option allows customers to make both interest and part payments.
 - f. Payments can be executed seamlessly through net banking or UPI.
- This dual-channel approach offers flexibility to customers, allowing them to choose between Smart Pay and the MyMuthoottu mobile app based on their preferences and specific payment requirements.

3. Top up loans:

Top up facility is available in the My Muthoottu App for the eligible customers taking into consideration the maximum Loan to Value (LTV) permissible at the time of top-up. The customer can login to our My Muthoottu mobile app and can check whether their loan account is eligible for an enhancement in the amount or top-up.

The existing Online Gold Loan (OGL) customers can view the maximum amount eligible for Top-up in the app and can apply for any amount needed within the permissible top-up amount. During the top-up process, the customer is shown with the different schemes and their interest rates. The top-up amount is directly transferred to the customer account registered with us during the OGL registration process.

For the normal loan customers, there is an option for to add the bank details in the Mobile App. The customer has to attach any bank proof while adding the bank details. These details are verified at our end. These details are approved/rejected according to the details provided by the customer. Once the bank details are approved, the customer can make use of our My Muthoottu App for the top-up services.
