KLM AXIVA FINVEST LTD

(Formerly known as Needs Finvest Ltd)
CIN : U65910TG1997PLC026983

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 of time. 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.

As per the circular NPA policy of the company shall, inter alia, stipulate the following:

(a) A cutoff date within which the repayment of demand or call loan shall be demanded or called up;
(b) The sanctioning authority shall, record specific reasons in writing at the time of sanctioning demand or call loan, if the cutoff date for demanding or calling up such loan is stipulated beyond a period of one year from the date of sanction;
(c) The rate of interest which shall be payable on such loans;
(d) Interest on such loans, as stipulated shall be payable either at monthly or quarterly rests;
(e) The sanctioning authority shall, record specific reasons in writing at the time of sanctioning
(f) A cutoff date, for review of performance of the loan, not exceeding six months commencing from the date of sanction;
(g) Such demand or call loans shall not be renewed unless the periodical review has shown satisfactory compliance with the terms of sanction."

A demand or call loan, which remained overdue for six months from the date of demand or call or on which interest amount remained past due for a period of six months, will be considered as non-performing (NPA) loan and suitable provisions as envisaged by RBI from time-to-time is provided for by the company. Normal tenor of a gold loan can be up to a period of 12 months from the date of advance. Interest is payable at the time of maturity i.e. along with repayment of principal. The loan becomes overdue one month after the maturity date. To be categorized as NPA , the loan should have remained overdue (inclusive of unpaid interest) , for a period of six months or more or on which interest amount remained overdue for a period of six months or more from the due date. Effectively, a gold loan qualifies to be categorized as NPA from the 19^{th} month, when it remains unpaid or interest has not been serviced for 18 months from the date of advance or for 6 months from the due date.

For KLM Axiva Finvest Ltd.

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KLM Axiva Finvest Ltd. Kochi

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 actually received.

CLASSIFICATION OF ASSETS AND PROVISION REQUIREMENTS

As an NBFC, after taking into account the degree of well-defined creditworthiness and extent of dependence on collateral security for realization, we are required to classify loans and any other form/s 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 - 0.25% as general provision. This provision should not be reckoned for arriving at net NPAs .

Sub standard asset is the one that has remained NPA for a period not exceeding 18 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 10%

Doubtful assets are accounts that fall under sub standard category and have remained as NPA for period exceeding 18 months.

Provision requirements - 100% of the extent to which the advance is not covered by realizable value of security. In regard 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, Govt securities are not exempted from provisioning requirements.

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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 appraisal and risk assessment
3. Improper / in adequate documentation
4. Incorrect assessment of security
5. In adequate post disbursement follows 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.

(a) Special attention to be given to the following:
(b) 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.
(c) 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.
(d) 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 maximum limit of loan.
(e) DPN shall be fully filled up and properly executed by the borrower.
(f) 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.
(g) All the other laid down systems and procedures should be followed strictly.

Internal Audit Team

The Internal Audit team shall verify and cross check the following during the internal audit of a branch.

(a) Gold loan packets of outstanding accounts with the pledge notes.
(b) The contents, weight and purity of gold ornaments pertaining to all the outstanding loans.
(c) Compliance with KYC norms in respect of all the accounts.
(d) Proper reduction for extraneous items is done for all eligible gold loan accounts.
(e) Scale of finance is as per the prescribed rates.

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(f) All documents are properly executed.
(g) All prescribed systems and procedures are complied with.

Regional Manager

(a) Regional Managers will have to positively verify at random, the purity of gold ornaments taken as security during their visit to branches.
(b) They have to also verify whether KYC norms are complied with in respect of all the accounts.
(c) Any discrepancies noted in the compliance of prescribed systems and procedures have to be reported to the higher authorities.
(d) Ensure that all instructions are being followed by all branches under his control.

Corporate Office

(a) Random check on the above, whenever a CO functionary visits a branch.
(b) Time bound action on rectification as required.

RECOVERY OF NON PERFORMING ASSETS

All loans outstanding beyond the loan validity will be disposed off within three months from the expiry of the loan period. In order 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 Recovery Manager. 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 centres periodically.
(g) At any point of time before the loan is transferred to Auction centre, 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 in the area of concerned branches. Also the concerned branches will also display the auction date and centre in their notice boards well in advance

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(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 30 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 has to be initiated immediately to examine the staff accountability. If there is deviation from the laid down instructions then the recovery has to be effected from the concerned employee/(s). Concurrently the Branch Team has to 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 has to be proceeded against legally to recover our dues.

STOLEN/ THONDY ARTICLES

In case of loan accounts becoming NPA on account of the security being confiscated by the police with respect to any crime or as stolen gold, the
Branch Team has to immediately contact the borrower/his family members and resort to hard core recovery measures. If the dependants of the borrower are in penury condition then, the outstanding has to be assessed for the purpose of write off. An enquiry has to 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 time lines for such staff accountability exercise should be
same as laid down in our policy on frauds.

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PROVISIONING AND WRITE OFF

On the basis of 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 has to 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 time lines 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 Sub standard 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 with regard to disciplinary proceeds against the staff. Quality assurance will be made part of performance management of staff at all level.

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

In order to identify, monitor and contain potential risks, the Board of Directors at their meeting held in 03rd April 2018 approved the Risk Management Policy of the company and formation of a Risk Management Committee.

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