JMJ FINANCE LIMITED

CREDIT AND RISK MANAGEMENT POLICY

This policy was approved in the meeting of board of Directors held on 11/02/2020

Objectives

- To give general guidelines on dealing with application, appraisal, assessment etc relating to different type of loans and customers.
- To ensure that credit quality is maintained and various credit risks is reduced to minimum.
- To ensure that socio-economic obligations cast upon the Company are fully met.
- To ensure compliance of guidelines/directives issued by the RBI/Government authorities on credit matters, from time to time.
- To ensure transparent, fair, ethical and legally tenable practices in matters relating to loans, so that interests of all stakeholders are protected.

Scope

This policy shall apply to all credit/ loan operations including but not limited to Loan applications, Appraisal process, Approvals, closings, enhancements etc. The branch managers/Asst branch Managers/Branch in charge shall comply with credit policy in addition to all other policies of the Company.

The Board of directors shall be responsible for implementation of this policy and the Board may, if deem fit, delegate some of its responsibilities and powers under this policy to committees of Board of Directors.

Any policies framed in the Company shall be in consonance with this policy and this policy shall act as the master guideline and has overriding effect over other policies drafted under the premises set by this poilcy.

Customer Acceptance & Fair practices

The Company shall obtain necessary proof for ownership of gold/property pledged by the loanee. The Company shall comply with "Customer Acceptance Policy" and fair practice code in all dealings with customers/public. Terms and conditions of loans should be in compliance with the Fair Practices Code of the Company.

Eligibility for loans

The Company shall with a view to ensuring proper end-use of funds and preventing diversion / siphoning of funds by the borrowers look into the purpose of the loan. The tenure of the loan and purpose of the loan is very vital. Diversion of funds by customer may affect the chance for receiving back the money on timely basis.

The Company shall always pay attention to the list of defaulters published by various banks/ financial institutions/ competent authorities and also notify the branches/ staff about such cases by mail or any other mode.

The credit worthiness of the customer shall be assessed in advance. Repayment capacity alone could not alone be considered as criteria for disbursal loans. The company shall always give priority to customers who have a good track record (apart from repayment capacity) of regular repayments of loans availed from other banks/ financial institutions. The Company may rely upon the credit scores and in case of persons who do not have a credit history, the Company may go for a background check and diligence exercise to maximum possible extent. Factors like unsteady income, low credit score, employment type, collateral assets and others determine the credit risk associated with a borrower.

Checking credit score in case of gold loans and business loans of less than Rs.1 lakh will be impractical as there will be immediate need for funds and the loan is purely based on gold ornaments/coins provided as security. However, in case of business loans/ term loans exceeding Rs.1 lakh, considering the degree of risk involved, the Company shall check the credit score available with various credit rating agencies.

Risk Management Framework

The Board of Directors will have the overall responsibility for making improvements in risk management of the Company, including credit risk. The middle level management and lower levels are bound to work within the framework designed by the Board. However, in case of matters involving improvement in internal control systems shall be dealt by Audit committee and then by Board.

Risk gradation/assessment

The branch manager/Asst manager/officer shall ensure that each loan is given a risk grade based on the background and credit worthiness of the customer. The branch shall ensure that gradation is done as normal risk, high risk and low risk on the application form itself based on the information collected from the customer. The interest rates are subject to change based on perceived risk and/or as the situation warrants and are subject to management decision based on the merit of individual cases.

Risk measurement parameters

For risk gradation the manager shall rely upon following-

a) **Probability of Default (PD):** The likelihood that the borrower will fail to make full and timely repayment of its financial obligations.
b) **Exposure at Default**: The expected value of the loan at the time of default.
c) **Expected Loss (EL)** :That part of the credit loss in a portfolio that happens in the normal course of business due to default in exposures and for which institutions have to either make provision or load a factor for the same in the pricing of the loans.
d) **Unexpected Loss (UL)**: The part of the credit loss that cannot be estimated or priced into the product and hence institutions have to provide after risk-weighting their assets.

In cases of customers where credit rating is considered, credit score shall be considered a major indicator for credit worthiness of the customer.

Credit score depends mainly on following-

1. Payment history
2. Total amount owed
3. Length of credit history
4. Types of credit
5. New credit

Individual credit scores (numerical scores) vary from 300 to 900. Numerical Credit scores could be interpreted in the following manner-

Sl.	**Credit Score**	**Interpretation**

1.	800 and above	Individuals in this range has to be considered to have an excellent credit score. Individuals in this range will be offered loans and can negotiate interest rates and credit cards with better rewards.
2.	750 to 800	Individuals in this range has to be considered to have a very good credit score (Moving towards excellent) and they will get better treatment from banks/financial institutions with regard to interest rates.
3.	650 to 749	This range is regarded as a good score and lender will be willing to offer loans and credit cards.
4.	550 to 649	Individuals in this range are considered average and would need to improve their credit score.
5.	300 to 549	Individuals falling in this range are considered to have a very poor credit score. It implies that the individual has defaulted on payments and have unpaid dues.
6.	NA/NH	If the individual does not have a prior credit history, the credit score is displayed as Not applicable (NA)/ No History (NH).
7.	-1 (Negative score)	This normally indicates that the person does not have a credit history as he has not availed credit in his past years.

The above table is merely indicative which is to guide the officers to have a basic idea and there are certain credit information companies which has numerical or non numerical scores with different interpretations. The Officers/staff shall refer to websites/information sources of concerned credit rating companies for more details.

In case of category 6 & 7 individuals, if the Company is proceeding with loan, then the same could be very risky. However, the risk shall be reduced by assessing creditworthiness by looking into –

- Employment status/ source of income
- Documentation proof for income earned by customer eg. income tax returns
- Bank account statement
- Job history
- Educational qualification and living standards
- General background, list of assets owned by the customer and pending litigations, if any

The Company shall ask for additional security/collateral security or guarantors/surety or both and /or increase interest rates in order to mitigate risks associated with such loan accounts. In all cases the officers/staff involved shall mandatorily comply with loan policy and other policies of the Company.

Liquidity management

The main source of the Company funds are equity capital, subordinated debt, bank borrowings, borrowings from third parties or other securities issued under RBI norms/Companies Act 2013, as the case may be. One of the major source of income is in the form of interest on loans. The Company has to manage cash inflows and outflows without compromising on liquidity. From the point of view of the Company all loans given are assets generating interest income which enables the company in servicing the customers by providing reasonable interest rates/returns on their money invested in the Company in various securities/instruments

Due Diligence & Appraisal process

Due diligence/ appraisal shall be conducted as per the Loan policy, Interest rate policy, KYC & AML policy and customer acceptance policy of the company.

Authorisation Matrix and Approval

1. Any loan shall be sanctioned by concerned officer by using the words "Approved" or "Sanctioned'. ***"Concerned officer" here means Branch Manager/Branch in charge/ Manager/Asst Manager authorised to sanction any loan, whether at branch level or H.O level.***

2. Signature of concerned officer shall be adequate proof that the loan was sanctioned after requisite due diligence and basic procedures set out under applicable company policies.

3. Any loan documents sanctioned/ forwarded by an officer below the above rank shall not be valid unless explanation to that effect is submitted to Accounts department and internal audit department.

4. Sanction letter shall be printed on a clean A4 size paper or bond paper in readable format.

5. No loan disbursements shall be made by the accounts department for payment requests/advice received from Loan department unless the same is signed by concerned officer.

6. Rule of point 6 shall apply to creation of Customer ID also.

Wherein any case the "concerned officer" is not present at time of sanction, then his duties may be performed by a person to whom he has formally delegated his powers temporarily.

Credit limit

A Credit limit is the maximum total amount of accounts receivable balances a customer may have with the company. A customer's ongoing ability and willingness to pay within terms of sale and the likelihood of slow payment or default shall be assessed. The credit limit is a measure of the creditworthiness of the customer and is set in relation to the ability to pay amounts due on time. Any adverse changes to the customer's creditworthiness or risk rating shall trigger a review of the customer credit limit in accordance with the guidelines set in this Policy.

Credit Manager (Loans Manager)

The Company shall have a credit manager who is responsible for entire credit (loan) granting process and ensuring compliance with policies relating to credit disbursement and interest payments. Credit manager shall ensure that his department follows the procedures laid down by Company/Board from time to time.

- The credit department will identify queries and other reasons for non-payment as best possible.

- The credit department is responsible for keeping bad debt losses to a minimum with the help of loan collection department / Loan recovery team.
- The sales and operations department's assistance may be requested to secure settlement of delinquent account

High Value Loans (HVL)

A gold loan of amount of Rs.5 lakhs or more to a single borrower shall be perceived as High Value Loan. High Value Loans shall be subject to detailed scrutiny at branch and HO level and shall be subject to approval by Managing Director /any Director, on formal recommendation by Loan department. In case of business loans and term loans, there is no such differentiation based on amount/value. All such loans shall finally be sanctioned by M.D on recommendation by Loan department after detailed scrutiny. Proper Id verification and address verification shall be done in such cases, before sanction. RBI provisions relating to money laundering/ terrorist activities shall be strictly followed in such cases.

Classification of customers and sharing of information

1. The Company has to establish proper system for identifying blacklisted/caution/ non-cooperative customers and reporting to the Central Repository that may be set up as per RBI/Government requirements.

2. The Company shall be member of 4 Credit Information Companies or such organisations as may be prescribed by RBI/ competent authorities from time to time . Company shall submit data to them in the prescribed format and within the specified time limits. The Company shall appoint a principal officer/nodal officer who shall ensure this.

Repayments & dues

In case of EMI/EDI's (Business Loan/Term loan) a payment of interest/instalment is considered as "paid" or "Complete" if the full amount due is paid on the respective date. "Part payments" shall be subject to penal interest/charges. Any money paid by defaulting customers shall first be adjusted/ charged against penal interest, charges, interests and then principle amount.

Maintenance of files

The files shall be maintained date-wise with numbering, stored in a safe and secure place to avoid damage of documents. Before putting documents into file, the branch staff/manager shall ensure that the documents/formats to be signed by the manager are duly signed. Overwriting in documents shall not be entertained as this may affect the legal validity of documents. Softcopies of documents has to be kept as per the instructions issued by Loan department at HO. Files relating to Closed/ satisfied loans shall be maintained at a separate place/cabin. The branch managers shall devise file system in accordance with HO instructions.

Interest & other charges on accounts

Interest and other charges shall apply to loans as per the Loan policy, NPA policy and interest rate policy. However, the criteria based on which interest is determined shall be disclosed in the policy. The Company shall follow fair practices in case of charging of interest and other charges, as per RBI norms.

Recovery of Loan and NPA

Recovery of overdue loans and treatment of NPA shall be taken up as per NPA policy and loan policy and applicable RBI norms.

The Company has framed an auction policy and NPA policy as per applicable laws which is hosted on Company website and has been provided to branch managers and also Key Persons of the Company. The Company staff shall go through the same and oblige.

Increase in credit limit

Any increase in credit limit shall be subject to due diligence and written request from loanee. The Company shall maintain necessary documents for the same.

Outsourcing policy

The Company may outsource any of its activities relating to credit/operations after framing a comprehensive outsourcing policy, approved by its Board, which incorporates, inter alia, criteria for selection of such activities as well as service providers, delegation of authority depending on risks and materiality and systems to monitor and review the operations of these activities. In case of outsourcing of activities the Company shall comply with RBI master circulars without fail.

Internal Audit /Special Audit

The loan processes and documentation shall be subject to periodical audit by internal audit team/ Surprise audit team. The employees shall support the audit team in such cases to conduct audit in an effective manner. The intention of management is to ensure the correctness of procedures and documentations laid down under applicable Company policies.

New services/products

The Company may launch new loan services or products after obtaining proper approvals from committee or Board of Directors. A written document containing details of new loan product shall be issued to each branch.

Registration with credit agencies/ competent authorities

The Company shall take necessary steps to register the company Credit Information Companies (CIC) and all other agencies/authorities as stipulated by RBI/ Central Government /competent authority from time to time.

The Company shall also implement proper identification processes like C-KYC/E-KYC or any other technological advancements from time to time.

Usage of Email/IT resources in efficient manner

The credit (loan) department shall ensure use of email and other fast communication medium for ensuring efficiency in operations. Suggestions on any improvements required in credit procedures may be made by credit department or Key Managerial Personnel or Board of Director/Committee of Directors, as the case may be.

Loans not in ordinary course of business

Loans that are granted not in the ordinary course of business shall be treated separately and compliance with applicable laws shall be ensured in that case. In such cases, approval of Board of Directors shall be sought prior to the transaction.

Compliance with RBI norms

The Company shall comply with RBI norms and applicable laws relating to credit processes, management, control and disbursements without fail.

Training

The staff shall be imparted proper training in operations and Information Technology systems from time to time, as the management may deem fit.

Overriding effect

Where due to any amendment in applicable laws/regulations/rules, any clauses of this policy becomes inconsistent with law, then the amended law shall apply to such clauses or such portion of the policy to make the policy legally valid.

Sd/-

For and on behalf of the Board