

## **YOGAKSHEMAM LOANS LTD.,**

### **POLICY ON COMPROMISE SETTLEMENTS AND TECHNICAL WRITE OFF OF LOAN ACCOUNTS**

| <b>History</b>               | <b>Adopted by</b>    | <b>Date</b>       |
|------------------------------|----------------------|-------------------|
| <b>Originally Adopted</b>    | <b>Board Meeting</b> | <b>05.07.2023</b> |
| <b>1<sup>st</sup> Review</b> | <b>Board Meeting</b> | <b>07.11.2023</b> |

#### **Background**

The Reserve Bank of India (RBI) has come up with a frame work for Compromise Settlements and Technical Write-offs of loan account wide its circular No DOR.STR.REC.20/21.04.048/2023-24 dated 8<sup>th</sup> June 2023. The Circular is applicable for all NBFCs . Under this frame work the Company shall put in place a Board approved policy for compromise settlements with borrowers and for technical write offs.

**1.Compromise Settlement-** *means any negotiated arrangement with the borrower to fully settle the claims of the Company against the borrower in cash; it may lead to some sacrifice of the amount due from the borrower and the corresponding waiver of claims of the company against the borrower to that extent.*

1.1.Compromise settlement is not generally encouraged by the company and shall be resorted to only in deserving cases to limit the losses of the Company or to settle irregular/ Nonperforming Accounts(NPA) . Every borrower shall be induced to serve the loan as per the terms and condition of the sanction. The Compromise settlement shall be in accordance with the provisions of this policy.

#### **1.2. Compromise settlement - Gold Loan**

- a) Upon significant erosion in value of the underlying gold ornaments ( that is to say the underlying market value of the gold is not sufficient to recover the full outstanding) that may lead to under recovery of principal or interest fully or partially during the tenure of the loan.
- b) The auditors/ gold inspectors have reported a lower purity in the underlying gold ornaments than that is assessed at the time of sanctioning the loan.

- c) Tenure of the loan is expired and the disposal of the asset in the normal course may result in under recovery of principal or interest.
- d) In case of death or permanent disability of the borrower affecting his/her repayment capacity.
- e) The Compromise settlement may be initiated by the Company or the borrower or their dependants/ legal heirs
- f) In case of purity differences, it shall be ensured that there is no deliberate attempts from the employees who have appraised the ornaments and sanctioned the loan. Accountability shall be fixed on the respective employees who have sanctioned the loan accepting the ornaments.
- g) In arriving at the Compromise formula the ornaments shall be valued at the closing price published by Indian Bullion and Jewellers Association (IBJA) on the immediate preceding day for 22ct. jewellery and adjusted for the last known purity of the ornaments as assessed by the auditors of the Company.
- f) The Compromise proposal shall be prepared by the Head of the Gold Loan recovery department and duly recommended by / Chief Financial Officer and approved by Managing Director & CEO.(MD&CEO)
- g) In case of borrowers who enjoy higher credit limits approved by Managing Director & CEO or EVP& Company Secretary the proposal shall be put up to Board Committee for Management. (BCM) The MD and CEO being a member of the Committee shall not participate in the approval process except to the extent of providing clarifications to the committee, if needed.
- h) The compromise settlement shall ensure that the Company is recovering in addition to the principal, the cost of borrowing from time to time and at least 50 % of the operating cost per annum. ( The cost of borrowing and operating cost shall be based on the audited/ un audited financial statements of the immediate preceding quarter.) or an IRR of 15% p.a ,whichever is lower.

### **1.3. Compromise Settlement -Unsecured loans**

- a) Un secured loans are those loans which are not backed by any primary or collateral securities except the personal guarantee of the borrower or co-borrower/ guarantor.
- b) In case of unsecured loans, Compromise Settlement can be initiated by the company or entertained by it at the instance of the borrower upon the account becomes NPA as per the prudential norms followed by it or in case of irregular payments, with 2 or more instalments

overdue, after a period of 6 months from the date of its sanction. Compromise settlements may also be initiated in cases where all instalments are repaid but there is still amount due from the customer on account of irregular payments by the customer in the past.

c) Compromise settlement can also be initiated on the death or permanent disability of the borrower at the instances of the dependent/ immediate family member of the borrower.

d) In case of single repayment loans, where principal and interest is repayable on or before the maturity date, the Compromise settlement can be initiated on the expiry of the tenure.

e) The Compromise settlement shall be prepared by the Head of Collection and duly recommended by the CFO and approved by the Managing Director and CEO.

f) In case of borrowers who enjoy higher credit limits approved by Managing Director & CEO or EVP & Company Secretary shall be put up to Board Committee for Management. (BCM) The MD and CEO being a member of the Committee shall not participate in the approval process except to the extent of providing clarifications to the committee, if needed.

g) The compromise settlement shall ensure that the Company is recovering the principal and the cost of borrowing from time to time.

h) Notwithstanding anything contained in clause (g) above, where the loan outstanding is less than Rs 20000/- which is an NPA, where the cost of recovery through arbitration/ court proceedings may be expensive and time consuming, the said amount may be written off by the Board/ Committee of the Board on the joint recommendation of the, CFO, EVP and MD and CEO provided however that MD and CEO shall not participate in the approval process.

#### **1.4. Compromise Settlement- Secured loan.**

a) Compromise settlement of secured loan accounts can be undertaken upon;

- i. The account becomes NPA as per the norms followed by the Company and the account has been irregular in servicing interest or principal or both as per the terms of the loan for a period of 6 months or more.
- ii. The security of the loan has been irrevocably lost without recourse to any insurance value or there is scope for under recovery from insurance.
- iii. The death or permanent disability of the borrower.

b) The Compromise settlement may be initiated by the Company or entertained if initiated at the instance of the borrower.

c) In case of single repayment loans, where principal and interest is repayable on or before the maturity date, the Compromise settlement can be initiated on the expiry of the tenure.

d) The Compromise settlement formula shall be arrived at after evaluating the position of the security such as ability to take possession or attachment through legal process, its marketability and realisable value.

e) The realisable value may be arrived at after making references in reputable online market place/ aggregators, dealers in used assets of the class and in the case of immovable property reference value published by the Government, or valuation by approved valuer.

f) The Compromise settlement shall be prepared by the Head of Collection and duly recommended by the Head of Audit and Legal and approved by the Managing Director and CEO.

g) In case of borrowers who enjoy higher credit limits approved by Managing Director & CEO or EVP& Company Secretary shall be put up to Board Committee for Management. (BCM) The MD and CEO being a member of the Committee shall not participate in the approval process except to the extent of providing clarifications to the committee, if needed.

h) The compromise settlement shall ensure that the Company is recovering in addition to the principal, the cost of borrowing from time to time and the operating cost per annum. ( The cost of borrowing and operating cost shall be based on the audited/ un audited financial statements of the immediate preceding quarter.) or an IRR of 15% p.a ,whichever is lower.

### **1.5 Compromise Settlement / technical write off of accounts classified as fraud.**

Proposals for compromise settlements/ technical write offs in respect of loan accounts classified as fraud/ suspected fraud and wilful defaulter shall be put up to the Board for its approval. This shall be without prejudice to any criminal proceedings initiated or pending before any Court.

### **1.6 Timeline for implementation of Compromise settlement.**

Once a compromise settlement is agreed between the Company and the Borrower, the borrower shall complete the payments within three months from the date of settlement in one or more instalments as per the terms of the settlement.

## **2. Technical Write offs.**

*Technical write- Off refers to cases where the non-performing assets remain outstanding at borrowers loan account level but are written off fully or partially by the Company for accounting purposes, without involving any waiver of claims against the borrower, and without prejudice to the recovery of the same.*

2.1 In case of secured loans, technical write offs may be made in respect of accounts which are classified as NPA for more than 6months from the date of classification, where the value

of the security has eroded so that the recovery of the outstanding amount is doubtful or where the security has been surrendered to or repossessed by the Company in respect of an account where servicing of principal or interest is irregular with reference to the sanction terms or the account is classified as NPA and the realisable value falls short of the outstanding amount. The valuation of the asset for this purpose shall be arrived at as provided in clause 1.4.

2.2 In case of unsecured loans, accounts classified as NPA may be written off for accounting purposes .

2.3 in case of technical write offs, where the outstanding amount is Rs.20,000/- or more, the company shall initiate recovery measures through appropriate legal process in terms of the loan agreement with the borrower.

2.4 The proposal for technical write offs shall be prepared by the Head of Collection and Recovery of respective loans recommended by the Chief Financial Officer , Head of Risk & Compliance and approved by Managing Director & CEO.

2.5 In case loans sanctioned by Managing Director & CEO, or a Committee consisting of one or more authority mentioned in sub clause 2.4 above, the proposal shall be submitted to the Board of Directors for approval and the Managing Director shall abstain from voting on such resolution of the Board.

2.6 While considering an account for technical write off of, chances of staff involvement shall be examined and in case of suspected collusion of employees with borrower, accountability shall be fixed on the employees concerned and remedial measure such as notional recovery and disciplinary actions shall be taken.

2.7 The technical write –off shall be without prejudice to the right and claims of the Company against the borrower or co borrowers and appropriate actions may be taken to protect the interest of the Company.

### **3. Future recoveries**

The compromise settlements and technical write-offs shall be without prejudice to the right of the Company for future recoveries from the borrower.

### **4. Prudential treatment**

In case of partial technical write-offs, the amount of technical write-off and the provision made in respect of the account shall meet the extant provisioning requirement as computed on the gross value of the asset.

## **5. Reporting Mechanism**

The Company shall report to the Board the details of Compromise Settlement and Technical write-offs made and approved by any authority other than the Board during a calendar quarter at its succeeding meeting. However, waiver of other charges/ fees/ penalties/ pre closure charges/ penal charges need to be reported only if the same involves write off/ technical write off of any principal outstanding so long as the waiver is approved by MD and CEO on the recommendations of CFO/EVP/ Head of Operations.

## **6. Information to the Board**

The Company shall submit to the Board the following information relating to Compromise Settlement and / or technical write-offs;

- i) Trend in number of accounts and amounts subjected to compromise settlement and / or technical write off (q-o-q and y-o-y)
- ii) Out of (i) above, breakup of accounts classified as fraud, red –flagged, wilful default and quick mortality accounts
- iii) Amount wise, sanctioning authority wise and business segment / asset –class wise grouping of such accounts
- iv) Extent of recovery in technically written –off accounts.

## **7. Cooling period.**

The Company shall observe a cooling period of 12 months for considering any fresh credit lines to borrowers with whom the Company has made any compromise settlements or technical write off.

## **8. Implementation of the policy**

The management shall issue necessary circulars for the implementation of the policy.

## **9. Severability.**

If any portion of this policy is found to be inoperative on account of change in underlying directions issued by the RBI or of the accounting standards or declared to be inoperative by any regulatory authorities, the remaining portion which are not so inoperative will continue to be in force and binding on the company. Any action taken by the company or its officers under the policy before it became inoperative or unenforceable shall continue to be binding on the company.

#### **10. Language used**

The expressions used in this policy in its singular form shall mean and include its plural form as well and *vice versa*. Similarly expressions used in its masculine character shall mean and include its equivalent feminine character as well and *vice versa*.

#### **11. Effective date**

The policy or its amendment or modifications will be effective from the date of its approval by the board either originally framed or reviewed and amended from time to time.

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