

MANAPPURAM FINANCE LIMITED (MAFIL)

GOLD AUCTION POLICY

Version	Date	Note
1.0	24-04-2012	First Released Version
1.1	10-08-2021	Add: Auction Surplus Amount through Cash
1.2	18-05-2022	Add: Auction Surplus Amount through Cash and Pledge exclusion criteria at the time of publishing auction list
1.3	10-08-2023	Add: Auction Exclusion criteria & TAT for The process starting from identification of gold pledges for auction until the date of auction
1.4	30-04-2024	Modification: As per revised Master directions –(Scale Based Regulation) Directions, 2023
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1. Introduction

The Reserve Bank of India vide circular DNBS.CC. PD. No.266 / 03.10.01 / 2011-12 dated 26 March 2012 titled Guidelines on Fair Practices Code for NBFCs” has advised NBFCs to put in place an Auction Policy duly approved by the Board of Directors. Paragraph no. 45.14 of Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 also have reproduced these directions. This renewed Auction Policy will replace the existing auction policy.

As part of conducting fair and transparent Auction, MAFIL has introduced an application-based Auction platform - MA-Auction, which can be downloaded from Google Play store. The bidders and auctioneers can also access the MA – Auction platform through MAFIL’s website. The platform offers features such as onboarding of Bidders and auctioneers, nomination of proxies by the bidders, centres and time schedule for auction, display of gold ornaments proposed for auction etc. MA – APP also facilitates secured payment processing and real time bidding updates.

2. AUCTION PROCEDURES

2.1 Public Auction

The Term “Auction” used in the policy shall mean realization of the security through public only. Public auctions provide a transparent and regulated platform.

2.2. Organization Structure for Auction Proceedings:

The Company shall have a dedicated Auction Department at the Head Office (Auction Dept) to initiate, supervise and monitor the auction procedure including adherence to the approved policy. The Department will function under the overall control of Head Operations.

2.3 Auction in the Normal Course (after completion of tenure of the loan):

Generally, auction process may be commenced in respect of all accounts on completion of the tenure of the loan on which interest due has not been serviced in FULL or where the account has not been settled. Company may also initiate auction proceedings in cases where the LTV of the loan breach the level prescribed in the loan policy of the company with reasonable notices.

The auction normally may be completed within 3 months of completion of the tenure of the loan. In the case of LTV of gold loans breaching the specified level prescribed in the loan policy, such period shall be counted from the date of sending notice to the borrowers advising to pay the shortfall in the LTV.

Discretionary powers to defer auction in accounts where at least 75% of the interest due has been paid or the market value of the gold ornaments are higher than the dues from the borrower shall be vested with the MD & CEO on the recommendations of the Head-Operations.

An auction can be deferred at the request made by the customers on reasonable ground, such proposals for deferment of auction submitted by CRMs/SRMs/RMs shall be recommended by Head-Operations and approved by the MD & CEO.

2.4 Exclusion criteria for publishing the auction list.

- Already in auction.
- Irregularity classification.
- Freezed / burglary.
- 100% interest paid in last 30 days.
- Balance principal amount + accrued interest < pledge value.
- Pledges entered in legal module as per circular no 5280/ Disputes.
- Pledges where the total loan balance and accrued interest is less than 75% of the expected realized value at 90% of market price (67.5% of the market price) should be excluded from the auction list

2.5 Turnaround Time for the process starting from identification of gold pledges for auction until the date of auction.

- Approval of publishing of auction list – First of every month.
- Date of sending auction intimation letters to the customers – 1st – 30th of every month.
- Date of sending SMS to customers – 1st – 30th of every month.
- Date of publishing advertisement – 15 days before auction.
- Date of branch auction – 16th – 30th of every month.

2.6 Selection and Approval of Auction Centres, Safe Custody, Security Arrangements.

The auction shall be conducted in the same branch or taluka in which the branch that has extended the loan is located. Gold jewellery can be pooled from different branches in a district and auction it at any location within the district, subject to meeting the following conditions:

(i) The first branch/taluk auction has failed.

(ii) All regulatory requirements regarding auction (prior notice, reserve price, arms-length relationship, disclosures, etc.) are met.

Auction Centre shall be finalized in line with the regulatory norms/ directions and internal guidelines of the company which shall be in compliance with RBI/statutory norms.

2.7 Authorization for Auction of Gold

Once accounts have been identified and listed for auction by the Auction Department the proposal, in a structured format, shall be put up to the MD & CEO for approval. The Auction Department shall ensure that the list is accurate, complete and in compliance with the approved Auction Policy.

2.8 Mode and Periodicity for Sending Notices, Intimation to the Borrower.

Letter Type	Normal Gold
Intimation cum Auction Letter	A notice in the local language in an approved format, shall be sent to all "Auctionable" pledges furnishing the date and venue of auction at least 14 days before the proposed date of auction by registered post AD requesting the borrower to immediately pay the full dues failing which the security would be liable to be put on auction, without further notice, for recovery of the dues.

- 2.8.1 If the AD card is not received within a reasonable period, the Auction Dept. shall apply to the post office and obtain a certificate of delivery to the addressee from the post office. Alternatively, if the AD card is not available the auction notice may be served on the borrower personally by an employee of the Company and signature of the borrower obtained in the duplicate copy of the notice.
- 2.8.2 To reduce instances of auction, the branch officials may personally visit the borrowers to remit the required amounts to renew the loans or to redeem the pledge.
- 2.8.3 MD & CEO shall be empowered to approve modifications to the above guidelines for Auction from time to time on the recommendations of the Head-Operations keeping in view, inter alia, the regulatory directives, legal position and the Fair Practice Code adopted by the Company.

2.9 Public Notification/Advertisement

Public notification of auction/advertisement/display of information and other related procedures shall be in line with the applicable rules, regulations and RBI guidelines issued from time to time. (As per the regulations, auction shall be announced to the public by issue of advertisements in at least two newspapers, one in vernacular and another in national daily newspaper).

2.10 Convenient Auction Lots, Fixation of Reserve Price, Security, Insurance Pledges taken up for Auction must be segregated into appropriate / convenient lots to facilitate disposal based on various parameters such as assessed purity, quantity of gold, expected participation of bidders, prevailing market prices etc.

2.11 Reserve price: The reserve price for the pledged ornaments shall not be less than 85 percent of the previous 30 days average closing price of 22 carat gold as declared by the Bombay Bullion Association Ltd. (BBA) or the historical spot gold price data publicly disseminated by a commodity exchange regulated by the Forward Markets Commission and value of the jewellery of lower purity in terms of carats shall be proportionately reduced.

The proposal with recommendations for fixation of the reserve / floor price for each auction shall be done by the Head of the Auction Dept. taking into consideration the regulatory

directions in place, recommended by the Head-Operations and approved by the MD & CEO. In order that the auction attracts bidders and is successfully completed the reserve price may be fixed at about 5 % below the prevailing market price.

3. Due diligence on Participants, Earnest Money Deposit (EMD)

The prospective bidders shall have satisfactory track records and financial resources. They should not have any adverse market reputation. Proper and acceptable documents for identification of the participants in an auction should be obtained before permitting them into the auction hall. The usual documents taken for customer account for KYC compliance is to be accepted.

The participants are also onboarded through MA-Auction application and the customer on boarding process is digitalized.

Once, MAFIL accept them as eligible bidder, a reasonable amount of Earnest Money Deposit (EMD) should be insisted upon from every participant on such date as maybe decided by the management from time to time.

4. Mode of Payment by Successful Bidders & Delivery of Gold to Successful Bidders

The mode (cash or banking channels) of receipt of bid amount shall be decided by the management from time to time taking into consideration the market conditions and AML risks involved.

A minimum percentage of the bid amount as decided by the management from time to time including the EMD shall be insisted upon from the successful bidders on the date of the auction itself. Successful bidders should be given a letter in a pre-approved format along with the terms and conditions.

Participants in bidding through MA – Auction shall pay EMD through Online. EMD deposited by unsuccessful bidders shall be automatically refunded after the auction. If the bidder through MA – Auction is a successful bidder, he shall be informed about it and shall be advised to pay the balance bid amount for the gold in the designated account of MAFIL.

The balance shall be payable within 5 working days from the date of auction. If the full amount is not received within the stipulated time the bid shall be treated as cancelled. The same gold is auctioned to another bidder and a minimum penalty of 3% till auction settlement date will charge from the default bidder, penalty must be deducted from the default bidder's EMD & 25% advance amount. Only the balance amount will be refunded. The bidder in default shall be liable for lower realisation through subsequent auction. The terms and conditions for bidding shall be explicit about the responsibilities of the bidders.

Delivery of gold to successful bidders should be made only after confirmation of full receipt of payment or realization of cheque / draft along with taxes due. Proper acknowledgement by the bidder for receipt of gold, in a format duly approved, with the signature duly verified by

an officer of the Company should be ensured. Loans to bidders against such auctioned gold shall be not permitted.

5. Auction under Exceptional Circumstances

5.1 Auction Due to Depletion in Security Value (auction before completion of tenure of the loan):

Auction department shall regularly monitor the realizable value of gold and in any instance where the realizable value of gold is less than the actual value, such accounts shall be taken up for auction even before the completion of the tenure of the loan and in accordance with the directions laid down by the management from time to time, subject to the borrowers are given reasonable notice about the auction.

The gold ornaments can also be auctioned, if the borrower does not redeem pledges or remitting the shortfall in LTV, even after MAFIL notifying the borrowers that LTV of their loans have breached the specified level prescribed in the company's loan policy.

MD & CEO shall be empowered to approve modifications to the points mentioned in points 2(3) Auction in normal course and point 5(1)- Auction due to depletion in value of security, from time to time on the recommendations of the Head-Operations keeping in view, inter alia, the regulatory directives, legal position and the Fair Practice Code adopted by the Company. Such modifications shall be reported to the Board in the next meeting for information.

5.2 Auction of Gold Ornaments Identified as Spurious / Low Quality

5.2.1 Accounts in which pledge of spurious / low quality gold ornaments have been detected subsequent to disbursement may be taken up for auction even before the completion of the tenure of the loan, from date of pledge subject to the under mentioned compliances.

The said procedures shall also be followed for spurious/low quality accounts/pledges, identified at the auction centre.

5.2.2 Proper notice/intimation shall be served upon the borrower as mentioned in point 2(8).

5.2.3 Before serving the above notice the purity of the gold ornaments shall be re-verified internally through a competent officer / auditor. When the amount of initial estimated loss is Rs 1.00 lakh (Rupees one lakh) or above the services of an external expert appraiser shall be obtained before serving the above notice. Melt test (assaying) of a small portion of the pledged gold may be resorted to for re-confirming the purity or in the "difficult assess"-to-cases.

5.2.4 The reserve price for such spurious / low quality ornaments must be fixed keeping in view the reconfirmed assessed purity and the RBI directions issued from time to time. Expert internal / external opinion should be obtained to arrive at a realistic reserve price.

5.2.5 Auction of normal/spurious or low-quality gold ornaments shall not be taken up when police or criminal case has been filed against the borrower or when there is any other legal impediment. Suitable internal guidelines regarding filing of police cases should be formulated and approved by the MD & CEO on the recommendations of the Head-Operations.

5.2.6 Notice to borrowers identified in 5(1) Depletion in Security Value and 5(2) Spurious/Low Quality Gold.

Letter Type	Depletion in Security Value	Spurious/Low Quality: Identified at the branch or before completion of the tenure of the loan	Spurious/Low Quality: Identified at the auction centre or after completion of the tenure of the loan ²
Intimation Letter	A notice in local language should be sent to the borrower within 15 days of identification of loss in the account by registered AD calling upon the borrower to settle the loan within a maximum of 2 weeks from the date of receipt of such notice or replenish the security with additional gold failing which the company may dispose the gold through auction without any further notice.	A notice in local language should be sent to the borrower within 15 days of detection as spurious / low quality by registered AD calling upon the borrower to settle the loan within a maximum of 30 days from the date of such notice. The registered AD notice should refer to the rights conferred on the Company to dispose of the security by virtue of the undertaking of the borrower in the loan application form and clauses in the loan sanction letter (pawn ticket).	A notice in local language should be sent to the borrower within 5 days of detection as spurious/low quality by registered AD. The registered notice should clearly provide reference to the following details, inter alia: Completion of tenure of the loan. That auction notice had already been sent after completion of the tenure of the loan. That the Company had undertaken only a preliminary verification of the gold at the time of disbursing the loan and as per the right conferred on the Company as per the terms and conditions of the loan, to further check the purity/weight of the gold internally or by experts at any time, the purity of the gold was re verified at the auction centre prior to auction and was found to be of inferior quality. That the Company is proceeding with auction as already intimated.
Final Letter	Nil	In the case where the account remains unsettled after the issue of the above notice an auction notice furnishing the date and venue of auction shall be served on the borrower at least 14 days before the proposed date of auction.	

Staff accountability, should be examined and responsibility for the losses should be fixed on the employees concerned

6. Deferral of auction

The MD & CEO shall be empowered to grant extended time for repayment to the borrower on a case to case basis on the recommendations of the Head of the Operations Department, Head Office.

7. Reauction of gold ornaments

Re-auction of Gold Ornaments Not Successfully Auctioned (Normal Gold/Spurious or Low-Quality Gold) If the gold ornaments find no bidders at the reserve price the course of action as under should be adopted:

- 7.1** The Auctioneer shall submit in writing that no bid was made at the reserve price fixed due to the poor quality of gold or difficulty in assessing the correct purity. This shall be certified by the company's official in charge of overseeing the Auction.
- 7.2** Such gold ornaments shall be taken up for melting, either in-house or through a reliable outside agency, in the same lots as taken up for auction. Internal Auditor of the Company shall remain present during the melting activity who will also verify accordingly in a register to be maintained for the purpose.
- 7.3** The melted bars shall then be assayed for purity and put up for auction in such form with a fresh reserve price fixed. iv) Compliance with the above steps shall be periodically subject to internal audit at intervals not exceeding 1 calendar quarter.
- 7.4** In the above cases, Staff accountability shall be examined and responsibility for the losses should be fixed on the employees concerned.

8. Refund of Surplus, Recovery of Shortfall:

Full details of the value fetched in the auction and the outstanding dues adjusted and any amount over and above the loan outstanding payable to the borrower shall be provided to the borrowers within 3 days of receipt of auction proceeds, through SMS. Appropriate accounting entries should be put through in the customer loan accounts within 15 working days after the full receipt of auction proceeds.

Once auction of the pledged gold is completed in line with the norms of the Policy, and after receiving the bid amount, the relevant lot is settled with the successful bidder. Thereafter, the surplus from the said auction, if any, is first adjusted to the said Customer's old loss and existing dues, after 3 days intimation to the borrowers through SMS. The remaining surplus is to be refunded to the Customer in the following manner.

- Auction surplus related to borrowers whose bank accounts are registered with MAFIL, the surplus shall be paid within 7 working days from the date of generation of auction surplus by the system.
- Credit to the Borrowers other loan accounts, by giving a 3 days' notice through SMS.
- If the Customer has already updated his/her bank details, the surplus to be refunded through NEFT.
- Auction surplus amounts up to Rs.20000/- (Rupees Twenty thousand Only) can be refunded to the Customer directly from the branch through cash up to 15 days from the date of data generation as regards auction surplus payable. An SMS is also to be sent to those Customers intimating the relevant details. Such cash payment (ie up to Rs 20,000) can also be done for cases where cheque for surplus has been issued and returned unclaimed and in cheque expired case.
- If the said amount is not released through cash or the bank details are not updated within 15 days from the date of generation of auction surplus by the system, Company shall deposit the auction surplus in an escrow account. For the surplus not disposed off through the above procedures, company shall issue account payee cheque or demand drafts favouring the Customer concerned. An intimation through SMS is also be given to those customers.

- If the said cheque is returned unclaimed / cheque date expired cases, the Company shall send an SMS again to the Customer for updating his /her bank details or to approach the borrower concerned for collecting the surplus in cash up to the permitted amount. In such case the amount paid in cash will be reducing from the escrow account.
- If any delay is caused by Company in paying the auction surplus amount or issuing cheques or demand draft to its customers, beyond 15 days from the date of generation of auction surplus by the system, the company shall pay interest on such auction surplus amount at the rate of 7% per annum for such delayed period.

8.1 Rights of set off and recovery actions

A rightful lien on such surplus may be retained, subject to proper notice, in case the borrower has other unsettled liabilities to the Company. Legal action for recovery of shortfall in Individual accounts may be considered where required and justified after a cost-benefit analysis is done and put up to the Head- Operations and MD & CEO for approval.

9. Gold Loans to borrowers where the company incurred losses in auction.

9.1 Customers whose pledges have been put to auction and where the company had suffered a loss due to lower purity the respective customer id may be blocked based on the directions provided by the management from time to time.

9.2 Customers whose normal pledges (Pure Gold) have been put to auction and where the company had suffered a loss the respective customer id may not be blocked as such customers may be approaching the company later for further loans through pledge of gold ornaments on emergency situations.

10. Panel of Auctioneers, Commission Rates, Role & Responsibility, maintenance of records etc

In line with the FPC guidelines, Public Auction of the pledged security shall be carried out only through Auctioneers empanelled by the Company with the approval of the Board of Directors. A standard, legally vetted agreement should be entered into with all the empanelled Auctioneers.

10.1 Maintenance of registers / records

All registers and records mandatorily required under law and as per instructions issued by the Company shall be properly maintained and updated under the safe custody of a designated senior official and subject to periodical internal audit. Suitable instructions should be issued in this regard. Compliance shall be ensured by the Head of the Auction Dept.

11. Restrictions in bidding for Gold by Company / Related Entities, Maintaining Arm's Length Relationship

The Company or any of its related entities shall not participate in the Auctions. Further, there shall be an arm's length relationship in all transactions during the auction including with group companies and related entities

12. Restrictions for the employees/former employees in participation in bidding

As a fair practice, participation of existing employees and former employees of the company, their relatives and friends and any such other bidders who in collusion with the existing and former employees are restricted from participation in the auction process as bidders, auctioneers etc. If any of the existing employees or former employees are participating in auction without notifying the company, appropriate actions shall be taken against them.

13. Disclosures:

Details of the auctions conducted during the financial year including the number of loan accounts, outstanding amounts, value fetched and whether any of its sister concerns participated in the auction etc shall be disclosed through the annual accounts.

14. Disclosure of specific auction related charges

Reimbursement of out-of-pocket expenses for auction may be charged from the borrowers. The indicative auction charges to be levied from the borrowers are given below:

Bifurcation of Auction Expense	Printing & Stationery	Advertisement Charge	Transportation	Insurance	Charges paid to Auctioneer	Postage	Expenses incurred for sorting, litting and other auction related work	Cheque sending charge to auction surplus customers	Postage - Registered Letter	Penal Charges after due date
charge Per Pledge (Incl. Tax)	Rs.6.00	Rs.160.00	Rs.44.00	Rs.25.00	Rs.35.00	Rs.30.00	Rs.160.00	Rs.50.00	Rs.30.00	2% pa on total outstanding as on due date

Auction department shall review the auction charges at least on a quarterly basis and shall get approval of MD & CEO for the charges within the above indicative range for each lot of auctions.

15. Re-Issuance of auction intimation letter for auction delays

If the auction is not conducted within 180 days from the originally scheduled auction date, an auction intimation letter shall be re-issued to the customer, providing the updated information regarding the auction.

16. Measures to contain frauds.

1. Auction shall be conducted by the Board approved auctioneers.
2. The business team shall not be involved in the auction process.
3. Audit and Vigilance shall do audit of the auction procedures in the centres / branches selected on random basis.
4. Related parties shall not participate in auctions.
5. Auction department shall place detailed analysis of auctions at various centres within 7 weeks of auction to the Senior Management for review

17. Certification of Gold

In cases where the purity of gold is found to be lower than initially analyzed, an external party must certify the valuation of the gold before proceeding with the auction. This certification ensures the accuracy of the gold's assessed value, helping to minimize discrepancies between estimated and actual auction returns.
