



(Approved by the Board as on 28th August 2020)

Vara Finance Private Limited

Gold Auction Policy

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.

Objective

Gold Loans are sanctioned as Demand Loans against pledge of gold jewellery as collateral security. Loans are generally granted for a maximum tenure of 12 months or for any other periods as specified in the scheme under which the loan is availed.

The broad objectives of framing an Auction Policy are to:

- Ensure the overall financial health of the Company by focusing on asset (loans) quality and comply with the NPA / Provisioning norms laid down by the Reserve Bank of India.
- Monitor adherence by the borrowers to the agreed repayment schedules and encourage them to liquidate the loans in the normal course without constraining the Company to resort to recovery by sale of security.
- Internalise the maxim “Maximise Customer Satisfaction by Minimising Auction” in devising recovery strategies by using auction only as a last resort for recovery of dues.
- Adopt an efficient, transparent and fair approach to the conduct of auction proceedings after giving proper and adequate notice to the borrower.
- Ensure compliance with legal, taxation and regulatory requirements while conducting the auction proceedings.
- Put in place an organizational structure to initiate, conduct, control and monitor the auction procedures. Define the roles & responsibilities of the concerned officials operating in the structure.
- Devise and implement adequate and sturdy internal control systems and risk management practices governing the auction procedure. Provide periodical structured reports / MIS connected with Auctions to the various senior functionaries.

Auction Procedures

1. Public Auction

The term “Auction” used in the policy shall mean realization of the security through Public Auction only.

2. Organisation Structure for Auction Proceedings

The Company shall have a dedicated Recovery & Auction Team at the Head Office to initiate, supervise and monitor the auction procedure including adherence to the approved policy. The Department will function under the overall control of the Managing Director.

3. Auction in the Normal Course (after completion of tenure of the loan)

Auction process must 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. Discretionary powers to defer auction in accounts where at least 75% of the interest due has been paid shall be vested with the Managing Director on the recommendations

of the Senior Management of relevant functions provided a maximum LTV of 90%. An auction can be deferred at the request made by the customers on reasonable ground, such proposals for deferment of auction submitted by executives of the Audit & Auction Team shall be recommended by Head of Audit & Auction Team and approved by the Managing Director.

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

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. Physical transfer of gold from various branches to the regional auction centres/offices shall be carried out in line with the regulatory/internal SOPs/directions which shall be subject to modification from time to time.

5. Authorisation for Auction of Gold

Once the Gold Loan accounts have been identified and listed for auction by the Audit & Auction Team shall put up a proposal in a structured format to the Directors & Senior Management of relevant functions for approval. The Audit & Auction Team shall ensure that the list is accurate, complete and in compliance with the approved Auction Policy.

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

A notice in the local language, along with English translation, in an approved format, shall be sent to all 'Auctionable' pledges furnishing the date and venue of auction at least 15 days before the proposed date of auction by registered post 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.

If the AD card is not received within 7 days the Audit & Auction Team shall apply to the post office and obtain a certificate of delivery to the addressee from the post office. Alternatively, if AD card is not available then the borrower shall be informed through SMS or call on the registered mobile number or other forms of electronic communication channels.

Director shall be empowered to approve modifications to the above guidelines for Auction from time to time on the recommendations of the Senior Management of relevant functions keeping in view, inter-alia, the regulatory directives, legal position and the Fair Practice Code adopted by the Company.

7. 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.

8. 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. The proposal with recommendations for fixation of the reserve / floor price for each auction shall be done by the Head of the Audit & Auction Team taking into consideration the regulatory directions in place, recommended by the Senior Management of relevant functions and approved by the Director. 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.

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

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 KYC compliance is to be accepted. A reasonable amount of EMD should be insisted upon from every participant on such date as maybe decided by the management from time to time.

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

The mode of receipt of bid amount shall be online transfer through banking channels as 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 lying with the Auctioneer 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. 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 and a penalty of 5% of bid amount or loss incurred by the company due to rate fluctuation whichever is higher shall be levied and intimated.\

Delivery of gold to successful bidders should be made only after confirmation of full receipt of payment or realization of cheque / draft/online transfer 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 along with the bidder's KYC Loans to bidders against such auctioned gold shall be not permitted.

Auction under Exceptional Circumstances

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

Audit & Auction Team 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.

Managing Director is empowered to approve modifications to Auction in normal course and Auction due to depletion in value of security, from time to time on the recommendations of the Senior Management of relevant functions keeping in view, interalia, 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.

- **Auction of Gold Ornaments Identified as Spurious / Low Quality**

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 or after completion of the tenure of the loan.

Proper notice/intimation shall be served upon the borrower in accordance with policy.

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. 1,00,000 (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- to- assess” cases.

The Managing Director shall be empowered to grant extended time for repayment to the borrower on a case to case basis on the recommendations of the Senior Management of relevant functions.

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 in writing to arrive at a realistic reserve price.

Auction of normal/spurious or low quality gold ornaments pertaining to the loans shall not be taken up against which a police or criminal case has been filed or when there is any other legal impediment. Suitable internal guidelines regarding filing of police cases should be formulated and approved by the Director on the recommendations of the Senior Management of relevant functions.

Notice to borrowers Depletion in Security Value and Spurious/Low Quality Gold.

Communication 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
Electronic Communication	A communication through SMS and Call would be sent to the borrower within 7 days of identification of loss in the account informing the borrower to settle the loan account within 1 week from the date of receipt of such notice.	A communication through SMS and Call would be sent to the borrower within 7 days of identification of loss in the account informing the borrower to settle the loan account within 1 week from the date of receipt of such notice.	A communication through SMS and Call would be sent to the borrower within 7 days of identification of loss in the account informing the borrower to settle the loan account within 1 week from the date of receipt of such notice.
Intimation Letter	A notice in local language, along with English translation,	A notice in local language, along with	A notice in local language, along with English

	<p>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.</p>	<p>English translation should be sent to the borrower within 30 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).</p>	<p>translation 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:</p> <ol style="list-style-type: none"> 1. Completion of tenure of the loan. 2. That auction notice had already been sent after completion of the tenure of the loan. 3. 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. 4. 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	Nil

		notice an auction notice furnishing the date and venue of auction shall be served on the borrower at least 15 days before the proposed date of auction.	
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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:

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.
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. Auctioneer/ his representative shall remain present during the melting activity along with a competent Internal Auditor of the Company who will certify accordingly in a register to be maintained for the purpose.
3. The melted bars shall then be assayed for purity and put up for auction in such form with a fresh reserve price fixed.
4. Compliance with the above steps shall be periodically subject to internal audit at intervals not exceeding 1 calendar quarter.

Refund of Surplus, Recovery of Shortfall

Appropriate accounting entries should be put through in the customer loan accounts within 30 working days after the full receipt of auction proceeds or month end, whichever if earlier.

Surplus, if any, arising in individual accounts should be refunded to the customer within 30 days from the date of auction or within such time as may be directed by the regulatory authorities from time to time, either through crossed account payee cheque or electronic transfer.

However, 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 Director & Senior Management of relevant functions for approval. Customers whose pledges have been put to auction and where the company had suffered a loss the respective customer ids should be blocked based on the directions provided by the management from time to time.

Panel of Auctioneers, Commission Rates, Role & Responsibility

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.

Bidding for Gold by Company / Related Entities, Maintaining Arm's Length Relationship

The company will ensure that there shall be no conflict of interest and that there shall be arm's length relationship in all transactions during the auction including with group companies and related entities.

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 - Audit & Auction Team.