Co-lending Policy

1. Background

Reserve Bank of India (RBI) has issued guidelines through its circular RBI/2020-21/63FIDD.CO.Plan.BC. No.8/04.09.01/2020-21 dated November 05, 2020 on co-lending of loans by banks and NBFC for lending to priority sector. The RBI has introduced the Co-Lending model between banks and NBFCs for providing credit to the priority sector.

In accordance with the aforesaid guidelines, the primary focus of the scheme Co-Lending Model (CLM), is to improve the flow of credit to the unserved and underserved sector of the economy and make available funds to the ultimate beneficiary at an affordable cost, considering the lower cost of funds from banks and the greater reach of the NBFCs.

Such arrangement shall entail both lenders' joint credit contribution at the facility level. It shall also involve sharing risks and rewards between the Bank/NBFC (Colending partner) and Auxilo Finserve Private Limited (the Company) to ensure appropriate alignment of respective business objectives, as per the mutually decided arrangement between the co-lending partner and the Company.

2. Engagement Models with Banks under CLM

The Company shall based on discussion with eligible colending partners, enter into CLM Master Agreements for implementing the model by either:

a) the colending partner to mandatorily take their share of the individual loans as originated by the company in their books (hereinafter referred to as "**Model 1**") or

b) the colending partner shall retain the discretion to reject certain loans subject to its due diligence (hereinafter referred to as"**Model 2**").

3.1 Model 1

Under this arrangement, there shall be an irrevocable commitment on the part of the colending partner to take into its books its share of the individual loans as originated by the Company; the arrangement shall comply with the extant guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial service by Banks issued vide RBI Circular No. RBI/2014-15/497/DBR.No.BP.BC.76/21.04.158/2014-15 dated March 11, 2015 and with the extant guidelines on Directions on Managing Risks and Code of Conduct in Outsourcing of Financial Services by NBFCs issued vide RBI Circular No. RBI/2017-18/87 DNBR.PD.CC.No.090/03.10.001/2017-18 and updated from time to time. In particular, the colending partner and the Company shall have to put in place suitable mechanisms for ex-ante due diligence by the bank as the credit sanction process cannot be outsourced under the extant guidelines on Outsourcing.

The colending partner and the Company shall also comply with the Master Directions - Know Your Customer (KYC) Direction, 2016, issued vide RBI/DBR/2015-16/18 Master DirectionDBR.AML. BC.No.81 /14.01.001/2015-16 dated February 25, 2016 and updated from time to time, which already permit regulated entities, at their option, to rely on customer due diligence done by a third party, subject to specified conditions.

3.2 Model 2

Under this arrangement, the colending partner shall exercise discretion regarding taking into its books the loans originated by the Company as per the CL Master Agreement; the arrangement will be akin to a direct assignment transaction. Accordingly, the taking over colending partner shall ensure compliance with all the requirements in terms of Guidelines on Transactions Involving Transfer of Assets through Direct Assignment of Cash Flows and the Underlying Securities issued vide RBI/2011-12/540 DBOD.No.BP.BC-103/21.04.177/2011-12 dated May 07, 2012 and RBI//2012- 13/170 DNBS. PD. No. 301/3.10.01/2012-13 August 21, 2012 respectively and with the Master Direction - RBI (Securitization of Standard Assets) Directions, 2021, dated September 24, 2021 and Master Direction - RBI (Transfer of Loan Exposures) Directions, 2021, dated September 24, 2021 as updated from time to time, except for Minimum Holding Period (MHP) which shall not be applicable in such transactions undertaken in terms of this CLM. The MHP exemption shall be applicable only in cases where the prior agreement between the banks and the Company contains a back-to-back basis clause and complies with all other conditions stipulated in the guidelines for the direct assignment.

4. Execution of Master Agreement:

A Colending Master Agreement (CLM) shall be entered into between the colending partner and the Company outlining the terms and conditions of the Co-Lending arrangement, including but not limited to specific details of the product, areas of operations, provisions related to segregation of responsibilities as well as customer interface and protection issues, criteria for the origination of Loans, pricing for assignment of the pool under direct assignment, frequency/ size of pool assignment, as the case may be and as per mutually decided terms.

The CLM may cover both the models of Co-Lending, the colending partner to either mandatorily take their share of the individual loans originated by the Company in their books as per the terms of the agreement or to retain the discretion to reject certain loans after their due diligence prior to taking in their books Loan amount.

The Board shall authorize the Borrowing Committee of the Company to enter into co-lending partnership with banks/financial institutions within the policy framework and as it may deem appropriate and further delegate authority in this regard to management for implementation and execution of the same.

5. **<u>The key features and scope of the policy</u>**

   a. Credit Screening and Parameters shall be mutually agreed upon with the colending partner to source loans.
   b. The selection criteria shall be predetermined depending on the underlying asset class.
   c. The selection criteria shall have distinct parameters such as ticket size, tenure, loan to value (LTV) (where applicable), credit bureau score (where available) etc.
   d. Process of sanction and screening shall involve assessment of credit selection criteria, credit policy parameters and compliance to the policy filters as set out and agreed upon from time to time between the Colending partner and the company.
   e. The Colending partner shall independently assess the risks and requirements of the applicant/ borrowers. The proposal shall be considered in accordance with mutually agreed terms.

6. **<u>Sanction amount/exposure</u>**

   Minimum 20% of the total loan proposed to be availed by the borrower shall be on the Company's books till maturity by way of direct exposure and the balance will be on the colending partner's books. The actual % will be as per the master agreement executed between the colending partner & the Company.

7. **<u>Pricing</u>**

   a. The colending partner shall price its part of the exposure through assessment of the borrower and the RBI regulations issued from time to time. The Company shall also be flexible in pricing its part of the exposure.
   b. Based on the respective interest rates and proportion of risk sharing by the colending partner and the Company, a single blended interest rate shall be offered to the ultimate borrower. The pricing and other terms and conditions shall be approved/agreed upon by the appropriate sanctioning authority of the company and the colending partner.
   c. Pricing methodology for the interest rate will be as per mutually agreed framework.
   d. However, notwithstanding the charging of a single blended/ weighted average rate of interest from the borrower, the repayment/ recovery of interest shall be shared between the colending partner and the Company in proportion to their share of credit and applicable interest rates.
   e. Any other applicable charges shall be decided mutually between the colending partner and the Company and communicated to the borrower. Fees may be charged by the Company for sourcing, collection, servicing or any other purpose. The company shall agree to act as a collecting agent for the loans originated by it. The company shall charge collection fees for the same. The commercials/fees to be charged to the borrower and the commercials to be shared with the colending partner shall be negotiated and agreed upon by both parties.

8. **<u>Know Your Customer (KYC)/Anti-Money Laundering Norms (AML)</u>**

   As applicable, KYC (Know Your Customer) norms and AML (Anti Money Laundering) Guidelines shall be complied with.

9. **<u>Escrow Account</u>**

   The colending partner and the Company shall open an escrow-type common account for pooling respective loan contributions for disbursal in case of Model 1 and for collections and appropriations of loan repayments from borrowers, without holding the funds for the usage of float.

10. **Loan balances**

The Company/ colending partner shall maintain individual borrower's accounts and should also be able to generate and share a single unified statement with the borrower through appropriate sharing of required information between the Company and the colending partner.

11. **Security and Charge Creation**

The colending partner and the Company shall arrange for the creation of security and charge as per mutually agreeable terms, and the modality of such security and charge creation and sharing shall be as documented in the sanction note.

12. **Provisioning/Reporting Requirement**
    a. The colending partner and the Company shall follow its independent provisioning requirements, including the declaration of account as NPA, per the applicable regulatory guidelines, respectively.
    b. The colending partner and the Company shall carry out their respective reporting requirements for their portion of lending, including reporting to Credit Information Companies, under applicable laws and regulations, respectively.

13. **Monitoring and recovery**

The colending partner & the Company shall put in place a framework and processes for monitoring and recovering the loans.

14. **Assignment/ Change in Loan Limits**
    a. Any assignment of loans by the colending partner / the Company shall be done only with the mutual consent of both the colending partner and the Company. However, the Company is to hold a minimum of 20% of the loan amount.
    b. Any change in loan limit of the co-originated loan shall be done only with the mutual consent of the colending partner and the Company

15. **Grievance Redressal**
    a. It shall be the Company's responsibility to explain to the end borrower the difference between the products offered through the Co-lending model as compared to its ownproducts.
    b. The company will primarily provide the required customer service and grievance redressal to the borrower.
    c. However, any complaint registered by a borrower with the Company and with the colending partner shall also beshared with the colending partner / The Company and in case, the complaint is not resolved within 30 days, the borrower would have the option to escalate the same with concerned colending partner Ombudsman/ Ombudsman of the Company

16. **Business Continuity Plan (BCP)**

BCP shall be formulated to ensure uninterrupted service to the borrowers till repayment of the loans under the Co-lending arrangement.

17. **Documentation requirements**

Necessary disclosures in the Borrower Loan Agreement would be required as mandated in the RBI circular

18. Sanctioning authority

The appropriate approving authority shall sanction all arrangements with the Company from time to time.

Detailed operational aspects for the Co-lending process/product, including the procedures to be adopted,shall be laid down separately and agreed upon in a Standard operating process document.

Notwithstanding anything, the policy shall be guided by the extant RBI guidelines and clarification thereof from time to time.

19. Customer Service

The Company shall be the single point of interface for the customers. It shall enter into a loan agreement with the borrower, which shall contain the features of the arrangement and the roles and responsibilities between the respective colending partner and the Company.

20. Safe custody of loan documents

Executed documents custody can be kept with the colending partner or the Company as agreed upon and documented in the master agreement between the parties.

21. Inspection & Audit

The loans under the Co-Lending Model shall be subjected to periodic internal/statutory audits within the Company and the colending partner or the Company to ensure adherence to its internal guidelines and terms of the agreement.

22. Cross Sell

The Company shall have the right to cross sell its/associates products to the customers under the Co-Lending Model.

23. Collection

The Company being the front end and service provider will do collection and recoveries and the service agreement detailing commercials and scope of services shall be executed separately.

24. Policy Review

The Policy shall be subjected to an annual review by the Borrowing Committee and any warranted modifications should be taken up for the approval of the Board on the recommendation of the borrowing committee and any further regulatory guidelines in this regard will have an overriding effect on the policy.

25. Policy Severable

This policy read with Master Directions constitutes the entire document in relation to its subject matter. In the event that any term, condition or provision of this policy is held to be a violation of any applicable law, statute or regulation, the same shall be severable from the rest of this policy and shall be of no force and effect, and this policy shall remain in full force and effect as if such term, condition or provision had not originally been contained in this Policy. In case of ambiguity/discrepancies between the RBI guidelines and Company policy then the RBI guidelines will prevail over the policy subject matter.