POLICY ON CO-LENDING OF LOANS WITH BANKS FOR LENDING TO PRIORITY SECTOR

PAISALO DIGITAL LIMITED
PAISALO

Approved and Adopted on February 6, 2021 and updated on August 5, 2022

INTRODUCTION AND OBJECTIVE

Paisalo Digital Limited (hereinafter referred as 'PDL') a Systemically Important, Non-Deposit Taking, Non-Banking **Financial** Company (NBFC-ND-SI), registered with Reserve Bank of India as a Investment and Credit Company ("ICC"). PDL is a public limited company and its shares are listed on Bombay Stock Exchange (BSE) and National Stock Exchange (NSE).

PDL is engaged in lending to individuals, SSIs, SMEs and other manufacturing, trading and service sector entities and organisations for income generation activities. PDL depend for funding on sources like Capital & Reserves, Non-Convertible Debentures and Credit loan from Banks and other Financial Institutions.

PDL being a registered Non-Banking Financial Company, eligible for co-lending of loans with Bank(s) for lending to priority sector by enter into an agreement/master agreement with Bank(s) for this PDL is required to formulate a policy for Co-Lending Model of loans arrangement with Bank(s) in reference to Notification no. RBI/2020-21/63FIDD.CO.Plan.BC.8/04.09.01/2020-21 dated November 05, 2020 as issued by Reserve Bank of India which supersedes RBI's earlier Notification no. RBI/2018-19/49 FIDD.CO.Plan.BC.08/04.09.01/2018-19 dated September 21^{t}, 2018 on co-origination of loans by Banks and NBFCs.

Preamble

This policy of Paisalo Digital Limited is being formulated pursuant to Notification issued by Reserve Bank of India on November 5, 2020 having reference no. RBI/2020-21/63, FIDD.CO.Plan.BC.No.8/04/09/01/2020-21 (CLM Guidelines) to formulate the broad guidelines for the Company to enter into the Arrangement with Bank(s) for lending to priority sector under "Co-Lending Model" (CLM).

Salient Features of Co-Lending Model are as under:

1. The primary focus of the revised scheme, rechristened as "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 **greater reach of the NBFCs**.

2. All Schedule Commercial Banks (excluding Regional Rural Banks; Small Finance Banks; Local Area Banks and Urban Co-operative Banks) are permitted to Co-lend with Registered NBFCs (including HFCs) under Co-Lending Model (CLM).

3. The Co-lending Banks will take their share of the individual loans on a back to back basis in their books. However, NBFCs shall be required to retain a minimum of 20 percent share of the individual loans on their books.

4. It will involve sharing of risks and rewards between the Bank and the NBFC for ensuring appropriate alignment of respective business objectives, as per the mutually decided agreement between the bank and the NBFC, *inter-alia*, covering the essential features as indicated below:

- **(i)** Sharing of Risk & Rewards
- **(ii)** Interest Rate

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(iii) Know Your Customer (KYC)

(iv) Loan Sanction

(v) Common Account

(vi) Monitoring & Recovery

(vii) Security & Charge Creation

(viii) Provision / Reporting Requirement

(ix) Assignment / Change in Loan Limits

(x) Grievance Redressal

(xi) Business Continuity Plan

5. The Bank can claim priority sector status in respect of its share of credit while engaging in the Co-Lending Arrangement.

6. The Priority sector assets on Bank's Books should at all times be without recourse to the NBFC.

7. Based on respective interest rates and proportion of risk sharing, a single blended all-inclusive interest rate should be offered to the ultimate borrower.

8. RBI may call for information like loan details including interest rates and other charges, details of risk sharing arrangements, etc. as and when required.

9. While engaging for Co-Lending Arrangements, inter-alia, the Bank/NBFC is required to adhere to extant guidelines on outsourcing of financial services. Accordingly, though the NBFC is expected to source loans as per the mutually agreed parameters between the Bank and NBFC, Bank shall not outsource its part of credit sanction component to NBFC.

10. For any grievance redressal, any complaint registered by a borrower with the NBFC/ Bank shall also be shared with the Bank/NBFC; in case the complaint is not resolved within 30 days, the Borrower would have the option to escalate the same with the concerned Banking Ombudsman / Ombudsman for NBFCs.

11. The Bank / NBFC shall formulate a Board approved policy for entering into a Co-Lending Agreement with the NBFC/Bank.

12. The loans under the Co-Lending Model (CLM) shall be included in the scope of internal / statutory audit within the Banks and NBFCs to ensure adherence to their respective internal guidelines, terms of the agreement and extant regulatory requirements.

13. The Master Agreement may provide for the Banks to either mandatorily take their share of the individual loans originated by the NBFCs 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, subject to the conditions.

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This Policy of the Company shall be known as "Policy on Co-Lending of loans with Banks for lending to Priority Sector" and subject to the Notification FIDD.CO.Plan.581/04.09.001/2020-21 as issued by RBI on December 2, 2020, will supersede Company's previous policy named Policy on Co-origination of Loans with Banks for Lending to Priority Sector.

Applicability

The policy is applicable in case of following segments only:

- Co-origination of loan with Scheduled Commercial Banks only, excluding SFBs, RRBs, UCBs and LABs and foreign banks (including WOS) with less than 20 branches .
- Lending to be made only to priority sector defined by RBI

Norms of Agreement between PDL and Co-Lender:

- A Master Agreement shall be entered into between PDL and the Co-Lending Partner Bank(s) which shall inter-alia include, terms and conditions of the arrangement, the specific product lines and areas of operation, along with provisions related to segregation of responsibilities as well as customer interface and protection issues.
- The Master Agreement may provide for the Banks to either mandatorily take their share of the individual loans, originated by PDL, 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 Accordingly, this policy of PDL is divided into two part:

(A) Where Bank mandatorily take their share for the individual loans as originated by PDL

(B) Where Bank retain the discretion to certain loans subject to its due diligence

PART - A

POLICY WHERE BANK MANDATORILY TAKE THEIR SHARE FOR THE INDIVIDUAL LOANS AS ORIGINATED BY PDL

Minimum required criteria would be followed for any arrangement of co-lending of loans with Bank(s) by PDL shall be:

SCOPE

The arrangement with Bank(s) will comply with the extant Guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services by Banks as issued by RBI vide Circular no. RBI/2014-15/497/DBR.No.BP.BC.76/21.04.158/2014-15 dated March 11, 2015 and updated from time to time.

SHARING OF RISK & REWARDS

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Generally, PDL will accept minimum 20% of credit risk by way of direct exposure on its book till maturity. However, Maximum Credit Risk would be decided on case to case/ arrangement basis by Managing Director or any other person, if so authorized by Managing Director.

The % of credit risk in all cases shall be guided by the terms of agreement PDL and Co_lender.

INTEREST RATE

- Subject to credit policy of the Company, as updated/amended from time to time, PDL shall offer its rate of interest on fixed/floating rate basis.
- PDL and the partnering bank shall have the flexibility of pricing their part of exposure in accordance with internal pricing strategies, however, the ultimate borrower shall be charged an all-inclusive interest rate.
- PDL shall charge an upfront specified percentage, as negotiated with partnering bank, towards its services viz. sourcing and collection.
- Upon repayment, the interest shall be shared between IIFL and the bank in proportion to their share of credit and interest.
- Any negotiation on interest rate may be done by Managing Director or any other person, if so authorized by Managing Director.

KNOW YOUR CUSTOMER

- PDL shall follow "Know Your Customer' (KYC) Guidelines" as issued by the Reserve Bank of India from time to time.
- Presently applicable circular for the same is RBI/2015-16/108 DNBR(PD) CC No. 051/03.10.119/2015-16 dated July 1, 2015.
- Link:

  https://rbidocs.rbi.org.in/rdocs/notification/PDFs/108KYF7989C864E6F41F1BE1B5326C9BA5212.PDF

CUSTOMER RELATED ISSUES

- PDL shall be the single point of interface for the customers and shall enter into a loan agreement with the borrower, which will clearly contain the features of the arrangement and the roles of responsibilities of PDL and co-lending Bank.
- All the details of arrangement shall be disclosed to the customer upfront and explicit consent of the borrower shall be taken on the same.
- The extant guidelines relating to customer service and fair practices code and the obligations enjoined upon the Banks and PDL therein shall be applicable mutatis mutandis in respect of loans given under the arrangement.

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- Accounting shall be taken care by PDL and PDL should be able to generate a single unified statement of the customer, through appropriate information sharing arrangements with the bank.

LOAN SANCTION PROCESS

- By following the credit matrix as approved by Co-Lending Bank, PDL shall recommend each case to the Co-Lending Bank and shall ensure to seek approval from partnering bank via ex-ante due diligence by the Bank in all the cases where the master agreement entails a prior, irrevocable commitment on the part of the bank to take into its books its share of the individual loans as originated by the PDL.

- Loan agreement under this model shall be bipartite/tripartite in nature and shall be finalized in consultation with respective Co-Lending Bank.

- Managing Director of the Company or any other officer, if so authorized shall finalize loan sanction process with Co-Lending Bank(s).

ESCROW ACCOUNT

- For better functioning and transparency escrow type common Bank Account(s) shall be opened by PDL for pooling respective loan contribution for the disbursal.

- All transactions (disbursements/ repayments) between the banks and PDL relating to CLM shall be routed through an escrow account maintained with the Banks, in order to avoid inter-mingling of funds. The Master Agreement shall clearly specify the manner of appropriation between the PDL and Co-Lending Bank.

MONITORING & RECOVERY

- There shall be a system for day to day monitoring of all the process viz. Loan Origination, Loan Management, Disbursements, Collection and Recovery in consultation with respective Co-Lending Bank(s).

- The loans under the CLM shall be included in the scope of internal/statutory audit to ensure adherence to our internal guidelines, terms of the agreement and extant regulatory requirements.

- Managing Director or any other officer of the Company, if so authorized, will discuss and finalize the system.

SECURITY & CHARGE CREATION

- PDL along with Co-Lending Bank, depending on terms of agreement, shall arrange for creation of security and charge as per mutually agreeable terms.

- PDL will share security and charge, if any, with the co-lending Bank as co-lender as per mutually agreeable terms.

- For any negotiation in this behalf may be done by Managing Director or any other officer of the Company, if so authorized by the Managing Director.

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PROVISIONING & REPORTING REQUIREMENT

- PDL will follow provisioning requirement including NPA declaration on its share as directed by Reserve Bank of India applicable on NBFC-ND-SI from time to time.

- PDL will report to Credit Information Bureaus, under applicable law & regulations for its portion of lending.

ASSIGNMENT

Assignments of PDL share under Co-lending arrangement can be done as per applicable RBI guidelines.

Managing Director or any other officer of the company, if so authorized in this behalf, would be authorized to grant permission to Co-Lending Bank for assignment of receivables of Bank's share.

GRIEVANCE REDRESSAL

- With regard to grievance redressal, suitable arrangement must be put in place by the co-lenders to resolve any complaint registered by a borrower with the PDL/ Co-Lending Partner within 30 days, failing which the borrower would have the option to escalate the same with the concerned Banking Ombudsman/Ombudsman for NBFCs or the Customer Education and Protection Cell (CEPC) in RBI.

- PDL shall also evolve a system to share any grievance / complaint received with co-originating bank, with the consultation of respective bank.

BUSINESS CONTINUITY PLAN

PDL will also formulate Business Continuity Plan in consultation and as per the requirement of the respective Bank.

Managing Director or any other officer of the Company, if so authorized in this behalf will chalk out the business continuity plan with respective Bank.

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PART - B

Policy where banks retain the discretion to certain loans subject to its due diligence:

Minimum required criteria would be followed for any arrangement of co-lending of loans with Bank(s) by PDL will be:

SCOPE

The arrangement with Bank(s) will comply with the extant guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services by Banks as issued by RBI vide Circular no. RBI/2014-15/497/DBR.No.BP.BC.76/21.04.158/2014-15 dated March 11, 2015 and updated from time to time.

The above said arrangement would be akin to Direct Assignment Transaction. Accordingly all the requirements in terms of guidelines on Transaction involving Transfer of Assets through Direct Assignment of Cash Flows and the Underlying Securities issued vide RBI Circular no. 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 dated August 21, 2012 respectively as updated from time to time.

However, Minimum Holding Period (MHP) requirement would not be applicable in such transactions.

SHARING OF RISK & REWARDS

- Generally, PDL will accept minimum 20% of credit risk by way of direct exposure on its book till maturity. However, Maximum Credit Risk would be decided on case to case/ arrangement basis by Managing Director or any other person, if so authorized by Managing Director.
- The % of credit risk in all cases shall be guided by the terms of agreement PDL and Co-lender.

INTEREST RATE

- Subject to credit policy of the Company, as updated/amended from time to time, PDL shall offer its rate of interest on fixed/floating rate basis.
- PDL and the partnering bank shall have the flexibility of pricing their part of exposure in accordance with internal pricing strategies, however, the ultimate borrower shall be charged an all-inclusive interest rate.
- PDL shall charge an upfront specified percentage, as negotiated with partnering bank, towards its services viz. sourcing and collection.
- Upon repayment, the interest shall be shared between IIFL and the bank in proportion to their share of credit and interest.
- Any negotiation on interest rate may be done by Managing Director or any other person, if so authorized by Managing Director.

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- PDL shall be the single point of interface for the customers and shall enter into a loan agreement with the borrower, which will clearly contain the features of the arrangement and the roles of responsibilities of PDL and co-lending Bank.
- All the details of arrangement shall be disclosed to the customer upfront and explicit consent of the borrower shall be taken on the same.
- The extant guidelines relating to customer service and fair practices code and the obligations enjoined upon the Banks and PDL therein shall be applicable mutatis mutandis in respect of loans given under the arrangement.
- Accounting shall be taken care by PDL and PDL should be able to generate a single unified statement of the customer, through appropriate information sharing arrangements with the bank.

LOAN SANCTION PROCESS

- By following the credit matrix as approved by Co-Lending Bank, PDL shall recommend each case to the Co-Lending Bank for its final Sanction.
- Where partnering bank can exercise its discretion regarding taking into its books the loans originated by PDL as per the Agreement, the arrangement will be akin to a direct assignment transaction with the exception of Minimum Holding Period (MHP) which shall not be applicable in such transactions undertaken in terms of this CLM. The MHP exemption shall be available only in cases where the prior agreement between the banks and NBFCs contains a back-to-back basis clause and complies with all other conditions stipulated in the guidelines for direct assignment.
- Loan agreement under this model shall be bipartite/tripartite in nature and shall be finalized in consultation with respective Co-Lending Bank.
- Managing Director of the Company or any other officer, if so authorized shall finalize loan sanction process with Co-Lending Bank(s).

ESCROW ACCOUNT

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- For better functioning and transparency escrow type common Bank Account(s) shall be opened by PDL for pooling respective loan contribution for the disbursal.
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- PDL shall also evolve a system to share any grievance / complaint received with co-originating bank, with the consultation of respective bank.

BUSINESS CONTINUITY PLAN

PDL will also formulate Business Continuity Plan in consultation and as per the requirement of the respective Bank.

Managing Director or any other officer of the Company, if so authorized in this behalf will chalk out the business continuity plan with respective Bank.

Any other Matter will be decided by the Operations and Finance Committee of the Board.

Review and Revision of Policy:

The Policy will be reviewed and revised and got approved by the Board of Directors as and when required.

The Policy has been approved and adopted by Board of Directors on February 6, 2021.
The Policy has been updated on August 5, 2022

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