POLICY ON CO-LENDING WITH BANKS

BACKGROUND

The Reserve Bank of India ("**RBI**") vide its guidelines on Co-Lending by Banks and NBFCs to Priority Sector dated November 05, 2020 ("**Co-Lending Guidelines**") has provided for a revised scheme christened as "Co-Lending Model" in terms of which banks are permitted to co-lend with all registered NBFCs (including HFCs). The Co-lending Model is not applicable to foreign banks (including wholly owned subsidiary of foreign banks) with less than 20 branches.

The primary focus of the said scheme (i.e., the Co-Lending Model) 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.

The Co-Lending Guidelines stipulates that the banks and NBFCs shall formulate Board approved policies to enter into the Co-Lending Model and publish the approved policies on their websites. It is stipulated in the Co-Lending Guidelines that based on the said policies, a 'Master Agreement' may be entered into between the two partner institutions which shall *inter-alia* include, certain essential features of Co-Lending Model between banks and NBFCs as outlined in the Annex to the Co-Lending Guidelines which is enclosed herewith as an **Appendix**. The said Master Agreement may provide for the bank to **either** (a) mandatorily take its share of the individual loans as originated by the NBFC in their books ("**Co-Origination**") **or** (b) retain the discretion to reject certain loans subject to its due diligence ("**Loan Transfer**").

SCOPE

This policy covers Co-Origination and Loan Transfer under the Co-Lending Model.

REQUIREMENTS

Any Co-origination or Loan Transfer by Northern Arc Capital Limited ("**Northern Arc**") under the Co-Lending Model shall be in adherence with the requirements set out below and in the product note on Co-Origination and Loan Transfer under the Co-Lending Model approved by the Risk Committee of the Board of Directors of Northern Arc.

Master Agreement: Northern Arc shall enter into a Master Agreement with each co-lending bank which shall *inter-alia* include, features outlined in the **Appendix** hereto.

Due diligence: In case of Loan Transfer, Northern Arc shall work with the co-lending bank to put in place suitable mechanisms for *ex-ante* due diligence by the bank.

Single Unified Statement: Northern Arc shall be able to generate a single unified statement of the customer, through appropriate information sharing arrangements with the co-lending banks.

Provisioning/Reporting Requirement: Northern Arc and the co-lending bank shall independently follow their respective provisioning requirements including declaration of account as NPA, as per the regulatory guidelines applicable to them respectively. Northern Arc and the co-lending bank shall carry out their respective reporting requirements including reporting to Credit Information Companies, under applicable law and regulations for their respective portion of lending or loan exposure on their books.

Monitoring & Recovery: Northern Arc and the co-lending bank shall establish a framework for monitoring and recovery of the loan on terms mutually agreed.

Security and Charge Creation: Northern Arc and the co-lending bank shall arrange for creation of security and charge on terms mutually agreed.

Escrow Account: All transactions (disbursements/repayments) between Northern Arc and a co-lending bank relating to Co-Lending Model shall be routed through escrow account(s), in order to avoid inter-mingling of funds.

Details of the arrangement: Northern Arc shall be the single point of interface for the customers and shall enter into a loan agreement with the borrower, which shall clearly contain the features of the arrangement and the roles and responsibilities of Northern Arc and the co-lending bank.

Upfront consent: All the details of the Co-Origination or Loan Transfer arrangement, as the case may be, under the Co-Lending Model shall be disclosed to the customers upfront and their explicit consent shall be taken.

Assignment: Any assignment of a loan originated under the Co-Lending Model by a co-lender to a third party can be done only with the consent of the other lender.

Grievance Redressal: Scope of the grievance redressal mechanism of Northern Arc shall also cover loans originated under the Co-Lending Model and in case any complaint is not resolved within 30 days, the complainant 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.

Business Continuity Plan: A business continuity plan shall be implemented by Northern Arc and the co-lending banks to ensure uninterrupted service to their borrowers till repayment of the loans that are originated under the Co-Lending Model, in the event of termination of Master Agreements.

Regulatory Compliance: Subject only to the Co-Lending Guidelines, other regulatory compliances stipulated by RBI as applicable will be adhered to while originating loans under the Co-Lending Model in the same manner as would have been the case if the entire loan was originated by Northern Arc in its ordinary course of business outside the Co-Lending Model.

Internal Audit: Adherence to this policy, terms of Master Agreements and applicable regulations in relation to Co-Origination and Loan Transfer under the Co-Lending Model shall be subject to internal audit by the internal audit function of Northern Arc.

REVIEW

This policy shall be reviewed by the Board of Directors of Northern Arc Capital Limited on an annual basis.

ANNEX

Essential Features of Co-Lending Model between Banks and NBFCs

I. Scope

1. The Master Agreement entered into by the banks and NBFCs for implementing the CLM may provide either for the bank to mandatorily take their share of the individual loans as originated by the NBFC in their books or retain the discretion to reject certain loans subject to its due diligence.

   a. If the 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 NBFC, the arrangement must comply with the extant guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services by Banks issued vide *RBI/2014-15/497/DBR.No.BP.BC.76/21.04.158/2014-15 dated March 11, 2015* and updated from time to time. In particular, the partner bank and NBFC 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.

   b. The bank shall also be required to comply with the Master Directions - Know Your Customer (KYC) Direction, 2016, issued vide *RBI/DBR/2015-16/18 Master Direction DBR.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.

   c. However, if the bank can exercise its discretion regarding taking into its books the loans originated by NBFC as per the Agreement, the arrangement will be akin to a direct assignment transaction. Accordingly, the taking over bank 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*, as updated from time to time, with the exception of Minimum Holding Period (MHP) which shall not be applicable in such transactions undertaken in terms of this CLM.

   d. 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.

2. Banks shall not be allowed to enter into co-lending arrangement with an NBFC belonging to the promoter Group.

II. Customer related issues

3. The NBFC shall be the single point of interface for the customers and shall enter into a loan agreement with the borrower, which shall clearly contain the features of the arrangement and the roles and responsibilities of NBFCs and banks.
4. All the details of the arrangement shall be disclosed to the customers upfront and their explicit consent shall be taken.
5. The ultimate borrower may be charged an all-inclusive interest rate as may be agreed upon by both the lenders conforming to the extant guidelines applicable to both.
6. The extant guidelines relating to customer service and fair practices code and the obligations enjoined upon the banks and NBFCs therein shall be applicable *mutatis mutandis* in respect of loans given under the arrangement.
7. The NBFC should be able to generate a single unified statement of the customer, through appropriate information sharing arrangements with the bank.
8. 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 NBFC 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.

III. Other Operational Aspects

9. The co-lending banks and NBFCs shall maintain each individual borrower's account for their respective exposures. However, all transactions (disbursements/ repayments) between the banks and NBFCs 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 co-lenders.

10. The Master Agreement may contain necessary clauses on representations and warranties which the originating NBFC shall be liable for in respect of the share of the loans taken into its books by the bank.
11. The co-lenders shall establish a framework for monitoring and recovery of the loan, as mutually agreed upon.
12. The co-lenders shall arrange for creation of security and charge as per mutually agreeable terms.
13. Each lender shall adhere to the asset classification and provisioning requirement, as per the respective regulatory guidelines applicable to each of them including reporting to Credit Information Companies, under the applicable regulations for its share of the loan account.
14. The loans under the 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.
15. Any assignment of a loan by a co-lender to a third party can be done only with the consent of the other lender.
16. Both the banks and the NBFCs shall implement a business continuity plan to ensure uninterrupted service to their borrowers till repayment of the loans under the co-lending agreement, in the event of termination of co-lending arrangement between the co-lenders.