Co-Lending Policy

February 2021

UGRO Capital Limited

Table of Contents

1 Introduction

The Co-Lending Policy (hereinafter referred to as 'the Policy) has been drafted in line with the notification bearing reference no. RBI/2020-21/63, FIDD.CO.Plan.BC.No.8/04. 09.01 /2020-21 dated November 05, 2020 ("CLM") issued by the Reserve Bank of India 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 revised scheme was issued in supersession of the erstwhile circular applicable for co-origination of loans by Banks and NBFCs for lending to priority sector bearing reference number FIDD.CO.Plan.BC.08/04.09.01/ 2018-19 dated September 21, 2018

The Policy covers general principles and practices followed by UGRO Capital Limited (hereinafter referred to as 'the Company') in the co-lending of loans with partner institutions as under:

- Part A- Banks and
- Part B- Other NBFCs.

The Policy will be applicable to all the categories of products and services offered by the Company under the co-lending model and apply to related operations such as customer sourcing, loan processing, loan servicing and collection activities.

The Policy has been approved by the Board of Directors in the meeting dated 19th August 2019.

2 PART A- Co-Lending Arrangement With Banks

The Master Agreement entered into with the Banks for implementing the Co-Lending Model may provide either for the Bank to:

a) mandatorily take their share of the individual loans as originated by the NBFC in their books ("Option a") or

b) retain the discretion to reject certain loans subject to its due diligence ("Option b")

If the Bank can exercise its discretion regarding taking into its books the loans originated by the Company 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 the CLM.

The MHP exemption shall be available only in cases where the prior agreement between the Company and banks contain a back-to-back basis clause and complies with all other conditions stipulated in the guidelines for direct assignment.

Principles and Practices

1. Sharing of Risk and Rewards:

- **Option (a):** The arrangement would entail joint contribution of credit at the facility level, by both the Company and the Bank ("Lenders") basis ex-ante due diligence by the Bank.
- **Option (b)**: Under this option the Bank shall take over its share in the exposure after disbursement of the loan on back-to-back basis subject to due diligence.

Both the arrangements would involve sharing of risks and rewards between the Lenders for ensuring appropriate alignment of respective business objectives, as per the mutually decided agreement between the Lenders. A minimum 20% of the credit risk by way of direct exposure shall be on the Company's books till maturity and the balance will be on the Bank's books. The Company will not fund its contribution towards the loan amount of borrowing from the Bank or any other group company of the Bank and shall give an undertaking to the Bank that effect.

2. Interest Rate:

- **Option (a):** The Company would have the flexibility to price their part of the exposure, while the Bank shall price its part of the exposure in a manner found fit as per their respective risk appetite/ assessment of the borrower and the RBI regulations issued from time to time. Based on the respective interest rates and proportion of risk sharing, a single blended interest rate will be offered to the ultimate borrower in case of fixed rate loans. In the scenario of floating interest rates, a weighted average of the benchmark interest rates in proportion to the respective loan contribution, will be offered. 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 Bank and the

Company in proportion to their share of credit and interest. The interest rate charged by the bank for its portion of credit, shall be subject to applicable directions on interest rates on advances. The benefit of low-cost funds from the Bank and lower cost of operations of the Company would be passed on to the ultimate beneficiary through the blended rate/ weighted average rate. In this regard, Bank/Company shall provide all the information like loan details including interest rate and other charges, details of risk sharing arrangement, etc., as and when called for by the Reserve Bank of India.

- **Option (b):** The Company shall price the entire exposure in a manner fit as per its risk appetite or as may pre-determined with the Bank. The bank may subject to its due diligence share the exposure and consequently the repayment/ recovery of interest in proportion to their share of credit and interest

3. **Know Your Customer (KYC):** The co-lending Lenders shall adhere to applicable KYC/ AML guidelines, as prescribed by Department of Banking Regulation (DBR)/ Department of Non-Banking Regulation (DNBR) and will also be guided by Para 14 of Master Directions on KYC, issued by DBR.

4. **Loan Sanction:**

   - **Option (a):** The Company shall recommend to the Bank proposals as found relevant for joint lending. The Bank, under its irrevocable commitment to take into its books its share of the individual loans as originated by the Company, shall subject to ex ante due diligence mechanism as agreed between banks and the Company, agree to sanction the facility to the applicant. The loan agreement would be executed between the parties wherein the Bank and the Company shall be parties as lenders to the loan agreement.

   - **Option (b):** The Company shall upon assessment agree to grant the facility to the applicant. In such case, the Company shall execute loan agreement with the borrower and the Bank shall then choose to take over its share on back-to-back basis.

5. **Common Account**:

   - **Option (a)**: The Bank and the Company shall open an escrow type common account for pooling respective loan contributions for disbursal as well as to appropriate loan repayments from borrowers, without holding the funds for usage of float

   - **Option (b):** the disbursement shall be done by the Company and if taken over collection shall be made through an escrow type common account.

   Regarding loan balances, the Company/ Bank shall maintain individual borrower's accounts and should also be able to generate and share a single unified statement to the customer, through appropriate sharing of required information with the Bank/ Company.

6. **Monitoring & Recovery:** Both Lenders shall create the framework for day-to-day monitoring and recovery of the loan, as mutually agreed upon.

7. **Security and Charge Creation:** The Lenders shall arrange for creation of security and charge as per mutually agreeable terms.

8. **Provisioning/Reporting Requirement**: Each of the Lenders shall follow its independent provisioning requirements including declaration of account as NPA, as per the regulatory guidelines respectively applicable to each of them. Each of the Lenders shall carry out their respective reporting requirements including reporting to Credit Information Companies, under respectively applicable law and regulations

for their portion of lending. The Company shall adhere to its broader Provisioning/Reporting standards even in the case of a co-lent loan

9. **Assignment/ Change in Loan Limits:** Any assignment of loans by any of the Lenders can be done only with the mutual consent of both the Lenders. Further, any change in loan limit of the co-lent facility can be done only with the mutual consent of both the Lenders.

10. **Grievance Redressal**: It shall be the responsibility of the Company to explain to end borrower regarding the difference between products offered through the co-lending model as compared to its own products. The front-ending lender will be primarily responsible for providing the required customer service and grievance redressal to the borrower. However, any complaint registered by a borrower with the Company and/or Bank shall also be shared with the Bank/ Company and in case, the complaint is not resolved within 30 days, the borrower would have the option to escalate the same with concerned Banking Ombudsman/ Ombudsman for the Company or the Customer Education and Protection Cell (CEPC) in RBI as laid out in the Fair Practices Code adopted by the Company.

11. **Business Continuity Plan:** Both the Bank and the Company shall formulate a business continuity plan to ensure uninterrupted service to the borrowers till repayment of the loans under the co-lending agreement.

12. **Recourse to the Company:** In the event, the Bank intends to claim priority sector status in respect of its share of credit while engaging in the co- lending arrangement, the Company shall ensure that priority sector assets on the Bank's books will at all times be without recourse to the NBFC. Further, the loans extended by foreign banks under the co- lending framework shall be restricted only to loans qualifying as priority sector assets

13. **Outsourcing of Services:** The Company will adhere to extant guidelines on outsourcing of financial services and the Outsourcing Policy approved by the Board

14. **Other Policies & Guidelines:** The Company will ensure that it adheres to the regulations prescribed by the RBI/any other relevant regulatory body and the Company's policies for any loan that has been disbursed through the co- lending model in the same manner as would have been the case if the entire loan were being disbursed solely on the behest of the Company

3 PART B- Co-Lending Arrangement With Other NBFCs

1. **Sharing of Risk and Rewards:** The arrangement would entail joint contribution of credit at the facility level, by both the Company and the Other NBFC ("Lenders"). It would involve sharing of risks and rewards between the Lenders for ensuring appropriate alignment of respective business objectives, as per the mutually decided agreement between the Lenders. A minimum 20% of the credit risk by way of direct exposure shall be on the Company's books till maturity and the balance will be on the Other NBFC's books. The Company will not fund its contribution towards the loan amount of borrowing from the Other NBFC or any other group company of the Other NBFC and shall give an undertaking to the Other NBFC that effect.

2. **Interest Rate**: The Company would have the flexibility to price their part of the exposure, while the Other NBFC shall price its part of the exposure in a manner found fit as per their respective risk appetite/ assessment of the borrower and the RBI regulations issued from time to time. Based on the respective interest rates and proportion of risk sharing, a single blended interest rate will be offered to the ultimate borrower in case of fixed rate loans. In the scenario of floating interest rates, a weighted average of the benchmark interest rates in proportion to the respective loan contribution, will be offered. 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 Other NBFC and the Company in proportion to their share of credit and interest. The interest rate charged by the Other NBFC for its portion of credit, shall be subject to applicable directions on interest rates on advances. The benefit of low-cost funds from the Other NBFC and lower cost of operations of the Company would be passed on to the ultimate beneficiary through the blended rate/ weighted average rate. In this regard, Other NBFC/Company shall provide all the information like loan details including interest rate and other charges, details of risk sharing arrangement, etc., as and when called for by the Reserve Bank of India.

3. **Know Your Customer (KYC):** The co-lending Lenders shall adhere to applicable KYC/ AML guidelines, as prescribed by Department of Banking Regulation (DBR)/ Department of Non-Banking Regulation (DNBR) and will also be guided by Para 14 of Master Directions on KYC, issued by DBR.

4. **Loan Sanction:** The Company shall recommend to the Other NBFC proposals as found relevant for joint lending. Each Lender will independently assess the risks and requirements of the applicant borrowers. The loan agreement would be tripartite in nature, wherein, both the Other NBFC and the Company shall be parties as lenders to the loan agreement with the customer.

5. **Common Account**: The Other NBFC and the Company shall open an escrow type common account for pooling respective loan contributions for disbursal as well as to appropriate loan repayments from borrowers, without holding the funds for usage of float. Regarding loan balances, the Company/ Other NBFC shall maintain individual borrower's accounts and should also be able to generate and share a single unified statement to the customer, through appropriate sharing of required information with the NBFC/ Company.

6. **Monitoring & Recovery:** Both Lenders shall create the framework for day-to-day monitoring and recovery of the loan, as mutually agreed upon.

7. **Security and Charge Creation:** The Lenders shall arrange for creation of security and charge as per mutually agreeable terms.

8. **Provisioning/Reporting Requirement**: Each of the Lenders shall follow its independent provisioning requirements including declaration of account as NPA, as per the regulatory guidelines respectively applicable to each of them. Each of the Lenders shall carry out their respective reporting requirements including reporting to Credit Information Companies, under respectively applicable law and regulations for their portion of lending. The Company shall adhere to its broader Provisioning/Reporting standards even in the case of a co-lent loan

9. **Assignment/ Change in Loan Limits:** Any assignment of loans by any of the Lenders can be done only with the mutual consent of both the Lenders. Further, any change in loan limit of the co-lent facility can be done only with the mutual consent of both the Lenders.

10. **Grievance Redressal**: It shall be the responsibility of the Company to explain to end borrower regarding the difference between products offered through the co- lending model as compared to its own products. The front-ending lender will be primarily responsible for providing the required customer service and grievance redressal to the borrower. However, any complaint registered by a borrower with the Company and/or Other NBFC shall also be shared with the Other NBFC/ Company and in case, the complaint is not resolved within 30 days, the borrower would have the option to escalate the same with concerned Banking Ombudsman/ Ombudsman for the Company as laid out in the Fair Practices Code adopted by the Company.

11. **Business Continuity Plan:** Both the Other NBFC and the Company shall formulate a business continuity plan to ensure uninterrupted service to the borrowers till repayment of the loans under the co- lending agreement.

12. **Outsourcing of Services:** The Company will adhere to extant guidelines on outsourcing of financial services and the Outsourcing Policy approved by the Board

13. **Other Policies & Guidelines:** The Company will ensure that it adheres to the regulations prescribed by the RBI/any other relevant regulatory body and the Company's policies for any loan that has been disbursed through the co- lending model in the same manner as would have been the case if the entire loan were being disbursed solely on the behest of the Company

4 Review of the Policy

- The Co-lending Policy shall be subject to periodic review in accordance with any regulatory or statutory requirement and shall be approved by the Board of the Company. A consolidated report of such reviews may be submitted to the Board at regular intervals.
- The Company shall abide by this Policy following the spirit of the Policy and in the manner it may be applicable to its business