

CO-LENDING POLICY

INTRODUCTION

Progfin Private Limited ("**Company**") is a registered non-banking financial company ("**NBFC**") with the Reserve Bank of India ("**RBI**"), is eligible for co-lending of loans for lending by entering into an agreement/master agreement with banks and other financial institutions as may be permitted under law ("**Financial Institution**") and for this the Company is required to formulate a policy for co-lending model of loans arrangement with **Financial Institution** in reference to applicable RBI Guidelines and updated from time to time ("**CLM Guidelines**").

This Co-Lending Policy ("**Policy**") has been approved and adopted by the board of directors of Company

APPLICABILITY

This Policy is applicable in case of co-origination of loan with Financial Institution only, excluding SFBs, RRBs, UCBs and LABs and foreign banks (including WOS) with less than 20 branches;

SALIENT FEATURES OF THE CO-LENDING MODEL

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 with an endeavor to make funds available to the ultimate beneficiary at comparatively better pricing, by leveraging the lower cost of funds from large Financial Institution and greater reach, network and specialization of the Company.

Financial Institutions viz. Schedule Commercial Banks (excluding Regional Rural Banks; Small Finance Banks; Local Area Banks and Urban Co-operative Banks) are permitted to co-lend with Company under CLM.

Such Financial Institution will record their share of the loans created under this policy on a back to back basis in their books. However, Company shall be required to retain the regulatory share of the loan on their books.

2. It will involve sharing of risks and rewards between a **Financial Institution** and the Company for ensuring appropriate alignment of respective business objectives, as per the mutually decided agreement between the **Financial Institution** and the Company, which may, *inter-alia*, cover the essential features as indicated below:

- (i) Sharing of Risk & Rewards;
- (ii) Risk Participation in Regulatory share of Financial Institution, if any
- (iii) Interest Rate;
- (iv) Know Your Customer (KYC);
- (v) Loan Sanction;
- (vi) Common Account;
- (vii) Monitoring & Recovery;
- (viii) Security & Charge Creation;
- (ix) Provision / Reporting Requirement;
- (x) Assignment / Change in Loan Limits;
- (xi) Grievance Redressal;
- (xii) Business Continuity Plan

3. If applicable, the co-lending **Financial Institution** may claim priority sector status in respect of its share of credit while engaging in the co-lending arrangement.
4. Based on respective interest rates and proportion of risk sharing, a single blended all-inclusive interest rate shall be offered to the ultimate borrower. An all-inclusive 'annualised percentage rate' or 'APR' shall be arrived at by the Financial Institution and Company, which shall be offered to the ultimate borrower. 'APR' shall be based on an all-inclusive cost and margin including cost of funds,

credit cost and operating cost, processing fee, verification charges, maintenance charges, etc., and exclude contingent charges like penal interest/charges, late payment charges, etc.

RBI may call for information like loan details including interest rates and other charges, details of risk sharing arrangements, etc. as and when required and Company is bound to provide the same.

5. While engaging for co-lending arrangements, *inter-alia*, the **Financial Institution** and the Company are required to adhere to extant guidelines on outsourcing of financial services. Accordingly, though the Company is expected to source loans as per the mutually agreed parameters between the **Financial Institution** and Company, Financial Institution shall not outsource its part of credit sanction component to Company.
6. For any grievance redressal, any complaint registered by a borrower with the Company/ Financial Institution shall also be shared with the Financial Institution/ Company ; in case the complaint is not resolved within 30 (thirty) days, the borrower would have the option to escalate the same with the concerned banking ombudsman / ombudsman for Company. Additionally, in case the Financial Institution / Company engage in co-lending through 'lending service providers' / 'LSPs' or through their or LSP's digital lending applications / 'DLAs', then, the Financial Institution/ Company shall ensure that the LSPs appoint a suitable nodal grievance redressal officer to deal with fintech/ digital lending related complaints/ issues raised by the borrowers. The name and details of such officer along with the process of grievance redressal shall be set out on the website of the LSPs. Such grievance redressal officer shall also deal with complaints against their respective DLAs. If any complaint lodged by the borrower against the Financial Institution/ Company or the LSP engaged by the Financial Institution/ Company is not resolved by the Financial Institution/ Company within the stipulated period (currently 30 days), then, the borrower can lodge a complaint over the Complaint Management System (CMS) portal under the Reserve Bank-Integrated Ombudsman Scheme (RB-IOS). For entities currently not covered under RB-IOS, complaint may be lodged as per the grievance redressal mechanism prescribed by the RBI.
7. The Master Agreement may provide for the Financial Institution 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, subject to the scope of essential features of CLM.

NORMS OF MASTER AGREEMENT BETWEEN THE CO-LENDER AND THE COMPANY

A Master Agreement shall be entered into between the Company and the co-lending partner Financial Institutions 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 ("**Master Agreement**").

The Master Agreement may provide for the Financial Institution to either mandatorily take their share of the individual loans, originated by the Company (including through its DLA or LSPs or the LSP's DLA), 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 the Company is divided into two part:

- (A) ***Where Financial Institution mandatorily take their share for the individual loans originated by the Company***
- (B) ***Where Financial Institution retain discretion to certain loan subject to its due diligence***

In such cases, Company may, subject to applicable law including relevant RBI guidelines as well as Company's board-approved policy in this regard, provide to its co-lender or avail from its co-lender or any LSP that may be appointed by the Company and/or financial institution, default loss guarantee in respect of the co-lending loan portfolio.

PART A – POLICY WHERE FINANCIAL INSTITUTION MANDATORILY TAKE THEIR SHARE FOR THE INDIVIDUAL LOANS ORIGINATED BY THE COMPANY

Minimum required criteria would be followed for any arrangement of co-lending of loans with **Financial Institution** by the Company shall be:

SCOPE

The arrangement with **Financial Institution** will comply with the extant Guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services 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 RISKS & REWARDS Generally, the Company will accept credit risk by way of direct exposure on its book till maturity. Maximum credit risk would be decided on case to case / arrangement basis by board of directors or any other person, if so authorized by board of directors. The percentage of credit risk in all cases shall be guided by the terms of Master Agreement executed between the Company and co-lender. The Company shall ensure that its contribution towards the loan amount is not funded out of borrowing from the co-lending Financial Institution or any other group company of the partner Financial Institution.

INTEREST RATE

1. Subject to credit policy of the Company, as updated/amended from time to time, the Company shall offer its rate of interest on fixed/floating rate basis.
2. The Company and the partnering Financial Institution shall have the flexibility of pricing their part of exposure in accordance with internal pricing strategies, however, the ultimate borrower shall be communicated and charged an all-inclusive interest rate.
3. The Company shall charge an upfront specified percentage, as negotiated with partnering Financial Institution, towards its services viz. sourcing and collection etc.
4. Upon repayment, the interest shall be shared between the Company and the Financial Institution in proportion to their share of credit and interest in terms of the Master Agreement executed with the Financial Institution. An all-inclusive 'annualised percentage rate' or 'APR' shall be arrived at between the Financial Institution and Company which shall be offered to the ultimate borrower. 'APR' shall be based on an all-inclusive cost and margin including cost of funds, credit cost and operating cost, processing fee, verification charges, maintenance charges, etc., and exclude contingent charges like penal charges, late payment charges, etc.
5. Any negotiation with co-lending partners on interest rate may be done by Board of Directors or any other person, if so authorized by the Board of Directors.

KNOW YOUR CUSTOMER

1. The Company and the co-lending partner shall follow Master Directions – Know Your Customer (KYC) Directions, 2016 dated February 25, 2016 bearing reference number RBI/DBR/2015-16/18 Master Direction DBR.AML.BC.No.81/14.01.001/2015-16 and updated from time to time.
2. 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).

CUSTOMER RELATED ISSUES

1. The Company either on its own or through its Lending Service Provider (LSP) shall be the single point of interface for the customers and shall enter into a loan agreement with the customers, in the form pre-agreed with the co-lending Financial Institution, which will clearly contain the features of the arrangement and the roles of responsibilities of the Company and co-lending Financial Institution.
2. All the details of loan arrangement shall be disclosed to the customer upfront and explicit consent of the borrower shall be taken on the same.

3. The extant guidelines relating to customer service and fair practices code and the obligations enjoined upon the Financial Institutions and the Company therein shall be applicable mutatis mutandis in respect of loans given under the arrangement.
4. Accounting shall be taken care by the Company, who shall generate a single unified statement of the customer, through appropriate information sharing arrangements with the Financial Institution.

LOAN SANCTION PROCESS

1. By following the credit matrix as approved by co-lending Financial Institution, the Company shall recommend each case to the co-lending Financial Institution and shall ensure to seek approval from partnering Financial Institution via *ex-ante* due diligence by the Financial Institution in all the cases where the Master Agreement entails a prior, irrevocable commitment on the part of the Financial Institution to take into its books its share of the loans as originated by the Company.
2. The board of directors of the Company or any other officer, if so authorized shall finalize loan sanction process with co-lending Financial Institutions.

ESCROW ACCOUNT

1. For better functioning and transparency, escrow type common bank account(s) shall be opened by the Company and the partner **Financial Institution** for pooling respective loan contribution for the disbursement.
2. All relevant transactions (disbursements or repayments or both depending on the co lending model and extant regulations) between the **Financial Institution** and the Company relating to CLM shall be routed through an escrow account(s) maintained with a bank, in order to avoid intermingling of funds. The Financial Institutions and the Company shall maintain each individual borrower's account for their respective exposures. The Master Agreement shall clearly specify the manner of appropriation between the Company and co-lending **Financial Institution**.
3. No disbursement shall be made into the account / intermediate account / pool account of the LSP.

MONITORING & RECOVERY

1. 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 alignment with respective co-Lending **Financial Institution**.
2. 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.
3. The Board of Directors and any other officer of the Company, if so authorized, will discuss and finalize the system.
4. The Company and the partner **Financial Institution** shall monitor and put in place a mechanism for periodic review of the LSPs. The Company and the partner **Financial Institution** shall impart necessary guidance in relation to recovery of loans where LSPs act as the recovery / collection agents.

SECURITY & CHARGE CREATION

1. The Company along with co-lending **Financial Institution**, depending on terms of agreement, shall arrange for creation of security and charge as per mutually agreeable terms.
2. The Company will share security and charge, if any, with the co-lending **Financial Institution** as co-lender as per mutually agreeable terms.

3. For any negotiation in this behalf may be done by board of directors or any other officer of the Company, if so authorized by the board of directors.

PROVISIONING & REPORTING REQUIREMENT

1. The Company will follow provisioning requirement including non-performing asset (NPA) declaration on its share as directed by RBI applicable on NBFC-ND-NSI / NBFC-ND-SI from time to time.
2. The Company will report to Credit Information Bureaus, under applicable law and regulations for its portion of lending.
3. The Company shall adhere to the asset classification & provisioning requirement /reporting standards to the extent of its share in the case of a co-lent loan as per the regulatory guidelines, from time to time.

ASSIGNMENT

Assignment of the **Financial Institution's** share under co-lending arrangement can be done as per applicable RBI guidelines. The board of directors or any other officer of the Company, if so authorized in this behalf, would be authorized to grant permission to co-lending Financial Institution for assignment of receivables of Financial Institution's share. Any assignment of loans by any of the lenders can be done only with the mutual consent of both the lenders.

GRIEVANCE REDRESSAL

1. 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 Company / co-lending partner within 30 (thirty) days, failing which the borrower would have the option to escalate the same with the concerned Banking Ombudsman / Ombudsman for Company / Nodal Grievance Officer or the Customer Education and Protection Cell (CEPC) in RBI.
2. The Company shall also evolve a system to share any grievance / complaint received with co-originating Financial Institution, with the consultation of respective Financial Institution.

BUSINESS CONTINUITY PLAN

The Company and the partner **Financial Institution** will also formulate Business Continuity Plan in consultation to ensure uninterrupted service to the borrowers till repayment of the loans under the co-lending agreement and as per the requirement of the respective Financial Institutions. The board of directors or any other officer of the Company, if so authorized in this behalf will chalk out the business continuity plan with respective Financial Institution.

The Company shall ensure that LSPs put in a place a Business Continuity Plan as per the requirements of the Company.

OUTSOURCING OF SERVICES

The Company will adhere to RBI extant guidelines on outsourcing of financial services by NBFC's.(as updated from time to time)

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.

PART B – POLICY WHERE THE FINANCIAL INSTITUTION RETAIN THE DISCRETION TO REJECT CERTAIN LOANS SUBJECT TO ITS DUE DILIGENCE

Minimum required criteria would be followed for any arrangement of co-lending of loans with **Financial Institutions** by the Company will be:

SCOPE

The arrangement with **Financial Institutions** 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 the extant guidelines on Co-Lending by Banks and NBFCs to Priority Sectors issued by RBI vide Circular no. FIDD.CO.Plan.BC.No.8/04.09.01/2020-21, dated November 05 2020, updated from time to time.

The above said arrangement would be akin to Direct Assignment Transaction. Accordingly, all the requirements in terms of Master Direction – Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021 dated September 24, 2021 bearing reference number RBI/DOR/2021-22/86 DOR.STR.REC.51/21.04.048/2021-22 (as updated from time to time). However, Minimum Holding Period (MHP) requirement would not be applicable in such transactions.

SHARING OF RISKS & REWARDS

Generally, the Company will at a minimum, accept the regulatory threshold 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 board of directors or any other person, if so authorized by board of directors. The percentage of credit risk in all cases shall be guided by the terms of agreement executed between the Company and co-lender.

INTEREST RATE

1. Subject to credit policy of the Company, as updated/amended from time to time, the Company shall offer its rate of interest on fixed/floating rate basis.
2. The Company and the partnering **Financial Institution** shall have the flexibility of pricing their part of exposure in accordance with internal pricing strategies, however, the ultimate borrower shall be communicated and charged an all-inclusive interest rate. An all-inclusive 'annualised percentage rate' or 'APR' shall be arrived at between the Financial Institutions and Company and shall be offered to the ultimate borrower. 'APR' shall be based on an all-inclusive cost and margin including cost of funds, credit cost and operating cost, processing fee, verification charges, maintenance charges, etc., and exclude contingent charges like penal charges, late payment charges, etc.
3. The Company shall charge an upfront specified percentage, as negotiated with partnering **Financial Institution**, towards its services viz. sourcing and collection.
4. Upon repayment, the interest shall be shared between the Company and the **Financial Institution** in proportion to their share of credit and interest.

KNOW YOUR CUSTOMER

1. The Company and the co-lending partner shall follow and adhere to the Master Directions – Know Your Customer (KYC) Directions, 2016 dated February 25, 2016 bearing reference number RBI/DBR/2015-16/18 Master Direction DBR.AML.BC.No.81/14.01.001/2015-16 and updated from time to time.
2. 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).

CUSTOMER RELATED ISSUES

The Company either on its own or through its Lending Service Provider (LSP) shall be the single point of interface for the customers and shall enter into a loan agreement with the customers, in the form and share pre-agreed with the co-lending Financial Institution, which will clearly contain the features of the arrangement and the roles of responsibilities of the Company and co-lending Financial Institution.

1. The extant guidelines relating to customer service and fair practices code and the obligations enjoined upon the Financial Institutions and the Company therein shall be applicable mutatis mutandis in respect of loans given under the arrangement.
2. Accounting shall be taken care by the Company who should be able to generate a single unified statement of the customer, through appropriate information sharing arrangements with the Financial Institution.

LOAN SANCTION PROCESS

1. By following the credit matrix as approved by co-lending **Financial Institution**, the Company shall recommend cases to the co-lending **Financial Institution** and shall ensure to seek approval from partnering **Financial Institution** via *ex-ante* due diligence.
2. Where partnering **Financial Institution** can exercise its discretion regarding taking into its books the loans originated by the Company, 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 Financial Institutions and Company contains a back-to-back basis clause and complies with all other conditions stipulated in the Master Direction – Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021 dated September 24, 2021.
3. Loan agreement under this model would be will be finalized in consultation with respective co-lending **Financial Institution**.

ESCROW/COMMON ACCOUNT

1. For better functioning and transparency escrow type common bank account(s) shall be opened by the Company for pooling respective loan contribution for the disbursal.
2. All transactions (disbursements/ repayments) between the Financial Institutions and the Company relating to CLM shall be routed through an escrow account(s) maintained with the banks, in order to avoid intermingling of funds. The Master Agreement shall clearly specify the manner of appropriation between the Company and co-lending **Financial Institution**.
3. No disbursement shall be made into the account / intermediate account / pool account of the LSP.

MONITORING & RECOVERY

1. 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 **Financial Institution(s)**.
2. 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.
3. The board of directors and any other officer of the Company and the partner **Financial Institution**, if so authorized, will discuss and finalize the system.
4. The Company and the partner **Financial Institution** shall monitor and put in place a mechanism for periodic review of the LSPs. The Company and the partner **Financial Institution** shall impart necessary guidance in relation to recovery of loans where LSPs act as the recovery / collection agents.

SECURITY & CHARGE CREATION

1. The Company along with co-lending **Financial Institution**, depending on terms of agreement, shall arrange for creation of security and charge as per mutually agreeable terms.
2. The Company will share security and charge, if any, with the co-lending **Financial Institution** as co-lender as per mutually agreeable terms.
3. For any negotiation in this behalf may be done by board of directors or any other officer of the Company, if so authorized by the board of directors.

PROVISIONING & REPORTING REQUIREMENT

1. The Company and the partner **Financial Institution** will follow independent provisioning requirement including non-performing asset (NPA) declaration on its share as directed by RBI applicable on NBFC-ND-NSI / NBFC-ND-SI from time to time.
2. The Company and the partner **Financial Institution** will report to Credit Information Bureaus, under applicable law and regulations for its portion of lending.
3. The Company shall adhere to its broader provisioning/reporting standards even in the case of a co-lent loan.

ASSIGNMENT

Assignments of the Company share under co-lending arrangement can be done as per applicable RBI guidelines. The board of directors or any other officer of the Company, if so authorized in this behalf, would be authorized to grant permission to co-lending Financial Institution for assignment of receivables of Financial Institution's share. Any assignment of loans by any of the lenders can be done only with the mutual consent of both the lenders. Also, any change in loan limit of the co-lent facility can be done only with the mutual consent of both the lenders.

GRIEVANCE REDRESSAL

1. 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 Company / co-lending partner within 30 (thirty) days, failing which the borrower would have the option to escalate the same with the concerned banking ombudsman / ombudsman for Company / Nodal Grievance Officer or the Customer Education and Protection Cell (CEPC) in RBI as laid out in the Fair Practices Code adopted by the Company.
2. The Company shall also evolve a system to share any grievance / complaint received with co-originating **Financial Institution**, with the consultation of respective **Financial Institution**.

BUSINESS CONTINUITY PLAN

The Company and the **Financial Institution** will also formulate Business Continuity Plan, in consultation to ensure uninterrupted service to the borrowers till repayment of the loans under the co-lending agreement and as per the requirement of the respective **Financial Institutions**. The board of directors or any other officer of the Company, if so, authorized in this behalf will chalk out the business continuity plan with respective **Financial Institution**.

The Company shall ensure that LSPs put in a place with a Business Continuity Plan as per the requirements of extant regulatory requirements.

Any other matter will be decided by the board of directors of the Company.

IMPLEMENTATION

This Policy shall be effective from the date of adoption by the Board.

AMENDMENT

This Policy shall be amended and/or restated and updated from time to time and such amendments and/or restatements and updation shall be effective from the date of adoption by the Board.

OTHER POLICIES & GUIDELINES

Company will ensure that it adheres to the regulations prescribed by the RBI/any other relevant regulatory body. Subject to the relevant master agreement, Company's policies shall continue to apply on loans disbursed under the co-lending arrangement.

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 Co Lending Policy following the spirit of the Co Lending Policy and in the manner, it may be applicable to its business.

OUTSOURCING OF SERVICES

The Company will adhere to RBI extant guidelines on outsourcing of financial services by NBFC's.(as updated from time to time).