

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

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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

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

Appendix



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