ECL Finance Limited

Co-Lending & Bi-Lateral Lending Policy

Date: January 15, 2025

Version: V5.0

(For internal use only)

Disclaimer: This is a confidential document. Unauthorized access, copying and replication are prohibited

Version Control:

Document Name	ECL Co-Lending & Bi-Lateral Lending Policy
Version	V5.0
Version date	January 15, 2025
Document Owner	Product Team
Document Approver	Board of Directors
Review Frequency	Annual

Summary of changes in versions:

Version	Modification Date	Brief description of changes
V4	September 11, 2024	Addition of PPAC & PAM
V5	January 15, 2025	Addition of BLM, Reference of TLE Master Direction & Credit assessment by CLM/BLM partner

Executive Summary of changes:

Sr.no.	Para number	Whether addition/ deletion/ modification to para	Existing contents	Proposed change	Rationale for change
1	Entire Document	Addition	-	BLM	Since we have started doing BLM
2	1.1	Addition	-	Reference of TLE Master Direction	Updated reference
3	3.2	Addition	-	Reference of TLE Master Direction	Updated reference
4	6.6	Addition	-	CLM/BLM partner shall be entitled and responsible to independently assess the credit risks of the applicant borrowers being proposed under CLM/BLM.	As per RBI guidelines
5	6.12	Addition	-	Periodic report submission to RMC on transactions under the CLM/BLM Arrangement.	Para 10 of the TLE Master Directions requires the TLE policy to include the manner of periodic Board oversight.

Index

Particulars **Page No**

1. Introduction and Purpose Co-Lending / Bi-Lateral Lending Policy

1.1 Background:

Pursuant to the Reserve Bank of India ("RBI") circular (FIDD.CO.Plan.BC.08/04.09.01/2018-19 dated September 21, 2018) on co-origination of loans by Banks and NBFCs for lending to priority sectors, the Board of Directors of the ECLF Finance Ltd ("ECLF") approved Co-lending policy in its meeting dated January 23, 2019.
Based on the Board approved policy, ECLF has entered into Co-origination tie-ups with several banks and commenced business for MSME Priority sector lending.

Subsequently, Reserve Bank of India issued a circular dated November 05th, 2020 on Co-Lending by Banks and NBFCs to Priority Sector (RBI/2020-21/63, FIDD.CO.Plan.BC.No.8/04.09.01/2020-21) ("Circular") superseding its earlier circular dated September 21, 2018 on co-origination by banks and NBFCs for lending to priority sectors. Under the new Circular of RBI Co-Origination between Bank and NBFC, the policy is rechristened as Co-Lending Model ("CLM") and the Circular introduced changes to bring operational flexibility to the lenders.

Furthermore, in pursuance RBI Master Directions on Transfer of Loan Exposures (RBI/DOR/2021-22/86 DOR.STR.REC.51/21.04.048/2021-22), all regulated entities, including all Non-Banking Finance Companies (NBFCs) are required to, inter alia, adopt a comprehensive Board approved policy for transfer of loan exposures. All such transactions will have to be approved by the relevant committee appointed by the Board who will have the right to approve any deviations to this policy.

The aim of this Policy is to align the Co-lending (CLM) & Bi-lateral Lending (BLM) Policy with the above-mentioned regulatory Circulars and Directions and supersedes the earlier Board approved policy.

2. Purpose & Scope

ECLF's key objective is to promote business growth, in alignment with the company's asset light model, by leveraging the strength of ECLF and the partner bank/NBFC ("CLM/BLM partner"). ECLF has received enquiries from major banks/NBFC's to mutually explore Co-lending / Bi-lateral lending opportunities. This document is to formulate the CLM & BLM Policy for ECLF.

ECLF proposes engaging with eligible banks/NBFCs for exploring CLM & BLM opportunities across its existing and new products / segments which qualify as per the Circular or in form of separate arrangements agreed upon by the entities and within the scope of joint lending regulations.

Foreign Banks (including WOS) with less than 20 branches shall be excluded from partnering with for CLM & BLM opportunities.

3. ECLF Engagement Models with Banks/NBFCs under CLM & BLM

- Based on discussion with eligible Banks/NBFC's, the Product Team of ECLF will prepare Partnership Approval Memo (PAM) which will contain all the relevant details to propose a new partnership.
- The PAM will be circulated by the Product team to the Steering Committee consists of concerned / impacted functional Heads/representatives for their relevant their inputs and clearance.
- Once inputs / clearances are received from the Steering Committee and approved, a meeting of the Product and Partnership Approval Committee (PPAC) would be convened and the proposal will be tabled before the PPAC for review and approval.
- Once approved by the PPAC, ECLF enter into CLM/BLM Master Agreements for implementing the model by either
    a. the CLM/BLM lending partner to mandatorily take their share of the individual loans as originated by ECLF in their books (herein after referred to as "Model 1") or
    b. the CLM/BLM partner to retain the discretion to reject certain loans subject to its due diligence (herein after referred to as "Model 2").

3.1 Wherein Model 1

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 CLM/BLM partner and ECLF shall have to put in place suitable mechanisms for ex-ante due diligence by both the partners as the credit sanction process cannot be outsourced under the extant guidelines on Outsourcing and as per ECLF Outsourcing Policy.

The CLM/BLM Master agreement shall contain below key elements:

- Activities to be performed
- Ability to access all books, records, and information relevant to outsourced activity
- Continuous monitoring and assessment
- Termination clause and minimum period to execute a termination
- Customer data confidentiality & service provider's liability in case of breach of security & leakage of confidential customer related information. Contingency

plan to ensure business continuity

- Prior approval for appointment of sub-contractors
- Right to conduct audits/inspection and access to documents by internal and external auditors, RBI or persons authorized by RBI or other regulators.
- Preservation of documents

3.2 Wherein Model 2

If the CLM/BLM partner exercises its discretion regarding taking into its books the loans originated by ECLF per the CLM/BLM Master Agreement, the arrangement will be akin to a direct assignment transaction. Accordingly, the bank taking over the loan shall ensure compliance with all the requirements in terms of RBI Master Directions on Transfer of Loan Exposures (RBI/DOR/2021-22/86 DOR.STR.REC.51/21.04.048/2021-22) 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/BLM. The MHP exemption shall be available only in cases where the prior agreement between the CLM/BLM partner and ECLF contains a back-to-back basis clause and complies with all other conditions stipulated in the RBI guidelines.

3.3 Any material amendments to the CLM/BLM Agreement, as well as any revisions to the associated Standard Operating Procedures (SOPs), must be presented to the PPAC for review and approval ensuring the quorum requirements of the committee are duly met.

4. Products For Co-Lending / Bi-Lateral Lending

Lending under the CLM/BLM can be undertaken in all existing products of ECLF. It can also be undertaken for any new product that is specifically developed for the purpose of CLM.

4.1 Common Product Program/Assignment Parameters

4.1.1 Under Model 1, ECLF and the CLM/BLM partner will formulate a common product, policy, and guideline (PPG) for Co-lending / Bi-lateral lending. This PPG needs to be jointly signed off by the respective board approved authorized signatory for each lender.

4.1.2 Under Model 2, ECLF and the CLM/BLM partner will pre-agree on the Assignment Parameters (AP) to be evaluated.

4.2 Origination

ECLF shall identify and refer the potential customers to the CLM/BLM partner only if the customer complies with the underwriting Criteria applicable to the PPG / AP as applicable.

5. Geographical Scope

ECLF are proposing to explore CLM/BLM opportunity across the ECLF Network and partnership with other Banks/NBFCs/HFCs.

6. Co-Lending / Bi-Lateral Lending Guidelines

6.1 Board Approved Policy

- ECLF shall share copies of this policy with CLM/BLM partner, if required.
- The Board approved CLM/BLM policy shall be placed on ECLF's official website to comply with the Circular.

6.2 Sharing of Risk and Rewards

For all loans under CLM/BLM arrangements ECLF will directly hold exposure as per the extant RBI policy. ECLF should hold minimum 20% of the credit risk (20 % share of the individual loans on ECLF's books) until maturity. Any change in loan limit shall be subject to agreed appropriate terms and the nature of the mutual agreement with CLM/BLM partner.

6.3 Commercials

- Interest rate- The ultimate borrower may be charged an all-inclusive interest rate as may be agreed upon by ECLF & CLM/BLM partner ("Co-lenders") conforming to the extant guidelines applicable to both.
- Fees and Expense sharing for other activities- Appropriation between the Co-lenders may be mutually decided basis mutual CLM/BLM Master agreement with CLM/BLM partner.
- AUM / Servicing Fees / Any other commercial terms– Would be agreed mutually between partners.

All the commercial terms & conditions need to be signed off by the board approved authorized signatory for each CLM/BLM partner.

6.4 Due Diligence (Know Your Customer)

ECLF will adhere to Master Direction-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 and updated from time to time and any other regulation as stipulated by RBI from time to time.

6.5 Standard Operating Procedures

The detailed Standard Operating Procedures (SOP) would be created in discussion with CLM/BLM partner following the CLM/BLM Master Agreement entailing below mentioned points:

- Credit Appraisal
- Sharing of Risk & Rewards
- Loan Sanction Process
- Loan Documentation
- Monitoring & Recovery

(**Note**-This list is only illustrative and not exhaustive)

6.6 Credit Appraisal

ECLF has an existing underwriting framework, and all the loans will be evaluated based on the existing diligence process The Credit appraisal process shall be suitably adapted to adhere to the mutually agreed SOP with CLM/BLM partner as may be required from time to time.

CLM/BLM partner shall be entitled and responsible to independently assess the credit risks of the applicant borrowers being proposed under CLM/BLM.

6.7 Loan Sanction

Under the CLM/BLM arrangements, the process of sanction letter issuances and the loan agreement execution would be detailed in the SOP as mutually agreed with CLM/BLM partner.

Both the partners shall have to put in place suitable mechanisms for ex-ante due diligence as the credit sanction process cannot be outsourced under the extant guidelines. Transaction underwriting will be done by the CLM/BLM partner based on the documents that ECLF share with partner Bank/NBFC which includes but not limited to copies of CAM Report, Application Form, KYC of Applicant & Co-applicant, PD Report, Shareholding patterns (if applicable), Partnership deed (if applicable), Commercial and Consumer CIBIL Report, Financials along with tax audit reports and ITR copies, Bank Statement, Loan Obligation sheet, Repayment Tracks, CPV Report, FI/RCU/FCU Report, GST details, MOA/AOA/COI (if applicable) and any other documents warranted for underwriting.

6.8 Borrower Loan Documentation

Necessary disclosures in the Borrower Loan Agreement would be required as mandated in the applicable RBI guidelines.

6.9 Audit

The loans under the CLM/BLM shall be included in the scope of internal/statutory audit within the CLM/BLM partner and ECLF to ensure adherence to their respective internal guidelines, terms of the agreement and extant regulatory requirements.

6.10 Customer Service & Grievance Redressal

- ECLF shall be the single point of interface for the customers and shall generate a single unified statement of the Borrower Loan under CLM/BLM, through appropriate information sharing arrangements with the CLM/BLM partner. All the details of the arrangement shall be disclosed to the customers upfront, and their explicit consent shall be taken.
- The extant guidelines relating to customer service and fair practices code and the obligations enjoined upon the CLM/BLM partner and ECLF therein shall be applicable in respect of loans given under the arrangement.
- ECLF shall be responsible for grievance redressal, wherein suitable arrangement must be in place to resolve any complaint registered by a borrower with the ECLF 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.

6.11 Escrow Accounts

ECLF & CLM/BLM partner shall maintain each individual borrower's account for their respective exposures. However, all transactions (disbursements/repayments) between the CLM/BLM partner and ECLF relating to CLM/BLM shall be routed through an escrow account maintained with the CLM/BLM partner or other banks, in order to avoid inter-mingling of funds. The Master Agreement shall clearly specify the manner of appropriation between ECLF & CLM/BLM partner. ECLF and the CLM/BLM partner shall open escrow accounts with the Bank acting as the Escrow Bank.

Under Model 1:

Escrow Disbursal Account shall be used for:

- ECLF & CLM/BLM partner to pool in funds for Borrower Loan disbursal in their respective sharing ratio and

Escrow Collections Account shall be used for:

- Collection from Borrower repayments to be pooled in and
- Appropriation of Funds between the partners as per agreed terms

Under Model 2:

Escrow Disbursal Account shall be used for:

- ECLF to pool funds for Borrower Loan disbursal and
- CLM/BLM Partner to remit its share for ECLF as per the agreed ratio

Escrow Collections Account shall be used for:

- ECLF to pool funds for Borrower Loan disbursal and
- Appropriation of Funds between partners as per agreed terms

6.12 Monitoring & Recovery

ECLF already has a loan monitoring and Early Alert Process for all the loan segments and the same will be followed for CLM/BLM loans. Addition / Modification to the existing process will be done from time to time to maintain a healthy credit book. The salient features of the exposure monitoring process are as follows:

- The Review & Monitoring will be performed both at the portfolio level and at the account level following the delinquency and the asset classification norms as directed by the regulators.
- ECLF may engage with external agencies for improving the efficacies of our collection process and use publicly available databases to assist in the monitoring of the underlying exposure.
- ECLF would be responsible for conducting the periodic monitoring of the facilities and sharing the information with the CLM/BLM partner. The format and frequency shall be agreed bi-laterally with the partner.
- ECLF would be monitoring the facility and lead collection and recovery efforts for the CLM/BLM Loans, including invocation of credit guarantee, Insurance claims. ECLF would also do necessary client engagement for recovery of the loan proceeds. The proceeds recovered by ECLF will be shared with CLM/BLM

partner on pro-rata basis for the risk exposure. The cost of providing the recovery agency services would be agreed in the CLM/BLM Master Agreement.

- ECLF to also share DPD status of all loans in the selected pool with the CLM/BLM partner on daily basis in the agreed format.
- As per the TLE policy of ECL Finance, a periodic report on transactions under the CLM/BLM arrangement is required to be presented to the Risk Management Committee (RMC) on a quarterly basis which will in turn cover Board representation. The report will adhere to minimum qualitative and quantitative standards, particularly concerning due diligence.

6.13 Security & Charge Creation

For CLM/BLM Loans the security and charge where applicable will be created as agreed between the CLM/BLM partners.

6.14 Provisioning/Reporting Requirement

ECLF will follow the asset classification and provisioning requirements, as per applicable RBI guidelines. ECLF shall also carry out the respective reporting requirements including reporting to Credit Information Companies as per applicable law and regulations for its portion of lending.

In case, if CLM/BLM partner, due to their internal guidelines, wants to create any prudent provisioning, then it shall not impact the other partner.

6.15 Direct Assignment Transaction between ECLF & Co-Lending / Bi-Lateral Lending Partner

Loans originated by ECLF and subsequently approved by CLM/BLM partner under Model 2, would be assigned to CLM/BLM partner under an Assignment and Servicer Agreement. The process for such agreements, inter alia including standard formats and agreed turn-around time shall be mutually agreed with CLM/BLM partner as part of the SOP.

6.16 Assignment/Change in Loan Limits

Any partner can enter into a third-party loan assignment agreement with the consent of the other party for assigning their share in the CLM/BLM Loan by complying with the Circular.

6.17 Business Continuity Plan

Notwithstanding termination of CLM/BLM Master Agreement, Co-lenders should ensure that Borrower servicing shall be rendered till each loan originated under this CLM/BLM agreement is completely repaid or settled as detailed in the SOP agreed with the CLM/BLM partner.

6.18 Without Recourse to the Company

In case, CLM/BLM partner intends to claim priority sector status for its share of credit while engaging in CLM/BLM, ECLF shall ensure that priority sector assets on the books of CLM/BLM partner will at all times be without recourse to ECLF.

6.19 Representation & Warranty Clause

The CLM/BLM Master agreement may contain necessary clauses on representations and warranties which ECLF shall be liable for in respect of the share of the loans taken into its books by the partner (Model 1).

7. Review and Amendment

Co-lending & Bi-lateral Lending policy shall be annually reviewed in accordance with any regulatory/statutory requirement and shall be approved by the Board of the Company.