Co-lending Policy

Finova Capital Private Limited

Document Information:

Name of document	Co-lending Policy
Date of Initial adoption	August 01, 2023
Date of last amendment	October 30, 2025 -
Approved By	Board of Directors
Version	1.1

Table of Contents

INTRODUCTION AND OBJECTIVES

Finova Capital Private Limited (hereinafter referred to as "the Company") has framed this co-lending policy as per the Reserve Bank of India (Non-Banking Financial Companies - Transfer and Distribution of Credit Risk) Directions, 2025 ("RBI Directions"), as amended from time to time. As per the RBI Co-lending Directions, all Regulated Entities (REs), including the Company (an NBFC), shall frame a Board-approved policy for entering into Co-Lending Arrangements (CLAs) and place the approved policy on the website.

This Policy covers the general principles and practices to be followed by the Company when entering into co-lending arrangements with partner institutions. 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. This Co-Lending Policy forms an essential component of the Company's Credit Policy.

DEFINITIONS

1.1. "**Board of Directors**" or "**Board**" means the Board of Directors of Finova Capital Private Limited as constituted or re-constituted from time to time.

1.2. "**Company**" means Finova Capital Private Limited.

1.3. "**CLA**" means an arrangement, formalized through an ex-ante agreement, between a RE which is originating the loans ('originating RE') and another RE which is co-lending ('partner RE'), to jointly fund a portfolio of loans, comprising of either secured or unsecured loans, in a pre-agreed proportion, involving revenue and risk sharing.

1.4. "**Co-lending**" is the extension of credit under a CLA.

1.5. **"Co-Lenders""** means Commercial Banks (excluding Small Finance Banks, Local Area Banks and Regional Rural Banks), All-India Financial Institutions, and Non-Banking Financial Companies (including Housing Finance Companies) with which the Company will enter into a CLA.

1.6. "**Policy**" means this Co-Lending Policy.

1.7. "**RBI**" means the Reserve Bank of India.

1.8. "**Regulated Entity**" or "**RE**" for the purpose of this policy means Commercial Banks (excluding Small Finance Banks, Local Area Banks and Regional Rural Banks), All-India Financial Institutions, and Non-Banking Financial Companies (including Housing Finance Companies).

1.9. **"Lending Service**" means the set of activities related to lending such as customer acquisition, underwriting, pricing, servicing, monitoring, and recovery of specific loan or loan portfolio, etc. performed by the REs or their agents (in conformity with extant outsourcing guidelines issued by RBI).

1.10. **"Credit Enhancement"** means a contractual arrangement in which an entity provides some degree of added protection to other parties to a transaction to mitigate the credit risk of their acquired exposures.

1.11. **"Default Loss Guarantee"** means a contractual arrangement, called by whatever name, between the originating RE and partner RE, under which the former guarantees to compensate the latter, for loss due to default up to a certain percentage of the loan portfolio of the RE, specified upfront. Any other implicit guarantee of similar nature linked to the performance of the loan portfolio of the RE and specified upfront, shall also be covered under the definition of DLG.

The words and expressions used and not defined in this Policy but defined in the Companies Act, 2013 or rules made thereunder or the Reserve Bank of India Act, 1934 or the Circulars, Directions, guidelines issued by RBI thereunder shall have the same meanings respectively assigned to them in those acts, rules, regulations, directions or guidelines or any statutory modification or re-enactment thereto or any other relevant regulation, as the case may be.

ENGAGEMENT MODEL WITH LENDERS UNDER CO-LENDING

Joint Contribution at Origination: The arrangement shall entail the joint contribution of credit by both the Originating RE and the Partner RE at the time of origination of the loan, i.e., both REs will be on the loan book from the date of disbursement. Furthermore, the CLA shall entail an irrevocable commitment on the part of the Partner RE to take into its books, on a back-to-back basis, its share of the individual loans as originated by the Originating RE.

The agreement to be entered between the CLA partners shall include detailed terms and conditions of the arrangement; the criteria for selection of borrowers; specific product lines and areas of operation; fees payable for Lending Services, if any; provisions related to segregation of responsibilities; time-frame for exchanging critical information; customer interface and customer protection issues and grievance redressal mechanism.

GEOGRAPHICAL SCOPE

The Company's co-lending activities shall encompass its entire lending portfolio, specifically MSME Loans and Home Loans as well as any future product offerings. CLAs will be actively pursued across the Company's entire operational footprint and all existing and future branches. This mandate ensures that all products and geographical areas are eligible for co-lending partnerships.

SHARING OF RISK AND REWARDS

Both the CLA partners shall share risks and rewards in a pre-agreed proportion, as detailed in the CLA agreement. Each Co-Lender must retain a minimum of 10% share of every individual loan on its books till maturity.

INTERNAL GOVERNANCE AND PORTFOLIO LIMITS

This section formally incorporates the internal limits and qualitative requirements, including those on portfolio exposure and partner due diligence, which are mandated by the RBI Directions.

- **Co-Lending Portfolio Exposure Limits:** The Company shall adhere to the following Board-approved internal limits for the proportion of the total lending portfolio that may be under CLAs: The maximum limit for total CLA exposure is 20%.

- **Target Borrower Segments:** The Company's target borrower segments are: (i) **Micro, Small, and Medium Enterprises (MSME)** and (ii) **Housing Finance.** The final, specific underwriting and selection criteria for borrower shall be included in agreement to be entered between the CLA partners.

- **Partner Due Diligence Criteria:** The Company shall conduct rigorous **initial and ongoing due diligence** of prospective co-lending partner to assess their operational, technological, and financial fitness. The criteria for this assessment, including financial health benchmarks (e.g., Net Worth, capital adequacy, credit rating, and NPA thresholds) and operational capabilities (e.g., IT system compatibility and collections track record).

COMMERCIALS

- **Account Maintenance**: The Company, as a co-lending partner shall maintain an individual borrower's account for its share of the credit exposure under the CLA.

- **Interest rate -** The interest rate charged to the borrower shall be the blended interest rate, calculated as the weighted average of the individual interest rates of the Company and the co-lending partner. This calculation must be based on the respective lenders' internal policies and the risk profile of the borrower, weighted by their proportionate funding share under the CLA. All interest rates and charges are subject to extant regulatory norms applicable to the Company.

  Any change in rates by the co-lenders under CLA will be made as per their internal policy and extant regulatory norms and the same shall be reflected in the updated blended rate and communicated to the borrower.

- **Fees and Expense sharing for other activities -** All fees, charges, and expenses to be recovered from the borrower shall be included in the Annual Percentage Rate (APR) and disclosed in the Key Fact Statement (KFS). Service fees payable between the Company and the co-lending partner for sourcing or servicing shall be transparently agreed upon in the CLA and shall not be linked to profit sharing.

- **Default Loss Guarantee (DLG) & Credit Enhancement** - The Company, where acting as an Originating RE, may provide a Default Loss Guarantee (DLG) to the Partner RE up to 5% of the outstanding loan portfolio under the CLA. Provision of such default loss guarantee shall be governed mutatis mutandis in terms of the Reserve Bank of India (Digital Lending) Directions, 2025 (MD-DLD), as amended from time to time. The Company shall not offer any other form of Credit Enhancement, guarantee, subordination, or equivalent arrangement to the Partner RE.

- **Standard Operating Process -** A detailed SOP would be created in discussion with the co-lending partner following the CLA Agreement. The SOP shall detail the entire loan lifecycle, including the commitment that the CLA shall ensure that the respective shares of the CLAs are reflected in the books of both the co-lenders without delay after disbursement by the Company. In any case, the recording of the share shall be completed not later than 15 calendar days from the date of disbursement. The Originating RE shall also ensure that it transfers the loan under CLA only to the partner Lender, as per the ex-ante agreement and as specified in the KFS at the time of loan sanction. If the Partner RE’s share is not successfully acquired within this timeline, the loan(s) shall remain entirely on the books of the Originating RE, must be treated as a standard, non-co-lent exposure, and can only be transferred to other eligible lenders under the provisions of the RBI Directions.

- **Escrow Mechanism** - All financial transactions, including disbursements, repayments, and recovery proceeds, related to the CLA shall be mandatorily routed through an escrow account maintained with a bank. The mechanism for fund allocation and settlement between the co-lenders must be clearly documented in the CLA Agreement and the SOP.

KNOW YOUR CUSTOMER (KYC)

The Originating RE shall carry out the KYC/AML due diligence. The Partner RE shall be permitted to rely on the Customer Identification Process done by the Originating RE, subject to the compliance with the provisions of the Reserve Bank of India (Non-Banking Financial Companies – Know Your Customer) Directions, 2025, as amended from time to time.

CUSTOMER SERVICE & GRIEVANCE REDRESSAL

The Originating RE shall be the single point of interface with the borrower and primarily responsible for providing customer service and grievance redressal.

- The CLA Agreement and the loan agreement shall make an upfront disclosure regarding the segregation of the roles and responsibilities of the concerned co-lenders.
- Any subsequent change in the customer interface entity shall only be done after explicit prior intimation to the borrower.
- The Originating RE shall ensure that every borrower is provided with a separate loan agreement and a comprehensive Key Fact Statement (KFS) prior to the execution of the loan. The KFS shall clearly disclose the blended interest rate, the Annual Percentage Rate (APR), the roles of the REs, and the grievance redressal mechanism, in accordance with the RBI circular on KFS for Loans & Advances.
- In case a complaint is not resolved within 30 days, the borrower would have the option to escalate the same with the concerned Ombudsman.

ASSET CLASSIFICATION AND PROVISIONING

The Originating RE shall ensure a robust mechanism for sharing relevant information with the Partner RE on a near-real time basis, and in any case latest by the end of the next working day.

This information sharing includes any change in the borrower's asset classification. If either of the co-lender classifies its exposure to a borrower as a Special Mention Account (SMA) and/or a Non-Performing Asset (NPA), the other RE must also classify its share in the same borrower account with the same classification (SMA/NPA) immediately.

Provisioning for the classified loan shall be done by the Company on its share of the loan as per the extant Income Recognition and Asset Classification (IRAC) norms applicable to NBFCs.

BUSINESS CONTINUITY PLAN AND AUDIT

Notwithstanding termination or expiry of the CLA Agreement, both the co-lenders shall be required to formulate and implement a robust Business Continuity Plan (BCP) to ensure uninterrupted and seamless servicing of the borrowers until each loan originated under the CLA is fully repaid or settled.

The loans under the CLA shall be included in the scope of internal/ statutory audit in each lender to ensure adherence to their respective internal guidelines, terms of the agreement, and applicable regulatory requirements.

OUTSOURCING AND PARTNER DUE DILIGENCE

Where the co-lenders use agents (including Lending Service Providers/LSPs) for any activity (sourcing, servicing, recovery) under the CLA, such arrangements shall strictly comply with the extant outsourcing guidelines issued by RBI from time to time.

CREDIT INFORMATION REPORTING

Each co-lender shall independently report its respective share of the loan exposure under the CLA to the Credit Information Companies (CICs) in accordance with the Credit Information Companies (Regulation) Act, 2005, and the rules and regulations issued by the RBI.

LOAN TRANSFERS AND ASSIGNMENT:

Any subsequent transfer of loan exposures originated under a CLA (to third parties, or inter-se between REs) shall be strictly in compliance with the provisions of the RBI Directions. Furthermore, any such transfer of CLA loans to a third party can only be undertaken with the mutual consent of both the co-lenders.

DISCLOSURES

In addition to the applicable disclosure requirements under extant regulations, the Company shall also prominently disclose on their website, a list of all active CLA partners.

Further the Company shall also make appropriate disclosures in their financial statements, under 'Notes to Accounts', relating to necessary details of CLAs on an aggregate basis. The details may inter alia include quantum of CLAs, weighted average rate of interest, fees charged / paid, broad sectors in which CLA was made, performance of loans under CLA, details related to default loss guarantee, if any, etc. The disclosure shall be done on quarterly/annual basis, as applicable to the concerned Lenders.

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.

REVIEW OF THE POLICY AND AMENDMENTS

The Board will review this policy at such intervals as may be required on the regulatory and business exigencies.

Any change/amendment/modification in the policy shall be approved by the Board. As this Policy is pursuant to the applicable laws, if any change to applicable laws or interpretation thereof necessitates any change to the Policy, this Policy shall be read so as to accommodate the changes and necessary amendment shall be carried out at a subsequent date in the policy. The Chief Financial Officer will review the Policy to give effect to above, as and when need arises, till such time as the Board of Directors makes the necessary changes to the Policy. The Board shall have the right to withdraw and / or amend any part of this policy or the entire policy, at any time, as it deems fit, or from time to time, subject to applicable law in force.