

CO-LENDING POLICY



**SHARE MICROFIN
LIMITED**

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HOW TO USE THIS MANUAL

Issued By: - SHARE MICROFIN LIMITED

Approved By: - Board of Directors

Control No. Ref (CNR):-

It indicates the actual serial number of the pages. The Control No. Ref. for this manual begins with 1 and ends with 9. Hence the total no. of pages in this manual consists of 9 pages.

Effective:-

It means the importance / time factor in implementing the manual. Here this manual states that it has to be issued and effected immediately from FY 2024 and then onwards as updated from time to time.

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CO-LENDING POLICY



1) Purpose:

This policy outlines the framework and operational guidelines for Co-Lending arrangements between SHARE Microfin Limited (hereinafter referred to as "SHARE" or "the Company") and Banks or Financial Institutions.

Reserve Bank of India (RBI) has issued a circular dated November 05, 2020 on Co-Lending by Banks and NBFCs regarding Priority Sector Lending (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.

The Co-Lending model should involve sharing of risks and rewards between the SHARE and the Bank or Financial Institutions, for appropriate alignment of respective business objectives, as per mutually decided agreement between SHARE and Banks or Financial Institutions.

Under the Co-Lending SHARE shall be responsible for, including but not limited to sourcing of clients / borrowers, credit assessment (as a Co-lender), monitoring of loans and collections from the clients and requisite regulatory reporting. SHARE shall act as a servicing and collection agent for the loans co-lent by SHARE & the partner Banks or Financial Institutions.

2) Objectives:

- To enhance the availability of credit to the priority sector.
- To expand and scale up business and operations of the Company
- To provide wider reach of credit facilities to needy
- The Company shall explore Co-Lending opportunities with various Banks or Financial Institutions under all possible models of Co- Lending.

This Policy shall be treated as the guidelines for strategic alliance with various Banks or Financial Institutions for Co-Lending of loans and shall be read along with relevant guidelines issued by RBI. In case of any conflict between the Policy and any applicable Regulations, the Regulations shall prevail.

3) Approval:

Terms of the Co-Lending arrangement including Master Co-Lending/ Co-origination/ any such agreement required in this matter shall be approved by the Board of Directors and / or Finance Committee of the Board.

4) Scope:

This policy applies to all Co-Lending arrangements entered by the Company, based on any of the following models:

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Model 1- Prior irrevocable commitment on the part of the Co - Lender to mandatorily take its share in the individual loans originated and sanctioned by the company in their books.

The Master Agreement to be entered into by the SHARE and the Co-Lender for implementing Co-Lending Model, shall provide for the Co-lender to mandatorily take its share of the individual loans originated by the Company in its books. SHARE and the Co-lender shall put in place suitable mechanisms for ex-ante due diligence by the Co-lender as required by the RBI Regulations.

Or

Model 2 – Co-Lender can exercise its discretion to reject certain loans subject to its due diligence (herein after referred to as “Model 2”).

If the Co- Lender 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 Co-Lender shall ensure compliance with all the requirements in terms of applicable Master Directions issued by RBI from time to time.

SHARE will enter into discussion and finalize the modalities of Co-Lending. A Master Co-Lending / Co-origination / equivalent agreement will be executed, with the partner Banks or Financial Institutions for defining terms & conditions of the Co-Lending arrangement, participation ratio, commercial arrangements, credit policies and operating procedures/ guidelines.

5) Master Agreement:

The Master agreement shall outline the terms and conditions governing the Co-Lending process including loan approval, disbursement, monitoring, recovery and management. The agreement to ensure that both parties adhere to regulatory guidelines set by the RBI, including priority sector lending norms and risk-sharing requirements.

The Master Agreement shall contain necessary clauses on representations and warranties which the originator SHARE, shall be liable for in respect of the share of the loans taken into its books by the Banks or Financial Institutions.

6) Eligible Banks/ Financial Institutions:

SHARE may enter into Co-Lending arrangement with any of the Banks or Financial Institutions which are eligible to engage in the business of Co-Lending by RBI. The Agreement or Memorandum of Understanding shall be entered into with the Co-Lending Partner for the period(s) as mutually agreed between the SHARE and the Banks or Financial Institutions, either for specific period or perpetually.

The agreement with Banks or Financial Institutions shall normally be on non-exclusive basis. However, on mutual agreement, exclusivity can be agreed for specific product or specific region or geography.

7) Products for Co-Lending:

Lending under Co-Lending can be undertaken in all existing products of the SHARE qualifying under the RBI Circular. It can also be undertaken for any new products that are specifically developed for the purpose of Co-Lending Model.

8) Sharing of Risk and Rewards:

Both the Co-Lending Models would involve sharing of risk and rewards between the Co-Lender and the Company for ensuring appropriate alignment of respective business objectives, as mutually agreed between SHARE and the Co-Lending Partner. A minimum of 20% of the credit risk by way of direct exposure shall be on Company's books till maturity, and the balance will be on the Co-Lenders Books. SHARE and Co-Lender shall establish a framework for monitoring and recovery of loans, as mutually agreed upon in the Master Agreement.

The Master Agreement shall contain necessary covenants, the specific product lines and areas of operation, along with provisions related to segregation of responsibilities as well as customer interface and protection issues, as detailed in the **"Annex" Essential Features of Co-Lending Model between Banks and NBFCs"**.

9) Eligibility Criteria:

Both parties will jointly establish criteria for borrower eligibility, including financial parameters and priority sector classification. A separate Standard Operating Process (SOP) or equivalent document will be created in discussions with each Co-Lending Partner, if necessary.

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10) Due Diligence:

SHARE will be responsible for carrying out due diligence and provide its expertise in the loan origination and servicing process.

11) Know Your Customer (KYC)

SHARE shall adhere to applicable KYC and AML guidelines issued by RBI as updated from time to time. However, the Co-Lending Banks or Financial Institutions shall also ensure that the ultimate responsibility and decision- making functions of determining compliance with KYC norms are met with.

12) Documentation:

Both entities will ensure that all loan documentation is complete, accurate, and in compliance with RBI regulations. SHARE 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 SHARE and Co-Lending Banks or Financial Institutions.

13) Explicit consent:

All the details of the arrangement shall be disclosed to the customers upfront and their explicit consent shall be taken.

14) Grievance Redressal:

SHARE will be primarily responsible for customer service and for resolving customer grievances of the borrower. However, any complaint registered by a borrower with SHFL shall also be shared with Co- Lending partner.

15) Business Continuity Plan:

Basis mutual agreement between SHARE and the Co-Lending partner, a business continuity plan to ensure uninterrupted service to the borrowers shall be in place until final maturity of the loans under the Co-Lending agreement, in the event of termination of Co-Lending arrangement between the Co-Lenders.

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16) Commercials:

- a) Interest rate: The ultimate borrower may be charged an all-inclusive interest rate as may be agreed upon by both the lenders.
- b) Fees and Expense sharing for other activities: Appropriation basis mutual agreement with Partner Banks or Financial Institutions.
- c) Servicing Fees / Any other commercial terms: Would be agreed mutually with Lenders.

17) Escrow account:

SHARE and the Co-Lender shall open an escrow account for pooling respective loan contributions for disbursement as well as to appropriate loan repayments from borrowers, without holding the funds for usage of float. The Master Agreement shall clearly specify the manner of appropriation between the SHARE and the Co-Lender.

18) Representation and warranties:

The Master Agreement may contain necessary clauses on representations and warranties which the Company shall be liable for in respect of the share of loans taken into its books by the Co-Lender.

19) Loan Balances:

Regarding loan balances, SHARE and the Co-lender 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 between both the parties.

20) Security and Charge Creation:

SHARE and the Co-Lender shall arrange for creation of security and charge as per mutually agreeable terms, wherever applicable.

21) Compliance:

The loans under the Co-Lending Model shall be included in the scope of internal/statutory audit within the Co-lender and SHARE to ensure adherence to respective internal guidelines, terms of the agreement and extant regulatory requirements.

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Any assignment of a loan by a co-lender to a third party can be done only with the consent of the other lender. Any change in Co-Lending Model loan limit being offered under the Co-Lending arrangements shall be done only with the mutual consent of the Company and the Co-Lender.

SHARE and the Co-lender shall adhere to the asset classification and provisioning requirements including declaration of account as NPA, as per the respective regulatory guidelines applicable to each including reporting to Credit Information Companies, under the applicable regulations for its share of the loan account.

22) Policy Review:

This policy will be reviewed periodically and updated as necessary to ensure continued compliance with RBI guidelines and industry best practices.
