AAVAS FINANCIERS LIMITED

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Policy on Co- lending Model

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I. Introduction

Vide circular FIDD.CO.Plan.BC.08/04.09.01/2018-19 dated September 21, 2018 Reserve Bank of India (RBI) issued guidelines on co-origination of loans by Banks and NBFCs for lending to priority sector. However, with a view to better leverage the respective comparative advantages of the Banks and NBFCs in a collaborative effort, RBI has, vide its Guideline RBI/2020-21/63 FIDD.CO.Plan.BC.No.8/04.09.01/2020-21 dated November 5, 2020 decided to provide greater operational flexibility to the lending institutions and accordingly, has revised the existing scheme as "Co-Lending Model" ("CLM"), thus 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 and greater reach of the NBFCs.

As per RBI Guidelines dated November 5, 2020 all Banks and NBFCs shall frame Board approved polices for entering into the CLM and place the approved policies on their websites.

The co-lending framework has now been consolidated and rationalised under Reserve Bank of India (Non-Banking Financial Companies - Transfer and Distribution of Credit Risk) Directions, 2025

II. Policy Terms

a. Applicability

The policy is applicable to following segments;

- Co-origination of loan with Scheduled Commercial Banks only, excluding Small Finance Banks, Regional Rural Banks, Urban Cooperative Banks and LABs and foreign banks (including WOS) with less than 20 branches
- Lending to be made for retail mortgage assets.
- Lending to be made only to priority sector defined by RBI
- Bank to not belong to the same promoter Group

In terms of the CLM, banks are permitted to co-lend based on a prior agreement. The co-lending banks will take their share of the individual loans on a back-to-back basis in their books. However, (Company) shall retain a minimum of 20 per cent share of the individual loans on its books.

b. Execution of Master Agreement

Based on Board approved policy and RBI Directions, a Master Agreement may be entered into between the two partner institutions which shall inter-alia include, terms and conditions of the arrangement, the criteria for selection of partner institutions, the specific product lines and areas of operation, along with provisions related to segregation of responsibilities as well as customer interface, KYC and protection issues.

The Master Agreement may provide for the banks to either mandatorily take their share of the individual loans originated by the NBFCs 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.

The Master Agreement will provide on representations and warranties which the Company shall be liable in respect of the share of the loans taken into the books by the bank.

The Master Agreement shall be in compliance with RBI guideline dated November 05, 2020 on Co-lending. The Master Agreement will incorporate commercial elements such as, interest rates, sharing of sourcing and processing fees, crossing rights and revenue sharing, post disbursement servicing arrangement and fees applicable thereto.

c. Know Your Customer (KYC) compliance

The Co-lending bank shall also be required to comply with the Reserve Bank of India (Non-Banking Financial Companies – Know Your Customer) Directions, 2025, issued vide RBI/DOR/2025-26/361Master Direction DOR.AML.REC.No.280/14.01.003/2025-26dated November 28, 2025 and updated from time to time, which already permit regulated entities, at their option, to rely on customer due diligence done by a third party, subject to specified conditions.

d. Banks mandatorily taking their share of the individual loans as originated by the Company

If the Agreement entails a prior, irrevocable commitment on the part of the bank to take into its books its share of the individual loans as originated by Company, the arrangement must comply with the Reserve Bank of India (Non-Banking Financial Companies – Managing Risks in Outsourcing) Directions, 2025 issued vide RBI/DOR/2025-26/363/ DOR.ORG.REC.No.282/21-04-158/2025-26 dated November 28, 2025 and updated from time to time. In particular, the partner bank and the Company shall put in place suitable mechanisms for ex-ante due diligence by the bank as the credit sanction process cannot be outsourced under the extant guidelines.

e. Banks retaining the discretion to certain loans subject to its due diligence

If the bank can exercise its discretion regarding taking into its books the loans originated by Company as per the Agreement, the arrangement will be akin to a direct assignment transaction. Accordingly, the taking over bank shall ensure compliance with all the requirements in terms of Guidelines on Transactions Involving Transfer of Assets through Direct Assignment of Cash Flows 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, which was further replaced by RBI Guidelines " (Transfer of loan exposures) Directions, 2021 and furthermore replaced by Reserve Bank of India (Non-Banking Financial Companies - Transfer and Distribution of Credit Risk) Directions, 2025 dated November 28, 2025 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.

The MHP exemption shall be available only in cases where the prior agreement between the banks and Company contains a back-to-back basis clause and complies with all other conditions stipulated in the guidelines for direct assignment.

f. Interest Rate

The ultimate borrower may be charged an all-inclusive interest rate as may be agreed upon by both the lenders conforming to the extant guidelines applicable to both.

Upon repayment, the interest shall be shared between Company and the bank on the agreed interest rate or proportion. However Principal collection will be shared in the agreed proportion of Credit/Loan.

g. Customer servicing and related issues

Company shall be the single point of interface for the customers. Suitable consent in this regard must be taken from customers.

The extant guidelines relating to customer service and fair practices code and the obligations enjoined upon the banks and Company therein shall be applicable mutatis mutandis in respect of loans given under the arrangement.

h. Grievance Redressal

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 Company 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.

i. Escrow Account

The co-lending banks and Company shall maintain each individual borrower’s account for their respective exposures.

However, wherever applicable, transactions (disbursements/ repayments) between the banks and Company relating to CLM can be routed through an escrow account maintained with the banks, in order to avoid inter-mingling of funds. If applicable, the Master Agreement shall clearly specify the manner of appropriation between the co-lenders.

j. Monitoring & Recovery

The co-lenders shall establish a framework for monitoring and recovery of the loan, as mutually agreed upon.
The loans under the CLM shall be included in the scope of internal/statutory audit within the banks and Company to ensure adherence to their respective internal guidelines, terms of the agreement and extant regulatory requirements.

k. Security & Charge creation

The co-lenders shall arrange for creation of security and charge as per mutually agreeable terms.

l. Provisioning & Reporting requirement

Each lender shall adhere to the asset classification and provisioning requirement, as per the respective regulatory guidelines applicable to each of them including reporting to Credit Information Companies, under the applicable regulations for its share of the loan account.

Company will report to Credit Information Bureaus, under applicable law & regulations for lending.

m. Assignment

Any assignment of a loan by a co-lender to a third party can be done only with the consent of the company.

n. Business Continuity Plan

Both the Banks and Company shall implement a business continuity plan to ensure uninterrupted service to their borrowers till repayment of the loans under the co-lending agreement, in the event of termination of co-lending arrangement between the co-lenders.

o. Policy implementation

Company shall place the Board approved policies for entering into the CLM on its website.

Executive committee of the board is authorized to take appropriate decisions and actions in the effective implementation of the Policy.

p. Review and Amendments

The Board reserves the power to review and amend this Policy from time to time. All provisions of this Policy would be subject to revision or amendment in accordance with the applicable law as may be issued by relevant statutory, governmental or regulatory authorities, from time to time.

Date of approval by the Board: September 08, 2023
Date of last review/Amendments by the Board: February 05, 2026
Version: 2.0