

SAMUNNATI FINANCIAL INTERMEDIATION & SERVICES PRIVATE LIMITED	
POLICY	Co-Origination Policy
Reviewing Authority:	Risk Management Committee
Approving Authority:	Board of Directors
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Review Cycle:	Annually or as recommended by the Board of Directors

1. Purpose

RBI mandates¹ all domestic commercial banks to have 40 percent of their Adjusted Net Bank Credit (ANBC) under Priority Sector Lending (PSL) of which 18% comes under Agriculture, 7.5% to Micro Enterprises and 12% (will be implemented in a phased manner) under Advance to Weaker Sections. Priority sector lending has been being defined as that segment of society which the Government of India and Reserve Bank of India consider as important for the development of the basic needs of the country and are to be given priority over other sectors. The banks are mandated to encourage the growth of such sectors with adequate and timely credit.

For the purpose to facilitate competitive credit to priority sector, RBI updated the guidelines² on co-lending of loans by Banks and NBFCs for lending to priority sector dated 5 November 2020 for Co-Lending Model (CLM) between Banks and Non-Banking Financial Companies (NBFC). This guideline allows joint contribution of credit at the facility level, by both lenders. It should also involve sharing of risks and rewards between the bank and the NBFC for ensuring appropriate alignment of respective business objectives, as per the mutually decided agreement between the bank and the NBFC. It is envisaged that the benefit of low-cost funds from banks and lower cost of operations of NBFC would be passed on to the ultimate beneficiary through the blended rate/ weighted average rate.

Banks are also expected to adhere to PSL target as agreed with RBI and will explore the avenue of co-lending of PSL loans with partner NBFCs, in order to meet those targets.

Given that Samunnati is lending to the agricultural sector, a large majority of the clientele of Samunnati would qualify as eligible PSL assets, if the facility were to be extended by a Commercial Bank. As of December 2020, more than 73% of the existing loan assets of Samunnati Finance would qualify for PSL treatment in our assessment. Co-Lending provides a great opportunity for Samunnati to co-opt commercial banks into our customers, increase the diversity of products that can be made available to the end-customers, as well as decrease the blended cost of lending to the customers. The impact of these steps would be the mainstreaming of our customers and agri value chains as an asset class with the commercial banks.

Co-lending partnership is expected to bring following benefits to Samunnati

- Outreach to better-rated customers- superior credit quality
- Ability to offer better pricing to our customers - helping their business without compromising on the sustainability of our business model
- Co-Lending as a substitute for Borrowing for Samunnati which in turn can decrease our cost of capital
- Access to 'priority sector lending' pools of capital for Samunnati - a long awaited step in our journey
- Ability to leverage our operational expenses- enabling delivery of higher quantum of credit to our customers.

The document defines framework/policy governing partnership arrangement between partner Banks and Samunnati.

The current guidelines supersede the circular³ dated September 21, 2018. However, outstanding loans in terms of the circular ibid would continue to be classified under priority sector till their repayment or maturity, whichever is earlier.

¹ Reference to RBI Master Direction - RBI/FIDD/2020-21/72 Master Directions FIDD.CO.Plan.BC.5/04.09.01/2020-21

² Reference to RBI circular - RBI/2020-21/63 FIDD.CO.Plan.BC.No.8/04.09.01/2020-21

³ RBI/2018-19/49 FIDD.CO.Plan.BC.08/04.09.01/2018-19

2. Policy

2.1 Development of Joint Framework: Samunnati and the partner banks to enter into a master agreement which includes mutually agreed Operating Framework for pricing, monitoring guidelines, disbursement and collections framework, servicing and escalation matrix, accounting framework, NPA recognition and recovery process for entire portfolio generated under co-lending model. Operating Framework shall be customized to ensure smooth customer service under each partnership program.

2.2 Credit Underwriting Framework: Samunnati shall follow the existing credit assessment framework as per Credit Policy for evaluation of requirements of applicant borrower under co-lending. Any additional data/documents requirements by the partner banks for their credit shall be mutually decided.

2.3 Tech integration: Endeavour shall be made for technical integration to help in reducing operational cost and to streamline MIS, financial and regulatory reporting.

2.4 Pilot/ Program approach: The partnerships can be rolled out as pilot or a program, if required, to understand and resolve teething issues/test the Operating Framework; and to make it more robust. Subject to an acceptable cap on the pilot/ program size and time frame between Samunnati and the partner banks, the Operating Framework would undergo some changes and/or iterations post-launch of the Pilot/ program but prior to a larger-scale commercial rollout of the co-lending partnership.

3. Partnership Feature

Samunnati would work with partner banks that would exhibit the following characteristics:

- The integrity of the partner to collaborate with Samunnati on the partnership
- The ability of the partner to understand our business model
- Willingness and ability of the partner to align with Samunnati's processes, its speed of execution and flexibility of approach - key features of the Samunnati offering

Samunnati shall adhere to the essential features of Co-lending model as per RBI guidelines which are summarized below:

3.1 Scope: The Master Agreement entered into by Samunnati & partner banks may provide two channels for co-lending:

- a. Prior Irrevocable Commitment - Bank to mandatorily take their share of the individual loans as originated by Samunnati in their books, the arrangement must comply with the extant guidelines⁴ on Managing Risks and Code of Conduct in Outsourcing of Financial Services by Banks. Particularly, the partner bank to have in place suitable mechanisms for ex-ante due diligence by the bank (as the credit sanction process cannot be outsourced under the extant guidelines).
- b. Bank Discretion - Bank can exercise its discretion regarding taking into its books the loans originated by Samunnati as per the Agreement, the arrangement will be akin to a direct assignment transaction. Bank to 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 Securities⁵. There is an exception of Minimum Holding Period (MHP) in such transactions undertaken in terms of the CLM.

3.2 Sharing of Risk and Rewards: Samunnati at its own discretion and in agreement with partner Bank can decide upon credit risk by way of direct exposure that it intends to take on its book subject to minimum of 20% of loan amount. As per agreement Samunnati and the partner Bank can decide to have different credit risk exposure ratio for different business/product segment with same co-lending partner.

⁴ RBI/2014-15/497/DBR.No.BP.BC.76/21.04.158/2014-15 dated March 11, 2015

⁵ 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

Samunnati shall ensure that its contribution towards the loan is not funded out of borrowing from the co-originating bank or any other group company of the bank

3.3 Interest Rate: Basis respective risk appetite, assessment of the borrower and the RBI regulations issued from time to time, both Samunnati and partner bank would have flexibility to price their part of the exposure. Ultimate beneficiary would be charged a single blended/ weighted average rate. Accordingly, repayment/ recovery of interest shall be shared between the NBFC and the partner Bank in proportion to their share of credit and interest.

3.4 Know Your Customer (KYC): Samunnati and partner Bank shall adhere to applicable KYC/ AML guidelines, as prescribed by Department of Banking Regulation (DBR)/ Department of Non-Banking Regulation (DNBR) and as per the prevailing KYC/AML policies of Samunnati. The bank shall also be required to comply with the Master Directions for Know Your Customer (KYC) issued by the RBI⁶ 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

3.5 Credit Sanction: Both Samunnati and partner bank shall be entitled to independently assess the risks and requirements of the applicant borrowers. Samunnati shall not outsource credit decisioning/ underwriting of the proposal.

3.6 Documentation: Customers will be required to execute tripartite loan document where both Samunnati and the partner Bank shall be parties as lenders to the loan agreement with the customer. Alternatively, Samunnati shall be the single point of interface for the customers and shall enter into a loan agreement with the borrower. In such agreement, all the details of the Co-lending arrangement shall be disclosed to the customers upfront and their explicit consent shall be taken. The actual method of documentation will be decided in consultation with the Partner Bank.

3.7 Common Account: Samunnati and partner Bank shall route all transactions through an Escrow account maintained with banks for pooling their respective loan contributions for disbursement as well as to appropriate loan repayments from borrowers to avoid inter-mingling of funds.

3.8 Data Maintenance: Individual borrower's account details shall be maintained with Samunnati and partner Bank. As per agreement Bank, Samunnati would share appropriate customer information with each other to enable generation of single unified statement to the customer.

3.9 Monitoring & Recovery: Samunnati would follow a mutually agreed framework for day today monitoring and recovery of the loan. Such framework would be unique for each partner Bank depending on business segment, geography, product type, exposure, etc.

3.10 Security and Charge Creation: Samunnati would follow a mutually agreed framework for creation of security and charge filing.

3.11 Provisioning/Reporting Requirement: Each of the lenders shall follow its independent provisioning requirements including declaration of account as NPA, as per the regulatory guidelines respectively applicable to each of them. Each of the lenders shall carry out their respective reporting requirements including Default & SMA, reporting to Information Utility, Credit Information Companies, etc. under applicable laws and regulations for their portion of lending. The loans under the co-lending agreement shall be subjected to periodic verification by Samunnati's internal/statutory auditors to ensure adherence to their respective internal guidelines, terms of the agreement and extant regulatory requirements.

3.12 Grievance Redressal: It shall be the responsibility of Samunnati to explain to end borrower regarding the difference between products offered through the co-lending model as compared to its own

⁶ RBI/DBR/2015-16/18 Master Direction DBR.AML.BC.No.81/14.01.001/2015-16 dated February 25, 2016



products and that Samunnati shall be primarily responsible for providing the required customer service and grievance redressal to the borrower. Any complaint registered by a borrower with either party shall also be shared with the other party and in case, the complaint is not resolved within 30 days, the borrower would have the option to escalate the same to concerned Banking Ombudsman/ Ombudsman for NBFCs or the Customer Education and Protection Cell (CEPC) in RBI.

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

3.13 Representation & Warranties: The Master Agreement may contain necessary clauses on representations and warranties which Samunnati shall be liable for in respect of the share of the loans taken into its books by the bank.

3.14 Business Continuity Plan: Samunnati and the Bank shall mutually agree and formulate a business continuity plan to ensure uninterrupted service to the borrowers till repayment of the loans under the co-lending agreement.

The above features shall be appropriately incorporated in the agreement for co-lending entered by the Samunnati with a partner Bank basis mutual acceptance between Samunnati and the partner Bank.

Governance

4.1 Deviations

Deviations from this Policy, if any, shall be on an exceptional basis and shall be approved by the Management Level Risk Committee of Samunnati, subject to adherence to applicable regulations

4.2 Review

This Policy shall be reviewed at least once in a year, or when material changes are required / appropriate to ensure continued relevance. For changes required to be made to this policy on account of any regulatory changes, the Management Level Risk Committee shall approve the changes and the same shall be ratified by the Board at the subsequent Meeting. All other changes to the Policy shall be approved by the Board.