

CREDIT RISK POLICY

1. INTRODUCTION

Findoc Finvest Private Limited (hereinafter “FFPL”) is a Non-Bank Finance Company. The main target client segment is in the Micro, Small and Medium Enterprises (MSME).

It is the objective of FFPL to become a credible, relevant and leading financier in its chosen segments of business. In the main, FFPL will provide secured, structured loans.

FFPL will operate according to the highest ethical and compliance standards and constantly seek to follow best practices in the industry. Under no circumstances will contravention of laws and relevant regulations be tolerated.

2. OBJECTIVE OF THE CREDIT RISK POLICY

The Credit Risk Policy is the governing document for our credit appraisal, approval, post- approval monitoring and enforcement. This should be the reference document on any issues related to credit approval or process connected to the same. The purpose is to ensure that FFPL financing portfolio remains of sound quality, that portfolio growth is supported and that we manage credit risk in a manner that minimizes creation of Non-Performing Assets (NPAs). The objective of this policy that FFPL continues to provide financings where the returns reflect the risk taken, and are positive from a Return on Equity and Return on Capital Employed perspectives. Our business seeks to be profitable and add value to all stakeholders in – shareholders, management, staff and clients.

The policy must be reviewed annually or any amendments approved by the Board. The policy will continue to be amended from time to time in the light of changing business and economic environment

It is ensure that FFPL will follow the necessary regulations and guidelines issued by relevant regulators like the Reserve Bank of India, Ministry of Finance etc. In case of any conflict between this policy and a regulation, the regulation is to be followed strictly.

3. CREDIT APPROVAL AUTHORITY

Credit Approval Authority resides with the Board of Directors of the company. In operational terms, all credit approval and delegation of credit approval authority lies with the Board. It may be noted that credit approval authority includes not merely the approval of a credit proposal but also any subsequent deviation from approved credit terms.

4. PORTFOLIO NORMS

While reviewing and evaluating credit proposals, Board will also be keeping in mind certain exposure norms. These are in addition to the norms on single borrower and group exposures and similar guidelines that have been imposed by the Reserve Bank of India (RBI).

The norms below are suggestive in nature, barring specific prescriptive norms:-

1. **Correlation across Borrowers and Financings:** FFPL to ensure that we get the full benefits of portfolio diversification on our exposures.
2. **Sector Norms:** All financings must be given a Sector Classification.
3. **Unsecured Borrowings:** FFPL should ensure that there is no unsecured borrowing which could not be beneficial for our business.

5. **FINANCING TENOR:**

The final maturity of financings provided by FFPL will adhere to the following limits.

- Secured Financing : up to 5 years
- Unsecured Financing : up to 24 months

Any deviation from the above will need to be specifically approved by FFPL.

6. **CREDIT APPROVAL PROCESS FLOW**

The credit approval process is to include the following steps:

- A. Eligibility check & Reputation/Anti-Money Laundering Checks
- B. Credit proposal
- C. Completion of KYC
- D. Execution of Security Documentation
- E. Disbursal of financing

FFPL is work to financing all types of client entities includes Individuals, Hindu HUF, Trusts, Partnership firms etc. High risk entities like Trusts and Partnership firms should be subject to greater scrutiny while evaluating their financing proposal.

A. **Eligibility and Reputation/Anti-Money Laundering Review**

FFPL's objective is to partner bona-fide businesses and provide financing solutions to them. Client suitability has to be checked through multiple channels like:

- i. **Regulator Notices-** List of defaulters/watch-lists issued by relevant regulatory bodies and exchanges viz. RBI, Government of India (especially Department of Corporate Affairs), SEBI, Competition Commission of India, Registrar of Companies, NSE/BSE/Other exchanges, NCLT and other debt recovery institutions.
- ii. **Press Check-** Review of Press and Social Media for adverse publicity and news about the potential borrower.

iii. **Global crime and Default Databases-** To the extent available for public use.

Any issues or findings of concern or a NIL findings comment are mandatorily part of the credit proposal.

B. Credit Proposal :

Credit proposals are to be prepared by the relevant originator/structurer. The author of the credit proposal will be held responsible for the accuracy of the information provided in the CA.

Each proposal must cover, inter alia:-

Background of client

-Nature of financing including specifics on the structure and instrument

-Client financial strength, leverage levels, promoter strength, credit history (of client and promoter's CIBIL ratings), business and cashflow analysis, debt profile etc.

-Terms and conditions of the financing

-Repayment sources

-Security against Loan/Unsecured

-Discussion on enforceability of security

-Returns analysis

If it deems suitable provide a specific format in which Credit Proposals are to be presented.

The above list of information required in the CA is not exhaustive. Authors of the CA are expected to provide all relevant information needed for making a credit decision.

The CA, along with any additional conditions, if any impose as part of the approval process will be the source document on the basis of which the financing will be provided and security structure executed.

C. Know Your Client (KYC):

Clients must furnish all authenticated documents necessary for completing the KYC process. This includes all charter and incorporation documents, proof of address and business, financial statements and also the KYC documents for important stakeholders and authorized signatories.

The Board and/or the CEO of FFPL are expected to put in place a separate KYC policy that is to be fulfilled.

c. Perfection of Security and Execution of Documentation:

Loan Agreement; Mortgage Agreements; Pledge Agreements; Hypothecation agreements, Guarantees etc. will be the basis of security documentation.

Legal team will suitably modify our standard documents to incorporate the credit approval conditions and also any relevant regulatory clauses that are deemed necessary for the financing. It is expected that there will be some negotiation with the client on the drafting of the security documents.

It is to be ensured by the back-office team that the finalized security document cannot be amended or otherwise changed in any manner by the borrower prior to execution.

D. Execution of Security Documentation:

Security documentation is the primary responsibility of the back-office support team. The Chief Executive Officer (CEO) will nominate the specific individuals/teams who will be responsible for execution of security documentation. The origination/structuring staff responsible for managing the client relationship and originating the financing proposal must provide all necessary assistance in perfecting the security.

Responsibility for drafting and finalizing the security documents lies with the Legal Counsel. Any material deviation from the Legal Counsel's drafting must be approved by the CEO or staff delegated by the CEO.

Scanned copies of the security documentation must be stored in the client folders and easily accessible to the team at all times. The original documents must at all times be secured in the safe and logged

It is also the responsibility of the documentation team to ensure that the necessary filings with regulators or government agencies are done within the prescribed time periods.

After the perfection of security documentation and the necessary filings have been completed, the senior most staff has to put a note confirming that documentation is complete into the client files.

E. Disbursal of Financing:

Disbursal of the financing will be done by the Finance and Accounts , Legal and Compliance team. This is done on the basis of a confirmation from the Documentation team that documentation is complete and any Conditions Precedent (CP) have been completed.

In making the disbursal, it is to be ensured that disbursal of funds is made to an account of the Borrower. Any disbursal to a third party must be approved on the basis of a detailed rationale by the CEO.

7. ONGOING MONITORING AND CLIENT ENGAGEMENT: ANNUAL REVIEW

Ensuring that the FFPL remains fully engaged with the client and in a position to remain updated about credit developments with the client is critical to maintaining a high quality credit portfolio.

1) Ongoing Client Engagement:

It is expected that at least once a calendar quarter, each originator/structurer will conduct a detailed client discussion and review covering all issues that impact the client credit profile. Additionally, the originator/structurer must fulfil the following duties:

- i. Ensure we receive audited and unaudited financials from the company as mandated in our agreements
 - o Analyse the said financials and related performance data and highlight major developments
- ii. Monitor the press and social media for any adverse reporting.
- iii. Loans will be added to the watch list in the case of any significant internal/external rating downgrade, significant payment delays or any other material news and an action such as increasing the collateral cover, accelerating the loan repayment, loan recall etc. may be taken.

2) Monitoring:

We need to monitor the value of security against which financing has been provided as well as the conduct of the client regularly. Timely action has to be taken in case there is any deterioration either in enforceability or value.

Type of Security	Items to be monitored	Action to be taken	Responsibility
Listed securities (bonds; shares)	Price of security Liquidity of security Regulatory issues	Margin calls for cash or share top up in line with credit approval conditions to be sent to client In cash margin calls have been made and client is in default, action to be taken to enforce and liquidate security to recover our dues Detailed report on value to be circulated on a daily basis Any significant development in liquidity of the underlying, or regulatory/reputation issues must be immediately highlighted to the CEO	Joint responsibility of the Origination team and Documentation team.
Land and other real estate	Value of land and title search at least every two years	ANY adverse change in the value or title needs to be highlighted to the CEO Action to be taken to seek top up in security or other steps as necessary to ensure that our security value remains in line with approval conditions	Joint responsibility of the Origination team and Documentation team.
Unlisted Securities	Valuation to be sought once every two years	Adverse change in value to be highlighted to CEO Appropriate action for seeking top up in value of security	Joint responsibility of the Origination team and Documentation team
Moveable Assets			Joint responsibility of the Origination team and

			Documentation team
Personal Guarantees	<ul style="list-style-type: none"> - CIBIL rating to be checked every 6 months - Net Worth Certificate from a Chartered Accountant to be provided every 2 years 	Any adverse changes to be highlighted to the CEO and action taken to mitigate new risks	Joint responsibility of the Origination team and Documentation team.
Loan servicing behavior	<ul style="list-style-type: none"> - Timely payment of interest and principal installments - Flow of funds through Escrow accounts 	Any delays beyond 7 days must be highlighted to Management and Board	Joint responsibility of the Origination team and Documentation team.

3) **Annual Review:**

An annual review is to be conducted on all Client Groups. Each review should incorporate all group entities we deal with and various facilities therein.

8. ENFORCEMENT OF SECURITY AND RECOVERY ACTIONS

In cases where client has failed to meet their debt servicing requirements, FFPL may need to enforce security and recover its dues. Important aspects to be followed in such an event:

- 1) In all action being undertaken for recovery, the Company will strictly follow the law of the land and will act as a responsible member of the community. While ensuring that our rights are protected and dues recovered, we will treat our counter-parties with respect and fairness.
- 2) Enforcement of security including disposal of assets pledged to us needs to be specifically approved by the CEO.
- 3) Litigation for recovery of our dues has to be approved by Board.
- 4) There should be no delay in taking action to dispose off the marketable securities.
- 5) For the purpose of disposal of real-estate assets, it is recommended that at least 2 intermediaries are used for the sale so that we can realize the best possible value on the security.

9. Sale /Transfer and Acquisition of loan Exposures

FFPL will transfer a single loan or a part of such loan or a portfolio of such loans to permitted transferees through assignment or novation or a loan participation contract as per RBI rules and Regulations.

FFPL have a Policy for Transfer and acquisition of loan exposure as per RBI Direction / Circular enclosed herewith as Annexure-A.

Annexure I – Financing Products Offered by FFPL

FFPL offers a number of financing products to its clients.

- a) **Promoter funding** – Funding is offered to promoter/promoting entities for companies, against collaterals acceptable to FFPL. These loans are usually availed for the purpose of undertaking changes in the capital structure of the operating company or enhancing the promoter shareholding.
- b) **Loan Against Shares (LAS)** – Funding is provided to clients (non-promoter) against a pledge of listed and unlisted equity shares. This is usually required for meeting gaps in working capital.
- c) **Loan Against Property (LAP)** – Funding is provided to clients against a mortgage on immovable property(s).
- d) **Construction Finance** – Funding is provided to real estate developers for construction purposes against collateral such as property, hypothecation of cash flows, etc. as acceptable to FFPL. FFPL will usually not provide initial stage construction finance. The preference will be to provide last mile financing or financing for later stages of projects.
- e) **Acquisition Finance** – Funding provided to companies for acquiring other companies. These will usually be secured by a mix of cashflows and assets.
- f) **Mezzanine/Bridge Funding** - Funding provided to companies to finance the expansions in most part, at existing companies.
- g) **Debt Syndication & Capital Advisory** – FFPL can facilitate discussions with other lenders for the purpose of Debt Syndication and also provide inputs for structuring of debt.. We have a competent team offering comprehensive debt solutions to meet client requirements. These activities will be carried on strictly in line with regulatory licenses and approvals.

The list below may not be exhaustive as the nature of financing instruments and structures undergoes changes reflective of evolving markets. However, these should cover a majority of the financing products.

Annexure II – Evaluation of Security

- i) Valuation of the Real estate such as land, ready property etc. by the Independent Valuer appointed by FFPL.
- ii) Listed shares would be valued based on the price prevailing in the market.
- iii) Unlisted shares will be valued on the basis of the book value, latest valuation if available or multiples of EBIDTA, PAT etc. as suitable.
- iv) Fixed and/or current assets would be valued based on the net block in the balance sheet of the company, whose assets are being taken as security.
- v) The following factors shall also be considered for evaluation of Security:

A. In case of Listed Shares

- a. Corporate Governance of the listed company
- b. Liquidity of the collateral/security
- c. Market capitalization of the company
- d. Beta of the stock
- e. Leverage ratios
- f. Financials
- g. Promoter holding and pledge
- h. Sector risk

B. In case of Real Estates

- a. Type of Property
- b. Location of property
- c. Construction stage
- d. Trends of real estate price in the area
- e. Government approved rate

C. In Case of Hypothecation of Moveable Assets

- a. Type of moveable assets
- b. Book value of assets

Annexure III – Policy Regarding Purchase of NPAs

Background:

The Indian financial sector, mainly the Public Sector Banks has a huge NPA issue. This has been created through a poor credit culture and a culture of “evergreening” exposures till they became irredeemable. Recent times have seen a cleaning up of bank balance-sheets – more prudent and accurate classification of asset quality, better enforcement and implementation of the IBC framework.

In order to clean-up their balance-sheets, banks have been actively disposing off some of their assets – often at prices that offer good value. This policy will govern FFPL transactions involving NPAs of other financial institutions.

Key Governance Aspects:

As a rule, NPA related transactions will need to adhere to guidelines that have been laid down in the Credit Policy. To reiterate, key aspects to adhere to are:

- Approval and Amendments – by the Investment Committee or a delegation thereof
- Sector limits – as defined in the Credit Policy or exceptions approved by the Investment Committee
- Analytic rigour – conventional credit analysis needs to be done with more stress scenarios and keeping in mind (a) the higher risk associated with NPAs and (b) often greater enforcement challenges of a business that has already gone bankrupt.

Specific Rules for NPA transactions:

- Sell-down targets: Given the illiquidity of NPAs, the Investment Committee is expected to set a “sell down” target to be achieved PRIOR to investing in the asset
- Market clearing price determination: Deal team should give an indication of market- clearing price of the asset or a distress sale of underlying security assets
- Analysis of resolution outlook: Deal team needs to present a detailed resolution outlook – process, timelines, scenario analysis etc. that should be giving a line-of-sight on the recovery strategy.
- Cash-flow analysis: For cases where FFPL is planning to restructure an asset or lead such a restructuring, a detailed cash-flow projection should be provided to Board as part of the credit proposal.

- Capital protection primary: Given the higher risk, NPA type assets should be managed to recover our invested capital at the earliest.
- Closer monitoring: Deal team needs to give a status report on the asset atleast once a month. Board may request for more frequent updates. Any “material” setbacks in resolution process must be brought to the attention of the Board immediately.
- Actively consider bids: While adhering to regulatory limitations on transfer of NPA assets, any bids for NPA assets FFPL invests into must be immediately brought to the attention of the Board for a decision. It is expected that all bids will be actively considered.

ANNEXURE-A

POLICY ON TRANSFER AND ACQUISITION OF LOAN EXPOSURES FOR STANDARD ASSETS ('POLICY')

Introduction

Reserve Bank of India, vide its circular No. DOR.STR.REC.51/21.04.048/2021-22 dated September 24, 2021, has issued Master Direction – Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021 (“**RBI Directions**”).

The RBI Directions came into effect from September 24, 2021 and replaced all existing instructions/directions on the matter of sale / transfer of loan exposures whether standard or stressed.

In accordance with the said RBI Directions, the instant policy has been framed and adopted by FFPL to lay down the criteria for transfer and acquisition of loan exposures by FFPL inter alia catering to the minimum quantitative and qualitative standards to be followed in the conduct of necessary due diligence, the requirements in relation to valuation, required information technology systems for capture, storage and management of data, risk management and periodic board level oversight etc.

This policy is divided in three parts, wherein the first part deals with definitions and general applicable to sale/transfer of loan exposures whether via standard or stressed, second part deals with sale of standard assets and the third part deals with sale of stressed assets.

Part I

1) Permitted Loan Transfers (other than stressed loans)

In accordance with the RBI Directions, FFPL is permitted to acquire loans only from a transferor specified as a lender below and subject to requirements stipulated in this Policy in addition to the notices and circulars issued by the RBI as applicable from time to time: -

- i. Scheduled Commercial Banks;
- ii. All India Financial Institutions (NABARD, NHB, EXIM Bank, and SIDBI);
- iii. Small Finance Banks;
- iv. All Non-Banking Finance Companies (NBFCs) including Housing Finance Companies (HFCs); and
- v. Any other entities as permitted by RBI at the relevant point in time.

This policy will be applicable to all permitted transfers undertaken by FFPL either as a transferor or a transferee, as the case may be.

2) Definitions

- i. **“credit enhancement”** shall mean a contractual arrangement in which an entity provides some degree of added protection to other parties to a transaction so as to mitigate the credit risk of their acquired exposures.
- ii. **“default”** shall mean non-payment of debt (as defined under the Insolvency and Bankruptcy Code, 2016) when whole or any part or instalment of the debt has become due and payable and is not paid by the debtor or the corporate debtor, as the case may be.
- iii. **“loan participation”** shall mean a transaction through which the transferor transfers all or part of its economic interest in a loan exposure to transferee(s) without the actual transfer of the loan contract, and the transferee(s) fund the transferor to the extent of the economic interest transferred which may be equal to the principal, interest, fees and other payments, if any, under the transfer agreement.

- iv. **“minimum holding period (MHP)”** shall mean the minimum period for which a transferor must hold the loan exposures before the same is transferred to transferee(s).
- v. **net book value (NBV)”** shall mean the funded outstanding in a loan exposure reduced by the specific provisions made against such exposure.
- vi. **permitted transferees”** shall mean the lenders specified at sub-clauses (i), (iv), (v) and (v) of the RBI Directions.
- vii. **portfolio”** shall mean a set of loan exposures transferred together at a point of time under the same transfer agreement.
- viii. **standard loans”** shall mean loan exposures that are not classified as stressed loans.
- ix. **stressed loans”** shall mean the loan exposures that are classified as non-performing assets (NPA) or as special mention accounts (SMA).
- x. **“transfer”** shall mean a transfer of economic interest in loan exposures by the transferor to the transferee(s), with or without the transfer of the underlying loan contract, in the manner permitted in the directions.
- xi. **“transferee”** shall mean the entity to which the economic interest in a loan exposure is transferred under the directions.
- xii. **“transferor”** shall mean the entity which transfers the economic interest in a loan exposure under these directions.

3) **Minimum quantitative and qualitative standards for acquisition and transfer of loan exposures**

3.1 **Due Diligence**

In case FFPL is the transferee, the due diligence in respect of the loans should be carried out by staff of FFPL with the same rigour and as per the same policies as would have become applicable at the time of originating any loan.

In case FFPL is the transferor, the due diligence is to be carried out by the transferee. However, in accordance with the RBI Directions, in case the transferee is unable to perform the due diligence at the individual loan level, due diligence of at least 1/3rd of the portfolio by value and number of loans in the portfolio at an individual loan level and at the portfolio level for the remaining loans must be carried out. However, this would entail that FFPL as the transferor will be retaining at least 10% of economic interest in the transferred loans.

The requirement to retain 10% of economic interest by the transferor in the transferred loans will also be applicable in case FFPL and is unable to comply with the requirements of due diligence at the individual loan level as laid down in the preceding para.

3.2 Transaction Approval Process

- i. The process in respect of acquisition of loans will be undertaken in the similar manner as would have been done for originating any loan and shall be required to pass through the Chief Executive Officer (CEO) and the approval by Board as per the FFPL Credit Policy in the case of acquisition of loans in all Permitted Loan Transfers.
- ii. All proposals for transfer/assignment/novation/transfer of loan exposures by FFPL to any permitted transferee shall be approved by the Investment Committee and must conform to the provisions of the RBI Directions.
- iii. In accordance with the RBI Directions and the applicable circulars, rules and regulations, FFPL may make necessary changes in the transaction approval process.

3.3 Valuation

In accordance with the RBI Directions, the pricing of the loans transferred / acquired will be arrived at by FFPL based on commercial negotiations on arm's length basis and taking into consideration such factors as credit rating, cost of funds and extant market conditions.

3.4 IT systems

A robust IT system and process for storing the detailed data base for transfer and acquisition of Permitted Loan Transfers will be maintained by FFPL.

3.5 Risk Management

In accordance with the RBI Directions, FFPL will ensure that all risk management and systems related aspects will be followed for acquisition of loans for the Permitted Loan Transfers with the same rigour as per the Credit Policy and Risk Policies as would have been done for originating any loan. Similarly, Environment & Safety related covenants for such acquisition of loans will be detailed as per the Environment & Safety Policy.

3.6 Periodic review

This policy shall be reviewed annually or as necessitated due to change in regulations.

4) General Conditions applicable on all loan transfers

4.1 General Requirements

- i. In the usual course loan transfers should result in transfer of economic interest without being accompanied by any change in underlying terms and conditions of the loan contract. In the event of any modifications to terms and conditions of the loan contract during and after transfer (e.g. in take-out financing), the same shall be evaluated against the definition of 'restructuring' as specified in Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions 2019, dated June 7, 2019.
- ii. In loan participation transactions, where the legal ownership completely remains with the transferor even after economic interest has been transferred to transferee(s), FFPL, irrespective of whether it is the transferor or transferee, while entering into the contract will ensure that the roles and responsibilities of the transferor and transferee(s) shall be clearly delineated in the contract entered into between the transferor and transferee.

- iii. In accordance with RBI Directions, FFPL, whether it is transferor or otherwise, should not offer Credit Enhancements or liquidity facilities in any form in the case of loan transfers.
- iv. FFPL cannot re-acquire a loan exposure, either fully or partially, that has been transferred by it as a transferor previously, except as a part of a resolution plan under the Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions, 2019 or as part of a resolution plan approved under the Insolvency and Bankruptcy Code, 2016.
- v. A loan transfer undertaken by FFPL should result in immediate separation of FFPL from the risks and rewards associated with loans to the extent that the economic interest has been transferred. In case any economic interest has been retained in the exposure by FFPL, the loan transfer agreement should clearly specify the distribution of the principal and interest income from the transferred loan between FFPL and the transferee(s).
- vi. FFPL as a transferor shall have no obligation to re-acquire or fund the re-payment of the loans or any part of it or substitute loans held by the transferee(s) or provide additional loans to the transferee(s) at any time except those arising out of breach of warranties or representations made at the time of transfer. It is imperative that FFPL demonstrates that a notice to this effect has been given to the transferee(s) and that the transferee(s) have acknowledged the absence of such obligation on part of FFPL.
- vii. The transfer of loans by FFPL must not contravene the rights of underlying obligors and all necessary consents from obligors (including from third parties), where necessary as per the respective contracts, should have been obtained by FFPL.
- viii. Any rescheduling, restructuring or re-negotiation of the terms of the underlying agreement/s attempted by permitted transferee(s) after the transfer of assets to the transferee(s) shall be as per the provisions of the Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions, 2019 (as amended from time to time).

- ix. In case of a transfer, FFPL as a transferor should notify RBI (Department of Supervision) of all instances where it has replaced loans transferred to a transferee or paid damages arising out of any representation or warranty.
- x. In the case of a transfer/sale of loan exposure, FFPL will comply with the extant instructions on outsourcing and the applicable provisions of the Reserve Bank of India (Know Your Customer (KYC)) Directions, 2016 (as amended from time to time) shall be complied with in all cases.
- xi. In respect of exposures that do not meet the requirements of the RBI Directions, transferee(s), whether FFPL or otherwise, shall maintain capital charge equal to the actual exposure acquired. In such cases, the transferor, whether FFPL or otherwise, shall continue to recognize the transferred loan in its entirety, as if it was not transferred at all in the first place, and the consideration received shall be recognized as an advance.

4.2 FFPL as servicing facility provider

If FFPL, including in its capacity as transferor, performs the role of a servicing facility provider for the transferee(s) after the loan transfer has occurred, it should ensure that the following conditions are fulfilled:

- i. The nature, purpose, extent of the facility and all required standards of performance should be clearly specified in a written agreement.
- ii. The facility is provided on an arm's length basis on market terms and conditions.
- iii. Payment of any fee or other income arising from the role as a servicing facility provider is not subject to deferral or waiver in a way that would directly or indirectly provide credit enhancement or liquidity facility.
- iv. The duration of the facility is limited to the earliest of the dates on which:
 - a) the underlying loans are completely amortized;
 - b) all claims connected with the transferee(s)' economic interest in the underlying loans are paid out;
or
 - c) FFPL's obligations as the servicing facility provider are otherwise terminated.

- v. There should not be any recourse to the lender beyond the fixed contractual obligations.
- vi. The transferee(s) have the clear right to select an alternative party to provide the servicing facility.
- vii. FFPL will be under no obligation to remit funds to the transferee(s) until it has received funds generated from the underlying loans.
- viii. FFPL shall hold in trust, on behalf of the transferee(s), the cash flows arising from the underlying loans and shall avoid co-mingling of these cash flows with its own cash flows.

If the above conditions are not satisfied, FFPL shall maintain capital on the loans transferred as if the loans in respect of which servicing facility is being provided are held by it directly on its books.

5) Maintenance of Database

FFPL will maintain database of loan transfer transactions with adequate MIS concerning each transaction until a trade reporting platform is notified by RBI in accordance with the RBI Directions and applicable circulars and notifications.

6) Swiss Challenge Method

FFPL may decide to sell/transfer loan exposures which are not in default through the swiss challenge method.

7) Board of Directors of FFPL

Any specific area regarding loan transfer if not covered in this policy shall be guided as per the directions issued by Reserve Bank of India from time to time as well as the decisions of the Board of Directors of FFPL

The Board of Directors of FFPL may amend this policy from time to time in consonance with the RBI circulars, policies and notifications as applicable.

Part II

Sale/Transfer of loans which are not in default

1) General requirements

- 5.1.1 The provisions mentioned under the instant clause 1 to 3 of this Part II shall not apply to:
- i. transfer of loan accounts of borrowers by FFPL to other lenders, at the request/instance of borrower;
 - ii. inter-bank participations covered by the circular DBOD.No.BP.BC.57/62-88 dated December 31, 1988 as amended from time to time;
 - iii. sale of entire portfolio of loans consequent upon a decision to exit the line of business completely;
 - iv. sale of stressed loans; and
 - v. any other arrangement/transactions, specifically exempted by the Reserve Bank of India.

The transactions referred above shall be governed by the respective regulatory frameworks. However, in all such cases, the provisions of clause 4 (Part I) shall continue to apply except in cases where the respective regulatory framework provides for otherwise.

- 5.1.2 FFPL can transfer a single loan or a part of such loan or a portfolio of such loans to permitted transferees through assignment or novation or a loan participation contract.
- 5.1.3 In cases where loan transfers result in a change of lender/(s) of record under a loan agreement, the transferor, whether FFPL or otherwise and transferee(s), whether FFPL or otherwise should ensure that the existing loan agreement has suitable enabling provisions including consent by the underlying borrower that allow for such transactions by laying down the required ground rules.

5.1.4 In case FFPL intends to retain economic interest, if any, in the loans transferred, the same should be supported by legally valid documentation. VAIFL will take a legal opinion regarding the various clauses mentioned in the RBI Directions.

5.1.5 In case FFPL applies credit underwriting to exposures transferred, similar processes for approving and where relevant, amending, renewing and monitoring of credit facilities extended will be endeavoured to be applied by FFPL for all the loan exposures originated by it.

5.1.6 The transfer of loan exposure by FFPL shall be only on cash basis and the consideration shall be received not later than at the time of transfer of loans. The transfer consideration will be arrived at by FFPL in a transparent manner on an arm's length basis.

5.1.7 In case FFPL is transferring a loan exposure, the liability to conduct the due diligence is of the transferee. The due diligence in respect of the loans cannot be outsourced by the transferee(s) and should be carried out by its own staff with the same rigor and as per the same policies as would have been done for originating any loan. In case FFPL is the transferee, the liability to conduct the due diligence will be of FFPL and the aforesaid requirements of due diligence will apply.

The above due diligence requirements shall be applicable at the level of each loan. In case of loans acquired as a portfolio, in case a transferee is unable to perform due diligence at the individual loan level for the entire portfolio but can perform due diligence at the individual loan level for not less than one-third of the portfolio by value and number of loans in the portfolio, the due diligence may be performed at the portfolio level for the remaining, in which case, the transferor has to retain at least 10 % (ten percent) of economic interest in the transferred loans.

5.1.8 In accordance with the RBI Directions, FFPL will monitor on an ongoing basis and in a timely manner basis the performance information on the loans acquired, including through conducting periodic stress tests and sensitivity analyses, and take appropriate action required, if any.

5.1.9 In accordance with RBI Directions, credit monitoring procedures of FFPL, depending upon the size of the portfolio, may include verification of the information submitted by the servicing facility agent's concurrent and internal auditors.

2) Minimum holding period (MHP) requirements

5.2.1 FFPL can transfer loans only after a minimum holding period (MHP), as prescribed below, which is counted from the date of registration of the underlying security interest:

- i. Three months in case of loans with tenor of up to 2 years;
- ii. Six months in case of loans with tenor of more than 2 years.

5.2.2 In case of loans where security does not exist or security cannot be registered, the MHP shall be calculated from the date of first repayment of the loan.

5.2.3 In case of transfer of project loans, the MHP shall be calculated from the date of commencement of commercial operations of the project being financed.

5.2.4 In case of loans acquired from other entities by a transferor, such loans cannot be transferred before completion of six months from the date on which the loan was taken into the books of the transferor.

5.2.5 The above MHP requirement is not applicable to loans transferred by the arranging bank to other lenders under a syndication arrangement.

5.2.6 The requirements of MHP shall not be applicable in case the loan exposure is transferred or sold by FFPL at the request/instance of the borrower.

3) Capital Adequacy and other prudential norms

Capital adequacy and prudential norms with respect to profit or profit arising due to transfer of loans, transfer of a pool of loans, loan acquisition as mentioned in the RBI

Directions (relevant clauses) and applicable RBI circulars and notification as applicable from time to time shall be adhered.

4) **Disclosure**

An appropriate disclosure in the financial statements has to be made under '**Notes to Accounts**', relating to the total amount of loans not in default transferred and acquired to / from other entities, on a quarterly basis as provided in the RBI Directions.

The disclosure will inter alia cover aspects related to weighted average maturity, weighted average holding period, retention of beneficial economic interest, coverage of tangible security and rating wise distribution of rated loans.

FFPL will specifically disclose all instances where it has agreed to replace loans transferred to transferee(s) or pay damages arising out of any representation or warranty.

FFPL will also provide breakup of loans transferred/acquired through assignment/novation and loan participation.

PART-III

Sale/Transfer of loan which are in default

1. General Requirements

1.1 FFPL as a transferor will only transfer stressed loans by way of an assignment or novation and not by means of loan participation and further FFPL shall only transfer stressed loans, including through bilateral sales only to permitted transferees as contained in the RBI Directions and to the ARCs.

1.2 Norms and procedure for transfer or acquisition of stressed loans

- 1.2.1 For identifying a stressed loans above a certain value for transfer, under the present policy, FFPL as a transferor will adopt a top-down approach wherein its head office/corporate office shall be actively involved in the identification process.
- 1.2.2 The FFPL Board will periodically examine all loans classified as NPA in its books over a threshold amount it has set for the present policy and thereafter based on documented reasoning will decide whether to transfer them or not and in case it is decided by the board of FFPL to transfer the said loans, the same shall be listed and due process as elaborated in this policy shall be followed for their transfer.

1.3 Valuation

FFPL's Board in cases when FFPL is the transferor of stressed loans has a valuation policy which expressly provides for the grounds on which the valuation is undertaken and the cost of the same will be borne by FFPL. In case of internal valuation, FFPL provides for the discount rate which depending on the loan transfer is calculated by way of cost of equity or the average cost of funds or the opportunity cost, or some other pertinent rate, subject to a ceiling of the contracted interest rate paid. Further in case the credit exposure of FFPL is Rs.100 crore or higher (without

netting for provisions) whether singly, jointly or severally, FFPL will obtain two external valuation report.

1.4 Manner of Transfer

1.4.1 FFPL as a transferor wherever appropriate will transfer loans using e-auction platforms. FFPL will continuously identify the stressed loans that will be offered for transfer, and FFPL shall keep an authenticated list of such loans. FFPL in its discretion may make the list available to potential bidders by entering into a confidentiality agreement.

1.4.2 However, in cases where the total aggregate exposure of FFPL to the borrower or borrowers whose loan is being transferred by it as a transferor is Rs. 100 crore or more, including investment exposure and the transfer is being undertaken through bilateral negotiations then FFPL will necessarily follow the Swiss Challenge Method. In other cases involving transfer of loans through bilateral negotiation where aggregate exposure of FFPL below Rs 100 Crores the price discovery and value maximisation approach will be adopted which may though not mandatorily include the Swiss Challenge Method.

1.4.3 FFPL as a transferor in case of transfer of stressed loans being undertaken as a resolution plan under the Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions, 2019 with the approval of signatories to the inter- creditor agreement (ICA) representing 75 per cent by value of total outstanding credit facilities (fund based as well non-fund based) and 60 per cent of signatories by number, for the exit of all signatories to the ICA from the stressed loan exposure will mandatorily adopt the Swiss Challenge method irrespective of the exposure threshold.

1.4.4 Price Discovery through Swiss Challenge Method

The parameters followed by FFPL for the Swiss Challenge Method Policy includes:

- i) Its tolerance limit for extent of haircut required by FFPL in base-bid based on an objective parameter;
- ii) The minimum mark-up over the base-bid required for the challenger bid to be considered by FFPL which shall not be less than 5% and not more than 15%.
- iii) The difference between the challenger bid and the base-bid, given as a percentage of the base-bid, is what is referred to as mark-up.

1.4.5 To conduct the Swiss Challenge Method's FFPL will follow the general guidelines provided as under:

- i) A potential transferee with an interest in acquiring a particular stressed debt may submit a bid to FFPL; this bid will be referred to as the base- bid.
- ii) Then, FFPL shall publicly request counter offers on comparable terms from other possible

buyers, identifying the key components of the base- bid and making it clear what the minimal markup would be.

- iii) The base-bid becomes the winning bid if no counter bid exceeded the minimal markup stipulated in the invitation.
 - iv) The highest counter bid becomes the challenger bid if it exceeds the minimum markup stipulated in the invitation. The challenger bid is then presented, and the prospective transferee who submitted the base-bid is invited to respond. The winning bid will be determined by whether the prospective transferee who gave the base-bid matches the challenger bid or raises it; otherwise, the challenger bid will be the winning bid.
 - v) After following the process provided in 1.4.5, FFPL will have two choices:
 - 1.1 Transferring the debt to the successful bidder, as determined above;
 - 1.2 If FFPL chooses not to transfer the loan to the successful bidder, FFPL will be compelled to immediately make a provision on the account to the extent of the higher of the following:
 - Discount from book value stated in challenger bid, and
 - Provisioning necessary in accordance with current asset classification and provisioning norms.
- 1.5 Pursuant to the transfer of the stressed loan by FFPL as a transferor, it will not have any operational, legal, or other risks related to the stressed loans including additional funds or commitments to the borrower or transferee(s) in relation to the loan transferred. Further, only after a cooling-off period of at least 12 months from the date of such transfer shall any new exposure to the borrower may be taken by FFPL.
- 1.6 Notwithstanding anything contained in this policy, in case when FFPL undertakes transfer of stressed loan as a resolution plan under the Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions 2019 which results in an exit of all lenders specified in the Clause 3 of the RBI directions from the stressed loan exposure, then in case of such transfer, the same will be permitted to any class of entities, including a corporate entity, that are permitted to take on loan exposures in terms of a statutory provision or under the regulations issued by a financial sector regulator.
- 1.7 FFPL shall ensure that in cases when it is a transferor and the transferee(s) are neither ARCs nor permitted transferees as contained in Clause 3 of the RBI directions:
- 1.7.1 The transferee entity will be an Indian corporation or registered with one of India's financial sector regulators, including the Securities and Exchange Board of India, Insurance Regulatory and Development Authority of India, Pension Fund Regulatory and Development Authority, and International Financial Services Centres Authority.
 - 1.7.2 No lending institution should have designated the transferee as a Non- Performing Account (NPA) at the time of the transfer.

- 1.7.3 The transferee(s) undertakes to not use loans from the FFPL to pay for the loan acquisition.
- 1.7.4 For at least three years following the date of the transfer, FFPL shall refrain from providing any credit/investment exposure apart from working capital facilities (which are not in the nature of term loans) to the borrower whose loan account is transferred.
- 1.7.5 FFPL will refrain from providing any credit facilities to the transferee(s) for deployment into the borrower's operations for at least three years following the date of such transfer.
- 1.8 **Due Diligence:** Depending on the amount of the loan, FFPL in its capacity as the transferor will provide the prospective acquirers enough time to conduct their due diligence.
- 1.9 The loan transfer agreement entered into by FFPL as a transferor will specifically provide that in the event an ICA is required to be signed in terms of the Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions, 2019 the transferee, regardless of the nature of the entity, shall sign the ICA as and when required.
- 1.10 FFPL as a transferor will ensure that no transfer of a stressed loan is made at a contingent price whereby FFPL would be responsible for paying a portion of the shortfall in the event that the agreed price was not realised.

- 1.11 FFPL as a transferor shall only transfer stressed loans on a cash basis to transferees other than ARCs. Prior to the transfer of loans, the complete transfer consideration will be obtained by FFPL and it shall wherever applicable comply with IndAS shall continue to be guided by the Standards and the ICAI Advisories regarding recognition of the consideration received pursuant to the transfer.
- 1.12 When acquiring stressed loans on a portfolio basis, FFPL as a transferee may classify the pool of loans as a single asset in their books as long as the pool is made up of homogenous personal loans.
- 1.13 If the transferee of a loan to FFPL is a credit institution as specified in sub-section (f) of Section 2 of the Credit Information Companies (Regulation) Act, 2005, then FFPL will request the transferee to comply with the reporting obligations to Credit Information Companies regarding the stressed loans acquired.

1.14 Classification of a Stressed Loan

- 1.14.1 FFPL as a transferee will label the acquired stressed loan as "Standard" if it does not have any prior exposure to the borrower whose stressed loan account is being acquired, with the exception of ARCs (s). After that, the asset classification status of the loan acquired will be established by the recovery record in FFPL books in relation to cash flows projected at the time of the loan transfer.
- 1.14.2 If FFPL has prior exposure to the borrower whose stressed loan account is acquired by it as a transferee, the acquired exposure's asset classification shall be the same as the borrower's prior exposure to FFPL.
- 1.14.3 FFPL, while making provisions for acquisition of stressed loans will do so in accordance with the asset classification status recorded in its books at the time of acquisition, regardless of the asset classification, provisions will be kept in place to the extent of the difference if the net present value of the cash flows expected in acquiring the loan is less than the consideration paid for acquiring the loan. The actual interest rate charged to the borrower under the terms of the original loan contract, plus a risk premium calculated by FFPL after taking into account the asset classification of the loan on the transferor's books, will serve as the discount factor for this purpose. The risk premium will be subject to a floor of 3 per cent.

FFPL shall continue to prepare its financial statements as per IndAS and continue to make provisions as required as per IndAS. However, FFPL shall concurrently assess the provisioning required and provisions so required shall be included in the computation of the prudential floor as prescribed under Paragraph 2 of the Annex to the circular DOR (NBFC).CC.PD.No.109/22.10.106/2019-20 dated March 13, 2020.

1.15 Before transferring to other lenders, FFPL will keep the acquired stressed loans on their books for at least six months. In general, FFPL will not acquire or transfer loans that were transferred as stressed loans within the previous six months. Provided that this clause shall not apply if the transfer of a stressed loan is to an ARC or is undertaken as a resolution plan under Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions, 2019.

2) Additional Requirements for transfer of NPAs

- 2.1 Regarding the NPAs transferred to other lenders, FFPL as a transferor shall continue to pursue the staff accountability aspects in accordance with the existing guidelines.
- 2.2 In case of NPA acquired by FFPL as a transferee from other lenders, the cash flows received by FFPL from holding such asset will first be used to amortise the funded outstanding in the books of FFPL in respect of the loan till the acquisition cost is recovered. The cash flows in excess of the acquisition cost, if any, will be recognised as profit.
- 2.3 FFPL as a transferee shall assign 100% risk weight to the NPAs acquired from other lenders as long as the loans are classified as 'standard' upon acquisition. If the loans are classified as NPA, risk weights as applicable to NPA shall be applicable.

3) Transfer of Loans to Asset Reconstruction Companies by FFPL as a transferor

3.1 Subject to the provisions of the circulars DNBR.PD (ARC) CC.No.07/26.03.001/2018-19 dated June 28, 2019 and DOR.NBFC(ARC) CC. No. 8/26.03.001/2019-20 dated December 6, 2019, all stressed loans which are in default in the books of the FFPL maybe transferred to ARCs. This shall include loan exposures classified as fraud as on the date of transfer provided that the responsibilities of FFPL with respect to continuous reporting, monitoring, filing of complaints with law enforcement agencies and proceedings related to such complaints shall also be transferred to the ARC. The transfer of such loan exposures to an ARC, however, will not absolve FFPL from fixing the staff accountability as required under the extant instructions on frauds.

3.2 FFPL may in case of specific stressed loans which are transferred to ARC, may enter into an agreement with the ARC to share, in an agreed-upon proportion, any surplus realised by the ARC from the relevant stressed loan. In these situations, the transfer agreement will contain provisions for a report from the ARC of the loan's value realisation. However, FFPL shall not account for the profit until it actually occurs.

3.3 FFPL will debit the shortfall to the profit and loss account for the year in which the transfer of a stressed loan has taken place to ARC at a price below the NBV.

3.4 On the other hand, FFPL will reverse the excess provision on transfer to the profit and loss account in the year the amounts are received when the stressed loan is transferred to an ARC for a value greater than the NBV at the time of transfer. The amount of this reversal is only allowed if the cash received at the moment of transfer exceeds the loan's NBV.

3.5 The Net Asset Value (NAV) declared by the ARC based on the recovery ratings received for such instruments shall be used to calculate the periodic value of investments made by FFPL in SRs, PTCs, and other securities issued by ARCs. Provided further that FFPL shall in case of its investment in the SRs/PTCs issued by ARCs in respect of the stressed loans transferred by it to the ARC, it shall carry the investment in its books on an ongoing basis, until its transfer or realization, at lower of the redemption value of SRs arrived based on the NAV as above, and the NBV of the transferred stressed loan at the time of transfer.

3.6 If the investment by the FFPL in SRs issued against loans transferred by it is more than 10 percent of all SRs issued against the transferred asset, then the valuation of the SRs on its books shall be the lower of the following:

3.6.1 value arrived at in terms of clause 1.3.5; and

3.6.2 face value of the SRs reduced by the notional provisioning rate applicable if the loans had continued on the books of FFPL.

Provided that in respect of valuation of investment in SRs outstanding in the books of FFPL as on the date of issuance of these directions (September 24, 2021), the following treatment shall be applicable:

- i) The difference between the carrying value of such SRs and the valuation arrived at in terms of this clause, as on the next financial reporting date after the date of issuance of these directions, may be provided over a five-year period starting with the financial year ending March 31, 2022 – i.e. from FY 2021-22 till FY 2025-26.
- ii) Subsequent valuation of investments in such SRs on an ongoing basis shall, however, be strictly in terms of the provisions of the RBI directions.
- iii) FFPL shall put in place a board approved plan to ensure that the provisioning made in each of the financial years in compliance of sub-clause (a) above is not less than one fifth of the required provisioning on this count.
- iv) Valuation of investments in SRs made by FFPL after the issuance of these directions shall be strictly in terms of the provisions of these directions.

3.7 If SRs or PTs are still outstanding at the end of the resolution period (five or eight years, depending on the situation), FFPL will fully account for them as a lost asset.

3.8 FFPL's investments in debentures, bonds, SRs, and PTCs issued by ARC adheres to the valuation, classification, and other standards applicable to investments in non-SLR instruments as set forth by RBI from time to time. FFPL uses the NAV obtained from ARC on a

periodic basis to value such investments in case when any of the aforementioned instruments issued by ARC are restricted to the actual realisation of the financial assets assigned to the instruments in the relevant scheme.

3.9 FFPL is free to take over ARCs' standard accounts without restriction. Accordingly, in cases where ARCs have successfully implemented a resolution plan for the stressed loans acquired by them, FFPL at its discretion and with appropriate due diligence, take over such loans after the period equivalent to the 'monitoring period' as defined in Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions, 2019 issued vide circular DBR.No.BP.BC.45/21.04.048/2018-19 dated June 7, 2019, provided that the account performed satisfactorily, as defined in the circular ibid during the said 'monitoring period'. FFPL at no point of time acquire from ARCs the loan exposures which it had earlier transferred to the ARC as a transferor.

3.10 FFPL shall not remove any loan from its books which were taken over by ARCs as agents for recovery in exchange for a fee and realisations as and when received shall be credited to the loan accounts and FFPL shall continue making provisions for the loan in the normal course.

4) Disclosures

4.1 In the case of stressed loans transferred or acquired by FFPL the following disclosures will be made:

Details of stressed loans transferred during the year (to be made separately for loans classified as NPA and SMA)			
(all amounts in Rs. Crore)	To ARCs	To permitted transferees	To other transferees (please specify)
No: of accounts			
Aggregate principal outstanding of loans transferred			
Weighted average residual tenor of the loans transferred			
Net book value of loans transferred (at the time of transfer)			
Aggregate consideration			
Additional consideration realized in respect of accounts transferred in earlier years			
Details of loans acquired during the year			
(all amounts in Rs. Crore)	From lenders listed in Clause 3		From ARCs
Aggregate principal outstanding of loans acquired			
Aggregate consideration paid			
Weighted average residual tenor of loans acquired			

4.2 FFPL as a transferor will also make appropriate disclosures with regard to the quantum of excess provisions reversed to the profit and loss account on account of sale of stressed loans and will disclose the distribution of the SRs held by them across the various categories of Recovery Ratings assigned to such SRs by the credit rating agencies.

4.3 FFPL as a transferor will report each loan transfer transaction undertaken under the RBI directions to a trade reporting platform as notified by the Reserve Bank. The detailed instructions in this regard will be issued separately. In anticipation of the same, lenders shall maintain a database of loan transfer transactions with adequate MIS concerning each transaction till the reporting platform is notified and the related instructions are issued.