YES BANK LIMITED

Policy on Co-Lending by Banks and NBFC

1.Scope

Reserve Bank of India has recently revised guidelines on "Co-lending by Banks and NBFCs to Priority Sector lending" vide its circular RBI/2020-21/63 FIDD.CO.Plan.BC.No.8/04.09.01/2020-21 dated November 05, 2020. It was further clarified by RBI that the co-origination arrangement may be adopted for lending to non-priority sectors well. As per the revised guidelines, banks are permitted to co-lend with all registered NBFCs (including HFCs) based on a prior agreement.

Basis the revised guidelines, the Board has approved the Bank's Policy on Co-lending Model with NBFCs during its meeting on February 08, 2021. This policy on Co-Lending Model (CLM) is formulated in tune with guidelines laid down by Reserve Bank of India.

The Bank may engage with registered NBFCs for Co-Lending based on a Master Agreement executed between Bank and NBFC.

The term NBFC mentioned in the policy includes HFC as well.

2. Eligibility Criteria for selection of partner institutions

Bank may enter into Co-Lending arrangement with such NBFCs (including HFCs) that meet the following eligibility criteria.

a) The NBFC shall be a registered entity with RBI.
b) Net worth of the NBFC is not less than INR 25 Crores.
c) External credit rating of such NBFC is BBB and above.
d) Vintage of such NBFC is not less than 2 years in the product segment being considered for co-origination.
e) NBFC has sufficient reach geographically in the potential markets.
f) NBFC has sufficient skilled human resources to originate and service assets in the identified product segment.
g) NBFC has satisfactory track record in the past.
h) NBFC does not belong to The Bank's promoter Group

3. Nature of loans sourced under the Co-lending arrangement

Co-lending Model shall be adopted by Bank for the co-origination of priority sector loans and non-priority loans, as mentioned in Para 1.

Bank shall claim priority sector status in respect of Bank's share of credit extended to priority sector through this arrangement.

4. Types of arrangements

Bank may enter into co-origination arrangement with an NBFC in any of the following ways:

a) By mandatorily taking Bank's share of the individual loans as originated by the NBFC.
b) Retain the discretion to reject certain loans subject to bank's due diligence.

a) **Mandatorily taking Bank's share of individual loans originated by NBFC -** If the Bank proceeds with a prior, irrevocable commitment on its part to take into its books its share of the individual loans originated by the NBFC, the arrangement must comply with the extant guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services by Banks issued by RBI vide RBI/2014-15/497/DBR.No.BP.BC.76/21.04.158/ 2014-15 dated March 11, 2015 and updated from time to time. The guidelines pertaining to Outsourcing of Financial Services as specified in Bank's Policy on Outsourcing of Financial Services shall be complied with while entering into an irrevocable commitment with NBFC.

b) **Retain the discretion to reject certain loans subject to bank's due diligence -** If the Bank decides to exercise its discretion on taking into its books the loans originated by NBFC, the arrangement shall be akin to a direct assignment transaction. Accordingly, the 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//201213/170 DNBS. PD. No. 301/3.10.01/2012-13 August 21, 2012 respectively, 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.

To avail the MHP exemption Bank shall ensure that the Master Agreement between Bank and NBFC contains a back-to-back basis clause and that the arrangement complies with all other conditions stipulated in the guidelines for direct assignment.

5. Execution of Master Agreement

The Bank shall execute a master agreement with the co-lending partner for entering into the arrangement. The person to execute the agreement on behalf of the Bank shall be approved by the Head of Business Department. The Master agreement shall inter alia include terms and conditions of the arrangement, the specific product lines and areas of operation, along with provisions related to segregation of responsibilities as well as customer interface and protection issues covered in the policy along with other relevant aspects, if any, specific to the arrangement.

The Master Agreement to be executed between The Bank and the co-lending partner shall provide to either mandatorily take our share of the individual loans originated by the NBFCs in our books as per the terms of the agreement, or to retain the discretion to reject certain loans after our due diligence prior to taking in our books, based on the mutual understanding between the Bank and NBFC.

6. Know Your Customer (KYC) compliance:

The Bank shall comply with the Master Directions - Know Your Customer (KYC) Direction, 2016, issued vide RBI/DBR/2015-16/18 Master Direction DBR.AML.BC.No. 81/14.01.001/ 2015-16 dated February 25, 2016 and updated from time to time, which permit regulated entities, at their option, to rely on customer due diligence done by a third party, subject to specified conditions.

The Board approved KYC policy of the Bank shall be followed for all the accounts sourced and serviced through co-lending model.

7. Sharing of Risks and Rewards

The Bank shall take its share of the individual loans on a back-to-back basis in its books. Minimum 20% of the credit risk by way of direct exposure shall be on NBFC's books till maturity and the balance shall be on Bank's books.

8. Interest Rate to the Customer

The Bank shall price its part of the exposure in a manner found fit as per the risk appetite/ assessment of the borrower and the RBI regulations issued from time to time; and the NBFC shall price its part of the exposure. However, a single blended rate (all-inclusive interest rate) shall be offered to the customer as may be agreed upon by both the lenders conforming to the extant guidelines applicable to both.

9. Escrow Account

The Bank and the NBFC shall maintain each individual borrower's account for their respective exposures. However, all transactions (disbursements/ repayments) between the Bank and the NBFC relating to CLM shall be routed through an escrow account maintained with the Bank, in order to avoid inter-mingling of funds. The NBFC shall generate a single unified statement of the customer, through appropriate information sharing with the Bank. The manner of appropriation between the co-lenders shall be agreed upon and captured in the Agreement entered into between the co-lending partners.

10. Charge Creation on security

The Bank and NBFC shall arrange for creation of security and charge as per mutually agreeable terms.

11. Assignment of Loan

Any assignment of loan sourced under this arrangement by a co-lender to a third party shall be done only with the consent of other lender.

12. Customer Support

The NBFC 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 NBFCs and Banks.

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

13. Grievance Redressal Mechanism

The Bank while entering into agreement with the NBFC, shall include suitable clauses pertaining to resolving customer complaints by NBFC in accordance with applicable RBI guidelines. The NBFC shall be primarily responsible for providing the required customer service and grievance redressal to the borrower. Suitable arrangement shall be put in place by the Bank and the NBFC to resolve any complaint registered by a borrower with the NBFC 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.

14. Business Continuity Plan

Both the Bank and the NBFC shall formulate a business continuity plan to ensure uninterrupted service to the borrowers till repayment of the loans under the co-lending agreement, in the event of termination of co-lending arrangement between the co-lenders. The Bank shall follow its extant Business Continuity Plan in this regard and shall ensure that the NBFC, with which it is entering into a co-lending agreement, has a BCP in place so as to enable it to provide uninterrupted services to the customers.

15. Audit & Verification of the Loans

The loans under the CLM shall be included in the scope of internal/statutory audit within the Banks and NBFC to ensure adherence to respective internal guidelines, terms of the agreement and extant regulatory requirements.

16. Monitoring & Recovery

The Bank shall do its part in the day to day monitoring and recovery of the loan, as mutually agreed upon with the NBFC and captured in the Agreement entered into between the co-lending partners. Necessary clauses in this regard shall be incorporated in the master agreement with NBFCs.

17. Provisioning/ Reporting of the Loans

The Bank and NBFC 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.

18. Review of the Co-lending Policy

The policy shall be reviewed periodically for scope and content so that it remains aligned to the changes in the regulatory requirements, business conditions and the Bank's own business strategy & risk appetite.

19. Representations and Warranties

The Master Agreement shall contain necessary clauses on representations and warranties which the originating NBFC shall be liable for in respect of the share of the loans taken into its books by the Bank.