



**MUTHOOT MICROFIN LIMITED**

**COLENDING POLICY**

## **1. PREAMBLE**

This Co-Lending Policy ("Policy") sets out the principles, governance framework, risk management standards, operational requirements and control mechanisms governing all co-lending arrangements undertaken by Muthoot Microfin Limited ("the Company"). The Policy has been formulated in accordance with the provisions of the Reserve Bank of India (Non-Banking Financial Companies – Transfer and Distribution of Credit Risk) Directions, 2025, together with all other applicable circulars, directions, notifications and guidelines issued by the Reserve Bank of India ("RBI") from time to time ("RBI Regulation"),.

The Company recognizes co-lending as an important business model that facilitates greater credit penetration, improves access to formal finance, enhances operational efficiency and enables optimal utilization of the respective strengths of participating regulated entities. While pursuing such business opportunities, the Company shall ensure that all co-lending arrangements are structured and operated in a prudent manner that promotes sound credit underwriting, robust risk management, customer protection, transparency and full regulatory compliance.

This Policy shall serve as the overarching framework for the identification, approval, implementation, monitoring and review of all co-lending arrangements entered into by the Company.

## **2. OBJECTIVE**

The primary objective of this Policy is to establish a comprehensive framework for managing co-lending activities undertaken by the Company. The Policy seeks to ensure that all co-lending transactions are conducted in a manner consistent with the Company's risk appetite, business strategy and regulatory obligations. It further aims to define the governance architecture, delineate responsibilities among various functions, establish credit and operational standards, prescribe customer protection measures and ensure that risks arising from co-lending activities are adequately identified, measured, monitored and controlled.

The Company shall undertake co-lending activities only where such arrangements contribute to sustainable portfolio growth, enhance credit access for eligible borrowers and generate acceptable risk-adjusted returns without compromising asset quality, customer interests or regulatory compliance.

## **3. APPLICABILITY**

This Policy shall apply to all co-lending arrangements entered into by the Company with eligible regulated entities as permitted under RBI regulation. The Policy shall be applicable to all business units, branches, departments, employees, outsourced service providers, digital platforms and third-party intermediaries involved in any stage of the co-lending lifecycle, including customer acquisition, credit appraisal, underwriting, documentation, disbursement, servicing, collection, recovery, reporting and portfolio monitoring.

All co-lending products and programs launched by the Company shall be governed by the provisions contained herein unless specific regulatory requirements prescribe a more stringent standard, in which case the regulatory requirement shall prevail.

## **4. GOVERNANCE FRAMEWORK**

The Board of Directors shall retain ultimate responsibility for oversight of the Company's co-lending activities. The Board shall approve the Co-Lending Policy and any material amendments thereto. The Board

shall ensure that co-lending activities remain aligned with the Company's strategic objectives and risk appetite. The Board may delegate operational oversight to designated committees while retaining overall accountability for governance and compliance.

## **5. CO-LENDING COMMITTEE**

The Company shall constitute a Co-Lending Committee comprising of Chief Executive Officer, Chief Operating Officer, Chief Risk Officer, Credit Head, Chief Financial Officer, Chief Compliance Officer and Legal Head. The Chief Executive Officer may nominate additional members based on business requirements.

The Committee shall review and approve proposals for onboarding co-lending partners and oversee implementation and monitoring of Co-Lending Arrangements. It shall review portfolio performance, monitor compliance with applicable regulatory requirements and this Policy, and address significant operational, risk and customer service issues arising from co-lending activities. The Committee shall ensure that the aggregate exposure under CLAs does not exceed 30% of the Company's total Assets Under Management at any point in time. The lending portfolio constituted under CLAs shall be monitored on an ongoing basis to ensure compliance with this limit.

The Committee shall meet periodically as considered necessary and shall report material matters to the Board of Directors.

## **6. ELIGIBILITY AND SELECTION OF CO-LENDING PARTNERS**

The Company shall enter into co-lending arrangements only with entities that are eligible under applicable RBI regulations. Prior to entering into any co-lending arrangement, a comprehensive due diligence exercise shall be conducted to assess the prospective partner's financial strength, regulatory standing, governance standards, operational capabilities, technology infrastructure, information security controls, compliance culture and customer service framework.

The due diligence process shall include an assessment of the partner's capital adequacy, profitability, asset quality, liquidity profile, litigation history and market reputation. The Company shall also evaluate the partner's credit underwriting capabilities, collection effectiveness, management quality and ability to comply with applicable laws and regulations.

The findings of the due diligence exercise shall be documented and placed before the appropriate approval authority. No co-lending arrangement shall be entered into unless the Company is satisfied that the proposed partner possesses the necessary operational and financial capability to discharge its obligations under the arrangement.

## **7. CO-LENDING AGREEMENT**

Every CLA shall be documented through a legally enforceable agreement executed prior to commencement of operations.

The agreement shall define roles and responsibilities of each participating regulated entity, borrower selection criteria, eligible products, target segments, geography, funding obligations, servicing responsibilities, collections, recovery processes, audit rights, reporting obligations and termination provisions.

It shall also specify timelines for exchange of information, borrower servicing processes, grievance redressal mechanisms and business continuity arrangements.

Fees for lending services shall be based on objective criteria approved by the Board and shall not contain any element of credit enhancement, implicit guarantee or default protection except as permitted under RBI Regulations.

The Legal Department shall review and certify enforceability and regulatory compliance of all CLAs prior to execution.

## **8. MINIMUM RISK RETENTION REQUIREMENT**

The Company shall retain a minimum of ten percent of each individual loan originated under a CLA in accordance with RBI Regulations.

The retained exposure shall represent genuine economic interest and shall not be structured to dilute or transfer risk indirectly. Any such arrangement shall require prior review by the Risk Management function.

## **9. CREDIT UNDERWRITING AND APPRAISAL**

The Company shall ensure that all co-lending exposures are originated in accordance with sound and prudent credit underwriting standards. Credit decisions shall be based upon a comprehensive assessment of the borrower's repayment capacity, financial profile, credit history, business stability and overall risk characteristics.

The underwriting framework shall be supported by documented credit policies, product programs and approval matrices. Appropriate verification procedures shall be undertaken to validate customer identity, income, employment, business operations, collateral and other relevant information. The Company shall ensure that all applicable KYC, anti-money laundering and fraud prevention requirements are complied with prior to loan approval and disbursement.

Any deviation from approved underwriting standards shall be treated as a policy exception and shall require approval from the designated authority in accordance with the Company's delegation framework.

## **10. CUSTOMER PROTECTION AND DISCLOSURE**

The loan agreement shall clearly disclose the roles and responsibilities of each participating regulated entity, including sourcing, underwriting, servicing, collections and recovery functions.

The borrower shall be clearly informed of the entity acting as the single point of interface for all customer interactions under the CLA. Any change in customer interface shall be communicated to the borrower in advance.

All disclosures required under the Key Facts Statement framework shall be provided prior to execution of the loan agreement.

## **11. INTEREST RATE FRAMEWORK**

The interest rate charged to borrowers under a CLA shall be determined in accordance with the contractual arrangement between the participating lenders and the borrower, subject to compliance with applicable regulatory requirements.

The final interest rate charged to the borrower shall be the blended interest rate derived from the respective interest rates charged by the participating lenders, weighted according to their respective funding proportions in the loan.

Each participating lender shall independently determine its component interest rate in accordance with its approved internal policies, risk assessment framework and applicable regulatory requirements. Any revision in the component interest rate by either lender shall automatically result in a revision of the blended interest rate, and the revised rate shall be communicated to the borrower in accordance with applicable regulations.

Any fees, charges or expenses payable by the borrower in addition to the blended interest rate shall be included in the computation of the Annual Percentage Rate ("APR") and disclosed appropriately through the KFS.

## **12. SERVICING, COLLECTIONS AND RECOVERY**

Where the Company undertakes servicing responsibilities, it shall maintain appropriate infrastructure, systems and resources to ensure efficient administration of the loan portfolio. The Company shall monitor repayment performance, maintain borrower records, issue statements, process service requests and manage customer interactions in a professional manner.

Collection and recovery activities shall be conducted in accordance with applicable laws, RBI guidelines and the Company's Fair Practices Code. Employees and outsourced agencies engaged in collection activities shall conduct themselves with professionalism, courtesy and integrity. Under no circumstances shall coercive, abusive, misleading or harassing practices be employed.

## **13. FEES FOR LENDING SERVICES**

The Company may receive or pay fees for lending services performed under a CLA, including customer acquisition, underwriting, servicing, monitoring, collection and recovery activities.

The methodology for determining such fees shall be objective and transparent. The fee structure shall take into consideration factors such as nature of services provided, loan size, operational complexity, servicing requirements and expected costs.

Under no circumstances shall the fee arrangement contain, directly or indirectly, any element of credit enhancement, default support, implicit guarantee or risk absorption unless specifically permitted by applicable RBI regulations.

## **14. OPERATIONAL FRAMEWORK**

Each CLA shall contain an irrevocable commitment from the partner regulated entity to take its agreed share of each loan.

The respective loan shares shall be reflected in the books of both lenders without delay and in any case not later than fifteen calendar days from disbursement.

If the partner fails to assume its share within the prescribed timeline, the loan shall remain entirely on the books of the Company and any further transfer shall be governed by applicable RBI Regulations.

#### **15. ESCROW ACCOUNT MECHANISM**

All disbursements, repayments and settlement transactions relating to co-lending arrangements shall be routed through an escrow account maintained with a scheduled commercial bank. The escrow bank may, where permitted, also be one of the participating regulated entities.

The CLA shall clearly define the operating procedures of the escrow account, including responsibilities for account management, settlement timelines, reconciliation procedures and the methodology for allocation of collections among participating lenders.

#### **16. BUSINESS CONTINUITY AND TERMINATION MANAGEMENT**

The Company shall maintain a comprehensive Business Continuity Plan covering all co-lending arrangements.

The Business Continuity Plan shall ensure uninterrupted servicing of borrowers, collection of repayments, customer grievance handling and maintenance of records even in circumstances involving termination of the CLA, insolvency of a participating lender, technology failure or any other disruptive event.

The Company shall ensure that termination of a CLA does not adversely affect the rights, obligations or servicing experience of existing borrowers.

#### **17. DEFAULT LOSS GUARANTEE**

The Company may provide a Default Loss Guarantee ("DLG") under a CLA only to the extent specifically permitted under applicable RBI regulations.

Where the Company acts as the originating lender, any DLG provided in favour of the partner lender shall not exceed five percent of the outstanding loan portfolio covered under the relevant CLA.

All DLG arrangements shall comply with the requirements prescribed under the RBI framework governing digital lending and default loss guarantees, as amended from time to time.

#### **18. ASSET CLASSIFICATION AND NPA RECOGNITION**

Borrower-level asset classification shall be followed. Where either regulated entity classifies an exposure as SMA or NPA, the same classification shall apply to the other entity's exposure to the same borrower.

Near real-time information exchange shall be ensured, and in any case not later than the next working day.

#### **19. REPORTING TO CREDIT INFORMATION COMPANIES**

The Company shall report its share of all co-lending exposures to Credit Information Companies in accordance with applicable laws and RBI requirements.

The Company shall ensure completeness, accuracy and timeliness of all reporting and shall maintain adequate controls to identify and rectify reporting errors.

#### **20. TRANSFER OF CO-LENDING EXPOSURES**

Any subsequent transfer of loan exposures originated under a CLA, whether to third parties or between participating lenders, shall comply with the RBI framework governing transfer of loan exposures.

No transfer of co-lending exposures to a third party shall be undertaken without the mutual consent of both the originating lender and the partner lender.

## **21. INTERNAL CONTROL AND COMPLIANCE**

The Company shall maintain a robust internal control environment to support its co-lending operations. Processes and systems shall be designed to ensure compliance with applicable laws, regulations, internal policies and contractual obligations.

The Compliance function shall continuously monitor regulatory developments and ensure timely implementation of all applicable requirements.

## **22. DISCLOSURES**

The Company shall make all disclosures relating to Co-Lending Arrangements as required under applicable RBI Regulations and other applicable laws from time to time.

The Company shall prominently disclose on its website the list of all active co-lending partners and ensure that such information is kept updated on an ongoing basis.

The Company shall also make appropriate disclosures relating to its co-lending portfolio in its financial statements, including under Notes to Accounts, in the form, manner and periodicity prescribed by RBI from time to time.

## **23. POLICY REVIEW**

This Policy shall be reviewed at least annually or more frequently if warranted by changes in regulatory requirements, business strategy, risk profile or operating environment. Any material amendment to the Policy shall require approval of the Board of Directors.

In the event of any inconsistency between this Policy and any applicable law, regulation, direction or guideline issued by RBI, the regulatory requirement shall prevail and the Policy shall be interpreted accordingly.