

## KEERTANA FINSERV PRIVATE LIMITED

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| <b>Name of Policy</b>      | Policy on Transfer of Non-Stressed Loans |
| <b>Prepared By</b>         | Prakash Bhawnani                         |
| <b>Proposed By</b>         | Padmaja Reddy                            |
| <b>Approving Authority</b> | Board of Directors                       |
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## 1. INTRODUCTION

Keertana Finserv Private Limited ('Keertana' or 'Company'), is a Non-Banking Financial Company (non-deposit taking). As per the Master Direction- Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021 ("**RBI Directions**"), the Company is required to put in place a comprehensive Board approved policy for transfer and acquisition of loan exposures within the prescribed regulations.

In view of the above, it is proposed to adopt this "**Policy for Transfer of Non-Stressed Loans**" ("**Policy**") to lay down the standards which the Company may follow **while entering any transaction relating to transfer of non- stressed loans** (loans which are not in default) In the capacity of transferor or transferee.

## 2. COMPLIANCE WITH LAW AND REGULATIONS

The Company endeavors to adopt best practices and comply with all applicable laws and regulations. The Company has formulated this Policy to ensure compliance with the RBI Directions.

If at any time, there is any change in the RBI Directions pertaining to transfer of non-stressed assets then such change shall be considered part of the Policy and complied with. The Company shall also ensure compliance with other applicable statutory provisions/ laws as may be required from time to time in case of such transfer of loans.

## 3. SCOPE AND OBJECTIVES OF THE POLICY

The Policy shall be applicable to all transfers/ acquisitions of non- stressed loans (*i.e.* loans which are not in default) which may be carried-out by the Company. Such transfers/ acquisitions will include those undertaken by the Company through novation or assignment, and loan participation.

The objective of the Policy is to lay down standards of both quantitative and qualitative for due diligence, risk management, prudential norms, regulatory requirements, accounting etc. relating to such transfers/ acquisitions of non- stressed loans.

This Policy shall not be applicable to the following:

- (a) Transfer of loan accounts of borrowers by between, at the request/instance of borrower.
- (b) Inter-bank participations covered by the circular DBOD.No.BP.BC.57/62-88 dated December 31, 1988 as amended from time to time, if applicable.
- (c) Sale of entire portfolio of loans consequent upon a decision to exit the line of business completely.
- (d) Sale of stressed loans; and
- (e) Any other arrangement/transactions, specifically exempted by the Reserve Bank of India.

#### 4. POLICY COMPLIANCE

- Chief Financial Officer or any other employee heading Treasury and performing the role of fund raise shall be responsible for ensuring the compliance with Policy.
- The Asset Liability Management Committee (“ALCO”) shall be authorized to approve any of the transactions relating to transfer of non- stressed loans proposed to be undertaken by the Company. Further, the ALCO and the MD & CEO of the Company, severally, shall be further authorized to deliver their respective authority to any of the senior officials of the Company.

#### 5. POLICY STANDARDS

##### 5.1 Definitions

- (a) “**Credit Enhancement**” means a contractual arrangement in which an entity may provide some degree of added protection to other parties to a transaction so as to mitigate the credit risk of their acquired exposures.
- (b) “**Default**” means 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.  
*Provided that for revolving facilities like cash credit, default would also mean, without prejudice to the above, the outstanding balance remaining continuously in excess of the sanctioned limit or drawing power, whichever is lower, for more than 30 days.*
- (c) “**Loan Participation**” means 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.
- (d) “**Loan**” means a loan/ exposure or pool of loans/ exposures which are being transferred or acquired and where the Company is involved.
- (e) “**Minimum Holding Period (“MHP”)**” means the minimum period for which a transferor must hold the loan exposures before the same is transferred to transferee(s).
- (f) “**NBFC**” shall mean Non- Banking Financial Company.
- (g) “**RBI**” shall mean Reserve Bank of India.
- (h) “**Stressed Loans**” mean loan exposures that are classified as non-performing assets (NPA) or as Special Mention Accounts (SMA).

- (i) **“Transfer”** means 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 RBI Directions.

## 5.2 Permitted Transfers/ Transactions

The Company, subject to the applicable regulatory requirements applicable from time to time, may transfer or acquire a single loan or a part of such loan or a portfolio of such loans to permitted transferees or transferor through assignment or novation or a loan participation contract.

## 5.3 Minimum Holding Period (“MHP”)

The Company, as a transferor, shall comply with the MHP as under:

- (a) MHP of 3 months in case of loans with tenor of up to 2 years.
- (b) MHP of 6 months in case of loans with tenor of more than 2 years.

The MHP to be calculated from date of (*as per the applicable scenario*):

- (i) registration of the underlying security interest.
- (ii) first repayment of the loan, in case of loans where security does not exist, or security cannot be registered.
- (iii) commencement of commercial operations of the project being financed, Provided further that in case of transfer of project loans.

The Company, in case of loans acquired by it from other entities, will ensure that such loans are not transferred further, before completion of 6 months from the date on which the loan was taken into its books.

## 5.4 Separation of the Transferor from the Risks and Rewards

The Company while entering a loan transfer should ensure immediate separation of the transferor from the risks and rewards associated with loans to the extent that the economic interest has been transferred. In case of any retained economic interest in the pool transferred or to be transferred by the transferor then the loan transfer agreement should clearly specify the distribution of the principal and interest income from the transferred pool between the transferor and the transferee(s).

Loan transfers should result in transfer of economic interest without being accompanied by any change in underlying terms and conditions of the loan contract usually. Any changes in the underlying terms and conditions of the loan contract shall be evaluated against the definition of ‘restructuring’ provided in the Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions 2019.

The transferee(s) should have the unfettered right to transfer or otherwise dispose of the loans free of any restraining condition to the extent of economic interest transferred to them. The transferee(s) shall have no recourse to the transferor for any expenses or losses

linked to the transferred economic interest except those specifically permitted under these guidelines. Further, the transferor / transferee(s) shall not be constrained to obtain consent from the transferee(s) / transferor, as the case may be, when it comes to resolution or recovery in respect of the beneficial economic interest retained by or transferred to the respective entity.

## **5.5 Legal Opinion**

A legal opinion regarding the following, at a minimum, should also be kept on record by the transferor:

- (a) Legal validity of amount of economic interest retained by the transferor;
- (b) The transferor not retaining any risk and rewards associated with the loans to the extent transferred to the transferee(s);
- (c) The arrangement does not interfere with transferee(s)' rights and rewards associated with the loans to the extent transferred to it, except to the extent of collaborative action contractually agreed between the transferor and the transferee(s) for enforcement of security, if any, including the scenarios in which the security interest is held by the transferor in trust for the trustees; and
- (d) The arrangement does not result in the transferor becoming an agent, trustee, or fiduciary of the transferee(s), except:
  - (i) providing servicing facilities extended by the transferor, if any, post such transfer, to the extent of rights to cash flows in respect of the transferee(s); and
  - (ii) collaborative action contractually agreed between the transferor and transferee(s) in relation to enforcement of security including scenarios in which the security interest is held by the transferor in trust for the transferee(s).

## **5.6 No Credit Enhancements**

In case of any loan transfer, the Company shall not offer credit enhancements or liquidity facilities in any form in the case of loan transfers.

The 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. The transferor should be able to demonstrate 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. However, this requirement shall be subject to the regulatory provisions relating to the representations and warranties provided and their fulfilment.

## **5.7 Transfer to be on Cash Basis**

The transfer shall be only on cash basis and the consideration shall be received on the day of the actual transfer and cant be later than the transfer date. The transfer consideration should be arrived at in a transparent manner on an arm's length basis.

## 5.8 Due Diligence

The Company, as a transferee, shall conduct due diligence before acquiring any loans under this Policy. The due diligence in respect of the loans to be acquired should not be outsourced by the Company as a transferee 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.

The due diligence requirements shall be applicable at the level of each loan. If due diligence is done completely at the level of each loan, then there is no regulatory requirement for minimum retention by the Transferor.

In case of loans acquired as a portfolio, if a transferee is unable to perform due diligence at the individual loan level for the entire portfolio, 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 will have to be performed and, in such instances, at least 10 per cent of economic interest in the transferred loans will have to be retained by the transferor.

*Explanation: If a transfer involves multiple transferees, the minimum retention requirement by the transferor, if any of the transferees is unable to perform due diligence at the individual loan level, shall be on the entire amount of transferred loans, including the portions transferred to transferees who are able to perform due diligence at the individual loan level.*

The Company will monitor on an ongoing basis and in a timely manner performance information on the loans acquired, including various analysis and take appropriate action required, if any. For this purpose, the Company will put in appropriate diligence procedures/ parameters in place to review/ analyze the loans acquired commensurate, with their risk profile, while also compliance with the regulatory prescription on the same. Such procedures should be as rigorous as that followed by the Company for portfolios of similar loans directly originated by it. The information required for these procedures, if not collected directly by the Company and obtained from the servicing facility agent, if any, should be certified by the authorized officials of the servicing facility agent.

If the size of such portfolio acquired by the company in the capacity of transferee is equal to or more than 5% of the outstanding loan portfolio then credit monitoring procedures shall be required to include verification of the information submitted by the servicing facility agent's concurrent and internal auditors. The servicing facility agreement should provide for such verifications by the auditors of the transferee(s), and wherever applicable, the transferor. All relevant information and audit reports should be available for verification by the RBI.

## 5.9 Prudential Norms

Any loss or profit, arising out of transfer of loans by the Company shall be accounted for accordingly and reflected in the Profit & Loss account for the accounting period during which the transfer is completed.

The Company, as a transferee (in case acquisition of loans) and as a transferor (in case of retention of economic interest) shall maintain borrower-wise accounts. Thus, the exposures as a transferor/ transferee would be to the individual obligors in a pool of loans and the Company shall apply the applicable income recognition, asset classification and provisioning as well as exposure norms, on individual obligor basis in all cases to the extent of retained economic interest.

The Company, as applicable, shall comply with Indian Accounting Standards (IndAS) and the advisories issued by the Institute of Chartered Accountants of India (ICAI Advisories) in case of any inconsistencies between the RBI Directions and the IndAS.

### 5.10 Representations and Warranties

In cases where a transferor makes representations and warranties concerning loans transferred, the transferor will not be required to hold capital against such representations and warranties provided the following conditions are satisfied:

- (a) Any representation or warranty is provided only by way of a formal written agreement.
- (b) The representation or warranty refers to an existing state of facts that is capable of being verified by the transferor at the time the loans are transferred.
- (c) The representation or warranty is not open-ended and, in particular, does not relate to the future creditworthiness of the loans/underlying borrowers.
- (d) The exercise of a representation or warranty, if any, requiring a transferor to replace loans (or any parts thereof) transferred, on grounds covered in the representation or warranty, must be:
  - (i) undertaken within 30 days of the transfer of loans; and
  - (ii) conducted on the same terms and conditions as the original transfer.
- (e) A transferor that is required to pay damages for breach of representation or warranty can do so provided the agreement to pay damages meets the following conditions:
  - (i) the onus of proof for breach of representation or warranty remains at all times with the party so alleging;
  - (ii) the party alleging the breach serves a written Notice of Claim on the transferor, specifying the basis for the claim; and
  - (iii) damages are limited to losses directly incurred as a result of the breach.

If the Company is transferor in such cases then, for such replacement, it shall apply the asset classification and provisioning norms as if the reacquired exposures had not been transferred in the first place.

The Company **shall notify the Department of Supervision of the RBI** of all instances where it has replaced loans transferred to a transferee or paid damages arising out of any representation or warranty.



## 5.11 Other Standards

- (a) The Company, while onboarding of similar types of loans/ loan products, will ensure that different criteria of credit underwriting should not be applied for the loans that it may transfer and for the loans which may be retained in its books.
- (b) Wherever security interest is held by the transferor in trust with the transferee(s) as the beneficiaries, the transferee(s) shall ensure that a mutually agreed and binding mechanism for timely invocation of such security interest, if the need arises, has been properly documented and put in place.
- (c) The Company, as a transferor shall not re-acquire, either fully or partially, a loan exposure that had been transferred by it previously, unless permitted under the RBI Directions or any other statutory requirement.
- (d) The transfer of loans by transferor(s) 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.
- (e) In cases where loan transfers result in a change of lender of record under a loan agreement, it shall be ensured that the existing loan agreement has suitable enabling provisions including consent by the underlying borrower that allow for such transactions.
- (f) The Company shall ensure independence of functioning and reporting responsibilities of the units and personnel involved in authorizing/ approving transfer/ acquisition of loans from that of personnel involved in originating/ sourcing the loans.
- (g) For the loans acquired, the Company shall adopt adequate framework/ infrastructure/ procedures for IT systems, storage & management of data, risk management, periodic Board level oversight as employed for the loans originated by it. It shall follow the valuation guidelines as prescribed by the RBI for such acquisition.
- (h) If Company is the transferor, based on information available with it, it shall verify and establish that the transferee(s) complies with the following provisos:
  - (i) Transferee(s) is not a person disqualified in terms of Section 29A of the Insolvency and Bankruptcy Code, 2016;
  - (ii) In case of transfer of loan exposures of borrowers in whose accounts instances of fraud have been detected by it, the transferee(s) shall neither belong to the existing promoter group of such borrower nor shall be a subsidiary / associate / related party etc. (domestic as well as overseas) of any person belonging to the existing promoter group of such borrower. *The term 'promoter group' shall have the same meaning as in the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018; and the term 'related party' shall have the same meaning as in the Insolvency and Bankruptcy Code, 2016.*

## 5.12 Duties of a Servicing Facility Provider

The Company, while being a Transferor, may act as the Servicing Facility Provider to administer or service the acquired exposures. In such instances, the Company shall ensure that the following conditions are fulfilled:

- (a) The nature, purpose, extent of the facility and all required standards of performance should be clearly specified in a written agreement.
- (b) The facility is provided on an 'arm's length basis' on market terms and conditions.
- (c) 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.
- (d) The duration of the facility is limited to the earliest of the dates on which:
  - (i) the underlying loans are completely amortised;
  - (ii) all claims connected with the transferee(s)' economic interest in the underlying loans are paid out; or
  - (iii) the lender's obligations as the servicing facility provider are otherwise terminated.
- (e) There should not be any recourse to the Company beyond the fixed contractual obligations.
- (f) The transferee(s) have the clear right to select an alternative party to provide the servicing facility.
- (g) The Company should be under no obligation to remit funds to the transferee(s) until it has received funds generated from the underlying loans.
- (h) The Company 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.

Provided that if the above conditions are not satisfied, the Company, as a Transferor and a Service Provider, 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.

## 5.13 Loan Transfers not meeting requirements

In respect of exposures that do not meet the requirements of these directions, the Company as a transferee, shall maintain capital charge equal to the actual exposure acquired. As a Transferor, in such cases, the Company shall continue to recognise the transferred loan in its entirety, as if it was not transferred at all in the first place, and the consideration received shall be recognised as an advance.

## **6. DISCLOSURE & REPORTING**

The Company shall ensure that required disclosures, relating to the transfer of assets, are appropriately provided in the financial statements, under the 'Notes to Accounts'. The Company, for this purpose, shall refer to the various directions/ requirements prescribed by the RBI which are applicable to it

## **7. EXCEPTIONS MANAGEMENT**

Any deviation from this Policy (except any regulatory breach, which is not permitted) shall require approval of the MD & CEO of the Company.