ABANS FINANCE PRIVATE LIMITED

CREDIT/LOAN POLICY

Adoption/Amended	Authority	Date
Adoption	Board of Directors	April 24, 2019
Revision	Board of Directors	February 14, 2022
Revision	Board of Directors	August 16, 2024
Revision	Board of Directors	January 29, 2025

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I. POLICY STATEMENT AND PURPOSE

Abans Finance Private Limited ('AFPL' or 'the Company') is a Material subsidiary of Abans Holding Limited. From March 31, 2024, it has been categorized as a Middle-Layer NBFC (NBFC-ML). The debt securities issued by the Company are listed on the floor of the Bombay Stock Exchange. The Company is governed as per the SEBI Rules and Regulations, Companies Act, 1956, and the Rules and Regulations of Non-Banking Finance Company issued by the Reserve Bank of India.

This paper has been drawn by way of consolidation, updating and additions to AFPL's existing lending policy with a view to present a comprehensive document for the Board's approval. The policy seeks to maintain consistent improvement in asset quality, improvement in net interest margins and operational efficiency particularly in the areas of compliances and risk management. There has been keen competition amongst many players in lending and borrowing markets and products are evolved as per the customer requirements and benchmarked to offering by the competition.

As a Non-Banking Financial services company registered under the Reserve Bank of India Act , our lending policy is guided by the directives and guidelines issued by The Reserve Bank of India from time to time . As such, this policy document is subject to review based on periodic changes in regulatory norms and operating environment. Accordingly, the board approved its Loan policy in the meeting dated February 02nd, 2016 and the current policy is renewed with updates based on the regulatory guidelines and business needs.

II. SCOPE AND OBJECTIVE OF THIS POLICY:

The Company's Loan Policy is the framework, which defines the principles for lending business. It is the policy of AFPL to at-least earn net interest margin prevailing in the market by minimizing credit risk. AFPL shall also grant the loan only after due verification of customer profile. All existing loans shall be monitored on regular basis to assess and identify risk; if any; that arose post lending. AFPL shall also try to maintain its liquidity position that matches with the requirement of the business. At all times compliance with all applicable rules and regulations shall be the priority of AFPL. AFPL shall duly implement and keep the Loan Policy including the Appendices and any amendments thereto up to date, in accordance with any regulatory, corporate or other legal requirements. This document among others broadly enumerates scope, objectives, loan sanction procedure, customer segments, purpose of loan, process of loan approval and disbursal, interest rate determination of the loan disbursal, maturity including prematurity of the sanctioned loan, various type of charges to be borne by an individual customer, risk control matrix and tolerance level.

The objectives of this Policy are as below:

a) To create a set of standardized policies and procedures for the lending activities of AFPL.
b) To institute due diligence for mitigating level of credit risks and improve credit quality.
c) To define overall risk appetite.
d) To establish underwriting framework- including maximum credit limits, risk limits, etc.
e) To ensure thorough loan appraisal and proper monitoring of all outstanding loans. This includes both, supervision of outstanding loans as well as recovery of overdue loans.
f) To determine early warning signals and appropriately providing prudential norms with respect to provisioning of said loans.

This Loan policy provides an overall description of all stages of the lending process.

In pursuing its business, AFPL 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 would be tolerated. Further loan agreements will override loan policy.

III. BUSINESS STRATEGY AND BUSINESS OPERATIONS

AFPL business operations need to be financially sustainable i.e. all expenses shall have to be met from income essentially from interest earned on loans extended in addition to income from investments and fees collected from services extended to customers. AFPL may extend loans to individuals, HUFs, partnership firms, corporates or any other eligible borrower. Loan may be either in the nature of long term, short term, revolving, on demand and may be secured or unsecured. Lending Process is also dependent upon the risk profile of the borrower. The option for annulling and repayment is at mutual consent and the company as a lender have option to call for early repayment generally when default exists/risk is presumed. Demand loan offers better flexibility to both customer and the company in handling the credit requirements and giving option to the company to call back the loan on demand. The company intends extending demand / call loans as detailed out in the policy. The Demand / Call Loans can be extended under Trade Advances, Loan against Shares or Securities or any other tangible assets, etc. as or as unsecured product as well, as determined by the Credit Appraisal and Sanctioning authority along with the directions of the Board of Directors.

a) Resources

- Our funding needs are presently sourced out of accumulated net worth of the Company, borrowings in the form debt and loans from internal sources. As a part of our policy to raise cheaper source of funds and also to draw parity with our assets maturity profile, alternative short-term sources of funding would also be added to the resources as and when required.

b) Business Segments

- Corporate Lending: The Company can further extend loans to any Body Corporate(s), firm(s), non-individual entities.

- Retail Lending: AFPL may extend secured / unsecured loans to the individuals which may be for personal / business purpose. Personal loans may be for consumer durables, travel and acquisition of property etc.

- Other Segments / Loan Products: The Company can further extend loans to any of its employee or employees of the group companies.

  The loan policy has been framed in line with the Fair Practices Code prescribed by RBI.

c) Sanctioning Authority:

- **Finance Committee:** Finance Company resides ultimately with the Chief Financial Officer, Executive Director and CEO and two employees of AFPL.

d) Purpose of Loan:

- AFPL lending business will support the following use cases within the Group:

➢ To support the cash flow need on temporary basis.
➢ Working capital loans for expansion of business.

- The Company can further extend the loans to corporate and individuals (not related) for their business needs within the risk appetite and regulatory framework.

- The Company can also grant personal loans within the risk appetite and regulatory framework.

- In the long term, it is envisaged that the lending business will reach out to both existing customers as well as open market customers and fulfil their financing needs for purposes as wide ranging as loans for education, purchasing consumer durables, cash loans, and the gamut of curated lending products etc.

- The Company / Management may set out overall Exposure Limits as well as sub-limits for Demand / Call Loan portfolio, based on parameters which may include:

  ➢ Collateral Type / Unsecured – It will be mostly unsecured

  ➢ Credit Risk – Set a CIBIL Range

- Borrower Demographics –

  Age: Different age groups may have varying borrowing needs and behaviors.
  Income Level: A crucial factor influencing borrowing capacity and types of loans sought.

- End-Use – Any particulars end use restriction as per RBI like for purchase of gold

  - Customer Selection: In case of individuals, loans shall be provided to:
  - Salaried Employees of Public Sector Institutions/Companies/Undertakings
  - Salaried Employees of Private Sector Companies
  - Self-Employed Individuals
  - Students

e) <u>Loan Underwriting:</u>

The process from the receipt of customers' request and communication of the final approval of facility will be as under:

- Loan Approval process: The process will start from the receipt of customers' request and the processing of same, including approval of the credit facility. The process ends with the communication of an approval of facility to the customer through a term sheet/sanction letter.

- Loan Application: The customer shall submit a form either at offline or online touch-points to inform the company regarding the interest in a certain loan product.

- KYC Document Verification: As per RBI Regulations, 100% KYC compliance is mandatory for all Transactions in Financial Institutions. The documents submitted by the customer will be analysed either using competent technological or human resources.

- Credit Appraisal: This step involves arriving at a decision to provide the loan or not. AFPL shall require additional documents such as income statement, PAN, Form16 or other considered necessary from the customer.

- Regulatory check: This step involves verification of rules and regulation to be followed by AFPL before final sanction of the same. This involves checking of;

- Single / Group Exposure norms - Lending to any single borrower will not exceed 15% of owned funds and to any single group of borrowers not to exceed 25% of owned funds.

- Maintain a Capital to risk weighted asset ratio of 15%.

- Prudential lending norms - Asset classification, provisioning requirements as per RBI Prudential norms.

- Fixation of maximum loan per gram based on the Loan to Value (LTV) guidelines of RBI.

- Compliance with Anti money laundering / countering financing of Terrorist Activities as elucidated in our Anti Money Laundering (AML) policy.

- Income Recognition, Asset Classification and Provisioning Demand / Call loans that are classified as NPA shall be accounted for on Receipt / Realization basis. Asset Classification & Provisioning shall be as per the requirements prescribed by Reserve Bank of India. However, the Company may adopt a more stringent Asset Classification & Provisioning mechanism based on expected risks. Further, the Company shall ensure that its Liquidity Risk Management system captures Non-Performing Assets as illiquid.

- The Company shall ensure that (i) KYC measures are being followed, (ii) Credit risk analysis is being done on the borrower before sanction, and (iii) the Sanction and disbursal of Demand / Call loans are within the overall Liquidity Risk Management criteria of the Company.

- The Board of Directors may appoint a person / department designated to ensure compliance with laid down policies & procedures on Sanction, KYC & PML, Authorization structure etc. Until such appointment, the responsibility of the same would rest with the Chief Financial Officer of the Company. Notwithstanding anything in this Policy, any form of Sanction to the Companies in the Group shall require approval of the Board of Directors of the Company.

- Final decision on Sanction: The final decision to provide the loan or not will remain with LC or any other appropriate person / authority as decided by LC from time to time.

- Since the major focus in retail loans shall be unsecured loans, the underwriting shall be strengthened such that loans shall only be granted after the ability and intention to pay of the individual is assessed to an extent as much as possible. Unconventional sources such as alternative data modelling to arrive at the credit worthiness of the individual can also be used.

- Unsecured loans shall not be granted to those who do not have a verifiable regular income, other than students. In case of students, the personal loan shall require the guarantee of another person who shall pay in case of default.

- While approving loans, compliance with ceiling linked to our net owned funds, fixed by RBI, will have to be ensured.

- Processing Fee: AFPL will charge a processing fee at applicable rates on case to case basis. Any revision in these charges would be implemented on prospective basis with due communication to customers.

  Other Charges:
  The below charges shall be as applicable for each product line.
  - Prepayment Charges/Loan Foreclosure
  - Additional Interest on late payment
  - PDC/ECS swap charges
  - Loan cancellation charges
  - EMI Bounce charges
  - Legal charges

f) **<u>Tenor</u>**

- The demand/call loan will be sanctioned for a period up to one year from the date of sanction of the loan in case of Demand Loan Facility or as per the terms agreed between the company and the borrower.

- The Manager/Senior Manager/ Other prescribed Authorities shall record specific reasons in case the tenure of loan for any client is beyond the period of 12 months from the date of sanction.

- In case no call / demand is made prior to the expiry of stipulated period/Cut-off date determined, then the loan shall be deemed to be called/ demanded on such expiry date/Cut-off date and shall be repaid accordingly (unless the contrary is not put forth in the agreement agreed by the client and the company)
- Suitable clauses empowering such demands/ calls made for repayment would be incorporated in the loan agreements.

- The retails loans shall be granted for a tenor of not more than 5 years.

- Besides the above, in order to gainfully utilize the deployable funds, the company shall make a short-term deposit / loan including inter corporate deposits for a period not exceeding one year. The maximum period credit facilities shall not exceed 5 years from the date of disbursement of the loan. Loan for a period of more than five year shall be granted subject to approval of the Board.

- At least 7 days prior to the end of the stipulated period, the Demand / Call loans shall be reviewed to decide on whether it should be fully / partially Rolled Over or demanded / called on end of expiry period.

  Roll-Over shall be offered only if

- ➢ Interest payment has satisfactory performance
- ➢ Collateral, if any, is sufficient
- ➢ Credit Risk pertaining to the Borrower is low
- ➢ Regular Performance Review has provided satisfactory result

- On renewal, the Demand / Call loan shall be considered as a new demand / call loan, although it may continue under the same customer / loan account number. The Roll-Over shall require re-execution of fresh Loan Agreement and other documents, and mere addendum / amendment to the Loan Agreement shall not be undertaken.

g) <u>Determination of Interest rates:</u>

- The base interest rate comprises of the cost of funds, operational costs and the minimum rate of return desired. The further spread will take into account the factors in the creditworthiness of the customer in the form of risk premium.

- Other relevant factors have been enumerated below:
- ➢ Interest shall be accrued and charged periodically.
- ➢ Interest can be charged in advance, and accordingly effective interest rate shall be determined as per agreed terms and conditions.
- ➢ Fees/ charges may be levied upfront or at other specific intervals as per the agreed terms and conditions.
- ➢ Some fees or commissions may have to be paid before the commencement of a facility, the customer shall be required to make advance payment of such funds to AFPL.
- ➢ In all cases, the effective interest rate shall be clearly communicated to the customers, all fees, commissions, interest rates and their calculations shall be transparent and explained in a manner that could be understood by the customers, in compliance with the FPC.
- ➢ Interest Rate policy will be reviewed periodically to take into account market forces, inflation and risk factors.
- ➢ Interest rate structure may vary among borrowers depending upon the risk factors & need for achieving operational & financial sustainability. The Credit Authority will go through the rate recommended and give approval in all such cases.

- The sanctioning authority shall record specific reasons in writing at the time of sanctioning loans, in case no interest is stipulated or a moratorium for principal or interest is granted for any period.

The rate of interest shall majorly depend on three overarching major factors:

- Company factors:
  - The cost of funds: Currently, loans are granted from both accumulated equity and borrowing by the company.
  - Operational costs: This would include the cost of using manpower for applicant's checks and document processing/verification, and if any face-to-face interaction is required.
  - Technology costs would also be factored in.
- Customer Factors based on the risk categorization (low, medium, high) of the customer:
  - Credit rating: All customers with existing tradelines shall be partly evaluated on the basis of their credit score. A cut-off score shall be defined with risk categorization and associated interest rates.
  - Customer history: If a customer already has a loan account with AFPL, the performance of the individual on the existing repayments shall be evaluated. This is also a subset of the credit score.
  - Applied Amount and Tenor of the loan: The interest rate shall also factor in the amount of loan and the number of months that the loan shall be repaid in.

- External Factors:
  - Possibility of linkage of loan rates with benchmarked rates

- Other Important factors:
  - The rate of interest shall be annualised rate so that the borrower is aware of the exact rates that would be charged to the account.

- **Repayment:** The Loan may be repayable / renewed as per the terms agreed upon. However, the cut-off date for repayment may be extended by the sanctioning authority for any particular case. Where such cut-off date for repayment is extended beyond a period of one year from the due date, the sanctioning authority shall record specific reasons in writing for such extension.

  The demand loan facility would be due for renewal at the expiry of the loan tenure or at any time as per the application of the client as specified at the time of loan sanction. The renewal of the loan facility would be at the sole discretion of the lender.

  The renewal of the Demand Loan Facility as aforesaid shall be on the terms and conditions at the given date.

  At least 7 (Seven) days prior to the end of the stipulated period, the loans would be reviewed to decide on whether demand / call should be made on due date or further renewal of the loan either in full or part to be considered for any period, not exceeding 12 months. The same shall be documented.

In case the loan is renewed, then it should be considered as a new demand / call loan although the same may continue under same customer/ loan account number. Necessary renewal papers would be obtained.

The automatic renewal shall be made for one successive loan tenure. Once, automatic renewal made for the loan, such outstanding loan amount shall be repaid before grant of any further loan.

In case the loan has not been repaid or closed even after following due procedure and sufficient warnings post 2 years from original date of grant of loan, the lender shall be entitled to invoke the pledge/collateral.

Maximum amount for each of the demand/ call loan and the aggregate amount of the demand / call loan would be determined by the Finance Committee.

- Security: For secured loans, the borrower shall, in consideration of the loan given, create such security in favour of the Company as stipulated by it, including a demand promissory note, wherever applicable.

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- Collaterals: In case it is felt necessary to strengthen the credit worthiness of the borrower, a co-borrower / guarantor may be considered.

h) **Customer Journey:**

AFPL shall have one way in which the customer through offline.

i) General Information:

- All customers shall be informed in detail regarding the features, terms and conditions including all charges of the loan before the sourcing of the application. In case of credit facility availed over online or telephonic mode, no loan application shall be processed without a written consent from the customer.
- AFPL shall not discriminate the sanctioning of loans based on gender, caste or religion. However, it may choose to develop lending schemes for specific sections of the society.

- After the sanction of the loan, the loan terms and conditions, sanctioning letter, repayment schedule and all other such relevant documents shall be sent in any chosen mode and explained to the customer.

- We shall endeavour to inform the customer regarding status of the account prior to it turning into an NPA.

j) **Systems and Procedures for Dealing with Fraud**

Fraud reporting to RBI- Timely intimation of fraud incidents detected and filing of police complaint.

Intimation on Fraud incidents

It may be noted that in the instance of a fraud being detected, intimation (details in brief) shall be provided by the risk department with a copy to CEO & CFO immediately on detection and/or conclusion of the incident as fraud. Further, a detailed report in the prescribed format shall be submitted within 10 days of such detection.

Filing of Police complaint

In all incidents where the commitment of fraud has been detected/confirmed, police complaint for an amount greater then Rs 25,000 should compulsorily be filed against those involved in the following instance.

The above instructions are in line with the RBI's Directions/Circular (Master direction: "Monitoring of frauds in NBFCs directions, 2016 "DNBS. PPD.01/66.15.001/2016-17, dated September 29, 2016 and Master Circular: "Future approach towards monitoring of frauds in NBFCs", DNBR (PD)cc.No.058/03.10.119/2015-16) on reporting requirement concerning fraud.

k) Reporting to CICs: AFPL shall ensure submission and updation of credit information for its borrowers regularly to all the Credit Information Companies (CICs) on a monthly basis or at shorter interval as required by the RBI regulation.

l) Periodic Updation & Performance review: The Loan Policy shall be reviewed annually or as and when required necessary. All the Demand / Call loans having stipulated period beyond 6 months shall be subjected to review of performance at the end of 5 months. The review shall include parameters as may be laid down by the Company, but must include:

- Credit Risk pertaining to the Borrower
- Collateral value and attached risks to valuation
- Continued feasibility of funding, in terms of Liquidity Management

IV. REGULATIONS AFFECTING LOANS:

1. **Prudential exposure ceilings:** As per regulations, NBFC-ND-SI shall not, exceed, the extant credit concentration limits prescribed for NBFCs separately for lending an investments shall be merged into a single exposure limit of 25% for single borrower/ party and 40% for single group of borrowers/ parties. Further, the concentration limits shall be determined with reference to the NBFC's Tier 1 capital instead of their Owned Fund. The revised norms are indicated in the table below;

Limit (as a percentage of Tier I Capital)	Exposure %
Single borrower/ party	25
Single group of borrowers/ parties	40

However, these directions are not applicable to investments of applicable NBFCs in shares of

- its subsidiaries;
- companies in the same group,

to the extent they have been reduced from Owned Funds for the calculation of NOF.

2. **Risk weight for capital adequacy:** Investments, including term deposits with banks will attract the following risk weights for computation of the capital adequacy.

Description	Risk weight (%)
Term deposits with banks	0
Term deposits / certificate of deposits / bonds of public financial institutions	100
Shares of all companies and debentures / bonds / commercial papers of all companies and units of mutual funds.	100