

CO-LENDING MODEL

1. PREAMBLE

The objective of this section is to jointly originate loans with Regulated Entities, as permitted by the Reserve Bank of India (RBI). RBI had introduced a scheme for co-origination vide circular no. FIDD.CO.Plan.BC.08/04.09.01/2018-19 dated September 21, 2018. This has been revised and renamed as Co-Lending Model by RBI circular no. FIDD.CO.Plan. BC.No.8/04.09.01/2020-21 dated 05.11.2020. The latest Master Directions- Reserve Bank of India (Co-Lending Arrangements) Directions, 2025 in this have been issued by RBI vide RBI/DOR/2025-26/139 DOR.STR.REC.44/13.07.010/2025-26, dated August 6, 2025.

The main objective of the Co-Lending Model is to improve the flow of credit to unserved and underserved sector of the economy and make available funds to the ultimate beneficiary at an affordable cost.

The Co-lending of loans with eligible NBFCs will pertain to Retail, MSME, and Agriculture and Large Corporate verticals.

2. OBJECTIVES

- **Creation of New Loan Book:** The 2025 Directions allow regulated entities (REs)—including Commercial Banks (excluding Small Finance Banks, Local Area Banks and Regional Rural Banks), All-India Financial Institutions, and Non-Banking Financial Companies (including Housing Finance Companies). —to jointly originate loans under a formal agreement. This includes secured and unsecured loans across sectors like agriculture, MSME, housing, education, and other retail segments. Each RE must retain a minimum 10% share of the individual loans in its books, ensuring joint participation and accountability.
- **Support in Follow-up & Recovery:** The Directions mandate clear segregation of responsibilities between the originating and partner REs, including servicing, monitoring, and recovery. The agreement must define customer interface roles and grievance redressal mechanisms.
- **Lower NPA Rates:** The revised framework introduces borrower-level asset classification. If a loan is classified as NPA by one RE, it must be similarly classified by the other, ensuring transparency and early resolution. Real-time sharing of borrower status is required to prevent regulatory arbitrage.
- **Priority Sector Lending:** The co-lending model continues to support PSL objectives. Banks can claim PSL status for their share of loans originated under co-lending arrangements, provided they comply with RBI norms. The Directions explicitly state that co-lending is intended to broaden access to priority sector credit.
- To make available funds to the ultimate beneficiary at an affordable cost, considering lower cost of funds of bank and greater reach of NBFCs.
- These Directions shall not apply to loans sanctioned under multiple banking, consortium lending, or syndication.

3. SCOPE AND COVERAGE

The section covers the essential features of the Co-Lending Arrangement as stipulated by Reserve Bank of India, which inter-alia include, the criteria for selection of partner institutions, terms and conditions of Master agreement to be entered into between the two partner institutions, terms and conditions of the arrangement along with provisions related to segregation of responsibilities as well as customer interface and protection issues.

The master agreement to be entered into with the partner institution shall provide for the bank to either mandatorily to take their share of the individual loans originated by Regulated Entities in their books as per the terms of the agreement, or to retain the discretion to reject certain loans after their due diligence prior to taking in their books.

4. FEATURES OF THE CO-LENDING ARRANGEMENT (CLA)

The Co-Lending Arrangement (CLA) has been formulated based on the revised guidelines advised in RBI Circular no. RBI/DOR/2025-26/139 DOR.STR.REC.44/ 13.07.010/ 2025-26, dated August 6, 2025.

CLA refers to an arrangement, formalized through an ex-ante agreement, between a RE which is originating the loans ('originating RE') and another RE which is co-lending ('partner RE'), to jointly fund a portfolio of loans, comprising of either secured or unsecured loans, in a pre-agreed proportion, involving revenue and risk sharing.

Originating RE:

This is the main lender who finds the borrower, checks their eligibility, and gives out the loan. It handles customer onboarding, documentation, and disbursement. It also keeps at least 10% of the loan on its own books (as per RBI rules), meaning it shares the risk.

Partner RE:

This RE partners in funding the loan but doesn't directly deal with the customer. It provides money for the loan based on a pre-agreed percentage. It also keeps at least 10% of the loan on its own books, just like the originating RE.

4.1 Sharing of Risk and Rewards:

As per guidelines, the Regulated Entities may engage with other Regulated Entities registered with RBI for Co-Lending. The arrangement should entail joint contribution of credit at the facility level, by both lenders. It should also involve sharing of risks and rewards between the Regulated Entities for ensuring appropriate alignment of respective business objectives, as per the mutually decided agreement between the Regulated Entities, inter alia, covering the essential features as indicated in RBI guidelines on Co-Lending Model.

- Each Regulated Entity under a Co-Lending Arrangement (CLA) shall be required to retain a minimum 10 per cent share of the individual loans in its books.
- The Regulated Entity shall give an undertaking to the bank that its contribution towards the loan amount is not funded out of borrowing from the co-lending bank or any other group company of the partner bank.
- The CLA shall entail an irrevocable commitment on the part of partner RE to take into its books, on back to back basis, its share of the individual loans as originated by the originating RE.
- The bank shall have discretion for taking into its books the loan originated by Originating RE in compliance of RBI guidelines. Further, Originating RE should seek consent of Bank before granting additional loan to the borrower outside co-lending arrangement.

4.2 Classification of Co-Lend loans:

The Regulated Entities can claim priority sector status in respect of its share of credit while engaging in the co-lending arrangement in case of priority sector loans.

4.3 Interest Rate:

- Rate of interest may be under both Fixed and Floating rate regime based upon mutually agreed terms with Regulated Entities on case to case basis.
- The ultimate borrower may be charged an all-inclusive interest rate as agreed upon with the Regulated Entities conforming to the extant guidelines applicable to both.
- Based on the respective interest rates and proportion of risk sharing, a single blended interest rate will be offered to the ultimate borrower in case of fixed rate loans. In the scenario of floating interest rates, a weighted average of the benchmark interest rates in proportion to the respective loan contribution, will be offered. The interest rate charged by the bank for its portion of credit, shall be subject to applicable directions on interest rates on advances. Further, the Regulated Entities are also required to abide by the pricing of credit and other applicable guidelines for loans covered under "Qualifying Assets" regarding their contribution towards the co-lended loan. It is envisaged that the benefit of low cost funds and lower cost of operations of Regulated Entities would be passed on to the ultimate beneficiary through the blended rate/ weighted average rate. In this regard, Regulated Entities shall provide all the information like loan details including interest rate and other charges, details of risk sharing arrangement, etc., as and when called for by the Reserve Bank of India.
- The Regulated Entities would have the flexibility to price their part of the exposure, in a manner found fit as per their respective risk appetite/ assessment of the borrower and the RBI regulations issued from time to time. However, notwithstanding the charging of a single blended/ weighted average rate of interest from the borrower, the repayment/ recovery of interest shall be shared between the Regulated Entities in proportion to their share of credit and interest.
- The interest rate and any other fees/ charges on the underlying loans charged to the borrower shall be based on the contractual agreement, subject to the regulatory norms applicable to the REs. Specifically, the final interest rate charged to the borrower shall be the blended interest rate which is calculated as an average rate of interest derived from the interest rates charged by respective REs, as per their internal lending policies and risk profile of the same or similar borrower, weighted by the proportionate funding share of concerned REs under CLA.
- Any change in rates by respective REs under CLA will be made as per their credit policy and extant regulatory norms, and the same shall be reflected in the updated blended rate and communicated to the borrower.
- Any fees / charges payable by the borrower in addition to the blended interest rate shall be incorporated in computation of annual percentage rate (APR) and disclosed appropriately in the KFS.
- As part of the credit policy, the RE shall lay down the objective criteria for fees/ charges payable for lending services, depending upon relevant factors such as the nature of service provided, quantum of loan, etc. Such fees/ charges shall not involve, directly or indirectly, any element of credit enhancement / default loss guarantee unless permitted otherwise.

4.4 Know Your Customer (KYC):

The Bank shall ensure financing to 100% KYC compliance borrower and will adhere to applicable KYC guidelines, as prescribed by Department of Banking Regulation (DBR)/ Department of Non-Banking Regulation (DNBR) vide Master Directions – KYC, 2016 i.e. RBI/DBR/2015-16/18 Master Direction DBR.AML.BC.No.81/14.01.001/2015-16 dated 25.02.2016 and updated from time to time are to be done, which already permit regulated entities, at their option, to rely on customer due diligence done by a third party, subject to specified conditions.

Reporting to Credit Information Companies (CICs)

Each RE shall adhere to the extant requirements of reporting to CICs for their share of the loan account, as per the provisions of the Credit Information Companies (Regulation) Act, 2005 and the Rules and Regulations issued by RBI therein, from time to time.

4.5 Customer Service:

The loan agreement signed with the borrower shall make an upfront disclosure regarding the segregation of the roles and responsibilities (such as sourcing, and servicing) of concerned REs, including clear identification of the entity being the single point of interface with the

CO-LENDING MODEL

customer. Any subsequent change in customer interface shall only be done after prior intimation to the borrower. The loan-agreement shall also appropriately disclose suitable provisions related to customer protection, and grievance redressal mechanism.

4.6 Grievance Redressal:

- REs shall be guided by the fair practice code and grievance redressal mechanism as applicable to them.

Default Loss Guarantee

Originating RE may provide default loss guarantee up to five per cent of loans outstanding in respect of loans under CLA. Provision of such default loss guarantee shall be governed mutatis mutandis in terms of the Master Directions– Digital Lending Directions as amended from time to time.

4.7 Operational Arrangements:

1. The CLA shall ensure that the respective shares of the REs are reflected in the books of both REs without delay after disbursement by the originating RE to the borrower, in any case not later than 15 calendar days from the date of disbursement.
2. Originating RE shall also ensure that it transfers the loan under CLA only to the partner RE, as per the ex-ante agreement and as specified in the KFS at the time of sanction of loan.
3. If the originating RE is unable to transfer the share of the exposure to the partner RE under CLA within 15 calendar days for any reason, then the loan/s shall remain on the books of the originating RE and can be transferred to other eligible lenders only under the provisions of Master Directions – Transfer of Loan Exposure, 2021 (MD-TLE).
4. Each RE shall maintain a borrower's account individually for its respective share.
5. All transactions (disbursements / repayments) between the REs, as well as with the borrower, shall be routed through an escrow account maintained with a bank (which could also be one of the REs involved in CLA). The agreement shall clearly specify the manner of appropriation between the originating and partner REs.
6. The loans under the CLA shall be included in the scope of internal/ statutory audit in each RE to ensure adherence to their respective internal guidelines, terms of the agreement and applicable regulatory requirements.
7. REs shall implement a business continuity plan to ensure uninterrupted service to their borrowers till repayment of the loans, in the event of termination of CLA between the REs.

4.8 Security and Charge Creation:

The NBFC shall arrange for creation of security and charge as per mutually agreeable terms, for the Bank's share also.

4.9 Monitoring & Recovery:

Both lenders shall create the framework for day to day monitoring and recovery of the loan, as mutually agreed upon.

4.10 ESCROW Account:

The Regulated Entities shall maintain each individual borrower's account for their respective exposures. However, all transactions (disbursements/ repayments) between the Regulated Entities relating to Co-Lending Model (CLM) shall be routed through an Escrow account maintained with the bank, in order to avoid inter-mingling of funds. The Master Agreement shall clearly specify the manner of appropriation between the co-lenders. The Regulated Entities should be able to generate a single unified statement of the customer, through appropriate information sharing arrangements with the bank.

4.11 Provisioning / Reporting Requirement:

REs shall apply a borrower-level asset classification for their respective exposures to a borrower under CLA, implying that if either of the REs classifies its exposure to a borrower under CLA as SMA / NPA on account of default in the CLA exposure, the same classification shall be applicable to the exposure of the other RE to the borrower under CLA. REs shall put in place a robust mechanism for sharing relevant information in this regard on a near-real time basis, and in any case latest by end of the next working day.

4.12 Assignment / Change in Loan Limits:

Any subsequent transfer of loan exposures originated under CLA to third parties, or any inter-se transfer of such loan exposures between REs, shall be strictly in compliance with the provisions of MD-TLE. Such transfers to a third party, however, can be done only with the mutual consent of both the originating and partner REs.

4.13 Inspection & Audit:

The loans under the Co-Lending Model (CLM) shall be subjected to periodic internal / statutory audit in each Regulated Entity to ensure adherence to its internal guidelines, terms of the agreement and extant regulatory requirements.

4.14 Business Continuity Plan:

Regulated Entities shall implement 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 Regulated Entities.

4.15 Disclosures

In addition to the applicable disclosure requirements under extant regulations, REs shall also prominently disclose on their website, a list of all active CLA partners.

REs shall also make appropriate disclosures in their financial statements, under 'Notes to Accounts', relating to necessary details of CLAs

CO-LENDING MODEL

on an aggregate basis. The details may inter alia include quantum of CLAs, weighted average rate of interest, fees charged / paid, broad sectors in which CLA was made, performance of loans under CLA, details related to default loss guarantee, if any, etc. The disclosure shall be done on quarterly/annual basis, as applicable to the concerned REs.

5. TERMS & CONDITIONS FOR CO-LENDING MODEL

5.1 Selection criteria of REs:

Bank will enter into Co-Lending arrangement with Regulated Entities who are seasoned market players with satisfactory track record and good market reputation. The proposed Regulated Entities should meet the following criteria (in continuation with the existing Co-Lending Policy):

- Regulated Entities including Housing Finance Companies (HFCs)
- Minimum 5 years into the establishment of the product range for which Co- Lending is proposed.
- Minimum External rating of A or equivalent.
- Required technological platform to maintain accounts and exchange necessary MIS.
- Delinquency in the portfolio of the product in which Co-Lending is proposed should not exceed 4% of GNPA.
- Regulated Entities should comply all the guidelines laid down by RBI and other regulatory authorities issued from time to time including Regulatory Capital norms, Liquidity Mismatch analysis etc. (as certified by professional CMA/CA/CS)
- During last two years, Capital Adequacy ratio to be above the minimum capital requirement as laid down by RBI.
- Regulated Entities should be able to generate a single unified statement of the customer, through appropriate information sharing arrangements with the Bank.
- Co-lending arrangement with a Regulated Entity belonging to the promoter Group shall not be allowed.

5.2 Co-Lending Product:

Detailed products, processes etc., will be finalised after discussion with the proposed Regulated Entities, on case to case basis, keeping in view its target segment, area of operations, other operational issues etc. A Mutually agreed product program will be decided for every Regulated Entity determining the model of sourcing, pricing, lending, collection and recovery mechanism, servicing fees etc. duly approved by respective competent authority (as mentioned herein after at para no.6). Tenure of such product program may be mutually agreed upon and to be incorporated in the Co-Lending Master Agreement by the lenders.

5.3 Process in brief:

- Scouting of Regulated Entities as per eligibility criteria laid down in the policy.
- Adaptability check of the product/s to be Co-lended with the proposed co-lending Regulated Entities.
- Approvals by MD & CEO Committee headed by MD & CEO with Executive Director, Chief Operating Officer and Head-Credit as members of committee regarding commercials / service fee pay out in proposed Co-Lending product, to Regulated Entities.
- Selection of Regulated Entities as per eligibility criteria and Approval for selection of Regulated Entities and entering into Master Agreement with Regulated Entities by MD & CEO Committee headed by MD & CEO with Executive Director, Chief Operating Officer and Head-Credit as members of committee.
- Execution of Master Agreement with Regulated Entities.
- Formulation of Common Lending programme along with process-flow and standard operating procedures.
- Obtaining approval from Credit Policy Committee for introduction of Co-Lending product.
- Processing and sanction of proposals under Co-Lending Model (CLM) may be undertaken by Credit Department at Head office including Naini Loan Points of the Bank.

5.4 Documentation:

Any legal document including Master Agreement, Facility Agreement and any document having legal implication under this arrangement would be finalized in consultation with Regulated Entities and would be vetted by our Bank's Legal Department / Advocate on the Bank's approved panel list

• **Master Agreement:** A Master Agreement shall be entered into with Regulated Entities which shall inter-alia include, terms and conditions of the arrangement, the criteria for selection of partner institutions, the specific product lines and areas of operation, along with provisions related to segregation of responsibilities & dispute resolution, as well as, customer interface and protection issues.

The Master Agreement shall contain necessary clauses on representations and warranties which the originating Regulated Entities shall be liable for in respect of the share of the loans taken into its books by our Bank. All Legal Modalities would be covered under this definitive agreement with the Regulated Entities and vetted by our legal department / Advocate on the Bank's approved panel list.

• Loan documents:

Loan agreements shall be drafted and finalized in consultation with Regulated Entities and would be vetted by legal department.

Bank may entrust the Regulated Entities (through a Power of Attorney) with responsibility of execution of documents on bank's behalf. However, indemnity from the Regulated Entities to cover the loss to the Bank in case of failure by Regulated Entities in duly performing its duty will be obtained. Further, this arrangement will be captured in the Master Agreement with Regulated Entities.

In all cases, disbursement of the loan would be done after the legal vetting of the documents by Bank's Legal Officer/ empanelled Advocate, as per extant Bank guidelines. Further, the vetting of documents based on scanned copies may be allowed on case to case basis.

5.5 Co-branding of documents:

Regulated Entities being the front ending partner and representing both the lenders in front of the customer, it is desirable for all the parties to have a co-branded set of documents to smoothen the process for customer facilitation and awareness.

Common Documents include but not limited to – Application form, Sanction letter, Facility Agreement and/or any other document communicated to the customer having any legal implication.

5.6 Standalone sanction of Co-Lend loan:

If any existing borrower of the Bank is sourced by other RE, then facility under Co-Lended loan will be assessed & sanctioned on standalone basis i.e. without linking the existing individual / group with the Bank for the purpose of Discretionary Lending Power (DLP), subject to:

- The Sanctioning authority of Co-Lended loan shall ensure that the conduct of the borrower / group account is satisfactory and regular review of facilities is not pending for the concerned borrower.
- The recommendation / views of the concerned branch of the borrower is obtained.

5.7 Safe custody of documents:

As per bank's present practice, the documents executed in the respective branch are kept with branch itself. Since, it is a co-lending arrangement, the documents may be kept under a third party repository as mutually agreed upon making it convenient for retrieval. This will be subject to the conditions that duly attested/certified scanned copies of all the executed documents will be provided to our bank and shall be vetted by the legal officer of bank before disbursement.

However, the Master Agreement should inter-alia contain the suitable clauses including indemnity clause along with right to retrieve the documents (jointly with REs or individually by Bank, as applicable) from the third party repository. Suitable clauses should be incorporated in the agreement to ensure that in case of liquidation of RE or if otherwise required by Bank, all the documents should be retrieved as and when required by the bank within a certain time frame.

5.8 Cross Sell:

Bank shall have rights to cross sell its other products including wealth management products of the bank or associates to the canvassed customers under the Co-Lending Model program, extent of which would be detailed in the proposal to be approved/sanctioned by the competent authority/ Master Agreement duly vetted by legal department / Advocate on the Bank's approved panel list.

6 APPROVING AUTHORITY STRUCTURE:

The authorities for approval and considering the deviations are as under:

Approval For	Authority
Entering into Co-Lending arrangement and / or Master Agreement by Vertical Head	MD & CEO Committee headed by MD & CEO with Executive Director, Chief Operating Officer and Head Credit as members of committee
Commercials for pay-out (sourcing fee, collection fee etc.) to RE	
The product & process related modalities and all related matters, amount of loan, pricing documents, service fee, etc. (as per mutually agreed terms with individual RE)	
Deviation in eligibility criteria for selection of REs in this Policy	
