

POLICY ON TRANSFER AND DISTRIBUTION OF CREDIT RISK

(For Base Layer NBFC – Investment and Credit Company)

This Policy is framed in accordance with the directions, *circulars*, and guidelines issued by the Reserve Bank of India (RBI) and the provisions of the Companies Act, 2013, including:

- RBI (Transfer of Loan Exposures) Directions, 2021 (as amended up to 2025)
- Reserve Bank of India (Non-Banking Financial Companies - Transfer and Distribution of Credit Risk) Directions, 2025
- RBI (Securitisation of Standard Assets) Directions, 2021 (as amended)
- RBI (Financial Statements – Presentation and Disclosures) Directions, 2025
- *Master Direction - RBI Scale Based Regulation (SBR) Framework for NBFCs*
- *Guidelines on Default Loss Guarantee (DLG) in Digital Lending*
- *Relevant provisions of the Companies Act, 2013, including Sections 177, 179, 186, 188, and 247.*
- *The Digital Personal Data Protection (DPDP) Act, 2023 (for borrower data sharing).*

1. Preamble

Credit risk constitutes the most significant risk faced by the Company. As part of prudent risk management and capital optimization, the Company may transfer, distribute, share, or mitigate credit risk through various permissible regulatory mechanisms in alignment with its Base Layer (NBFC-BL) status.

This Policy lays down the principles, governance structure, operational standards, prudential safeguards, and regulatory compliance requirements governing the transfer and distribution of credit risk.

The objective is to ensure:

- True transfer of economic risk and rewards
- Avoidance of regulatory arbitrage
- Transparency in pricing and fair valuation
- Prevention of evergreening of stressed assets
- Adequate capital conservation and provisioning
- Protection of stakeholder and borrower interests, including strict adherence to data privacy and fair practices codes.

2. Applicability

This Policy applies to all credit exposures originated or acquired by the Company, including:

- Retail loans
- MSME loans
- Corporate loans
- Secured and unsecured facilities
- Term loans and working capital facilities

It covers:

1. Direct Assignment (DA)
2. Securitisation transactions
3. Loan Participation
4. Co-lending arrangements with banks and other financial institutions
5. Sale of stressed assets (SMA and NPA)
6. Default Loss Guarantees (DLG) in digital lending
7. Portfolio sell-downs
8. Risk participation agreements

3. Governance framework

3.1 Role of the Board

The Board of Directors shall, *in accordance with Section 179 of the Companies Act, 2013*:

- Approve this Policy and *its subsequent* amendments
- Define materiality thresholds for transfer transactions
- Approve *the* stressed loan transfer framework
- Review *the* quarterly summary of credit risk transfers
- Ensure that no implicit support is provided *to the transferee*
- Monitor *the* impact on capital adequacy, *liquidity*, and profitability
- *Ensure related party transactions in risk transfers are approved by the Audit Committee/Board as per Section 188 of the Companies Act, 2013.*

3.2 Risk Management Committee (or Audit Committee)

The Risk Management Committee (*if applicable/constituted voluntarily under SBR guidelines for Base Layer NBFCs, otherwise the Audit Committee as per Section 177 of the Companies Act, 2013, or the Board itself*) shall:

- Monitor concentration risk post-transfer
- Evaluate residual risk exposure
- Review stress testing outcomes
- Assess counterparty risk of transferees
- *Ensure compliance with Anti-Money Laundering (AML) and Know Your Customer (KYC) norms during portfolio transfers.*

3.3 Senior Management Responsibilities

Senior Management shall:

- Implement the Policy *in day-to-day operations*
- Ensure regulatory compliance *with RBI and Ministry of Corporate Affairs (MCA) frameworks*
- Conduct *comprehensive* due diligence prior to transactions
- Ensure correct accounting treatment *as per applicable accounting standards*
- Monitor ongoing compliance *and borrower grievance redressal.*

4. Principles of credit risk transfer

A transaction shall qualify as *a* credit risk transfer only if:

1. There is *an* immediate transfer of risks and rewards.
2. There is no obligation to repurchase except for *a* breach of representation *and warranties*.
3. No implicit credit enhancement is provided.
4. Consideration is received in cash (except where *regulatory exemptions are expressly* permitted).
5. No circular or round-tripping arrangement exists.
6. Legal enforceability of *the* transfer is ensured *in all relevant jurisdictions*.
7. *The borrower's consent is obtained for the transfer of their personal and financial data, in compliance with the DPDP Act, 2023, and the underlying loan agreement explicitly permits such transfer/assignment.*

If these conditions are not satisfied, the exposure shall continue to be reckoned for capital adequacy *and provisioning* purposes.

5. Modes of credit risk transfer

5.1 Direct Assignment (True Sale)

Under Direct Assignment:

- Legal ownership of *the* loan transfers to *the* transferee.
- All rights, title and interest stand assigned.
- Transfer shall be without recourse except for standard representations and warranties.
- Minimum Holding Period (MHP) *and Minimum Retention Requirement (MRR)* shall be complied with.

Minimum Holding Period (MHP)

- Loans up to 2 years tenor → minimum 3 months
- Loans above 2 years tenor → minimum 6 months
- MHP shall be calculated from:
 - Date of first repayment; or
 - Date of security registration (if applicable), *whichever is later.*

5.2 Securitisation

Securitisation involves *the* pooling of standard assets and transferring them to an *Special Purpose Vehicle (SPV)*.

The Company shall:

- Comply with Minimum Retention Requirement (MRR) *to ensure skin in the game*.
- Not provide credit enhancement beyond *the* regulatory limit.
- Ensure independent due diligence by investors.
- Maintain clean-up call *options* only as permitted *by RBI*.
- Retention shall not be hedged or offset.

5.3 Loan Participation

Loan participation allows sharing of credit risk without transferring legal ownership.

Requirements:

- Clearly documented participation agreement
- Defined sharing ratio *for risks and rewards*
- Clear cash flow waterfall *mechanism*
- No unilateral alteration of terms *without mutual consent*

5.4 Co-Lending Arrangements

The Company may enter into co-lending with regulated entities (*such as Scheduled Commercial Banks*).

Key principles:

- Minimum *20%* retention per loan *by the Company (as required under the RBI Co-Lending Model guidelines)*
- Blended interest rate transparently disclosed *to the borrower*
- Borrower-level asset classification harmonised *between co-lenders*
- Escrow mechanism for fund flow *management*
- Mutual consent for any subsequent transfer

• A robust grievance redressal mechanism must be established as per the Master Agreement.

5.5 Default Loss Guarantee (DLG)

Where the Company provides DLG *in digital lending operations*:

- Exposure capped at RBI-permitted limit (currently *5% of the loan portfolio under the specific partnership*)
- Proper capital treatment applied
- Clearly documented invocation mechanism *within the maximum stipulated timeframe (e.g., 120 days of default)*
- DLG amount fully backed by *cash, provision, or capital deduction as required by the Digital Lending Guidelines*.

Implicit guarantees are strictly prohibited.

5.6 Sale of Stressed Assets

Stressed assets (SMA/NPA) may be sold through:

- Assignment to other regulated entities
- Sale to *Asset Reconstruction Companies (ARCs) under the SARFAESI Act, 2002*
- Conditions:
- Independent valuation for material exposures (*by a Registered Valuer under Section 247 of the Companies Act, 2013, if applicable*)
- No re-acquisition within *the* regulatory cooling period
- No evergreening of *non-performing accounts*
- Proper provisioning for any shortfall
- *The Swiss Challenge method must be adopted for the transfer of stressed exposures meeting the RBI-prescribed aggregate threshold.*

If *the* acquisition price exceeds *the* NPV of expected cash flows → provisioning required.

6. Pricing and valuation

All transactions shall be priced on:

- Arm's length basis, *in compliance with Section 188 of the Companies Act, 2013, where related parties are involved*
- Transparent methodology
- Discounted cash flow basis for stressed assets
- For large exposures:
- Two independent external valuations may be obtained (*preferably from Registered Valuers*)
- Artificial premium to conceal stress is prohibited.

7. Capital adequacy treatment

If *the* transfer qualifies as *a* true sale:

- Corresponding capital may be derecognised *from risk-weighted assets*.
- If conditions *are* not met:
- Exposure continues for capital computation *under the SBR framework for Base Layer NBFCs*.
- Consideration *received* is treated as *a* borrowing.
- For acquired NPAs:
- Risk weight applied as per *regulatory asset* classification.
- Provision *made* if acquisition price > expected recovery.

8. Accounting treatment

Accounting shall comply with:

- Ind AS (*specifically Ind AS 109 - Financial Instruments*) (if applicable); or
- Accounting Standards (for non-Ind AS NBFCs); and
- RBI Financial Statement Directions

Key principles:

- Loss recognised immediately *in the Statement of Profit and Loss*
- Profit recognised only upon realisation
- Unrealised gains deducted from *Common Equity Tier 1 (CET 1) capital or Net Owned Fund (NOF)*, as applicable
- Premium amortised over *the* life of the asset

9. Risk management and monitoring

The Company shall:

- Conduct periodic stress testing *on the retained portfolio*
- Monitor retained interest exposure
- Monitor DLG invocation probability
- Assess counterparty risk *and concentration risk*
- Monitor liquidity impact
- Report quarterly to *the Board and the Risk Management/Audit Committee*

10. Prohibited practices

The Company shall not:

- Transfer assets to avoid NPA recognition *or to defer provisioning*
- Provide implicit liquidity support
- Enter into circular transactions
- Evergreen stressed borrowers *through structured transfers*
- Structure transactions solely to reduce capital artificially
- *Transfer portfolios to unregulated entities unless specifically permitted by RBI.*

11. Disclosures

The Company shall disclose in *its annual* financial statements and *Board's Report* (as per Section 134 of the *Companies Act, 2013*):

- Quantum of loans transferred *and acquired*
- Gains/losses on transfer
- Securitised exposure outstanding

- DLG commitments *and invocations*
- Retained interest
- Co-lending portfolio size

Disclosures shall comply with RBI Financial Statement Directions *and applicable Accounting Standards*.

12. Internal controls

- Legal due diligence of agreements *to ensure true sale and regulatory compliance*
- Independent credit validation before transfer
- Escrow mechanisms where applicable
- Annual internal audit review *of the risk transfer portfolio*
- Compliance certification *to the Board and statutory auditors*
- *Maintenance of proper records and registers as required under the Companies Act, 2013.*

13. Policy review

This Policy shall be:

- Reviewed annually *by the Board of Directors*
- Updated upon regulatory amendment *or changes in the Companies Act, 2013*
- Placed before the Board for approval *along with the review mechanism report*

14. Effective date

This **POLICY ON TRANSFER AND DISTRIBUTION OF CREDIT RISK** has been approved by the Board of Directors of THIRUKOCHI FINCAP LIMITED at its meeting held on 12/03/2026.

Effective Date: 12/03/2026.

Version:1

