VSJ INVESTMENTS PRIVATE LIMITED

TRANSFER & ACQUISITION OF LOAN EXPOSURES POLICY

Version	Updates	Reviewed Date	Approved by
2024	Transfer & Acquisition of loan exposures Policy	21/05/2024	Board of Directors

I. Background

VSJ Investments Private Limited (hereinafter referred to as VSJ Investments/ Company") is a NBFC registered with Reserve Bank of India (RBI) and in the business of lending. RBI vide Master Direction – Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021 dated September 24, 2021 requires all NBFCs to formulate a comprehensive Board approved Policy for transfer and acquisition of loan assets including stressed assets.

In view of the aforesaid, the Board has approved this Policy on Transfer and Acquisition of Loan Exposures.

II. Applicability

The Policy will be applicable to all loan acquisition/transfers/sale of loan assets including stressed assets by THE COMPANY including purchase/sale of loans through novation or assignment, loan participation and for transfer/sale of entire portfolio of loans consequent upon a decision to exit the line of business completely. Any transfer/acquisition of stressed assets shall only be by way of assignment or novation.

Company shall comply with extant regulatory guidelines issued by RBI from time to time.

III. Definitions

i. "credit enhancement" means a contractual arrangement in which an entity provides some degree of added protection to other parties to a transaction so as to mitigate the credit risk of their acquired exposures;

ii. "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;

iii. "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);

iv. "portfolio" means a set of loan exposures transferred together at a point of time under the same transfer agreement;

Provided that transfer agreements under which loans are transferred as a portfolio shall list the details of the individual loan exposures which are transferred as a portfolio.

v. "stressed loans" mean loan exposures that are classified as non-performing assets (NPA) or as special mention accounts (SMA);

vi. "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 these directions; Explanation: Consequently, the transferee(s) shall "acquire" the loan exposures following a loan transfer.

The terms not explicitly defined in this Policy, shall draw reference to Section B of the Master Direction Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021 dated September 24, 2021.

IV. General Norms – Transfer of Loan Exposures

i. THE COMPANY (as transferor or otherwise), shall not offer credit enhancements or liquidity facilities in any form in the case of loan transfers. However, it may provide supporting facilities such as credit enhancement facilities, liquidity facilities, underwriting facilities and servicing facilities for Securitisation transactions. Such facility provider(s) must be regulated by at least one financial sector regulator.

ii. THE COMPANY shall not re-acquire a loan exposure, either fully or partially, that had been transferred by it previously, except as a part of a resolution plan under the Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions, 2019 or as part of a resolution plan approved under the Insolvency and Bankruptcy Code, 2016.

iii. Loan transfer should result in 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 exposure by the transferor, the loan transfer agreement should clearly specify the distribution of the principal and interest income from the transferred loan between the transferor and the transferee(s).

iv. 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.

v. 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

vi. For domestic transactions, THE COMPANY shall ensure that the transferor has strictly adhered to the MHP criteria in respect of loans acquired by them

vii. All transfers should be approved by Board of Directors

viii. Valuation to be obtained before presenting proposal for boards approval

ix. Due diligence to be performed internally and not be outsourced by the Company.

x. There should be no change in terms and conditions during transfer of loans. Any rescheduling, restructuring or re-negotiation of the terms of the underlying agreement pertaining to the loan transferred shall be as per the provisions of the Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions, 2019 issued vide circular DBR.No.BP.BC.45/21.04.048/2018-19 dated June 7, 2019; the same should be highlighted by the underwriting team in the credit memorandum submitted to the committee for approval

xi. Transfer should be only on cash basis, and the consideration should be received at the time of transfer itself

xii. All due diligences must be done as if the loan was originated in the Company, and there should be full adherence to the parameters specified in the Credit Policy of the Company.

xiii. All transfers should meet Single Borrower and Group Borrower exposure norms

xiv. All transfers should be at fair market value and independent valuer certificate should be obtained

xv. The extant instructions on outsourcing and the applicable provisions of the Reserve Bank of India (Know Your Customer (KYC)) Directions, 2016 (as amended from time to time) shall be complied with in all cases.

V. Appointment of Servicing Facility Provider for assets acquired

THE COMPANY, shall appoint a transferor as servicing facility provider for the ~~the~~ loan account acquired., it 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 provided by Service Provider on an 'arm's length basis' on market terms and conditions.
c) 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 Service Provider's obligations as the servicing facility provider are otherwise terminated.

d) THE Service Provider to remit funds to the Company once it has received from the underlying loans.
e) THE Service Provider to 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.

VI. Management of data and monitoring of assets

i. Finance function to store & manage data related to all such transfers / acquisitions (e.g. date of transfer/acquisition, amount transferred/acquired, guidelines under which transfer / acquisition has happened, etc.)

ii. In case entire exposures are not transferred / acquired, operations team to maintain data pertaining to retained exposures (and their securities) as per agreements of such retained exposures

iii. Monitoring of assets for the exposures mentioned above to continue as per agreements of such exposures

VII. Transfer of Loans which are not in Default

i. THE COMPANY as transferor can transfer a single loan or a part of such loan or a portfolio of such loans to permitted transferees through assignment or novation or a loan participation contract.

ii. 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 by laying down the required ground rules.

iii. If THE COMPANY's retention of economic interest as a transferor, if any, in the loans transferred shall be supported by legally valid documentation. A legal opinion regarding the following, at a minimum, should also be kept on record by it:
   a. legal validity of amount of economic interest retained by THE COMPANY;
   b. THE COMPANY 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 COMPANY and the transferee(s) for enforcement of security, if any, including the scenarios in which the security interest is held by THE COMPANY in trust for the trustees; and
   d. the arrangement does not result in THE COMPANY becoming an agent, trustee, or fiduciary of the transferee(s), except for the conditions mentioned in the guidelines.

iv. There shall not be any difference in the criteria for credit underwriting applied by THE COMPANY to exposures transferred and those held or retained on its book.

v. The transfer shall be only on cash basis and the consideration shall be received not later than at the time of transfer of loans. The transfer consideration should be arrived at in a transparent manner on an arm's length basis.

vi. Due diligence in case of acquisition of loans shall not be outsourced and will be applied at each loan level. If the loans are being acquired at portfolio level then due diligence shall be performed at the portfolio level.

vii. THE COMPANY will monitor on an ongoing basis and in a timely manner performance information on the loans acquired, including through conducting periodic stress tests and sensitivity analyses, and take appropriate action required, if any.

VIII. Minimum Holding Period

Minimum Holding Period is the time period for which the transferor has to hold the accounts in their book before transferring, which is:

i. Three months in case of loans with tenor of up to 2 years;
ii. Six months in case of loans with tenor of more than 2 years

For secured loan this period to be taken from date of charge creation. and for un-secured loans this will be from date of first repayment.

Further in case of loans acquired from other entities by THE COMPANY-, such loans cannot be transferred before completion of six months from the date on which the loan was taken into the books of THE COMPANY/Company. However Six months criteria shall not apply if the transfer of a stressed loan is to an ARC or is undertaken as a resolution plan under the Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions, 2019 with the approval of signatories to the ICA representing 75 per cent by value of total outstanding credit facilities (fund based as well non-fund based) and 60 per cent of signatories by number for the exit of all signatories to the ICA from the stressed loan exposure.

In case of transfer of project loans, the MHP shall be calculated from the date of commencement of commercial operations of the project being financed.

As per extant guidelines the MHP requirement is not applicable if the loans are transferred under a syndication arrangement

IX. Acquisition /Transfer of Stressed Loans

This section defines the norms for acquiring/transferring loan that are classified as Non-performing Assets (NPA) or Special Mention Accounts (SMA)

i. The acquisition / transfer of stressed loans shall be done through assignment or novation only
ii. Identification of stressed assets shall be centrally at the Corporate Office of the Company
iii. All loans classified as NPA upto shall be reviewed by any two(2) Directors of the Board at periodic intervals and accordingly, a decision to be taken on transfer or otherwise by them.
iv. All loans classified as NPA above shall be reviewed by any three (3) Directors of the Board at periodic intervals and accordingly, a decision to be taken on transfer or otherwise by them.
v. Management's decision to sell or acquire stressed assets shall be based on portfolio performance
vi. Valuation methodology to be followed will depend on the portfolio being selected for acquiring/selling. This is to ensure that the realisable value of stressed loans, including the realisability of the underlying security interest, if available, is reasonably estimated. However, two external valuations have to be obtained for transferring exposure of Rs 100 crore or more (without netting for provisions)
vii. The stressed loans will be transferred only to RBI permitted transferees and ARCs.
viii. The transfer can either by way of bilateral negotiations or e-auction (wherever available)
ix. All such negotiations will be followed by an auction through Swiss Challenge Method ~~(Refer Clause XII)~~ if the aggregate exposure (including investment exposure) of lenders to the borrower/s whose loan is being transferred is Rs.100 crore or more. In all other cases, the bilateral negotiations shall be subject to the price discovery and value maximisation approaches
x. Swiss Challenge Method may also be adopted in other scenarios as deemed fit.
xi. The minimum mark-up over the base-bid required for the challenger bid shall not be less than five per cent and shall not be more than 15 per cent (mark-up shall be the difference between the challenger bid and the base-bid expressed as a percentage of the base-bid).
xii. Fresh exposure may be taken on the borrower only after a cooling period of 12 months from the date of transfer.
xiii. The transfer shall be additionally subject to the following conditions:
    a) The transferee entity should be incorporated in India or registered with a financial sector regulator in India).
    b) The transferee should not be classified as a non-performing account (NPA) by any lending institution at the time of such transfer;
    c) The transferee(s) should not fund the loan acquisition through loans from lenders.
    d) THE COMPANY should not grant any credit facilities apart from working capital facilities (which are not in the nature of term loans) to the borrower whose loan account is transferred, for at least three years from the date of such transfer.
    e) For at least three years from the date of such transfer, the lenders should not grant any credit facilities to the transferee(s) for deployment, either directly or indirectly, into the operations of the borrower. For this purpose, borrower shall mean the legal entities to which the transferor(s) had exposure which was transferred to the transferee(s) as a part

of the resolution plan, and may include, but is not limited to, a special purpose vehicle having a legal-entity status set up for a project.

xiv. Adequate time for due diligence will be provided to the prospective acquirers.

xv. No transfer of a stressed loan is made at a contingent price whereby in the event of shortfall in the realization of the agreed price, the transferor(s) would have to bear a part of the shortfall. This will be a standard clause in legal documentation.

xvi. The transfer of stressed loans to transferee(s) other than ARCs shall only be on cash basis.

xvii. Pool of stressed loans acquired on a portfolio basis can be treated as a single asset in books provided that the pool consists of homogeneous personal loans. Homogeneity should be assessed on the basis of common risk drivers, including similar risk factors and risk profiles. In all other cases, the stressed loans acquired shall be treated as separate assets for the purpose of prudential requirements such as asset classification, capital computation, income recognition etc.

xviii. The reporting obligation, if any, to Credit Information Companies in respect of the stressed loans acquired will be with the transferee(s),

xix. THE COMPANY shall hold the acquired stressed loans in their books for a period of at least six months before transferring to other lenders. As per RBI Guidelines, Lenders are generally prohibited from acquiring loans that had been transferred as stressed loans in the previous six months. This clause shall not apply if the transfer of a stressed loan is to an ARC or is undertaken as a resolution plan under the Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions, 2019.

xx. THE COMPANY, as a lender, acquiring stressed loans shall make provisions for such loans as per the asset classification status in its books upon acquisition. Regardless of the asset classification, if the net present value of the cash flows estimated while acquiring the loan is less than the consideration paid for acquiring the loan, provisions shall be maintained to the extent of the difference. For this purpose, the discount factor shall be the actual interest rate charged to the borrower as per the original loan contract plus a risk premium to be determined as per the transferee considering the asset classification of the loan on the books of the transferor. The risk premium will be subject to a floor of 3 per cent. Further for asset classification and provisioning requirements, extant guidelines issued by RBI from time to time shall be adhered to.

X. Additional requirements for transfer of NPA

i. The Company shall continue to pursue the staff accountability aspects as per the existing instructions in respect of the NPAs transferred to other lenders.

ii. In respect of NPAs acquired from other lenders, the cash flows received by the Company from holding such asset should first be used to amortise the funded outstanding in the books of the transferee in respect of the loan till the acquisition cost is recovered. The cash flows in excess of the acquisition cost, if any, can be recognised as profit.

iii. The Company shall assign 100% risk weight to the NPAs acquired from other lenders as long as the loans are classified as 'standard' upon acquisition. If the loans are classified as NPA, risk weights as applicable to NPA shall be applicable.

XI. Transfer of Loans to Asset Reconstruction Company (ARC)

i. Stressed loans which are in default for more than 90 days or classified as NPA are permitted to be transferred to ARCs.

ii. This shall include loan exposures classified as fraud as on the date of transfer provided that the responsibilities of the transferor with respect to continuous reporting, monitoring, filing of complaints with law enforcement agencies and proceedings related to such complaints shall also be transferred to the ARC. The transfer of such loan exposures to an ARC, however, does not absolve the Company from fixing the staff accountability as required under the extant instructions on frauds.

iii. In case of specific stressed loans, where it is considered necessary, Company shall be free to enter into agreement with the ARC to share, in an agreed proportion, any surplus realised by the ARC from the concerned stressed loan. In such cases, the terms of transfer should provide for a report from the ARC to the Company on the value realised from the loan. Company shall not account for the profit until it has materialised.

iv. When the stressed loan is transferred to ARC at a price below the Net Book Value (NBV) at the time of transfer, Company shall debit the shortfall to the profit and loss account for the year in which the transfer has taken place.

v. On the other hand, when the stressed loan is transferred to an ARC for a value higher than the NBV at the time of transfer, it shall reverse the excess provision on transfer to the profit and loss account in the year the amounts are received and only when the sum of cash received by way of initial consideration and / or redemption or transfer of Security Receipts (SR) / Pass Through Certificates (PTCs)/ other securities issued by ARCs is higher than the NBV of the loan at the time of transfer. Further, such reversal shall be limited to the extent to which cash received exceeds the NBV of the loan at the time of transfer.

vi. When Company invest in the SRs/PTCs issued by ARCs in respect of the stressed loans transferred by them to the ARC, the Company shall carry the investment in their books on an ongoing basis, until its transfer or realization, at lower of the redemption value of SRs arrived based on the NAV as above, and the NBV of the transferred stressed loan at the time of transfer.

vii. Provided further that when the investment by the Company in SRs backed by stressed loans transferred by it, is more than 10 percent of all SRs backed by its transferred loans and issued under that securitisation, the valuation of such SRs by the transferor will be additionally subject to a floor of face value of the SRs reduced by the provisioning rate as applicable to the underlying loans, had the loans continued in the books of the Company.

viii. SRs/PTCs which are not redeemed as at the end of the resolution period (i.e., five years or eight years as the case may be) shall be treated as loss asset in books of the lenders and fully provided for.

ix. The valuation, classification and other norms applicable to investment in non-SLR instruments prescribed by RBI from time to time shall be applicable to its investment in debentures/ bonds/ SRs /PTCs issued by ARC. However, if any of the above instruments issued by ARC is limited to the actual realisation of the financial assets assigned to the instruments in the concerned scheme, the Company shall reckon the NAV obtained from ARC from time to time, for valuation of such investments.

x. As per the extant guidelines, Company can take over standard accounts from ARCs. Accordingly, in cases where ARCs have successfully implemented a resolution plan for the stressed loans acquired by them, it may, at its discretion and with appropriate due diligence, take over such loans after the period equivalent to the 'monitoring period' as defined by RBI.

xi. Where stressed loans are taken over by ARCs as agents for recovery in exchange for a fee, the loans will not be removed from the books of the Company but realisations as and when received shall be credited to the loan accounts. The Company shall continue making provisions for the loan in the normal course.

XII. Swiss Challenge Method

The broad contours of the Swiss Challenge Method are as under:

i. A prospective transferee interested in acquiring a specific stressed loan may offer a bid to the lender(s), which shall be termed as the base-bid.
ii. The lender(s) shall then publicly call for counter bids from other prospective buyers, on comparable terms, by disclosing the essential elements of the base-bid and also clearly specifying the minimum mark-up that would be acceptable.
iii. If no counter bid crossed the minimum mark-up specified in the invitation, the base-bid becomes the winning bid.
iv. If counter bid(s) cross the minimum mark-up specified in the invitation, the highest counter bid becomes the challenger bid. The prospective transferee who provided the base-bid is then invited to match the challenger bid. If the prospective transferee who provided the base-bid either matches the challenger bid or bids higher than the challenger bid, such bid shall become the winning bid; else, the challenger bid shall be the winning bid.
v. The lenders will then have the following two options:
    a) Transfer the loan to winning bidder, as determined above;
    b) If the lender decides not to transfer the loan to winning bidder, the lender will be required to make immediate provision on the account to the extent of the higher of the following:
        - The discount on the book value quoted in the challenger bid, and
        - The provisioning required as per extant asset classification and provisioning norms.

XIII. Capital Adequacy and other Prudential Norms

Company shall adhere to the extant RBI Norms in this regard.

XIV. Disclosures and Reporting

Company shall make appropriate disclosures in its financial statements, under 'Notes to Accounts', relating to the total amount of loans not in default / stressed loans transferred and acquired from other entities as prescribed below, as per the extant RBI Guidelines in this regard.

XV. Periodic Review

All transactions related to assets acquired to be reviewed by Board on the yearly basis