

**DVARA KSHETRIYA GRAMIN FINANCIAL SERVICES PRIVATE LIMITED**

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**DVARA KSHETRIYA GRAMIN FINANCIAL SERVICES PRIVATE LIMITED**

<b>POLICY</b>	General Lending Policy (Loan Policy)
<b>VERSION</b>	10.0
<b>DATE OF APPROVAL BY THE BOD</b>	March 30, 2016.
<b>DATE OF LAST REVIEW</b>	November 12, 2025
<b>PROCESS OWNER</b>	<b>Product</b>

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## VERSION

Version	Date of Approval
Version 1.0	30.03.2016
Version 2.0	27.04.2018
Version 3.0	17.09.2018
Version 4.0	26.11.2019
Version 5.0	04.08.2021
Version 6.0	03.08.2022
Version 7.0	08.02.2023
Version 8.0	22.12.2023
Version 9.0	13.11.2024
Version 10.0	12.11.2025

Cross Reference	<ol style="list-style-type: none"> <li>1. Product Notes</li> <li>2. Process Notes</li> <li>3. Policy on Co-Lending</li> <li>4. Policy on Jewel Loans</li> <li>5. Policy on Risk Management</li> <li>6. Fair Practice Code</li> <li>7. Delinquency Manual</li> <li>8. KYC/ AML Policy</li> <li>9. Policy on Preservation of Records</li> <li>10. Data Privacy Policy</li> <li>11. Policy on Asset Liability Management (ALCO)</li> <li>12. Delegation of Financial Powers (DFP)</li> </ol>
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## 1. Introduction

Dvara Kshetriya Gramin Financial Services Private Limited's ("DKGFS" or the "Company") mission is to maximise the financial wellbeing of every individual and every enterprise by providing complete access to financial services in remote rural India. All the lending activities of the Company are pursued to further this mission.

## 2. Applicable RBI Regulations

A. Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 amended from time to time.

B. Reserve Bank of India (Lending Against Gold and Silver Collateral) Directions, 2025 amended from time to time.

C. RBI Master Circular – Fair Practices Code dated July 01, 2015

## 3. Objectives of the General Lending Policy

The broad objectives of the General Lending Policy are:

- To provide general guidelines for making loan decisions and shaping the overall portfolio of the Company as per the risk thresholds approved by the Board
- To build and sustain a high-quality credit portfolio, well diversified in terms of clients, markets and products with an acceptable risk adjusted yield, and;
- To strengthen the risk management systems for appropriate pricing of credit risks and ensure close monitoring of the quality of portfolio
- The company strives to target rural households and rural businesses
- The company shall follow the MFI guidelines as issued by the Master Direction of Reserve Bank of India for determining the household FOIR.

Detailed guidelines for the actual implementation of the Policy are to be found in the Product/Process notes issued by the Management, after approval from - Product Approval Committee, for the different products offered by the Company.

This policy is subject to and is to be read in conjunction with the instructions issued by Reserve Bank of India to NBFCs vide Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023, RBI Master Circular – Fair Practices Code dated July 01, 2015, other guidelines issued/to be issued by RBI and the other statutory restrictions on lending notified by Reserve Bank of India from time to time.

#### 4. Approved Lending Products

a. The products offered by the Company include:

S.No	Product	Particulars
1	Joint Liability Group Loan	Loans provided to women borrowers in groups for both income generating and consumption purpose
2	Enterprise Loan (EL Unsecured)	Loans extended to Individual/ Legal entities for business expansion, working capital purposes (including Cattle maintenance and Cattle Purchase)
3	Jewel loan	Secured Loans provided to customers by pledging gold ornaments for business or personal purpose.
4	Home Improvement loan	Loans provided to Customers for undertaking any improvements, additions and/or renovation of their residential property
5	Individual Personal loan	Personal Loans provided to individual borrowers for income generation or consumption purposes
6	Premise loan	Loans offered for financial support to DKGFS branch premise owners for personal expenses and branch premise renovation after adjusting the EMI towards the monthly rent amount
7	Consumer loan	Loans offered to support customers to purchase consumer durables
8	Dvara Top up Loan	Loans offered to support existing customers to meet their emergency financial needs.
10	JLG Pre-approved Top up loans	Customers with good repayment track in live Parent loan will be given additional credit facility for purposes as defined in the product note.
11	EL Top up loans - Unsecured	Customers with good repayment track in live Parent loan will be given additional credit facility for purposes as defined in the product note.
12	Supply Chain Finance	short term daily repayment credit facility to KGFS Mitra agents and enterprise loan customers to towards their business value chain requirement.
13	Micro LAP	Registered mortgage Loan against Property to customers for all personal consumption and Business expansion purposes based on the property value
14	JLG 2 EL Graduation	Pre-approved Enterprise loan for JLG customers with Income generation activity
15	Wash Loans	Credit facility offered to customers for construction of Basic sanitation facility and get access to safe Water
16	Soft Mortgage loans	Loan against Property to customers for all personal consumption and Business expansion purposes based on the property value
17	Loans to Corporate Entities	Loan to corporate entities as per the approval of the Board

b. The parameters/ features/ thresholds specific to the products will be detailed in the respective product notes, which will be approved by the Product Approval committee.

- c. The Company may offer any or all of the above products in its own books/ through the Co-Lending route/ as a Business Correspondent of any lending institution. The rules governing Co-Lending will be separately covered in the Co-Lending Policy document. The terms and conditions on Business Correspondent facilities will be mutually agreed between the Company and the lending institution, from time to time.
- d. The company has the right to do transfer of loan exposures.
- e. The company may pilot new products for a maximum period of one year and subject to a limit of Rs.50 crores with due approval of the Risk Committee/Product Approval Committee.
- f. Third Party Products: Dvara KGFS recommends but does not compulsorily mandate, any other third party products or services except the registration in the timebound Portfolio Insurance Scheme for the purpose of credit life coverage to a borrower and co-borrower. In case, if a customer wishes to avail any Third Party products or services that are distributed through Dvara KGFS, then such products or services are subject to the terms and conditions of that company.

## **5. Business Correspondent Arrangement**

Dvara KGFS may act as a Business Correspondent to any Bank/ Non-Banking Finance Company. The credit and operational processes will be mutually agreed between the parties.

Dvara KGFS can appoint a Business Correspondent or a Lending Servicer Provider agreement with a NBFC/ and any other incorporated entity who shall source and service loans on behalf of the company as per the credit policy of Dvara KGFS. Under such arrangement, the sourcing entity would carry out the appraisal of the borrower strictly in accordance with the underwriting standards provided by Dvara KGFS and it shall book the business in its books. However, the sourcing entity would have the responsibility of collections from the business sourced by them wherever Dvara KGFS agrees to allow the BC partner to collect it on its behalf.

The entity would be eligible for a pre-agreed payout for the Service undertaken (Sourcing/Collection).

## **6. Business Process**

The loan proposal goes through the following stages:

The Loan proposal is sourced from existing or new customers enrolled by Dvara KGFS. Such customers stay or operate within the service area of Dvara KGFS Branches (except in case of origination through Business Correspondent arrangement, where the sourcing could also be from areas that are not serviced by Dvara KGFS Branch network).

- The enrolment process involves collection of household and/or micro-enterprise data of the household and/or business pertaining to income, expense, assets and liabilities as conveyed by the customers and verified by Dvara KGFS. In addition, KYC documents (KYC documents will be availed as per RBI Master Direction – (KYC) Direction, 2016, dated May 29, 2019 and its subsequent amendments) are obtained. All of the above details are collected after taking the customer's consent.
- The data captured is used to calculate & check the Debt Servicing Capability of the customer based on the loan amount applied for, along with the FOIR check using the formula defined by RBI
- Appropriate Credit Bureau checks are conducted for all loans other than Jewel loans.
- Checkers to approve loan after checking of customer enrolment form, application form & loan agreements/ other documents ensuring adherence to laid down internal and external guidelines.
- All Disbursements are by way of credit to the customers bank account.
- Borrower could repay the loan instalment in cash either at the identified centre location, branch or KGFS Appointed Mitra agents who are present in their village, or any cash collection centre as appointed by the company in the village. Additionally, the customer has the option to repay the loan instalment through available digital modes. In case the borrower is not able to come to the centre, the company official can collect the instalments/dues from the doorstep of the borrower. The collection process will be guided by the Fair Practice Code and the Delinquency manual as approved by the Board of the Company.

The customer has the option to choose the repayment frequency. The repayment date is specified in the repayment schedule. The first repayment date will be based on the repayment frequency chosen by the customer.

## 7. Key Fact Statement (KFS):

As per regulatory requirements, Dvara KGFS provides a Key Fact Statement (KFS) to all borrowers prior to loan execution. The KFS is a concise, standardized document summarizing the key terms and conditions of the loan as per the format prescribed by the Reserve Bank of India. The purpose of the KFS is to ensure transparency, enable borrowers to make informed decisions, and prevent any hidden or misleading charges. The KFS is duly acknowledged by the borrower before disbursement.

## 8. Appraisal of Proposals

The key objectives of the appraisal are

- Understand the credit worthiness of the borrower and the household using but not limited to income/expense assessment, repayment track record, etc.,
- Understand the loan purpose and to be fairly sure through personal discussion and visit to customer house/business premises the intent to utilize the loan amount for the intended purpose

As majority of the customers being catered to do not have formal financial document – Income Proof, ITR etc., to confirm the Income/Expense details and showcase their credit worthiness, the credit worthiness of the borrower is evaluated through a series of other measures:

**Character:** The appraising official make discreet enquiries in the market and find out information about the borrower and whether he/she has a responsible attitude towards using borrowed funds properly. The appraiser should also satisfy that the borrower is truthful and willing to make every effort to repay the loan regularly.

**Capacity:** The appraising official must be satisfied about the legal capacity of the borrower to borrow and his/her legal standing to sign a loan agreement when he is acting in a representative capacity, and also his managerial capacity to put the assets to proper and efficient use and earn sufficient surplus to repay the loan

**Capital:** The appraising official should make sure that the borrower would have adequate stake in the business, possesses own resources sufficient to provide margin support for the loan and will be able to generate a stable stream of income to repay the loan.

**Conditions:** The official must be aware of the recent trends in the borrower's line of work or industry and how economic trends might affect the loan and should also be satisfied that the loan request meets the quality parameters stipulated in the General Lending Policy and other regulatory prescriptions.

Product specific norms have been specified in the Operations Manual and these also should be complied with.

- Risk acceptance Criteria - A detailed risk acceptance criteria has been laid out in the product guidelines that would be reviewed twice a year to understand its relevance with regards to the external environment. Any exceptions to the above would be clearly documented under the section Deviation Approvals in the respective Product Notes.
- Other requirements
  - i. KYC/FPC norms should be complied with.
  - ii. Appropriate Credit Bureau Report to be checked.
  - iii. Contact Point Verification should be done at the residence and/or office/business premise of the borrower.
- Interest Rate - Interest Rate charged to the borrower is on a fixed rate basis. The interest rates will be governed by Board approved Interest Rate policy. The management may charge, based on the

type/nature of the product, additional charges like processing fee, documentation charges, facilitation fees, login fee, insurance premium, penal charges, late payment fees, foreclosure charges etc. The individual ROI and Processing fees / other charges would form part of the individual Product Notes and will be approved by the Product Approval Committee. All charges except late payment fees collected/ deducted from the customer/ loan amount forms part of the APR computation of the loan agreement.

- To inculcate a sense of credit discipline, in case of any delay in payment or overdue, KGFS shall charge the Borrower of specified products as detailed below:
  - i. Event of Default: Non-payment in full of the Outstanding Balance when due or when demanded by Lender in accordance with the Terms and Conditions of the Loan Agreement under any of the monies and/or any other default in relation to any facility provided by the Company. In such cases, Company may charge penal charges, as specified in the Loan Agreement.
  - ii. Late Payment Charges: The Company shall charge a late fee per EMI per month of default. This charge will be added to the demand every month.

The above charges, if applicable, will be detailed in the respective product notes. The waiver of the above charges (if proposed) will be as per the Board approved DFP.

- Security

The Company may offer Secured/Unsecured Loans to customers. Details of security to be taken shall be as per the approved Product Notes of respective products.

## 9. Risk Management

The company has an approved Enterprise Risk management policy, which comprehensively covers Credit, Sectoral, Concentration, Market, Operational and Other (technology, reputation, legal etc) Risks. The key elements of the risk policy document are as follows:

**Credit Risk:** Under this, we evaluate the credit worthiness of the customers & the household to ensure that the customer can service the loan and is not overleveraged at the individual or at the HH level. Credit Risk is critical, since default of even some customers can result in large losses with potential negative implications on profitability / capital. Credit Risk Management approach adopted by the organization will be two-fold. Firstly, credit risk management will be focused on selection of/ commitment to at individual asset level - and subsequently, the same is extended to portfolio composition level. A detailed framework on credit risk management is enumerated in the Risk Policy.

**Maximum exposure limit / HH Exposure Limit / Individual exposure limit on secured loans / Individual customer exposure limit on Unsecured loans –** These will be defined in the respective product notes.

**Sectoral Risk:** The Company's customers are primarily engaged in agricultural, daily labour, small business owners who are engaged in delivering services or merchandize, and related activities. Accordingly, the customers' fortunes and resultantly the Company's fortunes are closely linked to the performance of the agricultural sector and rural economy in general. The Company keeps track of the performance of key sectors suitably adjusts its business promotion efforts from time to time. Risk committee to track performance of key sectors and provide appropriate guidelines.

The Company operates in locations that are either unserved or underserved by the banking system. Loans and advances are both on unsecured and secured basis supported by standard documentation. Loan is backed with a guarantor, as prescribed in each product note with some financial standing.

**Concentration Risk:** The Company currently operates in 11 states. It has plans to expand into other states to ensure that exposures are spread in a manner that there is no undue concentration of risk in one area or region.

There would be Caps on Household exposure for Secured and Unsecured Loans which would form part of the

Product policy for individual Products. The same would be approved by the Product Approval Committee from time to time.

#### **Market Risk:**

Being a finance company, engaged in the business of lending by raising liabilities from the market, the Company is exposed to market risk. Market Risk is the risk to the Company's earnings and capital due to changes in the market level of interest rates or prices of securities, foreign exchange and equities, as well as the volatilities of those changes. Market Risk covers the following risks with potential impact on either the profits or financial health of the organization:

#### **Interest Rate Risk**

Interest rate risk is the risk where changes in market interest rates might adversely affect the Company's financial condition. Changes in interest rates impact the Company's earnings through changes in its Net Interest Income (NII). A long-term impact of change in the interest rates is on the Company's net worth through changes in the economic value of its assets, liabilities and off-balance sheet positions. The interest rate risk when viewed from these two perspectives is known as 'earnings perspective' and 'economic value' perspective, respectively. Interest rate risk would be managed under the guidance of ALCO as per the provisions of the Board approved Asset Liability Management Policy of the Company.

#### **Liquidity Risk**

Refers to the potential inability of the Company to fund increase in its assets and meet both expected and unexpected cash and collateral obligations at reasonable cost and without incurring unacceptable losses. In other words, liquidity risk is the inability of the Company to meet such financial obligations as they become due, without adversely affecting its financial condition.

Liquidity risk is two dimensional – Funding Liquidity Risk – the risk that the Company will not be able to meet efficiently the expected and unexpected current and future cash flows and collateral needs without affecting either its daily operations or its financial condition. Market Liquidity Risk – the risk that the Company cannot easily offset or eliminate a position at the prevailing market price because of inadequate market depth or market disruption.

Liquidity Risk Management is undertaken as per the provisions of Board approved Policy on Asset Liability Management under the guidance of ALCO.

#### **Operational Risk**

Operational risk arising out of widespread operations through a number of branches, collection of repayment instalments in the form of cash etc. is mitigated through implementation of well-designed systems and procedures and adoption of up-to-date technology. Further, every branch is audited once every 4 months.

#### **10. Credit Concentration Norms:**

Credit Concentration Norms for Single borrower/ group of borrowers :

Dvara KGFS shall not have exposure (credit/investment taken together) exceeding

(a) twenty-five percent of its Tier 1 capital to a single party; and

(b) forty percent of its Tier 1 capital to a single group of parties,

#### **11. Collections/Monitoring/ Rescheduling /Re-possession / Legal actions**

Prompt and continuous collection of customer receivables in an efficient manner is the goal of the Company's collection organization. The policies and procedures governing the collection of receivables are governed by the Delinquency manual prepared in compliance with the prevailing and relevant regulations from time to time.

## **12. Asset Classification/Income Recognition/Provisioning Norms**

The instructions issued by RBI on Asset Classification, Income Recognition and Provisioning will be complied with.

## **13. Fair Practices Code**

Fair Practices Code has been formulated with the approval of the Board complying with RBI guidelines on the subject and the Company shall ensure compliance thereof.

## **14. Negative List**

The negative list of borrowers / geographies / occupation etc. will be specified in the respective Product Notes.

## **15. Product and Process**

Detailed Product notes on all the products that cover product details, eligibility criteria, underwriting process, except approval matrices etc. The product notes are approved by the Product Approval Committee, which will in turn report to the Risk Management Committee.

## **16. Review and amendment**

This Policy shall be reviewed at least once in a year to ensure it meets the requirements of applicable law and regulation as well as the needs of the organization. This Policy can be modified at any time by the Board of Directors of the Company by passing a resolution to that effect. Any such change shall be recommended to the Board by the Product Approval Committee / Risk Committee of the Company.