

# **DEFAULT LOSS GUARANTEE (DLG) POLICY**

**KUSHAL FINNOVATION CAPITAL PRIVATE LIMITED**

Version	Date	Reviewer	Approver	Document Changes
1.0	June 23, 2025	Finance Department	Board of Directors	Implementation of the Policy

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## 1. Introduction

This Default Loss Guarantee (DLG) Policy is formulated in accordance with the Reserve Bank of India (Digital Lending) Directions, 2025, issued on May 8, 2025. It aims to establish the framework and procedures governing the offering and administration of DLG arrangements between Kushal Finnovation Capital Private Limited and its Lending Service Providers (LSPs) or other permitted third parties.

KFCPL has so far not provided any DLG to any other regulated entity or received any DLG from regulated entity or LSP.

KFCPL will adhere to this policy guideline for any such DLG arrangement in future.

## 2. Objective

RBI mandates the regulated entity ("RE") to have a board approved DLG Policy. Accordingly, the following DLG policy is made by the KFCPL.

The Policy shall include:

- Defining permissible parameters for DLG arrangements.
- Ensuring risk-based governance and compliance with RBI norms.
- Establishing transparent accounting, reporting, and disclosure standards.
- Safeguarding the interests of the regulated entity to ensure financial stability.

## 3. Definitions

- DLG Arrangement: A contractual arrangement, called by whatever name, between the RE and another entity, under which the latter guarantees to compensate the RE, for the loss due to default up to a certain percentage of the loan portfolio of the RE, specified upfront. Any other implicit guarantee of similar nature, linked to the performance of the loan portfolio of the RE and specified upfront, shall also be covered under the definition of DLG.
- Cap on DLG: As per RBI Directions, the maximum extent of loss covered under DLG shall not exceed 5% of the disbursed amount of the loan portfolio specified under the agreement.
- RE: Regulated Entity as defined by RBI.
- LSP: Lending Service Provider as defined under the RBI Directions.

## 4. Scope and Applicability

This policy is applicable to:

- All DLG arrangements entered into with LSPs and / or REs for digital lending activities.
- All loans originated by Kushal Finnovation Capital Private Limited where a DLG is permitted to be provided.

- The concerned business verticals, legal, credit, finance, and compliance teams involved in structuring such arrangements.

## 5. Key Principles and Guidelines

### 5.1 Eligibility of DLG Provider

- The DLG provider must be an entity incorporated in India.
- The DLG provider must provide the information satisfying the financial capacity to honour the guarantee. Such information shall, at a minimum, include a declaration from the DLG provider, certified by the statutory auditor of the DLG provider, on the aggregate DLG amount outstanding, the number of RE and the respective number of portfolios against which DLG has been provided. The declaration shall also contain past default rates on similar portfolios
- The Credit Committee shall evaluate the DLG provider based on various parameters before finalization.

### 5.2 Nature and Cap of Guarantee

- The DLG must be explicit, irrevocable, and unconditional.
- It shall be backed by a legally enforceable agreement.
- The cap of the DLG shall not exceed 5% of the total loan portfolio covered under the agreement.

### 5.3 Form of DLG

The DLG may be provided in any of the following forms:

- Cash collateral
- Bank guarantee
- Fixed deposits with lien in favour of the RE

## 6. Risk Recognition and Accounting Treatment

- The RE shall not recognize loans under DLG arrangements as risk-free or non-credit risk-bearing.
- The RE must independently assess borrower creditworthiness and perform risk-based underwriting.
- DLG arrangements shall not be used to artificially lower the RE's provisioning requirements.

## 7. Operational Process

### 7.1 Agreement Execution

- A legally binding agreement must be executed with the DLG provider before disbursement of any loans under the DLG arrangement.

- The agreement must clearly specify:
  - The extent (cap) and form of the guarantee.
  - The timeline and mechanism for invocation.
  - Default definition, conditions of payout, and exclusions.

## 7.2 Record Keeping

- All DLG arrangements shall be recorded and monitored monthly.
- Each arrangement shall be tagged with a unique identifier for audit purposes.

## 7.3 Monitoring and Invocation

- The Credit Committee of KFCPL shall periodically assess:
  - The performance of loans under DLG.
  - Adherence to DLG caps and risk limits.
- In case of default, the RE shall promptly invoke the DLG within the agreed timelines.

## 8. Disclosures

KFCPL shall ensure that LSPs with whom KFCPL have a DLG arrangement shall publish on their website the total number of portfolios and the respective amount of each portfolio on which DLG has been provided to KFCPL.

The above disclosure shall be made by the LSP on monthly basis, with the disclosure for any given month to be provided no later than seven (7) working days following the conclusion of that month.

## 9. Policy Review

The Company may like to audit the DLG arrangements with LSP/RE for internal control and advising board on the efficient conduct of DLG provisions as mandated by the regulated.

This policy shall be reviewed annually or earlier if necessitated by regulatory or operational changes. Amendments, if any, shall be approved by the Board.