

AU Small Finance Bank Limited

Collection of Dues and Repossession of Security
April 2026

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1. Introduction

This document lays down a transparent and clear policy that the Bank will follow in respect of Collection of Dues and Repossession of Security.

This document governs the requirement that needs to be met by the Bank and its designated officials while collection of overdue payments. This policy document recognizes the rights of the borrowers and will serve as a helpful tool by providing them the requisite information relating to collection and repossession.

The word “borrower” or “applicant”, whenever used in this policy collectively refers to borrower, co-applicants and guarantors, as the context requires.

2. Guiding Principles

This policy is built around dignity, courtesy, fair treatment, persuasion and respect to the borrowers. This policy clearly states that the Bank will not resort to coercive measures during Collection of Dues. It lists down the fair practices with regards to Collection of Dues and Repossession of Security and thereby fostering customer confidence and long-term relationship.

This policy also aims at recovery of dues in the event of default and is not aimed at whimsical deprivation of property. It recognizes the need for fair and transparent procedures in repossession, valuation (if required) and realization of security. The procedures practiced by the Bank for follow up, Collection of Dues and Repossession of Security will be in consonance with the law.

3. General Guidelines

- 3.1. The Bank will be responsible for fixing the repayment schedule of every loan sanctioned after considering the paying capacity and the cash flow pattern of the borrower. The method of calculation of interest and principal repayments (either by way of Equated Monthly Installments or any other method) will be explained to the borrower at the time of sanctioning the loan. The Bank will expect the borrowers to adhere to the re-payment schedule agreed upon. In case of any genuine difficulty in fulfilling the re-payment obligations, the Bank will assist the borrowers by providing necessary support and guidance. Borrowers' repayment obligations for all credit products, whether funded (e.g. working capital, term loans) or non-funded (e.g. letter of credit, bank guarantee), are covered under this Policy.

Bank uses multiple modes of communication regarding overdue against the customer e.g. Call, SMS, IVR, Field visit, legal notices as per internally approved SOP of the Bank.

The Bank will initiate security repossession procedures only after it has exhausted all other attempts to advise the borrower on overcoming financial hurdles. It may also be initiated in case the borrower has been intentionally avoiding contact for a reasonable period of time. It may be noted that in case of violation by the borrower of any terms mentioned in the Credit Facility Agreement, the Bank will have the right to repossess the financed asset / collateral pledged, even if there has been no default, as a preventive measure. Bank maintains the audit trails in case of repossession of the security, as per internally approved SOP of the Bank

3.2. All the designated official or persons authorized by the Bank for Collection of Dues and Repossession of Security will adhere to the following guidelines:

- 3.2.1. Under normal circumstances the designated official will contact the borrowers at place of his/her business/occupation and if unavailable, then at the place of his/her residence.
- 3.2.2. The Bank will inform the borrowers regarding requisite identity details of the agency authorized by the Bank for follow up and recovery of dues. The designated officials/bank staff will identify themselves and show the official identity card issued by the Bank upon request.
- 3.2.3. The designated officials will ensure that they contact the Micro Finance loan borrowers between 0900 hrs and 1800 hrs and between 0800 hrs and 1900 hrs for all other products, unless special circumstances pertaining to business/occupation requires the Bank to contact at a different time. Inappropriate occasions such as bereavement in the family or any such other genuine occasion will be avoided for making calls or visiting the borrower to collect dues.
- 3.2.4. The Bank will ensure that their agents do not resort to intimidation or harassment of any kind, either verbal or physical, against any person in their debt collection efforts, including acts intended to humiliate publicly or intrude upon the privacy of the debtors family members, referees and friends, sending inappropriate messages either on mobile or through social media, making threatening and/ or anonymous calls, persistently (example calling repeatedly) for recovery of overdue loans, making false and misleading representations.
- 3.2.5. The Bank will ensure that they respect the privacy of the borrowers. In order to ensure complete understanding of all the terms and conditions, all the written and verbal communication with the borrowers shall be in simple business language. The Bank will ensure that all its designated officials/Bank staff resort to civil manners for interaction with borrowers.
- 3.2.6. In case the borrower requests the Bank not to be disturbed while being at a particular place or at a particular time, the Bank will try to honor such requests diligently.

3.2.7. All the copies of communication sent to the borrower will be kept on record as per Record Retention Policy of the Bank.

3.2.8. The Bank will seek to resolve disputes or differences regarding settlement of dues in a mutually acceptable and orderly manner. The Bank will be ready to provide any assistance which the borrower may seek in this regard.

3.2.9. The Bank maintains the confidentiality of the Borrower's information. Such information is only shared with outsourced agencies as per the contract held with them on need to know basis.

4. Giving Notice to Borrowers

4.1. The Bank will use written communications, telephonic reminders and visits by the Bank staff/designated official to the borrower's place of residence as follow up measures for Collection of Dues. However, it will not initiate any legal proceedings or any recovery measures, including but not limited to Repossession of Security, without giving due notice in writing as per approved SOP of the Bank. Any genuine difficulties expressed/disputes raised by the customer will be considered by the banks before initiating recovery measures. The Bank shall follow all such procedures as mandated by law for Collection of Dues and Repossession of Security. The notice period will be mentioned by the Bank along with the maximum time given to the borrower for the settlement of dues, failing which the Bank will undertake Repossession of Security. In case, the borrower intentionally avoids contact with the Bank or acknowledgement of communication received by the Bank, the Bank will undertake Repossession of Security immediately.

5. Repossession of Security

5.1. The Bank will ensure that Repossession of Security will be aimed at recovery of dues and not depriving the borrower of the property. This process of Repossession of Security will involve repossession, valuation of the concerned security (if required) and finally realization of security through appropriate legal means available to the Bank. The Bank will ensure that all the above mentioned steps are carried out in a fair and transparent manner as per approved SOP of the Bank. The process will be initiated only after giving a due notice to the borrower (as mentioned in paragraph 4.1.).

The Bank will ensure that the process will follow all the necessary legal steps and guidelines as advised by the relevant regulatory authority. The Bank will take all the necessary steps for ensuring the safety and security of the property after taking its custody under normative situations.

6. Valuation and Sale of Property

- 6.1. The process of valuation and sale of property repossessed by the Bank will be carried out in accordance with the law in a fair and transparent manner as per approved SOP of the Bank. The Bank will have a right to recover from the borrower any due balance left, if any, after sale of property. In case an excess amount is left after recovery of all dues and meeting all the other related expenses from the sale of property, it will be duly return to the borrower provided the Bank do not have any other claim against the borrower.

The Bank will give a separate notice for the sale of the property. The notice given before repossession of the property shall not be construed as a notice for sale. In case of hypothecated assets (collateral), the Bank will send a pre-sale notice, after repossession, giving borrower a reasonable period for payment of dues. In case no payment is paid within the said period the Bank will arrange for the sale of such asset in a manner as deemed fit by the Bank inclusive of E-auction.

- 6.2. In case of property backed loans (e.g. Housing loans), under the provisions of SARFAESI Act, a notice will be issued to the borrower giving 30 days of time for payment. In case a sale is proposed to be made by a public auction or a tender, the Bank will publish a notice in two leading newspapers, out of which one will be in a local vernacular newspaper. Detailed process flow around valuation, notices, timelines, auction, recovery is covered under approved SOP of the Bank.
- 6.3. Bank undertakes different legal course (DRT, Criminal action, SARFAESI, Arbitration etc.) as governed by approved SOP of the Bank, to recover the dues.
- 6.4. Bank issues NOC to the customer upon settling the dues, as per the approved SOP of the Bank.

7. Opportunity for the Borrower to take back the Security

- 7.1. The Bank shall recourse to Repossession of Security only for the purpose of recovery of its dues as the last resort and not with the intention of depriving the borrower of the property, therefore the Bank will be willing to consider the transfer of possession of the property back to the borrower after repossession within the timelines specified in the pre-sale notice, before completing the sale of the property, provided all the dues are settled completely, as per approved SOP of the Bank.

In case the Bank is satisfied with the reasons for the borrowers' inability to clear the loan installments as per the decided schedule, which resulted in the Repossession of Security, the Bank may be willing to return the property to the borrower after receiving installments in arrears. However, this will be at the sole discretion of the Bank and would be subject to the Bank being convinced with the arrangements the borrower have made for repayment of future installments in a timely manner. If the borrower

defaults again for making timely repayments, the Bank may not hand over the possession to the borrower.

In case the pending amounts have been paid to the Bank as per the repayment agreement made between the Bank and the borrower, the Bank will ensure that the possession of any seized asset will be returned to the borrower within a reasonable period from the date of permission, from a competent/sanctioning authority of bank or court/DRT concerned, in which recovery proceedings have been filed by the bank and pending before such forums.

8. Engagement of Recovery Agents

8.1. The Bank may use the services of recovery agents for Collection of dues and Repossession of Security. The following model guidelines needs to be followed while appointing a recovery agency for Collection of Dues and/or Repossession of Security:

- 8.1.1. Bank shall form a panel to evaluate and appoint collection & recovery agents, as per approved SOP of the Bank.
- 8.1.2. The Bank shall make available the name and address of all collection & recovery agencies approved by the Bank's panel on its website for information.
- 8.1.3. The Bank shall only use the services of collection & recovery agencies which have been duly approved by the panel.
- 8.1.4. The Bank will ensure that the employee of the collection & recovery agencies, after completing the mandatory Debt Recovery Agent (DRA) training are issued valid ID (Identity) cards which will authorize them for Collection of Dues from the borrowers on behalf of the Bank.
- 8.1.5. In case the Bank employs any such recovery agency for Repossession of Security, the Bank will disclose the identity of the agency to the borrower.
- 8.1.6. The Bank will ensure that its collection & recovery agents follow a code of conduct which will govern their dealings with the borrowers, which is being circulated with agencies regular intervals.
- 8.1.7. Any collection made in cash needs to be governed as per approved SOP of the Bank.
- 8.1.8. Payment to recovery agents will be made as per the terms of contract held with them.
- 8.1.9. Bank keeps sensitizing the agents about collection related compliances at regular intervals. Bank's authorised team keeps visiting the agency premises at regular intervals and do detailed assessment on agency compliances. Basis on severity of the issue, Bank takes appropriate action against agency and/or its agents. Agency agreement remains valid as per the defined tenure in the empanelment agreement and gets renewed on or before expiry thereof by executing a fresh agreement.

9. Credit Counselling & Customer Grievance

9.1 Bank employees/outsourced vendors keep education/updating the consequences w.r.t. legal, credit score, credit history, future ineligibility for any financial need etc., while interacting with the customers over the phone and/or in-person follow-ups. Further, Bank keep broadcasting the SMS to delinquent customers and inform them about the consequences of non-payment of dues on time.

9.2 During the course of recovery, if any customer wants to register or raise any complaint/grievance, he can do so by calling/writing an email at Bank's dedicated helpline numbers/email id. Any customer complaint/grievance is handled by Bank as per Board approved Customer Grievance Redressal Policy.

10. Policy Reviews

10.1 The Policy will be reviewed annually by the Policy owners in accordance with the relevant regulatory guidelines issued from time to time for the approval of the board.

11. Policy Amendment Authority

11.1 Key owners responsible for Policy amendments:

Policy Owners	Role
Head of Collections & Recovery	Responsible for implementation of Policy Responsible for ensuring the policy is reviewed annually

12. Policy Authorization

12.1 This Policy has been approved by the Board of Directors of AU Small Finance Bank.

13. References

- RBI Circular : Guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services by Banks (Dated: March 11, 2015) (<https://rbi.org.in/scripts/NotificationUser.aspx?Id=9597&Mode=0>)
- RBI Circular: Guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services by banks (Dated: November 3, 2006) (Paragraph 5.7.2) (<https://rbi.org.in/scripts/NotificationUser.aspx?Id=3148&Mode=0>)

- IBA Code: Model Policy on Collection of Dues and Repossession of Security ([http://www.iba.org.in/Model%20Policy/d\)%20IBA%20Model%20Policy%20on%20Collection%20of%20Dues%20&%20Repossession%20of%20Security.pdf](http://www.iba.org.in/Model%20Policy/d)%20IBA%20Model%20Policy%20on%20Collection%20of%20Dues%20&%20Repossession%20of%20Security.pdf))
- RBI circular on Outsourcing of Financial Services - Responsibilities of regulated entities employing Recovery Agents (Dated: August 12, 2022)
(<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12378&Mode>)

14. Glossary

Term	Definitions
Bank	This refers to AU Small Finance Bank
Credit Facility Agreement	It refers to the legal agreement between the Bank and the borrower specifying the terms of disbursement of credit facility
DRA	Used as an acronym for “Debt Recovery Agent”
EMI	Used as an acronym for “Equated Monthly Installments”
IBA	Used as an acronym for “Indian Banks’ Association”
RBI	Used as an acronym for “Reserve Bank of India”
SARFAESI Act	Used as an acronym for “Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002”