CLIX CAPITAL

Policy for Co-Lending of loans

Policy Owner: CRO
Approved by: The Board of Directors
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1. Background

This policy is consistent with the RBI Circular No. RBI/2018-19/49 FIDD.CO.Plan.BC.08/04.09.01/2018-19 on the subject **Co-origination of loans by Banks and NBFCs for lending to priority sector**, dated September 21, 2018. Realizing the need for increasing financial services penetration, RBI is encouraging Bank-NBFC partnerships that combine the balance sheet advantages of Banks, with the low cost of customer acquisition and wider outreach of NBFCs. To provide the much-needed competitive edge for credit to the priority sector, RBI has issued guidelines on Co-origination of loans by Banks and NBFC-ND-SIs, having total assets size of ₹500 crore or more as per the last audited balance sheet, for providing credit to priority sector. The co-origination arrangement will entail a joint contribution of credit by both lenders. It will also involve sharing of risks and rewards between the bank and the NBFCs for ensuring appropriate alignment of respective business objectives, as per their mutual agreement.

RBI has now issued fresh guidelines on **Co-Lending by Banks and NBFCs to Priority Sector** vide circular FIDD. CO. Plan. BC.No.8/04.09.01/2020-21 dated 05/11/2020, superseding its earlier **Co-origination** circular mentioned above. As per these guidelines, the primary focus of the revised scheme is to improve the flow of credit to the unserved and underserved sectors of the economy and make available funds to the ultimate beneficiary at an affordable cost, considering the lower cost of funds from banks and greater reach of NBFCs. The new scheme is christened as "Co-Lending Model" (CLM) under which, banks are permitted to co-lend with all registered NBFCs (including HFCs) based on a prior agreement. This policy, for entering a Co-lending arrangement with the NBFCs, has been formulated in line with the RBI guidelines.

Though the aforementioned RBI circular refers to Co lending between Banks and NBFC's , We are however additionally propose to adopt the applicable guidelines for NBFC to NBFC Co lending structure as well

Co-lending policy provides a unique advantage to CLIX Capital. CLIX Capital will be able to leverage the Bank's low cost of funds, deepening its reach in a cost efficient manner. RBI's guidelines give credibility to this business model by permitting CLIX Capital (hereinafter referred to as the CLIX) and Banks to co-lending loans.

2. Objective

The objective of this document is to lay down the policy for CLIX Capital (CLIX) to govern and manage the co-lending model (CLM) agenda. The policy document comprises of various guiding principles, which will help CLIX to perpetuate strong governance, controls and realize key benefits such as:

- Adherence to Co-lending guidelines as defined by the RBI;
- Partnership process definition to ensure a consistent approach towards Bank identification and onboarding; and
- Transparency in the roles and responsibilities of key stakeholders

3. Policy Applicability

This policy applies to all products within Clix Capital and its subsidiaries, including Joint Ventures (JVs),in which Clix Capital has a 50% or greater interest to self-originated accounts
Basis this board approved document, a Master Agreement may be entered into between the partner institutions which shall inter-alia include, terms and conditions of the arrangement, the criteria for selection of partner institutions, the specific product lines and areas of operation, along with provisions related to segregation of responsibilities as well as customer interface and protection issues, as detailed
The Master Agreement may provide for the banks to either mandatorily take their share of the individual loans originated by the Clix in their books as per the terms of the agreement, or to retain the discretion to reject certain loans after their due diligence prior to taking in their books, subject to the conditions specified in agreement.

4. Products

The products, which CLIX would be targeting under this policy, would be Term Loans, Working Capital Loans and other products aligned to CLIX's focus area.

5. Potential Partnership Selection Process

CLIX intends to collaborate with Banks for the purpose of co-origination of loans.
Indian Banks are classified as follows:

- Public Sector Bank
- Private Sector Bank
- Foreign Bank
- Regional Rural Bank [Not permitted to enter into partnership as per Circular]
- Small Finance Bank- [Not permitted to enter into partnership as per Circular]
- Co-Operative Bank
- Payments Bank – [Presently, not authorized to Lend]

Banks are the most influential and instrumental institutions in India's Financial eco –system. They have access to public deposit, are people's preferred channel for financial transactions. Now, India is fast becoming a digital economy also. The unprecedented growth in the fintech sector in India is a direct result of rapidly changing demographics and consumer behavior, underpinned by the need for convenience. In this process of heightened disruption, a clear insight emerges – banks and fintech players are naturally interdependent. A collaborative approach via partnerships with Banks will emerge as competitive advantage for CLIX Capital as well as Banks.
Current Indian banking system consists of 12 public sector banks, 22 private sector banks, 46 foreign banks, 56 RRBs, 1485 urban cooperative banks and 96000 rural cooperative banks. Thus, CLIX will look to collaborate with all banks permitted by the regulator. [As per RBI Circular RBI/2018-19/49 dated Sept 21, 2018 Regional Rural Banks and Small Finance Banks are presently restricted from entering into partnerships with NBFCs].

Business Head, CRO and CEO will jointly evaluate all the partnership proposal received to ensure rights of CLIX are protected and such proposals are not detrimental to CLIX Interest.

CLIX will conduct due diligence of the Banks, with whom potential partnership is agreed. CLIX may engage with third parties to seek any specialized diligence expertise. CLIX may seek comments from its internal Risk, Legal, Compliance and Technology team, as required.

6. Scope of Agreement with the Bank

CLIX will sign a Master agreement with selected Bank/s. The co-lending agreement with the Bank, will cover the following, but not be restricted to:

- Co lending Model (CLM) – The master agreement shall clearly outlay the lending model for the co-lending of both the lenders across the loan lifecycle management. The model should clearly indicate all the performance standards agreed upon between the lenders and the escalation matrix, as applicable.
- The Master Agreement entered into by the banks and Clix for implementing the CLM may provide either for the bank to mandatorily take their share of the individual loans as originated by the NBFC in their books or retain the discretion to reject certain loans subject to its due diligence
- If the Agreement entails a prior, irrevocable commitment on the part of the bank to take into its books its share of the individual loans as originated by the NBFC, the arrangement must comply with the extant guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services by Banks issued vide RBI/2014-15/497/DBR.No.BP.BC.76/21.04.158/2014-15 dated March 11, 2015 and updated from time to time. In particular, the partner bank and NBFC shall have to put in place suitable mechanisms for ex-ante due diligence by the bank as the credit sanction process cannot be outsourced under the extant guidelines.
- If the bank can exercise its discretion regarding taking into its books the loans originated by Clix as per the Agreement, the arrangement will be akin to a direct assignment transaction. Accordingly, the taking over bank shall ensure compliance with all the requirements in terms of Guidelines on Transactions Involving Transfer of Assets through Direct Assignment of Cash Flows and the Underlying Securities issued vide RBI/2011-12/540 DBOD.No.BP.BC-103/21.04.177/2011-12 dated May 07, 2012 and RBI//2012-13/170 DNBS. PD. No. 301/3.10.01/2012-13 August 21, 2012 respectively, as updated from time to time, with the exception of Minimum Holding Period (MHP) which shall not be applicable in such transactions undertaken in terms of this CLM.
- The MHP exemption shall be available only in cases where the prior agreement between the banks and Clix contains a back-to-back basis clause and complies with all other conditions stipulated in the guidelines for direct assignment.
- Sharing of Risk and Rewards – Minimum 20% of the credit risk by way of direct exposure shall be on CLIX's books till maturity and the balance will be on bank's books. CLIX shall give an undertaking to the bank that its contribution towards the loan amount is not funded out of borrowing from the co-originating bank or any other group company of the partner bank.
- System Integration and Technology Architecture – This section shall detail the technology architecture for co-lending of loans.

- Product and Pricing – A detailed product and pricing strategy, including the blended interest rate, processing fees, interest subsidies, loan management and performance fees or any other charges, as maybe applicable, shall be outlined in the agreement.
- Governance Model – A detailed governance policy as agreed upon by the lenders including responsibilities, SLAs, authorities, disputes and escalation matrix shall be defined as part of the agreement.
- Know Your Customer (KYC) – The co- lenders shall adhere to applicable Master direction KYC 2016 issued vide RBI/DBR/2015-16/18 Master Direction DBR.AML.BC.No.81/14.01.001/2015-16 dated February 25, 2016 and updated from time to time, which already permit regulated entities, at their option, to rely on customer due diligence done by a third party, subject to specified conditions / AML guidelines, as prescribed by Department of Banking Regulation (DBR)/ Department of Non-Banking Regulation (DNBR) and may also be guided by Para 14 of Master Directions on KYC, issued by DBREscrow Account –The co-lending banks and Clix shall maintain each individual borrower's account for their respective exposures. However, all transactions (disbursements/ repayments) between the banks and Clix relating to CLM shall be routed through an escrow account maintained with the banks, in order to avoid inter-mingling of funds. The Master Agreement shall clearly specify the manner of appropriation between the co-lenders.
- Credit Assessment Policy – The agreement will mention the detailed credit assessment process as agreed mutually. CLIX shall recommend to the Bank proposals as found relevant for joint lending.
- Risk Management – The agreement will detail out the process for risk management and highlight any specific requirements for the Bank. The lenders shall be entitled to independently assess the risks and requirements of the applicant borrowers. The loan agreement would be tripartite in nature, wherein, both the Bank and CLIX shall be parties as lenders to the loan agreement with the customer.
- Security and Charge Creation – The lenders shall arrange for creation of security and charge as per mutually agreeable terms.
- Assignment Terms – The agreement will enlist scenarios wherein assignment will be permissible.
- Business Continuity –The agreement will specify the responsibility of the Bank and CLIX towards servicing existing customers in case both parties decide to terminate the contract for any unforeseen reasons. It will also lay out other roles & responsibilities, and appropriate governance structure.
- Termination Clause and Process – The agreement will lay out processes to be followed in case of any pre-mature termination of partnership.
- Each lender shall adhere to the asset classification and provisioning requirement, as per the respective regulatory guidelines applicable to each of them including reporting to Credit Information Companies, under the applicable regulations for its share of the loan account.
- The loans under the CLM shall be included in the scope of internal/statutory audit within the banks and Clix to ensure adherence to their respective internal guidelines, terms of the agreement and extant regulatory requirements.

7. Customer related issues:

- Single point of interface for the customers shall be governed by the T&C given in Master agreement and shall enter into a loan agreement with the borrower, which shall clearly contain the features of the arrangement and the roles and responsibilities of Clix and banks / NBFC.
- All the details of the arrangement shall be disclosed to the customers upfront and their explicit consent shall be taken.
- The ultimate borrower may be charged an all-inclusive interest rate as may be agreed upon by both the lenders conforming to the extant guidelines applicable to both.
- The extant guidelines relating to customer service and fair practices code and the obligations enjoined upon the banks and Clix therein shall be applicable mutatis mutandis in respect of loans given under the arrangement.
- Clix should have access and should be able provide single unified statement of the customer, through appropriate information sharing arrangements with the bank.

8. Loan Loss/Non-Performing Assets

As defined by the RBI regulations, for all NPA's, individual provisioning norms of both the parties will apply. Both lenders can provision for their share of the loan amount based on their capital exposure. Both lenders to individually report to credit information bureaus and other mandated entities for their respective exposure.

9. Debt Restructuring

The debt restructuring norms of RBI will govern restructuring under co-origination partnership. The parties would define a common approach.

10. Further Direct Assignment

The partner lender cannot undertake further assignment unless agreed by CLIX. Both parties will retain the right to buy out each other's portfolio at mutually agreed terms.

11. Renewal of agreement

Upon expiry of an existing agreement, renewal of contract will be treated as a fresh agreement and the process applicable for a fresh agreement will be followed.

12. Contract Termination

There could be scenarios resulting in contract termination for following reasons (but not limited to):

o **Unfair Practices**

In the event of any unfair practice by the partner, CLIX may choose to terminate the contract. Unfair practices can be defined as follows, but not limited to:

- Mis-treatment of any customer
- Breach of CLIX's fair practices code
- Mis-information or mis-selling
- Breach of responsibility, as specified in the agreementAny other willful non-compliance amounting to bad reputation, even if it is outside the ambit of this partnership
- Any other practice or policy, which harms the interest of CLIX or customers.
- In order to initiate termination, Business Head, CRO, CEO or any other competent authority, as designated by the Board, will issue a show-cause notice to the Partner.

o **Business Reasons**

In cases where there is significant departure from the stated business objective, CLIX may decide to terminate the partnership. CLIX or the partner Bank may also choose to re-negotiate any term of the contract. Both lenders will layout a detailed process for the termination, keeping in view continuity of customer servicing and collection protocols for existing accounts.

o **Non-Renewal**

At the end of the agreement period, both lenders can terminate or renew the agreement. If either of the lenders chooses to terminate the agreement, a detailed process will be followed in order to ensure smooth transition for all customers. The process for contract termination will be mentioned in the individual contracts with the Bank.

The final authority to decide on termination and non-renewal will vest with Business Head, CRO and CEO or any other competent authority, as the Board may designate.

13. Dispute Resolution

In case of any dispute with the partner Bank, both lenders will first try to resolve the matters amicably. However, in case of non-resolution due to any reason, all differences or disputes between the lenders shall be submitted for arbitration in accordance with the provisions under the Arbitration and Conciliation Act, 1996.

14. Business Continuity

In case of termination of partnership between CLIX and the Bank due to any reason, a detailed transition plan need to be executed based on mutual agreement between CLIX and the Bank. The servicing of customers can be done in the following ways:

o **CLIX continues to Service** – CLIX will continue to service and report the status of all open loan agreements, until the time the all accounts are closed.

o **Bank takes over Servicing** – CLIX will hand over all necessary information, data and system access to Bank, in order for Bank to continue servicing existing customers.

Bank is required to maintain all records as per the applicable Rules and Regulations and be made available to CLIX for matters of concern.

Any other means of handling business continuity can be proposed by the CLIX in their proposal and mutually agreed upon by Bank.

Additionally, for any other matters leading to requirement of business continuity, Business Head, CRO, CEO or any other competent authority, as the Board may designate, will decide on the transition plan.

15. Governance

The Business Head shall be responsible for:

1. Implementing CLIX's co-lending policy as approved by the Board;
2. All operational matters related to policy implementation;
3. Periodical review of the effectiveness of the initiatives, procedures and reporting of the same to the Board;
4. Monitoring co-lending operations to ensure a robust control environment exists and new risk exposures are adequately identified, managed and reported;
5. Review and adherence to regulatory requirements;
6. Ensuring contingency planning (for instance, business and IT continuity plans are periodically reviewed, tested and updated accordingly).

16. Exception to the Policy

Any deviation, which in the opinion of the CRO, constitutes a material exception, needs to be escalated and be approved by Board of directors

17. Policy Review

Policy will be approved by Board of Directors and reviewed on periodic basis .Revisions, if any, will be undertaken as per approved program Delegation of Authority (DOA).

The CRO has overall responsibility for the maintenance of this Policy and is responsible for coordinating closely with the Board in managing that responsibility. This policy should always be read in conjunction with relevant RBI guidelines and directives and incase of any conflict, the relevant RBI guidelines will supersede this policy.