CO-LENDING POLICY

Guidance and Framework for Co-lending with NBFCs/Banks

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1. Background

The Reserve Bank of India ("RBI") has issued a circular[1] on Co-Lending by Banks and NBFCs to Priority Sector ("Circular") in supersession of its earlier circular dated September 21, 2018, applicable for Co-origination of loans by Banks and NBFCs for lending to Priority Sector[2]. The Circular requires the NBFCs to formulate a board approved policy for Co-lending.

2. Co-lending

Co-lending is where banks and NBFCs come together to lend to the underserved and unserved sector of the economy based on the prior agreement between themselves. Based on this agreement, the co-lending banks will take their share of the individual loans on a back-to-back basis in their books with NBFCs retaining a minimum of 20 (twenty) percent share of the individual loans on their books.

3. Objective

Kinara Capital Private Limited (formerly known as Visage Holdings and Finance Private Limited) ("Kinara Capital") proposes to partner with eligible banks[3] and NBFCs to co-lend to priority sector in line with the Circular. This policy lays down the general principles and practices to be followed by Kinara Capital in co-lending in partnership with banks and NBFCs ("CLM Policy").

4. Applicability and Scope

The CLM Policy will be applicable to:

4.1. all the existing and new categories of products of Kinara Capital.

4.2. all new co-lending arrangements made with the banks and/or NBFCs, directly or through any intermediary or platform.

5. Threshold

Kinara Capital's co-lending book shall not exceed the amount approved by the board (as part of the business plan) from time to time.

6. Eligibility Criteria

The broad parameters, which are only indicative in nature and are to be followed on a best effort basis, are as follows:

Sl. No.	Parameters	Criteria
a.	Nature of entity	Bank and/or NBFCs
b.	Asset under Management	Minimum of INR 300 crore
c.	Net-worth	Minimum of ~INR 100 crore
d.	External Credit Rating	BBB- and above.
e.	Product Presence	Not actively engaged in MSME financing.
f.	Geographic Presence	Limited overlap with Kinara Capital's presence

The above parameters are subject to periodic review by the Approving Authority.

[1] bearing reference no. RBI/2020-21/63, FIDD.CO.Plan.BC.No.8/04. 09.01 /2020-21 dated November 05, 2020;

[2] bearing reference number FIDD.CO.Plan.BC.08/04.09.01/ 2018- 19,

[3] Excluding the (i) foreign banks (including wholly owned subsidiary) with less than 20 branches; and (ii) Kinara Capital's group company/promoted entity, if any

7. Process

The process of co-lending will broadly involve the following stages:

7.1. Identification and evaluation of the partner bank/other NBFCs.
7.2. Finalization of the credit policy and post-sanction obligations of the parties.
7.3. Entering into legal agreements with the identified partner bank/other NBFCs.
7.4. Building tech integration and capabilities with the partner bank/other NBFCs.
7.5. Opening of the escrow account with the partner bank/any bank, as mutually acceptable.
7.6. Go live with the partner bank/other NBFCs.

8. Effective Date

The CLM Policy is applicable with effect from January 20, 2023.

9. Review of the CLM Policy

This CLM Policy shall be reviewed once every three (3) years by the board unless required to be reviewed earlier under the regulatory/statutory requirement.

10. Delegation

Authority to approve the arrangements or any deviation(s) in this CLM Policy shall be with any two (2) CXOs ("Approving Authority").

11. Types of arrangement

Kinara Capital can partner with banks and/or other NBFCs, on such terms and conditions as detailed herein below:

11.1 Co-lending with Banks

Kinara Capital shall enter into a master agreement with the selected bank to implement the co-lending model ("**Master Agreement**"), by providing either of the options:

11.1.1 MODEL 1

In this model, the Master Agreement entails a prior, irrevocable commitment on the part of the partner bank to take into its books its share of the individual loans as originated by Kinara Capital. This arrangement must comply with the extant guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services by Banks issued by RBI[4]. In particular, the partner bank and Kinara Capital shall have to put in place suitable mechanisms for ex-ante due diligence by the partner bank as the credit sanction process cannot be outsourced under extant guidelines. The partner bank shall also comply with the Master Directions – Know Your Customer (KYC) Direction, 2016, as updated from time to time, which already permit regulated entities (RE), at their option, to rely on customer due diligence done by a third party subject to specified conditions. Thus, Model 1 involves the partner bank and the and Kinara Capital sanctioning and disbursing the loan together on the basis of mutually agreed-upon underwriting norms.

11.1.2 MODEL 2

Under this model, the partner bank retains the discretion to reject certain loans subject to its due diligence. If the partner bank exercises its discretion regarding taking into its books the loans originated by Kinara Capital, the arrangement will be akin to a direct assignment transaction. Accordingly, the partner 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

[4] vide circular no.RBI/2014-15/497/DBR.No.BP.BC.76/21.04.158/2014-15 dated March 11, 2015, as updated from time to time.

the Underlying Securities issued by RBI[5], except for minimum holding period ("MHP"). The MHP exemption shall be available only in cases where the prior agreement between the partner bank and Kinara Capital contains a back-to-back basis clause and complies with all other conditions stipulated in the guidelines for direct assignment. This implies that Kinara Capital can sanction and disburse the whole amount of the loan and then approach the partner bank for reimbursement. Loans originated by Kinara Capital and subsequently approved by the partner bank under Model 2, will be assigned to the partner bank under an assignment and servicer agreement. The process for such an agreement, inter alia, standard formats and agreed turn-around time shall be mutually agreed with the partner banks as part of standard operating procedure ("**SOP**").

'**Model 1**' and '**Model 2**' shall collectively be referred to as "**Models**". The partner bank and Kinara Capital shall collectively be referred to as the "**Parties**" and individually as the "**Party**".

11.1.3 FEATURES OF THE ARRANGEMENT

11.1.3.1 Sharing of Risk and Rewards

Under both the Models, the partner bank and Kinara Capital will be sharing the risks and rewards as per the Master Agreement negotiated between both parties prior to any loan disbursements. A minimum of twenty (20) percent of the credit risk by way of direct exposure shall be on Kinara Capital's books till maturity in accordance with the Circular. This may be increased subject to the terms of the Master Agreement.

11.1.3.2 Interest Rate

Based on the respective interest rate and proportion of risk sharing, an all-inclusive rate is to be offered to the customer in the case of a fixed rate of interest. Kinara Capital will ensure that it adheres to the (i) regulations prescribed by the RBI/any other relevant regulatory body; and (ii) Kinara Capital's internal policies for any loan that has been disbursed through the co- lending model in the same manner as would have been the case if the entire loan was being disbursed solely on the behest of Kinara Capital.

In Model 1, Kinara Capital would have the flexibility to price their part of the exposure, while the partner bank shall price its part of the exposure in a manner that fits as per their respective risk appetite/ assessment of the customer and the RBI regulations issued from time to time. Based on the respective interest rates and proportion of risk sharing, a single blended interest rate will be offered to the ultimate customer in the case of fixed rate loans. In the scenario of floating interest rates, a weighted average of the benchmark interest rates in proportion to the respective loan contribution will be offered. However, notwithstanding the charging of a single blended/weighted average rate of interest from the customer, the repayment/recovery of interest shall be shared between the Bank and Kinara Capital in proportion to their share of credit and interest. The interest rate charged by the bank for its portion of credit shall be subject to applicable directions on interest rates on advances.

In Model 2: Kinara Capital shall price the entire exposure in a manner fit as per its risk appetite or as pre-determined by the partner bank. The partner bank may, subject to its due diligence, share the exposure and consequently the repayment/recovery of interest in proportion to their share of credit and interest.

11.1.3.3 Other costs

The processing fee and other costs are to be shared in a ratio as agreed between the Parties and listed in the Master Agreement.

[5] 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

11.1.3.4 Credit Appraisal & Loan Sanction

A detailed SOP to be created in discussion with the partner bank in line with the Master Agreement, to lay down the credit appraisal process. Based on the SOP, the process of issuance of sanction letter and execution of the loan agreement is to be followed.

11.1.3.5 Escrow Account

The partner bank and Kinara Capital shall open an escrow account with the partner bank/mutually agreed bank. The mechanism of operation of the escrow account to be detailed in the SOP.

In Model 1, the partner bank and Kinara Capital shall open an escrow account for pooling their respective loan contributions for disbursal as well as to appropriate repayment from customers.

In Model 2, Kinara Capital shall make the disbursement and if the loan is taken over by the partner bank, collection shall be made through an escrow account.

11.1.3.6 Customer Account Balance/Unified Account Statement

The customer loan statement is maintained at the individual customer level by the Parties for their respective share. Kinara Capital should be able to generate a single unified customer statement & share with the customer.

11.1.3.7 Accounts Monitoring & Recovery

The Parties shall create the framework for day-to-day monitoring and recovery of the loan, as mutually agreed upon in the Master Agreement.

11.1.3.8 Change in Loan Limits

Any change in loan limits shall be subject to the mutual consent of both the Parties.

11.1.3.9 Security and Contractual Comfort

The Parties shall ensure the creation of security and/or contractual comfort, as per mutually agreeable terms.

11.1.3.10 Provisioning/Reporting Requirement

Each of the Parties shall follow its independent provisioning requirements including declaration of account as NPA, as per the regulatory guidelines applicable to each of them for their respective shares.

11.1.3.11 Credit Bureau Reporting

Each of the Parties shall carry out their respective reporting requirements including reporting to Credit Information Companies, under the applicable law and regulations for their portion of loan.

11.1.3.12 Assignment

Any assignment of loans by any of the Parties can be done only with the mutual consent of the other Party.

11.1.3.13 Customer Service & Grievance Redressal

It shall be the responsibility of Kinara Capital:

- to explain to customers regarding the difference between products offered through the co-lending model as compared to its own products, if applicable.

- to provide the required customer service and grievance redressal to the customer within thirty (30) days. In case the complaint is not resolved within thirty (30) days, the customer will have the option to escalate the same with the concerned banking ombudsman/ombudsman for Kinara Capital as laid out in the fair practices code adopted by Kinara Capital/co-lending banking partner.

11.1.3.14 Business Continuity Plan

Both the Parties shall formulate a business continuity plan to ensure uninterrupted service to the customers till repayment of the loan.

11.1.3.15 Outsourcing of Services

Kinara Capital, as an outsourcing partner of the Bank, under Model 1, will adhere to extant guidelines on outsourcing of financial services and its outsourcing policy approved by the Board.

11.1.3.16 Other Policies & Guidelines

Kinara Capital will ensure that it adheres to the (i) regulations prescribed by the RBI/any other relevant regulatory body; and (ii) Kinara Capital's internal policies for any loan that has been disbursed under the co- lending model in the same manner as would have been the case if the entire loan were being disbursed solely on the behest of Kinara Capital.

11.1.3.17 Co-lending with other NBFCs

The details, as mentioned above in 11.1, except 0(Sharing of Risk and Rewards), shall apply mutatis mutandis to any co-lending arrangements entered with other NBFCs. In the case of co-lending with other NBFC:

11.1.3.18 Sharing of Risk and Rewards

Under both the Models, the partner NBFC and Kinara Capital will be sharing the risks and rewards as per the Master Agreement. A minimum of ten (10) percent of the credit risk by way of direct exposure shall be on Kinara Capital's books till maturity. This may be increased subject to the terms of the Master Agreement

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