CAPRI GLOBAL

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CAPITAL LIMITED

POLICY on

CO-LENDING MODEL between BANKS and

CAPRI GLOBAL CAPITAL LIMITED for LOANS to PRIORITY SECTOR

(Approved by Board of Directors at the meeting held on April 08, 2019, May 27, 2021 and Further Amended on February 12, 2022)

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CAPRI GLOBAL

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I. INTRODUCTION & OBJECTIVE

Capri Global Capital Limited's (CGCL) business has evolved over the years, citing a large opportunity in the Micro Small and Medium Enterprise (MSME) space. CGCL started exploring the MSME sector in 2013. The capital invested by CGCL not only reaps financial returns but also immeasurable social returns. CGCL invests in MSME sector not only to help small business owners to grow their business but also to make them self-reliant. This way profit and purpose both are achieved together.

CGCL's vision is to develop a vibrant micro, small and medium enterprise business, promote pride from home ownership for Indians in low-income group (LIG) and economically weaker sections (EWS), and create a society where financial credit empowers Indians. These segments were earlier under the clutches of traditional moneylenders and were unable to secure finance from banks due to lack of proper documents. CGCL continues to make serious efforts to get them in to the formal credit system.

CGCL firmly believes, traditional financing needs to be reoriented for the informal sector and leverages technology, trust and transparency to serve its customers. CGCL caters to a population segment which lacks income proof or similar documentation, yet for whom CGCL has created a unique income assessment method and loan eligibility system.

CGCL's field-based credit assessment with robust risk controls enables it to evaluate risks and ensure adherence to stringent standards of governance and regulatory requirements. This unique underwriting model which goes beyond the documents and understand the nitty gritties of the customer's business and assess their cash flows. The Sales and Credit team members visit work premises and residence of the borrowers and engage in a discussion to assess a customer's loan eligibility.

CGCL's target customer segment is Micro, Small & Medium enterprises. These enterprises / individuals to whom the CGCL lends shall qualify under the Priority Sector Lending (PSL) norms and laid down by Reserve Bank of India (RBI).

The Reserve Bank of India (RBI) vide its circular FIDD.CO.Plan.BC.08/04.09.01/2018-19 dated September 21, 2018 issued guidelines on co-origination of loans by Banks and NBFCs for lending to priority sector. However, with a view to better leverage the respective comparative advantages of the Banks and NBFCs in a collaborative effort, RBI has, vide its Guideline **RBI/2020-21/63 FIDD.CO.Plan.BC.No.8/04.09.01/2020-21 dated November 5, 2020** decided to provide greater operational flexibility to the lending institutions and accordingly, has revised the existing scheme as **"Co-Lending Model" ("CLM")**, thus to improve the flow of credit to the unserved and underserved sector of the economy and make available funds to the ultimate beneficiary at an affordable cost and greater reach of the NBFCs.

In accordance with the said RBI Guidelines dated November 5, 2020, this policy has been prepared by Capri Global Capital Limited (CGCL) for entering into CLM arrangement with Banks.

II. POLICY TERMS

1. Eligibility

- CLM arrangement will be made with Scheduled Commercial Banks only, excluding foreign banks (including WOS) with less than 20 branches.
- Lending under CLM will only be made to priority sector defined by RBI which shall include for funding towards micro, small & medium enterprises (MSMEs), export credit, education, housing, social infrastructure, renewable energy, startups etc.

2. Loan Sharing

- The co-lending banks will take their share of the individual loans on a back-to-back basis in their books.
- **CGCL shall retain a minimum of 20 per cent share** of the individual loans on its books; the percentage of retention by CGCL shall be captured in Master Agreement to be signed between CGCL and Banks.

3. Scope of Master Agreement between CGCL and Banks for CLM

- A Master Agreement shall be entered into between CGCL and the partner banks which shall inter-alia include, terms and conditions of the arrangement, the specific product lines and areas of operation, along with provisions related to segregation of responsibilities as well as customer interface and protection issues.

- The Master Agreement may provide for the banks to either mandatorily take their share of the individual loans, originated by CGCL, 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.
  - If the Master Agreement entails a prior, irrevocable commitment on the part of the banks to take into its book its share of the individual loans as originated by CGCL, 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 CGCL shall 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.
  - However, if the bank can exercise its discretion regarding taking into its books the loans originated by CGCL 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 CGCL contains a back-to-back basis clause and complies with all other conditions stipulated in the guidelines for direct assignment.

CGCL responsibility for KYC compliance:

- ❖ CGCL is a regulated entity by RBI and follows KYC directions as applicable to NBFCs and updated from time to time.
- ❖ The bank shall also be required to comply with the Master Directions - Know Your Customer (KYC) Direction, 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.
- ❖ The Master Agreement may contain necessary clauses on representations and warranties which CGCL shall be liable for in respect of the share of the loans taken into their books by the bank.

4. *Interest Rate*

- ❖ CGCL and partnering banks shall have flexibility of pricing their part of exposure in accordance with their respective internal pricing policies and in accordance with the extant applicable to banks and CGCL.
- ❖ The ultimate borrower may be charged an all-inclusive interest rate as may be agreed upon by both the lenders.

5. *Operational Aspect*

- ❖ The CGCL shall be the single point of interface for the customers 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 CGCL and banks.
- ❖ All the details of the arrangement shall be disclosed to the customers upfront and their explicit consent shall be taken.
- ❖ The extant guidelines relating to customer service and fair practices code and the obligations enjoined upon the banks and CGCL therein shall be applicable mutatis mutandis in respect of loans given under the arrangement.
- ❖ The CGCL shall generate a single unified statement of the customer, through appropriate information sharing arrangements with the partnering banks.
- ❖ With regard to grievance redressal, suitable arrangement must be put in place by the co-lenders to resolve any complaint registered by a borrower with CGCL within 30 days, failing which the borrower would have the option to escalate the same with the

concerned Banking Ombudsman/Ombudsman for NBFCs or the Customer Education and Protection Cell (CEPC) in RBI.

6. Disbursement and Post Disbursement Aspects

- The co-lending banks and CGCL shall maintain each individual borrower's account for their respective exposures. However, all transactions (disbursements/ repayments) between the banks and CGCL 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.
- The co-lenders shall establish a framework for monitoring and recovery of the loan, as mutually agreed upon.
- The co-lenders shall arrange for creation of security and charge as per mutually agreeable terms.
- 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 CGCL to ensure adherence to their respective internal guidelines, terms of the agreement and extant regulatory requirements.
- Any assignment of a loan by a co-lender to a third party can be done only with the consent of the other lender.
- Both the Banks and CGCL shall implement a business continuity plan to ensure uninterrupted service to their borrowers till repayment of the loans under the co-lending agreement, in the event of termination of co-lending arrangement between the co-lenders.
- CGCL shall place the Board approved policies for entering into the CLM on its website.

III. Authority and Delegations:

Managing Director is authorized to negotiate terms & conditions, execute required documents including Agreement/Deed of Assignment in favour of Bank/Security Trustee and finalize any other requirements with partner Bank in relation to Co-Lending Model (CLM) and the Managing Director can further delegate the aforesaid powers to the employees of the Company at a designation of Associate Vice President & above.

Any other regulatory changes with respect to CLM made by RBI from time to time will stand updated in this policy.

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