


AXIS FINANCE LTD

CO-LENDING POLICY – RETAIL LOANS

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FOR AXIS FINANCE LIMITED


RAJNEESH KUMAR
COMPANY SECRETARY

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A) **Background:**

The Reserve Bank of India (RBI) had issued a circular RBI/2018-19/49 FIDD.CO.Plan.BC.08/04.09.01/2018-19 dated Sep 21, 2018 regarding Co-origination of loans by Banks and NBFCs for lending to priority sector. This circular was superseded by RBI circular RBI/2020-21/63 FIDD.CO.Plan.BC.No.8/04.09.01/ 2020-21 dated November 05, 2020 regarding Co-Lending by Banks and NBFCs to Priority Sector. It was further clarified by RBI that the co-origination arrangement may be adopted for lending to non-priority sector also. However, the arrangement for lending to non-priority sector shall be restricted to Regulatory Retail portfolio, retail loans such as personal loans, housing loans, loan against property, gold loan etc. and business loans up to ₹7.5 Cr. The primary focus of the revised scheme, rechristened as “Co-Lending Model” (CLM), is 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 by expedited credit delivery.

This policy, for entering a Co-lending arrangement with the eligible lending partners, has been formulated in-line with the RBI guidelines. AFL may engage with eligible lending partners for Co-Lending based on a Master Agreement executed between AFL and lending partners based on the policy framework outlined below.

B) **Framework:**

With a view to grow Retail business/ co-originate with other banks below framework is being proposed:

- Axis Finance Ltd. (AFL) will explore the possibilities of entering into co-lending arrangements with Banks, NBFCs and HFCs either as an Originating Lender also referred to as “Primary Lender” or a Participating Lender also referred to as “Secondary Lender” for co-lending of Retail lending products.
- AFL will execute a Master Co-Lending Agreement with the Partnering Bank / Financial Institutions (FI) detailing the scope and other terms & conditions as required and in line with the guidelines issued by RBI. The terms with the Partnering Bank / Financial Institution will reflect AFL’s role either as the Participating Lender or the Originating Lender. In both the scenarios, AFL shall either follow its existing Retail Credit Policy or may formulate a separate co-lending policy basis the underlying arrangement. AFL shall open designated Escrow accounts for each co-lending arrangement and ensure to process and route loans under co-lending through these specified accounts.

The key aspects of the co-lending arrangement where AFL is the Participating lender has been mentioned in Annexure A and where AFL is the Originating lender (Primary Lender) has been mentioned in Annexure B

Delegation to approve Co-Lending arrangements

- (i) Co-lending Partner and Master Agreement approval: Credit Risk management Committee (CRMC)
- (ii) Co-lending Credit Policy specific to each co-lending arrangement, in case of any deviation with the existing Retail Product specific credit policies: CRMC (to be subsequently ratified by RMC)

Review of the Policy

The policy shall be reviewed at least annually by the Board or pursuant to any amendments to the regulations or for any reason as may deemed appropriate.

The Managing Director & CEO, Deputy Managing Director, Chief Risk Officer and Chief Compliance Officer are jointly and / or severally authorized to carry out necessary changes to the policy, as and when the same are necessitated, pursuant to any regulatory change, clarification by regulator, industry wide approach, etc. The changes carried out by the aforesaid persons shall be ratified subsequently by the Risk Management Committee / Board of Directors of the Company.

Annexure – A (where AFL is the Participating lender) (Secondary Lender)

(i) Benefits to AFL:

- 1) CLM will help AFL to build sustainable, profitable lending portfolio by leveraging lending partner's distribution without incremental op-ex.
- 2) Leverage new age platforms/market place lender's best practices with-in "AFL" guardrails to grow the AFL asset book.

(ii) Eligibility Criteria for selection of lending partner institutions:

Business vintage	Minimum 2 years in the product segment where co-lending is proposed.
Assets under Management	>=Rs 100 Cr
Net worth	>= Rs 25 Cr
Leverage	Upto 8 times
External credit rating	BBB and above.
GNPA	< 5%
Preferred lending institutions	1) All Scheduled Commercial Banks (Excluding SFBs, RRBs, UCBs and LABs) 2) All Registered Non-Banking Financial Companies (including Housing Finance Companies)
Product suite to be pursued under co-lending	Retail asset products/MSME which fulfills asset creation or need based requirement. (AFL will have its own credit policy in place for the product categories to be pursued under co-lending).
Exceptions	Considering the objective of co-lending is to improve the flow of credit to the unserved and underserved sector of the economy, prescribing uniform selection parameters may prevent AFL from exploring such opportunities. Any exceptions to be prescribed eligibility criteria is to be approved by CRMC post analyzing the business model and overall risk involved in the proposed arrangement.
Due diligence prior to lending partner boarding by AFL.	i. Understanding of the business model, segment of operation. ii. Origination, underwriting process. iii. Collection and recovery process, NPA recognition norms. iv. Storage of documents and security thereof.

(iii) Co-lending arrangement:

AFL may enter into co-lending arrangement with an eligible lending partner in any of the following ways:

1. By mandatorily taking AFL's share of the individual loans as originated by the co-lending partner.
2. Retain the discretion to reject certain loans subject to AFL's due diligence.

1. Mandatorily taking AFL's share of individual loans originated by lending partner:

If AFL proceeds with a prior, irrevocable commitment on the part of the AFL to take into its books its share of the individual loans originated by the lending partner, the arrangement must comply with the extant guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services issued by RBI 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.

The guidelines pertaining to Outsourcing of Financial Services as specified in AFL's Policy on Outsourcing of Financial Services shall be complied with while entering into an irrevocable commitment with LENDING PARTNER.

In particular, AFL along with the LENDING PARTNER shall put in place suitable mechanisms for ex-ante due diligence by the AFL as the credit sanction process cannot be outsourced under the extant guidelines.

2. Retain the discretion to reject certain loans subject to AFL's due diligence:

If AFL decides to exercise its discretion on taking into its books the loans originated by LENDING PARTNER, the arrangement shall be akin to a direct assignment transaction.

Accordingly, the AFL shall ensure compliance with all the requirements in terms of RBI Master Direction on Transfer of Loan Exposures RBI/DOR/2021-22/86 DOR.STR.REC.51/21.04.048/2021-22 dated September 21, 2021 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.

AFL has formulated a Policy on Transfer of Loan Exposures which are not in default in line with the above said RBI guidelines and it shall be ensured that the loans taken into the books of the AFL shall be in compliance with the said policy norms with the exception of MHP. The MHP exemption will be available for loans qualifying for Priority Sector classification.

To avail the MHP exemption, AFL shall ensure that the Master Agreement between AFL and Lending Partner contains a back-to-back basis clause and that the arrangement complies with all other conditions stipulated in the guidelines for Transfer of Loan Exposures. The credit sanctioning process, within the policy framework, and the type of arrangement with the Lending Partner shall be covered in the co-lending process note for each Co-Lending arrangement, if separately created.

(iv) Know Your Customer (KYC) Norms:

AFL shall comply with the Master Directions - Know Your Customer (KYC) Direction, 2015, issued vide RBI/2015-16/108 DNBR (PD) CC No. 051/03.10.119/2015-16 on July 1, 2015 and updated from time to time, which permit regulated entities, at their option, to rely on customer due diligence done by a third party, subject to specified conditions. KYC norms and due diligence by third parties shall be ensured in compliance with the said policy guidelines.

(v) Modus-operandi – Co-lending:

Product offering	Detailed products, processes, role and responsibility etc. will be finalized after discussion with the proposed lending partner on case-to-case basis, keeping in view its target segment, area of operations, other operational issues etc. A mutually agreed product program will be decided for every lending partner determining the model of sourcing, pricing, lending, collection and recovery mechanism, servicing fees etc. Tenure of such product program may be mutually agreed upon and to be incorporated in the Co-Lending Master Agreement with the lending partner.
Lending arrangement	AFL shall take the share of the individual loans on a back-to-back basis in the books. However, lending partners shall be required to retain a minimum of 20 per cent share of the individual loans on their books and ensure compliance as amended by the regulator from time to time.
Customer communication	All the details of the arrangement shall be disclosed to the customers upfront and their explicit consent shall be taken.
Rate of interest	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.
Loan statement	The lending partner or AFL to generate a single unified statement of the customer, through appropriate information sharing arrangements with each other.
Escrow Account	AFL and lending partner shall maintain each individual borrower's account for their respective exposures. However, all transactions

	(disbursements/ repayments) between the AFL and lending partner relating to CLM shall be routed through an escrow account maintained with the AFL recommended banking partner, in order to avoid inter-mingling of funds. The Master Agreement for the arrangement shall invariably specify the manner of appropriation between the co-lenders.
Security creation	AFL and lending partner shall arrange for creation of security and charge as per mutually agreeable terms.
Customer support	Originating Lending partner 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 AFL and lending partner.
Grievance Redressal	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 the lending partner within 30 days, failing which the borrower would have the option to escalate the same with the concerned Banking Ombudsman/Ombudsman for lending partner or the Customer Education and Protection Cell (CEPC) in RBI.
Loan assignment	Any assignment of loan sourced under this arrangement by a co-lender to a third party shall be done only with the consent of other co-lender.
Business Continuity Plan	AFL and lending partner 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.
Remedial management	<p>The co-lenders shall establish a framework for monitoring and recovery of the loan, as mutually agreed upon.</p> <p>Necessary portfolio guardrails or performance indicators to be pre-agreed with lending partners</p>

	and suitable review to be done in case of any breach in the thresholds.
Asset Classification & Provisioning	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. AFL's existing policy on NPA / Stage - 3 Accounts Management and Recovery Policy will be applicable for co-lending loans.
Internal audit	The loans under the CLM shall be included in the scope of internal/statutory audit within the AFL and lending partner to ensure adherence to their respective internal guidelines, terms of the agreement and extant regulatory requirements.
Restrictions and Warranties	The Master Agreement shall contain necessary clauses on representations and warranties which the originating lending partner shall be liable for in respect of the share of the loans taken into its books by AFL.
Cross-sell	AFL shall have rights to cross sell its/associates products to the customers sourced under the Co-lending Model program.
Information Technology Enablers:	<p>The following processes will be enabled through IT integration, wherever required (the list is illustrative and not exhaustive):</p> <ul style="list-style-type: none"> a) Rule based application for automation of appraisal and sanction. b) Escrow type common account for disbursements as well as to appropriate loan repayments from borrowers. c) MIS for disbursements, repayments due and recoveries made. d) Creation of product codes as per the approved co-lending policy. e) Calculation of income sharing on monthly basis.

	<p>f) Sharing of loan account data with co-lending partner for providing unified statement to the borrower.</p> <p>AFL might avail services of third-party service providers for providing such services.</p>
Safe custody of security documents	<p>Safe custody of security documents will be with Originator. However, since, it is a co-lending arrangement, the documents may be kept under a third-party repository as mutually agreed upon making it convenient for retrieval. This will be subject to the conditions that duly attested/certified scanned copies of all the executed documents will be provided to AFL and shall be vetted by the AFL legal team before disbursement.</p>
Documentation	<p>Master Agreement: A Master Agreement shall be entered into with lending partners which shall inter-alia include, terms and conditions of the arrangement, the specific product lines and areas of operation, standard operating procedures along with provisions related to segregation of responsibilities & dispute resolution as well as customer interface and protection issues. The Master Agreement shall contain necessary clauses on representations and warranties which the originating lending partner shall be liable for in respect of the share of the loans taken into its books by AFL.</p> <p>Loan documents: Loan agreements shall be drafted and finalised in consultation with lending partners and would be vetted by legal department. AFL may entrust the lending partner (through a Power of Attorney) with the responsibility of execution of documents on AFL'S behalf. However, indemnity from the lending partner to cover the loss to AFL in case of failure by lending partner in duly performing its duty to be obtained. Further, this arrangement to be captured in the Master Agreement with lending partner.</p>

Annexure – B (where AFL is the Originating lender) (Primary Lender)

(i) Benefits to AFL:

- ✓ Existing AFL's infrastructure is put to optimal use
- ✓ Improvement of yield on the retained portion of the loan
- ✓ Enables AFL to offer competitive interest rates and customized loan products, enhancing credit flow to priority sectors and supporting financial inclusion initiatives.

(ii) Eligibility Criteria:

All banks authorised by RBI for business operations in India are eligible for co- lending (excluding SFBs / RRBs / UCBs / LABs). Master Agreement/MOU shall be entered with the co-lending Banks/NBFCs for the period/s as mutually agreed between the Bank/NBFC and AFL i.e., either for specific period or perpetually.

The agreement with banks/NBFCs shall normally be on non-exclusive basis. However, on mutual agreement, exclusivity can be agreed for specific product or specific region/geography.

AFL shall not enter into a Co-lending arrangement with any Bank belonging to the promoter Group.

(iii) Co-lending arrangement:

Axis Finance Limited ("Originating lender") proposes to engage with select banks & NBFCs ("Co-Lender") to explore co-lending opportunities across all its existing and new products / segments in line with the RBI Regulations from time to time.

AFL shall, may engage with eligible Co-Lender, enter into co- lending arrangements on the basis of any of the following models.

Model -1: Co-lender to mandatorily take its share of individual loans originated by AFL

The Master Agreement to be entered into by the Co-Lender and AFL for implementing CLM shall provide for the Co-Lender to mandatorily take its share of the individual loans originated by the AFL in its books. The Co-Lender and the AFL shall put in place suitable mechanisms for ex-ante due diligence by the Co-Lender as required by the RBI regulations. The process under this Option 1 will be done through system (Parallel sanctions from the co-lender and Originator).

Model -2: Co-lender to retain the discretion to reject certain loans subject to its due-diligence

If the Co-Lender can exercise its discretion regarding taking into its books the loans originated by the AFL as per the agreement, the arrangement will be akin to a direct assignment transaction. Accordingly, Co-lender shall ensure compliance with all the requirements in terms of RBI Guidelines on Transfer of Loan Exposures RBI/DOR/2021-22/86 DOR.STR.REC.51/21.04.048/2021-22 dated September 21, 2021 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 Co-lender and AFL contains necessary terms as stipulated in the RBI guidelines.

To avail the MHP exemption in case of loans qualifying for Priority Sector classification, the Master Agreement between AFL and Co-lender should contain a back-to-back basis clause and that the arrangement complies with all other conditions stipulated in the guidelines for Transfer of Loan Exposures.

For financing under co-lending model for non-priority sector, the Minimum Holding period as defined in extant Policy on Transfer of Loan Exposures and Policy on Securitisation of Standard Assets shall be applicable.

The minimum holding period is detailed below:

- a. The transferor can transfer loans only after a Minimum Holding Period (MHP) which is counted from the date of registration of the underlying security interest with Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI) as under:
 - b. Three months in case of loans with tenor of up to 2 years;
 - c. Six months in case of loans with tenor of more than 2 years.

Provided that in case of loans where security does not exist or security cannot be registered with CERSAI, the MHP shall be calculated from the date of first repayment of the loan.

Provided further that in case of loans acquired from other entities by a transferor, such loans cannot be transferred before completion of six months from the date on which the loan was taken into the books of the transferor.

(iv) Modus Operandi – Co-lending (AFL is Originating lender)

Product offering	Lending under the Co-Lending can be undertaken in all existing products of the AFL qualifying under the RBI Circular. It can also be undertaken for any new products that are specifically developed for the purpose of CLM.
Lending arrangement	Both the co-lending models would involve sharing of risks and rewards between the co-lender and AFL for ensuring appropriate alignment of respective business objectives, as mutually agreed between the co—lender and AFL. A minimum of 20% of the credit risk by way of direct exposure shall be on AFL's books till maturity and the balance will be on the co-lender's books.
KYC / AML regulatory guidelines	AFL will adhere to applicable KYC/AML regulatory guidelines as prescribed by RBI and any other regulation as stipulated by RBI, from time to time. However, as mutually agreed, the AFL will provide such support as may be requested by the Co-lender for their KYC compliance.

Credit Appraisal	A separate Standard Operating Process (SOP) or equivalent document will be created in discussion with each Co-Lender, if required.
Borrowers' loan documentation	The enabling disclosures of the Co-Lending arrangement to be made in the loan agreement as mandated in the RBI circular.
Rate of interest	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.
Loan statement	AFL to generate a single unified statement of the customer, through appropriate information sharing arrangements with each other.
Escrow Account	AFL shall maintain each individual borrower's account for their respective exposures. However, all transactions (disbursements/ repayments) between the AFL and co-lender relating to CLM shall be routed through AFL's escrow account maintained by the co-lender , in order to avoid inter-mingling of funds. The Master Agreement for the arrangement shall invariably specify the manner of appropriation between the co-lenders.
Security creation	AFL and lending partner shall arrange for creation of security and charge as per mutually agreeable terms, wherever applicable.
Customer support	AFL 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 AFL and co-lender.
Grievance Redressal	<p>With regard to grievance redressal, AFL will make suitable arrangement to resolve any complaint registered by a borrower within 30 days, failing which the borrower would have the option to escalate the same with the concerned Banking Ombudsman or the Customer Education and Protection Cell (CEPC) in RBI.</p> <p>The extant guidelines relating to customer service and fair practices code and the obligations enjoined upon the Co-Lender and the AFL shall be applicable in respect of loans given under the arrangement.</p>
Loan assignment	Any assignment of loan sourced under this arrangement by a co-lender to a third party shall be done only with the consent of AFL. Any change in CLM loan limit being offered under the Co-Lending arrangements shall be done only with the mutual consent of the AFL and the Co-Lender.

Business Continuity Plan	Notwithstanding the termination of Master Agreement between the Co-Lender and the AFL, both the Co-Lender and the AFL shall formulate a policy to ensure uninterrupted borrower service till repayment of the loans originated under the Co-Lending arrangement.
Remedial management	The co-lenders shall establish a framework for monitoring and recovery of the loan, as mutually agreed upon.
Asset Classification & Provisioning	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. AFL's existing policy on NPA / Stage - 3 Accounts Management and Recovery Policy will be applicable for co-lending loans.
Audit	The loans under the CLM shall be included in the scope of internal/statutory audit within the AFL and lending partner to ensure adherence to their respective internal guidelines, terms of the agreement and extant regulatory requirements.
Restrictions and Warranties	The Master Agreement shall contain necessary clauses on representations and warranties which AFL shall be liable for in respect of the share of the loans taken into its books by participating lender.
Cross-sell	AFL shall have rights to cross sell its /associates' products to the customers sourced under the Co-lending Model program.
	<p>The following processes will be enabled through IT integration, wherever required (the list is illustrative and not exhaustive):</p> <ul style="list-style-type: none"> a) Rule based application for automation of appraisal and sanction. b) Escrow type common account for disbursements as well as to appropriate loan repayments from borrowers. c) MIS for disbursements, repayments due and recoveries made. d) Creation of fresh products codes as per the approved co-lending policy. e) Calculation of income sharing on monthly basis. <p>AFL might avail services of third-party service providers for providing such services.</p>

Safe custody of security documents	Safe custody of security documents will be with AFL only. However, since, it is a co-lending arrangement, the documents may be kept under a third-party repository as mutually agreed upon making it convenient for retrieval.
Documentation	<p>Master Agreement: A Master Agreement shall be entered into with lending partners which shall inter-alia include, terms and conditions of the arrangement, the specific product lines and areas of operation, standard operating procedures along with provisions related to segregation of responsibilities & dispute resolution as well as customer interface and protection issues. The Master Agreement shall contain necessary clauses on representations and warranties which AFL shall be liable for in respect of the share of the loans taken into its books by participating lender.</p> <p>Sharing of Fees and expenses as may be mutually agreed between the Co- Lender and AFL and stated in Master Agreement.</p> <p>Servicing fees / any other commercial terms to be mutually agreed with the Co- Lender and stated in Master Agreement.</p>

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