INTEREST RATE POLICY

OF

CHAITANYA INDIA FIN CREDIT PRIVATE LIMITED

Ref: Notification No. DNBS. 204 / CGM (ASR)-2009 dated 2 January 2009

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BACKGROUND AND PURPOSE

The Reserve Bank of India (RBI) vide its circular No. DNBS.PD/CC.No.95 /03.05.002 /2006- 07 dated May 24, 2007 had advised the Boards of NBFCs to lay out appropriate internal principles and procedures in determining interest rates and processing and other charges. In continuation of the above circular, the RBI vide its circular DNBS.204/CGM (ASR)-2009 dated January 2, 2009 has issued the following directions to NBFCs:

"The Board of each NBFC shall adopt an interest rate model taking into account relevant factors such as, cost of funds, margin and risk premium, etc. and determine the rate of interest to be charged for loans and advances. The rate of interest and the approach for gradations of risk and rationale for charging different rate of interest to different categories of borrowers shall be disclosed to the Borrower or Customer in the application form and communicated explicitly in the sanction letter."

In compliance with the requirements of the RBI Regulations mentioned above and the Fair Practices Code adopted by the Company, the Company has adopted this Interest Rate Policy broadly outlining the Interest Rate Model and the Company's approach of risk gradation in this regard for its lending business.

Chaitanya India Fin Credit is an enterprise setup with a firm belief to maintain a constant and simultaneous focus on double bottom line and wants to create sustainable financial and societal value. In a micro finance setup, robust and dynamic policies to set interest rates, is an important tool that would help in Chaitanya's path.

Simplification of Product Pricing:

As a company in micro lending it is important to strike the right balance between uniformity across customers to achieve operational efficiency and differentiation amongst loan types and customers to ensure we meet the diverse needs of our vast customer base.

We have hence decided on a policy of having a single interest rate for a product and develop multiple products depending on different needs, geographies etc. We would have multiple products for different end use of the loan, repayment frequencies, loan duration, different modalities like secured, unsecured, individual borrowing, JLG borrowing, SHG lending etc and for geographical difference between areas and in case of specific third party funded loans. Hence the interest rate policy is to be applied product wise.

COMPUTATION OF THE INTEREST RATE FOR LENDING

The interest rate for every product will be function of our management and actual facts on the following four aspects.

1. Cost of Borrowing for Chaitanya for the loan product
2. Operational Cost of Collection and loan administration.
3. Risk Profile of the Loan Product.
4. Expected Contribution to Common Overhead and Gross Margins.

1. <u>COST OF BORROWING FOR CHAITANYA FOR THE LOAN PRODUCT:</u>

Chaitanya will make its best effort to be well capitalized. However, given the demand for micro credit we believe that we would also need to borrow a substantial amount of the money we will be lending to our customers. Our Cost of borrowing would be function of our operational effectiveness as perceived by the banks, the liquidity situation in the country's financial markets and hence the general borrowing rates of micro finances, the term of the loan required for the product and the ability of the product to access privileged or special funds either from domestic or international institutions. Constant effort would be put to ensure that the borrowing cost is the minimum possible and any reductions in these costs would be passed on to the consumers at the same time avoiding unnecessary frequent changes. The Chief Financial Officer, Joint Managing Director or the Managing Director will report cost of borrowing for each of the loan product for the year & estimation for next year.

2. **OPERATIONAL COST OF COLLECTION AND LOAN ADMINISTRATION:**

The micro finance model requires frequent collection, service at the customer's door step, very small size of transactions, close association and frequent meetings with customers social impact of micro finances. However these also increase the cost of collection and administration as a percentage of the loan amount. This Percentage would change with changing loan sizes, changing frequency of the collection, changing accessibility and other factors which would change with products. Chaitanya will try its best to minimize these costs by providing good back office and IT support to its front line staff and along with that will try and work with an accurate estimate of this cost for a product. This cost as a percentage of the loan amount would be added to the Cost of borrowing to arrive at the total cost of lending.

The Product Head or Head of Operations are required to report estimated cost of operation for next year and past cost of operation for every year for every product which will be base for calculation.

3. **RISK PROFILE OF THE LOAN PRODUCT:**

Depending on the purpose for which loan is being used, geographical specificities, types of lending like individual, group etc, the risk profile of a loan product would vary. The risk profile of loans are also available within and outside the company by assessing the historical averages of repayment rates etc. Overall the management would have to make a judgement on the risk profile of a product and factor in a risk premium in the loan pricing. We however recognize that our customers are poor households and burdening them with higher interest rates itself could lead to low repayment rates. Hence as a policy Chaitanya would evolve its products around well defined and established products in the history and avoid all products where the repayment rates are perceived to low in order to keep this part of the cost of lending as low as possible

The Product Head or Head of Operations would report the credit cost for every product for financial year and estimated long term credit cost once in a year.

4. **EXPECTED CONTRIBUTION TO COMMON OVERHEAD AND GROSS MARGINS.**

The above three factors cover the cost aspect of our lending, in addition to which the interest income has to cover head office expenses, managerial expenses and technological expenses and other expenses. It also has to provide a reasonable margin to ensure that the company is profitable and the double bottom line objectives are met. As the size of the Loan Portfolio grows and as the loan sizes increase we believe that we can bring down our net interest margin. This aspect of the Cost to the borrower is the aspect that is most directly in control of the board and the management and both of them will make efforts and keep constant vigil that this margin is kept within reasonable limits in order not to burden our customers but at the at the same time ensuring profitable and sustainable growth to Chaitanya.

The expected contribution would be set by every product by the Directors during the budgeting exercise.

Interest rate for each product would be revised as and when required due to changes in above factors or due to regulatory changes made by RBI.

PRICING OF CREDIT ON MFI LOAN PRODUCTS

In compliance with RBI's master directions on DNBR. PD. 008/03.10.119/2016-17 dated 1st September 2016 (and as amended from time to time) as reproduced below, the company will adhere to the same while arriving at the pricing of its credit

i. Margin cap, cap on the difference between the amount charged to the borrower and the cost of funds to the NBFC-MFI, shall not exceed 10 per cent for large MFIs
ii. The interest rates charged by an NBFC-MFI to its borrowers shall be the lower of the following: (a) The cost of funds plus margin as indicated in para (i) above; or
(b) The average base rate of the five largest commercial banks by assets multiplied by 2.75. The average of the base rates of the five largest commercial banks shall be advised by the Bank on the last working day of the previous quarter, which shall determine interest rates for the ensuing quarter.
iii. NBFC-MFIs shall ensure that the average interest rate on loans sanctioned during a quarter does not exceed the average borrowing cost during the preceding quarter plus the margin, within the prescribed cap.
iv. The maximum variance permitted for individual loans between the minimum and maximum interest rate cannot exceed 4 per cent.
v. The average interest paid on borrowings and charged by the MFI are to be calculated on average monthly balances of outstanding borrowings and loan portfolio respectively. The figures shall be certified annually by Statutory Auditors and also disclosed in the Balance Sheet.
vi. Processing charges shall not be more than 1% of gross loan amount. Processing charges need not be included in the margin cap or the interest cap.
vii. NBFC-MFIs shall recover only the actual cost of insurance for group, or livestock, life, health for borrower and spouse. Administrative charges, where recovered, shall be as per IRDA guidelines.

PENAL INTEREST / LATE PAYMENT CHARGES ON MFI LOANS

The company shall not charge any penalty interest or late payment charges or other charges in what so ever name, for delayed payment by its customers.

DISCLOSURE

Appropriate disclosure regarding this Interest Rate Policy shall be made on the Company website in accordance with the Company's Fair Practices Code and the guidelines of RBI.

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