

INTEREST RATE POLICY

This Policy lays down the guidelines to the operational personnel and other decision makers (including the Credit Committee) of Manba Finance Limited (hereinafter referred to as "MFL") while determining the rate of interest and other fees to be charged from a loan client. This document is intended to present the policy of the company for dealing with customers/borrowers, in respect of determining the pricing for loans given by MFL, in a transparent and open manner. The approach is to evolve a standard for pricing of loans with a view to ensuring that pricing is fair and transparent. The policy would also facilitate understanding of MFL's approach for fair and transparent pricing by employees at all levels, as well as by borrowers. Though interest rates are not regulated by the RBI, rates of interest beyond a certain level may be seen to be excessive and can neither be sustainable nor be conforming to usual financial practice. This Interest Rate Policy is in compliance with the requirement of RBI to have a documented policy for interest rates being charged on loans disbursed by the company and ensures coverage under the Fair Practices Code circular issued by RBI. Given that the business model of MFL focuses on providing credit only to customers meeting the credit standards of MFL for varying tenors, the interest rate applicable to each loan account, is assessed on a case-to-case basis, based on the evaluation of various factors, as detailed hereafter.

A. Establishing an Interest Rate:

The interest rate applicable to a particular loan will be determined by reference to a number of factors, including:

(a) Tenor of the Loan

The interest rate charge will depend on the term of the loan; structure of the loan; terms of payment of interest (viz. monthly, quarterly, yearly repayment); terms of repayment of principal; moratorium period, bullet payment etc.

(b) Internal and External Costs of Funds

The rate of interest charged by MFL is also affected by the rate at which the funds necessary to provide loan facilities to customers are sourced, normally referred to as our external cost of funds. Internal cost of funds being the expected return on equity issued; is also a relevant factor.

(c) Internal cost loading

The interest rate charged will also take into account costs of doing business. Factors such as the complexity of the transaction, capital risk weightage, the size of the transaction, location of the borrower and other factors that affect the costs associated with a particular transaction should be taken into account before arriving at the final interest rate quoted to a customer.

(d) Credit Risk

As a matter of prudence, bad debt provision cost should be factored into all transactions. This cost is then reflected in the final interest rate quoted to a customer. The amount of the bad debt provision applicable to a particular transaction depends on our internal assessment of the credit strength of the customer.

(e) Other Factors

Matching tenor cost, market liquidity, refinance avenues, RBI Policies on credit flow, offerings by competition, market reputation, profile of the customers, stability in earnings and employment, subvention and subsidies available, deviations permitted, further business opportunities, group strength, overall customer yield, nature and value of primary and collateral securities, past repayment track record, external ratings, industry trends, switchover options.

B. Procedural Aspects:

MFL shall communicate to its customers (borrowers), via a sanction letter, the following details.

- (a) The amount of loan sanctioned along with the terms and conditions including annualised rate of interest applicable to the loan,
- (b) Details of the default interest / penal interest rates up to (indicative...%) per month and other fees and charges payable by the customers in relation to their loan account and method of application thereof and
- (c) Terms and conditions and other caveats governing the loan to be given by MFL, arrived at after negotiation.
- (d) In case of any change in any of the terms and conditions / caveats / any information which is relevant from the point of view of the transaction (including annualised rate of interest), the same shall be conveyed to the customer as an addendum /additional annexure to relevant loan documents. However, all the relevant formalities pertaining to the same shall be documented and a copy of the same shall also be sent to the customer. The same may be communicated through electronic media or another form of communication by the employees of MFL. The acknowledgement of the receipt of the said additional document shall also be preserved on the records by MFL officials.
- (e) All the above information shall be in writing / electronic media or any other form of communication by employees of MFL and shall be duly approved / accepted by the customer and certified by an authorised official of MFL and would be documented in a chronological manner for future reference.

C. Interest Rate Models:

- (a) Interest Rate Master will be reviewed and updated periodically basis Portfolio performance, MFL, AUM, Borrowal cost and other depending variables.
- (b) To arrive at Rate of Interest, MFL is moving towards Risk based pricing model, where we have successfully implemented Risk based pricing for Banking Surrogate product, for other products we are already working on score models, gradually all products will move to Risk based pricing
- (c) MFL Internal Score Models are created to assess 4 major risks of repayment
 - Probability of Default Ability to Pay
 - Intent to Pay
 - Likelihood to Pay
- (d) Risk Models are categorised in 3 categories broadly, cut off scores are mostly product specific
 N – Negative segment R – Amber segment K – Good segment
- (e) Each product score model / variables included are product specific and unique for that segment
 - i. While we assess each product, and target market segment / borrowers, expected credit loss is also included in deriving final price point
 - ii. For New products, Risk based pricing will take time for which we arrive at pricing basis expert pricing model
 - iii. Cost of funds / borrowing, Cost of Processing, Expected loss / Risk premium are components in Pricing models

D. Review:

This policy will be reviewed on an annual basis by the Management. If there is any change to the policy, then the Management will seek Board approval.

E. Website:

The Interest Rate Policy shall be made available on the Company's website.

F. Amendments:

Any changes or modification to this document can be signed off jointly by Board basis recommendation from the Asset Liability Management Committee.

For Manba Finance Limited

For MANBA FINANCE LTD.


Manish K. Shah Auth. Signatory
Managing Director
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