CAPITAL FIRST

POLICY ON INTEREST RATE MODEL & GRADATION OF RISK

Preamble:

Reserve Bank of India (RBI) had vide its Circular DNBS / PD / CC No. 95/ 03.05.002/ 2006-07 dated May 24, 2007 advised that Boards of Non Banking Finance Companies (NBFC's) lay out appropriate internal principles and procedures in determining interest rates, processing and other charges. This was reiterated vide RBI's circular DNBS (PD) C.C. No. 133 / 03.10.001/ 2008-09 dated January 2, 2009 and DNBS.CC.PD.No.266 /03.10.01/2011-12 dated March 26, 2012.

Keeping in view the RBI's guidelines as cited above, and the good governance practices, the Company has adopted the following internal guidelines, policies, procedures and interest rate model, for its lending business.

These need to be taken cognizance of while determining interest rates and other charges, and changes thereto.

Interest Rate Model:

The interest rate charged to the customers for retail loan products will be benchmarked to the CFL-PLR. The CFL-PLR is an estimation of a bench mark interest rate approved by the Asset Liability Committee (ALCO) of the Company considering various facets like cost of funds, operating costs, risk and expected returns for stakeholder value on a sustainable basis. It will be monitored periodically and any changes in CFL-PLR will be communicated through the Company website.

Gradation of Risk:

The risk premium will be decided on a case to case basis as decided by the Company based *inter alia* on the inherent nature of the product, market reputation, interest, default risk in the related business segment, historical performance of similar homogeneous clients, tenure of relationship with the borrower, repayment track record of the borrower in case of existing customer, future potential, nature and value of primary and collateral security and other factors as applicable.

While deciding the interest rate and other charges, the rate offered by competitors in the market would also be taken into consideration.

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