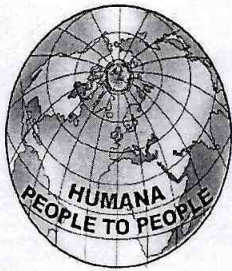

PRICING POLICY



HUMANA
FINANCIAL SERVICES PRIVATE LIMITED



1. Regulatory Requirements

Post issuing a consultative document on regulation of **microfinance loans** issued for public comments on June 14, 2021, RBI now on March 14, 2022, notified **Regulatory Framework for Microfinance Loans 2022**, which revises existing regulatory framework for microfinance loans.

Prior to publication of Regulatory Framework for Microfinance Loans 2022, Pricing of Microfinance loans is governed by **Master Circular- 'Non-Banking Financial Company-Micro Finance Institutions' (NBFC-MFIs) – Directions** circular number **RBI/2015-16/20 DNBR (PD) CC.No.047/03.10.119/2015-16**.

keeping the market dynamics in mind, RBI HAS DECIDED TO remove the capping on Interest charged by MFI's and offers an opportunity to lenders especially NBFC-MFIs to frame their individual policies in 'which would be in the best of interest for both lenders and the customers,

It also opens the window to apply a broader risk-based approach to pricing, factoring customer profile and other macro segment attributes of product and customers (age, income, occupation, location etc.).

2. Objective

In The Regulatory framework, RBI has advised that Interest rates and other charges/ fees on microfinance loans should not be usurious. It will be subject to supervisory scrutiny of RBI.

Boards of NBFC-MFIs are, therefore, advised to adopt an interest model taking into account relevant factors such as cost of fund, margins and risk premium and lay out an appropriate internal principles and procedures. In this regard the guidelines indicated in the Fair Practices Code about transparency in respect of terms and conditions of the loans may be kept in view.”

This document outlines the business model, target market, and related credit policies and procedures adopted by Humana Financial Services Private Limited (HFSPL) that form the basis for risk determination and related product pricing. References have also been made to the various policies and procedures adopted by HFSPL as part of its overall risk management framework. Accordingly, this document covers the overall internal principles embedded in the existing policies and procedures of the HFSPL in determination of interest rates, and processing and other charges, thereby ensuring compliance with the directive of the Reserve Bank.

3. Target Customers

- i. Microfinance Loans to JLG/SHG/Individual women's



Prasad

4. General Principles of Pricing Determination

The company follows a risk based pricing model which is determined based on the internal grading of the proposed borrower and customer risk profile. In determining the total cost to the borrower, the Company lays emphasis on risk & reward balance, cost expected to be incurred during the life cycle of the loan, relationship vintage and (collateral offered on SME loans) etc. among other factors mentioned further in this note specific to each business.

5. Pricing philosophy:

The pricing strategy adopted by Company adopts methods / conditions in a manner such as to maintain profitability while striking a balance between risk and reward.

Pricing for all products is therefore determined based on the risk associated with a particular type of loan, security and / or collateral available, tenor of the loan and the quantum of the loan.

In addition, the Company periodically benchmarks with competitive offerings, and factors in all these variables into the final pricing. Pricing is determined based on the profile or grade of the client for different product such as new loan, next cycle loan, underlying collateral and historical loss behaviors and expenses as explained above.

For existing customers, since historical credit behavior patterns are available, we adjust pricing for our offerings to reward customers with good credit behavior.

For new segments, pricing is based on the Company's assessment of the risk associated with the segment and profitability expectations based on competitive situation.

To elucidate, if based on past experience of loss rates, the Company's assessment of risk of a particular customer segment for an unsecured credit facility is high, such a credit facility would be priced higher in comparison to another customer segment that has experienced low loss rates.

"The total cost to the borrower, including interest and all other charges levied on a loan, should be justifiable having regard to the total cost incurred by the Company in extending the loan, which is sought to be defrayed and the extent of return that could be reasonably expected from the transaction."

Further, upon good credit performance, customers are proactively offered higher loans and better all-inclusive interest rates reflecting their good performance track record.



6. Methodology for Pricing Determination:

Given the size and complexity of their operations, these borrowers have access to multiple sources of funding including banks/ NBFCs/ capital markets and parent organisation, resulting in competitive pricing at market terms.

In order to carry out transaction level analysis and arrive at a framework for charging interest, business unit will classify/ tier all clients based on various parameters both internal and external, the internal parameters include internal credit rating of each client, return on risk capital, Client Priority (as part of Business Strategy) and Vintage of the relationship.

While the above internal parameters help to assess the weightage of each transaction in an objective manner, there are often other qualitative factors which need to be given due recognition such as:

- Cost of Funds, which includes,:
 - Cost of Equity using CAPM Model
 - Cost of Borrowings
- Margins
- Strike balance between the risk and reward for each transaction
- Competitive environment for such facilities

7. Factors of pricing of prime lending rate

i. Cost of Equity using * CAPM (Capital Asset Pricing Model)

CAPM takes into account the riskiness of an investment relative to the market. The model is less exact due to the estimates made in the calculation (because it uses historical information).

CAPM Formula: $E(R_i) = R_f + \beta_i * [E(R_m) - R_f]$

Where:

$E(R_i)$ = Expected return on asset i

R_f = Risk-free rate of return

β_i = Beta of asset i

$E(R_m)$ = Expected market return

Risk-Free Rate of Return : The return expected from a risk-free investment (if computing the expected return for a 5 or 10 year G-Sec can be considered).

In the month of March 2022, SBI is offering 5.4 % return on Fixed Deposit and scheduled Commercial Banks are offering approx. 6.5 % return on Fixed Deposit. Therefore, in the opinion of Management Team, 6% is reasonable risk free return.



β = **Beta of asset** I is not available for unlisted company like HFSPL. In this case we have taken the **β listed peer companies (Satin and Credit Access)**. In the opinion of Management Team, 1.04 is reasonable **Beta of asset**.

Expect Market Return: We have not find any concrete study which can forecast the market return of Microfinance Industry.

The Indian economy is expected to grow at 8.7 percent in financial year 2022-23, the World Bank said in its 'Global Economic Prospects' report released on January 11, 2022.

The Management conservatively expects the growth rate of 11% in the Humana Financial Services Private Limited.

Cost of Equity (%) for HFSPL in Year 2022-23 = $6 + \{1.04(11 - 6)\} = 6 + \{1.04 * 5\} = 6 + 5.20 = 11.20\%$

- ii. **Cost of Borrowings:** Total Finance cost (Including Interest, Stamp duty, Processing)/ Average monthly outstanding balances of loans/borrowings.
- iii. **Margin: Margin is to cover the** costs related to operations, employees, physical infrastructure (fixed and variable costs), sales and marketing, technology, among other things, Loan Loss Provision, ALM Risk, desired return on Asset and such other dynamic costs/risks.

In line of the suggestion of Malegam Committee, HFSPL will charge margin of 12 per cent for portfolio size up to Rs. 100 Crore. After, loan portfolios exceeds Rs.100 Crore, HFSPL will charge 10 % as margin.

8. All Inclusive Interest Rate:

Prime Interest Rate (Lending) + Charges (as Applicable) + Third Party products (Hospi-Cash)

i. Prime Interest Rate (Lending)

Interest rate charged shall be lower of the following:

- Cost of funds plus margin as indicated above. or
- 26 %

It shall be ensured that average interest rate on loan during a financial year does not exceed the average borrowing cost during that financial year plus the margin, within the prescribed cap.

In no cases the rate of interest on individual loans shall be exceed 26%. (Interest Rate capping of Master circular **RBI/2015-16/20 DNBR (PD) CC.No.047/03.10.119/2015-16.**



The maximum variance permitted for individual loans between the minimum and maximum interest rate will not exceed 4 per cent.

The interest rates would be offered on fixed rates on reducing balance and is not changed during the tenure of loan till the complete realization of entire principal and interest.

Any changes in the interest rate would be approved by resolution by circulation and would be prospective in effect.

Interest rates are intimated to the customers at the time of sanction/ availing of the loan and the equated instalments apportionment towards interest and principal dues are made available to the customers.

ii(a). Processing / Documentation Fee

Except exceptions given below, HFSPL will charge 1% of the gross loan amount as Processing fee excluding GST or any other % as may be amended by Board in future.

Discount in Processing Fee

To incentivise better repayment and loyalty it is proposed to give discount in processing fee.

Additional Processing Fee:

On those borrowers who have defaulted in repayment in HFSPL in past.

ii(b) Insurance Premium

- ❖ Company shall recover only the actual cost of insurance for group, livestock, life, health, for borrower and co-guarantor.
- ❖ Administrative charges recovered shall be in accordance with IRDA guidelines and in consonance with the insurance company whose services are engaged from time to time for insuring clients and their co-guarantors.

ii(c). Penal Interest / Late Payment Charges

Besides normal interest, company will charge penal Interest @26% PA on Overdue Amount (Principle + Interest) as penal interest / late payment charges for any delay or default in payment of any dues.

iii. Security charges/ Margin

➤ No other charges in the form of security deposit or margin shall be collected from the borrower on microfinance loan.

iv. Third Party Products:

In case of request of borrowers HFSPL will provide loans for third party products.



10. Fact Sheet:

At the time of sanctioning of loan, HFSPL will provide a detailed factsheet to the borrower, in which the all deducted from loan amount & effective rate of interest (All Inclusive) is clearly communicated and mentioned in vernacular language.

11. Disclosure:

HFSPL will publicly disclose the pricing framework and effective interest rate to client including all charges – other than interest rate, any other charges should be separately disclosed and be part of APR.

In case of differential pricing, the spread- range for all the products and customer segments (if applicable).

For transparency, RBI has mandated to have an all-inclusive interest rate.

HFSPL will disclose the pricing information on the website, marketing documents, loan documents (application form, sanction letter, agreement, loan statement/card) and MFIN/ Sa-Dhan.

HFSPL will communicate the effective interest rate to the customers at the time of application/sanction.

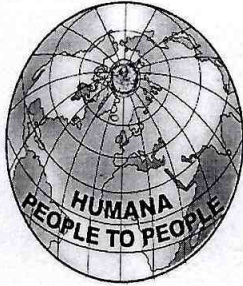
HFSPL will promptly update the marketing collaterals, website and other relevant documents for any changes in the rates and charges.

HFSPL will communicate any changes in pricing information that apply to existing customers through multiple modes such as email, letter, SMS, app

Any changes to be made in the policy shall be subject to the discretion of the management and be approved by the Board



FAIR PRACTICE CODE



HUMANA

FINANCIAL SERVICES PRIVATE LIMITED



Princy

PREAMBLE

The Fair Practices Code is aimed to provide to the loan applicants effective overview of practices, which will be followed by the Company in respect of the financial facilities and services offered by the Company. We are committed to ensure that our services to our clients are ethical and dependable. In providing services including lending and collection of dues, we are committed to fair practices, which balance respect for client's dignity and an understanding of a client's vulnerable situation, with reasonable pursuit of recovery of loans.

Objective of the Code

This Code has been developed to:

- Promote trustworthy practices by setting minimum standards in dealing with the loan applicants;
- Enhance transparency so as to enable the loan applicants to have a better understanding of what they can reasonably expect of the services.
- Encourage market forces, through competition so as to achieve qualitative operating standards;
- Ensure and sustain a fair and cordial relationship between the loan applicants and the Company.

Commitments and Declarations

We shall act efficiently, fairly and diligently in our dealings with all our loan applicants by:

- Meeting the commitments and standards in this Fair Practices Code for the financial products and services, we offer, and the procedures and practices our employees follow;
- Ensuring that all the financial services meet relevant Laws and Regulations;
- Providing professional, courteous and speedy services;
- Providing accurate and timely disclosure of terms and conditions, costs, rights and liabilities as regards financial transactions. We shall help the loan applicant understand how our financial products and services work by:
 - Providing verbal information about our financial schemes;
 - Ensuring that our advertising & promotional literature is clear and self-explanatory;
 - Explaining financial implications of the transactions;
 - Helping the loan applicant to choose the preferred financial scheme.

We shall deal quickly and proactively with things that go wrong by:

- Correcting mistakes quickly;
- Attending customer complaints quickly;
- Telling our loan applicants as to how to take their complaint forward if they are still not satisfied with our assistance;



- Reversing any charges imposed unintentionally or by oversight.

Non-Discrimination Policy

We will not discriminate between our loan applicants on the basis of gender, race or religion.

Applications for loans and their processing:

- a. Loan application forms in the vernacular language issued by the Company shall include necessary information such as amount of loan, rate of interest, processing fees, duration of loan, mode of repayment, total no. of instalments and amount of monthly instalment which affects the interest of the Borrower so that a meaningful comparison with the terms and conditions offered by other companies engaged in this area of finance can be made and an informed decision can be taken by the borrower. The loan application form shall indicate the documents such as complete KYC of borrowers required to be submitted along with the application form.
- b. The Company shall issue an acknowledgement slip for all loan applications. Loan applications shall be disposed of within 4 weeks or such extended time as may be mutually agreed between the Borrower/Centre Leader and the Company from the date of receipt of the application form complete in all respects.
- c. If any additional details/ documents are required, the same shall be intimated to the borrowers immediately.

Loan appraisal and terms/conditions:

- a. The Company shall provide finance services to low income clients/ SME's and wholesale lending to institutions recognizing its responsibility to provide financial services based on client's needs and repayment capacity. The assessment would be in line with the Company's credit policies, norms and procedures in respect thereof.

Loan appraisal is done based on the following aspects of the Borrower:

- Past repayment track record
- Attendance to centre meeting
- Current income, stated purpose for loan and its feasibility
- Repayment capacity on sustained basis.

- a. The 'Know Your Customer' (KYC) documents like registration documents, address and ID proof of promoters, managers, PAN card etc. or any other proof suggested by Reserve Bank of India under KYC norms, along with other documents like housing location, name, age, education, asset details, expense details and other baseline information of the family shall be collected.

- b. The Borrower would be informed by means of a written sanction letter in vernacular language towards the amount of loan sanctioned or otherwise, the said letter shall contain the terms and conditions including the rate of interest and the method of application thereof and keep the acceptance of these terms and conditions by the borrower on its record.



Disbursement of loans including changes in terms and conditions:

- a. The Company shall frame appropriate internal principles and procedures for determining and ensuring that the interest rates and processing and other charges are not excessive. The Company shall, at the time of disbursement, ensure that the interest rate and processing and other charges on loan and advances are in strict adherence to above referred internal principles and procedures.
- b. The Company shall invariably be bound to furnish a copy of the loan agreement along with a copy of all enclosures quoted in the loan agreement to all the borrowers at the time of sanction/disbursement of loans. The Company shall ensure that the terms and conditions and the rate of interest are intimated to the borrower in the form of a Term Sheet. All the communications shall be made in vernacular language so that borrowers understand the contents of the communication.
- c. The disbursement will be done immediately upon compliance of all the terms and conditions of the sanction by the Borrower.
- d. The Company shall give a notice in vernacular language to the borrower of any change in the terms and conditions including disbursement schedule, interest rates, service charges, pre-payment charges etc. The Company shall also ensure that changes in interest rates and charges are effected only prospectively.

Post Disbursal Supervision:

- a. Any decision to recall/accelerate payment or performance under the loan agreement shall be in consonance with the Loan Agreement.
- b. The Company shall not take securities deposit against provide its service/ loan.

General

- a. The Company shall not interfere in the affairs of the borrower except for the purposes provided in the Loan Agreement unless new information not earlier disclosed by the borrower has come to the notice of the Company.
- b. In the matter of recovery of loans, the Company assures that –
 - i) It shall not resort to undue harassment like bothering the borrowers at odd hours, use of muscle power for recovery of loans etc. and scrupulously avoid any demeanour that would suggest any kind of threat or violence.
 - ii) Maintain decency and decorum during the visit to the borrower's place, when need arises, for collection of dues.
 - iii) It shall avoid inappropriate occasions such as bereavement in the family or such other calamitous occasions for making calls/visits to collect dues.



- c. The Company will call delinquent loan applicants between 0800 hrs to 2000 hrs unless special circumstances of the borrower's business require to call them otherwise outside the hours mentioned.
- d. The Company may arrange for enforcing security charged to it of the delinquent borrower, if required, with an aim only to recover dues and will not be aimed at whimsical deprivation of the property.
- e. The Company shall ensure that the entire process of enforcing its security, valuation and realisation thereof be fair and transparent.
- f. In case of receipt of a request from the borrower for transfer of the borrowed account, the consent or otherwise i.e. objection of the Company, if any, shall be conveyed within 21 days from the date of receipt of such request. Such transfer shall be as per transparent contractual terms in consonance with law.
- g. The company has drafted its Fair Practice Code (FPC) both in Hindi and English based on the guidelines of RBI and put up in the Notice Board and accordingly will be put up on the web-site of the company in future.

Complaint Redressal Mechanism

- a. The company, on its Notice Board has displayed the name, designation, address and telephone numbers of officials' senior in hierarchy to the Credit Manager as Grievance Redressal Officer who can be approached by the borrowers for resolute their complaints against the company.
- b. After examining the matter, the Company will endeavour to send the customer its response within four weeks and intimate the customer as to how to escalate the complaint to higher level, if he is not satisfied with the response.
- c. The company has developed its "Internal Principles and procedures in determining interest and other charges" and are displayed in the Notice Board and accordingly, in future, it will be put up in the web-site of the company.
- d. The Company shall request the customer to provide feedback on the services rendered. This can be done through direct contact by employees or through specific Customer Satisfaction Surveys that may be conducted from time to time.
- e. A periodical review of the Fair Practices Code and the functioning of the grievances redressal mechanism at various levels of management would be undertaken by the Company and a consolidated report of such reviews shall be submitted to the Board of Directors of the Company Quarterly.

The Company shall abide by this Fair Practices Code following the spirit of the Code and in the manner it may be applicable to its business.

