

INTEREST RATE POLICY

OF



ESPOUSE CAPITAL PRIVATE

LIMITED

SUMMARY OF THE POLICY

Document Name	Interest Rate Policy
Issue and Effective Date	
Date of Next Review	12 months from the Issue and Effective Date
Periodicity of Review	Annual
Owner/Contact	Asset Liability Committee
Approver	Board of Directors
Annexures	-



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SR. NO.	PARTICULARS
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1. PREFACE OF THIS POLICY

The Reserve Bank of India, vide its Circular DNBS / PD / CC No. 95/ 03.05.002/ 2006-07 dated May 24, 2007, had advised the Boards of Non-Banking Financial Companies (NBFCs) to outline appropriate internal policies and procedures to define their interest rates, processing fees and other charges. The circular was issued as a measure against the increasing complaints the Bank received against excessive interest rate and other charges levied by NBFCs on certain loan products.

The RBI further reiterated these guidelines vide Circular DNBS (PD) C.C. No. 133 /03.10.001/ 2008-09 January 2, 2009, to advice NBFCs on the adoption of appropriate interest rate model after taking certain relevant factors into consideration. The guidelines also require NBFCs to disclose their rate of interest, gradations of risk and rationale for charging different rate of interest to their borrowers.

Keeping these guidelines in view, **Espouse Capital Private Limited** (the Company) has designed a detailed Interest Rate Policy with internal guiding principles and interest rate model. The Company shall take this Policy into consideration while making all of its decisions regarding the determination of interest rates and other charges applicable to its loan offerings.

2. OBJECTIVE OF THIS POLICY

The primary objective behind drafting and adopting this Policy is to define the standard interest rates to be followed for the Company's loan offerings. The Policy will also help the Company to lay down the different principles and rationale behind determining the different interest rates charged from its different customers.

3. INTERNAL RESPONSIBILITIES

- a) **Board of Director:** The Board of Directors of the Company shall oversee this Interest Rate Policy and ensure its effective implementation. Further, the Board may delegate the responsibility of implementation of this Policy and other functioning aspects to the Managing Director and/or ALCO as it deems fit.
- b) **Asset Liability Committee (ALCO):** The ALCO shall have the power to make decisions regarding any changes to the standard rates. The Committee shall meet at least once every month to decide any changes in the interest rates and put its suggestions up to the Board of Directors for their approval in the next Board meeting.

4. INTEREST RATE MODEL

The company's borrowings and all its loans to clients shall be on *Fixed Rates*. Espouse Capital Private Limited being a diversified NBFC is engaged in the business of lending money through unique loan products to cater the needs of a largely untargeted credit market. The primary target audience for the Company's offerings include salaried employees of unlisted companies and promoters of unlisted companies. The employing companies in focus for our loan segment shall be companies with a business valuation of more than \$500 million.

The base interest rate shall be calculated by the Company after taking into account, factors such as cost of funds, margin, risk premium, other costs such as administrative expenses and profit margin. The Company shall also review this base interest rate periodically.

Considering the risk and reward proposition of the loan segment the company catering to, the Company shall also charge variable interest which shall be linked to the number of shares collateralised such number of shares linked to variable interest shall be captured in the loan agreement accordingly.

Further, the Company shall determine the interest rate applicable to each loan account based on different yardsticks such as borrower's character profile, cash flow, credit score, etc., and their employing companies' business valuation, background of investors, business model of the company, etc.

5. ESTABLISHING THE INTEREST RATE

The interest rate applicable to different loan products of the Company shall be determined by taking the following aspects into consideration:

- a) **Internal and External Costs of Funds:** The rate of interest charged shall depend upon the rate at which the funds are sourced to extend the loan facilities to customers, commonly known as the internal cost of funds.
- b) **Internal Cost of Operations:** The interest rate will also depend upon the Company's costs of conducting its business. This cost of doing business/operations includes manpower cost, infrastructure cost and other administrative costs. Most of these costs are fixed costs and are committed on the basis of budgeted volume of operations.
- c) **Credit Risk:** Factors such as the complexity of a loan transaction, size of the loan and other factors that affect the costs associated with a particular loan account shall be taken into account before informing the final interest rate to a borrower.

- d) **Profit Margin:** The profit margin is derived on the basis of the return expected by the shareholders and the risks involved. The profit margin shall be reasonable to attract fresh capital to sustain growth and be benchmarked with comparable companies. A reasonable level of gearing shall be maintained while arriving at the shareholder return.
- e) **Prevailing Market Practices:** The Asset Liability Management Committee (ALCO) may also recommend rate of interest based on the fluctuations in market trends, interest rates levied by other existing NBFCs for similar loan products or services, etc.

6. PRINCIPLES BEHIND CHARGING DIFFERENT INTEREST RATES

The Company shall take the following factors into account for charging different interest rates to its different customers:

- Risk associated with credit
- Track record of clients with similar backgrounds.
- Profile of each loan applicant.
- The industry which an applicant belongs to.
- The cash flow of the borrower.
- Ticket size of the loan.
- Credit Bureau score of the borrower.
- Collection performance in the geographies to which the applicant belongs.
- Business Valuation of the borrower's employing company.
- Probability of the borrower's employing company getting listed.
- Funding rounds of the borrower's employing company.
- Estimated liquidity event of the shares collateralised.

The rate of interest for the same product and tenor availed during same period by different customers need not be the same. It could vary for different customers depending upon consideration of all or combination of above factors.

7. ADDITIONAL CHARGES

Besides interest, the Company will levy additional financial charges such as one-time loan processing fee and stock payment, as well as bounce charges in case of ECS failure and late payment fee as the company deems necessary.

8. OTHER PROCEDURAL ASPECTS

The Company shall adhere to the following procedural aspects with regards to the rate of interest charged on its different loan offerings:

- a) In compliance with its Fair Practices Code, the Company shall disclose the rate of interest and approach for gradations of risk and rationale for charging different rate of interest to different categories of borrowers in its application form as well as in its Loan Sanction Letter explicitly.
- b) The Company shall inform the borrower about their loan amount; annualised rate of interest and other details of the loan at the time of sanctioning the loan.
- c) Other charges such as processing fees, stock payment, late payment fee and ECS bouncing charges shall also be mentioned in the Loan Agreement.
- d) The annualised rate of interest shall be intimated to the borrower so that they are aware of the exact rates charged to the account.
- e) The Company shall display its interest rate policy and interest rate structure for each loan product on its website.
- f) The Company shall inform its customers about any changes in fees or charges via different communication channels such as SMS, email, website updates, publishing in appropriate newspapers, etc., at least one month prior from the date on which such change shall take effect.

9. REVIEW OF THIS POLICY

This Policy shall be reviewed by the Company's Board of Directors annually, or as and when any changes are necessitated to the Policy. The Asset Liability Committee (ALCO) may suggest changes or modification to the Policy and present it before the Board for its approval and adoption.

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