PRICING POLICY

CITICORP FINANCE (INDIA) LIMITED

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1 REGULATORY REQUIREMENTS

We refer to Chapter VI – Fair Practices Code Applicable for NBFC forming part of RBI Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016

The Reserve Bank has advised that the rate of interest beyond a certain level may be seen to be excessive and can neither be sustainable nor be conforming to normal financial practice. Boards of NBFCs 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.

2 OBJECTIVE

This document outlines the business model, target market, and related credit policies and procedures adopted by Citicorp Finance (India) Limited (CFIL) that form the basis for risk determination and related product pricing.

References have also been made to the various policies and procedures adopted by CFIL 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 CFIL in determination of interest rates, and processing and other charges, thereby ensuring compliance with the directive of the Reserve Bank.

3 TARGET MARKET & GENERAL PRICING PRINCIPLES

Citicorp Finance (India) Limited is catering to various Business segments viz. Asset Backed Finance (ABF), Advances against Financial Assets (AAFA), Corporate Loans, Loans to Mid and Small Segment, Margin Security Backed Finance and Commercial Real Estate (CRE**)** loans.

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 etc among other factors mentioned further in this note specific to each business.

Corporate Loans

3.1 Target Market

The Corporate loans segment provides secured and unsecured loans to local corporates, financial institutions and multi-national companies. Loan Products offered are Working Capital loans, Short-term loans and Term loans.

3.2 Pricing Policy

CFIL loan portfolio includes large clients and subsidiaries of multi-national corporations. Given the size and complexity of their operations, these companies have access to multiple sources of funding including banks/ capital markets and parent companies (in case of MNC subsidiaries), resulting in competitive pricing at market terms. The proposed pricing framework for corporate clients clients for loan product attempts to achieve the objective of meeting risk-adjusted returns at a portfolio level.

At transaction level, the following pricing methodology is used for corproate loans:

- The pricing would be function of credit quality, tenor and market dynamics
- The credit quality is captured through internal risk ratings known as the Obligor Risk Rating (ORR)
- The market dynamics include our cost of funds, macro factors and competitive environment
- We also consider the vintage and existing performance of the client relationship due to which different rates may be charged for different category of customers

Overall, we balance the risk and returns for such transactions and provide the best service to our clients

3.3 Commercial Real Estate (CRE) Non-Recourse Lending

ICG - CRE-Non Recourse Secured Lending: This is an approved secured lending program for Corporates. The program lends against completed CRE assets. Target client markets for CRE business unit will include, national and international real estate investors/ developers who are significant in size and activity level in India. (Refer to the Para 4.3.2 of this Policy for the CRE Fair practices and pricing determination)

The business segments catered by CFIL are highly competitive given the presences of key NBFC, Public & Private Sector banks, global banks, AIFs, Mutual Funds and Foreign Portfolio Investors in these business segments. The awareness about products, offerings & prevailing interest rates has also played a key role in ensure universal product offering and competitive pricing.

3.3.1 CRE Financing Business

The CRE financing business provides amortizing loans as well bullet maturity loans secured against completed leased / unleased (transitioning) CRE assets to be used towards acquisition of CRE assets or equity of the asset SPV, towards construction cost of other assets of the sponsor/ borrower, refinancing of existing CRE loans/ bonds, top-up loan/ bonds, or short term bridge financing at the time of acquisition. Further details of the CRE program can be referred in the CFIL Credit Policy and CFIL Investment Policy.

CFIL's CRE financing business has well documented Credit Policy as well as Investment policy, which covers the target market, nature of the products offered, criteria for client / asset selection, qualitative criteria and guidelines on security cover, Debt Service Coverage Ration, tenor etc..

With reference to the Master Circular on Fair Practices Code dated July 1, 2015 (RBI/2015-16/16 DNBR (PD) CC.No.054/03.10.119/2015-16) and para 2 (VIII) of the circular (Para 36 of Chapter VI – Fair Practices Code Applicable for NBFC forming part of RBI Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016) to comply with regulation of excessive interest charged by NBFC, the following policy/ methodology has been outlined for CRE loans and advances:

- The interest rate model/ pricing determination policy for CRE Loans, shall take into account relevant factors such as, cost of funds, margin, risk premium, credit quality as well as asset quality, liquidity of such loans and shall determine the rate of interest to be charged for loans and advances (refer to the Pricing Determination section below).

- Different rate of interest shall be charged for different category of borrowers.
- Rate of interest charged shall be an annual rate, which will be accrued monthly and payable as per the loan agreement with the borrower (viz. interest payable ranging from monthly, quarterly, half year or annually).
- Rate of interest is mentioned in the Interest rate letter or the loan agreement.
- Further all relevant interest related clauses will also be included as part of the loan agreement.

3.3.2 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 companies (in case of MNC subsidiaries or large developers), resulting in competitive pricing at market terms.

In order to carry out transaction level analysis and arrive at a framework for charging interest, CRE 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 capital
- Strike balance between the risk and reward for each transaction
- Nature and quality of security offered
- Nature of loan whether used towards construction cost, dividend upstreaming, acquisition of new asset
- Tenor of the loan
- Quality of the management/ sponsor
- Diversification of the tenants
- Competitive environment for such facilities
- Facility rating of the clients which we consider while pricing loans
- Facility advanced under Multiple Banking Arrangement (MBA) OR Consortium lending arrangement.
- The higher probability of default associated with longer tenor loans will be captured through a risk premium which will be uniform for all borrowers.
- Nature of loans being liquid / illiquid in nature and depending on the distribution demand will be priced on case to case basis.

To summarize, the above methodology is designed in a manner to seek an optimum balance between risk and reward based on the best available information about customer, asset without being usurious to any specific segment of borrowers.

4 MID CORPORATE

4.1 Target Market

Mid and Small Corporate Segment caters to financing needs of micro, small and medium enterprises by offering funding for Long-term / Short- term purposes i.e. Capital Expenditure, Working Capital etc.

This segment deals with clients having turn over up to $1Bn/INR 7,500* crores. The loans are in the nature of Working capital demand loans and long Term loans. The loan can be unsecured or secured through various collaterals including Inventory, Debtors, Plant and Machinery, Land and building etc. Given the size and complexity of their operations, these companies have access to multiple sources of funding including banks/ capital markets, resulting in competitive pricing at market terms.

* 1 USD = INR 75

4.2 Pricing Policy

The following pricing methodology is used:

- The pricing would be function of credit quality, collateral, tenor and market dynamics
- The credit quality is captured through internal risk ratings and credit appraisals
- The collateral analysis covers for the quality of the security and concentration in the collateral pool
- The market dynamics include our cost of funds , macro factors and competitive environment
- Overall relationship with the client, the vintage and existing performance of the client will also be considered

Overall, we balance the risk and returns for such transactions and provide the best service to our clients.

5 STRATEGIC EQUITY SOLUTIONS (SES)

5.1 Target Market

The Company has well established business line focused on lending against listed equity shares to Ultra High Net-worth clientele. The focus is on selecting the right clients and effectively managing the market and credit risk associated with lending against listed equity.

SES clients are aware of the market conditions and given the competitive landscape for such clients & transactions, excessive interest rates are not conducive for business growth.

5.2 Pricing Policy

The following pricing methodology is used for SES loans:

- The pricing would be a function of an assessment of the counterparty’s creditworthiness, quality of collateral, loan-to-value, tenor and market dynamics
- The assessment of the counterparty’s creditworthiness takes into consideration any available internal or external credit ratings and credit consultations
- The collateral analysis covers for the quality and trading characteristics of the security and the Company’s ability to liquidate the security in the event of an enforcement

- The market dynamics include our cost of funds, macroeconomic factors and competitive environment for SES loans
- We also consider the vintage and existing performance of the client relationship due to which different rates may be charged for different category of customers