Approach for Gradation of Risk

The interest rate charged by microfinance institutions (MFIs) to their customers is regulated by the Reserve Bank of India and is determined quarterly. However, the risk is determined on a case-to-case basis. Village Financial Services Ltd (VFS) shall grade risk periodically to identify, assess and take effective measures to mitigate any money laundering and terrorist financing risk for clients, countries or geographic areas, products, services, transactions or delivery channels, etc. Considering the segment of customers VFS is catering to and lending being the only activity of the organization, the possibility of money laundering and any terrorist activities by its customers taking undue advantage of products and processes of VFS is generally perceived as minimal.

VFS shall categorize all its customers into three risk categories: low, medium and high risk.
1. In general, all customers with complete validated documents and no specific critical attributes shall be classified as **Risk Category – Low, or R-1.**
2. All borrowers with no specific adverse attribute but with a degree of irregularity in repayment shall be classified as **Risk Category – Medium, or R-2.**
3. Borrowers who have records of shifting their residence too often and/or are politically exposed or connected and/or have records of being involved in violent or illegal activities and/or dealing/involved in manufacturing contraband commodities shall be classified as **Risk Category – High, or R-3.**

For the risk categorization exercise, the definition of borrower shall include the co-borrower and the other family members.