FINQUEST FINANCIAL SOLUTIONS PRIVATE LIMITED
INTEREST RATE & PENAL CHARGES POLICY

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Particulars	Date	Version No.
Adopted in the Board Meeting held on	02/02/2017	V. 1
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INTEREST RATE & PENAL CHARGES POLICY

1. **Preamble:**

The Reserve Bank of India ("RBI") has issued the Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 dated October 19, 2023 (as amended from time to time) ['the Master Direction']. In furtherance, RBI vide circular on Fair Lending Practice – Penal Charges in Loan Accounts dated August 18, 2023 has released guidelines to ensure reasonableness and transparency in disclosure of penalties to the customers. The RBI vide the Master Direction has advised NBFC's to adopt an appropriate interest rate model taking into account relevant factors such as cost of funds, margin and risk premium and to determine the rate of interest to be charged for loans and advances and other similar financial products and to disclose the rate of interest, gradations of risk and rationale for charging different rate of interest to different categories of borrowers or customers or clients and to disclose the rate of interest to the borrowers or customers or clients in the Loan Application Form (the LAF) and to be communicated explicitly in the sanction letter / intimation.

Finquest Financial Solutions Private Limited ("the Company") is registered with the RBI as a Non-Banking Financial Company and is classified as a Base Layer NBFC ("NBFC-BL") under the Scale Based Regulatory Framework issued by RBI. Keeping in view the provisions of the Master Direction and the good Corporate Governance Practices being followed by the Company, the following internal guidelines, policies, procedures and interest rate model have been adopted and/or revised by the Company. The Board of Directors of the Company ("the Board") or any Board constituted Committee ("the Committee") as the case may be, while fixing interest rates chargeable from the customers shall be guided by this Interest Rate & Penal Charges Policy ("Policy"). In addition to cost factors set out hereunder, the Board or the Committee shall be guided by the prevalent market conditions and various general and specific factors and the rules and regulations, if any, prescribed by the Reserve Bank of India or such other authority from time to time. Accordingly, the Company has adopted the Interest Rate & Penal Charges Policy / model to make available the rates of interest and the approach for gradation of risks in the loan being disbursed by the Company. The Interest Rate & Penal Charges Policy is intended to be representative of the Company's guiding philosophy in relation to dealing with customers in a transparent and open manner.

The rate of interest shall be annualised rate so that the borrower or customer or client is aware of the exact rate that would be charged to him/her/it.

The rates of interest and the approach for gradation of risks shall also be made available on the website of the Company or published in the news papers and shall be updated whenever there is a change in the rate of interest.

2. Key Commitments and Declarations:

Interest charged by the Company from its borrowers or customers, or clients shall inter-alia have the following components viz., Rating Based, Sector Based, Geographical Based, Tenure Based, Risk Rate, Additional/Default Rate. Additionally, market scenario, competitive intensity, assignability of products, secured-unsecured ratio and overall product portfolio considerations would be key inputs to pricing.

2.1.a. Cost of Borrowing

This component represents the interest and other incidental charges payable by the Company for servicing the borrowed funds deployed by the Company.

2.1.b. Return on Capital Employed

This component represents fair return on capital employed which is to be generated by the Company for servicing the owners' capital employed in the business.

2.1.c. Overhead Costs

This component comprises of various costs such as employee cost, office expenses, insurance premium for insuring the assets (if required), marketing expenses etc.

Thus, the Reference rate shall be determined by considering the cost of borrowing, overhead/sourcing cost and fair return on capital employed.

3. Establishing an Interest Rate Model:

The rate of interest shall be arrived at after taking into account relevant factors, such as cost of funds, margin and risk premium, including the following:

a) **Tenor of the Loan**: The rate of interest charged will depend on the term of the loan;

b) **Internal and External Costs of Funds**: The rate of interest charged will also be determined depending on the rate at which funds necessary to provide loan facilities to customers are sourced by the Company, normally referred to as internal cost of funds. From an external cost of funds perspective, the benchmark interest rate that may be used by the Company could be either the base rate of the State Bank of India or the rate of a 10 Year Government of India bond as adjusted for the rating spreads available in the markets.

c) **Internal Cost Loading**: The interest rate charged will also take into account costs of doing business. Factors such as the complexity of the transaction, the size of the transaction and other factors that affect the costs associated with a particular transaction will also be taken into account before arriving at the final rate of interest quoted to a customer.

d) **Credit Risk**: As a matter of prudence, bad debt provision cost should also be factored into all transactions. This cost is then reflected in the final rate of interest quoted to a customer. The amount of bad debt provision applicable to a particular transaction will depend on the internal assessment of the credit strength of the customer.

e) **Fixed versus Floating**: The applicable rate of interest shall also be commensurate from the perspective of the fixed versus floating interest rate requirements of the customers.

f) **Periodicity of Interest**: Interest will be charged for the period as stipulated in the loan agreement, subject to any modifications thereto as may be agreed by and between the Company and the customer, in writing.

g) **Structuring Premium**: A premium may be applied to a loan in case the loan has any significant structuring elements with respect to collateral, or other aspects of transaction structure.

h) **Margin**: A mark-up to reflect other costs / overheads to be charged to the loan and our designed margin.

i) **ALCO View & Market Dynamics:** Views of the Asset Liability Management Committee (ALCO) constituted by the Board on product pricing with respect to prevailing interest rates offered by peer NBFCs for similar products / services shall be taken into consideration. The forecasts and analysis of 'what if' scenarios' conducted by the ALCO are also relevant factors for determining interest rates to be charged.

j) **Penalties levied on the Customer (Effective from January 01, 2024)**

- The Company does not charge any penal interest on delayed payments from its borrowers. Penalty, if any, for delayed payment shall be applied on the overdue amount and not on the entire loan amount, and the same will be communicated to the borrowers by way of bold letters in the loan agreement. Any service charges, prepayment charges as charged to the borrower shall be disclosed appropriately to the borrower. Further, all loans which are pre-paid shall bear pre-payment penalty at rates mentioned in the respective customer agreements. There shall be no foreclosure rate/ prepayment penalty charged on floating rate interest loans sanctioned to the individual borrowers as per the extant regulations.

- Penalty, if charged, for non-compliance of material terms and conditions of loan contract by the borrower shall be treated as 'penalties'. These penalties shall also cover charges levied on the customer for delay in payment of their overdue EMI.
- There shall be no capitalisation of penalties i.e., no further interest computed on such charges.
- The Company shall not introduce any additional component to the rate of interest.
- The quantum of penalties shall be reasonable and commensurate with the non-compliance of material terms and conditions of loan contract without being discriminatory within a particular loan / product category.
- The penalties in case of loans sanctioned to 'individual borrowers, for purposes other than business', shall not be higher than the penal charges applicable to non-individual borrowers for similar non-compliance of material terms and conditions.
- The quantum and reason for penalties shall be clearly disclosed by Company to the customers in the loan agreement and most important terms & conditions / Key Fact Statement (KFS) as applicable, in addition to being displayed on Company's website.
- Whenever reminders for non-compliance of material terms and conditions of loan are sent to borrowers, the applicable penalties shall be communicated. Further, any instance of levy of penalties and the reason thereof shall also be communicated.
- Requirements mentioned in this clause shall be applicable in respect of all the fresh loans availed / renewed from January 01, 2024. In the case of existing loans, the switchover to new penalties shall be ensured on next review or renewal date or six months from the effective date, whichever is earlier.

k) **Other Factors**: Matching tenor cost, market liquidity, RBI Policies on credit flow, offerings by competition, stability in earnings and employment, subvention and subsidies available, deviations permitted, further business opportunities, external ratings, industry trends, switchover options will also be relevant factors in determining interest rate to be charged.

4. Approach for Gradation of Risk:

The risk premium attached with a customer shall be assessed inter-alia based on the following factors:

- profile and market reputation of the borrower,
- inherent nature of the product, type / nature of facility, refinance avenues, whether loan is eligible for bank financing, loan to value of asset financed,
- tenure of relationship with the borrower group, past repayment track record and historical performance of our similar clients,
- group strength, overall customer yield, future potential, repayment capacity based on cash flows and other financial commitments of the borrower, mode of payment
- nature and value of primary and secondary collateral / security,
- type of asset being financed, end use of the loan represented by the underlying asset,
- interest, default risk in related business segment,

- regulatory stipulations, if applicable,
- and any other factors that may be relevant in a particular case.

Based on the above factors, the Company shall categorise its customers into the following three credit risk categories i.e. high, medium and low credit risk.

5. Rate of Interest:

a) Interest rates offered could be on fixed rate basis or floating / variable rate basis.

b) In case of floating / variable interest rates, the interest rates will be benchmarked as under:
Loans under SME & Retail Credit Segment: FFSPL Prime Lending Rate (PLR) and marginal cost of funding.
Loans under Corporate Credit Segment: PLR or to a market linked transparent benchmark, including reference rate of our bankers as maybe agreed with the borrower.

c) The PLR is an estimation of a benchmark interest rate approved by the Asset Liability Management Committee (ALCO) of the Company, from time to time. The PLR will be reviewed periodically by the ALCO. The estimation and the methodology for calculating the PLR may be changed at any time with the approval of the ALCO.

d) The rate of interest for the same product and tenor availed during same period by different customers need not be standardized. The final lending rate applicable to each customer will be assessed based on various factors as detailed in this Policy.

e) Loan amount, Annualised Rate of Interest and tenure of loan will be communicated to the borrower in the sanction letter / intimation and the apportionment of instalments towards interest and principal dues shall be made available to the borrower.

f) Besides normal Interest, the Company may levy additional interest for adhoc facilities, Penal charges for any delay or default in making payments of any dues. Penalty, if any, for delayed payment shall be applied on the overdue amount and not on the entire loan amount, and the same will be communicated to the borrowers by way of bold letters in the loan agreement and communicated in the sanction letter or intimation to the borrower.

g) Besides interest, other financial charges like processing charges, cheque bouncing charges, prepayment / foreclosure charges, part disbursement charges, cheque swaps, cash handling charges, RTGS / other remittance charges, commitment fees, charges on various other services like issuing NO DUE certificates, NOC, letters ceding charge on assets/ security, security swap & exchange charges etc. would be levied by the company wherever considered necessary. In addition, the Goods and Services Tax and other taxes, levies or cess would be collected at applicable rates from time to time.

h) The rate of interest applicable to each customer is subject to the management's perceived risk on a case-to-case basis:

Risk category	Interest rate range
High	8 % to 36 %
Medium	8 % to 24 %
Low	8 % to 24 %

Further, the above interest rates shall be subject to change as the situation warrants and in accordance with applicable laws.

i) Changes in interest rates would be decided at any periodicity, depending upon change in benchmark rate, market volatility and competitor review.

6. General:

The following provisions shall apply to loans extended by the Company:

- **Changes in Terms**: The Company shall give notice to the borrower in English language with an option to choose a vernacular language as understood by the borrower of any change in the terms and conditions of the loan, including disbursement schedule, interest rates, service charges, prepayment charges etc. Further, any changes in the rate of interest shall be effected only prospectively and the loan agreement shall contain the necessary provisions in this regard. The same may be communicated through electronic media or any other form of communication by the Company.

- **No Grace Period**: Interest will be payable by the customer / borrower on or before the due date stipulated therefor in the loan agreement entered into by the customer / borrower with the Company. No grace period will be allowed to the customer / borrower for payment of interest, unless the loan agreement expressly provides for the same or the Credit Committee agrees to provide such grace period to the customer / borrower, in writing.

- **Moratorium**: The Company may consider necessary moratorium for payment of interest and repayment of principal amount with proper built-in pricing, on a case-to-case basis.

- **Communication of Interest Rate to the Customer**: The Company shall convey in writing to the borrower in sanction letter / intimation letter in English language with an option to choose a vernacular language as understood by the borrower, by means of a sanction letter or otherwise, the amount of loan sanctioned along with the terms and conditions including annualized rate of interest and method of application thereof and shall keep on record the acceptance of these terms and conditions by the borrower. The loan agreement shall expressly stipulate the penal charges chargeable for late payment / repayment of dues by the borrower, in bold. The apportionment of the equated monthly installments ("EMI") amount towards the principal and interest will also be communicated by the Company to the customer / borrower by way of the repayment schedule.

The exact due dates for repayment of a loan, frequency of repayment, breakup between principal and interest, examples of SMA/NPA classification dates, etc. shall be clearly specified in the loan agreement and the borrower shall be apprised of the same at the time of loan sanction and also at the time of subsequent changes, if any, to the sanction terms/loan agreement till full repayment of the loan.

In cases of loan facilities with moratorium on payment of principal and/or interest, the exact date of commencement of repayment shall also be specified in the loan agreements.

- **Waiver of Additional Interest / Financial Charges**: Requests by the customer for waiver of additional interest / financial charges would normally not be entertained by the Company and such waiver will be at sole and absolute discretion of the company.

- **Pre-Payment**: Pre-payment options available to the customer and the penalty payable for exercise of such option shall be mutually agreed to on a case-to-case basis and communicated to the customer.

  As a measure of customer protection and also in order to bring in uniformity with regard to prepayment of various loans by borrowers of banks and NBFCs, the Company shall not charge foreclosure charges / pre-payment penalties on all floating rate term loans sanctioned to individual borrowers.

7. Administration, Amendment and Review of the Policy

The Board or the Committee, as the case may be, shall be responsible for the administration, interpretation, application and review of this Policy. The Board or the Committee, as the case may be, shall also be empowered to bring about necessary changes to this Policy, if so required at any stage at its own discretion or with the concurrence.

This Policy may be altered/revised as per changes in the market scenario and/or statutory guidelines. The Policy shall be reviewed at least once in a year or as and when there are any amendments in the applicable guidelines.