



IIFL SAMASTA FINANCE LTD

Interest Rate Policy

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1. Background

As per Reserve Bank of India master direction of Regulatory Framework for Microfinance Loans with circular number RBI/DOR/2021-22/89 DoR.FIN.REC.95/03.10.038/2021-22 dated 14th March 2022. Microfinance loan is defined as a collateral-free loan given to a household having annual household income up to Rs. 3,00,000/-.

Hence as per Reserve Bank of India guidelines, Board of each NBFC shall approve an interest rate policy that is applicable for the Company, taking in to account relevant factors such as cost of funds, margin, and risk premium etc., and determine the rate of interest to be charged for loans and advances. Further, the directive states that the rate of interest and the approach for gradation of risk and the rationale for charging different rates of interest for different category of borrowers shall be communicated to the borrowers / customers in the sanction letters issued to them. All other loans, which are not falling under microfinance, shall also be covered under this interest rate policy.

Board of Directors had approved the interest rate policy of the Company. Thereafter, the Board authorized the ALCO Committee to adopt the role of pricing committee and review the interest rates from time-to-time basis the money market situation, risk profiling of customer, change in any scenario of business and take suitable decisions post discussing the same in the Asset Liability Committee (ALCO) Meeting.

2. Scope of Policy

The purpose of Interest Rate policy is to have a guided and well-defined methodology to define the interest rates offered to ISFL customers.

Policy also has the objective to arrive at the interest rates to be used for different category of customer segments and to decide on the principles and approach of charging spreads to arrive at final rates charged from customers.

3. Review of Policy

The Policy shall be reviewed by the board of ISFL at-least once in two years or in between if required due to changes required in the model, for example any addition/deletion of a particular component forming part of interest rate calculation.

4. Compliance Review

Chief Risk Officer along with Chief Financial Officer shall jointly monitor the compliance of the pricing policy and report the non-adherence/irregularities to the ALCO / Board of ISFL as and when seems fit.

5. Organization Structure

5.1 Board of Directors

The Board of Directors shall have oversight for the Interest Rate Policy of ISFL. To ensure effective implementation of the Interest Rate Policy the Board may delegate the implementation of the Policy and its operational aspects to the ALCO as deemed fit.

5.2 Asset Liability Committee (ALCO)

ALCO shall perform the role of Pricing Committee and shall be responsible for taking decision to change the benchmark rate. The ALCO meeting shall be held monthly and any changes in the interest rate or risk premium would be discussed and decided by the members of the ALCO.

The current ALCO committee members are as follows. This committee shall be guided by ALM policy of the Company. :

| S. No | Designation |
|-------|-------------------------|
| 1 | Managing Director |
| 2 | Chief Business Officer |
| 3 | Chief Financial Officer |
| 4 | Chief Risk Officer |
| 5 | Chief Operating Officer |
| 6 | Treasury Head |

6. Interest Rate

In line with Reserve Bank of India master direction of Regulatory Framework for Microfinance Loans with circular number RBI/DOR/2021-22/89 DoR.FIN.REC.95/03.10.038/2021-22 dated 14th March 2022 the Company shall offer differential approach to pricing based on customer segment and customer's profile.

The parameters considered for arriving at the effective interest rate are mentioned below

| Sr. No | Indicator | Description |
|--------|------------------------------------|--|
| 1 | Weighted Average cost of Borrowing | The Company borrows funds through term loans, Non Convertible Debentures and Commercial paper and subordinate debt etc. from the investors. Weighted average cost of borrowing of such funds is taken for interest rate calculation. This shall include processing fee / cash collateral (if any) and other expenses related to borrowing. |
| 2 | Cost of Equity (RoE) | The Company needs to put some equity portion to run the business and the cost of such equity is taken into consideration. This shall be based on historical RoE and projected RoE of the Company. |
| 3 | Opex Cost | It includes costs related to operations, employees, physical infrastructure (fixed and variable costs), sales and marketing, technology, among other things. |

| | | |
|---|----------------------|--|
| 4 | Expected Credit Cost | ECL shall be based on historical data and future projections. It shall be calculated based on actual credit cost, GNPA levels, recovery prospects and overall industry scenario. |
| 5 | Liquidity Cost | The company has to maintain certain portion of its funds in liquid instruments to meet regulatory requirement and repayment obligation. This liquidity is kept in the form of government securities, mutual funds (liquid and overnight funds), short term deposits, etc. Yield in such investments are low. Hence, negative carry for the same is calculated. |

Notes-

1. Borrowing assumed at 80% whereas Equity is 20%.
2. The maximum variance for any category of loan between the minimum and maximum interest rate shall not exceed 4 per cent in normal business course. However, in exceptional cases, interest rate may vary based on the risk premium.
3. Maximum interest rate on MFI loans shall not exceed 25%.
4. All calculation shall be based on last 6 months actual data and projected for near term.
5. ALCO shall also consider the prevailing market rate and competition to decide the spread of premium and overall interest rate.
6. Microfinance business has shown some uncertainty in the past and credit cost was higher for some of the years. This shall also be considered while making decision on interest rate.

7. Risk Premium

Chief Risk Officer shall be primary responsible for arriving at risk premium and shall propose factors and weightage to ALCO committee. Risk Premium shall be defined to cover business related risks and would vary by business, customer segment, geography, sourcing channel, Customer repayment history with ISFL or with any other lender etc. Based on the risk premium, interest rates may change from case to case basis.

ISFL shall follow variable risk premium based on credit bureau score, vintage of the customer, geography and ticket size or any other parameter. The ALCO Committee shall do a regular review and can propose change in factors / addition of new factors or change in weightage as it seems fit.

8. Final Rate of Interest

Final Rate of interest will be arrived considering the above parameters and risk premium. ALCO committee shall review the rate of interest on quarterly basis and will propose any changes in calculation and indicator weightage as and when deemed fit.

9. Other Charges

Besides interest, other financial charges like processing fees, origination fees, cheque bouncing charges, late payment charges, reschedulement charges, pre-payment / foreclosure charges, part disbursement charges, cheque swap charges, security swap charges, charges for issue of statement account etc., would be levied by the company wherever considered necessary. Besides these charges, stamp duty, GST and other cess would be collected at applicable rates from time to time. Any revision in these charges would be from prospective effect. These charges would be decided in the ALCO committee.

10. Disclosure

- ISFL shall communicate the effective rate of interest -to customers at the time of sanction / availing of the loan through the acceptable mode of communication.
- Interest Rate Policy shall be uploaded on the website of the company and any change in the interest rate and charges for existing customers would be uploaded on the website of the Company.
- Changes in the rates and charges for existing customers shall also be communicated to them through various modes communication such as website updation, email, letters, SMS, etc.
- All charges, rate of interest and others details regarding the repayment shall be communicated to all customers either through sanction letter or through loan card or both.

ISFL shall prominently display the minimum, maximum and average interest rates charged on microfinance loans and non-microfinance other loans in all its offices and on its website. The format of the same shall be as per the MFIN directive. The ALCO may suggest changes in the format when necessary. Format for display of interest rates is given below -

Interest rate schedule for Advances:

| Product Type | Min Interest Rate | Max Interest Rate | Avg. Rate of interest in the last quarter [^] | Processing Fee (% of loan)# |
|--------------|-------------------|-------------------|--|-----------------------------|
| | | | | |

*Interest rates are calculated on a reducing balance basis per annum.

*Interest rate for retail loans varies bases on ticket size. As ticket size increases, interest rate decreases.

[^] Average interest rate: It is the 'weighted average interest rate' calculated for the loans disbursed in the last quarter. The loan amounts are used as the weights. The weighted average is arrived at by taking the sum of each loan's interest rate multiplied by the loan amount and then dividing this sum by the total loan amount disbursed.

Average Processing Fee (% of the loan) is calculated as value of total processing fee collected across all loans disbursed in the quarter divided by the total value of loans disbursed in the quarter.