SBFC

INTEREST RATE POLICY

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1. Preface

Reserve Bank of India (RBI) had vide its Circular DNBS / PD / CC No. 95/ 03.05.002/ 2006-07 dated May 24, 2007 advised that Boards of Non-Banking Finance Companies("NBFC") to lay out appropriate internal principles and procedures in determining interest rates, processing and other charges. Further vide its Notification No. DNBS. 204 / CGM (ASR)-2009 dated 2 January 2009 and vide its Guidelines on Fair Practices Code for NBFCs, as amended from time to time (RBI Regulations), has directed all NBFCs to make available the rates of interest and the approach for gradation of risk on web-site of the companies.

In compliance with the requirements of the RBI Regulations mentioned above and the Fair Practices Code adopted by the Company, the Company has adopted this Interest Rate Policy broadly outlining the Interest Rate Model and the Company's approach of risk gradation in this regard for its lending business, disclosure of rates of interest rates, changes thereof and publicity thereto along with adoption of annualized rates of interest while dealing with customers.

Floating Reference Rate (FRR) [previously known as SBFC PLR] is decided by the Asset & Liability Committee (ALCO) from time to time.

2. Interest Rate Model

2.1 Floating Reference Rate (FRR)

Floating Reference rate shall represent the rate chargeable on floating rate loans. The final rate shall be at a spread (positive or negative) at the floating reference rate. FRR shall be arrived at after considering the following aspects:

(a) Weighted Average Cost of Capital
Cost of funds as per WACC model capturing cost of debt and cost of equity shareholders.

(b) Operating cost
Direct operating expenses allocable on the disbursements for Secured MSME product for the period and Indirect operating expenses on the overall AUM

(c) Operational Risk premium
This is as per Basic Indicator Approach (as per Basel III accord and RBI's guidelines) basis which the Company has to hold capital charge for operational risks.

(d) Expected loss premium
Expense associated with the risk arising from a customer's delinquency.

(e) Unexpected loss premium
The capital at risk computed based on the RBI/ Basel formulas, which is over and above Capital required for expected loss premium.

(f) Liquidity risk premium
The opportunity cost of holding surplus liquidity as against utilizing the same for the disbursement.

(g) Management Overlay

Certain factors, volatilities, macro-economic conditions which may have a bearing on the present or future financials of the Company and not specifically captured above.

The FRR is calculated using the above factors. Any change in the FRR is reviewed in the ALCO meeting and published on the website of the Company.

2.2 Risk Rate

- The rate of interest shall be determined based on the approved pricing grid as mentioned in the "Pricing Grid: Mortgage Loan – Loan Against Gold Policy"

- The company may adopt an interest rate model whereby the rate of interest for same product and tenor availed during same period by customers would be different from customer to customer depending upon consideration of any or combination of a few or all factors listed below. Hence, the interest rate applied would be different from customer to customer and his/ her loans. Company adopts sub product wise pricing grid which shows minimum, maximum and average price mentioned below:

Product	Minimum ROI (%)	Maximum ROI (%)	Average ROI (%)
ME and SME	9.00	26.00	15.70
SBL	11.00	26.00	17.80
Micro loan	14.00	26.00	22.30
Home loan	11.50	23.00	15.00
Co-lending	11.00	23.00	13.80
Gold	9.00	30.00	21.00

Note: Minimum, maximum and average ROI derived from FRR

Differential Pricing
As necessitated by business or strategic reasons, the Company may consider under certain situations a differentiated interest rate structure for its products. This will follow a policy framework based on defined parameters with the objective of market penetration or to counter competition and will be approved by a Board or RMC.

Further, differential pricing can be offered based on risk profile and risk gradation of the Customer basis different parameters for customer segmentation like customer profile, loan amount, CIBIL, FOIR, LTV, Occupancy status, property type, etc.

3. Methodology for calculation of Interest on loan accounts

- The interest rate would be computed on daily balances basis and charged on monthly reset or such other reset as the committee decide in accordance with applicable rules and regulations.

- In case of staggered disbursements, the rate of interest would be subjected to review and the same may vary according to the prevailing rate at the time of disbursement or as may be decided by the Company.

4.Interest and Charges

- The Company may levy penal charges for any delay or default in making payments of any dues in line with extant guidelines. The details of Penal charges for late repayment will be mentioned in the loan agreement and communicated in the sanction letter.

- In addition, the Company may levy processing/ documentation and other charges recovered are expressly stated in the Loan documents. Other financial charges like processing charges, documentation charges, cheque bouncing charges, pre-payment/ 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.

- Such Penal charges, any other charges, processing fees etc may vary based on the loan product, exposure limit, customer segment, geographical location and generally represent the cost incurred in rendering the services to the customers. The practices followed by other competitors in the market would also be taken into consideration while deciding the charges.

- The rate of interest applicable to each customer is subject to change as the situation warrants and is subject to the management's perceived risk on a case to case basis.

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

- Claims for refund or waiver of charges/ penal charges would normally not be entertained by the Company. It is the sole and absolute discretion of the Company to deal with such requests, if any.

- The Company shall not charge foreclosure charges/ pre-payment penalties on all floating rate term loans sanctioned for purposes other than business to individual borrowers with or without co obligant(s). (RBI DNBR (PD) CC.No.101/03.10.001/2019-20 dated August 2, 2019)

- Interest would be charged, and recovered on a monthly, quarterly basis or such other periodicity as may be approved by the designated authority. Specific terms in this regard would be addressed through the relevant product policy.

- Interest shall be deemed payable immediately on due date as communicated and no grace period for payment of interest is allowed.

5. Communication Framework

- The annualized rate of interest would be intimated to the customer. The interest rates would be offered on fixed, floating, variable basis. The floating reference rate for the floating rates would be reviewed periodically. In case of floating rate of interest, the interest rate would be reviewed and decided by the Company from time to time. The estimation and the methodology for calculating the FRR may be changed at any time with the approval of the ALCO. Notice shall be sent to the borrowers in the vernacular language or a language as understood by the borrower of any changes in the terms and conditions including disbursement schedule, interest rates, service charges, prepayment charges etc. It shall be ensured that changes in interest rates and charges are effected only prospectively.

- Interest rates shall be intimated to the customers at the time of sanction/ availing of the loan and the equated installments apportionment towards interest and principal dues shall be made available to the customer.

- Interest changes would be prospective in effect and intimation of change of interest, if any, or other charges would be communicated to customers.

- Intimation of change of interest or other charges would be communicated to customers in a manner deemed fit, as per terms of the loan documents. Any revision in interest or other charges would be with prospective effect.

- Interest changes would be prospective in effect and intimation of change of interest or other charges would be communicated to customers in a manner deemed fit, as per terms of the loan documents.

- Appropriate disclosure regarding this Interest Rate Policy shall be made on the Company website. All other regulatory changes in this regard will stand updated in the policy from time to time.