Interest Rate Policy

Bajaj Finance Limited

Approved by Board at its

Meeting held on 19 May 2020

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1. Background

As per Reserve Bank of India guidelines, Board of each NBFC shall approve an Interest rate model 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 directives 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 should be communicated to the borrowers / customers in the sanction letters to them. Board of Directors in its meeting held on 17th May 2011, had adopted the interest rate model of the company.

2. Objective of the policy

To arrive at the benchmark rates to be used for different types 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 once a year or in between if required due to changes required in the model, for example any addition/deletion of a particular component forming part of benchmark calculation.

4. Organisation Structure

4.1. Board of Directors

The Board of Directors shall have oversight for the Investment Policy of BFL. In order to ensure effective implementation of the Interest Rate Policy, the Board may delegate certain operational aspects to ALCO, as deemed fit.

4.2. Asset Liability Committee

ALCO shall be responsible for taking decision to change the benchmark rate. The ALCO meeting will be held monthly and any changes/no changes in the benchmark rate would be decided by ALCO and would be put up to board in subsequent meeting.

Business can have their internal pricing policies under the overall framework of board approved interest rate policy for company for deciding the spreads to arrive at final rate. Any changes to business level internal pricing policies(if any) would need to be approved by any three people mentioned below.

Sr No.	Designation
1	Managing Director and CEO
2	Chief Financial Officer
3	Chief Risk Officer
4	Treasurer
5	General Counsel
6	Head Compliance
7	Respective Business Head/Group Business head

5. Interest rate Model

BFL lends money to its customers through Fixed and Floating rate loan. BFL being a diversified NBFC lends money through various products to cater to needs of different category of customers. Few broad categories of customer segments are as follows.

- Consumer (Secured and Unsecured Loans)
- Mortgage (Individual salaried, Individual self employed, SMEs)
- Commercial Loans to corporates
- Loan against securities
- Rural customers

Currently BFL has two floating rate benchmarks i.e. Base Rate(Used by Commercial segment) and Floating Reference Rate(FRR)(used by Mortgage). Commercial businesses also use external benchmarks for pricing the loans.

The above mentioned benchmarks are calculated based on following factors.

- **Weighted Average cost of borrowing**: The Company borrows funds through term loans, Non Convertible Debentures and Commercial paper and subordinate debt from the investors. Weighted average cost of borrowing such funds is taken for bench mark calculation.
- **Cost of Equity**- BFL needs to put some equity portion to run the business and the cost of such equity is taken at G-sec + 2% as suggested by RBI.
- **Fund raising cost**: It includes processing fees on term loans, brokerage to source funds through NCD, CPs, Rating Fee, trusteeship fee, IPA commission on CPs, exchange listing fee etc.
- **Negative Carry on Investment:** The Company maintains SLR on public deposits which generate lower return than the cost of public deposits creating a negative carry on those funds. The Company also keeps some liquidity to manage liquidity risk and has to borne negative carry on those investments also.
- **ALM mismatch cost:** The Company borrows funds through short term and long term products and to comply with the guidelines it needs manage ALM gaps under certain limits imposed by regulator. While taking prepayment in to account the customer.
- **Opex Cost:** It includes employee expenses, branch related fixed and variable costs, operations cost, sales and marketing expenses
- **Risk Premium:** Base risk premium **to** cover business related risks.
- **Base ROA**: Base Return on assets is the minimum return expected by the company on its assets.

Weighted avg. cost of borrowing (A)	xx%
Cost of Equity (B)	xx%
Fund raising cost (C)	xx%
Negative carry on Investments (D)	xx%
ALM Mismatch cost (E)	xx%
Opex cost (F)	xx%

Risk premium (G)	xx%
Base ROA (H)	xx%
Final Benchmark rate {Sum (A to H) }	**(xx…%)**

Fixed rate loans are not linked to benchmark but are decided based on their COF (allocated through Fund transfer pricing), Operational expenditure, Business related risks and desired ROE/ROA. Factors affecting calculation of spreads to arrive at final rate are mentioned below.

6. Principles and procedures for charging spreads to calculate final rate

The rate of interest for loans for various business segments and various schemes thereunder is arrived after adjusting for spread by the relevant business segment. Factors taken into account by businesses for calculating spreads are as follows:

- Interest rate risk (fixed vs floating loan)
- Credit and default risk in the related business segment
- Historical performance of similar homogeneous clients
- Profile of the borrower
- Industry segment
- Repayment track record of the borrower
- Nature and value of collateral security
- Secured Vs unsecured loan
- Subvention available
- Ticket size of loan
- Bureau Score
- Tenure of Loan
- Location delinquency and collection performance
- Customer Indebtness (other existing loans)

The rate of interest for the same product and tenor availed during same period by different customers need not to be standardized. It could vary for different customers depending upon consideration of any or combination of above factors.

7. 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, service tax 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 upon by respective business / product heads in consultation with Operations, Finance and Legal Heads.

8. Communication Framework

Interest rates would be intimated to the customers at the time of sanction / availing of the loan.

Interest Rate Policy would be uploaded on the website of the company and any change in the benchmark rates and charges for existing customers would be uploaded on the web site of the Company.

Changes in the rates and charges for existing customers would also be communicated to them through either of mail, letter, SMS.