Growth Source Financial Technologies Private Limited

Interest Rate Policy

Version: 1.1

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1. **Preamble:**

In view of Master Direction - Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 and as amended from time to time, Reserve Bank of India have directed all applicable NBFCs to adopt an interest rate model taking into account relevant factors such as cost of funds, margin and risk premium and determine the rate of interest to be charged for loans and advances. The rate of interest and the approach for gradations of risk and rationale for charging different rate of interest to different categories of borrowers shall be disclosed to the borrower or customer in the application form and communicated explicitly in the sanction letter.

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 relevant newspapers. The information published in the website or otherwise published shall be updated whenever there is a change in the rates of interest. The rate of interest must be annualized rate so that the borrower is aware of the exact rates that would be charged to the account.

2. **Objective:**

While the Interest Rates are not regulated by the Reserve Bank of India but interest rates beyond a certain level may be seen to be excessive and can neither be sustainable nor be conforming to principles of fair business code. Therefore, the board through this policy has laid down appropriate internal principles and procedures in determining the range of interest rates that shall be applicable to various customers.

3. **Interest Rate Model:**

Interest Rate Model defines the basis on which the interest rate range shall be arrived at for various loan products. The model takes into consideration the constituents which are defined based on the various operational expense line items and the premium expectations from the business. The following items shall form a part of the Interest rate model -

- **Transfer Pricing** - The Company will borrows funds from various Banks / Financial Institution / Money market for onward lending to its customers. In addition to the borrowed funds the company uses equity from its shareholders. The company thus has a weighted cost for the borrowed funds. In addition to this cost the company in order to generate and maintain the business incurs certain expenses towards manpower, infrastructure, technology, legal, collection, professional expertise and other business-related expenses. These are termed as operational expenses. Further the company incurs certain cost on account of losses arising on account of NPA customers. This inter alia includes the provisioning required to be made for standard assets. This is termed as credit cost. These costs are collectively referred to as a 'Transfer Pricing'.

- **Risk Premium** - The Company shall categorize its customers on the basis of risk associated to the specific nature of each customer based on certain parameters. These parameters are detailed in the next section for better understanding. Based on the risk score so arrived the company shall define a range of risk premium. The customer shall be applied a certain risk premium falling within the risk premium range in which the customer falls in addition to the Transfer pricing and a combined pricing shall be charged to the customer.

4. Approach for Gradation of Risk & Risk Premium Parameters

Risk grading enables the Company to differentiate customers across different risk spectrum and helps in applying risk premium to that customer. In order to implement the risk gradation, information shall be collated based on various inputs from borrowers, external agencies, field inspection by the Company's officials, etc. Assessment of risk is inclusive but not restricted to following factors.

- **Type of Entity**: - Company may consider the legal status of the borrower for ascertaining the risk involved.

- **Vintage of Business**: - It is essential to consider period for which borrower's business has been in operation.

- **Residential Stability**: - Residential stability of the borrower is an important parameter which reflects the consistency of the customer.

- **Method used for Eligibility**: - Methods used may vary such as Income Assessment, Banking Surrogate and Declared Income etc.

- **Fixed Obligation to Income Ratio (FOIR)**: - It is significant to identify borrower's disposable income & repayment capacity

- **CIBIL**: - CIBIL score is an individual's credit payment history across loan types and credit institutions over a period of time.

- **Tax/Audit Compliance**: - Maintenance of audited financial statements & Compliance to the provisions of applicable tax laws such as Income Tax & GST, helps in providing an additional evidence of the income & other records.

- **Type of product**: - The risk is assessed based on the type of security offered, in the form of, Mortgage or Hypothecation.

- **Loan to Value**: - Loan to Value, is arrived by gauging the sanction amount vis-à-vis value of security, which contemplates a low risk with low LTV.

As mentioned above each borrower's profile shall be graded based on the score assigned against the parameters mentioned in previous section and risk score shall be arrived. The score will help identify the bucket of the risk premium range in which the customer belongs.

Thus, the final pricing to the customer shall be –

Annualized ROI to the customer	=	Transfer Pricing + Risk Premium assigned to the customer

4. <u>Communication to Customers:</u>

The Company shall intimate the Borrower the annualized Rate of Interest at the time of sanction of the loan along with the tenure and amount of monthly installment. The customer shall also be informed about the Interest rate policy and that he/ she can visit the Company website for further details. The Company shall follow the guidelines mentioned in the Fair practice code guidelines as issued by RBI from time to time and as adopted by the Company through its Fair Practice Code Policy.

5. <u>Monitoring and Review:</u>

The Company has formed a committee of executives called **'Interest Rate review committee'** to review the interest rates based on the parameters as above. The committee shall have a review at the beginning of every quarter to decide the interest rates for that quarter.

The Committee shall comprise of the following members –

a. Chief Financial Officer / Partner Finance
b. Partner - Credit
c. Partner Sales
d. Partner Product

The Committee shall be performing following duties –

a. Formation of Interest Rate Policy
b. Amendment of Interest Rate Policy
c. Quarterly review of Interest Rates & Policy

Any changes to the Transfer pricing and Risk premium range shall be approved by Committee.

Any changes to the Interest Rate policy shall have to be approved by the Board.

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