

ORRISH FINANCE PRIVATE LIMITED

**RBI REGISTERED NBFC
REGISTRATION NO. B-03.00208**

INTEREST RATE AND PENAL CHARGES POLICY

SUMMARY OF THE POLICY

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Approver	Board of Directors
Annexure	-

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Key Contents:

- *Description of the grievance mechanisms at a customer's disposal*
- *Process for response and resolution of the same*

1. PREFACE OF THIS POLICY

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 NBFCs 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.

It is also required to disclose the rate of interest, gradations of risk, and rationale for charging different rates of interest to different categories of borrowers or customers or clients and to communicate the rate of interest to the borrowers or customers or clients in the Loan Application Form (the LAF) and explicitly in the sanction letter/intimation.

Orrish Finance Private Limited (“The Company”) is registered with the Reserve Bank of India as a Non-Banking Financial Company Non-Deposit Taking Non-Systematically Important and is classified as a Base Layer NBFC (“NBFC-BL”) under the Scale Based Regulation Framework issued by RBI. In compliance with the provisions of the Master Direction and Good Corporate Governance Practices being followed by the company, the following internal guidelines, policies, procedures, interest rate model, and penal charges have been adopted and/or revised by the company. The Board of Directors of the company, or any Board constituted committee, while fixing interest rate chargeable by the customer shall be guided by this Interest Rate and Penal Charges Policy.

In addition to the cost factors set out hereunder, the Board or Committees shall be guided by the prevalent market conditions and various specified factors and rules and regulations, if any, prescribed by Reserve Bank of India or such authority from time to time.

2. OBJECTIVE OF THIS POLICY

The primary objective behind drafting and adopting this policy is to decide on the principles, methodology, and approach of charging spreads to arrive at final rates charged from customers and define the standard interest rates to be followed for different customer segments and loan offerings.

The Company, through this policy, charges interest rates determined in a manner as to ensure the long-term sustainability of the business by taking into account the interests of all stakeholders and developing and adopting a suitable model for the calculation of a reference rate.

3. INTERNAL RESPONSIBILITIES

- A. **Board of Directors:** The Board of Directors of the Company shall oversee this Interest Rate Policy and ensure its effective implementation. Further, the Board may delegate the responsibility of implementation of this Policy and other functioning aspects to the Chief Compliance Officer/Executive Director/or Committee as it deems fit.
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4. ESTABLISHING THE INTEREST RATE AND PENAL CHARGES

The annualized interest rate applicable to different loan products of the Company shall be determined by taking the following aspects into consideration:

- **Tenure and Terms of the Loan:** The annualized interest rate shall depend on the duration for which each loan has been extended to a borrower (viz. monthly, quarterly, and yearly repayment) as well as the different terms of repayment laid down in the Loan Agreement.
- **Internal and External Costs of Funds:** The annualized rate of interest charged shall also depend upon the rate at which the funds are sourced to extend the loan facilities to customers, commonly known as the external cost of funds. Shareholders of the company have also infused capital in the company in huge proportions, and accordingly, the cost of such capital being infused shall be taken into consideration while determining interest rate, commonly known as the internal cost of funds.
- **Internal Cost of Operations:** The annualized interest rate will also depend upon the Company's costs of conducting its business. This cost of doing business/operations includes technology infrastructure cost, manpower cost, infrastructure cost, and other administrative costs; such cost is known as Opex cost. Factors such as the complexity of the transaction and other cost factors that affect the cost associated with a particular transaction will also be taken into account before arriving at the final rate of interest quoted to the customer.
- **Credit Risk:** The credit risk is related to loss of credit, bad debt provision cost, due to factors such as the complexity of a loan transaction, size of the loan, geographical condition, customer segment, sourcing channels, stability in earnings and employment, financial position, past repayment track record, and other factors that affect the costs associated with a particular loan account shall be taken into account before informing the final interest rate to a borrower.

- **Structuring Premium:** A premium may be applied to a loan in case the loan has any significant structuring elements with respect to the aspects of transaction structure.
- **Margin:** The fair profit margin is based on the return expected by the shareholders and the risks involved. The profit margin shall be reasonable to attract fresh capital to sustain growth and be benchmarked with comparable companies. A reasonable level of gearing shall be maintained while arriving at the shareholder return.
- **Prevailing Market Practices:** The Chief Finance Officer/Executive Director/or AL Committee responsible for product pricing may also recommend an annualized rate of interest based on the fluctuations in market trends, interest rates levied by other existing NBFCs for similar loan products or services, etc.

Penalties levied on the customer (Effective from 1st April 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 customer by way of schedule of charges annexed with the loan kit and mentioned in bold/italic form in the loan agreement. Any service charges, pre-payment charges, or foreclosure charges as charged to the borrower shall be disclosed to the borrower.
- Penalty, if charged, for non-compliance of material terms and conditions of the loan agreement by the borrower shall be treated as penalties and charges.
- There shall be no capitalization of penalties or charges. No further interest will be computed and charged on such penalties or charges; however, this will not affect the normal procedures for compounding of interest in the loan account.
- The company shall not introduce any additional component of interest to the rate of interest.
- The quantum of penalties shall be reasonable and commensurate with the non-compliance of material terms and conditions of the loan contract without being discriminatory within a particular loan or product.
- 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 the 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 the Company's website.
- Whenever reminders for non-compliance of material terms and conditions of the 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 April 01, 2024. In the case of existing loans, the switchover to new penalties shall be ensured on the next review or renewal date or six months from the effective date, whichever is earlier.

5. INTEREST RATE MODEL

The company lends its loans to clients on **Fixed Rates**.

The rate of interest for the same product and tenure availed during the 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 the policy.

Loan amount, Annualized Rate of Interest, and tenure of the loan will be communicated to the borrower in the sanction letter, and apportionment of installments towards interest and principal dues shall be made available to the borrower.

Besides normal interest, the company may levy additional charges for ad-hoc 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 borrower by way of schedule of charges (forming part of the loan agreement) and through an intimation letter to the borrower.

Besides interest, other financial charges like processing fees, incidental charges, insurance charges, cheque or E Nach bouncing charges, visit or collection charges, login fees, commitment fees, pre-payment charges, foreclosure charges, cheque swap charges, and charges on various other services like issuance of NOC, No Dues certificate would be levied by the company whenever considered necessary. In addition, Goods and Service Tax and other taxes would be collected at applicable rates from time to time.

6. APPROACH FOR GRADATION OF RISK

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

- Borrower profile and market reputation
- Inherent nature of the product, type, tenure, LTV factor
- Tenure of relationship with borrower/group, past payment track record, historical performance of similar customer.
- Repayment capacity, future potential income, consistency of income, loan service capacity.
- Interest, default risk in related business.

Based on the above factors, the company shall categorize its customers into **High Risk, Medium Risk, and Low Risk**.

7. OTHER PROCEDURAL ASPECTS

The Company shall adhere to the following procedural aspects regarding the rate of interest charged on its different loan offerings:

- A. In compliance with its *Fair Practices Code*, the Company shall disclose the **annualized rate of interest** in its Loan Sanction Letter explicitly.
- B. The Company shall inform the borrower about their *loan amount*, **annualized rate of interest**, and other details of the loan at the time of sanctioning the loan.
- C. Other charges such as *processing fees*, the **penal charge on delayed payments**, and *cheque bouncing charges* shall also be mentioned in the **Schedule of Charges** (forming part of the Loan Agreement) and the sanction letter.
- D. The **annualized rate of interest** shall be intimated to the borrower so that they are aware of the exact rates charged to the account.
- E. The company shall disclose “**Annual Percentage Rate**” or “**APR**” in the *Key Fact Statement* (KFS) and the sanction letter when the company disburses its loans either through its own **Digital Lending App** (DLA) or through the **DLA** of their lending service provider, ensuring borrowers are aware of the exact rates charged to the account.
- F. The Company shall display its **interest rate policy** and **interest rate structure** for each loan product on its website.
- G. The Company shall inform its customers about any increase in fees or charges via different communication channels such as *SMS*, *email*, and *website updates*.

8. REVIEW OF THIS POLICY

This Policy shall be reviewed by the Company’s **Board of Directors** annually, or as and when any changes are necessitated to the Policy. The **Chief Compliance Officer**, **Executive Director**, or Committee may suggest changes or modifications to the Policy and present it before the Board for its approval and adoption.