

**INCRED FINANCIAL SERVICES LIMITED
(‘INCRED’)
(Erstwhile KKR India Financial Services Limited)**

INTEREST RATE POLICY

Date of Approval/Modification: October 27, 2023

Approved by: Board of Directors

Owner of the Policy: Compliance Department

Version: 3.0

Policy Review Cycle: Annually

INTEREST RATE POLICY

Background:

As per the Master Direction - Non-Banking Financial Company - Systemically Important NonDeposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016, dated September 1, 2016 and amended by RBI vide circular RBI/2023-24/55 DOR.MCS.REC/32/01.01.003/2023-24 dated Aug 18, 2023 on Guidelines pertaining to Fair Practice Code for reset of floating interest rate on EMI based Personal Loans and as updated from time to time, all the NBFC shall 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 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 web-site of the companies or published in the relevant newspapers. The information published in the website or otherwise published shall be updated as and when there is a change in the rates of interest.

Objective of the Policy:

To determine the benchmark rates to be used for arriving at the final rate to be charged to the borrowers/ customers for various products financed by the company.

Review of Policy:

Any change in the benchmark rate would be decided by the ALCO, and ALCO would recommend such changes; if any to the Board for approval in the subsequent Board Meeting. The policy would be reviewed by the ALCO as and when required but at least once in a year.

Business team shall have the authority to fix their internal pricing under the overall framework of board approved interest rate policy for deciding the spreads to arrive at final rate to be charged to the customers.

Interest Rate Model:

The rate of interest shall be determined based on the cost of borrowed funds, matching tenor cost, market liquidity, refinance avenues, RBI repo rate, offerings by competition, tenure of customer relationship, cost of funds etc. In addition to the cost of funds, the rate of interest shall further be determined with risk premium which is based on the inherent credit and default risk in the products and customer per se arising from customer segment, profile of the

customers, professional qualification, stability in earning and employment and repayment ability, overall customer yield, nature and value of primary and collateral securities, past repayment track record of the customers, external ratings of the customers, industry trends etc.

The Company may adopt an interest rate model whereby the rate of interest for same product and tenor availed during same period might differ from customer to customer depending upon consideration of any or combination of a few or all factors as listed above. Hence, the interest rate applied may be different from customer to customer on his/ her loans.

“InCred Reference Rate” means the rate which is referred by the Company in the loan/credit facility agreements for arriving at the final interest rate to be charged to the borrower.

“Floating Rate of Interest” means the difference between the InCred Reference Rate and Spread applied by the Company to the Loan/Facility granted by the Company to the Borrower, as may be decided by the Company from time to time, pursuant to the terms of the Loan/Credit facility Agreement.

“Spread” means the risk premium which is applied for arriving at the final interest rate charged to the borrower.

“Floating Rate of Interest” means the difference between the InCred Reference Rate and Spread applied by the Company to the Loan/Credit Facility granted by the Company to the Borrower, as may be decided by the Company from time to time, pursuant to the terms of Loan / Credit Facility Agreement.

Depending upon various products financed by Incred, the company lends money through both fixed and floating rate interest. Details of various products and nature of interest rates offered by Incred are as under:

Product Segment	Nature
Personal Loans	Fixed
Unsecured Business Loans	Fixed
Student/ Education Loans	Floating
Secured School Finance	Floating / Fixed
Loan against Properties	Floating / Fixed
Supply Chain Finance	Fixed / Floating
Lending to FIs	Floating / Fixed
Structured Finance/ Escrow backed lending	Fixed / Floating

Interest rate on any new product / new variant of the existing products launched by the Company shall be as per New Product Committee as defined under Board approved New Product Framework

The Interest Rate benchmark shall be calculated considering the sum of below factors including prevailing market factors and any other factors as suggested and approved by the ALCO:

1. **Base Cost of funds:** The Company borrows funds through various long term and short-term sources including term loans, Non- Convertible Debentures, Working Capital (CC/WCDL), Commercial papers, ICDs etc.

Weighted Average cost of all borrowings (including other costs like Processing Fee, brokerage etc.) over average borrowings to be considered for benchmark calculation.

2. **Estimated variable Opex:** It includes estimated fixed and variable operations cost including employee expenses, administration expenses, sales and marketing expenses etc.
3. **Expected ROA:** Expected Return on assets is the minimum return expected by the company on its income earning assets.

Other Charges:

Other financial fees and charges for the loans like processing fees, operating charges like cheque bouncing charges, late payment charges / Penal Charges, reschedulement charges, pre-payment / foreclosure charges, charges for issue of statement account etc., would be decided by the respective Business Heads considering market practices and in consultation with Operations Head.

Legal charges like stamp duty, service tax and other cess would be collected at applicable rates from time to time and would be decided upon by respective Business Heads in consultation with Finance and Legal Heads.

Communication of Interest Rate/ Charges:

Interest rates/ other charges would be intimated to the customers at the time of sanction / availment of the loan by the Company. The Interest Rate Model along with the rate of Interest charged to the customers shall be uploaded on the website of the Company and shall be updated as and when there are changes in the rates. Further, changes in the rates for the existing customers shall also be communicated to them.

Rate Reset Provision as applicable for floating rate of interest:

The rate reset provision shall be applicable to below mentioned products currently as per the RBI Circular dated Aug 18, 2023:

- Loan Against Properties
- Personal Loans
- Educational Loans

The provision of the circular shall be applicable to both the existing customer & the new customers onboarded from effective date of 1st January 2024.

Provisions:

1. At the time of sanction, InCred shall clearly communicate to the borrowers about the possible impact of change in benchmark interest rate on the loan leading to changes in EMI and/or tenor or both. Subsequently, any increase in the EMI/ tenor or both on account of the above shall be communicated to the borrower immediately through appropriate channels.
2. At the time of reset of interest rates, the Company shall provide the option to the borrowers to switch over to a fixed rate.
3. The borrower shall be allowed to switch over to a fixed rate for such maximum number of requests during the tenor of the loan as decided by the ALCO depending on the maturity of the liabilities & specific applicable products.
4. The borrowers shall also be given the choice to opt for:
 - (i) enhancement in EMI or elongation of tenor or for a combination of both options; and,
 - (ii) to prepay, either in part or in full, at any point during the tenor of the loan. Levy of foreclosure charges/ pre-payment penalty shall be subject to extant instructions.
5. All applicable charges for switching of loans from floating to fixed rate and any other service charges/ administrative costs incidental to the exercise of the above options shall be transparently disclosed in the sanction letter and at the time of revision of such charges/ costs by the REs from time to time.
6. InCred shall ensure that elongation of tenor in case of floating rate loan does not result in negative amortisation.
7. InCred will share Statement of Account / any other document on a quarterly basis which will be covering the following details such as:
 - Repayments made till date (Principal & Interest),
 - EMI Amount & Nos of EMIs left,
 - Annualized ROI / Annual Percentage rate (APR) for the entire tenor of the loanThe Statement / document will be in a simple manner and easy to understand.

Note -

Apart from the equated monthly instalment loans, these instructions would also apply, mutatis mutandis, to all equated instalment-based loans of different periodicities. In case of loans linked to an external benchmark under the External Benchmark Lending Rate (EBLR) regime, the NBFCs shall follow extant instructions and also put in place adequate information systems to monitor transmission of changes in the benchmark rate to the lending rate.

Review of the Policy

The Policy shall be reviewed at such intervals as the Company may deem necessary unless statutorily otherwise required. Any other regulatory changes in this regard will stand updated in the policy from time to time.

Version History

Revision	Author	Date	Description
1.0	Compliance	August 09, 2022	Adoption of Fair Practice Code pursuant to demerger
2.0	Compliance	October 15, 2022	Change in Reference Rate as decided in the ALCO meeting
3.0	Compliance	October 27, 2023	Inclusion of Provision related to reset of Interest rates for EMI based Personal loans based on the RBI Circular dated Aug 18, 2023