

Interest Rate Policy

Bajaj Finance Limited

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1. Background

As per Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023, the Board of each 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 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 to different categories of borrowers should be disclosed to the borrowers / customers in the application form and communicated explicitly in the sanction letter.

2. Objective of the policy

To laydown principles and governance around determination of pricing of loan products for different types of customer segments and to determine the approach of charging spreads to arrive at final rates which should be based on good business and market conduct including fairness and transparency.

3. Review of Policy

The Policy shall be reviewed at least annually or as required due to changes in internal policies or regulatory guidelines.

4. Organisation Structure

4.1. Board of Directors

The Interest Rate Policy will be approved by the Board of Directors and the board shall have oversight on the same. To ensure effective implementation of the Interest Rate Policy, the Board has delegated operational aspects to Risk Management Committee which may determine the governance protocols for implementing the same through Product Approval Committee, as deemed fit.

4.2. Risk Management Committee (RMC)

All new products along-with pricing will be recommended by PAC to RMC for approval. Product modifications (including pricing) exceeding the predefined thresholds/limits specified in the PPG Document will be approved by RMC.

4.3. Product Approval Committee (PAC)

Product level pricing including benchmark in case of floating rate loans should be determined basis the overall framework of Board approved Interest Rate Policy. Any changes to product level pricing outside the approved threshold will be reviewed and recommended by PAC by way of amendment to existing Product Program (PPG) document and put up to RMC/ Board for approval.

4.4. Asset Liability Committee (ALCO)

Any change in the benchmark rate would be approved by ALCO and put up to the RMC/ Board for approval/ noting. Any rate changes done outside of the ALCO cycle would be done through a sub-

committee consisting of MD/DMD, CFO, Treasurer and the relevant senior business team members. Any such change will be subsequently ratified by ALCO.

5. Interest Rate Model

BFL may offer Fixed or Floating rate loans to its customers. The rate of interest should be always defined as interest rate, per annum so that the borrower is aware of the exact rates that would be charged to the account.

BFL being a diversified NBFC offers various loan products to cater to needs of different categories of customers. Broad business/ product categories are as follows.

- Sales Finance
- Personal Loan
- Business Loan
- Loan against Gold Jewelry
- Car Finance
- Loan against Securities
- Micro Finance Group Loan
- Commercial Lending
- Home Loan and Loan against Property

The above list is illustrative in nature and the Company may offer loan products as may be approved by the Board / RMC.

For Floating rate retail loans, businesses may employ an internal Floating Reference Rate (Bajaj FRR) or any other external reference rate keeping as it may deem fair and appropriate. For wholesale floating rate businesses, loans can be benchmarked to external benchmarks like REPO or Bank MCLR in addition to Bajaj FRR as agreed with respective customers.

Bajaj FRR may include for its computation, a combination of variables such as the Cost of Funds of the company, fund raising cost, market and Liquidity risk premium, strategy premium etc. Any changes to the FRR are reviewed by the ALCO and published on the website of the Company.

Businesses may also use external linked benchmarks such as REPO/T-bill/Government Securities (as published by FBIL- Financial Benchmark India Limited), etc. as underlying benchmark for pricing floating rate loans. Apart from the external benchmark, wholesale businesses may also employ Bajaj FRR rates or Bank MCLR rates which are available in the public domain as an underlying benchmark to price customers.

Fixed rate loans are not linked to benchmark but are decided based on various parameters including but not limited to Cost of Funds (allocated through Fund transfer pricing), operational expenditure, business related risks, business strategy premium / discount and desired profit margin.

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 at after adjusting for spread by the relevant business segment. Major factors considered by

businesses for calculating spreads are as follows but not limited to:

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

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

7. Other Charges

Besides interest, other charges like processing fees, late payment charges, re-schedulement charges, pre-payment / foreclosure charges cheque bouncing charges, part disbursement charges, cheque swap charges, security swap charges, charges for issue of statement account etc., would be levied by the Company. Besides these charges, stamp duty, service tax and cess would be collected at applicable rates from time to time. Any revision in these charges would be applicable with prospective effect. These charges would be decided and approved/noted by the PAC by way of amendment to existing PPG document.

BFL will ensure adherence to the business conduct practices and ensure fair pricing of products and services. This will also be transparently communicated to the customers as part of terms and conditions of all loans sourced.

8. Communication Framework

Interest rates should be communicated to the customers in a fair and transparent manner at the time of sanction / availing of the loan.

Interest Rate Policy should be uploaded on the website of the company and any change in the benchmark rates and charges should also be uploaded on the web site of the Company.

Any changes in the benchmark rate, spread and/or charges for existing customers should be communicated in a transparent manner through acceptable modes of communication such as letter, email, SMS, etc.