



**Branch International Financial Services Private Limited**

Policy on Interest Rate, its Methodology, and other charges

**Version Control**

<b>Version</b>	<b>Date of Approval/Revision</b>	<b>Approved By</b>
V 1.0	May 08, 2019	Board of Directors
V 2.0	September 30, 2022	Board of Directors
V 3.0	August 30, 2023	Board of Directors



## Contents

1. Introduction	3
2. Definitions	3
3. Purpose	3
4. Interest Rate Methodology and Gradation of Risk	3
5. Other charges	5
6. General	5
7. Disclosures	6
8. Review of Policy	6
9. Change of Control	6

## 1. Introduction

The Reserve Bank of India ('RBI') vide Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023, (hereinafter referred to as “SBR Directions”), updated from time to time, has advised that the Board of all NBFCs shall lay out appropriate internal principles and procedures in determining interest rates, processing and other charges.

Keeping in view the RBI's guidelines as stated above, Branch International Financial Services Private Limited (hereinafter referred to as “Branch” or “the Company” or “we” or “us”) has formulated this Interest Rate Policy (hereinafter referred to as “Policy”) taking into account relevant factors such as cost of funds, margin and risk premium, etc. The Policy has been duly approved by its Board of Directors. This Policy shall be read with the Fair Practices Code of the Company.

## 2. Definitions

ALCO	Shall mean the Asset Liability Committee formed by the Company
Board	Shall mean the Board of Directors of the Company
Company	Shall mean Branch International Financial Services Private Limited
Policy	Shall mean this Interest Rate Policy formulated by the Company.
Customer	Shall mean any person(s) who is/are engaged or intending to engage in a financial transaction or activity with the Company and includes a person(s) on whose behalf such the person(s) who is/are engaged in the financial transaction or activity, is/are acting.
SBR Directions	Shall mean Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023

## 3. Purpose

In line with the SBR Directions referred to above, this Policy shall define the parameters for determining interest rates and other charges for different categories of Customers.

## 4. Interest Rate Methodology and Gradation of Risk

- 4.1. Branch charges a fixed rate of interest on its loan products and does not charge floating rate of interest.
- 4.2. Branch has its own machine-learning model for calculating interest rates taking into consideration Branch's cost of funds, overhead and administrative costs, .The interest rate will be arrived after considering the following aspects:
  - i. **Cost of Borrowing:**  
The first element of the interest rate is the cost of borrowing of the Company, which is the interest and other incidental charges payable by the Company for servicing the borrowed funds deployed by the Company. In this regard, interest and incidental charges would also include the rates charged by any co-lending partner under any co-lending partnership arrangement.
  - ii. **Return on Capital Employed:**

The second element of the interest rate is the expected return on capital employed which is to be generated by the Company for servicing the owners' capital employed in the business.

iii. **Overhead costs:**

The third element influencing the interest rate is the overhead/sourcing cost incurred for sourcing and processing the loan application including, but not limited to employee costs, office expenses, insurance premium, if any, marketing expenses etc.

4.3. The interest rate therefore is the summation of the cost of borrowing, overhead/ sourcing cost, expected return on capital employed.

4.4. The interest rate for various loans is calculated on the basis of loan tenor and risk calculations. Further, the interest rate applicable to each loan account, shall be determined on a case-to-case basis, based on evaluation of various factors such as:

- i. Structure of the deal
- ii. Interest rate trend prevailing in the money market
- iii. Nature of lending, such as secured/unsecured and the associated tenure
- iv. Risk profile of the Customer- professional qualification, stability in earnings and employment
- v. Risk premium keeping in mind the inherent credit and default risk in the product and Customer per se arising from relevant Customer agreement
- vi. Long term prospects of business with the Customer
- vii. Past repayment track record of the Customer
- viii. Loan specific costs
- ix. Company's cost of borrowings
- x. Customer negotiations/deviations
- xi. Industry trends- offerings by competition
- xii. Upfront charges
- xiii. Outsourcing cost

4.5. The Interest Rate is further adjusted based on the risk profile of the Customer by factoring in a risk premium, which may be an addition or subtraction from the Interest Rate. The manner of computation of risk premium has been provided below:

4.5.1. **Calculation of Risk premium:** Risk premium (estimate of credit losses) shall be determined by taking into account the minimum margin the Company wants to maintain along with degree of risk involved in loan considering various factors like general economic conditions, Customer category, Customer category servicing costs, repayment capacity, mode of repayment, past repayment history, Loan -to -value ratio, tenure of loan, location of the Customer, nature of security, etc. The rate shall be the lower for Customers perceived as having lower risk and higher for the high-risk category.

4.5.2. Branch may employ different combinations of credit tiering systems to inform risk-based pricing decisions. In general, Branch aims to unlock preferential rates for repeat Customers who have displayed positive credit behaviour over a given time period. However, Branch reserves the right to tighten credit terms for new originations at any time, in response to deteriorating portfolio performance, changes in the macro environment, or a resetting of loan ladder and/or credit tiering frameworks.

4.5.3. Pricing across available loan terms may vary in line with a Customer's individual credit profile. Branch will maintain updated loan terms and rate schedules that may be altered any time due to changes in macro, political, consumer credit or regulatory environments.

- 4.6. The rate of interest for the same product and tenor 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 this Policy, by the Branch model.
- 4.7. **Manner of Payment-** Branch may elect to offer payment schedules of different frequencies based on the Company's internal risk ratings and/or a Customer's repayment history. Loan schedules may require payments to be made monthly. Payment frequency will be part of the terms displayed to the Customer before a loan is funded, and may not be altered at any point during the life of an individual loan. Interest payments are included in the overall payment schedule and cannot be altered.

## 5. Other charges

- 5.1. Besides interest, Branch may also levy other charges such as processing or origination fees, cheque bouncing charges, pre-payment/ foreclosure charges, part disbursement charges, penal charges cheque swaps, remittance charges, commitment fees, convenience fees, charges on various other services like issuing 'No Due Certificates', NOC etc. may be levied by the Company wherever considered necessary. The same shall be determined by the credit team.
- 5.2. Branch may levy additional late fees/ penal charges/extension fee to Customers who do not repay their loans on time. These fees shall be communicated to the Customers prior to submission of the loan application and mentioned in **bold letters** in the Key Fact Statement, Sanction letter and other loan documents. Penal charges shall be levied in accordance with the RBI guidelines in this respect and as per the Fair Practices Code of the Company.
- 5.3. All such charges shall be clearly communicated to the Customer, through the Key Fact Statement (KFS), application form, sanction letter and loan agreement, as further explained under the head 'Disclosures'. Any revision in these charges shall be effected only prospectively and shall be communicated to Customers.
- 5.4. All loans which are pre-paid shall bear prepayment penalty at rates mentioned in the respective Customer loan agreements. However, the Customer who exits the digital loan in accordance with the cooling off period as prescribed in the Loan Policy of the Company shall not be charged prepayment penalty. In any case, if the Customer opts for the option to exit digital loan, proportionate APR shall be chargeable.
- 5.5. Branch shall ensure that any fees, charges, etc., payable to any lending service provider/ third party agent ('LSP') are paid directly by Branch and are not charged by LSP to the Customer directly.

## 6. General

- 6.1. **Nature of Interest** -Branch may elect to offer fixed or variable rates to Customers, of varying terms and repayment structures, commensurate with the default risk of individual Customers and the broader Branch loan portfolio.
- 6.2. For fixed interest rates, the spread would be computed based on product specific and Customer specific parameters, as may be determined by the Credit Committee/ Board. Fixed interest rates shall not be reset and remain fixed.



- 6.3. The interest rate and all other applicable charges shall be communicated to the Customers prior to submission of the loan application.
- 6.4. Branch may choose not to entertain claims regarding refund or waiver of charges/ penal charges and it shall be at the sole discretion of the Company to deal with such requests.
- 6.5. Any fees, charges, etc., which are not mentioned in the KFS shall not be charged by Branch to the Customer at any stage during the term of the loan.
- 6.6. In addition to the amount of loan sanctioned, the Company shall convey to the Customer, in the language as understood by the Customer, the annualised rate of interest. This shall be communicated via the Branch app or otherwise and shall be kept on record.
- 6.7. The sanctioning authority shall record specific reasons in writing at the time of sanctioning demand or call loan, if no interest is stipulated or a moratorium is granted for any period.
- 6.8. The Credit Committee (CC) of the NBFC shall determine the interest rates.

## 7. Disclosures

The Company shall, along with the disclosures prescribed under applicable laws, ensure the following:

- 7.1. The Customer shall be informed of any changes in terms and conditions, including changes in interest rates, service charges, prepayment fees, etc. Such intimation of alterations in interest rates or other fees will be conveyed to Customers in the manner as specified in the loan documents.

## 8. Review of Policy

The Policy shall be reviewed by Credit Committee of Branch on an annual basis and changes if any shall be approved by the Company's Board of Directors.