# INTEREST RATE AND CHARGES POLICY
# OF
# FINCFRIENDS PRIVATE LIMITED

***Version 4***

**Approved by the Board of Directors of**
**FincFriends Private Limited**

**on**

**30th June, 2025**

**Sd/-**

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**Artem Andreev**
**Chief Executive Officer**

**Version Control**

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| Policy Name | **Interest Rate and Charges Policy** |
| Version No. | **4** |
| Effective Date | **30th June, 2025** |
| Approved By | **Board of Directors** |

**Document History**

| Version | Effective Date | Reason for change | Reviewed and recommended by |
|---|---|---|---|
| 01 | 10th October 2018 | 1st Issue of the document | Compliance Function |
| 02 | 30th April, 2021 | Annual review and alignment with revised/ new RBI regulations | Compliance Function |
| 03 | 22nd February, 2024 | Annual review and alignment with revised/ new RBI regulations | Chief Compliance Officer<br>Head- Product |

**1. Background**

1.1. As per Applicable Laws (hereinafter defined), the Board of Directors of Non-Banking Financial Company should lay out appropriate internal principles and procedures in determining interest rates, processing and other charges. Accordingly, this policy has been prepared to lay down the principles and procedures for determining the interest rates, fees and charges applicable to different loan products offered by Fincfreinds Private Limited (hereinafter referred as 'the Company').

**2. Regulatory Context**

The Policy takes into account regulatory documents published by regulatory bodies (referred as 'Applicable Laws'), in particular:-

2.1. 'Fair Practice Code' under the Master Direction issued by Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023, as amended time to time and applicable to NBFC-ICC;

2.2. Guidelines on 'Fair Lending Practice - Penal Charges in Loan Accounts' issued by Reserve Bank of India vide notification no. RBI/2023-24/53 DoR.MCS.REC.28/01.01.001/2023-24 dated August 18, 2023 along with Frequently Asked Questions thereon, as amended time to time.

2.3. Directions issued by RBI on Key Facts Statement (KFS) for Loans & Advances vide notification RBI/2024-25/18 DOR.STR.REC.13/13.03.00/2024-25 dated April 15, 2024

2.4. Notification issued by Reserve Bank of India on 'Fair Practices Code for Lenders – Charging of Interest' vide RBI/2024-25/30 DoS.CO.PPG.SEC.1/11.01.005/2024-25 dated April 29, 2024

2.5. Reserve Bank of India (Digital Lending) Directions, 2025 issued by Reserve Bank of India vide notification RBI/2025-26/36 DOR.STR.REC.19/21.07.001/2025-26 dated May 8, 2025, as amended time to time;

**3. Relevant Documents**

This Policy shall be read along with the following policies of the Company as amended from time to time-

- Fair Practice Code
- Credit Policy
- Interest Rate Model
- Terms of Reference for Product Committee

**4. Definitions**

In this Policy the following expressions shall have the meaning hereinafter assigned to them:

**4.1.** **"Annual Percentage Rate (APR)"** is the effective annualised rate charged to the borrower of a digital loan. APR shall be based on an all-inclusive cost and margin including cost of funds, credit cost and operating cost, processing fee, verification charges, maintenance charges, etc., and exclude contingent charges like penal charges, late payment charges, etc.

**4.2.** **"Board of Directors"** comprising of all the Directors of the Fincfriends Private Limited("Company").

**4.3.** "**Company**" means Fincfriends Private Limited incorporate under the Companies Act,2013 and Non-Banking Financial Company Registered with Reserve Bank of India

**4.4.** "**Customer(s)**" mean such persons, as the case may be, customers of the Service Providers and/or Company's Customers and/or any prospects thereof.

**4.5.** **"Credit Information Companies"** includes TransUnion CIBIL, Experian, Equifax and CRIF High Mark.

**4.6.** **"Digital Lending"** means a remote and automated lending process, largely by use of seamless digital technologies for customer acquisition, credit assessment, loan approval, disbursement, recovery, and associated customer service.

**4.7.** **"Fixed rate of Interest"** means a loan on which the interest rate is fixed for the entire tenor of the loan.

## 5. Roles and Responsibilities

5.1. Board of Directors of the Company

The Board shall, in particular-

5.1.1. Shall review the Policy at least on annual basis or *upon regulatory updates, audit findings* and approve the amendment, if any, therein;

5.1.2. Shall supervise the adherence to this Policy by the Company;

5.1.3. Shall review and approve the interest rate model of the Company;

5.1.4. May delegate all or any of its powers or responsibilities to any committee constituted by the Board, or Chief Executive Officer, or any other officer or employee of the Company.

5.2. Product Committee of the Company

The Product Committee of the Company is constituted by the Board and comprise of such senior officers/ employees of the Company, as the Board shall consider appropriate, to discharge the responsibilities delegated by the Board time to time. The composition of Product Committee as well as its functioning, powers, role and responsibilities shall be specified in the 'Terms of Reference' approved by the Board.

## 6. Loan Products offered by the Company

The Company offers unsecured personal loans to the customers in the form of term loan or credit line. Such personal loans have tenure ranging from 62 days till 20 months. The Company lends money (i.e. unsecured personal loans) through digital lending channels to cater to the needs of its customers. The Product Committee shall decide the terms and conditions, including fiancé amount, rate of interest, fees and charges for each loan products.

## 7. Principles for Determining & Charging Interest Rate

**7.1.** The Board of Directors either directly or through Product Committee constituted by the Board, as the case may be, shall ensure that appropriate internal principles and procedures as laid down herein for determining interest rates, processing fees, penal charges and other charges keeping in view the Fair Practices Code about transparency in respect of terms and conditions of the loans are adhered.

**7.2.** The Company shall lend money to its customers through fixed interest rate loans which do not change during the tenure of the loan without express consent of the customer. Further the interest rate may be changed by the Company if required by the law or any specific direction or order of concerned judicial body or regulatory authorities.

**7.3.** The Company shall state the loan amount, along with other terms and conditions including annualised interest rate[1] and the method of application thereof in the loan documents. The Company shall also disclose all-inclusive cost, including annualised rate of interest, processing fee, service fee and excluding contingent charges as applicable to the loan obtained by the customer in the loan documents as Annualised Percentage Rate. The repayment schedule for the loan, where applicable, shall be drawn up on a reducing balance basis wherein Interest Amount shall be apportioned from monthly instalment on the annualised interest rate.

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[1] *Annualized Interest Rate is charged on the loan amount on a reducing balance basis.*

**7.4.** The different interest rate to the customers may be charged based on loan amount, tenor, , payment history with the Company and in credit bureau, credit bureau's score, age and income. 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 applicants/ borrowers in the loan documents. The rate of interest must be annualised rate so that the borrower is aware of the exact rates that would be charged to the account.

**7.5.** The Company shall charge interest from the date of actual disbursement of the funds to the customer and not from the date of sanction of loan or date of execution of loan agreement. Where the loan is disbursed or repaid during the course of the month, the Company shall charge interest only for the period for which the loan was outstanding. The Company shall not collect one or more instalments in advance at the time of loan disbursal.

**7.6.** The approach for gradation of risks as well as the penalties and charges thereof, shall also be made available on the website of the Company. The information published on the website shall be updated whenever there is a change in the aforesaid information.

**7.7.** The Board of Directors, or the Product Committee under the authority of the Board, as the case may be, shall adopt the Interest Rate Model (refer Annexure 1) to determine the interest rates offered to the customers for personal loans based on the following factors:

| S. No. | Factor | Description |
|---|---|---|
| 1 | Weighted average cost of funds (borrowing & equity) | Weighted average of Interest on various sources of funds (Non-convertible Debentures (NCDs), Commercial Papers (CPs), Term Loans, Working Capital Demand Loan(WCDL), External Commercial Borrowings etc.), Cost of Equity and other fund-raising expenses such as rating Fee, trusteeship fee, Issuing and Paying Agent (IPA) commission on CPs, Costs associated with maintaining sufficient liquidity etc. average cost of borrowing & cost of equity is taken for bench mark calculation. |
| 2 | Risk Premium | Base risk premium to cover potential credit loss risk depending upon internal assessment of likelihood of delinquency or potential loss from individual customer segments. |
| 3 | Base Return on Assets (ROA) | Base ROA is the minimum return expected by the company on its assets. |

**7.8.** The Company may offer different interest rates to different customers based on loan amount, tenor, , payment history, credit score provided by credit information companies, customer's age, and incomeand any other information as may be required for the purpose of credit evaluation. The rate of interest for same product and tenor availed during same period by customers would not be a standardized one but could be different for different customers depending upon consideration of any or combination of a few or all factors listed above.

## 8. <u>Principles for Determining Fees, Penalties and other Charges</u>

**8.1.** Besides interest, the Company may levy and collect fees and charges from the customer(s) for processing of the loan and providing various services in respect of the loan, including but not limited to, customer care, credit assessment, cash management, ECS/ Direct Debit/ ACH mandate registration/ lodgement/ handling or for any other service provided by the Company or cost incurred by the Company related to the loan granted to the customers. In addition to above charges, the Company may levy other fees and charges, which are contingent in nature i.e. incidental to the option/ default/

action of customer, including but not limited to late payment charges, bounce charges, or early repayment charges. These fees and charges may vary based on type of loan, loan amount and Company's exposure to the customer segment and generally represent the costs incurred in rendering the services to the customer.

**8.2.** Where any taxes, duties, cess are levied upon such fees and charges, same shall be recovered from the customer at applicable rates from time to time.

**8.3.** Any such fees/ charges, or any revision therein, shall have prospective effect. These fees and charges shall be approved by the Board or under the delegated powers of the Board, as the case may be.

8.4. Processing Fee

8.4.1. The Processing Fee is levied to the customers to recover various expenses which the Company incurs for the purpose of identifying & evaluation of Borrowers for providing credit facilities. The Processing Fee is levied to cover the expenses incurred towards:

8.4.1.1. Marketing expenses incurred for attracting potential customers

8.4.1.2. Assessment of the customer's ability to repay the loan

8.4.1.3. Verification of the customer's identity on real-time basis through integration with government provided database and screening through sanction lists and verification through video KYC process of the eligible customers

8.4.1.4. Administrative expenses on the disbursements of loan to the bank accounts of the customers

8.4.2. The Product Committee is authorised to review and decide the application and range of Processing Fee for various loans offered by the Company.

8.5. Service Fee

8.5.1. Service Fee is collected from the customers to recover the expenses towards providing smooth, prompt and secure operations of the digital lending platform. The purpose of levying Service Fees is to compensate the Company, in general, for performing following services/ obligations till the loan repayment is completed by the customer-

8.5.1.1. Development and maintenance of the user-friendly and secure digital lending platform (mobile application) for our customers, loan management and decision-making systems to manage such loan records and comprehensive customer support via phone and e-mail to customers to provide information/ update on loan products, repayment status and other associated services of the Company.

8.5.1.2. Fast, secure and convenient options of repayment of dues towards loan are made available to the customers.

8.5.1.3. To ensure the legal obligation of reporting customer information to credit information companies, Central KYC Registry etc.

8.5.2. The Product Committee is authorised to review and decide the application and range of Service Fee for various loans offered by the Company.

8.6. Penal Charges

8.6.1. The Company may levy penal charges for non-compliance of material terms and conditions of loan by the customer, however, such penal charges shall not be added to the rate of interest charged on the loans. There shall be no capitalisation of penal charges i.e., no further interest computed on such charges.

8.6.2. The Company shall not introduce any additional component to the rate of interest and ensure compliance to these guidelines in both letter and spirit.

8.6.3. The quantum of penal charges shall be reasonable and commensurate with the non-compliance of material terms and conditions of loan without being discriminatory within a particular loan/product category.

8.6.4. The Product Committee is authorised to review and decide the application and range of Penal Charges for various loans offered by the Company. The Product Committee shall, while determining penal charges, ensure that the intent of levying penal charges is essentially to inculcate a sense of credit discipline and such charges are not meant to be used as a revenue enhancement tool.

8.7. Overdue Interest

8.7.1. Overdue Interest is charged to compensate the Company for the loss of Interest during the period under repayment default. The Product Committee is authorised to review and decide the application and range of Overdue Interest for various loans offered by the Company.

8.8. Early Repayment Charges

8.8.1. The Company may, at its sole discretion, allow the prepayment of the loan amount subject to certain conditions and on payment of prepayment penalties by the customer. However, the Company shall not charge foreclosure charges/ pre-payment penalties on all floating rate term loans, if any, sanctioned to individual customers.

8.8.2. The Product Committee is authorised to review and decide the application and range of Early Repayment Charges for various loans offered by the Company.

8.9. SMS Charge

8.9.1. SMS Charge is an optional monthly fee payable by the Borrower for subscribing to the SMS notification service, which includes without limitation, alerts for repayments, payment reminders, repayment notifications, and updates for transfer of money to bank account ("SMS Service"). This charge applies solely when the Borrower opts in for this service and may be discontinued by the Borrower at any time.

8.9.2. The Product Committee is authorised to review and decide the application and range of SMS Charges for various loans offered by the Company.

8.10. Term Fee

8.10.1. Optional Term Fee is the fee charged to the Borrowers based on the repayment term availed by the Borrower, to be payable with the first EMI. This fee is chargeable only in the event the Borrower chooses not to repay the Loan during the Grace Period & has opted for 10/20 months of tenure during withdrawal.

8.10.2. The Product Committee is authorised to review and decide the application and range of Term Fee for various loans offered by the Company.

8.11. Limit Increase Fee

8.11.1. Limit Increasing Fee refers to a contingent fee charged to the Borrower for consideration of the Borrower's application for a credit limit increase. The Product Committee is authorised to review and decide the application and range of Limit Increase Fee for various loans offered by the Company.

## 9. Communication Framework

**9.1.** The Company shall communicate the rate of interest, fee and charges as required under applicable regulations to the customers at the time of availing and sanction of the loan in the KFS provided to the customer before the loan is approved. The quantum and reason for penal charges shall also be clearly disclosed by the Company to the customers in the terms & conditions / Key Fact Statement (KFS) as applicable, in addition to being displayed on the Company's website.

**9.2.** Whenever reminders for non-compliance of material terms and conditions of loan are sent to borrowers, the applicable penal charges shall be communicated. Further, any instance of levy of penal charges and the reason therefor shall also be communicated.

**9.3.** Changes in the rates, fee and charges, including foreclosure charges, for existing customers would also be communicated to them through SMS /e-mail /website /mobile application of the Company.

**9.4.** Interest Rate and Charges Policy would be uploaded on the website of the Company.

**Annexure 1**

## Interest Rate Model

(1) Interest Income Calculation

Since the annual interest rate is applied to the outstanding principal per installment on reducing balance, it is necessary to calculate the Gross Interest Accrued per Loan. Then Interest Rate Return is annualized to receive the target Annualized Gross Interest Accrued.

Since, a certain level of risk on disbursed amounts is expected, some of this accrued interest will not be collected. To account for this, the annualized Risk Cost proportion is excluded from the Annualized Gross Interest Accrued.

Next, the Annualized Accrued Interest Unpaid is calculated — this represents the portion of accrued interest that is not recovered due to credit losses, expressed on an annualized basis. It is directly driven by credit risk and calculated as:
Annualized Accrued Interest Unpaid = Annualized Gross Interest Accrued × Risk Cost

As a result of this process, the Annualized Net Interest Recovered is obtained, which reflects the actual effective interest rate income collected by the company from the borrower on annualized basis.

Annualized Net Interest Recovered = Annualized Gross Interest Accrued – Annualized Accrued Interest Unpaid

(2) Risk Cost Calculation

The company calculates Risk Cost based on the following parameters, in accordance with international credit risk assessment standards established under the Basel II framework and its subsequent revisions (Basel III and Basel IV):

Expected Loss (EL) = PD × EAD × LGD

- PD (Probability of Default) – the likelihood that a borrower will default on their loan obligations within a specified time horizon.
- EAD (Exposure at Default) – the amount at risk at the time of default. In our methodology, EAD is represented by the loan principal.
- LGD (Loss Given Default) – the share of loss relative to the EAD in the event of default. It is expressed as a percentage and calculated as 1 – Recovery Rate. In our case, the Recovery Rate is defined as the amount of additional collections received after the loan has been charged off. The recovery rate is based on average performance of previous defaults during 24-month historical timeframe. Defaults occur after 90 DPD.

(3) Cost of Funds Calculation

Cost of Funds is calculated as the weighted average cost of capital (WACC), based on the company's capital structure — specifically, the proportion of debt financing versus equity. Since equity capital is assumed to have a zero cost (0% rate) in this model, the total Cost of Funds is determined solely by the cost of borrowed funds.

Net Interest Margin per Loan is calculated using the following formula:
Annualized Net Interest Recovered (%) – Annualized Risk Cost (%) – Cost of Funds (%)

Where:

- Annualized Net Interest Recovered – the effective annual return actually collected, adjusted for the loan repayment schedule;
- Risk Cost – expected credit losses, calculated as PD × EAD × LGD;
- Cost of Funds – the cost of borrowed capital used to fund the loan.