

Interest Rate Policy

(Approved by the Board at its meeting held on 29 January 2019)

Bajaj Finance Limited

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Background

As per the Reserve Bank of India guidelines, Board of each NBFC shall approve an Interest rate model that is applicable for the Company, taking in to account relevant factors such as cost of funds, margin and risk premium etc., and determine the rate of interest to be charged for loans and advances. Further, the directive states that the rate of interest and the approach for gradation of risk and the rationale for charging different rates of interest for different category of borrowers should be communicated to the borrowers / customers in the sanction letters issued to them. Board of Directors at their meeting held on 17th May 2011, had adopted the interest rate model of the Company. Thereafter, the Company authorized the Managing Director to review the interest rates from time to time basis the money market situation and take suitable decisions post discussing the same in the Asset Liability Committee (ALCO) Meetings.

Considering that it is quite some time since the Interest Rate Policy, per se, has been reviewed and approved by the Board of Directors of the Company, we have revisited the existing Interest Rate Policy and made suitable changes to the same. The Revised Policy is being placed before the Board of Directors for review and approval.

Objective of the policy

To arrive at the benchmark rates to be used for different category of customer segments and to decide on the principles and approach of charging spreads to arrive at final rates charged from customers.

Review of Policy

The Policy shall be reviewed once in a year or in between if required due to changes required in the model, for example any addition/deletion of a particular component forming part of benchmark calculation.

Organisation Structure

Board of Directors

The Board of Directors shall have oversight for the interest rate Policy of BFL. In order to ensure effective implementation of the Interest Rate Policy, the Board may delegate the implementation of the Policy and its operational aspects to the Managing Director and/or ALCO as deemed fit.

Asset Liability Committee

ALCO shall be responsible for taking decision to change the benchmark rate. The ALCO meeting will be held on a monthly basis and any changes / status quo in the benchmark rate would be discussed and decided by the members of the ALCO and would be put up to the Board in subsequent meeting.

Business can have their internal pricing policies under the overall framework of board approved interest rate policy for company in deciding the spreads to arrive at final rate. Changes to business level internal pricing policies, if any, would need to be approved jointly by any -two officers of the Company as per the matrix below:

Sr. No.	Designation
1	Managing Director and CEO
2	Chief Financial Officer

Sr. No.	Designation
3	Enterprise Risk Officer
4	Treasurer
5	Respective Business Head/Group Business head

Interest rate Model

BFL lends money to its customers through Fixed and Floating rate loans. BFL being a diversified NBFC lends money through various products to cater the needs of different category of customers. Few broad categories of customer segments are as follows.

- Consumer (Secured and Unsecured Loans)
- Mortgage (Individual salaried, Individual self-employed, SMEs)
- Commercial Loans to corporates
- Loan against securities
- Rural customers

Currently BFL has two floating rate benchmarks i.e. Base Rate (Used by Commercial segment) and Floating Reference Rate (FRR)(used by Mortgage). Commercial businesses also use external benchmarks for pricing the loans from time to time.

The aforesaid benchmarks are calculated based on following factors.

Sr. No.	Factor	Description
1	Weighted Average cost of borrowing	The Company borrows funds through term loans, Non-Convertible Debentures and Commercial paper and subordinate debt etc. from the investors. Weighted average cost of borrowing of such funds is taken for bench mark calculation.
2	Cost of Equity	BFL needs to put some equity portion to run the business and the cost of such equity is taken into consideration.
3	Fund raising cost	It includes processing fees on term loans, brokerage to source funds through NCDs / Deposits, CPs, Rating Fee, trusteeship fee, IPA commission on CPs, exchange listing fee etc.
4	Negative Carry on Investment	The Company maintains SLR on public deposits which generate lower return than the cost of public deposits, creating a negative carryon on those funds. The Company also keeps some liquidity buffer in the form of investments into liquid funds to manage liquidity risk and has to bear negative carryon on those investments too.
5	ALM mismatch cost	The Company borrows funds through short term and long term products and to comply with the regulatory guidelines, it needs to manage ALM gaps under certain limits imposed by the regulator, while taking in to account the prepayments made by the customers.

Sr. No.	Factor	Description
6	Opex Cost	It includes employee expenses, branch related fixed and variable costs, operations costs, sales and marketing expenses, etc.
7	Risk Premium	Base risk premium to cover business related risks and would vary by business, customer segment, geography, sourcing channel etc.
8	Base ROA	Base Return on assets is the minimum return expected by the company on its assets.

Weighted avg. cost of borrowing (A)	xx%
Cost of Equity (B)	xx%
Fund raising cost (C)	xx%
Negative carry on Investments (D)	xx%
ALM Mismatch cost (E)	xx%
Opex cost (F)	xx%
Risk premium (G)	xx%
Base ROA (H)	xx%
Final Benchmark rate {Sum (A to H) }	(xx...%)

Fixed rate loans are not linked to benchmark but are decided based on their COF (allocated through Fund transfer pricing), Operational expenditure, Business related risks and desired ROE/ROA. Factors affecting calculation of spreads to arrive at final rate are mentioned below.

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 after adjusting for spread by the relevant business segment. Factors taken into account by businesses for calculating spreads are as follows:

- Interest rate risk (fixed vs floating loan)
- Credit and default risk in the related business segment
- Historical performance of similar homogeneous clients
- Profile of the borrower
- Industry segment
- Repayment track record of the borrower
- Nature and value of collateral security
- Secured Vs unsecured loan
- Subvention available

- Ticket size of loan
- Bureau Score
- Tenure of Loan
- Location delinquency and collection performance
- Customer Indebtedness (other existing loans)

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

Other Charges

Besides interest, other financial charges like processing fees, origination fees, cheque bouncing charges, late payment charges, re-scheduling charges, pre-payment / foreclosure charges, part disbursement charges, cheque swap charges, security swap charges, charges for issue of statement account etc., would be levied by the company wherever considered necessary. Besides these charges, stamp duty, service tax / GST and other cess would be collected at applicable rates from time to time. Any revision in these charges would be implemented prospective basis with due communication to customers. These charges would be decided upon by the respective business / Function heads in consultation with Operations, Finance, Compliance and Legal Heads.

Communication Framework

BFL will communicate the effective rate of interest -to customers at the time of sanction / availing of the loan through the acceptable mode of communication.

Interest Rate Policy would be uploaded on the website of the company and any change in the benchmark rates and charges for existing customers would be uploaded on the web site of the Company.

Changes in the rates and charges for existing customers would also be communicated to them through various modes communication such as website updation, email, letters, SMS, etc.

Amendments to the Interest Rate Policy

The Board hereby authorizes the Managing Director to review and make appropriate changes to the Interest Rate Policy from time to time basis the money market scenario in the Country which includes the upward / downward revision in interest rates applicable to various loan products and the relevant charges applicable for such loan products.

We request the Board of Directors to review, make a note of this Policy and approve for implementation of this Policy framework across the product range of the Company.
