# INTEREST RATE AND CHARGES POLICY

| Version | Date | Prepared By | Authorized By | Description |
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| 1.0 | | Compliance Team | Board | Initial Publication |

## I. Policy Objectives and Scope

The Reserve Bank of India ("**RBI**") vide its Master Directions Reserve Bank of India (Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation) Directions, 2025 and Reserve Bank of India (Non-Banking Financial Companies – Responsible Business Conduct) Directions, 2025 ("**Master Directions**") has advised that the Board of Directors of Non-Banking Finance Companies ("**NBFCs**") shall lay out appropriate internal principles and procedures in determining interest rates, processing and other charges. In this regard, RBI further requires NBFCs to adopt an appropriate interest rate model considering relevant factors and to disclose the rate of interest, gradations of risk and rationale for charging different rates of interest to different categories of borrowers.

Shuhari Finance Private Limited (“**Shuhari Finance/Company”**) being an NBFC, is committed to conducting its business in a manner that complies with the Master Directions. Consistent with that objective, Shuhari Finance maintains this Policy to establish a transparent and compliant framework for determining interest rates and associated charges on its loan products.

## II. Policy Statement

The Board of Directors (“**Board**”) is ultimately responsible for approving the interest rate model and all significant charges levied on loans, ensuring that they are reasonable and compliant with applicable regulatory guidelines. The Board (or a committee empowered by the Board) will periodically review the prevailing interest rates and fee structures in light of changes in Shuhari Finance’s cost of funds, risk experience, market conditions, and applicable regulations. Any changes to Shuhari Finance’s interest rates or charges must be approved by the Board (or its delegated committee).

## III. Summary of Applicable law

### a. <u>Interest Rate Determination</u>

Shuhari Finance shall determine the base interest rates for its loan products using a structured Interest Rate Model that takes the Primary Factors identified below:

### i. Primary Factors

1. **Tenor of the Loan and Payment Terms -** Term of the loan; frequency of payment of interest (viz. monthly, quarterly, yearly); terms for repayment of principal; moratorium period etc.

2. **Cost of Funds:** The average cost of borrowing funds is the fundamental component of the lending rate. This includes interest and incidental costs incurred by Shuhari Finance to raise funds from external sources. This cost is influenced by market conditions and may fluctuate accordingly. Any changes in the cost of funds directly impact the pricing of loans we offer.
3. **Operating costs:** The overhead and operating expenses associated with the lending process are also built into the interest rate. This includes costs related to loan origination, customer acquisition, underwriting, credit appraisal, servicing and collections, administrative and infrastructure expenses, technology costs, etc.
4. **Return on Capital:** A reasonable margin, or return on the capital deployed by Shuhari Finance, is factored into the lending rate so as to provide a fair and sustainable return after accounting for the cost of funds, operating costs and expected credit losses. The margin shall be set so that the resulting rate of interest is not excessive and remains consistent with the Fair Practices Code and applicable RBI directions.

**ii. Risk Gradation and Risk Premium**

The customers are categorized into a gradation of risk categories based on various data points collected during the loan process such as credit bureau score and credit history, income and debt-to-income ratio, employment stability or continuity of business, age and life-cycle stage, existing financial indebtedness, past repayment behaviour, geographic location etc.

In addition to the factors above, Shuhari Finance will also take into account market reputation, credit and default risk in the related segment, historical performance of similarly situated customers, profile of the customer, among others to determine the final interest rate. Such information is gathered based on information received from the applicant, credit reports, and market intelligence.

**iii. Borrower Rate of Interest:**

The borrower interest rate will be arrived at based on the weighted average cost of funds including all charges, risk premium, other costs such as administrative expenses, profit margin, stability, market information associated with lending activities as given above.

Interest rates shall be displayed as an annual percentage rate so that borrowers can clearly understand the cost of borrowing on an annual basis. Interest rates will be set within legal limits and in line with prevailing market practices.

**b. Other Fees & Charges**

Shuhari Finance may charge the following additional fees:

- **Processing Fees:** A one-time processing fee may be charged to the borrower at the time of loan disbursement (as indicated in the 'Key Facts Statement' "KFS" for each loan), towards the costs of appraising the loan application, credit bureau checks, verification, and onboarding etc. This is deductible from the loan amount at the time of disbursement.

- **Penal Charges:** In the event of delays or defaults in payment of scheduled amounts (EMIs or other amounts due) by the borrower, Shuhari Finance reserves the right to levy penal charges as a deterrent and to encourage timely payments. There will be no capitalization of penal charges i.e., no further interest computed on such charges. However, this will not affect the normal procedures for compounding of interest in the loan account. A fixed penal charge which shall be reasonable and commensurate with the non-compliance of material terms and conditions of loan contract (including the default in repayment of the loan), levied only on the amount in default and in a non-discriminatory manner within a particular loan or product category, shall be applicable. Shuhari Finance will ensure that the penal charges (if applicable) are communicated clearly and in bold text to the borrower in the loan agreement and the Key Fact Statement. The penal charges shall also be communicated to the borrower whenever reminders for non-compliance of material terms and conditions are sent.

- **Bounce Charges:**
  Where a borrower has authorized repayment of amounts due (including EMIs) through an electronic mandate (such as NACH, e-NACH, UPI Autopay or a similar payment instruction) or through a cheque, and such mandate or instrument is dishonored or fails on presentation for reasons attributable to the borrower (for example, insufficient funds, a stop-payment instruction, revocation of the mandate, or an inoperative or closed account), Shuhari Finance may levy a bounce charge in respect of each such failed presentation, towards the cost incurred on account of the failed collection attempt. A bounce charge is in the nature of a penal charge levied for non-compliance with a material term of the loan contract. Accordingly, it shall be a fixed amount that is reasonable and commensurate with such non-compliance. The quantum of the bounce charge applicable to each loan product shall be specified in the Key Facts Statement.

- **Pre-Payment Charges/ Foreclosure Charges:** If a borrower forecloses the loan (fully repays the entire loan principal before the originally scheduled end date), Shuhari Finance may levy a foreclosure charge as specified in the KFS. This charge is to compensate for the interest loss due to early termination and any administrative cost of early closure. The Company may choose to waive or reduce the foreclosure fee for certain categories of borrowers or after a certain number of EMIs have been paid, in line with regulatory directives. Any such waiver policy will be approved internally.

- **Broken Period Interest:** Broken period interest refers to the interest charged between the loan disbursal time and the due date of your first regular instalment (EMI). The broken period interest will be added to your first regular installment.

## c. <u>Disclosures</u>

Shuhari Finance strictly adheres to the Fair Practices Code and other applicable regulations and ensures that its policies and procedures align with regulatory expectations and are designed to ensure transparency, fairness and full disclosure to customers. In accordance with this Policy as well as the Fair Practices Code, Shuhari Finance will disclose the Rate of Interest, APR and other charges upfront for the borrower to make an informed decision.

A “**Key Facts Statement**” shall be provided to every borrower as an integral part of the loan documentation, including the loan agreement or sanction letter. Furthermore, all applicable fees and charges are disclosed and published on Shuhari Finance’s mobile application at the relevant stage of the loan journey. It is our policy that any fees, charges, etc. which are not mentioned in the KFS, will not be charged to the borrower at any stage during the term of the loan, without explicit consent of the borrower.

**IV. Roles and Responsibilities**

This Policy shall be reviewed at least annually by the Board. The review will ensure that the Policy remains aligned with current regulatory guidelines, business environment, and the Company's strategic objectives.

Any revision to this Policy including changes in the interest rate model, risk gradation methodology, or schedule of charges will require approval from the Board. Revised versions shall be documented with a new version number and date and circulated to all relevant departments. All changes will be implemented on a prospective basis meaning no change will affect existing loan agreements retrospectively, except if mandated by law or regulation (in which case affected customers will be notified and such changes will be carried out in compliance with the law).

All material changes in the Policy or in the standard rates/charges will also be duly communicated to customers as needed (for instance, via the Company's website, or individual communication if it impacts existing customers). The Company remains committed to transparency in this regard.