

DBFS FINANCE & LEASING INDIA LTD

# INTEREST RATE POLICY

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## **Introduction**

The interest rates on various loan products are fixed based on the Interest Rate Policy adopted by the Board of Directors from time to time. As per the policy adopted by the Board of Directors of DBFS Finance & Leasing (India) Ltd. rate of interest is fixed by taking into account various factors such as cost of funds, overhead costs, fair return on capital employed, market conditions and guidelines of Reserve Bank of India regarding Fair Practices Code.

Interest charged under various loans shall have the following components:

1. Basic Interest Rate
2. Risk Premium
3. Penal Interest

## **Basic Interest Rate**

Basic Rate shall be determined by considering the following:

- **Cost of Funds:** This includes the interest and other related charges payable by the Company on the borrowed funds such as Loan from Banks, NCD's etc.
- **Operating Cost:** This includes all operational costs, including the salaries and other administrative overheads.
- **Return on capital:** Over and above cost of funds and operational cost involved, the business needs to generate a reasonable return on the capital employed. Return expectation of the shareholder would be weighed against the industry standards and the basic interest rate shall be arrived by giving due consideration for a fair return on capital employed.

## **Risk Premium**

Risk Premium shall be arrived by taking into account the degree of risk involved in loans under each loan scheme. LTV rate applicable to the loan, frequency of servicing of the loan by the customer, risk perception of the company based on geographical location, class of customers etc. are the parameters on which risk is assessed. While the rate shall be the lower for the schemes where advance LTV is low. Similarly, risk premium shall be determined after taking into account the period of the loan and frequency of servicing.

## **Penal Interest**

In order to discourage default in timely servicing of interest and to cover consequential losses, the company may charge a penal interest at a maximum rate of 6% per annum on the outstanding loan amount. The details of penal interest shall be disclosed to the customer in advance and shall be incorporated in the pledge documentation.