

**INTEREST RATE
MODEL
AND OTHER
CHARGES POLICY
OF
KREON
FINNANCIAL
SERVICES LIMITED**

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SUMMARY OF POLICY

Policy Name	Interest Rate Model and Other Charges Policy
Issue and Effective Date	May 20, 2022
Updated	06.01.2025
Periodicity of Review	Annual
Owner/ Contact	Company Secretary and Compliance Officer
Approver	Board of Directors

1. PREAMBLE

As per the Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulations) Directions, 2023 dated October 19, 2023 (RBI/DoR/2023-24/106 DoR.FIN.REC.No.45/03.10.119/2023-24) issued by the Reserve Bank of India (the “**RBI**”), all Non-Banking Financial Companies (the “**NBFCs**”) are required to have a Board of Directors (the “**Board**”) approved interest rate model and a policy on penal charges. 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 to different category of borrowers shall be communicated to the borrowers/customers in the application form and sanction letters issued to them.

In line with same requirement, the Kreon Financial Services Limited (the “**Company**” or “**KFSL**”), has adopted Interest Rate Model and Other Charges Policy (the “**Policy**”), taking in to account relevant factors such as cost of funds, margin and risk premium etc., and determine the rate of interest and other charges to be charged for loans and advances. The Company shall take this Policy into consideration while making all its decisions regarding the determination of interest rates and other charges applicable to its loan offerings.

In addition to cost factors set out here-under, the Board shall be guided by the market conditions and various rules and regulations, if any, prescribed by the RBI or such other authority from time to time.

2. OBJECTIVES OF THE POLICY

The primary objectives behind drafting and adopting this policy are:

- To decide on the principles, methodology and approach of charging spreads to arrive at final rates charged from customers and define the standard interest rates to be followed for different customer segments and loan offerings.
- To lay down the different principles and rationale behind determining the different interest rates charged to its different customers.
- To ensure long-term sustainability of the business by considering the interests of all stakeholders and adopting a suitable model for the calculation of a reference rate.
- To prepare broad principles of charging penal charges.

This policy has and may be further updated by KFSL from time to time to align it with the Fair Practices Code, applicable regulatory requirements prescribed by the RBI and any other applicable laws/rules/regulations/circulars.

3. IMPLEMENTATION

The Board of Directors of KFSL shall oversee this Policy and ensure its effective implementation. Further, the Board may delegate the responsibility for the implementation

of this Policy and other functioning aspects to any Director and/or Company Secretary as it deems fit.

4. RATE OF INTEREST (ROI)

KFSL, being a diverse NBFC in compliance with RBI's Master Directions and Fair Practices Code, can lend money to its customers through a fixed and floating rate of interest across various products to cater to the needs of the different category of customers. The remit of KFSL may cover a few of the broad categories as follows:

- A) Consumer (secured or unsecured).
- B) Commercial loans to corporates.
- C) Loans against securities.

The Company intimates the borrower, the loan amount, the rate of interest and any other charges which are applicable for the loan at the time of sanction of the loan along with the tenure, the amount and the repayment due dates. The interest rates shall ensure compliance with applicable laws and directions given by RBI and that the rates shall not be usurious.

The Rate of Interest shall be arrived at based on the following parameters:

Sr. No.	Factors	Description
1.	Weighted Average Cost of borrowing	The Company raises funds through various loan products, including term loans, non-convertible debentures (NCDs), ICDs, etc. Weighted average cost of these funds are taken for benchmark calculation. Also included is the cost of raising funds including processing fees on term loans, brokerage to source funds through NCD, rating fee, exchange listing fee, etc.
2.	Cost of equity	It shall cover the rate of return required on an investment in equity or for a particular project or investment.
3.	Negative carry-on investment	KFSL keeps some liquidity to manage liquidity risk and has to bear the negative carry-on investments.
4.	Operating/ Overhead Cost	This includes employee expenses, branch related fixed and variable costs, operations cost, sales and marketing expenses.
5.	Risk Premium	Base risk premium to cover potential credit loss, which may vary by business, customer segment, geography, sourcing channel, etc.
6.	Base Return on Assets (ROA)	Base return on Assets is the minimum return expected by the Company on its assets.

The rates of interest are subject to change as the situation warrants and are subject to the discretion of the Management and/or changes to extraneous cost factors which have a say in the setting up of the interest rate.

5. APPROACH FOR GRADATION OF RISK

The rate of interest for loans for various business segments and various schemes thereunder arrived after adjusting for spread by the relevant business segment. The risk premium attached with a customer shall be assessed inter-alia based on the following principles:

- The decision to give a loan and the interest rate applicable to each loan account will be assessed on a case-to-case basis, based on multiple parameters such as the borrower profile, repayment capacity, borrower's other financial commitments, past repayment track record if any, loan to income ratio and employment stability. Such information is gathered based on information provided by the borrower, credit reports and bank statements.
- To execute smooth underwriting process, the Company carries out different processes as per Know Your Customer (KYC) guidelines issued by the RBI.
- The interest could be charged on monthly or quarterly basis, or such other periodicity as may be approved by the Board.
- While deciding the charges, the practices followed by the competitors in the market would also be taken into consideration.
- Claims for refund or waiver of charges/ penal interest / additional interest would normally not be entertained by the Company but can be granted on individual merit at the sole discretion of the Company to deal with such requests if any.
- The rates of interest are subject to change as the situation warrants and are subject to the discretion of the Management.
- The interest rates could be offered on fixed or variable basis and charged on flat or reducing balance method.

6. PROCESSING / DOCUMENTATION AND OTHER CHARGES

All processing / documentation and other charges recovered shall be expressly stated in the loan documents (Sanction Letter, Key Facts Statement, Loan Agreement). Such charges vary based on the loan product, exposure limit, customer segment, and generally represent the cost incurred in rendering the services to the customers. The practices followed by other competitors in the market would also be taken into consideration while deciding the other charges related to a loan.

7. PREPAYMENT/FORECLOSURE CHARGES

The Company, at its sole discretion, may permit the prepayment/foreclosure of the loan amount, subject to specific conditions and the payment of applicable prepayment/foreclosure charges by the customer. However, KFSL will not impose prepayment/foreclosure charges on any floating-rate term loans granted to individual borrowers for purposes other than business.

8. PENAL CHARGES

Penalty, if charged, for non-compliance of material terms and conditions of loan agreement by the Borrower shall be treated as 'penal charges' and shall not be levied in the form of 'penal interest' that is added to the rate of interest charged on the advances. There shall 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 interest in the loan account. The quantum of penal charges shall be reasonable and commensurate with the non-compliance of material terms and conditions of the loan agreement without being discriminatory within a particular loan category.

The quantum and reason for penal charges would be clearly disclosed by the Company to the Borrowers in the loan agreement, sanction letter and key facts statement (KFS) as applicable. The most important terms and conditions (MITC) or KFS, as may be applicable, would be disclosed to the Borrower in addition to being displayed on the Company's website under Interest rates and Service Charges.

In addition to the upfront disclosure about the applicable penal charges, an intimation shall also be sent to all borrowers about the applicable penal charges whenever reminders for non-compliance of material terms and conditions of loan are sent and at the time of levy of the penal charges along with the reasons thereof.

9. LOAN TO EMPLOYEES

The loan provided to the employees of the Company shall be governed by the internal policies of the Company, instead of this policy.

10. OTHER PROCEDURAL ASPECTS

The Company shall adhere to the following procedural aspects with regards to the rate of interest charged on its different loan offerings:

- The Company shall inform the borrower about their loan amount, annualized rate of interest and other details of the loan at the time of sanctioning the loan.
- The KFS shall also include a computation sheet of annual percentage rate (APR), and the amortisation schedule of the loan over the loan tenor.
- The annualized rate of interest shall be intimated to the borrower so that they are aware of the exact rates charged to the account.
- Any fees or charges which are not mentioned in the KFS, will not be charged by KFSL to the borrower at any stage during the term of the loan, without explicit consent of the borrower.
- KFSL shall inform its customers about any increase in fees or charges via different communication channels such as SMS, email, website updates, etc.

11. POLICY REVIEW

The Policy shall be amended or modified with approval of the Board. The Policy shall be reviewed by the Board on an annual basis. Consequent upon any amendments in RBI guidelines or any change in the position of the Company, necessary changes in this Policy shall be incorporated and approved by the Board.

Notwithstanding anything contained in this Policy, in case of any contradiction of the provision of this Policy with any existing legislations, rules, regulations, laws or modification thereof or enactment of a new applicable law, the provisions under such law, legislation, rules, regulation or enactment shall prevail over this Policy.

12. CUSTOMER GRIEVANCE REDRESSAL MECHANISM

KFSL shall provide borrowers with an accessible grievance redressal mechanism to address concerns related to interest rates, penal charges, or other financial terms on the website of the Company.

13. POLICY DISCLOSURE

This Policy shall be made available on the website of the Company in accordance with the Company's Fair Practices Code and the RBI guidelines.