

Interest Rate Policy

Document Control

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Finance & PMG	Interest Rate Policy	VERSION 2.0
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1. Background

Reserve Bank of India vide its notification No. DNBS. 204 / CGM (ASR)-2009 dated January 2, 2009 and vide its Guidelines on FPC for NBFCs DNBS.CC.PD.No.266/03.10.01/2011-12 dated March 26,2012 as amended from time to time has directed that Board of each NBFC shall approve an Interest rate model for the Company, considering 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 directives 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 to them.

2. Objective of the policy

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

3. Review of Policy

The Policy shall be reviewed once 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.

4. Organisation Structure

4.1. Board of Directors

To ensure effective implementation of the Interest Rate Policy, the Board may delegate certain operational aspects to ALCO or any other Committee, as deemed fit.

4.2. Asset Liability Committee

Business can have their internal pricing policies under the overall framework of board approved interest rate policy for company for deciding the spreads to arrive at final rate. Any changes to business level internal pricing policies (if any) would need to be approved by any three of the officers mentioned below.

Sr No.	Designation
1	Managing Director and CEO
2	Chief Financial Officer
3	Chief Risk Officer
4	Treasury Head
5	Head Compliance
6	Respective Business Head/Group Business head

5. Interest rate Model

BACL (Company) lends money to its customers through Fixed rate loan. The Company lends money through various loan products to finance customers for their purchase of all types of Two-Wheeler & Commercial vehicle.

Few broad categories of customer segments are as follows.

1. Two-Wheeler loans.
2. Commercial Vehicle loans.
3. Top up loans to the above customers for insurance, refurbishment of vehicles financed under 1 and 2 above during loan tenure, permit costs, etc.
4. Used Two & Commercial vehicle loans.

Currently, the Company intends to lend money at a fixed rate over the loan tenor.

Fixed rate loans are not linked to benchmark but are decided based on their Cost of Funds (allocated through Fund transfer pricing), Operational expenditure, Business related risks and desired ROE/ROA.

The Interest Rate benchmark shall be calculated considering the sum of the following factors:

1. **Base Cost of funds:** The Company borrows funds through various long-term and short-term sources including term loans, working Capital (CC/WCDL), external commercial borrowing, commercial paper, non-convertible debentures, etc. Weighted Average cost of all borrowings (including other costs like Processing Fee, brokerage etc.) net of treasury income (income earned over investment of surplus funds) over Assets under Management/ Loan Assets to be considered for benchmark calculation.
2. **Operating Cost:** It includes all fixed and variable operations costs including employee expenses, administration expenses, IT expenses, sales and marketing expenses etc.
3. **Acquisition & Collections Costs:** This includes costs incurred, such as collection costs and Customer acquisition costs (CAC). CAC typically includes all expenses associated with acquiring a new customer like marketing expense, sales expenses, dealer incentive etc.
4. **Risk Premium:** Base risk premium to cover business related risks/ expected credit cost (provisions and write-offs) over AUM. The premium will also vary depending on the degree of risk involved in lending which includes type of product, general economic condition, mode of repayment by customer, location of customer, Loan tenor, customer category, probability of default, LTV etc. The rate of interest for the same product and tenor by different customers need not to be standardized. It could vary for different customers depending upon consideration of any or combination of the above factors
5. **Base Return on Asset (ROA):** Base ROA is the minimum return expected by the company on its assets.

6. Principles and procedures for charging spreads to calculate final rate

The rate of interest for loans for various credit facilities and customers shall be arrived after adjusting for spread by the relevant credit facility. The spread shall consist of product-specific factors and customer-specific factors. Factors taken into account by businesses for calculating spreads are as follows:

- Interest rate risk.
- Credit and default risk in the related business segment / customer risk 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.
- Risk offsets available e.g. Subvention
- 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 the same period by different customers need not to be standardized. It could vary for different customers depending upon consideration of any or combination of the above factors.

7. Other Charges

Besides interest, other financial charges like processing fees, origination fees, cheque bouncing charges, late payment charges, reschedulement 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 and other cess would be collected at applicable rates from time to time. Any revision in these charges would be from prospective effect. These charges would be decided upon by respective business / product heads in consultation with Operations, Finance and Legal Heads.

8. Communication Framework

Interest rates would be intimated to the customers at the time of sanction / availing of the loan.

The 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 either mail, letter or SMS.

Interest Rate Model

Particulars	Rate (%)
Cost of Funds	7 8.50%
Employee costs	2.00%
Acquisition costs	2.00 1.50%
Collections costs	2.50 0.00%
Impairment (ECL) provision	4.00 3.25%
Other operational expenses	1.50 75%
Base ROA (pre-tax)	3.00%
Total	22.5000%