

Policy on Penal Charges for Loans and Advances

1. Introduction

The Reserve Bank of India (“RBI”) has issued the *Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023* dated October 19, 2023 (as amended from time to time) (“Master Direction”), along with the *Circular on Fair Lending Practice – Penal Charges in Loan Accounts* dated August 18, 2023 (as amended from time to time), with the objective of ensuring reasonableness and transparency in the disclosure and levy of penalties to customers.

In compliance with the above regulatory framework, the Board of Directors hereby formulates and adopts the following policy on the levy of penal charges.

2. Levy of Penal Charges

1. Definition and Nature

- Any penalty imposed by the Company for non-compliance with material terms and conditions of the loan agreement by the borrower shall be treated as *penal charges* and **shall not** be levied in the form of *penal interest* added to the applicable rate of interest on the loan.
- Default in repayment constitutes non-compliance with the material terms of the loan agreement. Any penalty for such default shall be levied strictly as *penal charges* and not as *penal interest*.

2. Basis of Application

- Penal charges for delayed payment shall be applied **only** on the overdue amount and **not** on the entire loan amount.
- Penal charges for non-compliance with any other agreed terms and conditions specified in the transaction documents shall be applied on the outstanding loan amount.
- All such charges shall be clearly disclosed to the borrower in **bold font** within the loan agreement.

3. Prohibition on Capitalisation

- Penal charges shall not be capitalised; i.e., no further interest shall be computed on such charges.
- This restriction shall not affect the normal compounding of interest in the loan account.

4. No Additional Interest Components

- The Company shall not introduce any additional component to the rate of interest in lieu of penal charges.

3. Quantum and Fairness of Penal Charges

- The quantum of penal charges shall be **reasonable**, proportionate to the nature and extent of non-compliance, and non-discriminatory within a particular loan or product category.
- For loans sanctioned to *individual borrowers for purposes other than business*, the penal charges shall **not exceed** those applicable to non-individual borrowers for similar instances of non-compliance.

4. Disclosure Requirements

- The quantum and rationale for penal charges shall be clearly disclosed in:
 - The loan agreement;
 - The *Most Important Terms and Conditions* (MITC) / *Key Fact Statement* (KFS); and
 - The Company’s website under the section “Interest Rates and Service Charges.”

- Whenever reminders for non-compliance are sent to borrowers, the applicable penal charges shall be explicitly communicated. Any instance of levy of penal charges, along with the reason, shall also be notified to the borrower.

5. Scope and Applicability

- This policy shall **not** apply to Credit Cards, External Commercial Borrowings, Trade Credits, and Structured Obligations.
- Instructions and clarifications issued by the Central Board of Indirect Taxes & Customs (CBIC) with respect to GST on penal charges shall be adhered to by the Company.

6. Implementation Timeline

- This policy shall be applicable to all **fresh loans** sanctioned on or after **April 1, 2024**.
- For **existing loans**, the transition to the new penal charges framework shall be implemented at the next review or renewal date falling on or after April 1, 2024, but no later than **June 30, 2024** and regular interval.

7. Review of Policy

This policy shall be reviewed periodically and amended as necessary to ensure continued compliance with applicable laws, regulations, and RBI guidelines.