



INTEREST RATE AND PENAL CHARGES POLICY

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1. Introduction and Background

Protium Finance Limited (hereinafter referred to as ‘the Company’ or ‘Protium’ or ‘PFL’), is a non-deposit taking Non-Banking Financial Company duly registered with the Reserve Bank of India (‘RBI’) falling under the Middle Layer category (‘NBFC-ML’) as Investment and Credit Company (‘ICC’). The Company provides both secured and unsecured loans to individuals and to Micro, Small, and Medium Enterprises (MSMEs) across India.

The RBI, vide its Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023, dated 19 October 2023, and in accordance with the RBI’s Fair Practices Code read with RBI Circular on Fair Lending Practice - Penal Charges in Loan Accounts dated August 18, 2023 (as may be updated from time to time), has directed NBFCs to have a documented Interest Rate Policy/Model and a policy on penal charges. These policies shall be approved by the Board of Directors.

The Policy shall set out the internal principles and procedures for determining the interest rates and other charges on the loan products offered by NBFC taking into account relevant factors such as the cost of funds, the risk profile of borrowers, and market conditions, among other factors. Additionally, the NBFCs are required to disclose the rate of interest along with the gradations of risk and rationale for charging different rate of interest for different loan products.

Keeping in view the RBI's guidelines as cited above, and the good governance practices being followed by the Company, the following internal guidelines, policies, procedures and interest rate model have been adopted by the Company. The Board of Directors of the Company (“the Board”) or any Board constituted Committee (“the Committee”) like Asset and Liability Management Committee (ALCO) as the case may be, while fixing interest rates chargeable from the customers shall be guided by this Interest Rate and Penal Charges Policy. In addition to cost factors set out hereunder, the Board or the Committee shall be guided by the market conditions and various rules and regulations, if any, prescribed by the Reserve Bank of India or such other authority from time to time.

The Board of Directors of the Company has duly approved this Policy.

2. Objective of the Policy

The main objectives of this policy are as follows:

- i) To lay down appropriate internal principles and procedures in determining the range of interest rates that shall be applicable to various customers.
- ii) To ensure that interest rates are determined in a manner to ensure long term sustainability of business by taking into account the interests of all stakeholders.
- iii) To ensure that computation of interest is accurate, fair, and transparent in line with regulatory expectations and market practices.

The Company will apply the best industry practices so long as such practices do not conflict with or violate RBI guidelines.

This Policy is divided into two parts – A. Interest Rate Policy and B. Penal Charges Policy.

Part A: Interest Rate Policy

3. Protium Customer Segment and Business Model Overview

Protium is committed to meeting the growing financial needs of India's growing small businesses, are is often underserved by traditional commercial banks. By offering a wide range of tailored products and solutions, Protium aims to provide accessible and flexible financial options to individuals and businesses that require more personalized support.

Customer Segment

Protium finance caters to the financing needs of the MSME sector across India. Majority of the customers are Micro and Small enterprises in Retail, Trade, Services sectors and small portion in the manufacturing sector.

Business Model

The distribution model of the company is both through direct sales force through company's branches and the DSAs.

Product offering

- **Loan against property:** Secured loans to small businesses including educational institution against the security of the immovable properties.
- **Unsecured Business loans:** Unsecured loans to small businesses.
- **Machinery Finance:** Loans to small businesses for purchasing machines / equipment.

Personal loan or Consumer loans either secured or unsecured.

Term Lending to Financial Institution / Corporate Loans: Secured loans to Financial Institutions and / or Corporates for business purposes.

Associated costs

When pricing a loan product, Protium incorporates both upfront and ongoing costs to ensure comprehensive cost recovery and profitability. These costs are divided into two main categories:

Upfront costs – These costs are incurred before the disbursement of the loan to the customer and typically involve the following:

- (i) Acquisition costs – The cost of sales channel and sales promotion expenses.
- (ii) Verification costs – A verification of information supplied by customer in application form such as residence and employment details may be required. Additionally, verification may be required through credit bureaus.

- (iii) Credit appraisal costs – The Company needs to invest in competent resources that can carry out credit appraisal of the customer’s application.
- (iv) Legal / valuation charges – For products such as “Loan against property”, “Machinery and Equipment Financing”, etc. expenses are incurred towards verification of title documents, valuation of property / equipment, etc. Protium uses the services of specialized agencies, such as a registered chartered engineers / valuers / lawyers to provide these opinion. In such cases, to defray some of these expenses, Protium will collect application fees from the customer at the time of application. This will be non-refundable in nature.
- (v) Technology costs: As part of the ongoing digital transformation, Protium invests in advanced technology infrastructure, including hardware, software, data storage, and analytics. These investments support efficient operations, improve customer service, and ensure compliance with regulatory standards. Given the fast pace of technological advancements and evolving customer expectations, these costs are continuous and substantial.

It is important to note that many of these upfront costs are incurred regardless of the outcome of the loan application. Ongoing expenses – The following expenses are incurred during the life of the loan.

- (i) Funding costs – Protium’s funding mix includes both debt and equity. The costs associated with raising and managing this capital, including interest payments and equity management, are critical to supporting the loan book and matching the tenor of the loans.
- (ii) Servicing cost – Ongoing costs for managing loan repayments, maintaining customer records, and providing continuous support to borrowers are included here. This also covers administrative tasks such as managing loan accounts and responding to customer inquiries.
- (iii) Collection costs – In cases of borrower defaults, Protium incurs costs for collection efforts, including contacting borrowers, negotiating repayment terms, and managing debt recovery procedures.
- (iv) Customer Service – Customer service costs include handling requests from borrowers for documentation (such as interest certificates or loan statements), address changes, and other service-related queries. This ensures a positive customer experience and timely responses to borrower needs.
- (v) Management costs – These include the expenses related to management overheads, IT infrastructure, software licenses, and other essential administrative and operational costs required to run the business efficiently.
- (vi) Record keeping – Protium maintains secure records of all loan-related documents, which are essential legal instruments. Safekeeping of these records requires resources for physical or digital storage and retrieval.

Together, these upfront and ongoing costs are integral to the operations of Protium and are factored into the pricing of loan products to ensure sustainable business practices and adequate cost coverage.

4. Interest Rate Model

Interest Rate Model defines the basis on which the interest rate range shall be arrived at for various loan products. The Company’s interest rate model is designed to ensure transparent, fair and competitive lending rates aligned with both market dynamics and borrower risk profiles.

The model takes into consideration the constituents which are defined based on the various operational expense line items and the premium expectations from the business. Protium offers loan rates based on risk categorization of the borrower, loan size, perceived credit risk, cost of funds, margin, risk premium, nature and value of collateral and credit history with other FIs. Existing customers who take a repeat loan from the Company will also get benefit of lower rates as they have a demonstrated track record and lower origination cost. Various other parameters like income source of customer, risk profile of asset, geographical variations, government policies, method of sourcing, bureau records, past transactions with the borrower are also considered while determining the rate of interest.

while deciding interest rate, the Company shall ensure that interest rate should not be too high as per market practices and the same shall be charged on the basis of capital charge profit margin and considering other factors as defined under this Policy. Given the higher cost of funds as compared to banks, operating costs, expected credit losses and investments required to build a strong model, our pricing will be commensurate with our costs.

We will offer both fixed rate and floating rate loans to our customers depending on the tenor / Product.

As certain costs are fixed irrespective of the size of the loan, the company benefits from economies of scale when customers take a larger value loan. Hence customers, subject to credit risk maybe charged lower rates for higher value loans. Similarly, customer maybe charged lower rates for a loan with longer tenor and vice-versa i.e. the loan with a short tenor of less than two years may carry a higher rate of interest owing to certain fixed loan servicing costs.

The pricing to the customer shall have below components:

Annualized / Applicable ROI to the customer	Base Rate + Risk Premium and Product Spread
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- **Base Rate**

The following items shall form a part of the Base rate -

- Weighted Average Cost of Capital (WACC)** – This includes the weighted average cost of borrowings and the cost of shareholders' equity.
- Estimated Operational Expenses** – It includes estimated fixed and variable operations cost including employee expenses, administration expenses, sales and marketing expenses etc.
- Standard provisions on the loans and advances** - This includes standard provisions made at the time of origination and will include any contingency reserves created by the company.
- Contingency Reserves:** Any additional reserves required by the regulatory authority or for business prudence.

These costs are collectively referred to as a '**Base Rate**'.

ALCO of the company will review the base rate as and when required.

- **Risk Premium and Product Spread**

The Risk Premium is the additional amount added to the base rate, reflecting the credit risk associated with the individual borrower or loan product.

Credit risk premium will depend on the risk gradation of the customer, which depends on factors such as loan size, type and worth of collateral, borrower's profile, credit score, repayment history, and indebtedness.

The Product spread ensures that the Company is compensated for the cost structure of the product. Operating expenses included in the Base rate are average on entity level while some of the products operate on higher or lower operating cost structure compared to average, which would be included as the operating premium or discount based on the loan product and the loan size.

The indicative interest rate is arrived basis the gradation of risk. . The pricing would inter-alia be based on due negotiation (where applicable) with the client and/or credit assessment parameters being followed by the Company. The interest rates may vary for the same product based on these considerations, falling between 10.5% and 30% p.a.

Any deviation up to 2% from the indicative interest rate may be approved by a person not below the rank of associate partners handling the product/business. Any deviation in excess of 2% from the indicative interest rate shall be approved by the partners/business heads.

The interest could be charged on monthly or quarterly rests for different products / segments. Occasionally, the Company might offer special promotional interest rates. The interest shall be deemed payable immediately on the due date as communicated.

- **Floating v/s. Fixed Rate Structure**

The company offers products through both fixed and/or floating rate interest. The floating rate loans are linked with Protium Base rate. Fixed interest rate for the loans are arrived on the same principle as for the floating rate loans with an additional component of interest rate risk premium added. Interest rate risk premium is function of interest rate volatility for the expected duration of the loan.

- **Reset of Floating Interest Rate on Equated Monthly Instalments (EMI) based Personal Loans.**

RBI requires the Regulated Entities to lay down policy framework in respect of EMI based floating rate personal loans. Personal loans refer to loans given to individuals and consist of (a) consumer credit, (b) loans given for creation/ enhancement of immovable assets, and (c) loans given for investment in financial assets (shares, debentures, etc.)

In respect of EMI based floating rate personal loans, following framework shall be followed by the Company:

- At the time of sanction of floating rate loans, the Company shall consider the repayment capacity of borrowers to ensure that adequate headroom/ margin is available for elongation of tenor and/ or increase in EMI, in the scenario of possible increase in the external benchmark rate during the tenor of loan.
- At the time of sanction, the Company shall clearly communicate to the borrowers about the possible impact of change in benchmark interest rate on the loan leading to changes in EMI and/or tenor or both. Subsequently, any increase in the EMI/ tenor or both on account of the above shall be communicated to the borrower immediately through appropriate channels.
- At the time of reset of base rate, customers with floating rate personal loans will be provided option of:
 1. switch over to a fixed rate with applicable rate swap charges. During the tenor of the loan the borrower can switch from fixed to floating rate or vice versa only once.
 2. enhancement in EMI or elongation of tenor or for a combination of both options; and,
 3. to prepay, either in part or in full, at any point during the tenor of the loan with applicable charges as per schedule of charges.
 - All applicable charges for switching loans from floating to fixed rate or vice versa and any other service charges/ administrative costs incidental to the exercise of the above options shall be disclosed in the sanction letter and at the time of revision of such charges/ costs by the Company from time to time.
 - The Company shall ensure that the elongation of tenors in case of floating rate loan does not result in negative amortization.
 - The Company shall share / make accessible to the borrowers, through appropriate channels, a statement at the end of each quarter which shall at the minimum, enumerate the principal and interest recovered till date, EMI amount, number of EMIs left and annualized rate of interest / Annual Percentage Rate (APR) for the entire tenor of the loan.
 - Apart from the equated monthly instalment loans, these instructions would also apply, mutatis mutandis, to all equated instalment-based loans of different periodicities.
 - The Company shall send communication to all existing borrowers, through appropriate channels, intimating the options available to them.

5. Approach for gradation of Risk

In order to ensure prudent lending and safeguard the Company's financial portfolio, the Company considers the below risk factors for calculating spread:

- Interest Rate Risk (Floating vs Fixed)
- Profile and market reputation of the borrower.
- Tenure of relationship with the borrower group, past repayment track record and historical performance of our similar clients
- Repayment track record of the existing borrower
- Nature and value of collateral security and additional security
- Borrower's financial flexibility

- Type of asset being financed, end use of the loan represented by the underlying asset,
- Pricing offered by competition.
- Business risk, industry risk, market position, vintage of the business, competition
- Industry segment of the customer
- Geography of the customer/borrower
- Loan-to-value (LTV) ratio.
- Appropriate headroom / margin which may be required for elongation of tenor and / or increase in repayment instalment, in the scenario of possible increase in benchmark rate
- Subvention available and any other factors that may be relevant in a particular case

The rate of interest could vary for different customers depending upon consideration of all or combination of above factors.

6. Other Charges

In addition to interest, the company will levy additional financial charges such as processing fees, application fees, charges for cheque dishonor, late payment charges, fees for rescheduling, charges for early payment or closure, charge for cheque or security swaps, and other related fees as deemed necessary. Additionally, stamp duties, service tax, and any cess will be charged as per applicable rates. Any revision in these charges would be from prospective effect. The charges including penal and service charges are approved or ratified by ALCO.

Part B: Penal Charges Policy

Company may levy penal charges for non-compliance of material terms and conditions of loan contract by the borrower 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 of interest in the loan account.

Protium shall not introduce any additional component to the rate of interest. Loans remaining unpaid on due dates or noncompliance of material terms and conditions as described below, shall be charged penal charges at such rates uniform across all product portfolio as mentioned in **bold** in the respective customer agreements. Taxes if any shall be levied additionally unless defined otherwise in Loan Agreement.

The quantum of penal charges shall be reasonable and commensurate with the noncompliance of material terms and conditions of loan contract without being discriminatory within a particular loan/ product category.

The penal charges in case of loans sanctioned to 'individual borrowers, for purposes other than business', shall not be higher than the penal charges applicable to nonindividual borrowers for similar non-compliance of material terms and conditions.

Any service charges, prepayment charges as charged to the borrower shall be disclosed appropriately to the borrower.

Further, all loans which are pre-paid shall bear pre-payment penalty at rates mentioned in the respective

customer agreements. There shall be no foreclosure rate/ prepayment penalty charged on floating rate interest loans sanctioned to the 'individual borrowers, for purposes other than business 'as per the extant regulations.

Protium may treat the following circumstances as noncompliance of material terms and conditions and levy penal charges:

- Delay in creation/non-creation of security in favor of PFL.
- Non-Payment of EMI amount
- Non-compliance with Financial covenants, if any as identified in the Loan Agreement.
- Bouncing of the repayment instrument submitted by the borrower.
- Any other covenant prescribed by PFL in the Loan Agreement.

Protium shall in any scenario not charge penal charges more than 3% of overdue amount per month whether singly or cumulatively for non-compliance of material terms and conditions as specified in this Policy.

The customer will be given a copy of the loan agreement which will carry details of all charges and Interest Rates. In addition, the customer will be able to get information on the effective rate of interest charged, all fees and charges at the time of loan sanction in form of key fact statement as applicable. The customer grievance redressal system is placed on the Company's web site "www.protium.co.in". The same will be prominently displayed in all its offices and in the literature issued by it. The authority for any changes in the penal charges rests with ALCO of the company. The details of all the of charges levied by the company will be displayed on the website which includes charges at the time of origination, penal charges and service charges.

7. Disclosures and Communication to Customers

- The company shall intimate the borrower the annualized Rate of Interest at the time of sanction of the loan along with the tenure and amount of monthly installment.
- The customer shall also be informed about the Interest rate model policy which can be accessed on the company's website. Also, any change in the benchmark rates and charges for existing customers would be uploaded on the web site of the Company.
- At the time of sanction, the borrowers will be informed about the possible impact of change in benchmark interest rate on the loan leading to changes in EMI and/or tenor or both.
- The Company shall give a notice to the borrower in a language understood by the borrower of any changes in the rates and charges for existing customers.
- Statement of account will be made accessible to the borrowers, through app of the Company or email or text message.
- There shall be appropriate disclosure of the terms and conditions of the loan sanctioned (including loan amount sanctioned) and the annualized rate of interest in the sanction letter or loan agreement.
- Reminders sent to borrowers regarding non-compliance with the material terms and conditions of the loan shall include the disclosure of the penal charges.
- The borrower shall be informed of any instances of penal charges being applied, along with the reasons for those charges.

- The quantum and reason for penal charges shall be clearly disclosed by the Company to the customers in the loan agreement and most important terms & conditions/ Key Fact Statement (KFS) as applicable, in addition to being displayed on REs website under Interest rates and Service Charges.
- The rates of interest and the approach for gradation of risks shall also be made available on the website of the company. The information published in the website or otherwise published would be updated whenever there is a change in the rates of interest.

8. Delegation of Authority

In order to ensure effective implementation of the Interest Rate and Penal Charges Policy, the Board delegates the implementation of this Policy to Risk Management Committee through Asset-Liability Management Committee (ALCO).

ALCO shall hold meetings periodically to review interest rates within the overall stipulations of the Interest Rate and Penal Charges Policy.

9. Review of the Policy

The Board of Directors shall review this Policy annually or more frequently in the event of changes i.e., in the event of change in regulatory framework or for business or operational need

Any deviations from this Policy can only be undertaken with the approval of the Board.