



PENAL CHARGES POLICY

1. **INTRODUCTION**

Barota Finance Limited is an RBI registered Non-Banking Financial Company identified as NBFC- Base layer "NBFC-BL" in accordance to RBI Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023.

The Reserve Bank of India "RBI" vide its circular "DoR.MCS.REC.28/01.01.001/2023-24 dated August 18, 2023 titled as "Fair Lending Practice - Penal Charges in Loan Accounts" has directed certain Regulated Entities "REs", including all NBFCs, to frame a policy on penal charges. In compliance with the said requirement, the Board of Directors of the Company has formulated and adopted the Penal Charges Policy, which lays down the broad framework and specific terms and conditions regarding penal charges to be charged by the Company to its borrowers. This policy shall be made effective as specified in above mentioned circular.

2. **SCOPE**

This policy applies to all borrowers and all loans disbursed by the Company.

"Penal Charges: In the event, any amount due and payable by the Borrower or the Guarantor to the Lender and remains unpaid / overdue, the Lender shall be entitled to penal charges on monthly basis of such amount ("Penal Charges") for such default."

3. **KEY PRINCIPLES**

In compliance with the referred circular and Directions issued by RBI, the key principles based on which the terms and conditions for penal charges have been framed are as follows:

- The intent of levying penal interest/charges is essentially to inculcate a sense of credit discipline and such charges are not meant to be used as a revenue enhancement tool over and above the contracted rate of interest.
- Penalty, if charged, for non-compliance of material terms and conditions of loan contract by the borrower shall be treated as 'penal charges' and shall not be levied in the form of 'penal interest'.
- There shall be no capitalization of penal charges i.e., no further interest computed on such charges.
- No additional component shall be added to the rate of interest.
- Company shall formulate an appropriate Board approved policy and adopt a suitable structure of penal charges that is 'reasonable' and 'commensurate' with the non-compliance of material terms and conditions of the loan contract. Further, the structure of penal charges within a particular loan / product category shall have to be uniform irrespective of the constitution of the borrower.
- Further, the quantum and reason for penal charges shall be clearly disclosed to the customers in the loan agreement and most important terms & conditions / Key Fact Statement (KFS), in addition to be disclosed on the Company website.

Moreover reminders to be sent to borrowers for noncompliance of material terms and conditions of loan and Borrowers shall also be communicated about the applicable penal charges along with the instance of levy of penal charges and the reason thereof.

4. **PENAL CHARGES**

- In case of default, Penal Charges shall be applicable to the customer.
- Penal Charges will be levied @ 3% per month

- Penal charges will be applicable on the overdue instalment (Principal + Interest) amount
- Penal Charges will be levied to the customer at the end of each month but charged to their account when actually paid by the customer
- Illustration of Computation of Penal Charges on unpaid installment as follow:

Outstanding Loan Amount per month= INR 100/-

Penal Charges = 3%

Default Period = for 2 months

Total outstanding including penal Charges payable at the end of 1st month: $100 + (100 \times 3\%)$
= INR 103/-

Total outstanding including penal Charges payable at the end of 2nd month:

$(103 + (100 \times 3\%)) + (100 + (100 \times 3\%)) = \text{INR } 209/-$

1st Month

2nd Month

- The rates are subject to change as the situation warrants and are subject to the discretion of the management on a case to case basis.

5. **REVIEW OF POLICY**

This Policy is approved by the Board of Directors in its meeting held on 22nd Nov, 2023 should be reviewed as and when required