

AVA FINANCE PRIVATE LIMITED

INTEREST RATE POLICY

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1. Introduction and Background

AVA Finance Private Limited ("the Company") extends personal loans to eligible customers. This Board-approved Interest Rate Policy ("Policy") establishes a fair and transparent framework for determining applicable interest rates, fees, charges and penal charges, and for clearly disclosing these and the Annual Percentage Rate (APR) to borrowers. This Policy applies exclusively to the Company's unsecured personal loans and does not cover any other loan product.

2. Regulatory Background

This Policy has been formulated in accordance with the applicable laws, rules, regulations, guidelines and directions issued by the Reserve Bank of India ("RBI"), as may be amended, updated, consolidated or superseded from time to time.

3. Policy Objective

The objective of this Policy is to set out the Company's interest rate model, including its components and the other charges applicable to different customer segments, as required under the applicable RBI Master Directions and Regulations, and to establish the methodology for arriving at the final rates charged to customers.

4. Scope and Applicability

This Policy shall apply exclusively to personal loans extended by the Company to individual borrowers. Such loans shall be broadly classified, based on their tenure and repayment structure, into (i) loans with a tenure of up to 45 days; and (ii) loans repayable through Equated Monthly Instalments (EMIs), with a tenure of up to 12 months. Should the Company propose to introduce any new loan product, the requisite amendments to this Policy shall be approved by the Board of Directors and adopted prior to the launch of such product.

5. Interest Rate Model and Pricing Components

The interest rate charged on a loan shall include the following components:

- a. **Cost of Borrowed Capital** - Blended Cost of borrowed capital across all sources.
- b. **Negative Carry** - Cost associated with maintaining liquidity buffers and managing deployment gaps
- c. **Expected return on capital employed** - The minimum return required by the Company on its capital employed, representing the cost of equity capital deployed.

The summation of above (a) + (b) + (c) will provide the Cost of Funds.

- d. **Base Reference Rate (BRR)** = Cost of Funds + Operating Cost
- e. **Total Cost including Credit Cost** = BRR + Credit Risk Premium + Tenure Premium
- f. **Borrower Interest Rate** = (d) + (e)

The final rate offered to a borrower shall be subject to the maximum interest rate approved by the Board and shall be disclosed in the KFS, sanction communication and loan agreement.

6. Board-Approved Interest Rate Ceiling

The Board shall approve the maximum interest rate applicable to personal loans.

Any loan priced outside the approved ceiling shall require specific approval in accordance with the delegation matrix approved by the Board.

7. Risk-Based Pricing Framework

The Company may apply different rates of interest to different borrowers based on objective and established risk gradation criteria. Borrowers availing the same product during the same period may be charged different rates of interest where such variation is supported by borrower-specific or segment-specific risk factors.

8. Gradation of Risk of the Borrowers

The Company may consider one or more of the following factors while assigning a borrower to a risk category & hence the applicable risk premium:

- a. Borrower profile - Age and demographic profile, KYC and verification outcome; residence stability;
- b. Credit bureau score - Indicates historical credit behaviour and probability of default
- c. Income level - Repayment capacity
- d. Income stability - Assesses consistency of repayment capacity
- e. Employment / occupation type - This includes assessment of employer profile or business profile; which helps evaluate stability and predictability of income
- f. Existing indebtedness - Determines borrower leverage and repayment burden, debt to income ratio
- g. Behaviour - Indicates cash-flow discipline and financial conduct
- h. Internal credit score - Reflects Company's underwriting assessment
- i. Geography - Reflects location-based delinquency or collection experience
- j. Repayment track record - Repayment history with existing or previous lenders; Supports assessment of future repayment likelihood
- k. Market conditions - Allows adjustment for liquidity, competition and macroeconomic trends. Rates may also vary in line with what is offered by other lenders in the same / similar domain
- l. Regulatory requirements - Ensures compliance with RBI and applicable law
- m. Other factors - Fraud or identity Risk, Sourcing channel, collection experience etc.

Rates may also be impacted by any other factors that may be relevant in a particular case or as deemed fit by the Company

9. Borrower Risk Categorisation

The Company classifies borrowers into risk categories, including High, Medium and Low using its internal scoring model.

10. Fees and Other Charges

In addition to interest, the Company may levy fees and charges in connection with unsecured personal loans, including:

1. processing fee;
2. bounce or dishonour charges;

3. penal charges for non-compliance with material loan terms;
4. pre-payment or foreclosure charges, if applicable and permitted;
5. statutory taxes, duties, cess or levies, including GST.

All fees and charges shall be approved by the Board or an authorised committee and disclosed to the borrower before execution of the loan agreement.

In addition, the company may charge other fees and levy in the form of documentation charges; KYC and verification charges; credit assessment charges; payment mandate registration charges; payment processing charges; duplicate statement or document charges; and service request charges subject to Board approved policy

11. Revision of Interest Rates, Fees and Charges

Any change in the interest rates, fees or charges shall be applicable prospectively and after communicating to the borrower about such change, unless otherwise required under applicable law or directions issued by the RBI.

12. Public Disclosure and Transparency

This Policy shall publish appropriate disclosures on its website, including:

13. Governance and Board Oversight

The Board shall have overall responsibility for this Policy and the Company's interest rate framework.

14. Policy Review Framework

This Policy shall be reviewed at least annually by the Board. Any amendment in the Policy shall be approved by the Board.

In case of any difference between the Regulatory mandate and the Policy, the regulatory mandate shall prevail.