



Interest Rate Model Policy

Enterprise wide-applicable

axio is the brand name of CapFloat Financial Services Private Limited, an NBFC registered with RBI

Approval Request

| S. No | Document Title | Interest Rate Model Policy |
|-------|-------------------------------------|---|
| 1 | Version No. | 7.0 |
| 2 | Validity Period | Every 12 Months, to be reviewed in the following Board / Committee Meeting post validity period |
| 3 | Document Owner (Head of Department) | Prasanna Kumar - CCO |

| Approval Log | | |
|---|---|---------------|
| | Name and Designation | Date |
| Reviewed & Recommended by (Head of Department) | Prasanna Kumar – CCO Akshay Sarma - CFO | 6/12/2024 |
| Prepared by | Surbhi Jhunjunwala – VP, Consumer Risk Stuti Manani, VP Finance | 5/12/2024 |
| Approved by | Risk Management Committee | March 31 2025 |
| Approved by | Board of Directors | March 31 2025 |

| Change Log from the last version | | |
|----------------------------------|---|---------------|
| Version No | Brief Details of the Changes Made (also highlight the sections where changes are made) | Date |
| Version 1 | New Policy | 09-12-2020 |
| Version 2.0 | Modifications in risk structure, modifications in scope of credit committee and credit monitoring | - |
| Version 3.0 | Revision of Policy | - |
| Version 3.1 | Change in document owner, approved by and prepared by section, customer level exposure. | - |
| Version 3.2 | Policy Revision as per the consumer lending processes | - |
| Version 4.0 | Interest Rate Revision | - |
| Version 5.0 | Reviewed, No changes | - |
| Version 6.0 | Added details of certain types of financial charges | 18-02-2025 |
| Version 7.0 | Complete policy updation | March 31 2025 |

Reserve Bank of India Vide its Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 notified on October 19, 2023 and as further updated directed that the Board of each NBFC shall approve an Interest rate model for the Company, taking into account 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 directive 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.
- The Interest rate model should also be made available on the website of the Company to enable the customers to understand the logic and methodology of the lending rates charged to them.

In compliance with the said RBI directives, the Interest rate model for the Company is given below:

Principles for determining the interest rate for loans:

- CapFloat Financial Services Private Limited (CapFloat / Company) has its model for arriving at interest rates. The said rate is determined using the following components and weights:

| Component | Weightage | Rationale |
|--------------------------------------|---------------|---|
| Risk profile of the borrower | 8.3% to 37.5% | Higher risk borrowers may have higher interest rates to compensate for potential default risk, while lower risk borrowers benefit from reduced rates. |
| Cost of funds | 45% to 67.5% | The company must cover its borrowing costs to ensure sustainable operations, so changes in these costs should directly influence the rates offered to customers. The weightage of cost of funds is arrived on the basis of the weighted average rate of borrowing cost. Further, we have defined the borrowing cost in the policy further. |
| Operational and administrative costs | 9% to 12% | Efficiently managing overheads can help in setting competitive rates while ensuring it covers all necessary expenses for loan servicing. This is arrived based on average operational, admin and customer onboarding cost over average AuM of the Company. |
| Profit margin | 5.5% to 15.2% | Balancing profitability with competitiveness is crucial to ensure the company meets its financial goals, provides returns to its stakeholders, maintaining market presence. The target profit margins vary from product to product. The range of the same is as defined. |

- For cost of funds determination, the weighted average borrowing cost incurred by the company is

considered over the interest rate charged to the customers. Further for borrowing cost, the Company would like to define the liquidity cost components and the process to arrive at the liquidity cost as under:

- **Liquidity Cost Components:**
All funding costs such as interest cost and facility fee paid for availing various lines of credit is covered as liquidity cost components
- **Establish Measurement Metrics:**
Various measurement metrics to govern the liquidity gap analysis (difference between assets and liabilities in the form of ALM report), cash flow forecasting (in form of projected ALM returns) and stress testing is performed by the Company on a periodic basis. Further, the same is submitted to ALCO on a quarterly basis
- **Develop Cost Allocation Framework:**
The borrowing cost is allocated for the Company's daily working capital needs such as disbursements across products and regular business payments
- **Implementation and Monitoring:**
The cost of funds is regularly monitored and accordingly the weightage in the pricing of the product will be modified by the Company
- **Reporting and Compliance:**
The reporting and compliance will be monitored by the Banking and Finance Committee (B&FC) and further will be reported to Board in case of any changes

- The rate of interest for the same product and tenor availed during the same period by different customers need not be standardized. It could vary for different customers depending upon consideration of any or combination of the above factors
- The interest rates is offered on a fixed basis and charged on reducing balance method
- For the above, interest range could vary between 14% and 42% on reducing balance rate on an annual basis
- The interest could be charged on monthly rates for different products/ segments
- Interest rates/interest type would be intimated to the customers at the time of sanction/ availing of the loan and EMI apportionment towards interest and principal dues would be made available to the customer
- The interest shall be deemed payable immediately on the due date as communicated and no grace period for payment of interest is allowed
- Besides normal interest, the company may levy additional/penal interest for delay or default in making payments of any dues. These additional or penal interests for different products or facilities would be decided by the respective business/ product heads
- Further, there is a separate policy – “Policy of Charges” that governs the charges that are charged to customers.
- Changes in the interest rates and charges would be prospective in effect and intimation of change of interest or other charges would be communicated to customers in a mode and the manner deemed fit

Rate of interest:

The Company intimates the borrower: the loan amount, an annualized rate of interest, tenure, amount of equated monthly instalments at the time of sanction of the loan

Banking and Finance Committee

- The rates of interest shall be reviewed periodically and any revision in this policy shall be decided by Banking and Finance Committee and shall, subsequently, be presented to the Board of Directors of the Company for its approval
- A Note on Interest Rate Premium defining the mechanism to compute Interest Rate for various products in line with the various elements affecting the same and the same shall be given to the Board at half-yearly intervals for review and approval
- A Note on Interest Rate Ranges containing Minimum and Maximum Interest Ranges product-wise and the same shall be submitted to the Board at quarterly intervals for review and approval

The product-wise / sub product-wise interest rate ranges charged to the customer are as follows:

| Product | Min Interest Rate % | Max Interest rate % |
|-------------------|---------------------|---------------------|
| BNPL | 0** | 24 |
| Personal Loans*** | 17.5 | 42 |

** In case of 0% interest rate, the interest is charged from merchant partners in the form of subvention

*** Personal Loans interest rate further varies by 3 factors – customer risk profile, employment status of the customer and the tier of the city they reside in. In the Personal Loan Portfolio Interest Rates were capped to 30% on the 11th of November 2024.

- Please note that the above table contains the interest rates which are charged to the customers. However, our APR for some products could be higher due to the subventions offered by merchants, which is duly communicated to the customer in the KFS.
- Each product contains multiple sub-products targeted towards different risk segments. The interest range for each of these sub-products has a range, depending on the risk profile of the customer.

Deviations and delegation matrix

Deviations if any from the interest rate ranges defined will be reviewed by the senior management on a case-to-case basis. Further, list of deviations will be submitted to the RMC for review and approval.