

POLICY ON INTEREST RATE MODEL & GRADATION OF RISK

Preamble:

Reserve Bank of India (RBI) had vide its Circular DNBS/PD/CC No. 95/03.05.002/2006-07 dated May 24, 2007 advised that Boards of Non-Banking Finance Companies (NBFC's) lay out appropriate internal principles and procedures in determining interest rates, processing and other charges. This was reiterated vide RBI's circular No. RBI/2015-16/16 DNBR (PD) CC.No.054/03.10.119/2015-16 dated July 1, 2015.

Keeping in view the RBI's guidelines as cited above, and the good governance practices, the Company has adopted the following internal guidelines, policies, procedures and interest rate Model, for its lending business.

These need to be taken cognizance of while determining interest rates and other charges, and changes thereto.

Interest Rate Model:

The interest rate charged to the customers for loan products will be benchmarked to the AFPL-PLR (Aeroflex Finance Private Limited – Prime Lending Rate*). The AFPL-PLR is an estimation of a benchmark interest rate approved by the Board of the Company considering various facets like cost of funds, operating costs, risk and expected returns for stakeholder value on a sustainable basis. It will be monitored periodically and any changes in AFPL-PLR will be communicated through the website of the Company.

Gradation of Risk:

The risk premium will be decided on a case to case basis as decided by the Company based inter alia on the inherent nature of the product, market reputation, interest, default risk in the related business segment, historical performance of similar homogeneous clients, tenure of relationship with the borrower, repayment track record of the borrower in case of existing customer, future potential, nature and value of primary and collateral security and other factors as applicable.

While deciding the interest rate and other charges, the rate offered by competitors in the market would also be taken into consideration.

Approach for gradation of risk has been:

The decision to give a loan and the interest rate applicable to each loan account shall be assessed on a case to case basis, based on multiple parameters such as the type of asset being financed, borrower profile and repayment capacity, borrower's other financial commitments, past repayment track record if any, the security for the loan as represented by the underlying assets, loan to value ratio, mode of payment, tenure of the loan, geography (location) of the borrower, end use of the asset, etc.

*The Prime Lending Rate is the interest rate that lending institutions charge their most creditworthy customers for loans. It serves as a benchmark for interest rates on a wide range of financial products.

The rate of interest is subject to change as the situation warrants and is subject to the discretion of the Company on a case-to-case basis. The rate of interest informed are annualized rates so that the borrower is aware of the exact rates that would be charged to the loan account. The Company shall disclose the interest rates and gradation of risks on its website.

The rate of interest applicable to each customer is subject to the management's perceived risk on a case-to-case basis:

Risk Category	Interest rate range
High	8% to 36%
Medium	8% to 24%
Low	8% to 24%

Further, the above interest rates shall be subject to change as the situation warrants and in accordance with applicable laws.

Administration, Amendment and Review of the Policy

The Board or the Committee shall be responsible for the administration, interpretation, application and review of this Policy. The Committee shall also be empowered to bring about necessary changes to this Policy, if so, required at any stage at its own discretion or with the concurrence.