

IDF FINANCIAL SERVICES PRIVATE LIMITED
Interest Rate Policy –
Short Term Personal Loan- Digital Lending

Approving Authority	Board of Directors
Reviewing Authority	Board of Directors
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1. Background

Company is a Non-Banking Financial Company – Microfinance Institution

The Company has adopted a specific interest rate framework applicable to instant short-term loans, to cater to specific purpose and structure of the said product.

This Policy aims to:

- Define a transparent and consistent framework for determining interest rates and charges on instant short-term loans;
- Ensure that pricing reflects cost, liquidity impact, and credit risk, while remaining fair and non-discriminatory;
- Comply with applicable guidelines on interest rates and penal charges;
- Enable quick decision-making without compromising governance and pricing discipline.

2. Scope and Applicability

This Policy applies to,. Other Products and offerings of the Company may be governed by the specific polices established in that respect.

3. Principles Governing Interest Rate Determination

The following principles shall guide interest rate determination:

1. Interest rates shall be computed based on identifiable components such as cost of funds, liquidity cost, operational cost, profit margin and credit risk premium.
2. Differential pricing, if any, shall arise solely from differences in credit risk, tenor, structure, or liquidity impact. Borrowers with similar parameters shall be treated uniformly.
3. The applicable interest rate, tenure, and key commercial terms shall be clearly communicated to the borrower through the sanction letter or loan agreement.
4. The interest rate shall be disclosed on an annualised basis, in the Key Fact Statement (KFS)

4. Methodology for Computing Interest Rate

The interest rate for each instant short-term loan shall as per this Policy approved by Board. The rate shall be determined after considering the following factors:

- Given the short-term nature, pricing shall primarily reflect the duration of fund deployment and rollover risk.
- The Company's prevailing internal cost of funds; and
- Additional liquidity premium may be applied to account for the immediate deployment of funds and the liquidity buffer maintained by the Company against committed exposures.

- A credit risk premium shall be factored in based on the past performance history of the loan product and corresponding default rates.
- Operational cost of running the product, including easement created for customer for access to on-tap financing through straight through processing
- A margin shall be included to cover administrative overheads and the Company's target return.

The quantitative and qualitative considerations for arriving at interest rate is mentioned as part of **Annexure 1** of this policy

5. Risk Gradation and Differential Pricing

The Company may charge differential interest rates for instant short-term loans based solely on differential risk, assessed inter alia on:

- Financial profile and liquidity position of the borrower;
- Group strength and support mechanisms;
- Purpose and end-use of funds;
- Security or comfort, if any;
- Past repayment track record;
- Regulatory or structural considerations.

6. Other Commercial Terms

1. Company charges a fixed rate of interest, considering short term nature of the loan.
2. Loan amount, tenure, interest rate, and repayment terms shall be communicated in the sanction letter and loan agreement.
3. Pre-payment terms, including any applicable charges, shall be mutually agreed and disclosed upfront.
4. Any change in interest rate during the loan tenure shall be mutually agreed in writing and shall be applicable prospectively.
5. Company upfront processing Fees on the sanctioned amount which shall be decided by the Board from time to time.

7. Penal and other Charges on Short-Term Loans

1. Any penalty for non-compliance with material terms of the loan contract, including delay in repayment, shall be levied only in the form of penal charges and not as penal interest.
2. Penal charges shall:
 - Be reasonable and commensurate with the non-compliance;
 - Be levied only on the amount under default;
 - Not be capitalised, and no further interest shall be charged on such penal charges.
3. The structure and quantum of penal charges shall be:

- Approved by the Board;
 - Uniform for similar loan categories;
 - Clearly disclosed in the loan agreement, sanction letter, and KFS, as applicable.
4. All other charges applied by the Company shall be:
- Reasonable
 - In compliance with this Policy and applicable regulations
 - Arrived based on principles provided in Annexure 1 of this Policy.

Annexure I: Pricing Framework for Instant Short-Term Loans

Instant short-term loans offered by Company are designed to address urgent and time-critical liquidity requirements of its customers. These facilities are characterised by immediate sanction and disbursement, very short tenures, and compressed documentation and appraisal timelines. Given their unique structure and urgency, such loans involve a cost and risk profile materially different from the Company's other lending or investment activities as well as other prevalent products in the market.

The pricing of instant short-term loans reflects a combination of quantitative cost elements and qualitative risk considerations, and accordingly, such loans are priced at a level that is comparatively higher than conventional lending products.

From a quantitative perspective, the pricing incorporates the Company's cost of funds, including the opportunity cost of deploying funds at short notice. In order to meet instant funding demands, the Company is required to maintain significant liquidity buffers, which results in a liquidity cost due to unutilised or low-yielding funds being held on the balance sheet. This liquidity cost is a component of the pricing framework.

Further, instant loans entail substantially higher operational costs on a per-transaction basis. These arise from accelerated credit assessment, shortened turnaround times, expedited documentation, dedicated operational oversight, and enhanced monitoring requirements. Due to the urgency associated with such transactions, these operational costs cannot be amortised over longer tenures, thereby increasing the overall cost per loan.

In addition, the Company observes higher credit costs in instant short-term lending. The urgency and limited lead time available, coupled with short repayment cycles and potential bullet repayment structures, increase repayment concentration and rollover risks. Accordingly, higher expected credit loss assumptions are factored into the pricing.

Based on the above cost elements, instant short-term loans are priced through a combination of interest and upfront charges. Typically, such facilities may carry a processing fee of up to 15% of the sanctioned amount and an interest rate of 1% per day, with the applicable interest rate disclosed on an annualised basis for transparency and comparability. These charges collectively reflect the distinctive cost and risk structure of the product.

From a qualitative perspective, pricing also reflects the value proposition offered to the borrower. Instant availability of funds provides immediate liquidity support and operational flexibility to the borrower, which is not available under standard lending products.

The short tenure, urgency of funding, nature and purpose of the loan, past repayment behaviour within the group, and any available security or comfort are also considered while finalising pricing.

Given these characteristics, instant short-term loans are not directly comparable to standard term loans or working capital facilities. Their pricing is driven by their structure, urgency, and cost intensity, rather than solely by tenor or borrower profile.

Notwithstanding the higher pricing, the Company remains fully committed to borrower protection and fair lending principles. All terms of the loan, including the processing fee, interest rate, tenure, repayment obligations, and any applicable penal charges, are clearly and comprehensively disclosed upfront through the sanction letter, loan agreement, and Key Fact Statement, wherever applicable. Borrowers are provided adequate opportunity to understand the cost of borrowing prior to acceptance of the facility.

The Company ensures that pricing is non-discriminatory, based on objective parameters, and consistent across borrowers with similar risk and transaction characteristics.