Asset Liability Management Policy

GALADA FINANCE LIMITED

Policy Name	Asset Liability Management Policy
Date of last review	25th MAY 2024
Periodicity of review	Annual
Date of next review	On or before May 2025
Approver	Board of Directors

The following shall be the updated ALM/LRM Policy reviewed and approved at the meeting of the Board of Directors held on 25th May, 2024 as per the guidelines of Reserve Bank of India.

Preamble

The Board of Directors ("Board") of Galada Finance Limited ("Company" or "Galada"),has adopted the following policy to establish guidelines to ensure prudent management of assets and liabilities. These guidelines address management and reporting of capital, liquidity, and interest rate risk.

Purpose

This Policy has been framed in accordance with the ALM framework as issued by Reserve Bank of India ("RBI") vide Master Direction DNBR. PD. 008/03.10.119/2016-17 dated September 01,2016 ("RBI Circular") and amendments thereon.

This policy intends to establish the importance of ALM systems that need to be put in place sinceintense competition for business involving both the assets and liabilities requires the Company tomaintain a good balance among spreads, profitability, and long-term viability. Imprudent liquiditymanagement can put Galada's earnings and reputation at great risk. The Company's managementneeds to base their business decisions on a dynamic and integrated risk management system andprocess, driven by corporate strategy. Galadais exposed to several major risks during its businessi.e.

- Credit risk,
- Interest rate risk,
- Equity / commodity price risk,
- Liquidity risk and
- Operational risk.

It is, therefore, important that Galadaintroduces effective risk management systems that address theissues relating to interest rate and liquidity risks. This policy also defines the process that Asset-Liability Committee ("ALCO") will use to evaluate the effectiveness of the Galada'sinternalcontrol procedures.

4. Policy

4.1 Role and Responsibilities of ALCO

The ALCO constituted by the Board of Directors shall be responsible for ensuring adherenceto various operational limits set by the Board of Directors as well as deciding the businessstrategy of Galada(assets and liabilities) in line with overall business objectives. The adherencewould also ensure that the statutory compliances set out by the Reserve Bank of India ('RBI')are complied with.The ALCO shall perform the following roles and responsibilities:-

a) Understanding business requirement and devising appropriate pricing strategies

b) Management of profitability by maintain relevant Net interest margins(NIM)

c) Ensuring Liquidity through maturity matching.

d) Management of balance sheet in accordance with internal policies and applicable regulatory requirements.

e) Ensure the efficient implementation of balance sheet management policies as directed by ALCO.

f) Review reports on liquidity, market risk and capital management.

g) To identify balance sheet management issues that are leading to under-performance and ensure corrective action.

h) Ensuring appropriate mix of different forms of debt i.e. Bank Loans, Commercial Paper,Non-Convertible Debentures, etc.

i) Giving directions to the ALM team on the interest rate risk.

j) ALCO delegates the daily management of liquidity risk and interest rate risk to ALM.

k) Approving major decisions affecting Galada'srisk profile or exposure (product pricing foradvances, desired maturity profile and mix of the incremental assets and liabilities, prevailing interest rates offered by peer NBFCs for the similar services/product, etc).

l) Satisfy itself that the less fundamental risks are being actively managed, with theappropriate controls in place and working effectively.

m) Articulate the current interest rate review and formulate future business strategy on thisview.

<u>The ALM process rests on three pillars:</u>

<u>ALM Information Systems</u>

- Management Information Systems
- information availability, accuracy, adequacy and expediency

ALM Organization

- Structure and responsibilities
- Level of top management involvement

ALM Process

- Risk parameters
- Risk identification
- Risk measurement
- Risk management
- Risk policies and tolerance level

ALM Information Systems

ALM has to be supported by a management philosophy which clearly specifies the riskpolicies and tolerance limits. This framework needs to be built on sound methodology withnecessary information system as back up. Thus, information is the key to the ALM process.There are various methods prevalent world-wide for measuring risks. These range from thesimple Gap Statement to extremely sophisticate and data intensive Risk Adjusted ProfitabilityMeasurement methods.

However, though the central element for the entire ALM exercise is the availability ofadequate and accurate information with expedience; and the systems existing. Adequatemeasures are to be taken to collect accurate data in a timely manner through full scalecomputerization.

ALM Organization

Successful implementation of the risk management process would require strongcommitment on the part of the senior management in the company, to integrate basicoperations and strategic decision making with risk management. The Board of Directors leadby Chairman and Managing Director will have overall responsibility for management of risksand should decide the risk management policy of the NBFC and set limits for liquidity,interest rate and equity price risks.

The Asset - Liability Committee (ALCO) consisting of following members should be responsible for ensuring adherence to the limits set by the Board as well as for deciding the business strategy of the company (on the assets and liabilities sides) in line with the company's budget and decided risk management objectives.

1. Ponniah Bhaskaran – Chairman and Independent Director
2. Naveen Ashok Galada –Managing Director
3. Indira Srinivasan Royakottam –Independent Director

The ALM Support Groups consisting of operating staff should be responsible for analyzing, monitoring and reporting the risk profiles to the ALCO. The staff should alsoprepare forecasts (simulations) showing the effects of various possible changes in marketconditions related to the balance sheet and recommend the action needed to adhere toCompany's internal limits.

The ALCO is a decision making unit responsible for balance sheet planning from riskreturn perspective including the strategic management of interest rate and liquidity risks. Thebusiness and risk management strategy of the company will ensure that the company operateswithin the limits I parameters set by the Board. The business issues that an ALCO wouldconsider, inter alia, will include product pricing for both deposits and advances, desiredmaturity profile and mix of the incremental assets and liabilities, prevailing interest ratesoffered by other peer NBFCs for the similar services/product, etc. In addition to monitoringthe risk levels of the company, the ALCO should review the results of and progress inimplementation of the decisions made in the previous meetings. The ALCO would alsoarticulate the current interest rate view of the company and base its decisions for futurebusiness strategy on this view. In respect of the funding policy, for instance, its responsibilitywould be to decide on source and mix of liabilities or sale of assets. Towards this end, it willhave to develop a view on future direction of interest rate movements and decide on fundingmixes between fixed vs floating rate funds, wholesale vs retail deposits, money market vscapital market funding, domestic vs foreign currency funding, etc.

The frequency of holding their ALCO meetings will be Quarterly. However, if the need befor a meeting at a short notice, the ALCO meet at a shorter notice

Board of Directors Meetings and Review

The Board of Directors, in their board meetings, will oversee the implementation of thesystem and review its functioning periodically.

ALM Process:

The scope of ALM function can be described as follows:

- Liquidity risk management
- Management of market risks
- Funding and capital planning
- Profit planning and growth projection
- Forecasting and analyzing'What if scenario'and preparation of contingency plans

The guidelines given in this note mainly address Liquidity and Interest Rate risks.

Measuring and managing liquidity needs are vital for effective operation of company. The importance of liquidity transcends individual institutions, as liquidity shortfall in one institution can have repercussions on the entire system. ALCO should measure not only theliquidity positions of company on an ongoing basis but also examine how liquidityrequirements are likely to evolve under different assumptions. Experience shows that assets commonly considered as liquid, like Government securities and other money marketinstruments, could also become illiquid when the market and players are unidirectional. Therefore, liquidity has to be tracked through maturity or cash flow mismatches. For measuring and managing net funding requirements, the use of a maturity ladder and calculation of cumulative surplus or deficit of funds at selected maturity dates is adopted as astandard tool. The format of the Statement of Structural Liquidity as prescribed by Reserve Bank of India (RBI) may be used for this purpose

As Galada does not hold public deposits, all the investment securities would fall in the category of 'non-mandatory securities'. All non-mandatory securities may be kept in buckets of future time frame for the purpose of determining their cash flows based on maturity of such security and intention of holding such security till the time of such maturity

Currency Risk

The company does not have any currency risk as of now as there are no transactions enteredby the company which will involve currency risk. However, in future, if such transactions areentered into, the company will take appropriate steps to modify this policy and incorporate measures to check currency risk.

Interest Rate Risk (IRR)

The operational flexibility given to NBFCs in pricing most of the assets and liabilitiesimply the need for the financial system to hedge the Interest Rate Risk. Interest rate risk is therisk where changes in market interest rates might adversely affect an NBFC's financialcondition. The changes in interest rates affect company in some way. The immediate impactof changes in interest rates is on company's earnings (i.e. reported profits) by changing itsNet Interest Income (NII). As such Galadais majorly into funding of loans which are alwaysfixed rate loans. The loans borrowed from banks are mostly at floating rates. The company manages this risk on NII by pricing its loan products to customers at a rate which coversinterest rate risk. The risk from the earnings perspective can be measured as changes in the Net Interest Income (NII) or Net Interest Margin (NIM). Measurement of such risk is done atthe time of deciding rates to be offered to customers. Once interest rate risk is measured bythe ALCO, lending rates of the new loans are finalized accordingly.