POLICY ON INTEREST RATE AND RISK PRICING MODEL

(Approved by the Board of Directors)

1. Introduction

At Galada Finance Limited, we implement a risk-based pricing model to determine the appropriate interest rates for our products. This model serves as a dynamic tool that aligns pricing with the risk profiles of our customers. By continuously refining this model, we aim to optimize profitability while effectively managing risk.

2. Pricing on Loans

As a Non-Banking Financial Company (NBFC), our income derives from the interest spread between rates charged to customers and rates charged by our lenders. Operational and credit costs are deducted from this spread to determine profitability.

3. Interest Rate Policy & Model

Interest Rate Determination Methodology

The Asset-Liability Committee (ALCO) considers the following factors in determining interest rates for customers:

i. Cost of Funds/Capital

The Company raises funds through various sources such as bank term loans, bank limits. We also account for equity costs to arrive at the weighted average cost of capital, which considers average tenure, market liquidity, and refinancing options.

ii. Operating Cost

This includes employee expenses, branch-related costs (fixed and variable), operational costs, sales and marketing expenses, technology expenses, and costs related to sourcing and recovery.

iii. Credit/Default Risk Premium

A risk gradation for each customer is established to compute the credit/default risk premium, factoring in collateral nature, customer risk profile, and industry trends.

iv. Expected ROA

The Company aims for a Return on Assets (ROA) of 3-4%, subject to variation based on exceptional business scenarios.

4. Risk-Based Pricing Model

Our risk-based pricing model is segmented into three key categories:

Credit Rating/CIC Score

The Credit Rating/CIC Score is crucial in determining interest rates. Scoring criteria are as follows:

- **720 and above** : Low Risk
- **650 to719** : Medium Risk
- **650 &Below** : High Risk

Customer Profiling

A structured approach ensures pricing strategies reflect the underlying risk associated with each customer.

Business Profiling

Similar methodologies are applied to assess business profiles for pricing purposes.

Asset Collateral Attributes

1. Type of Asset
2. Age of Asset
3. Location of Asset
4. Condition of Asset
5. Valuation of Asset

5. Risk Profiling of Borrowers

Borrower risk categorization is essential for each credit proposal. Factors considered for risk profiling include Debt-to-Income Ratio (DBR), Loan-to-Value (LTV) ratio, CIBIL score, lifestyle, and neighborhood checks.

Risk Profiling Guidelines

Each parameter is classified as Low, Medium, or High risk based on the following criteria:

Parameters	***Low***	***Medium***	***High***
DBR	*<=45%*	*above45%to65%*	*>65%*
LTV	*<=50%*	*Above50%to60%*	*>60%*
Customer living style	*Good*	*Average*	*Poor*
Neighbourhood checks	*Good*	*Average*	*Poor*
Credit Bureau score	720 & above	650-719	>650
ISM (Internal Scoring Model)	*70-100*	*50-69*	*>50*

Final Risk Profile

Thefinalriskprofileisbasedonthemajorityriskcategorizationoftheparameters:

- Iftheborrowerqualifiesaslowriskonaminimumof3outof5parameters, they will be categorized as a low-risk borrower.
- Iftheyqualifyaslowandmediumriskon2parameterseachandhighriskon1, they will be categorized as medium risk.
- Proposals with a high-risk profile will not be encouraged.
- Deviation if any are granted by Credit/Management

Conclusion

The risk-based pricing model Galada Finance Limited ensures equitable pricing reflective of the risk associated with each customer, promoting responsible lending practices.