# Asset Liability Management Policy

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|---|---|
| Date of Current Review | 8th July 2022 |
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| Periodicity of review | Annual |
| Owner / Contact | Compliance Officer |
| Approver | Board of Directors |

## ASSET LIABILITY MANAGEMENT (ALM) POLICY

### I. Objective & Scope

The Management must perform one or a combination of the following to meet liquidity and lending needs of the Company:

1. Dispose of liquid assets
2. Increase short-term borrowing
3. Decrease holdings of non-liquid assets
4. Increase liabilities of a term nature
5. Increase capital funds
6. Postponement of disbursement Schedules
7. Slowing down the pace of disbursements
8. Intensive Recovery follow up to scale up the Recovery Performance

The primary and foremost objective is to manage the assets and liabilities of the company judiciously and prudently so as to minimize / avert any asset liability mismatch which may arise during the normal course of business.

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 and Liquidity Risk Management Framework for Non-Banking Financial Companies and Core Investment Companies vide notification DOR.NBFC (PD) CC. No.102/03.10.001/2019-20 dated November 04, 2019.

This policy is aimed at establishing internal systems. Processes and controls to managed the assets and liabilities of the Company judiciously and prudently so as to proactively identify measure, manage and mitigate the key risks - liquidity and interest rate risks by monitoring the same at regular intervals.

### II. Roles & Responsibilities

Successful implementation of the risk management process requires candid strong commitment on the part of the senior management to integrate basic operations and strategic decision making with risk management. The following is the organizational set up for effective management of liquidity risk management;

**a) Board of Directors**

The Board is responsible for management of liquidity risk by defining the strategy, policies, procedures and controls to manage liquidity risk in accordance with the liquidity risk tolerance/limits decided by it.

**b) Risk Management Committee**

The Risk Management Committee, headed by the Managing Director or CEO, is responsible for evaluating the overall risks, including liquidity risk, faced by the Company and to oversee the implementation of the systems, procedures and controls and to review its functioning periodically.

**c) Asset-Liability Management Committee (ALCO)**

The ALCO, headed by the Director or CEO (if any), is responsible for ensuring adherence to the risk tolerance / limits set by the Board as well as implementing the liquidity risk management strategy and to;

- Review the Cash flows so as to avert the possible Liquidity Mismatches, if any.
- Review any mismatch / possible mismatch of assets and liabilities and steps to be taken to minimize / avert the same.
- Direct the management to take necessary steps to minimize / avert the mismatch.
- Update the Board / Risk Management Committee from time to time about any mismatch / possible mismatch of assets and liabilities and the steps taken by the Committee / Management of the Company to minimize / avert such mismatch.
- Review the prevailing Interest Rate dynamics and the Interest-Rate Sensitivity position
- Review the Resource mobilization plan its Deployment vis-a-vis Cost of borrowings / Yields on advances
- Review the product mix and product pricing
- Strategies for deployment of surplus funds

The role of the ALCO includes the decision on desired maturity profile and mix of incremental assets and liabilities, sale of Receivables as a source of funding, the structure, responsibilities and controls for managing liquidity risk, and overseeing the liquidity position.

**d) Asset Liability Management (ALM) Support Group**

The ALM Support Group comprises of Chief Financial Officer (CFO) and Chiefs of Credit, Resource Planning, Funds Management etc. and is responsible for analyzing, monitoring and reporting the liquidity risk profile to the ALCO. The group would scan the macroeconomic environment to provide key information to ALCO for taking critical decisions, if required.

## III. Liquidity Risk Management

Identifying, measuring, monitoring and controlling the liquidity risk is a very critical to ensure the Company's ability to meet its liabilities as they become due. Effective liquidity management ensures reduction of the probability of developing an adverse situation. Liquidity management involves not only measuring liquidity position on ongoing basis but also examine how liquidity requirements are likely to evolve under different assumptions. For measuring and managing net funding requirements, the use of a maturity profiling for both assets and liabilities and calculation of cumulative surplus or deficit of funds at selected maturity bucket is to be adopted as a standard tool, in line with RBI stipulations. The Maturity Profile should be

used for measuring the future cash flows of the Company in different time buckets as mentioned under;

1) 1 day to 7 days
2) 8 day to 14 days
3) 15 days to 30/31 days (One month)
4) Over one month and upto 2 months
5) Over two months and upto 3 months
6) Over 3 months and upto 6 months
7) Over 6 months and upto 1 year
8) Over 1 year and upto 3 years
9) Over 3 years and upto 5 years
10) Over 5 years

The Statement of Structural Liquidity should be prepared by placing all cash inflows and outflows in the maturity ladder according to the expected timing of cash flows. A maturing liability will be a cash outflow while a maturing asset will be a cash inflow.

**a) Liquidity risk Tolerance**

To ensure enough liquidity in the system, the company has decided to adhere to the following prudential limits and the tolerance limits for structural liquidity under different time buckets;

| Sr. No. | Time Bucket | Structural Liquidity | |
|---|---|---|---|
| | | Negative Gap as % of outflow | Cumulative Negative Gap as % of outflow) |
| 1. | 1-7 days | 10% | 10% |
| 2. | 8-14 days | 10% | 10% |
| 3. | 15-30/31 days | 15% | 15% |
| 4. | 1 to 2 Months | 15% | 15% |
| 5. | 2 Months to 1 Year | 15% | 15% |
| 6. | 1 year to 5 year | 30% | 30% |
| 7. | 5 years onwards | 40% | 40% |

**b) Liquidity Costs, Benefits and Risks in the Internal Pricing**

Liquidity costs and benefits are to be quantified, from time to time and to incorporate the same in the internal product pricing, performance measurement and new product approval Process for all material business lines, products and activities.

**c) Off-balance Sheet Exposures and Contingent Liabilities**

Liquidity risks associated with Off-Balance Sheet exposures and contingent liabilities identified, measured, monitored and controlled, on an ongoing basis, and suitable steps to be taken, from time to time, to align the same with the normal business activities.

**d) Funding Strategy - Diversified Funding**

Considering the historical maturity patterns of assets and liabilities, the below mentioned funding strategy is aimed at ensuring effective diversification in the sources and tenor of funding, on an ongoing basis, keeping in view the Company's presence in its chosen funding markets and strong relationships with fund providers to promote effective diversification of funding sources and to regularly gauge its capacity to raise funds quickly from each source.

| | Source | % |
|---|---|---|
| Short Term | Commercial Paper / Working Capital Demand Loan | < 15% |
| Long Term | Term Loan | < 15% |
| Long Term (Market Borrowings) | NCD / ECBS /Other Long Term Borrowings | <75% |

These limits have been allocated based on past borrowing trends and also depending on the requirements of each business line and operations. Such % of resources can vary depending upon availability of the funds from the market and the same will be decided / changed by ALCO accordingly from time to time.

**e) Collateral Position Management**

The collateral positions of the Company are to be differentiated, on an ongoing basis, between encumbered and unencumbered Receivables so as to ensure mobilization of additional resources against the unencumbered Receivables, in times of need.

**f) Stress Testing**

Stress tests are to be considered as an integral part of the overall governance and liquidity risk management culture and to carry out stress tests on a regular basis for a variety of short-term and protracted company specific and market specific stress scenarios (individually and in combination) keeping in view the Company's business, activities and vulnerabilities so that the scenarios incorporate the major funding and market liquidity risks to which the Company is exposed.

**g) Forecasting and analysing 'What if scenario' and preparation of Contingency Funding Plan**

Contingency Funding Plan (CFP) containing the details of available / potential contingency funding sources and the amount / estimated amount which can be drawn from these sources, clear escalation/ prioritization procedures detailing when and how each of the actions can and should be activated, and the lead time needed to tap additional funds from each of the contingency sources, is to be put in place and to review the same, from time to time, to respond to severe disruptions which might affect the Company's ability to fund some or all of its activities in a timely manner and at a reasonable cost.

**h) Public disclosure**

Disclosures, as per regulatory prescriptions, are to be made from time to time to enables market participants to make an informed judgment about the soundness of its liquidity risk management framework and liquidity position.

**i) Intra Group transfers** and **Inter Group transfers**

It should be carried out, in line with the regulatory prescriptions, from time to time, to ensure and maintain liquidity management processes and funding programmes that are consistent with the complexity, risk profile, and scope of operations of the companies in the Group.

## IV. Management Information System (MIS)

A sound information system is the key to the ALM process. ALM has to be supported by the management clearly specifying the risk policies and tolerance limit. This framework needs to be built on a sound methodology with necessary information systems as back up. Thus, collecting information/ data in a timely manner is the key to the ALM process. ALM data is prepared based on certain assumptions and is analyzed on the basis of residual maturity of various assets & liabilities. The ALM data is to be complied timely on the basis of forward-looking information on the liquidity position of the Company, both under normal and stress situations. It should capture all sources of liquidity risk, including contingent risks and those arising from new activities, and have the ability to furnish more granular and time-sensitive information during stress events.

## V. Internal Controls

Appropriate internal controls, systems and procedures are to be put in place to ensure adherence to liquidity risk management policies and procedure and continue to review the same, from time to time, to evaluate the various components of the Company's liquidity risk management process.

## VI. Liquidity Risk Measurement - Stock Approach

**Appropriate** critical ratios, like short-term liability to short term assets, short-term liability to total assets; short-term liability to long term assets; commercial papers / WCDL to total assets; non-convertible debentures (NCDs) (original maturity of less than one year) to total assets; short-term liabilities to total liabilities; long-term assets to total assets; etc., based on Company's liquidity risk management capabilities, experience and profile, to put in place to effectively measure the liquidity risk at regular intervals

## VII. Currency Risk

The Company is to put in place appropriate currency risk management tools as and when decided to opt for raising funds by way of External Commercial Borrowings.

## VIII. Interest Rate Risk ('IRR')

**IRR** management and reporting helps identify potential risks to earnings and capital resulting from adverse fluctuations in market interest rates. It also identifies asset/funding balance and re-pricing mismatches. Proper identification of potential risks and mismatches assists management in devising asset/liability strategies to minimize these potential risks.

The Gap or Mismatch risk can be measured by calculating Gaps over different time intervals as at a given date. Gap analysis measures mismatches between rate sensitive liabilities and rate sensitive assets (including off-balance sheet positions).

An asset or liability is normally classified as rate sensitive if:

**a)** Within the time interval under consideration, there is a cash flow;

**b)** The interest rate resets/re-prices contractually during the interval;

**c)** Dependent on RBI changes in the interest rates/Bank Rate;

**d)** It is contractually pre-payable or withdrawal before the stated maturities.

The Gap Report should be generated by grouping rate sensitive liabilities, assets and offbalance sheet positions into time buckets according to residual maturity or next repricing period, whichever is earlier. The difficult task in Gap analysis is determining rate sensitivity. All investments, advances, deposits, borrowings, etc. that mature/re-price within a specified timeframe are interest rate sensitive. Similarly, any principal repayment of loan is also rate sensitive. This includes final principal payment and interim installments. Certain assets and liabilities to receive/pay rates that varies with a reference rate. These assets and liabilities are re-priced at pre-determined intervals and are rate sensitive at the time of re-pricing.

**The Gaps may be identified in the following time buckets**:

1. 1 day to 7 days
2. 8 days to 14 days
3. 15-30/31 days (One month)
4. Over one month to 2 months
5. Over two months to 3 months
6. Over 3 months to 6 months
7. Over 6 months to 1 year
8. Over 1 year to 3 years
9. Over 3 years to 5 years
10. Over 5 years
11. Non-sensitive

The Gap is the difference between Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL) for each time bucket. The positive Gap indicates that it has more RSAs than RSLs whereas the negative Gap indicates that it has more RSLs than RLAs.

The Gap reports indicate whether the Company is in a position to benefit from rising interest rates by having a positive Gap (RSA > RSL) or whether it is in a position to benefit from declining interest rates by a negative Gap (RSL > RSA). The Gap can, therefore, be used as a measure of interest rate sensitivity.

## IX. POLICY REVIEW

The Policy would ideally be reviewed at periodic intervals, preferably on an annual basis. However, the policy can be reviewed at short notice depending on the exigencies/extraordinary situations, which may emanate during the course of Company's business. This Policy shall remain in force till the next revision is carried out and disseminated.