ASSETS AND LIABILITY MANAGEMENT POLICY

1. Preamble

The Board of Directors ("Board") of Alwar General Finance Company Private Limited ("Company" or "AGFC"), 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.

2. 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 since intense competition for business involving both the assets and liabilities requires the Company to maintain a good balance among spreads, profitability, and long-term viability. Imprudent liquidity management can put AGF's earnings and reputation at great risk. The company's management needs to base their business decisions on a dynamic and integrated risk management system and process, driven by corporate strategy.

AGF is exposed to several major risks during its business i.e.

- Credit risk
- Interest rate risk
- Equity price risk
- Liquidity risk and
- Operational risk

It is therefore, important that AGF introduces effective risk management systems that address the issues 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 AGF's internal control procedures.

3. Definitions

"ALCO" means Asset Liability Committee
"ALM" means Asset Liability Management
"Board" means Board of Directors of the Company
"Company" means Alwar General Finance Company Private Limited
"Directors" mean individual Director or Directors on the Board of the Company
"NCD" means Non-Convertible Debentures
"Policy" means Asset Liability Management Policy
"RBI" means Reserve Bank of India

4. Policy

4.1 Role and Responsibilities of ALCO

The ALCO constituted by the Board of Directors shall be responsible for ensuring adherence to various operational limits set by the Board of Directors as well as deciding the business strategy of AGF (assets and liabilities) in line with overall business objectives. The adherence would 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:

- Understanding business requirement and devising appropriate pricing strategies
- Management of profitability by maintains relevant Net interest margins (NIM)
- Ensuring Liquidity through maturity matching
- Management of balance sheet in accordance with internal policies and applicable regulatory requirements
- Ensure the efficient implementation of balance sheet management policies as directed by ALCO

- Review reports on liquidity, market risk and capital management
- To identify balance sheet management issues that are leading to under-performance and ensure corrective action
- Ensuring appropriate mix of different forms of debt i.e. Bank Loans, Non-Convertible Debentures, etc.
- Giving directions to the ALM team on the interest rate risk
- ALCO delegates the daily management of liquidity risk and interest rate risk to ALM
- Approving major decisions affecting AGF's risk profile or exposure (product pricing for advances, desired maturity profile and mix of the incremental assets and liabilities, prevailing interest rates offered by peer NBFCs for the similar services/product, etc)
- Satisfy it that the less fundamental risks are being actively managed, with the appropriate controls in place and working effectively.
- Articulate the current interest rate review and formulate future business strategy on this view.

4.2 Key Pillars of ALM

ALM system of the Company is based on the following key pillars:

- ALM Information systems –

  MIS: ALM needs be supported by a management philosophy which clearly specifies the risk policies and tolerance limits. This framework needs to be built on sound methodology with necessary 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 the simple Gap Statement to extremely sophisticate and data intensive Risk Adjusted Profitability Measurement methods. - Information availability, accuracy, adequacy and expediency However, though the central element for the entire ALM exercise is the availability of adequate and accurate information with expedience; and the systems existing. Adequate measures are to be taken to collect accurate data in a timely manner through computerization.

- ALM Organization –

  Structure and responsibilities Successful implementation of the risk management process shall require strong commitment on the part of the senior management in the NBFC, to integrate basic operations and strategic decision making with risk management. The Board shall have overall responsibility for management of risks and shall decide the risk management policy of the NBFC and set limits for liquidity, interest rate and equity price risks. Key Pillars. of - Level of top management involvement.

- Asset - Liability Committee (ALCO)

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

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

  The ALCO is a decision-making unit responsible for balance sheet planning from risk return perspective including the strategic management of interest rate and liquidity risks. The business and risk management strategy of the Company shall ensure that they operate within the limits / parameters set by the Board.

  The business issues that an ALCO shall consider, inter alia, shall include product pricing for both deposits and advances, desired maturity profile and mix of the incremental assets and liabilities, prevailing interest rates offered by other peer NBFCs for the similar services/product, etc.

  In addition to monitoring the risk levels of the NBFC, the ALCO shall review the results of and progress in

implementation of the decisions made in the previous meetings. The ALCO shall also articulate the current interest rate view of the NBFC and base its decisions for future business strategy on this view.
In respect of the funding policy, for instance, its responsibility shall be to decide on source and mix of liabilities or sale of assets. Towards this end, it will have to develop a view on future direction of interest rate movements and decide on funding mixes between fixed vs floating rate funds, wholesale vs retail deposits, money market vs capital market funding, domestic vs foreign currency funding, etc.

Individual NBFCs shall have to decide the frequency of holding their ALCO meetings.

- Board of Directors Meeting and Reviews
  The Board of directors in their Board meetings will oversee the implementation of the system and review its functioning periodically.

4.3 ALM Process:
The ALM Process will rest on the following three pillars:

a. ALM Information Systems
    - Management Information Systems
    - Information availability, accuracy, adequacy and expediency

b. ALM Organization
    - Structure and responsibilities
    - Level of top management involvement

c. ALM Process
    - Risk parameters
    - Risk identification
    - Risk measurement
    - Risk management
    - Risk policies and tolerance levels.

The Scope of ALM Function will be as under:

a) Capital Management;
b) Liquidity Risk Management;
c) Interest Rate Risk Management;
d) Profit planning and growth projection;
e) Forecasting and analyzing Stress Testing plans, What If Scenario, Preparation of Contingency Plan, Assets Liquidation plan etc.

The Policy guidelines mainly address Capital Management, Liquidity Risk and Interest Rate risk management.

a) Capital Management
   The Executive Committee will ensure maintenance and management of prudent capital levels for the Company to preserve its safety and soundness, to support desired balance sheet growth and realization of new business; and to provide a cushion against unexpected losses. Various prudential capital ratios will be monitored and reported by the management to the ALCO on a quarterly basis.

b) Liquidity Risk Management
   Measuring and managing liquidity needs are vital for effective operation. By ensuring timely satisfaction of its liabilities as they become due, liquidity management can reduce the probability of an adverse situation developing.

   The Company's management will measure not only the liquidity positions on an ongoing basis but also examine how liquidity requirements are likely to evolve under different assumptions. Past experience of the market shows that assets commonly considered as liquid, like Government securities and other money market instruments, could also become illiquid when the market and players are unidirectional. Therefore, liquidity should be tracked through maturity or cash flow mismatches.

Besides, liquidity management will ensure that funds are available for anticipated loan growth, investment and cash management transactions and general operational expenses without causing an undue rise in cost and without causing a disruption in normal operating conditions.

As a non-deposit taking NBFC, the Company currently depends on the following sources of liquidity:
- Operating cash on hand;
- Funds held in permitted short-term investments;
- Inter-company loans;
- Financing obtained from banks and capital markets;
- Sell Down of credit exposures.

The ALCO will be responsible for determining appropriate mix of available funding sources utilized to ensure company liquidity is managed prudently and appropriately. In this process, the ALCO will consider current economic and market environment, near-term loan growth projections and long-term strategic business decisions.

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 a standard tool. The format of 'Statement of Structural Liquidity' prescribed by the RBI will be used for this purpose.

The Maturity Profile should be used for measuring the future cash flows of the Company in different time buckets. The time buckets, may be distributed as under:
- Overnight
- Over 1 day to 30 day
- Over 2 to 3 months
- Over 3 to 6 months
- Over 6 months to 1 year
- Over 1 year to 3 years
- Over 3 years to 5 years
- 5 years+
- Non-Sensitive

Short Term deployment of funds in highly liquid debt instruments, as a part of Liquidity management, will be done in accordance with the extant Treasury Policy of the company.

Short-term investments and excess cash will be managed in a manner that is consistent with liquidity needs, asset/liability strategies and safety and soundness concerns for the benefit of the Company and within the framework of relevant RBI & FDI guidelines.

The Company is primarily engaged in providing financing to the entities based in India. Due to nature of the Company's lending business and non-acceptance of deposits by it, its investment policy is based on capital protection, liquidity and then return. No equity exposure will be taken by the Company for trading purposes.

Sell down of loan assets also form an important component of liquidity and risk management for the Company. Loan assets of the Company may be sold down to potential informed investor's viz. Banks, NBFCs, HFCs etc. in accordance with its overall strategy.

Within each time bucket, there could be mismatches depending on cash inflows and outflows. While the mismatches upto one year would be relevant since these provide early warning signals of impending liquidity problems, the Company will monitor cumulative mismatches (running total) across all time buckets by establishing internal prudential limits with the approval of the Board/ the ALCO. The mismatches (negative gap) in 1 day to 1 year time buckets, i.e. the first five time buckets defined earlier in this section, in the normal course should be as prescribed by RBI.

c) 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 repricing 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:

- Within the time interval under consideration, there is a cash flow;
- The interest rate resets/re-prices contractually during the interval;
- Dependent on RBI changes in the interest rates/Bank Rate;
- It is contractually pre-payable or withdrawal before the stated maturities.

The Gap Report should be generated by grouping rate sensitive liabilities (NIL in AGF's case), assets and off-balance 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, purchased funds, etc. that mature/reprice within a specified timeframe are interest rate sensitive.

Similarly, any principal repayment of loan is also rate sensitive if AGF expects to receive it within the time horizon. 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. While the interest rates on term deposits are fixed during their currency, the tranches of advances portfolio are basically floating. The interest rates on advances received could be re-priced any number of occasions, corresponding to the changes in PLR.

The Gaps may be identified in the following time buckets:

- 1-7 days
- 8-14 days
- 15-30/31 days (One month)
- Over one month to 2 months
- Over two months to 3 months
- Over 3 months to 6 months
- Over 6 months to 1 year
- Over 1 year to 3 years
- Over 3 years to 5 years
- Over 5 years

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 AGF 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. The Company shall set prudential limits on individual gaps with the approval of the Board Committees. The prudential limits shall have a relationship with the total assets, earning assets or Equity.

The Company may work out Earnings at Risk (EaR) or Net Interest Margin (NIM) based on their views on interest rate movements and fix a prudent level with the approval of the Board Committees. For working out EaR or NIM any of the current models may be used.

AGF when better equipped to reasonably estimate the behavioral pattern of various components of assets and liabilities on the basis of past data / empirical studies will classify them in the appropriate time buckets, subject to approval from the ALCO / Board. The present framework does not capture the impact of premature closure of deposits and prepayment of loans and advances on the liquidity and interest rate risks profile. The magnitude of premature withdrawal of deposits at times of volatility in market interest rates is quite substantial.

AGF, therefore, should evolve suitable mechanism, supported by empirical studies and behavioral analysis to estimate the future behavior of assets, liabilities, and off-balance sheet items to changes in market variables and estimate the probabilities of options. Detailed clauses pertaining to premature exit or prepayment would be clearly stated in the loan agreement.

4.4 Meeting of ALCO

The meetings of the ALCO shall be meet frequently but no later than half yearly and at least 2 meetings will be held in each year. Apart from the members, CFO and persons involved in fund raising activities can also be a part of the meeting but would not form part of quorum.

4.4 ALM Reporting

Comprehensive reporting is designed to monitor key risks and their controls as per the NBFC regulations as enacted from time to time by RBI. Decisions relating to any corrective action are made as and when they seem necessary. The following reports will be provided to ALCO showing compliance with established guidelines outlined in this policy and in accordance with guidelines established by RBI. Quarterly, DNBS 3 XBRL return in place of NBS-7 Quarterly Return on important financial parameters Quarterly DNBS 4A XBRL return in place of NBS-ALM1 Monthly DNBS4 B XBRL return in place of NBS-ALM2 and NBS-ALM3 Exceptions to guidelines outlined in this policy will be reported to ALCO no later than the next regularly scheduled meeting after a policy exception is identified.

4.5 Policy Review and Approval

The policy governing financial risk management activities and guidelines described herein shall be submitted to the ALCO of AGF at least annually for review and approval.

4.6 Internal Controls

Effective internal controls are an integral part of managing financial risk. Pursuant to the guidelines set forth in this policy, adequate controls must be established to ensure proper management of financial risks and to provide safeguards against mismanagement of AGF funds and capital resources.

GLOSSARY

1. Current Investments – In accordance with the RBI Directions referred above and Accounting Standard 13 (‘AS-13’) issued by the Institute of Chartered Accountants of India (‘ICAI’), investments that, by their nature are readily realizable and are intended to be held for not more than a year from the date on which such investments are made, are to be classified as current investments.

2. Long Term Investments -– As per the RBI Directions and ICAI’s AS-13, a long-term investment is defined as on that which is other than a current investment.

3. Non-performing asset/Loans (“NPA”) means: -an asset will be declared as NPA, in respect of which following are overdue:

- Interest
- term loan installment inclusive of unpaid interest
- demand or call loan
- bill
- the interest in respect of a debt or the income on receivables under the head ‘other current assets’ in the nature of short term loans/advances