ASSET LIABILITY MANAGEMENT & LIQUIDITY RISK MANAGEMENT POLICY

Version	**:**	1.1
Approved By	**:**	Board of Directors
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1. Objective

This policy is framed in compliance with the guidelines on Liquidity Risk Management framework issued by Reserve Bank of India in accordance with Master Direction - Core Investment Companies (Reserve Bank) Directions, 2016. The objective of the policy is to manage the assets and liabilities and have a robust liquidity risk management system for Capital India Corp Private Limited (**"Company"**) to maximize stakeholders' value, increase capital, protect the institution from any financial consequences arising from changes in interest rate, liquidity and operation risk.

2. Liquidity Risk Management framework

The policy deals with following aspects of Liquidity Risk Management framework:

A. Liquidity Risk Management Policy, Strategies and Practices
B. Management Information System (MIS)
C. Internal Controls
D. Maturity profiling
E. Liquidity Risk Measurement – Stock Approach
F. Currency Risk
G. Interest Rate Risk Management

A. Liquidity Risk Management Policy, Strategies and Practice

In order to ensure a sound and robust liquidity risk management system, the Company has framed a liquidity risk management framework which ensures that it maintains sufficient liquidity, including a cushion of unencumbered, high quality liquid assets to withstand a range of stress events, including those involving the loss or impairment of both unsecured and secured funding sources. It has spell out the entity-level liquidity risk tolerance; funding strategies; prudential limits; system for measuring, assessing and reporting/ reviewing liquidity; framework for stress testing; liquidity planning under alternative scenarios/formal contingent funding plan; nature and frequency of management reporting; periodical review of assumptions used in liquidity projection; etc.

Key elements of the liquidity risk management policy are as under:

i. Governance of Liquidity Risk Management

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, which reports to the Board, 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)

To ensure successful supervision of implementation and functioning of risk tolerance process, the Company shall have a Committee which shall consist of Directors / Senior management of the Company. The said Committee shall be called the **Asset-Liability Committee (ALCO).**

Constitution of the ALCO

The ALCO shall comprise of such members as specified in the RBI Regulations.

The Committee will report directly to the Board of Directors.

Roles and responsibilities of the ALCO

The ALCO shall be responsible for the following:

(a) Ensuring the adherence to the Risk tolerance/limits set by the Board and implementing the liquidity risk management strategy as defined in this framework;

(b) Decision on desired Maturity Profile and Mix of incremental assets and liabilities;

(c) Sale of Assets as a source of Funding;

(d) Structure, responsibilities and controls for managing Liquidity Risk;

(e) Overseeing the Liquidity Position; and

(f) Such other matters, as required by the Board or the RBI in terms of any amendment in the Rules, Regulations, Master Directions from time to time.

d. Asset Liability Management (ALM) Support Group

The operating staff from the Finance & Accounts function shall be responsible for analyzing, monitoring and reporting the liquidity risk profile to the ALCO.

ii. Liquidity Risk Tolerance

The Liquidity Risk means inability of the Company to meet such obligations as they become due without adversely affecting the Company's financial condition.

Based on the nature of the Business, the Liquidity Risk Tolerance for the Company is twelve months (12 months), till this time Company is willing to assume liquidity risk and prepare the strategy to fund the Liquidity gaps.

The Maturity Profiling as explained below in the framework, could be used for measuring the future Cash Flow requirements of the Company and based on the Maturity Profiling of Liquidity requirement, the Company arranges the Funds to meet its liabilities one month before the same is due.

iii. Liquidity Costs, Benefits and Risks in the Internal Pricing

As the Company is not in the business of providing any loans except to group companies, the cost benefit analysis of liquidity and internal pricing needs to be done to the extent of giving loans to group companies.

iv. Off-balance Sheet Exposures and Contingent Liabilities

Liquidity risks associated with Off-Balance Sheet exposures and contingent liabilities to be 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.

v. Funding Strategy – Diversified Funding

Based on the Liquidity Risk Tolerance of 12 months, Business Plan, the Company's Funding Plan will be based on the 12 months Maturity Profiling of Cash Flow requirement of the Company. The staff members of Finance function shall prepare, discuss and review the Cash Flow Statement on regular intervals and prepare the Strategy to Fund the shortfall in the next 12 months. The Funding Plan to be updated regularly throughout the year to reflect changes in the Cash Flow requirements.

The same is to be presented to the ALCO in the periodical meetings for the review and final approval of the Board shall be sought once funding option is finalized pursuant to the provisions of Companies Act, 2013.

The Company may raise Funds in any form of Equity or Debt, depending on the requirement of the business, maturity profiling etc. The Company may also raise Funds by intra group fund transfers, new capital issues, new issues of short and long-term debt instruments, sale of subsidiaries, joint ventures or lines of business etc.

The ALCO should regularly gauge the Company's capacity to raise funds quickly from various sources. There should not be any over reliance on single source of funding. The Company should diversify available funding sources in the short-medium and long term and the same to be aligned with the budgeting and business planning process.

vi. Collateral Position Management

The collateral positions of the Company are to be differentiated, on an ongoing basis, between encumbered and unencumbered receivables to ensure mobilization of additional resources against the unencumbered receivables, in times of need. The margin requirement varies dependent upon sources of funding and market conditions.

vii. Stress Testing

The Company manages its collateral positions, differentiating between encumbered and unencumbered assets. Further, the Company should keep sufficient collateral to meet expected and potential increases in margin requirement over different times. The ALCO as part of MIS reporting shall review collateral position from time to time.

viii. Contingency Funding Plan

Liquidity risk & contingency arises due to non-availability of adequate funds or non-availability of adequate funds at an appropriate cost or appropriate tenure to meet our business requirements.

To address various adverse scenario & contingencies, Company should perform one or a combination of the following to meet liquidity and business needs of the Company at the time of exigencies:

1. Disposal of liquid assets
2. Monetisation of non-liquid assets
3. Infusion of capital funds
4. Maintaining sufficient liquidity to meet its obligation for next 2 months.
5. Exploring funding arrangement within group on arm's length basis.

ix. Public Disclosure

Public disclosure of information (Appendix I) shall be disclosed quarterly on the official website of the Company and in the annual financial statement as notes to account to enable market participants to make informed judgements on the Liquidity position & Risk management.

x. Intra Group transfers

Intra Group transfers are to be carried out, in line with the regulatory framework, 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.

B. Management Information System (MIS)

The Company to have a reliable MIS designed to provide timely and forward-looking information on the liquidity position of the Company to the Board and ALCO. 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.

C. 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.

D. Maturity Profiling

Measuring and managing liquidity needs are vital for effective operation. Liquidity management can reduce the probability of an adverse situation developing. The Company's management should measure not only the liquidity positions on an ongoing basis but also examine how liquidity requirements are likely to evolve under different assumptions. Experience 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 must be tracked through maturity or cash flow mismatches.

Besides, liquidity management ensures that funds are available for anticipated loans, investment and cash management transactions in addition to general operational expenses without causing an undue rise in cost and without causing a disruption in normal operating conditions.

The purpose of prudent liquidity risk management is to ensure that the Company's liabilities are honored as they fall due, which can reduce the probability of an adverse situation developing, while funding business growth.

The Maturity Profile should be used for measuring the future cash flows of the Company in different time buckets as mentioned under:

(I) 1 day to 7 days
(II) 8 day to 14 days
(III) 15 days to 30/31 days (One month)
(IV) Over one month and upto 2 months
(V) Over two months and upto 3 months
(VI) Over 3 months and upto 6 months
(VII) Over 6 months and upto 1 year
(VIII) Over 1 year and upto 3 years
(IX) Over 3 years and upto 5 years x
(X) Over 5 years

Structural Liquidity Plan: It seeks to classify various assets and liabilities based on maturity profile and identify maturity mismatches on a standalone basis. The Company will be guided as per RBI, whose guidelines state that the net cumulative negative mismatch in the 1 – 7, 8 – 14, and 15 to 30 days' time bucket should not exceed 10%, 10% and 20% of the cumulative cashflows in respective time buckets. The cumulative negative mismatch up to one-year period should not exceed 20% of the cumulative cash outflows in the respective time buckets up to one-year period. Adherence to the above limits will be monitored at each meeting by ALCO. In case the limits are exceeded, ALCO will put in place measures to bring the gaps within the prescribed limit.

Dynamic Liquidity Plan: Unlike the Structural liquidity report, the Dynamic Liquidity report is based on dynamic view of liquidity position for the next six months. It assumes a going concern situation where business continues as usual with disbursements and consequently, funds are raised to meet such incremental growth. It will assess the fund requirement of the Company for the next six months, based on its business projections, in various time buckets and will be used to forecast liquidity.

E. Liquidity Risk Measurement – Stock Approach

The Company to adopt a "stock" approach to liquidity risk measurement and monitor certain critical ratios in this regard by putting in place internally defined limits as approved by its Board. The following ratios to be monitored along with predefined (Maximum) limits against each ratio.

Particulars	**As a % of total public funds**	**As a % of total liabilities**	**As a % of total assets**
Commercial papers	10%	8%	7%
Non-convertible debentures (original maturity of less than one year)	10%	8%	7%

Other short-term liabilities (Incl Borrowings with original maturity of less than one year)	25%	22%	20%

Total Liabilities has been computed as sum of all liabilities (Balance Sheet figure) less Equity Share Capital and Other Equity.

F. Currency Risk

Adequate measures to be taken by the Company to minimize the risk arising from currency rate fluctuation on the foreign assets or liabilities as appliable from time to time.

G. Interest Rate Risk Management

The objective is to monitor and control changes in the Company's Net Interest Revenue (which is immediately impacted by changes in interest rates). The exact mix and interest rates of borrowing at fixed and floating rates depend on money market conditions and view of ALCO. For e.g., the Company may restrict the average maturity of its borrowing book to a shorter-term in the event of declining interest rate situation and vice-versa.

Gap or Mismatch risk will be measured by the Interest Rate Sensitivity (IRS) report prepared on guidelines prescribed by RBI in the matter of grouping rate-sensitive assets and liabilities with appropriate modifications based on the Company's experience and expectation of funds flows across various tenor buckets.

The Company's exposure to interest risk will be measured by the cumulative notional impact of 1% change in interest rates, applied to mismatches across ALL tenor buckets on the IRS statement prepared for RBI through the Modified Duration Gap Analysis. This number is subject to periodic review and revision by ALCO.

The Gap to be identified in following time bucket:

(I) 1 day to 7 days
(II) 8 day to 14 days
(III) 15 days to 30/31 days (One month)
(IV) Over one month and upto 2 months
(V) Over two months and upto 3 months
(VI) Over 3 months and upto 6 months
(VII) Over 6 months and upto 1 year
(VIII) Over 1 year and upto 3 years
(IX) Over 3 years and upto 5 years
(X) Over 5 years

3. Funding and Capital Planning

To ensure that growth in balance sheet is accompanied by an acceptable level of capitalization, it is imperative that ALCO keep track of the Company's capital adequacy ratio, its trends over time and the likely scenarios in the event of balance sheet expansion given expected levels of profitability.

A minimum capital adequacy level will be set and adhered to always. This is the minimum prescribed by RBI. ALCO will review this once a quarter.

Likely sources of capital raising – retained earnings, Tier II issues, etc. – must be evaluated carefully from the viewpoint of costs and other parameters as may be deemed to be important from time to time.

4. Guidelines for benchmark interest rate

The Company's benchmark interest rate should be determined based on (i) actual cost of funds/cost of debt capital (ii) operating expenses (iv) regulatory provisioning costs and (iv) return on networth. Additionally, the ALCO may consider the direction of movement of interest rates and benchmark rate of other NBFCs and other Banks to adjust the indicative bench mark rate so obtained.

5. Preparation of ALM Risk Management reports for RBI

For preparation of ALM reports like the Statement of Structural Liquidity and Statement of Interest Rate Sensitivity, the Company will adhere to the guidelines laid down by the RBI from time to time.

6. Report to the Board:

The ALCO Committee of the Company shall submit its report on quarterly basis to the Board of Directors.

7. Revision & Adoption

The ALCO Committee shall review the policy annually and shall recommend all necessary changes to the Board of Directors for their consideration and noting.