ASSET LIABILITY MANAGEMENT POLICY
OF
NAVI FINSERV PRIVATE LIMITED

(Formerly Known as Chaitanya Rural Intermediation Development Services Private Limited)

Version No	ALM/1.0/2021-22
Originally adopted Date of Policy	May 28, 2021
Amended/Modified Date of Policy	-
Policy owner	Head of Treasury
Approved by	Board of Directors
Signature	

Contents

1. Purpose ... 3
2. Asset Liability Management framework ... 3
3. ALM Information System ... 3
4. ALM Organisation ... 3
4.1 Board ... 3
4.2 Asset-Liability Management Committee (ALCO): ... 4
4.3 ALM Support Group ... 4
5. ALM Process ... 4
5.1 Liquidity Risk Management ... 4
5.2 Maturity Profiling ... 4
5.3 Liquidity Risk Tolerance and other metrics ... 5
5.3.1 Cumulative negative mismatches in the Statement of Structural Liquidity and the Statement of Dynamic Liquidity ... 5
5.3.2 Ratios ... 5
5.3.3 Diversified Funding: ... 5
5.3.4 Collateral Position ... 6
5.3.5 Liquidity Coverage Ratio ... 6
6. Stress Testing ... 8
7. Contingency Funding Plan ... 9
8. Interest Rate Risk Management ... 9
8.1 GAP Analysis or Interest Rate Sensitivity Analysis ... 9
9. Foreign Currency Risk ... 10
10. Review ... 10

1. Purpose

The Policy has been prepared in line with applicable RBI Master Direction[1] and RBI's Liquidity Risk Management Framework for Non-Banking Financial Companies and Core Investment Companies[2].

The policy shall lay down the Company's:

- the Asset Liability Management Framework
- Liquidity Risk Management Framework

The policy has been framed:

- to ensure that the Company maintains **sufficient liquidity** to meet expected and unexpected cash and collateral obligations.
- to spell out **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.
- to introduce effective **risk management systems** that address the issues relating to interest rate and liquidity risks.

2. Asset Liability Management framework

The three pillars of the ALM framework shall be:

- ALM Information Systems
- ALM Organisation
- ALM Process

3. ALM Information System

- A pre-requisite for putting in place the ALM framework is a **strong Management Information System (MIS)**. For a quick analysis and consolidation of the data, it is necessary to computerize the MIS by way of use of **software or spreadsheets** for managing the assets and liabilities with respect to the maturity mismatches and the various risks associated with such mismatches.
- The MIS should capture borrowing data, data pertaining to loan assets and investments.

4. ALM Organisation

4.1 Board

The Board shall have overall responsibility for management of risks and shall decide the strategy, policies and procedures of the Company to manage liquidity risks in accordance with the liquidity risk tolerance/limits decided by it.

---

[1] RBI Master Direction- Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 (RBI/DNBR/2016-17/45- Master Direction DNBR. PD. 008/03.10.119/2016-17)

[2] RBI/2019-20/88 DOR.NBFC (PD) CC. No.102/03.10.001/2019-20 dated November 09, 2019.

4.2 Asset-Liability Management Committee (ALCO):

The ALCO shall consist of

- Chief Executive Officer (CEO) – head of the ALCO
- Chief Financial Officer
- Financial Controller
- Head of Treasury

The ALCO shall be responsible:

- to ensure adherence to the risk tolerance/limits set by the Board.
- for decisions related to desired maturity profile and mix of incremental assets and liabilities, sale of assets as a source of funding, the structure, responsibilities and controls for managing liquidity risk, and overseeing the liquidity position.

4.3 ALM Support Group

Operating staff in the Treasury and Finance functions of the Company. It shall be responsible for Analysis, Monitoring and Reporting the liquidity and Interest Rate risk profile to the ALCO.

The roles and responsibilities of the Board, ALCO and Treasury Function are further detailed in Appendix I.

5. ALM Process

The ALM process shall encompass the following:

- Liquidity Risk Management
- Maturity Profiling
- Setting and complying with Liquidity Risk Tolerance limits
- Management of market risks, interest rate and foreign currency risks
- Forecasting and analysing ('what if scenario') and preparation of contingency plans

5.1 Liquidity Risk Management

- The Objective of Liquidity Risk Management is to reduce the risk arising out of the company's non-ability to pay out the liabilities when they mature or fall due.

5.2 Maturity Profiling

- 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 a standard tool.

- **The time buckets shall be distributed as under:**
  i. 1 day to 7 days
  ii. 8 days 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

- **Investment portfolio**: The Company is a Systemically Important Non-Deposit taking NBFC and hence all the investment in securities shall be 'non-mandatory securities. Further, the guidance in the relevant RBI Direction[3] could be used for determining Maturity Profile and bucketing of future cashflows. Further, the listed non-mandatory securities may be placed in any of the "1 day to 7 days, 8 days to 14 days, 15 days to 30/31 days (One month)", Over one month and upto 2 months" and "Over two months and upto 3 months" buckets depending upon the defeasance period proposed by NBFCs. The unlisted non-mandatory securities (Eg; equity shares, securities without a fixed term of maturity etc.) may be placed in the "Over 5 years" buckets, whereas unlisted non-mandatory securities having a fixed term of maturity may be placed in the relevant time bucket as per residual maturity.

- On a quarterly basis, the statement of structural liquidity and the statement of dynamic liquidity shall be place before the ALCO.

5.3 Liquidity Risk Tolerance and other metrics

5.3.1 Cumulative negative mismatches in the Statement of Structural Liquidity and the Statement of Dynamic Liquidity

The cumulative negative mismatch in any bucket up to 12 months shall not be more than 5% at all times in the statement of structural liquidity. Also, there shall be no net cumulative negative mismatches in the Statement of Structural Liquidity in the maturity buckets 1-7 days, 8-14 days, and 15-30 days. There shall be no cumulative negative mismatches in any bucket up to 12 months in the statement of dynamic liquidity.

5.3.2 Ratios

External Short-term[4] liability to total assets or total liabilities – Not more than 40%

Short-term Liability shall include borrowings with original maturity of less than 1 year and shall also include borrowings with Put Option Date within 1 year from the date of assessment.

5.3.3 Diversified Funding:

To avoid over-reliance from a single source of external funding (lender), there shall be a Single Lender cap of 25% of Total Assets. This has to be assessed on a quarterly basis and reported to the ALCO.

---

[3] Appendix 1 to Guidelines on Liquidity Risk Management Framework contained in RBI Master Direction- Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 (RBI/DNBR/2016-17/45- Master Direction DNBR. PD. 008/03.10.119/2016-17)

[4] Total borrowings with original maturity <12 months excluding intra-group borrowings.

5.3.4 Collateral Position

The company shall keep at least 10% of its Total Assets as unencumbered assets to meet expected and unexpected borrowing needs and potential increases in margin requirements over different timeframes.

5.3.5 Liquidity Coverage Ratio

The company shall at all times maintain a Liquidity Coverage Ratio (LCR) of 150%. LCR is represented by the following ratio:

$$\frac{\text{Stock of High-Quality Liquid Assets (HQLAs)}}{\text{Total Net Cash Outflows over the next 30 calendar days}}$$

Assets to be included as HQLA without any haircut:

- Cash
- Government securities
- Marketable securities issued or guaranteed by foreign sovereigns satisfying all the following conditions:
  - Assigned a 0% risk weight by banks under standardized approach for credit risk;
  - Traded in large, deep and active repo or cash markets characterised by a low level of concentration; and proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions.
  - Not issued by a bank/financial institution/NBFC or any of its affiliated entities.

Assets to be considered for HQLA with a minimum haircut of 15%

- Marketable securities representing claims on or claims guaranteed by sovereigns, Public Sector Entities (PSEs) or multilateral development banks that are assigned a 20% risk weight by banks under standardised approach for credit risk and provided that they are not issued by a bank/financial institution/NBFC or any of its affiliated entities
- Corporate bonds, not issued by a bank/financial institution/NBFC or any of its affiliated entities, which have been rated AA- or above by an eligible credit rating agency
- Commercial Papers not issued by a bank/PD/financial institution or any of its affiliated entities, which have a short-term rating equivalent to the long-term rating of AA- or above by an eligible credit rating agency

Assets to be considered for HQLA with a minimum haircut of 50%

- Marketable securities representing claims on or claims guaranteed by sovereigns having risk weights higher than 20% but not higher than 50%, i.e., they should have a credit rating not lower than BBB-as prescribed for banks in India
- Common Equity Shares which satisfy all of the following conditions:
  - not issued by a bank/financial institution/NBFC or any of its affiliated entities;
  - included in NSE CNX Nifty index and/or S&P BSE Sensex index.

- Corporate debt securities (including commercial paper) and the securities having usual fundamental and market related characteristics for HQLAs and meeting the following conditions:
  - o not issued by a bank, financial institution, PD, NBFC or any of its affiliated entities;
  - o have a long-term credit rating from an eligible credit rating agency between A+ and BBB- or in the absence of a long-term rating, a short-term rating equivalent in quality to the long-term rating;
  - o traded in large, deep and active repo or cash markets characterised by a low level of concentration; and
  - o have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions, i.e., a maximum decline of price not exceeding 20% or increase in haircut over a 30-day period not exceeding 20 percentage points during a relevant period of significant liquidity stress.

Total net cash outflows

A) Total net cash outflows is defined as the total expected cash outflows minus total expected cash inflows for the subsequent 30 calendar days. Considering the unique nature of the balance sheet of the NBFCs, stressed cash flows is computed by assigning a predefined stress percentage to the overall cash inflows and cash outflows. Total expected cash outflows (stressed outflows) are calculated by multiplying the outstanding balances of various categories or types of liabilities and off-balance sheet commitments by 115% (15% being the rate at which they are expected to run off further or be drawn down). Total expected cash inflows (stressed inflows) are calculated by multiplying the outstanding balances of various categories of contractual receivables by 75% (25% being the rate at which they are expected to under-flow). However, total cash inflows will be subjected to an aggregate cap of 75% of total expected cash outflows. In other words, total net cash outflows over the next 30 days = Stressed Outflows - Min (stressed inflows; 75% of stressed outflows).

Items of Cashflows

Items of Cash Inflows	**Items of Cash Outflows**
• Maturing secured lending transactions backed by HQLA. • Margin Lending backed by all other collateral. • All other assets • Lines of credit – Credit or liquidity facilities or other contingent funding facilities that the NBFC holds at other institutions for its own purpose. • Other inflows by counterparty • Net derivatives cash inflows • Other contractual cash inflows (please specify as footnotes)	• Deposits • Unsecured wholesale Funding • Secured Funding • Additional requirements [(i)+(ii)+(iii)+(iv)+(v) +(vi)+(vii)+(viii)]: (i) Net derivative cash outflows (ii) Liquidity needs (e.g., collateral calls) related to financing transactions, derivatives and other contracts where 'downgrade triggers' up to and including a 3-notch downgrade. (iii) Market valuation changes on derivatives transactions (largest absolute net 30-day collateral flows realised during the preceding 24

	months) based on look back approach. (iv) Increased liquidity needs related to the potential for valuation changes in collateral securing derivatives. (v) Increased liquidity needs related to excess non-segregated collateral held that could contractually be called at any time by the counterparty. (vi) Increased liquidity needs related to contractually required collateral on transactions for which the counterparty has not yet demanded the collateral be posted. (vii) Increased liquidity needs related to derivative transactions that allow collateral substitution to non-HQLA assets. (viii) Currently undrawn committed credit and liquidity facilities • Other contingent funding liabilities • Any other contractual outflows not captured elsewhere in the template

6. Stress Testing

Stress testing shall be undertaken to evaluate whether the company has sufficient liquidity, based on the behavior of cash flows under different conditions.
Stress testing will help to evaluate the liquidity under the following three scenarios:

- General Conditions
- Company Specific Crisis
- General (Macro) Market Crisis

General Conditions: Under the General Conditions, the company shall evaluate the liquidity positions on a going concern concept and manage the net funding requirements based on the structural liquidity statement.

Company Specific Crisis: The liquidity crisis may be an isolated occurrence confined to company, and that company shall assume the worst benchmarks to measure the impact of such scenarios on the liquidity statement and take timely corrective actions. The impact will be studied for the following scenarios:

- Funds cannot be drawn from the undrawn committed lines
- Funds are not received on maturity of certain assets
- Unable to roll-over cash credit and other borrowing facilities
- Rating downgrade resulting in higher interest paid or prepayment on loans

General (Macro) Market Crisis: Liquidity crisis affecting all NBFCs in a particular region or across the country. In such a crisis situation, providing liquidity is important irrespective of the cost of such liquidity so as to maintain the confidence in company. To study the impact of market crisis on the liquidity statement company should assume worst case scenarios of the following:

- Performing loans becoming NPA including defaults in interest receivables
- Non- availability of different funding sources including unavailability of funds from line of credit with different institutions
- Prepayment option is exercised on few of the liabilities
- Fluctuation in floating and fixed rate of interest

The stress testing shall be presented along with assumptions to the ALCO once every half-year, under above-mentioned circumstances.

7. Contingency Funding Plan

At the beginning of the financial year, for review of ALCO, the following shall be presented:

- Available undrawn part of Cash Credit & Working capital Limits
- Undrawn overdraft facility or lines of credit
- Liquid Investments
- Unencumbered portfolio

The above shall be considered as Funding Lines and shall be compared with the next 2 months' committed repayment obligations. Higher the ratio higher the ability to meet commitment.

8. Interest Rate Risk Management

Interest rate risk is the risk where changes in market interest rates might adversely affect the company's financial conditions. The interest rate risk can be viewed from below two perspectives:

- **Earnings perspective** – Change in Net Interest Income (NII) or Net Interest Margin (NIM) due to change in interest rate.
- **Economic Value perspective** – Change in market value of equity (MVE) or Net Worth of the company due to change in the economic value of the company's assets, liabilities and off-balance sheet positions due to variation in market interest rate.

8.1 GAP Analysis or Interest Rate Sensitivity Analysis

The GAP Analysis or Interest Rate Sensitivity Analysis method shall be used to measure Interest Rate Risk. 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/reprices contractually during the interval.
- it is contractually pre-payable or withdrawable before the stated maturities.
- it is dependent on the changes in the Bank Rate by RBI/Banks.

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. The various items of rate sensitive assets and liabilities and off-balance sheet items shall be classified as explained in the relevant RBI Direction[5].

The interest rate gaps may be identified in the following time buckets:

1. 11 day – 30/31 days (One month)
2. Over one month to 2 months
3. Over 2 months to 3 months
4. Over 3 months to 6 months
5. Over 6 months to 1 year
6. Over 1 year to 3 years
7. Over 3 years to 5 years
8. Over 5 years

The Gap reports indicate whether the institution 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).

This gap along with the impact on net interest income of change in the interest rates shall be used as a measure of interest rate sensitivity. For any time-bucket, change in net interest income (NII) is calculated by multiplying corresponding gap with the change in the interest rate.

The interest rate risk tolerance is to be within the limits as defined below.

a. **Economic Value of Equity**: The negative impact on the company's economic value of equity, as a result of 200 basis point upward or downward parallel interest rate shock, should not exceed 15% of its regulatory capital.

9. Foreign Currency Risk

All foreign currency loans availed by the Company shall be fully hedged for the currency risk as permitted under the RBI guidelines.

10. Review

This Policy shall be subject to review annually, in accordance with any regulatory or statutory requirement, by the Asset Liability Management Committee and ratified by the Board of the Company.

Any amendment or modification in the applicable regulations relating to the policy shall automatically be applicable to the Company. In the event of any conflict between the provisions of this policy and the applicable regulations, the provisions of such applicable regulations shall prevail over this policy.

---

[5] Appendix 3 to Guidelines on Liquidity Risk Management Framework contained in RBI Master Direction- Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 (RBI/DNBR/2016-17/45- Master Direction DNBR. PD. 008/03.10.119/2016-17)

Appendix I - Roles and responsibilities

Board of Directors

The Board of Directors is responsible for overseeing and managing the overall liquidity profile of the Company. The responsibilities of the Board of Directors are as follows:

- Approving the Policy.
- Reviewing liquidity measures that describe the nature of the Company's Liquidity Risk
- Establishing additional risk guidelines related to liquidity management, if appropriate
- Receiving information describing material interactions with the Company's regulators on liquidity management
- Reviewing all material breaches.

Asset Liability Management Committee

The responsibilities of ALCO are as follows:

- Reporting to the Board of Directors on the Company's overall liquidity risk profile
- Reviewing and approving liquidity measures used to support the management of liquidity on a quarterly basis.
- Approving stress testing assumptions and methodologies on a quarterly basis.
- Reviewing and reporting any breaches to the Liquidity Survival Horizon Limits to the Board of Directors of Navi Finserv Private Limited.
- Informing the board of any material interactions with the company's regulator on liquidity management issues

Treasury Team

- Monitoring liquidity risk measures and limits
- Ensuring that the liquidity measurement systems adequately identify and quantify exposure and produce timely reports
- Developing, implementing, reviewing and maintaining the Policy and supporting procedures and methodology documentation