ASSET-LIABILITY MANAGEMENT POLICY
DEEVEE COMMERCIALS LIMITED

Asset-liability Management Policy

1. Purpose

1.1. In the normal course, non-banking financial companies (NBFCs) are exposed to credit and market risks in view of the asset-liability transformation. In recent times, the risks associated with NBFCs' operations have become complex and large, requiring dynamic strategic management. NBFCs have a very important role to play in the financial services sector and are instrumental to the growth of the economy.

1.2. Considering their ever dynamic role in the economy, the managements of NBFCs have to base their business decisions on a dynamic and integrated risk management system and process, driven by corporate strategy. NBFCs' are exposed to several major risks in the course of their business - credit risk, interest rate risk, equity/commodity price risk, liquidity risk and operational risk. It is, therefore, important that NBFCs' introduce effective risk management systems that address the issues relating to interest rate and liquidity risks.

1.3. A mismatch in the tenure of borrowed and disbursed funds could result in a liquidity crunch and impact the company's ability to service its loans. Hence, it is imperative that there exists no or minimal mismatch between the tenure of borrowings and assets.

1.4. NBFCs' need to address these risks in a structured manner by upgrading their risk management and adopting more comprehensive Asset-Liability Management (ALM) practices than has been done hitherto. ALM, among other functions, is also concerned with risk management and provides a comprehensive and dynamic framework for measuring, monitoring and managing liquidity and interest rate equity and commodity price risks of major operators in the financial system that needs to be closely integrated with the business strategy of the NBFCs. It involves assessment of various types of risks and altering the asset-liability portfolio in a dynamic way in order to manage risks.

1.5. Having understood the significance of sound ALM practices, Deevee Commercials Limited ('the Company') has laid down broad guidelines in respect of interest rate and liquidity risks management systems in the Company, which form part of the Asset-Liability Management (ALM) function. The ALM function is aligned with the guidelines for introduction of ALM system by NBFCs issued by the Reserve Bank of India (RBI) vide its Master Directions titled "Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016"[1]. The initial focus of the ALM function would be to enforce the risk management discipline i.e. managing business after assessing the risks involved. The objective of good risk management systems is that these systems will evolve into a strategic tool for Company's management. The Company has come up with the specific strategic tools which evolve a proper system for management of assets and liabilities, detailed out in the next section.

2. Pillars of ALM Process

The ALM process rests on three pillars:

2.1. ALM Information Systems
- 2.1.1. Management Information Systems
- 2.1.2. Information availability, accuracy, adequacy and expediency

2.2. ALM Organisation
- 2.2.1. Structure and responsibilities
- 2.2.2. Level of top management involvement

2.3. ALM Process
- 2.3.1. Risk parameters
- 2.3.2. Risk identification
- 2.3.3. Risk measurement
- 2.3.4. Risk management
- 2.3.5. Risk policies and tolerance levels

3. ALM Information Systems

3.1. ALM has to be supported by a management philosophy which clearly specifies the risk policies and tolerance limits.

3.2. 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. This framework needs to be built on sound methodology with necessary information system as back up.

3.3. Thus, the central element for the entire ALM exercise is the availability of adequate and accurate information with expedience; and the ALM information systems in the Company shall take adequate measures to collect accurate data in a timely manner through full scale computerization.

4. ALM Organization

Successful implementation of the risk management process would require strong commitment on the part of the senior management in the Company, to integrate basic operations and strategic decision making with risk management. The Board of Directors will have overall responsibility for management of risks and shall decide the risk management policy of the Company and set limits for liquidity, interest rate and equity price risks.

4.1. **Asset Liability Committee (ALCO)**

4.1.1. The Company has in place an Asset Liability Committee (ALCO) headed by present Directors. ALCO shall be responsible for ensuring adherence to the limits set by the Board, if any as well as for deciding the business strategy of the Company (on the assets and liabilities sides) in line with the Company's budget and decided risk management objectives. The Company shall hold the ALCO meeting as and when required.

4.1.2. The ALCO is also to be supported by ALM Support group, consisting of operating staff. They shall be responsible for analyzing, monitoring and reporting the risk profile to ALCO. They shall also be responsible for preparation of forecasts (simulations) showing the effects of various possible changes in market conditions related to balance sheet and recommend actions needed to adhere to Company's internal limits.

4.1.3. The ALCO is a decision-making unit responsible for integrated balance sheet management from risk-return perspective including the strategic management of interest rate and liquidity risks. The business issues that an ALCO would consider will, *inter alia,* 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 similar services/product, etc. In addition to monitoring the risk levels of the Company, the ALCO shall review the results of and progress in implementation of the decisions made in the previous meetings. The ALCO would also articulate the current interest rate view of the Company and base its decisions for future business strategy on this.

4.1.4. Further, ALCO shall review periodically, the asset liability position, cost of funds and sensitivity of forecasted cash flow statements over short and long-term time horizons and recommend corrective measures, if any. The ALCO shall review the changes in the economic environment and financial markets and suggest guiding strategic principles for effective resource management. This can result in proper planning for management of various financial risks viz. asset liability risk, foreign currency risk, interest rate risk and liquidity risk, on an on-going basis.

5. ALM PROCESS

The scope of ALM function can be described as follows:

- Liquidity risk management
- Interest rate risk management
- Management of asset liability match & maturity profiles
- Funding requirements and capital planning
- Profit and growth projection
- Forecasting and analyzing 'What if scenarios'
- Cost of funds budgeting

6. ALM INFORMATION SYSTEMS

6.1. ALM framework has to be supported by the management philosophy which clearly specifies the risk policies and tolerance parameters. 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.

6.2. 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 capital adequacy / Profitability Measurement methods.

6.3. The central element of the ALM is the availability of adequate and accurate information in a timely manner; and the systems support for data availability. Adequate measures should be taken to report accurate data in a timely manner through enhanced use of management information systems for ongoing review of business liquidity & ALM profile.

7. LIQUIDITY RISK MANAGEMENT

7.1. Measuring and managing liquidity needs are vital for effective operations of the company. The importance of liquidity transcends individual institutions, as liquidity shortfall in one institution can have repercussions on the entire system. ALCO should measure not only the liquidity positions of company on an ongoing basis but also examine how liquidity requirements are likely to evolve under different assumptions. 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 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.

7.2. The Maturity Profile based on ALM could be used for measuring the future cash flows of company in different time buckets. The time buckets, may be distributed as under:

i. 1 day to less than or equal to 1 month
ii. Greater than 1 month and less than or equal to 2 months
iii. Greater than 2 months and less than or equal to 3 months
iv. Over 3 months and up to 6 months
v. Over 6 months and up to 1 year
vi. Over 1 year and up to 3 years
vii. Over 3 years and up to 5 years
viii. Over 5 years

7.3. Any mismatches between bucket-wise cash inflows and cash outflows need to be closely monitored at all times. Any mismatches up to one year would be more sensitive since these provide early warning signals of potential liquidity problems. The main focus should be on the short-term mismatches viz. from 1 month to 3 months buckets where the negative gap in normal course should not exceed 15% of cash outflows in these time buckets. The Company, however, is expected to monitor its cumulative mismatches (running total) across all time buckets by establishing internal prudential limits with the approval of the ALCO.

7.4. The Statement of Structural Liquidity shall 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. While determining the likely cash inflows / outflows, company will have to make a number of assumptions according to the asset - liability risk profile. While analyzing any mismatch in any categories, the management will take into account all relevant factors based on the asset-liability base, nature of mismatch, strategy to address any identified issues etc.

7.5. In order for company to monitor the short-term liquidity on a dynamic basis over the time horizon spanning from 1 day to 6 months, company will estimate their short-term liquidity profiles on the basis of business projections and other commitments for planning purposes.

8. CURRENCY RISK

8.1. The company does not have any currency risk as of now as there are no transactions entered into by the company which involve currency risk. However, in future, if any foreign currency transactions are entered into, the company will take appropriate measures to check currency risk.

9. INTEREST RATE RISK (IRR)

9.1. Interest rate risk is the risk where changes in market interest rates might adversely affect company's financial condition. The operational flexibility in pricing company assets and liabilities imply the need for considering hedging of interest Rate Risk. The changes in interest rates affect company in many ways. The immediate impact of changes in interest rates is on company's earnings (i.e. reported profits) by changing its Net Interest Income (NII). As such the company is funding loans which are always fixed interest rate loans. The loans borrowed from banks are mostly at floating rates. The company manages this risk on NII by pricing its loan products to customers at a rate which covers interest rate risk. The risk from the earnings perspective can be measured as changes in the Net Interest Income (NII) or Net Interest margin (NIM).

9.2. Measurement of such risk is done at the time of deciding rates to be offered to customers. Once interest rate risk is measured by the ALCO, lending rates are finalized.

10. Internal Prudential Limits

It shall be the endeavor of the Company to maintain the aforesaid prudential limits. However the Board's/Management Committee may extend the limit as the Company needs to resort to various short time borrowings from time to time owing to its easy availability and interest rate arbitrage depending upon the requirement. Management through the ALCO shall monitor and analyze the limits on quarterly basis and shall make all efforts to maintain the negative mismatches within the limits as set out by the Board/ALCO/Management Committee.

11. Board of Director Meetings and Review

Board and/or the Management Committee of the Board as constituted by the Board of Directors of the Company will oversee the implementation of the ALM system and review its functioning periodically. A quarterly report about the functioning of the Policy may be placed before the Board.