Namdev Finvest Private Limited

Har Pal Aap Ke Saath ..

ALM & Liquidity risk management policy

Namdev Finvest Private Limited

Registered Office:

S-1, S-7-8, SHREE NATH PLAZA, SECOND FLOOR,

NEER SAGAR MARKET, BHANKROTA,

JAIPUR, RAJASTHAN-302026

INDIA

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1. Introduction

Namdev Finvest Private Limited (NFPL) is a Non-Banking Financial Company having valid Certificate of Registration with Reserve Bank of India vide registration No. B-10.00260 on 20th August 1997 under current RBI classification as NBFC – Non-Deposit taking Asset Finance Company.

It is focused on offering finance to MSME, Two-wheelers, Solar panel loan, Electric Vehicle (EV) loan, EV charging station loan and all kind of light commercial vehicles segment.

2. Objective

As the business profile of NFPL involves constant borrowings and lending, the Company is exposed to various financial risks associated with such businesses. The financial risks to which NFPL can be exposed to has been identified and captured as part of this policy document. The key risks identified during the risk assessment process relating to the Treasury and financial aspects of NFPL business were:

- ALM risks
- Liquidity management Risks
- Interest Rate Risks
- Forex/Currency Risks

In order to manage these risks by way of a structured approach it is proposed to put in place a comprehensive 'Asset Liability Management & Liquidity risk management' Policy. The objective of this policy is to lay down operating boundaries for the organisation to manage the potential risks in terms of variance in earnings and profitability due to volatility in the financial markets which may result in the above risks.

The following points detail out the objective of the policy:

- Providing a comprehensive and dynamic framework for identifying, measuring, monitoring, and managing all treasury related risks.
- Efficient liquidity risk management to ensure NFPL's ability to meet its liability obligations as they become due is sustained not only during normal times but also during any crisis.
- Measuring interest rate sensitivity of assets and liabilities to ascertain the impact of change in interest rate on NFPL's liability profile.
- Recommend pricing, borrowing mix and maturity profile of both assets & liabilities consistent with the interest rate view and risk-management objectives

3. Business Planning

I. **Business Planning Estimate:** The Annual Business Plan for any given financial year is completed by Q4 of the previous financial year. This is to be approved by the Board of Directors. The Treasury aspects of the Business Plan will cover the following:

   a) **Cash Flows:** The funding requirement for the period is arrived at based on the business growth, collections, repayments and expenses. The borrowings requirement is arrived at considering liability maturities and equity infusion if any. Also taking into consideration the Capital Adequacy Ratio requirement, the extent of funding through sub-debt/ perpetual debt, as necessary, is determined. Balance borrowing is made as either bank borrowing or market borrowings or mix of both. The process of borrowing is covered in resource mobilization/planning policy.

b) **Borrowing mix:** The ideal mix of short-term borrowings and long-term borrowings is arrived at considering the projected ALM. The borrowing mix is based on the ALM and will follow the trend of asset maturities, whereby shorter tenure requirements are met through CPs, WCDL/CC & ICDs and long-term requirements are met through Term loans, NCDs, MLDs, Covered Bonds, ECB & Offshore borrowings like Masala bonds or INR bonds listed offshore etc.

c) **Interest rate estimate**: Inputs are obtained from discussions with market makers, debt arrangers/ Treasury desk of banks on the expected interest rates for the financial year for which business plan is being prepared. Coupled with the company's financial position, rating and cost of incremental debt, the final borrowing rates are determined and business projections are built.

For existing borrowings, the prevailing rate of interest is considered irrespective of whether the borrowing is a fixed rate / floating rate borrowing. Given the interest spreads and margins of the company, increase in MCLR, etc. may not present a huge anomaly and hence it is not factored into the business plan.

d) **Maturity profile**: The repayment amounts on account of existing borrowings are taken into consideration while drawing up the funding requirement. Likewise, the interest servicing on such borrowings is also taken into consideration.

e) **Interest cost:** Month wise and borrowing type wise interest cost including processing fee/ arranger fee are estimated and the likely finance cost (interest cost+ processing/arranger fee) is arrived at for each month/quarter, aggregating to the financial year. The existing charges on account of processing fee/ arranger fee already paid and not yet fully amortized, are also considered.

f) **Board Resolution and Rating Limits**: The monthly closing borrowings are also estimated from the same workings. The level of closing borrowings is compared to the overall borrowing's resolution and limits applicable to each type of borrowings. The projected borrowings limits are checked against available approved limit and if required it will be enhanced.

g) **Securitization cap:** The overall cap for securitization is to be estimated for the financial year as per the Business Plan and checked for validity such as availability of assets, market appetite, liquidity, rate etc.

II. **Revised Estimate:** On a quarterly basis the borrowings are updated for the actual borrowings, latest cash flows and estimation is done for the balance period. Comparison with budget is also provided. This is discussed in the monthly ALCO meetings; however, the bottoms-up business plan is generally not revisited unless there is a drastic change in the economic situation.

III. **Projected ALM:** Based on the business asset growth, product segment wise maturity pattern is plotted in respective time buckets. The repayments of existing borrowings' maturities are also plotted on the respective time buckets. Plan for borrowings including borrowings mix as explained above, estimated closing borrowings and their maturity patterns are estimated. Basis this the gaps if any in time buckets are ascertained and fresh borrowings mix is estimated for the proposed borrowings as per Business Plan.

4. Organization Structure (Liability)

The Board of Directors of NFPL obtains the powers for borrowings from the shareholders during the Annual General Meeting (AGM). For the rest of the treasury operations the Board of Directors is the highest approving authority. In order to facilitate operational flexibility, the Board delegates their powers with regard to treasury related authority to the **Business & Investment Committee/ ALCO,** Managing Directors/ Chief Financial Officer and Treasury Head.

I. Board of Directors

The Board of Directors will review directly or through delegated committee(s) / key managerial persons the following on a periodic basis.

a) Key treasury activities like borrowings/investments and associated cost of funds/returns
b) Changes in Committee or Delegation of authority for treasury activities
c) Changes in treasury related policies
d) Risks associated with treasury activities and mitigants thereof

II. ALCO

Asset Liability Management Committee (ALCO) shall function under the leadership of the Director with reporting responsibility to the Board. ALCO shall be the decision-making unit responsible for financial management relating to treasury activities. The ALCO shall be responsible for ensuring adherence to the risk limits set by the Board as well as for deciding the treasury strategy of NFPL.

a) ALCO - Objective

The organization and the management should constantly monitor the amount of funds raised and take necessary approvals to ensure that the Company has the borrowing limits as per relevant sections of the Companies Act & as per regulatory guidelines.

It is imperative that the organization try and minimize its cost of funds to the maximum extent possible so that the benefit can be passed on to the borrowers in the form of lower cost loans.

b) ALCO Composition: The ALCO shall be constituted as follows

i. Any Director or Risk officer shall be the Chairman of the Committee and in the absence of Whole Time Director, the members shall elect a Chairman for the meeting.
ii. Minimum quorum of ALCO is three members.
iii. Head of Treasury shall be the convener of the ALCO meetings. In their absence, the meetings shall be convened by any other member as decided by ALCO. The convener shall assist compliance/secretarial/ALM group team to prepare the agenda, conduct the proceeding of the meetings, present the reports, record the minutes and circulate them to ALCO and Board meeting.

iv. Meeting frequency: The ALCO shall meet at least once every three month or at shorter intervals if necessary.
v. Minutes of ALCO: The Minutes of the concluded ALCO meeting are to be circulated to the ALCO meeting participants by the convenor along-with the presentation made at the meeting.

c) Roles & Responsibility: ALCO

i. ALCO shall be responsible for ensuring that the treasury management strategy is consistent with NFPL's liquidity risk management policies including maintenance of Liquidity Risk Coverage ratio and that the policy Limits set by Board and by the regulator in this regard are adhered.
ii. ALCO shall articulate current interest rate view of NFPL and based on this view decide on product pricing, desired maturity profile of liabilities and also the mix of incremental assets & liabilities.
iii. Liquidity and interest rate risk management by review of structural liquidity gap, dynamic liquidity statement and duration gap (interest rate sensitivity) statement.
iv. Funding and capital planning: At every meeting of the ALCO the borrowings plan for the next 2/3 months is to be presented including the requirement for Tier I/ II borrowings/ capital infusion/ securitization of assets.
v. The ALCO shall be responsible for recommending 'cost of funds' or 'transfer price' for new products.
vi. On a need basis, ALCO shall also be responsible for forecasting and analyzing "what if scenario" and preparation of contingency plan for borrowings required.
vii. Review regulatory requirements and ALM returns submitted with RBI from time to time.
viii. Derivative products to be used for hedging of foreign currency and interest rate risk if any.

III. Borrowing and Investment Committee (BIC)

The Borrowing and Investment Committee of NFPL consisting of the following members shall decide the contours of Borrowings & Investment from time to time:

a) MD & CEO
b) CFO
c) CTO or any other person nominated by the committee; such nomination will however be reported at the next succeeding Board meeting to the Board of Directors.

The approver shall be MD or any member authorized form above list. The CTO or CFO or Company Secretary would coordinate such meetings.

The BIC Committee shall have the powers to decide/approve/note the following:

a. to borrow from banks / financial institutions / NBFCs / National Housing Bank within the overall limit of INR Crores;
b. to pass necessary resolution for opening, operating and closing of bank accounts as may be necessary to avail the borrowing facilities;
c. to pass necessary resolution for opening, operating and closing the bank accounts as may be necessary for placing fixed deposits with the banks;

d. to pass necessary resolution for addition/deletion of signatories of the existing bank accounts and for change in instructions for placing fixed deposits with the banks; and
e. to secure the borrowings of the Company by mortgage or charge on all or any of the movable or immovable properties of the Company in favour of banks / financial institutions / NBFCs / RBI;
f. to approve Direct Assignment transaction with such Identified Banks or FIs as it may deem fit;

5. Policy Regarding Asset- Liability Management

The policy in respect of Asset liability management for NAMDEV (“Namdev” and “NFPL” are used interchangeably in the document) is based on extant regulatory guidelines.

Preamble: -To place the Asset Liability Management System in respect of Asset and Liability of NFPL classifying various components of asset and liability into different time buckets for preparation of gap report (i.e., Liquidity and interest rate sensitivity) and to submit applicable reports on structural Liquidity and interest rate sensitivity to regulator (Reserve Bank of India) and the matters connected therewith.

Name: -This policy may be called as ‘Asset – Liability Management Policy of Namdev Finvest Pvt Ltd (ALM–NFPL)

Applicability: -The Asset –Liability managing Policy shall be applicable to Namdev Finvest Pvt Ltd (NFPL) from such date as may be determined by the Board of Directors of NFPL.

a. Disclosures in Balance Sheet: -

NFPL shall disclose the following particulars in its Balance Sheet relating to:

i. Capital to Risk Assets Ratio (CRAR)
ii. Maturity pattern of assets and liabilities.

b. Interest Rates on Investments, Deposits and The Risk

NFPL shall determine on their own, interest rates on advances, subject to the ceiling on maximum rate of interest as per extant regulatory guidelines. NFPL will base their business decisions on a dynamic and integrated risk management system and process driven by corporate strategy. NFPL shall introduce effective risk management systems that address the issues relating to interest rate and liquidity risks.

c. Additional Disclosures in Balance Sheet

NFPL shall focus its attention on Asset – Liability Management function so as to enforce the discipline of Market Risk Management i.e., managing business after assessing the market risk involved. The committee will also assess and address the following risks associated with the business – interest rate risk, credit risk, liquidity risk, and off-balance sheet transactions.

The process of Asset – Liability Managements shall be based on following three pillars-

a. ALM Information System

- 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

d. ALM Information System

NFPL shall have strong Management Information Systems for quick analysis and consolidation of data by computerizing the data and make more use of specialized software to manage Asset and Liabilities in regard to the maturity mismatches and various risks associated with such mismatches.

e. ALM Organization

The board of NFPL shall have overall responsibility for management of risk by setting limits for liquidity, interest rate, exchange rates and equity price risks.
NFPL will have a board approved ALM committee consisting of the Whole time Director, CFO, Treasurer, CFO, & others if any who shall be responsible for ensuring adherence to the limits set by the Board as well as to decide business strategy as per NFPL's budget and Risk Management objectives regarding Asset and Liabilities of NFPL.

The ALM of NFPL shall have support groups consisting of operating staff who shall be responsible for analyzing, monitoring and reporting the risk profiles to Asset – Liability Committee. The staff will prepare forecasts reflecting impact of possible changes in market conditions on Financials and recommend action needed to adhere to NFPL's internal limits. The Support Group would consist of members from the products team and technology team in order to help the ALCO committee members take suitable inputs on the assets side and also design 'MIS' to support the Committee members.

f. Functions Powers and Responsibilities of Asset – Liability Committee: (ALCO)

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. NFPL will have to decide on the role of its ALCO, its powers and responsibilities as also the decisions to be taken by it. The business and the risk management strategy of NFPL should ensure that it operates within the imits/parameters set by the Board. 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 another peer of NFPL for similar services/product, etc.

In addition to monitoring the risk levels of the NFPL, the ALCO should 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 NFPL and base its decisions for future business strategy on this. In respect of the funding policy, for instance, its responsibility would be to decide on the 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 funds, money market vs. capital market funding, domestic vs. foreign currency funding, etc.

Meeting frequency: The ALCO shall meet at least once every quarter or at shorter intervals, as and when required.

g. Composition of Asset – Liability Committee (ALCO)

The Whole-Time Director of NFPL shall be the head of the committee. The departmental Heads of NFPL will be members of the committee who shall built – up Management Information System. In absence of Whole- Time Director, the quorum present will elect a chair to conduct the meeting.

Min Quorum – The members to the ALCO will be authorized by the board of NAMDEV. Minimum quorum is 3 members

h. Scope of Functions of ALM:

The scope of ALM function can be described as under:

a) Liquidity Risk Management
b) Management of market risks
c) Funding and capital planning
d) Profit planning and growth projection
e) Forecasting and analyzing 'what if scenario' and preparation of contingency plans.
f) Assessing the impact of interest rate risk, credit risk, and liquidity risk on the company, and take required action to mitigate these risks.
g) Derivative products to be used for hedging of foreign currency and interest rate risk if any.

6. Treasury Risk Management

NAMDEV Board through the its ALCO shall review and monitor the management of Treasury risks and it shall decide the risk management policy and set limits for liquidity, interest rate, and foreign exchange risk. The Treasury / Liquidity Risk Management encompasses the following principles and the approach that would be adopted has also been highlighted in the respective sections.

- Liquidity Risk Management Policy, Strategies and Practices
- Liquidity Risk Measurement
- Liquidity Risk Monitoring Tools - Liquidity Coverage Ratio
- Management Information System (MIS)
- Internal Controls
- ALM & Maturity profiling
- Managing Interest Rate Risk
- Currency Risk

7. Liquidity Risk Management Framework (LRMF)

Applicability

I. Non-deposit taking NBFCs with asset size of Rs.100 crore and above

II. Systemically important Core Investment Companies

III. Deposit taking NBFCs irrespective of their asset size

Scope of LRMF

The LRM Framework put in place for internal monitoring mechanism will cover the following aspects:

- concentration of funding to significant counterparty/ instrument/ currency,
- availability of unencumbered assets that can be used as collateral for raising funds; and
- certain early warning market-based indicators, such as, book-to-equity ratio, coupon on debts raised, breaches and regulatory penalties for breaches in regulatory liquidity requirement.
- The framework also includes monitoring of key ratios. Indicative liquidity ratios to be monitored could be
- short-term liability to total assets;
- short-term liability to long-term assets;
- commercial papers to total assets;
- non-convertible debentures (NCDs) (original maturity less than one year) to total assets;
- short-term liabilities to total liabilities; long-term assets to total assets.
- identify, measure, monitor and control liquidity risk on a periodic basis by the senior management.
- quantify liquidity costs and benefits.
- Conduct stress tests on a regular basis for a variety of short-term and protracted company specific and market-wide stress scenarios (individually and in combination)
- Internal auditors to regularly review and evaluate the various components of the liquidity risk management process

Sufficient liquidity will be maintained to the tune of at least **3 months of loan repayments and operating expenses**, on a sustained basis – this represents the minimum entity-level risk tolerance. Further, one month of disbursement to be kept in the form of sanctioned facilities and existing pipeline engagement with lender to ensure quick drawls depending business requirement. From time to time, we may decide to increase these buffers depending on the macro environment. This liquidity will be in the form of unencumbered, high quality liquid assets. This will help the company withstand a range of stress events.

Status reports including the ALM model which includes stress scenarios will be tabled at the quarterly ALM committee meeting, where alternate scenarios and contingencies will be considered as part of the discussions. The assumptions will also be reviewed at the quarterly ALCO meetings.

The LRM framework monitors the liquidity scenarios under various stress situations including macro- economic stress, liquidity stress, asset-quality challenges induced liquidity risks, etc. though a robust ALM module for the company.

Revised ALM framework incorporating granular buckets

Pursuant to the extant guidelines, the company's Structural Liquidity is segregated into granular buckets of 1-7 days, 8-14 days, and 15-30 days. The company will endeavor to ensure that the net cumulative negative mismatches in the maturity buckets of 1-7 days, 8-14 days, and 15-30 days shall not exceed 10%, 10% and 20% of the cumulative cash outflows in the respective time buckets.

Liquidity Risk Coverage Ratio

All non-deposit taking NBFCs with asset size of Rs. 5,000 crore and above but less than Rs. 10,000 crores shall also maintain the required level of LCR starting December 1, 2020, as per the timeline given below:

Hence, this is applicable post we achieve the desired Asset base.

Interest rate sensitivity statement

Granularity as mentioned above time buckets would also be applicable to the interest rate sensitivity statement required to be submitted by the company.

Liquidity risk Tolerance

NAMDEV has a sound process for identifying, measuring, monitoring and controlling liquidity risk. It clearly articulates a liquidity risk tolerance limit that is appropriate for its business strategy.

Liquidity Costs, Benefits and Risks in the Internal Pricing

During the Business plan exercise, NAMDEV shall quantify liquidity costs and benefits so that the same may be incorporated in internal product pricing, performance measurement and new product approval process for all material business lines, products and activities.

Off-balance Sheet Exposures and Contingent Liabilities

NAMDEV adopted the process of identifying, measuring, monitoring and controlling liquidity risk which includes a robust framework for comprehensively projecting cash flows arising from assets, liabilities and off-balance sheet items over an appropriate set of time horizons. The management of liquidity risks relating to certain off-balance sheet exposures on account of special purpose vehicles, financial derivatives, and, guarantees and commitments may be given particular importance due to the difficulties that many NBFCs have in assessing the related liquidity risks that could materialize in times of stress.

Funding Strategy - Diversified Funding

NAMDEV has established a funding strategy that provides effective diversification in the sources and tenor of funding. It maintains an ongoing presence in its chosen funding markets and strong relationships with fund providers to promote effective diversification of funding sources. The company does not believe in over-reliance on a single source of funding except in cases of regulatory, development finance institution driven funding sources which are strategic in nature. Funding strategy should also take into account, the qualitative dimension of the concentrated behavior of repayments (including put/reset options) in typical market conditions.

Collateral Position Management

NAMDEV actively manages its collateral positions, differentiating between encumbered and unencumbered assets. It monitors the legal entity and physical location where collateral is held and how it may be mobilized in a timely manner. Further, the company ensures to have sufficient collateral to meet expected and unexpected borrowing needs and potential increases in margin requirements over different timeframes.

Stress Testing

Stress testing shall form an integral part of the overall governance and liquidity risk management culture in NBFCs. NAMDEV monitors stress tests on a need basis for a variety of short-term, long-term and protracted NBFC-specific and market-wide stress scenarios (individually and in combination). In designing liquidity stress scenarios, the nature of the NAMDEV's business, activities and vulnerabilities are taken into consideration so that the scenarios incorporate the major funding and market liquidity risks to which the NAMDEV is exposed.

Contingency Funding Plan

The liquidity policy of the company, whereby an amount equivalent to at least the next 3 months' lender repayments and opex is expected to be carried by the company in the form of cash/bank/liquid investments acts as a surrogate contingency plan to tide over any disruptions in the external environment of the company. Additionally, one month of disbursement is to be maintained in terms of sanctions and term sheet at hand. This is tracked by ALCO and any reduction in the amount actually held by the company is discussed in detail at the ALCO. Further, the company also aims to maintain an optimal leverage which, in addition to giving significant comfort to the lenders, will also give it large headroom of assets available to be securitized, which provides comfort from a liquidity source perspective.

Asset Liability Management (ALM) Support Group

The review of the functioning periodically will be monitored by the ALM Support Group. The ALM support group consists of mid office staff from the treasury back office who shall be responsible for analyzing, monitoring and reporting the liquidity risk profile to the ALCO.

Public Disclosure
The company shall disclose its liquidity risk management framework and liquidity position to

Responsibility of CFO/CTO
The Chief Financial Officer (CFO) or Chief Treasury Officer will develop and maintain liquidity management processes and funding programs that are consistent with the complexity, risk profile, and scope of operations as per extant regulatory guidelines.

MIS System
The company has put in place a MIS platform designed to provide timely and forward-looking information on the liquidity position of the NBFC to the Board and ALCO, both under normal and stress situations.

Stock Approach (Adoption of "stock" approach to liquidity) –
In addition to the measurement of structural and dynamic liquidity, NAMDEV is also mandated to monitor liquidity risk based on a "stock" approach to liquidity. The monitoring shall be by way of predefined internal limits as decided by the Board for various critical ratios pertaining to liquidity risk. The Board has sanctioned 20% of AUM limit for securitization/DA transaction for FY24, however, this shall be revise as per real time basis/requirements.

6. Adoption of liquidity risk management principles

The company will adopt and implement relevant liquidity risk management principles and will be guided by extant regulatory guidelines.

Policy Regarding Liquidity and Interest Rate Risk
NAMDEV will measure its Liquidity position on an ongoing basis and shall also examine how liquidity requirement under different assumptions will be tackled through maturity of assets or cash flow mismatches. The format of the statement of structural liquidity is as prescribed by RBI guidelines.

The maturity profile will be used for measuring future cash flow of Namdev in different time buckets as follows: -

i. 1 day to 7 days
ii. Over 8 days to 14 days
iii. 15 days to 30/31 days (one month)
iv. Over 1 month and upto 2 months
v. Over 2 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

Structural Liquidity Statement:
Namdev will be guided by the RBI Directions, whose guidelines state that the net cumulative

negative mismatches in the Statement of Structural Liquidity in the maturity buckets 1-7 days, 8-14 days, and 15-30 days shall not exceed 10%, 10% and 20% of the cumulative cash outflows in the respective time buckets. The cumulative negative mismatch in the maturity buckets up to 1 year shall not go beyond 10%. 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.

Interest Rate Sensitivity Statement:
Interest rate Gap or Mismatch risk will be measured by the Interest Rate Sensitivity (IRS) report prepared as per extant regulatory guidelines. The Gap will be measured by grouping rate-sensitive assets and liabilities with appropriate modifications based on the Company's experience and expectation of funds flows across various tenor buckets.

Certain key assumptions based on external benchmark rates etc., will be made with regard to re-pricing horizon of certain rate sensitive assets (like loans and advances which are linked to interest rate movement) and liabilities, if any.

The company would however limit the extent of cumulative negative mis-match at each bucket to 15% or above for above 1 yr. buckets to avoid ALM issues later.

In case of any mis matches above the board approved limits, suitable clarifications / discussions would be done at the ALCO meeting.

The Statement of Structural Liquidity (Annex I) will 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 inflow/ outflows, NFPL will make a number of assumptions according to their asset-liability profiles. While determining the tolerance levels, NFPL will take into account all relevant factors based on their asset-liability base, nature of business, future strategies, etc. NFPL is interested in ensuring that the tolerance levels are determined keeping all necessary factors in view and further refined with experience gained in Liquidity Management.

Dynamic liquidity: In order to enable the NBFCs to monitor their short-term liquidity on a dynamic basis over a time horizon spanning from 1 day to 6 months, NAMDEV may estimate its short-term liquidity profiles on the basis of business projections and other commitments for planning purposes. As per Annex II for estimating Short-term Dynamic liquidity.

8. Gap Analysis (Net Interest Income Approach)

The immediate impact of changes in the interest rates is on NFPL's earnings through changes in the Net Interest Income (NII). A long-term impact of changes in interest rates is on NFPL's net economic value through changes in the economic values of its assets, liabilities, and off-balance sheet positions. The interest rate risk when viewed from these perspectives is known as 'earnings perspective'. NFPL will use a methodology to measure Interest Rate risk keeping these perspectives in mind:

Interest rate gap analysis measures mismatches between rate sensitive liabilities (RSL) and rate sensitive assets (RSA), including off-balance sheet positions for different time-buckets. An asset or liability is normally classified as rate sensitive if:

I. Within the time interval under consideration, there is a cash flow.
II. The interest rate resets / reprices contractually during the interval.
III. It is contractually pre-payable or withdraw-able before the stated maturities

The gap report or The Statement of Interest Rate Sensitivity shall be generated by grouping rate sensitive assets, liabilities and off-balance sheet positions into time buckets according to residual maturity or next repricing period, whichever is earlier. The important task involved in gap analysis is determining rate sensitivity. All investments, loans, borrowings etc. that mature / reprice within a specified time period i.e., cumulative upto 1-year buckets, are interest rate sensitive.

The cumulative gaps shall be identified in the following time-buckets:

1 to 14 days
14 days to 30/31 days (One month)
Over one month to 2 months
Over 2 months to 3 months
Over 3 months and up to 6 months
Over 6 months and up to 1 year

Non-sensitive
The gap reports shall indicate whether NFPL is in a position to benefit from rising interest rates by a 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.

Following prudential limits have been fixed for maximum percentage decline in NII for a given interest rate change:

Gap Analysis Limits

Interest Rate Change (% p.a.)	Maximum limit on PBT Volatility (%)
-1% < 0 < 1%	5%

i. Currency Risk:

Presently, NFPL is not dealing in advancing loans or making investments in foreign currency. However, whenever NFPL will start its foreign exchange transaction, the extant regulatory guidelines will be followed along with other factors that the committee sees fit.

Currency Risk Measurement

NAMDEV would measure currency risk through Net Open Position (NOP). The Net Open Position (NOP) would be calculated based on the difference between all the outflows of a particular currency and all the inflows of the same currency. In the case of NAMDEV, the outflows would include the principal as well as interest components of foreign currency loans, whereas the inflows would include the hedged position in the derivative products like currency swaps, foreign exchange forwards, etc.

Since NAMDEV may raise foreign currency borrowings, it might be exposed to currency Risk which can be addressed by appropriate hedging strategy. ALCO shall be taking decisions on framing hedging strategy as well as proportion of hedging on immediate or prospective basis. In case, the total exposures are not fully hedged, Treasury department shall update ALCO on regular basis on the effect of volatility on the open exposure.

The hedging strategy shall be varying from taking forward foreign exchange cover to complex derivative structure. Therefore, ALCO shall be updated on risk propositions of such hedging strategies before entering of such deals. Treasury Department shall be monitoring the hedge effectiveness of such strategies for ALCO.

ii. Resource Planning and Periodicity of private placement of NCDs

The ALCO committee in each of its ALCO meetings would deliberate on the current borrowing mix of the company, the growth plans of the company and the proposed liabilities required in order to meet the growth plans of the company. The ALCO committee would quarterly review the NCDs issued and would decide on future borrowing plans and the borrowing instruments such as public issue of secured / unsecured NCDs, private issue of secured / unsecured NCDs, bank lines, commercial papers, securitization to be used to meet the same.

9. Top Treasury risks

As directed, periodically risk MIS report is submitted to ALCO mapping the actual against the limit fixed for each risk. The details of the risks monitored are below:

Sr. No.	Particulars	Metrics/ Limit where applicable	Threshold* 1- CFO	Threshold 2- MD
1.	Adequacy of funds to meet committed liabilities: Amount of current a/c balances, callable liquid investments, tied up/sanctioned and committed funding lines divided by the amount required to meet next 3 months’	Percentage 100%	<90%	<75%

	repayments/interest cum securitization/ bilateral assignment payout & operational expenses. Higher the ratio higher the ability to meet commitment.			
2.	Adequacy of funds for business activities: As an extension over 1, balance funding lines are compared to funding requirement for disbursement in next one month. Higher the ratio, higher the ability to meet commitment.	Percentage 100%	<90%	<75%
3.(a)	Difference in inflows vs outflows: The net cumulative negative mismatch in the ALM statement is monitored. The cap for the net cumulative negative mismatch is 10% of the cumulative cash outflows in the time buckets up to 1 year.	Percentage Limit- (-)10%	> (-)6%	> (-)9%
3.(b)	Extn to (3 a), Net cumulative negative mismatch in any time bucket higher than 1 yr is not more than 15%.	Percentage Limit (-15%)	> (-10%)	> (-12%)
4.	Net open position in foreign currency (USD Million equivalent): No unhedged foreign currency exposure can be carried at any point of time without specific approval from ALCO.	USD Limit- Nil		
5.	Concentration risk - Single lender/ Product / Structure wise: The over-dependence on a single lender/ single product of borrowings like TL/NCD/ Securitization/ ECB, will expose NFPL to liquidity stress if the lender calls back the loan owing to any commercial reasons.	Percentage to total borrowings	>15% single lender >50% for a single Product (other than TL)	>20% for a single lender >75% for a single Product (other than TL)

*Threshold: Limits defined under the particular Threshold are the escalations to be avoided in normal course of activities, and to be sounded out to CTO/CFO/MD as the ratio gets close to the limit and not after breaching the limit.

Har Pal Aap Ke Saath ..