

IREP Credit Capital Private Limited

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Document Name	Asset Liability Management	Version	IREP/POL/8
Authorized By	Board	Date Implementation	1-Aug-2020
Review Tenure	1 Year	Next Review Date	March 2027
Illustrative Review Trigger	<ul style="list-style-type: none"> ● Changes in Business Strategy ● Changes in powers as per job description ● Amendment as per Board Resolutions ● Changes due to product / process modification ● Changes in Regulatory Guidelines 	Review/ Amendment Responsibility	Srimoyee Kar -Chief Treasury Officer

Background

IREP Credit Capital Private Limited ('IREP' or 'Company') is a Non-Banking Financial Company ('NBFC') registered with Reserve Bank of India ('RBI') and classified as an NBFC - Base Layer ('NBFC-BL') under the Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 ('SBR Directions').

Accordingly, all non-deposit taking NBFCs with asset size of ₹ 100 crore and above are required to adhere to the set of Liquidity Risk Management Guidelines stipulated by RBI ('LRM Guidelines') as a part of the SBR Directions.

Purpose:

The purpose of this Liquidity Risk Management Policy ('Policy') is to establish broad guidelines for liquidity risk management systems in the Company, which form part of the LRM function in line with the LRM Guidelines. The LRM Guidelines deal with following aspects of liquidity risk management framework:

- Liquidity Risk Management Policy, Strategies and Practices;
- Management Information System (MIS);
- Internal Controls;
- Maturity profiling;
- Liquidity Risk Measurement – Stock Approach;
- Currency Risk;
- Managing Interest Rate Risk;
- Liquidity Risk Monitoring Tools.

This Policy shall focus on ensuring maintenance of sufficient liquidity including a cushion of unencumbered, liquid assets to withstand a range of stress events. The Policy shall spell out the entity-level liquidity risk tolerance; funding strategies; prudential limits; system for measuring, assessing and reporting/ reviewing liquidity;; nature and frequency of management reporting; periodical review of assumptions used in liquidity projection; etc.

Key elements of the liquidity risk management framework have been provided under.

ALM Organization and responsibility:

Successful implementation of the risk management process would require strong commitment on the part of the senior management to integrate basic operations and strategic decision making with risk management. The Board of Directors of the Company ('Board') should have overall responsibility for management of the above risks.

The Board will have overall responsibility to implement this Policy and may specify limits for capital management, interest rates and liquidity risk in consultation with the Asset/Liability Committee (ALCO').

The ALCO will be constituted and comprised of senior management of IREP (including the Chief Executive Officer) and will be responsible for ensuring adherence to the limits set by the Board as well as for deciding the business strategy of IREP (on the assets and liabilities sides) in line with its budget and risk management objectives. The adherence would also ensure that the statutory compliances set by the RBI from time to time are complied with.

MEETINGS OF THE ALCO

The ALCO meet on a quarterly basis and exercise the following responsibilities to represent an all-inclusive list of the duties of the ALCO. Review the current and prospective liquidity positions and monitor alternative funding sources.

- (i) Review liquidity risk that can be measured with a reasonable degree of effort.
- (ii) Report the minutes of each quarterly meeting to the Board.
- (iii) Also, the ALCO will ensure that it is aware of the overall financial performance of IREP and, therefore, will keep abreast of significant changes/trends in its financial results.
- (iv) The ALCO shall provide the Board with the Liquidity ALM report on a quarterly basis.
- (v) The agenda of each regularly scheduled ALCO meeting should include a review of the Statement of Structural Liquidity & Statement of Interest Rate Sensitivity Pillars

ALM Process:

The ALM process rests on three pillars:

- ALM Information Systems
- ALM Organization
- ALM Process

i. ALM Information Systems

All necessary and accurate information in the particular reporting format as formulated by the Company needs to be provided by the Finance / Business teams to the Treasury department of the Company in a timely manner for proper assessment and discussions.

The Company should also have a system in place which can automatically generate the required information in the particular format as the Company grows in scale (as and when applicable & feasible).

Periodic disclosure

The Company shall disclose information on liquidity risk, as provided by RBI under the Scale Based Regulations, as amended from time to time, on a quarterly basis on the website of the Company. Further, such disclosure shall also form part of the annual financial statements of the Company.

ii. ALM Organization

- a. Successful implementation of the risk management process would require strong commitment on the part of senior management, to integrate basic operations and strategic decision making with risk management. The Board should have overall responsibility for management of risks.
- b. The **Asset - Liability Committee (ALCO)** should consist of the following:
 - a) Chief Executive Officer (The Chairman)
 - b) Chief Business Officer
 - c) Chief Financial Officer
 - d) Chief Treasury Officer
 - e) Chief Risk Officer

The ALCO should be responsible for ensuring adherence to the limits set by the Board attached in Annexure A as well as for deciding the business strategy of the NBFC (on the assets and liabilities sides) in line with the Company's budget and risk management objectives.

iii. ALM Process: -

The scope of ALM function can be described as follows (based on the size of the operations currently):

- a. Capital Management (Quarterly)
- b. Liquidity risk management
- c. Interest Rate risk management
- d. Profit planning and growth projection (Annually)

a) Capital Management

Company ensures the maintenance and independent management of prudent capital levels for IREP to preserve the safety and soundness of the Company, to support desired balance sheet growth and the realization of new business; and to provide a cushion against unexpected losses.

The following regulatory ratios need to be monitored and reported to ALCO on a quarterly basis.

Regulatory Ratios	Current Regulatory Standard	IREP Policy Limit
Total Risked-Based Capital (minimum)	15.00%	15.00%

Formula for determining CRAR and Risk Weighted Assets, Capital will be as per the Prudential Norms for NBFC-BL prescribed under the SBR Directions. Any changes in CRAR as suggested by RBI shall be adopted on an immediate basis.

b) Liquidity Risk Management

Measuring and managing liquidity needs are vital for effective operation. Liquidity management can reduce the probability of an adverse situation developing. Senior management should measure the liquidity positions on an ongoing basis, and it should be tracked through maturity or cash flow mismatches.

As a non-deposit taking NBFC, IREP currently depends on the following sources of liquidity:

- i. Operating cash on hand.
- ii. Funds held in eligible short-term investment vehicles including the Fixed Deposits issued and held by financial institutions
- iii. Bank loans.

- iv. Short/Medium/Long-term financing obtained from the Indian capital markets

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

GAP Monitoring for Structural Liquidity Tolerance

As per LRM Guidelines the 1–30-day time bucket in the Statement of Structural Liquidity needs to be segregated into granular buckets of 1-7 days, 8-14 days, and 15-30 days. 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. The ALCO needs to monitor their cumulative mismatches (running total) across all other time buckets. While the mismatches upto one year would be relevant since these provide early warning signals of impending liquidity problems, the main focus should be on the short-term mismatches viz., 1-30/31 days.

As a prudent practice, the Company will maintain cash or cash equivalents to ensure positive cumulative gaps across all buckets in ALM

Filing of ALM Returns

The Company shall file all the requisite returns as may be required by RBI from time to time with respect to LRM framework.

IREP, however, shall monitor cumulative mismatches (running total) across all time buckets. The internal prudential limits as set with the approval of the Board/ Management Committee are as mentioned below:

IREP shall monitor the gaps as per the LRM guidelines prescribed by the RBI from time to time.

c) Interest Rate Risk (IRR)

Interest rate risk management helps identify potential risks to earnings and capital resulting from adverse fluctuations in market interest rates. It also identifies asset/funding balance and re-pricing mismatches. Proper identification of potential risks and mismatches will assist the 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.
- Depending on RBI changes in the interest rates/Bank Rate.
- It is contractually pre-payable or withdrawal before the stated maturity.

The agenda of each regularly scheduled ALCO meeting should include a review of the Statement of Interest Rate Sensitivity and a discussion of interest rate risk management practices applicable to IREP.

Liquidity risk monitoring tools

The monitoring tools for managing liquidity risk are primarily:

- a) Concentration of funding by counterparty/ instrument/ currency – The Company has over the years tried to diversify the avenues of resource raising. Currently the Company has Partnerships for funding business, Term Lenders for Term Loans, the Direct Assignment & the PTC (Pass Through Certificate) route and the Debenture route. This helps in reducing concentration on any one product particularly. The Company should continue to endeavor to diversify the Liability profile to the extent possible.
- b) Availability of unencumbered assets that can be used as collateral for raising fund
- c) Certain early warning market-based indicators

Adoption of “stock” approach to liquidity

As per the LRM Guidelines, IREP is also mandated to monitor liquidity risk based on a “stock” approach to liquidity. The monitoring as prescribed by the guidelines shall be by way of predefined internal limits as decided by the Board for various critical ratios pertaining to liquidity risk. Indicative liquidity ratios are:

Sr no	Name of Instrument / Product	Applicable to IREP	Range
1	Commercial paper as a % of total public funds	No	NA
2	Commercial paper as a % of total liabilities	No	NA
3	Commercial paper as a % of total assets	No	NA
4	Non-convertible debentures (original maturity of less than 1 year) as a % of total public funds	No	NA
5	Non-convertible debentures (original maturity of less than 1 year) as a % of total liabilities	No	NA
6	Non-convertible debentures (original maturity of less than 1 year) as a % of total assets	No	NA
7	Other short term liabilities* as a % of total public funds	No	NA
8	Other short term liabilities as a % of total liabilities	Yes	Upto 65%
9	Other short term liabilities as a % of total assets	Yes	Upto 40%

*Other short term liabilities represent current (i.e. due within one year) portion of borrowings and interest accrued thereon

Extension of liquidity risk management principles

The circular also prescribes other aspects of monitoring and measurement of liquidity risk. Mentioned below are various aspects and its applicability to IREP:

Sr No	Other monitoring aspects	Applicability to IREP	Mitigation of Risk
1	Off Balance sheet & contingent Liabilities	Not Applicable	-
2	Stress Testing	Applicable	Performed quarterly with stress on liability and asset
3	Intra Group Fund transfers	Not Applicable	-
4	Diversification of Funding	Applicable	No material given the size of the borrowing. However, the Company has diversified the resource raising avenues largely.
5	Collateral Position Management	Applicable	Monitored monthly
6	Contingency Funding Plan	Applicable	In place and discussed at a regular frequency

Funding Plan

As a general liquidity management practice, the Company should limit concentration in any one particular funding source or tenor. The funding strategy of the Company shall ensure diversity of sources of funds of the Company.

Contingency Funding Plan

The Company shall always have in place a pre-determined plan, commensurate to the size and nature of the business, risk profile etc. for meeting fund requirements in case of contingencies. Accordingly, the Contingency Funding Plan of Company is attached as Annexure C.

Liquidity Coverage Ratio (LCR)

All non-deposit taking systemically important NBFCs with asset size of a minimum of 5000 crores have been mandated to hold HQLA (High Quality Liquid Assets) to meet its liquidity needs for a 30 calendar-day time horizon under a significantly severe liquidity stress scenario. It is to be implemented from December 1, 2020, with the minimum LCR to be 30%, progressively increasing, till it reaches the required level of 100%, by December 1, 2024.

Though it is not yet applicable to IREP, as a prudent practice, the Company will maintain cash or cash equivalents to ensure positive cumulative gaps across all buckets in ALM .

Review

The Board and/or the ALCO- shall oversee the implementation of the LRM Policy and review its functioning periodically. Further, The Board shall conduct review of the policy annually and/ or if required due to a change in laws/ regulations. Report about the functioning of the Policy may be placed before the Board annually.

Annexure A - Risk Appetite and Tolerance Limits

Stock Approach

Risk Type	Quantitative Metric	Metric Description / Formula	Management Oversight	Threshold	Frequency
Liquidity	Structural Liquidity Gap	Measure of ALM mismatch in Cumulative period up to 1 years	ALCO	Cumulatively positive	Quarterly
	Short term funding limits	ST:LT ratio	ALCO	Contractual Short-term liabilities to total liabilities Should not be more than 50%	Quarterly

Annexure B – Funding Plan

ALCO, while making decision to raise funds through any of above sources shall consider, the following points:

1. **Cost of Capital:** Evaluate the interest rates and associated costs of raising debt from banks, financial institutions, or other corporate entities, ensuring they are favourable compared to other options.
2. **Impact on Leverage Ratios:** Assess how the additional debt would affect the company's leverage ratios and overall financial stability as well as ability to raise further finance.
3. **Repayment Terms and Conditions:** Consider the repayment terms, including the maturity period, covenants, and any potential restrictions imposed by lenders.
4. **Liquidity Needs and Timing:** Determine the immediacy of the liquidity requirement and the time frame within which funds can be accessed through each option.
5. **Investors Capacity:** Evaluate the ability and willingness of the PE Investor to provide temporary liquidity support, including the terms and potential implications for corporate governance.
6. **Market Conditions:** Analyze current market conditions for selling liquid investments, including the potential impact on prices and the speed of liquidation.
7. **Regulatory and Compliance Considerations:** Ensure that any actions taken comply with regulatory requirements and do not negatively impact the company's compliance status.

Annexure C – Contingency Funding Plan

Given funding mix, the Company does not anticipate any contingency funding requirements even under moderate stress scenarios. However, in the event of severe stress, the company may secure contingency funds through several avenues:

1. leveraging its low debt levels to raise capital from banks, financial institutions, or other corporate entities.
2. obtaining temporary liquidity support from investors; and
3. Liquidating investments in listed securities.
4. Any other option found suitable by ALCO