

**ASSET LIABILITY MANAGEMENT POLICY
OF
NAVI FINSERV LIMITED**

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1. Introduction

- 1.1 The Asset Liability Management ('**ALM**') Policy (the '**Policy**') covers the broad ALM framework for Navi Finserv Limited (the "**Company**") in accordance with the extant Reserve Bank of India ('**RBI**') Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation Directions, 2023 ("**Scale Based Directions**") and internal policies.

2. Objective of the Policy

- 2.1 The Policy is designed to strategically manage the elements of the balance sheet to foster continuous growth and profitability, ensuring that risks remain within tolerable limits. The purpose of this Policy is to establish an ALM framework for the Company, which will include the following components:

- (a) Identification, measurement, monitoring, and management of liquidity and interest rate risks.
- (b) Prudential regulatory and internal limits to manage liquidity and interest rate risks.
- (c) Stress testing framework and Contingency Funding Plan (as defined in the Company's Contingency Funding Plan (CFP) Policy).
- (d) Relevant governance structure to establish the ALM framework of the Company.
- (e) Regulatory and MIS Reporting and assumptions related to requirements of ALM reports.
- (f) Guidance for the Company's borrowing strategy: The borrowing strategy shall be achieved by adhering to the metrics and thresholds as defined within this Policy, ensuring a balanced and sustainable approach to managing the Company's financial position

- 2.2 The Policy has been framed with the following key objectives:

- (a) to ensure that the Company maintains sufficient liquidity to meet expected and unexpected cash and collateral obligations.
- (b) to lay down 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.
- (c) to introduce effective risk management systems that address the issues relating to interest rate and liquidity risks.

3. Policy Administration

- 2.1 The Policy will take effect on the date it receives approval from the Board. Compliance with the Policy is mandatory, and it shall be interpreted in alignment with the Scale Based Directions, guidelines and circulars issued by the RBI, from time to time.
- 3.2 The Policy is subject to an annual review by the Risk Department, or more often, if necessary, to reflect major shifts in (a) business needs, (b) capital market trends, and (c) regulatory directives. Any revisions to the Policy, as well as periodic updates, must be approved by the Board of Directors, based on the recommendations of the Risk Management Committee, and the Asset Liability Management Committee's (ALCO) .
- 4.2 Without prejudice to the foregoing, in the event the Policy requires to be amended to take into account any changes (whether on account of repeal of any existing law, or otherwise) in any existing regulation, law or policy (or any clarification with respect to any existing regulation, law or policy), the Managing Director of the Company may approve such changes to the Policy as may be required to comply with such changes, or clarifications. Any such changes approved by the Managing Director shall be placed before the ALCO), RMC and Board, in its immediately succeeding meeting, for ratification.
- 3.3 Notwithstanding anything contained in this Policy, in case of any contradiction between any provision of this Policy with any existing legislations, rules, regulations, laws or modification thereof or enactment of a new applicable law, the provisions under such law, legislation, rules, regulation or enactment shall prevail over this Policy. The Company shall ensure that an independent party regularly reviews and evaluates components of its liquidity risk management process. These independent reviews (either internally or externally) will be performed at least once every two years, or when there are key regulatory or business changes.

4. Asset Liability Management framework

- 4.1 The three pillars of the ALM framework shall be:
 - I. ALM Governance
 - II. Liquidity
 - III. ALM Process

5. ALM Governance

- 5.1 This section outlines the different Committees and Departments that participate in the ALM process. The roles and responsibilities of concerned committees / Departments have been outlined in the sections below.

5.1.1 Board of Directors

5.1.1.1 The Board shall have the overall responsibility for the 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.

5.1.1.2 The Board of Directors is responsible for overseeing and managing the overall liquidity profile of the Company, including the following:

- Approving the Policy, risk limit framework and risk management strategies for liquidity and interest rate risk of the Company, as proposed by the Chief Risk Officer ('CRO'), after approval from ALCO.
- Reviewing liquidity measures that describe the nature of the Company's Liquidity Risk and Interest Rate Risk.
- Establishing additional risk guidelines related to liquidity management, if appropriate
- Receiving information describing material interactions with the Company's regulators on liquidity management, and
- Reviewing and ratifying all material breaches, as outlined in this Policy.

5.1.2 **Risk Management Committee**

5.1.2.1 The RMC's objective is to support the Board in overseeing the functions of the ALCO in line with relevant laws and regulations, focusing on the efficacy of the Company's risk management and control structure. This includes evaluating the sufficiency of policies, procedures, and systems within the risk management division and ensuring adherence to compliance standards.

5.1.2.2 While the ALCO is tasked with supervising risks associated with liquidity and interest rate fluctuations, the RMC is charged with the broader responsibility of managing risks across the entire Company. The proceedings and decisions of the ALCO shall be documented in minutes, which are to be presented to the RMC for acknowledgment and review.

5.1.3 **Asset-Liability Management Committee (ALCO)**

5.1.3.1 The ALCO shall consist of:

- Managing Director – Head of the ALCO
- Chief Financial Officer
- Head of Treasury
- Chief Risk Officer

5.1.3.2 The responsibilities of ALCO are as follows:

- Reviewing and proposing to the RMC, the Policy and any amendments needed therein, for submission to the Board for approval
- Reviewing the liquidity risk and Interest Rate Risk from the ALM perspective and take strategic decisions.
- Establishing the structure, responsibilities, and controls for managing liquidity risk, and overseeing

the liquidity position.

- Reporting to the Board of Directors on the Company's overall liquidity risk profile, and ensuring adherence to the risk tolerance / limits set by the Board
- Reviewing the proposed ALM limits and recommend the same to the Board for approval.
- Reviewing and approving liquidity measures used to support the management of liquidity on a quarterly basis; taking decisions related to desired maturity profile and mix of incremental assets and liabilities, sale of assets as a source of funding
- Approving and reviewing stress testing assumptions and methodologies on a quarterly basis as well as the results of the stress tests and review CFP periodically
- Reviewing all limit breaches, both internal and external, and notify these to RMC
- Informing the Board of any material interactions with the Company's regulator on liquidity management issues
- Reviewing and approving the methodology for computing the benchmark lending rate
- Reviewing the revision in the rate of interest applicable to loan products of the Company, and the impact of such revisions on future cashflows and maturity profiles
- Reviewing and approving the methodology and bucketing assumptions, including changes, if any, used for the preparation of ALM reports
- Reviewing and approving the methodology for conducting behavioural studies.

5.1.3.3 The ALCO is required to convene a minimum of four times annually. However, the Chairman of the ALCO holds the authority to call additional meetings as deemed necessary. Should any contingencies arise, the frequency of these meetings will be determined in accordance with the stipulations outlined in the CFP policy.

5.1.4 **Liquidity Management Team**

5.1.4.1 The Liquidity Management Team (LMT) shall be responsible for analysis, monitoring and reporting the liquidity and interest rate risk profile of the Company to the ALCO. The LMT will consist of:

- Head of Treasury / Investments
- Head of Borrowings
- Chief Risk Officer

5.1.5 **Treasury Department**

5.1.5.1 The Treasury Department, led by the Head of Treasury / Investments, shall be responsible for:

- Monitoring liquidity risk measures and limits
- Ensuring that the liquidity measurement systems adequately identify and quantify exposure and produce timely reports

5.1.6 Risk Department

5.1.6.1 The Risk Department, led by the CRO, shall be responsible for:

- Developing, implementing, reviewing, and maintaining the Policy and supporting procedures and methodology documentation
- Monitoring the various liquidity risk measures and reporting them to the ALCO
- Conducting stress testing scenarios and present it to the ALCO
- Developing and maintaining the contingency funding plan
- Notifying any other relevant reporting to the ALCO

6. Liquidity Risk Management Strategy

The Company shall have a well defined comprehensive strategy for liquidity risk management. By ensuring timely satisfaction of its liabilities as they become due, liquidity management can reduce the probability of an adverse situation developing. The Company shall measure not only the liquidity positions on an ongoing basis but also examine the liquidity requirements that are likely to evolve under different scenarios. The Company shall consider the below mentioned principles to effectively manage its liquidity risk:

- 6.1 Liquidity Risk Limits :** The Company shall have a sound process for identifying, measuring, monitoring and controlling liquidity risk. The Company shall clearly articulate a liquidity risk tolerance limit that is appropriate for its business strategy. The liquidity risk monitoring limits are mentioned in Section 77.2 of this Policy.
- 6.2 Alignment with Business Planning :** The Company shall determine the liquidity requirements - costs and benefits so that it can be incorporated in the near-term loan growth projections and long-term strategic business decisions, product pricing and new product strategies, etc.
- 6.3 Contingent Liabilities and Off-balance Sheet Exposures :** The management of liquidity risks relating to off-balance sheet exposures such as PTC Securitisation, Direct Assignment, etc. shall be considered in assessing the liquidity risk that could materialize in times of stress. The liquidity risk measurement shall be conducted by identifying mismatches in maturity or cash flows, with all anticipated cash inflows and outflows being allocated to maturity buckets based on when the cash flows are expected to occur as defined in Section 7.2 of this Policy.
- 6.4 Borrowing Strategy :** The Company shall establish a funding strategy that provides effective diversification in the types, sources and tenor of funding. The Company shall maintain a continuous presence and strong relationships with the lenders to promote effective diversification of funding sources. Funding strategy should also take into account the qualitative dimension of the concentrated behavior of repayments in typical market conditions to manage liquidity risk.

The Company shall effectively monitor the intra-group borrowings to prevent over-reliance and liquidity stress at both the Company and Group levels. The Company shall assess the proportion of intra-group borrowings to

total borrowings on a quarterly basis and explore the avenues to diversify the funding sources to reduce over reliance on the intra-group borrowings.

The Company has established a detailed Board approved Borrowing Strategy in consideration of liquidity risk measurement and concentration limits defined in Section 7.2 of this Policy. This Strategy shall be approved by the Board on an annual basis.

- 6.5 Collateral Management :** The Company shall actively manage its collateral positions, differentiating between encumbered and unencumbered assets. The Company shall actively monitor the physical location where collateral is held and how it may be mobilized in a timely manner. Further, the Company shall ensure to have sufficient collateralisation to meet expected and unexpected borrowing needs and potential increases in margin requirements over different timeframes.
- 6.6 Stress Testing :** The Company shall conduct stress tests for a variety of short-term and protracted Company-specific and market specific stress scenarios. The Company shall consider the nature of the Company's business so that the scenarios incorporate the funding and market liquidity risks to which the Company is exposed. The liquidity risk stress testing scenarios and principles are covered in Section 7.4 of this Policy.
- 6.7 Contingency Funding Plan :** The Company shall prepare for, and be operationally ready to manage through, a liquidity stress event by establishing a CFP Policy. The Company shall adopt a framework for monitoring and managing unanticipated liquidity stress events, which may be market driven and/or Company specific. These liquidity stress events may include, but are not limited to, the scenarios described in Section 7.4 of this Policy. The Company has established a Board CFP Policy to manage and monitor its liquidity contingency requirements.

7. Liquidity Risk Management Process

The liquidity risk management process shall encompass the following:

- I. Liquidity Risk Measurement
- II. Liquidity Risk Monitoring
- III. Liquidity Stress Testing
- IV. Management of Market and Interest Rate Risks
- V. Preparation of Contingency Plans

- 7.1 Liquidity Risk Measurement :** Monitoring liquidity risk involves assessing the gaps in maturities or the mismatches in the cash flows.

7.1.1 Structural Liquidity Statement (SLS)

- 7.1.1.1 The SLS report will serve as a tool for assessing and controlling liquidity risk. Liquidity monitoring will be conducted by identifying mismatches in maturity or cash flows, with all anticipated cash inflows and outflows being allocated to maturity buckets based on when the cash flows are expected to occur.

- 7.1.1.2 To measure and manage 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 creation of the SLS hinges on critical assumptions about how outflows, inflows, and potential cash flows are categorized within various time buckets. The segmentation of these time buckets and the specific account categories utilized in compiling the report adhere to the guidelines recommended by the RBI.
- 7.1.1.3 The detailed report format and method/classification for bucketing is covered in Annexure I. On a quarterly basis, the statement of structural liquidity and the statement of dynamic liquidity shall be placed before the ALCO. For the purposes of the SLS (specifically for the Static ALM), behavioural view of future cash flows shall be considered. The approach and methodology for this are detailed in Annexure IV.
- 7.1.1.4 The Static ALM thus prepared shall be subject to backtesting requirements every month. Outcome of this exercise shall be considered for any updates to the underlying methodology. Results of the backtesting exercise are to be reported quarterly to the ALCO, with this update also shared with the RMC for reference.
- 7.1.1.5 The SLS is filed in the RBI return named “DNBS04B – Structural Liquidity & Interest rate Sensitivity – Monthly¹”. The Company shall submit the policy note on treatment of the investment portfolio for the purpose of ALM to ALCO for approval. The ALCO approved note shall be duly submitted to the Regional Office of the Department of Supervision of the Reserve Bank located in Bangalore, Karnataka, as and when there are any changes made.

7.1.2 Stock Liquidity Ratios

- 7.1.2.1 The Stock Approach entails the regular monitoring of specific ratios at set intervals to keep track of the liquidity reserves within the Company's balance sheet. In line with RBI's requirements, the following ratios shall be tracked and monitored on a quarterly basis:
- Short-term liabilities² to total assets
 - Short-term liabilities to long-term assets
 - Short-term liabilities to total liabilities
 - CPs to total assets
 - NCD/MLDs (with original maturity < 1 year) to total assets
 - Long-term assets to total assets
 - Commercial papers as a % of total public funds³ and total liabilities
 - Non-convertible debentures (original maturity of less than one year) as a % of total public funds and total liabilities
 - Other short-term liabilities, if any as a % of total public funds

¹ Regulatory return must be filed online at the RBI XBRL portal within 10 days before the end of the month

² Total borrowings with original maturity < 12 months excluding intra-group borrowings

³ As per RBI's guidance, Public funds include public deposits, inter-corporate deposits, bank finance and all funds received whether directly or indirectly from outside sources such as funds raised by issue of Commercial Papers, debentures etc.

- 7.1.2.2 The results of the above analysis shall be assessed and presented to ALCO on a quarterly basis. The Company shall follow the Liquidity Risk Management SOP for computing the balance sheet stock liquidity ratios.

7.1.3 Dynamic Liquidity Statement (DLS)

- 7.1.3.1 To actively manage short-term liquidity, the Company shall prepare the Short-Term Dynamic Liquidity Statement. This report will provide a forecast of the expected fund allocations and collections over various short-term periods: 0-7 days, 8-14 days, 15-30 days, 1 month to 3 months, and over 3 months to 6 months. The purpose of this report is to help the Company accurately estimate its short-term liquidity needs.
- 7.1.3.2 The report is formulated with an awareness of the observed shortfalls in various time buckets and calculates the necessary funding to address these shortfalls. The structuring of time buckets and the categorization of accounts for the report's preparation shall be in accordance with the RBI guidelines.
- DLS is filed in the RBI return named "DNBS04A – Short Term Dynamic Liquidity (STD L) – Quarterly".

7.1.4 Funding Concentration measurement

- 7.1.4.1 Funding concentration metrics are designed to pinpoint critical funding sources, the cessation of which could lead to liquidity issues. Its objective is to manage the Company's funding concentration by keeping track of the funds obtained from each major counterparty, each key product or instrument. Additionally, these metrics are intended to highlight significant sources of wholesale funding, where the withdrawal of these funds could potentially trigger liquidity challenges.
- 7.1.4.2 To avoid over-reliance from a single source of external funding (lender), lending from a single lender will be monitored as a percentage of external liabilities. This must be assessed on a quarterly basis and presented to the ALCO.
- 7.1.4.3 This shall be additionally measured by the below ratios as required by the RBI:
1. Borrowing / Deposit from significant counterparty as a % of total deposits and total liabilities
 2. Significant instrument as a % total liabilities
- Limits for these funding concentration metrics are defined later in this Policy.

7.1.5 Collateral Position

- 7.1.5.1 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.

⁴ Regulatory return must be filed online at the RBI CIMS portal within 21 days after the end of the reporting quarter

7.1.6 Liquidity Coverage Ratio

7.1.6.1 As per RBI's Scale Based Directions, the Company shall monitor the Liquidity Coverage Ratio (LCR) to evaluate the Company's resilience to short term liquidity disruptions.

7.1.6.2 The LCR assesses short-term resilience of the Company to potential liquidity disruptions by ensuring that it has sufficient stock of high-quality liquid assets to survive a stress scenario lasting for 30 days.

The ratio is as prescribed below:

$$\text{Liquidity Coverage Ratio (LCR)} = \frac{\text{Stock of High-Quality Liquid Assets}}{\text{Total Net cash outflow over 30 calendar days}}$$

7.1.6.3 The Company shall follow the SOP established capturing the process of preparing and reporting of LCR in line with the ALM Policy.

7.2 Liquidity Risk Monitoring

7.2.1 The Policy is established to guarantee continuous monitoring and fulfilment of liquidity needs. Consequently, limits have been set to facilitate effective liquidity oversight as follows. Should there be any breaches of these internal thresholds, the ALCO will be responsible for validation and will endorse a corrective strategy to be implemented within a designated timeframe. Any breach of these internal limits will be presented to and ratified by the Board.

7.2.2 Limits on Structural Liquidity and the Statement of Dynamic Liquidity

7.2.2.1 The management of this aspect will be directed by the discrepancies identified in the SLS report. The RBI⁷ has established limits for the maturity buckets of 1-7 Days, 8-14 Days, and 15-30 Days.

7.2.2.2 Beyond these regulatory limits, any cumulative negative gaps in the time buckets beyond the 15-30 days period should be internally monitored. The findings should then be presented to the ALCO for its examination and ratification, as necessary.

7.2.2.3 In case of limit breaches, the same shall be reviewed by the appropriate authority and action shall be advised by the authority, as identified below. Broadly, the Company shall follow the below principles:

- Any breach in regulatory limits shall be ratified by ALCO, and subsequently reported to the Board, via the RMC, along with the measures already taken / proposed action plan for financing the gap to bring the liquidity mismatch(s) within the prescribed regulatory limits.
- Any breach in internal ALCO limits shall be ratified by the ALCO.

7.2.2.4 The below table details the bucket wise limits for the net cumulative negative mismatches as a percentage of the cumulative cash outflows in the respective time buckets.

| Time Bucket | Company Limit | Regulatory Limit |
|--------------------|---------------|------------------|
| 0-7 days | -5% | -10% |
| 8-14 days | -5% | -10% |
| 15-30 days | -10% | -20% |
| 31 days – 3 months | -10% | NA |
| 3-6 months | -10% | NA |
| 6 months – 1 year | -10% | NA |
| 1-3 year | -10% | NA |
| 3-5 year | -10% | NA |
| Over 5 year | -10% | NA |

7.2.3 Liquidity Coverage Ratio (LCR) Limits

| S No | Ratio | Company Limit for 90 day average for Quarterly Monitoring | Regulatory Limit |
|------|--------------------------|---|------------------|
| 1 | Liquidity Coverage Ratio | 150% | 100% |

The Company shall also monitor the LCR on a daily basis, maintaining a minimum threshold of 110%.

7.2.4 Stock Liquidity Ratio Limits

7.2.4.1 The limits on stock ratios are presented in the following table. Any significant movements of these ratios shall be intimated to ALCO on a timely basis, and these ratios will be presented to the ALCO on a quarterly basis.

| No. | Ratio | Company Limit |
|-----|--|---------------|
| 1 | Short-term liability to total assets | 70% |
| 2 | Short-term liability to long-term assets | 150% |
| 3 | Short-term liability to total liability | 75% |

| | | |
|----|---|------|
| 4 | Commercial Papers to Total Assets | 10% |
| 5 | Non-Convertible Debentures (NCDs) (original maturity less than one year) to Total Assets | 5% |
| 6 | Long-term assets to total assets | 50% |
| 7 | Commercial papers as a % of total public funds | 100% |
| 8 | Commercial papers as a % of total liabilities | 20% |
| 9 | Other short-term liabilities, if any as a % of total liabilities | 75% |
| 10 | Other short-term liabilities, if any as a % of total public funds | 65% |
| 11 | Other short-term liabilities, if any as a % of total assets | 50% |
| 12 | Non-convertible debentures (original maturity of less than one year) as a % of total public funds | 10% |
| 13 | Non-convertible debentures (original maturity of less than one year) as a % of total liabilities | 5% |

The definitions for the above ratios are provided in Annexure V.

7.2.5 Funding Concentration Limits

7.2.5.1 Limits established to monitor any funding concentration faced by the Company are identified in the table below. Any significant movements of these ratios shall be intimated to ALCO on a timely basis, and these ratios will be presented to the ALCO on a quarterly basis.

| No. | Ratio | Company Limit |
|-------|---------------------------------------|---------------|
| 1 | Borrowings from top 10 counterparties | 50% |
| 2 | Borrowings from a single counterparty | 10% |
| 3 | Instrument-specific borrowings | |
| (i) | Non-Convertible Debentures | 50% |
| (ii) | Term Loan | 50% |
| (iii) | Commercial Papers | 15% |
| (iv) | Liability against securitised assets | 40% |
| (v) | Convertible Debenture | 5% |

7.3 Liquidity Stress Testing

- 7.3.1 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 different scenarios. The list of scenarios should include both Company specific and macro environment related stress events. The stress scenarios for the purpose of liquidity stress testing are as follows:

| Stress Scenario | Assumptions | Severity | Idiosyncratic or Market | Short-Term/Medium Term/Long Term |
|--|--|--|-------------------------|----------------------------------|
| Delay in collections due to increase in delinquencies | Decrease the collections in the shorter maturity buckets by 15% | Low - 5% Medium - 10% High - 15% | Idiosyncratic | Short-Term |
| Prepayment option is exercised on few of the liabilities | Prepayment of liabilities by 15% in the 1-3 months bucket | Low - 5% Medium - 10% High - 15% | Idiosyncratic | Short-Term |
| Higher haircut on assets | 20% reduction in the value of investments over the next 6 months | Refer the table in Page 15 - Haircut on Investments under Stress Scenarios | Market | Short-Term |
| CP and NCD market inaccessible | No new funding through CP and NCD market for 6 months | Severe | Market | Short-Term |
| Reduction in Lender credit lines | 15% reduction in Lender credit lines - planned tranches over 12 months | Low - 5% Medium - 10% High - 15% | Market | Long Term |
| Decrease in loan receivables | Decrease in scheduled loan receivables by 15% over 12 months | Low - 5% Medium - 10% High - 15% | Idiosyncratic | Long Term |
| No new securitisation | No PTCs between 6-12 months | Severe only | Market | Medium Term |
| Increase in HL/PL proportion | Due to a strategy shift, the Company is now focusing on advancing more Housing Loans than Personal Loans | Medium | Idiosyncratic | Medium term |

- Short-Term - Upto 6 months

- Medium Term - 6 months to 12 months
- Long Term - Above 1 year

Haircut on Investments under Stress Scenarios are as follows:

| Stress Scenarios | Low Severity | Medium Severity | High Severity |
|---|--------------|-----------------|---------------|
| Investments Corporate Bonds- run off factor | 15.0% | 20.0% | 25.0% |
| Investments G Sec- Index - run off factor | 0.0% | 5.0% | 10.0% |
| Investments- Equity - run off factor | 50.0% | 75.0% | 75.0% |
| Investments- Mutual Funds- run off factor | 10.0% | 15.0% | 20.0% |

- 7.3.2 These stress scenarios are applied in tandem to assess the *combined stress* impact on the Company's liquidity position. Results of stress testing shall be presented along with assumptions to the ALCO every quarter. The methodology and the assumptions for the stress testing shall be documented as required.

7.4 Management of Market and Interest Rate Risks

- 7.4.1 The Company shall establish a mechanism for Interest Rate Risk (IRR) assessment to identify potential risks to earnings and capital arising from adverse interest rate movements, as well as asset-funding imbalances and repricing mismatches. This mechanism will facilitate the development of asset and liability strategies to mitigate these risks. An asset or liability will be considered rate sensitive if it has cash flow within the specified period, contractually reprices, is linked to market rates, or is prepayable/withdrawable before maturity. Effective IRR management and reporting are crucial for this process.

7.5 Contingency Funding Plan

- 7.5.1 The Company shall formulate a CFP for responding to severe disruptions which might affect the Company's ability to fund some or all of its activities in a timely manner and at a reasonable cost. The CFP Policy of the Company establishes guidance and relevant principles to be followed.
- 7.5.2 The Company shall consider the inputs from the liquidity stress testing outcome to define the CFP plan. The Company shall analyse the stress testing assumptions, especially the short-term scenarios to define and review the CFP on an on-going basis.

- 7.5.3 CFP shall contain details of available/ potential contingency funding sources and the amount/ estimated amount which can be drawn from these sources, clear escalation/ prioritisation procedures detailing when and how each of the actions can and should be activated, and the lead time needed to tap additional funds from each of the contingency sources.
- 7.5.4 At the beginning of every financial year, the CFP shall be presented to the Board for review and approval.

8. Interest Rate Risk Management

- 8.1 Fluctuations in interest rates can impact the immediate net interest income and the long-term economic value. The practice of Interest Rate Risk (IRR) management and reporting is crucial to identify potential threats to earnings and capital that may arise from unfavorable shifts in market interest rates.
- 8.2 This process also highlights any imbalances in assets and funding, as well as timing discrepancies in repricing. By accurately identifying these potential risks and mismatches, management can formulate strategies for assets and liabilities that aim to mitigate such risks.
- 8.3 An asset or liability is normally classified as a Rate Sensitive Asset (RSA) or a Rate Sensitive Liability (RSL) if any of the below criteria are met:
- there is a cash flow within the time interval under consideration⁵
 - the interest rate resets/ reprices contractually during the interval
 - linked or sensitive to market changes in the interest rates eg: repo rates
 - it is contractually pre-payable or withdrawal on or before the stated maturities

All other assets, liabilities and off-balance sheet exposures shall be considered as 'non rate sensitive'

8.4 Traditional Gap Approach ('IRS-TGA')

- 8.4.1 The RBI recommends using the traditional Gap analysis as a suitable method to measure Interest Rate Risk. IRS-TGA focuses on evaluating earnings risk exposure by monitoring re-pricing mismatches within the portfolio.
- 8.4.2 For this analysis, the Company is required to categorize its assets and liabilities into two distinct groups: those that are sensitive to interest rate changes (rate sensitive) and those that are not (non-rate sensitive), which includes off-balance sheet items.

⁵ Refers to a specific period that is examined or analyzed, during which the asset or liability generates or requires a cash flow that is sensitive to changes in interest rates.

- 8.4.3 Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL) are to be organized into time buckets according to the remaining duration until maturity or the next scheduled interest rate adjustment, whichever comes first. Alternatively, they can be classified based on expected behavioral cash flows.
- 8.4.4 The potential for Gap or Mismatch risk is assessed by calculating the differences between RSAs and RSLs across various time periods as of a specific date. This gap analysis aims to identify and quantify temporal discrepancies between the cash flows from rate sensitive liabilities and the income from rate sensitive assets, taking into account off-balance sheet exposures.
- 8.4.5 A positive gap in the time bucket indicates that the Company shall have a positive impact on the earnings in case of rising interest rates scenario and vice-versa. Negative gap in the time bucket indicates that the Company shall have a positive impact on earnings in case of falling interest rate scenario and vice-versa. The Company shall monitor the mismatches in defined time buckets for different currencies separately, if and when applicable.
- 8.4.6 Interest rate risk is also evaluated by calculating the Earnings at Risk (EaR) (across different currencies when applicable). EaR indicates how sensitive the NII (Net Interest Income) is to unfavourable shifts in interest rates. Expressing the potential impact as a percentage of the NII is a reliable indicator of the earnings risk. The primary goal of determining EaR is to estimate the effect that a given percentage change in interest rates would have on the Company's NII. This method is designed to gauge the influence of interest rate fluctuations on the Company's earnings over the course of a year.
- 8.4.7 The time buckets and the heads of accounts to be used for preparing the TGA report shall be in accordance with applicable RBI guidelines. The detailed method/classification for bucketing is covered in **Annexure 2**. Interest Rate Sensitivity (IRS) is filed in the RBI return named "DNBS04B – Structural Liquidity & Interest rate Sensitivity – Monthly⁶".

8.5 Interest Rate Risk Monitoring Limits

- 8.5.1 The established gap limits will be subject to ongoing surveillance, and any deviations will be promptly reported to the ALCO. Addressing these breaches will be a joint responsibility of the business units and the Treasury through appropriate modification in sourcing of assets and raising of liabilities. These limits will be re-evaluated annually and adjusted if required.
- 8.5.2 Should a breach of the limits occur, it will be assessed by the relevant authority, as mentioned below, which will then provide guidance on the necessary corrective measures. Broadly, the Company shall follow the below principles:

⁶ Regulatory return must be filed online at the RBI CIMS portal within 15 days after the end of the reporting month

- Any breach in regulatory limits shall be ratified by ALCO and subsequently reported to the Board, via the RMC, along with the measures already taken / proposed action plan for financing the gap to bring the liquidity mismatch(s) within the prescribed regulatory limits.
- Any breach in internal ALCO limits shall be ratified by the ALCO.

8.5.3 The net gap, calculated as Rate-Sensitive Assets minus Rate-Sensitive Liabilities, should be monitored and limited to a maximum of 10% of Rate-Sensitive Assets for each time bucket.

8.6 Interest Rate Stress Testing

8.6.1 Interest rate risk stress testing is to be performed using the approaches identified below:

- Economic Value of Equity: The negative impact on the Company's economic value of equity, as a result of movements in interest rates across scenarios
- Earnings at Risk (EAR): The negative impact on the Earnings of the Company due to changes in interest rates across scenarios for either parallel shock up or parallel shock down.

8.6.2 The results of the above analysis shall be presented along with assumptions to the ALCO every quarter. The interest rate risk sensitivity for EAR will be assessed based for the following 6 scenarios mentioned below:

- Parallel Shock up : Over 3 interest rate levels specified as mild, moderate and severe
- Parallel Shock down: Over 3 interest rate levels specified as mild, moderate and severe

8.6.3 The interest rate risk sensitivity for Economic Value of Equity (EVE) will be done based on the following 3 scenarios: 100 bps up, 200 bps up, 300 bps up.

8.6.1 Earnings at Risk (EaR) limit: The maximum change in EAR for mild (200 bps), moderate (300 bps) and severe (400 bps) changes in interest rates shall not exceed 5% of forecasted NII, and shall be monitored on a quarterly basis

| Earnings at Risk | Company Limit |
|--|----------------------|
| EaR impact (for parallel up & down rate changes) | 5% of forecasted NII |

9. ALM Information System

9.1 A prerequisite for putting in place the ALM framework is a strong Management Information System (MIS). For quick analysis and consolidation of the data, information should be readily available with the LMT to monitor the Company's liquidity. The Company will have the MIS report framework designed to provide timely and

forward-looking information on the liquidity and interest rate risk position to the Board and ALCO, both under normal and stress situations.

- 9.2 The information should capture borrowing data, data pertaining to loan assets and investments. The MIS will capture all sources of liquidity risk, including contingent risks and those arising from new activities, and shall have the ability to furnish more granular and time sensitive information during stress events.

10. Foreign Currency Risk

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

11. Public Disclosure on Liquidity Risk

- 11.1 The Company shall publicly disclose information on a quarterly basis on the official website of the Company and in the annual financial statements as notes to account that enables market participants to make an informed judgment about the soundness of its liquidity risk management framework and liquidity position. The information disclosed shall include the following:

- Funding concentration based on significant counterparty (borrowings)
- Top 10 borrowings
- Funding Concentration based on significant instrument/product
- Stock ratios
- Institutional set-up for liquidity risk management
- Liquidity Coverage Ratio

12. DISCLOSURES

- 12.1 The Policy shall not be required to be disclosed on the website of the Company, and shall be used for internal purposes of the Company.

Annexures I - SLS Report – Classification and Bucketing methodologies

Maturity Profile - Liquidity: Heads of Accounts Time-bucket category

The Company shall employ the bucketing methodology prescribed by the Reserve Bank of India, in conjunction with its financial statements.

| A. Outflows | |
|--|--|
| 1. Capital funds | |
| a) Equity capital, Non-redeemable or perpetual preference capital, Reserves, Funds and Surplus | In the 'over 5 years' time-bucket. |
| b) Preference capital - redeemable/non-perpetual | As per the residual maturity of the shares. |
| 2. Gifts, grants, donations and benefactions | The 'over 5 years' time-bucket. However, if such gifts, grants, etc. are tied to specific end-use, then these may be slotted in the time- bucket as per purpose/end-use specified. |
| 3. Notes, Bonds and debentures | |
| a) Plain vanilla bonds/debentures | As per the residual maturity of the instruments |
| b) Bonds/debentures with embedded call/put options (including zero-coupon/deep discount bonds) | As per the residual period for the earliest exercise date for the embedded option. |
| c) Fixed rate notes | As per the residual maturity |
| 4. Deposits*: | |
| a) Term deposits from public | As per the residual maturity. |
| b) Inter Corporate Deposits | These, being institutional/wholesale deposits, should be slotted as per their residual maturity |
| c) Commercial Papers | As per the residual maturity. |
| 5. Borrowings | |
| a) Term money borrowings | As per the residual maturity |
| b) From RBI, Govt. & others | -do- |
| c) Bank borrowings in the nature of WCDL, CC etc | Over six months and up to one year |
| 6) Current liabilities and provisions: | |

| | |
|--|--|
| a) Sundry creditors | As per the due date or likely timing of cash outflows. A behavioural analysis could also be made to assess the trend of outflows and the amounts slotted accordingly. |
| b) Expenses payable (other than interest) | As per the likely time of cash outflow. |
| c) Advance income received, receipts from borrowers pending adjustment | In the 'over 5 years' time-bucket as these do not involve any cash outflow. |
| d) Interest payable on bonds/deposits | In respective time buckets as per the due date of payment. |
| e) Provisions for NPAs | The amount of provision may be netted out from the gross amount of the NPA portfolio and the net amount of NPAs be shown as an item under inflows in stipulated time-buckets. |
| f) Provision for Investments portfolio | The amount may be netted from the gross value of investments portfolio and the net investments be shown as inflow in the prescribed time-slots. In case provisions are not held security-wise, the provision may be shown on "over 5 years" time bucket. |
| g) Other provisions | To be bucketed as per the purpose/nature of the underlying transaction. |
| B. Inflows | |
| 1. Cash | In 1 to 7 day time-bucket. |
| 2. Remittance in transit | ---do--- |
| 3. Balances with banks (in India only) | |
| a) Current account | The stipulated minimum balance be shown in 6 months to 1 year bucket. The balance in excess of the minimum balance be shown in 1 to 7 day time bucket. |
| b) Deposit accounts/short term deposits | As per residual maturity. |
| 4. Investments (net of provisions) | |
| a)Mandatory investments | As suitable to the Company |
| b)Non Mandatory Listed | "1 day 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 the Company |
| c) Non Mandatory unlisted securities (e.g. shares, etc.) | "Over 5 years" |
| d) Non-mandatory unlisted securities having a fixed term maturity | As per residual maturity |
| e) AIF Units | In the 'over 5 year' time bucket. |
| 5. In case Trading book is followed | |
| Equity shares, convertible preference shares, non-redeemable/perpetual preference shares, shares of subsidiaries/joint ventures and units in open ended mutual funds and other investments . | (i) Shares classified as "current" investments representing trading book of the Company may be shown in time buckets of "1 day to 7 days, 8 days to 14 days, 15 days to 30 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 the Companies . |
| | (ii) Shares classified as "long term" investments may be kept in over "5 years time" bucket. However, the shares of the assisted units/companies acquired as part of the initial financing package, may be slotted in the relative time bucket keeping in view the pace of project implementation/time-overrun, etc., and the resultant likely timeframe for divesting such shares. |
| 6. Advances (performing) | |
| a) Bill of Exchange and promissory notes discounted and rediscounted | As per the residual usance of the underlying bills. |
| b) Term loans (rupee loans only) | The cash inflows on account of the interest and principal of the loan may be slotted in respective time buckets as per the timing of the cash flows as stipulated in the original/revised repayment schedule. |
| c) Corporate loans/short term loans | As per the residual maturity |
| 7. Non-performing loans (May be shown net of the provisions, interest suspense held) | |
| a) <u>Sub-standard</u> | |

| | |
|---|--|
| i) All overdues and instalments of principal falling due during the next three years | In the 3 to 5 year time-bucket. |
| ii) Entire principal amount due beyond the next three years | In the over 5 years time-bucket |
| b) <u>Doubtful and loss</u> | |
| i) All instalments of principal falling due during the next five years as also all overdues | In the over 5 year time-bucket |
| ii) Entire principal amount due beyond the next five years | In the over 5 year time-bucket |
| 8. Assets on lease | Cash flows from the lease transaction may be slotted in respective time buckets as per the timing of the cash flow. |
| 9. Fixed assets (excluding leased assets) | In the 'over 5 year' time-bucket. |
| 10. Other assets | |
| (a) Intangible assets and items not representing cash inflows. | In the 'over 5 year' time-bucket. |
| (b) Other items (such as accrued income, other receivables, staff loans, etc.) | In respective maturity buckets as per the timing of the cashflows. |
| C. Contingent liabilities | |
| (a) Letters of credit/guarantees (outflow through devolvement) | Based on the past trend analysis of the devolvments vis-à-vis the outstanding amount of guarantees (net of margins held), the likely devolvments should be estimated and this amount could be distributed in various time buckets on a judgmental basis. The assets created out of devolvments may be shown under respective maturity buckets on the basis of probable recovery dates. |
| (b) Loan commitments pending disbursal (outflow) | In the respective time buckets as per the sanctioned disbursement schedule. |
| (c) Lines of credit committed to/by other Institutions (outflow/inflow) | As per usage of the bills to be received under the lines of credit. |

Notes:

- a. Any event-specific cash flows (e.g. outflow due to wage settlement arrears, capital expenses, income tax refunds, etc.) should be shown in a time bucket corresponding to timing of such cash flows.
- i) All overdue liabilities be shown in the 1 to 7 days and 8-14 days time buckets based on behavioural estimates.
- ii) Overdue receivables on account of interest and instalments of standard loans / hire purchase assets / leased rentals should be slotted as below:

| | | |
|-------|---|--|
| (i) | Overdue for less than one month. | In the 3 to 6 month bucket. |
| (ii) | Interest overdue for more than one month but less than seven months (i.e. before the relative amount becomes past due for six months) | In the 6 to 12 month bucket without reckoning the grace period of one month. |
| (iii) | Principal instalments overdue for 7 months but less than one year | In 1 to 3 year bucket. |

Annexure II - Interest Rate Sensitivity Report - RSA & RSL distribution methodology

Interest Rate Sensitivity

The Company shall employ the bucketing methodology prescribed by the Reserve Bank of India, in conjunction with its financial statements.

| Heads of accounts | Rate sensitivity of time bucket |
|--|--|
| <u>LIABILITIES</u> | |
| 1. Capital, Reserves & Surplus | Non-sensitive |
| 2. Gifts, grants & benefactions | -do- |
| 3. Notes, bonds & debentures : | |
| a) Floating rate | Sensitive; reprice on the roll- over/repricing date, should be slotted in respective time buckets as per the repricing dates. |
| b) Fixed rate (plain vanilla) including zero coupons | Sensitive; reprice on maturity. To be placed in respective time buckets as per the residual maturity of such instruments. |
| c) Instruments with embedded options | Sensitive; could reprice on the exercise date of the option particularly in rising interest rate scenarios. To be placed in respective time buckets as per the next exercise date. |
| 4. <u>Deposits</u> | |
| a) Deposits/Borrowings | |
| i) Fixed rate | Sensitive; could reprice on maturity or in case of premature withdrawal being permitted, after the lock-in period, if any, stipulated for such withdrawal. To be slotted in respective time buckets as per residual maturity or as per residual lock-in period, as the case may be. The prematurely withdrawable deposits with no lock-in period or past such lock-in period, should be slotted in the earliest /shortest time bucket. |

| Heads of accounts | Rate sensitivity of time bucket |
|--|---|
| ii) Floating rate | Sensitive; reprice on the contractual roll-over date. To be slotted in the respective time-buckets as per the next repricing date. |
| b) ICDs | Sensitive; reprice on maturity. To be slotted as per the residual maturity in the respective time buckets. |
| 5. <u>Borrowings:</u> | |
| a) Term-money borrowing | Sensitive; reprices on maturity. To be placed as per residual maturity in the relative time bucket. |
| b) Borrowings from others | |
| i) Fixed rate | Sensitive; reprice on maturity. To be placed as per residual maturity in the relative time bucket. |
| ii) Floating rate | Sensitive; reprice on the roll-over/ repricing date. To be placed as per residual period to the repricing date in the relative time bucket. |
| 6. <u>Current liabilities & provisions</u> | |
| a. Sundry creditors b. Expenses payable c. Swap adjustment a/c. d. Advance income received/receipts from borrowers pending adjustment e. Interest payable on bonds/deposits f. Provisions | Non-sensitive |
| 7. Repos/ bills rediscounted/forex swaps (Sell / Buy) | Sensitive; reprices on maturity. To be placed as per the residual maturity in respective buckets. |
| <u>ASSETS:</u> | |
| 1. Cash | Non-sensitive. |
| 2. Remittance in transit | Non-sensitive. |
| 3. Balances with banks in India | |
| a) In current a/c. | Non-sensitive. |

| Heads of accounts | Rate sensitivity of time bucket |
|--|---|
| b) In deposit accounts, Money at call and short notice and other placements | Sensitive; reprices on maturity. To be placed as per residual maturity in respective time-buckets. |
| 4. <u>Investments</u> | |
| a) Fixed income securities (e.g. govt. securities, zero coupon bonds, bonds, debentures, cumulative, non-cumulative, redeemable preference shares, etc.) | Sensitive on maturity. To be slotted as per residual maturity. However, the bonds/debentures valued by applying NPA norms due to non-servicing of interest, should be shown, net of provisions made, in: i. 3-5 year bucket - if sub-standard norms applied. ii. Over 5 year bucket - if doubtful norms applied. |
| b) Floating rate securities | Sensitive; reprice on the next repricing date. To be slotted as per residual time to the repricing date. |
| c) Equity shares, convertible preference shares, shares of subsidiaries/joint ventures, venture capital units. | Non-sensitive. |
| 5. <u>Advances</u> (performing) | |
| a) Bills of exchange, promissory notes discounted & rediscounted | Sensitive on maturity. To be slotted as per the residual usance of the underlying bills. |
| b) Term loans/corporate loans / Short Term Loans (rupee loans only) | |
| i) Fixed Rate | Sensitive on cash flow/ maturity. |
| ii) Floating Rate | Sensitive only when PLR or risk premium is changed by the Company. The amount of term loans should be slotted in time buckets which correspond to the time taken by Company to effect changes in its PLR in response to market interest rates. |
| 6. <u>Non-performing loans:</u> (net of provisions, interest suspense and claims received from ECGC) | |
| a. Sub-standard) | To be slotted as indicated at item B.7 of Appendix I. |

| Heads of accounts | Rate sensitivity of time bucket |
|--|--|
| b. Doubtful and loss) | |
| 7. <u>Assets on lease</u> | The cash flows on lease assets are sensitive to changes in interest rates. The leased asset cash flows be slotted in the time-buckets as per timing of the cash flows. |
| 8. <u>Fixed assets</u> (excluding assets on lease) | Non-sensitive. |
| 9. <u>Other assets</u> | |
| a) Intangible assets and items not representing cash flows. | Non-sensitive. |
| b) Other items (e.g. accrued income, other receivables, staff loans, etc.) | Non-sensitive. |
| 10. Reverse Repos/Swaps (Buy /Sell) and Bills rediscounted (DUPN) | Sensitive on maturity. To be slotted as per residual maturity. |
| 11. <u>Other (interest rate) products</u> | |
| a) Interest rate swaps | Sensitive; to be slotted as per residual maturity in respective time buckets. |
| b) Other derivatives | To be classified suitably as and when introduced. |

Annexure III - Detailed calculation for LCR

1. Assets to be included in determination of HQLA:

- 1.1 **“High Quality Liquid Assets (HQLA)”** means liquid assets that can be readily sold or immediately converted into cash at little or no loss of value or used as collateral to obtain funds in a range of stress scenarios. The fundamental characteristics of HQLAs include low credit and market risk; ease and certainty of valuation; low correlation with risky assets and listing on a developed and recognized exchange market. The market related characteristics of HQLAs include active and sizeable market; presence of committed market makers; low market concentration and flight to quality (tendencies to move into these types of assets in a systemic crisis).
- 1.2 Assets to be included in the computation of HQLAs are those that the Company is holding on the first day of the stress period. Such assets shall be valued at an amount no greater than their current market value for the purpose of computing the LCR. Depending upon the nature of assets, they have been assigned different haircuts below, which are to be applied while calculating the HQLA for the purpose of calculation of LCR. The assets and the haircuts are as under:

| | Assets |
|--|--|
| Assets to be included as HQLA without any haircut | (a) Cash (b) Government securities (c) Marketable securities issued or guaranteed by foreign sovereigns satisfying all the following conditions: (i) Assigned a 0% risk weight by banks under standardized approach for credit risk; (ii) Traded in large, deep and active repo or cash markets characterised by a |

| | |
|--|--|
| | <p>low level of concentration; and proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions, and (iii) Not issued by a bank / financial institution / NBFC or any of its affiliated entities.</p> |
| <p>Assets to be considered for HQLA with a minimum haircut of 15%</p> | <ul style="list-style-type: none"> (a) 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 the Standardised Approach for credit risk and provided that they are not issued by a bank / financial institution / NBFC or any of its affiliated entities; (b) 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; and (c) 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 |
| <p>Assets to be considered for HQLA with a minimum haircut of 50%</p> | <ul style="list-style-type: none"> (a) 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; (b) Common Equity Shares which satisfy all |

| | |
|--|--|
| | <p>of the following conditions: (i) not issued by a bank/financial institution/NBFC or any of its affiliated entities; and (ii) included in NSE CNX Nifty index and/or S&P BSE Sensex index;</p> <p>(c) Corporate debt securities (including commercial paper) and the securities having usual fundamental and market related characteristics for HQLAs and meeting the following conditions: (i) not issued by a bank, financial institution, PD, NBFC or any of its affiliated entities; (ii) 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; (iii) traded in large, deep and active repo or cash markets characterised by a low level of concentration; and (iv) 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.</p> |
|--|--|

- 1.3 All assets in the stock of liquid assets must be managed as part of that pool by the Company and shall be subject to the following operational requirements: (i) Must be available at all times to be converted into cash; (ii) Shall be unencumbered; (iii) Shall not be co-mingled/used as hedges on trading position; designated as collateral or credit enhancement in structured transactions or designated to cover operational costs; (iv) Shall be managed with sole intent for use as a source of contingent funds; and, (v)

Shall be under the control of ALCO.

- 1.4 The Company should periodically monetize a proportion of assets through repo or outright sale to test the saleability of these assets and to minimize the risk of negative signalling during period of stress. The Company is also expected to maintain liquid assets consistent with distribution of its liquidity needs by currency.
- 1.5 If an eligible liquid asset becomes ineligible (e.g. due to downgrade), the Company will be allowed to keep the asset in its stock of liquid assets for an additional 30 calendar days in order to have sufficient time to adjust the stock/replace the asset.

2. Total net cash flows

- 2.1 Total net cash outflows is defined as the total expected cash outflows minus total expected cash inflows for the subsequent 30 calendar days.
- 2.2 Considering the unique nature of the balance sheet of the Company, 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).
- 2.3 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 |
|--|---|
| <ul style="list-style-type: none"> • 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 Company holds at other institutions for its own purpose • Other inflows by counterparty • Net derivatives cash inflows • Other contractual cash inflows (please specify as footnotes) | <ul style="list-style-type: none"> • 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 |

| Items of Cash Inflows | Items of Cash Outflows |
|-----------------------|---|
| | <p>(viii) Currently undrawn committed credit and liquidity facilities</p> <ul style="list-style-type: none"> • Other contingent funding liabilities • <p>Any other contractual outflows not captured elsewhere in the template</p> |

3. **LCR computation Rules:**

- 3.1 Guidance from RBI is to report LCR every quarter. Further, the Company in its annual financial statements under Notes to Accounts shall disclose information on LCR for all the four quarters of the relevant financial year.
- 3.2 Further, for presentation of LCR with effect from the financial year ending March 31, 2022, the simple average shall be calculated on daily observations
- 3.3 For reporting of LCR, two approaches can be used for disclosure:

| Average of components for the past 90 days used to calculate LCR | Average of daily LCR for the past 90 days |
|---|---|
| Daily HQLA and Net outflows are averaged for the past 90 days. The ratio of these averages are used to calculate LCR. This approach is based on the LCR disclosure format below and should be used for reporting. | Daily LCR is calculated for the past 90 days and the average of these values are used for reporting. This average of daily LCR is provided as additional information along with the disclosure template provided below. |

- 3.4 The LCR computation, including determination of net cash inflows and net cash outflows is detailed in the Liquidity Risk Management SOP.

LCR disclosure template:

(Rs. in Crore)

| Particulars | | Total Unweighed Value (Average) | Total Weighed Value Value (Average) |
|----------------------------|--|---------------------------------|-------------------------------------|
| High Quality Liquid Assets | | | |
| 1 | HQLA | | |
| Cash Outflows | | | |
| 2 | Deposits(for deposit taking companies) | | |
| 3 | Unsecured wholesale funding | | |
| 4 | Secured wholesale funding | | |
| 5 | Additional requirements, of which | | |
| (i) | Outflows related to derivative exposures and other collateral requirements | | |
| (ii) | Outflows related to loss of funding on Debt products | | |
| (iii) | Credit and liquidity facilities | | |
| 6 | Other contractual funding obligations | | |
| 7 | Other contingent funding obligations | | |
| 8 | TOTAL CASH OUTFLOWS | | |
| Cash Inflows | | | |
| | | | |
| 9 | Secured Lending | | |
| 10 | Inflows from fully performing exposures | | |
| 11 | Other cash inflows | | |

| | | | |
|----|------------------------------|--|----------------------|
| 12 | TOTAL CASH INFLOWS | | |
| | | | Total Adjusted Value |
| 13 | TOTAL HQLA | | |
| 14 | TOTAL NET CASH OUTFLOWS | | |
| 15 | LIQUIDITY COVERAGE RATIO (%) | | |

Annexure - IV - Approach & methodology for Behavioural View of Structural Liquidity Statement⁷

Behaviouralisation of receivables:

- Contractual schedule for Personal loan (PL) receivables after the date of preparing the static ALM, is grouped by months spent on book (MOB)
- Normal repayments are converted into a percentage of the opening POS for the different MOB segments (factors referred to as NC %)
- Average advance payment (part payments done by the borrowers one month before the due month) is computed based on data from January 2021 to the most recent month. This is converted into a percentage of the opening POS for the different MOB segments (factors referred to as PP %).
- Average pre-closure is computed based on data from January 2021 to the most recent month. These averages are converted into a percentage of the opening POS for the different MOB segments (factors referred to as PC %).
- Haircuts of 20% are applied on the Part Payment % and the Pre Closure % to ensure conservatism in the calculations.
- Total payment factor (NC % + PP % + PC %) is calculated and applied to get the principal rundown across the different MOB segments to get the behavioralised receivable schedule. Behavioralised schedule is grouped into the maturity buckets required for static ALM.

Behaviouralisation of PTC repayments:

- Behaviouralisation of receivables is done only for the borrowers tagged to different PTC transactions.
- Difference between the contractual and behavioral receivables for the PTC tagged borrowers is computed. This percentage change between contractual and behavioral receivables is applied to the contractual schedule for PTC repayments to investors.

Note: IndAS adjustments are done to the behavioralised receivables before using it for preparing the static ALM for the month.

Behavioural Home Loans - Sanctioned but not Disbursed

Factor for disbursal to sanctioned amount (D/S %) is determined analysing historical trends of sanctioned and disbursed. Considering the vintage of the HL book which has not seen a full disbursement cycle, it has been assumed that the entire disbursal will take place within 5 years.

- Calculate the undisbursed amount out of total sanction for disbursements with MOB >36M to account for customers who do not do full drawdown or their sanction lapses.

⁷ Refer Behavioural Methodology note for details

- Remove the corresponding amount from total undisbursed stock.
- Determine actual disbursement to sanctioned amount (D/S %) for each month after sanction for monthly cohorts of sanctions
- Calculate the average D/S% for each MOB, weighted by the sanctioned amount
- Multiply existing AnD sanctions MOB-wise with the average D/S %, to get monthly disbursements
- Bucket the monthly disbursements as per ALM buckets

Back-testing methodology and governance

- Behavioral receivables are to be computed every month.
- For each month's behavioral receivables, value of actual collections is sourced for the same set of borrowers. These monthly actual collections (A) are compared against the behavioral (B) and contractual collections expected (C).
- The difference between the actual collections and expected behavioral collections are to be monitored. Based on this review, any signal for a potential need to change the amount of conservatism in the model would be identified.

Annexure - V - Stock Liquidity Ratios - Definitions

| No. | Ratio | Methodology |
|-----|--|--|
| 1 | Short-term liability to total assets | <ul style="list-style-type: none"> Short Term Liabilities : Net Outflow upto 12 months as per ALM (Total Outflows - Provisions for Standard Assets & NPA - Loan Commitments pending disbursal) Total Assets : Net Inflows as per ALM (Total Inflows - Inflows On Account of Off Balance Sheet (OBS)) |
| 2 | Short-term liability to long-term assets | <ul style="list-style-type: none"> Short Term Liabilities : Net Outflow upto 12 months as per ALM (Total Outflows - Provisions for Standard Assets & NPA - Loan Commitments pending disbursal) Long term Assets : Net Inflows Over 1 year as per ALM (Total Inflows - Inflows On Account of Off Balance Sheet (OBS)) |
| 3 | Short-term liability to total liability | <ul style="list-style-type: none"> Short Term Liabilities : Net Outflow upto 12 months as per ALM (Total Outflows - Provisions for Standard Assets & NPA - Loan Commitments pending disbursal) Total Liabilities : Net Outflow as per ALM (Total Outflows - Provisions for Standard Assets & NPA - Loan Commitments pending disbursal) |
| 4 | Commercial Papers to Total Assets | <ul style="list-style-type: none"> Commercial Papers : From the SLS (Y450 in DNBS4B) Total Assets : Net Inflows as per ALM (Total Inflows - Inflows On Account of Off Balance Sheet (OBS)) |
| 5 | Non-Convertible Debentures (NCDs) (original maturity less than one year) to Total Assets | <ul style="list-style-type: none"> Non-Convertible Debentures (NCDs) : From the SLS (Y520 in DNBS4B)) Total Assets : Net Inflows as per ALM (Total Inflows - Inflows On Account of Off Balance Sheet (OBS)) |
| 6 | Long-term assets to total assets | <ul style="list-style-type: none"> Long Term Assets : Net Inflows Over 1 year as per ALM (Total Inflows - Inflows On Account of Off Balance Sheet (OBS)) Total Assets : Net Inflows as per ALM (Total Inflows - Inflows On Account of Off Balance Sheet (OBS)) |
| 7 | Commercial papers as a % of total public funds | <ul style="list-style-type: none"> Commercial Papers : From the SLS (Y450 in DNBS4B) Total Public Funds : Public funds include public deposits, inter-corporate deposits, bank finance and all funds received |

| No. | Ratio | Methodology |
|-----|---|---|
| | | whether directly or indirectly from outside sources such as funds raised by issue of Commercial Papers, debentures etc. Public issue by our company |
| 8 | Commercial papers as a % of total liabilities | <ul style="list-style-type: none"> Commercial Papers : From the SLS (Y450 in DNBS4B) Total Liabilities : Net Outflow as per ALM (Total Outflows - Provisions for Standard Assets & NPA - Loan Commitments pending disbursement) |
| 9 | Other short-term liabilities, if any as a % of total liabilities | <ul style="list-style-type: none"> Other short term liabilities : Borrowings upto 1 year from SLS (Y300 in DNBS4B), excluding CP and NCD Total Liabilities : Net Outflow as per ALM (Total Outflows - Provisions for Standard Assets & NPA - Loan Commitments pending disbursement) |
| 10 | Other short-term liabilities, if any as a % of total assets | <ul style="list-style-type: none"> Other short term liabilities : Borrowings upto 1 year from SLS (Y300 in DNBS4B), excluding CP and NCD Total Assets : Total Assets : Net Inflows as per ALM (Total Inflows - Inflows On Account of Off Balance Sheet (OBS)) |
| 11 | Other short-term liabilities, if any as a % of total public funds | <ul style="list-style-type: none"> Other short term liabilities : Borrowings upto 1 year from SLS (Y300 in DNBS4B), excluding CP and NCD Total Public Funds : Public funds include public deposits, inter-corporate deposits, bank finance and all funds received whether directly or indirectly from outside sources such as funds raised by issue of Commercial Papers, debentures etc. |
| 12 | Non-convertible debentures (original maturity of less than one year) as a % of total public funds | <ul style="list-style-type: none"> Non-Convertible Debentures (NCDs) : From the SLS (Y520 in DNBS4B) Total Public Funds : Public funds include public deposits, inter-corporate deposits, bank finance and all funds received whether directly or indirectly from outside sources such as funds raised by issue of Commercial Papers, debentures etc. |
| 13 | Non-convertible debentures (original maturity of less than one year) as a % of total liabilities | <ul style="list-style-type: none"> Non-Convertible Debentures (NCDs) : From the SLS (Y520 in DNBS4B) Total Liabilities : Net Outflow as per ALM (Total Outflows - Provisions for Standard Assets & NPA - Loan Commitments pending disbursement) |

