2022

VEDIKA CREDIT CAPITAL LTD

PARTNER IN THE GROWTH OF MICRO ENTREPRENEURS

ASSET & LIABILITY MANAGEMENT POLICY

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Contents

INTRODUCTION

Vedika Credit Capital Limited, a company registered as non-deposit taking NBFC with Reserve Bank of India, is predominantly engaged in the business of providing Enterprise Loans to Micro and Small Enterprises. Vedika Credit Capital aggressively aims to serve the rural and semi-urban population of India in the SME and Micro Finance lending sector. The loan provided by the company is long term loan with varied interest rate. The target segment is bound by various risks like market risk, political risk, interest rate risk etc. Hence, maturity mis- match can occur which has an impact on the liquidity and profitability of the company. It is therefore necessary that VCCL constantly monitor and manage its asset and liability in such a manner that asset liability mismatches remain within reasonable limits. This is also a statutory obligation as RBI as the regulating agency for NBFCs has stipulated that NBFCs should have an effective Asset-Liability Management (ALM) system as part of their overall system for effective risk management.

OBJECTIVE AND SCOPE

This objective of this policy is to create an institutional mechanism to compute and monitor periodically the maturity pattern of the various liabilities and assets of VCCL to

a) ascertain in percentage terms the nature and extent of mismatch in different maturity buckets, especially the 1-30/31days bucket, which would indicate the structural liquidity

b) the extent and nature of cumulative mismatch in different buckets indicative of short-term dynamic liquidity and

c) the residual maturity pattern of repricing of assets and liabilities which would show the likely impact of movement of interest rate in either direction on profitability.

d) ALM, shall also concerned with risk management and provides a comprehensive and dynamic framework for measuring, monitoring and managing liquidity and interest rate equity and commodity price risks of major operators in the financial system that shall be closely integrated with the NBFCs' business strategy. It involves assessment of various types of risks and altering the asset-liability portfolio in a dynamic way in order to manage risks.

BROAD GUIDELINES

As per the Reserve Bank of India guidelines on Asset Liability Management, the broad guidelines in respect of interest rate and liquidity risks management systems in NBFCs, which form part of the Asset-Liability Management (ALM) function are as enumerated hereafter.

The initial focus of the ALM function shall be to enforce the risk management discipline i.e., managing business after assessing the risks involved.

The objective of good risk management systems shall be that these systems will evolve into a strategic tool for NBFCs management.

The ALM process rests on three pillars:

1. **ALM Information Systems**

    a. Management Information Systems
    b. Information availability, accuracy, adequacy and expediency

2. **ALM organization**

    a. Structure and responsibilities
    b. Level of top management involvement

3. **ALM Process**

    a. Risk parameters
    b. Risk identification
    c. Risk measurement
    d. Risk management
    e. Risk policies and tolerance levels.

ALM INFORMATION SYSTEMS

ALM has to be supported by a management philosophy which clearly specifies the risk policies and tolerance limits. This framework needs to be built on sound methodology with necessary information system as back up. Thus, information is the key to the ALM process.

ALM ORGANIZATION

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

Asset- Liability Management Committee (ALCO): Asset- Liability Management committee of the company shall consist of following members:

1. Managing Director- Chairman
2. Whole Time Director -Member
3. CFO – Member- Representing Finance and treasury
4. The company secretary shall be the secretary of the committee
5. Other invitees as and when required

The ALM Support Groups consisting of operating staff shall be responsible for analyzing, monitoring and reporting the risk profiles to the ALCO. The staff shall also prepare forecasts (simulations) showing the effects of various possible changes in market conditions related to the balance sheet and recommend the action needed to adhere to NBFC's internal limits.

Quorum: The Chairman and one other member will constitute the quorum.

Process: Reserve Bank of India has stipulated templates for reporting Structural liquidity (ALM-1).

Dynamic Liquidity (ALM-2) and Interest Rate Sensitivity (ALM-3). They have also provided indicative formats as per Annexure I and Annexure II for compiling the figures. ALCO will use the indicative formats for compiling the figures and the Reports on ALM 1, ALM 2 and ALM3 for reviewing the liquidity and interest rate risk.

Periodicity of Meeting: The Secretary will arrange for convening the meetings of ALCO once a quarter or as and when needed depending upon the necessity.

LIQUIDITY RISK MANAGEMENT

ALCO will deliberate on the ability of VCCL to meet its maturing liabilities as they become due and ensure against any adverse situation from developing. ALCO will review on an ongoing basis how the situation is likely to develop under different assumptions. For measuring and managing net funding requirements, ALCO will use as a standard tool the maturity ladder and calculation of cumulative surplus at selected maturity dates. For this purpose, the templates ALM-1 and Annexure I will be made use of. ALCO will use the same time buckets suggested by RBI (shown below) for measuring the net funding needs.

i. 1 day to 14 days
ii. 14 days to 1 month
iii. Over 1 month to 2 months
iv. Over 2 months to 3 months
v. Over 3 months to 6 months
vi. Over 6 months to 1 year
vii. Over 1 year to 3 years
viii. Over 3 to 5 years
ix. Over 5 years

Reserve Bank of India has stipulated that the cash outflows in the 1-30/31 buckets should not normally exceed the cash inflows by more than 15%. Higher ceiling, for any special reason, need specific approval of the Board. As a prudent liquidity management measure, VCCL will strive to restrict the negative mismatch in the 1-30/31 days bucket to a maximum of 10% of cash outflows.

ALCO will also deliberate on the estimated short term dynamic liquidity profile based on the business projections and other commitments and plans of the Company. The cumulative negative gap will be restricted to not more than 15% of the cash outflows.

INTEREST RATE RISK

RBI has given operational flexibility to NBFCs for pricing most of the assets and liabilities. The major portion of VCCL's liabilities consists of Bank borrowings which reprices without a perceptible time lag with changes in market interest rates. Assets on the other hand trail behind slightly in repricing and are also bound by the ceiling stipulated by the Board. Net Interest Margin and Profitability therefore rises when interest rate decreases.

The interest sensitive assets and liabilities will be clubbed into the following buckets for ascertaining the Gap in individual buckets and the cumulative Gap.

i. 1 day to 14 days

ii. 14 days to 1 month
iii. Over 1 month to 2 months
iv. Over 2 months to 3 months
v. Over 3 months to 6 months
vi. Over 6 months to 1 year
vii. Over 1 year to 3 years
viii. Over 3 to 5 years
ix. Over 5 years

The Indicated template Annexure II and Reporting Format ALM-3 will be used for computing the Gaps in each time bucket. VCCL has an overwhelmingly positive mismatch in the short-term buckets and also a positive cumulative Gap in all the buckets If at any time a negative Gap were to arise ALCO will ensure that such Gap, individual as well as cumulative, do not exceed 15%.

PERIODICAL REVIEW OF THE POLICY

The Policy is flexible and easy to understand and comply with by all levels of employees. The Board should review this Policy periodically but at least once in a year, so that it remains appropriate in the light of material changes in regulatory requirement with respect to the Company's size, complexity, geographic reach, business strategy, market and best governance practices.

The policy can also be reviewed as and when deemed necessary by the Top Management and amendments effected to the same, subject to approval of the Board if any, and when practical difficulties are encountered. The Top management may also review the policy on document retention to comply with any local, state, central legislation that may be broadcast from time to time

AMENDEMENT OF THE POLICY

The Board of Directors on its own and/or on the recommendation of the Assets & Liability Committee or top management can amend this policy as and when required deemed fit. Any or all provisions of this Policy would be subjected to revision/amendment in accordance with the regulations on the subject as may be issued from relevant statutory authorities, from time to time.