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RISK AND ASSET LIABILITY MANAGEMENT POLICY

Introduction

NBFCs are exposed to various kinds of risks in their course of business such as credit risk, operational risk, market risk, interest rate risk and compliance & regulatory risks etc. Managing of risk is important for the company and enables the company to achieve profitability and stability.

Background and Objectives

The Risk and Asset Liability Management (ALM) Policy outlines the framework adopted by the Company to identify, measure, monitor, and manage risks arising from mismatches in assets and liabilities. As a Non-Banking Financial Company (NBFC), the Company operates in a dynamic financial environment where effective management of liquidity, interest rate risk, and funding is critical to maintaining financial stability and ensuring sustainable growth.

This policy establishes structured guidelines for managing balance sheet risks, particularly those related to liquidity and interest rate fluctuations. It aims to ensure that the Company maintains adequate liquidity at all times, optimizes the risk-return profile, and complies with applicable regulatory requirements.

The Asset Liability Management framework integrates risk management practices with strategic financial planning, enabling the Company to proactively address potential mismatches in cash flows, market volatility, and funding sources. It also defines the roles and responsibilities of the Asset Liability Management Committee (ALCO), along with reporting mechanisms and risk tolerance limits.

By implementing this policy, the Company seeks to safeguard stakeholder interests, enhance operational resilience, and support prudent decision-making in alignment with its overall risk management strategy.

I. Risk Management

The term risk management implies managing of risk faced by an organization without adversely affecting its functioning. The company shall adhere to disciplined risk management practice which will enable the management to take business decision as and when necessary and thereby ensuring growth and development of the company.

II. Internal monitoring mechanism and tools

The Company should establish a Board approved internal monitoring mechanism and adopt

risk monitoring tools metrics to capture strains in the liquidity position. The mechanisms and tools should help in measurement and early determination of factors affecting-

-Structural Liquidity

- Dynamic Liquidity

There are mainly 5 types of risk associated with our business which are detailed as under:

1- Credit Risk.

Credit risks usually arises when a borrower fails to make payments as and when they due. Such credit risk may adversely affect the Company's financial condition and results of operations.

Mitigation measures.

- The credit worthiness of prospective borrowers to be checked through the credit report. Compliance with Loan policy and Credit policy also to ensured.
- The Company shall have defined roles and responsibilities for originators and approvers. All credit exposure limits shall be approved by authorized persons.
- Before each disbursement of loans, the authorized persons shall carry out proper identification of customers' identity through KYC documentation, back ground verifications etc.,
- The Company shall follow a process of time-to-time revisiting the credit policy and processes, on the basis of experience and feedback.

2- Operational Risk.

The term operational risk refers to risk associated with people, technology, infrastructure, natural calamities, external issues, theft and fraud etc. The concerned official shall keep continuous monitoring on the operational related matters and shall give warning signals as and when necessary.

Mitigation measures.

- Internal audit shall be carried out at all branches of the company on an ongoing basis by the internal auditors who are employees of the company. It will help to prevent, fraud, malpractices etc.
- All the assets of the company shall be properly insured.
- Adequate software and IT infrastructure facilities that will cater the

needs of all levels of the employees in the organization and proper facility for data backup, prevention of server failures etc.

3- Liquidity Risk.

Liquidity risk implies non availability of cash to meet an obligation that falls due. A company will be considered financially viable when it is able to function smoothly by meeting its long term and short-term obligations without affecting its liquidity. In order to ensure a sound and robust liquidity risk management system, the Board of the NBFC shall frame a liquidity risk management framework which ensures that it maintains sufficient liquidity, including a cushion of unencumbered, high quality liquid assets to withstand a range of stress events, including those involving the loss or impairment of both unsecured and secured funding sources.

Mitigation Measures.

- The company shall follow sound liquidity management strategies for minimizing liquidity risk.
- Company shall ensure sufficient liquidity to cover unexpected obligations.
- Reducing the percentage of unsecured lending.

4- Interest Rate Risk.

Interest rate risk is the risk where changes in market interest rates might adversely affect an NBFC's financial condition. The changes in interest rates affect NBFCs in a larger way. The immediate impact of changes in interest rates is on NBFC's earnings (i.e. reported profits) by changing its Net Interest Income (NII). A long-term impact of changing interest rates is on NBFC's Market Value of Equity (MVE) or Net Worth as the economic value of NBFC's assets, liabilities and off-balance sheet positions get affected due to variation in market interest rates. The interest rate risk when viewed from these two perspectives is known as 'earnings perspective' and 'economic value perspective', respectively. The risk from the earnings perspective can be measured as changes in the Net Interest Income (NII) or Net Interest Margin (NIM).

Mitigation Measures.

- The company shall follow annualized interest rate.
- The interest rate shall be determined after considering the cost of debt, operational cost, tenure, competition, risk factors etc.
- The changes in the interest rates shall be applicable on prospective

basis.

- The company may levy penal charges for delay or default in making payments with respect to any loans besides normal interest and which shall be mentioned in the loan agreement.

5- Compliance & Regulatory risk.

The company is exposed to numerous risks associated with various acts and regulations. The company being an NBFC is regulated by RBI and has to report to the RBI on a regular basis. Company also requires to comply with Companies Act 2013, Income Tax Act 1961 and other legislations prevailing in India. Non-adherence to these regulations may result in stringent actions and hefty penalties which will also affect the reputation of the company as well.

Mitigation Measures.

- The company shall have an efficient compliance management system to ensure compliance with all statutory matters. And in case of any non-compliance necessary measures should be taken to rectify the same.
- The Board shall appoint qualified candidate or a corporate professional with good background as its Compliance Officer, who shall take overall supervision of the compliance management system and to whom various departments and officers shall be obliged to report compliance related matters under applicable laws.
- The various departments of the company shall cooperate together for monitoring, reviewing, ensuring compliance with applicable regulations and shall report to the board, if any deviations.

III. Organizational set up

Organizational set up for liquidity risk management should be as under:

a) Board of Directors

The Board shall have the overall responsibility for management of liquidity risk. The Board shall decide the strategy, policies and procedures of the company to manage liquidity risk in accordance with the liquidity risk tolerance/limits decided by it.

b) Risk Management Committee

The Risk Management Committee, which reports to the Board and consisting of Chief Executive Officer (CEO)/ Managing Director/ WTD/Director(s) and heads of various risk

verticals shall be constituted for evaluating the overall risks faced by the company including liquidity risk.

c) Asset-Liability Management Committee (ALCO)

The ALCO consisting of the Company's top management shall be constituted for ensuring adherence to the risk tolerance/limits set by the Board as well as implementing the liquidity risk management strategy of the Company. The CEO/MD/MTD/the Executive Director (ED) / Director(s) should head the Committee. The Chiefs of Investment, Credit, Resource Management or Planning, Funds Management/ Treasury (forex and domestic), Economic Research may be members of the Committee. The role of the ALCO with respect to liquidity risk should include, inter alia, decision on desired maturity profile and mix of incremental assets and liabilities, sale of assets as a source of funding, the structure, responsibilities and controls for managing liquidity risk, and overseeing the liquidity positions of all branches.

d) Asset Liability Management (ALM) Support Group

The ALM Support Group consisting of the operating staff shall be responsible for analyzing, monitoring and reporting the liquidity risk profile to the ALCO. Such support groups will be constituted depending on the size and complexity of liquidity risk management in the NBFC, as the case may be.

IV. Contingency Funding Plan

The Board shall formulate a contingency funding plan (CFP) for responding to severe disruptions which might affect the NBFC's ability to fund some or all of its activities in a timely manner and at a reasonable cost. Contingency plans should contain details of available/ potential contingency funding sources and the amount/ estimated amount which can be drawn from these sources, clear escalation/ prioritization 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.

V. High Quality Liquid Assets and Ratios

The ultimate aim of Company should be to ensure sufficient liquidity at all time. The Company shall ensure that it has good proportion of High-Quality Liquid Assets at all times.

"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. LCR should be calculated periodically to ascertain Liquidity coverage in the following manner.

Liquidity Coverage Ratio (LCR) is represented by the following ratio

Stock of HQLA **divided by** Total Net cash outflows over the next 30 calendar days

The Company shall give more priority to Unencumbered assets at all times. "Unencumbered

assets” means assets or property free of legal, regulatory, contractual or other restrictions on the ability of the NBFC to liquidate, sell, transfer, or assign the asset. The Company shall maintain an adequate level of unencumbered HQLA that can be converted into cash to meet its liquidity needs for a 30 calendar-day time horizon under a significantly severe liquidity stress scenario, as specified in these guidelines.

A healthy LCR shall be maintained on an ongoing basis to help monitor and control liquidity risk.

VI. Revision/Subsequent Amendment and Interpretation

Any amendments or revision to policy shall be made by resolution of the Board of Directors or a Committee of Board constituted for said purpose, whenever required, from time to time. Wherever there is ambiguity in connection with interpretation of the clauses contained herein, the relevant directions/ circulars issued by RBI shall be referred to in order to arrive at right conclusions. Where any of the clauses in this policy becomes contrary or inconsistent due to changes or subsequent amendments in any applicable laws/rules/regulations/policies, then the new provisions of the particular laws/new statute shall have overriding effect on such inconsistent /erroneous clauses of this policy, till the policy is revised by the Board of Directors/Committee in a duly constituted meeting.