

ASSET LIABILITY MANAGEMENT (ALM) POLICY

(For Base Layer NBFC – Investment and Credit Company)

1. Objective

The objective of this Asset Liability Management (ALM) Policy is to establish a structured framework for:

- Managing liquidity risk
- Managing interest rate risk
- Monitoring structural mismatches between assets and liabilities
- Ensuring adequate funding at all times
- Maintaining financial stability and solvency

This Policy ensures compliance with RBI's Liquidity Risk Management Framework for NBFCs, *the Companies Act, 2013*, and other applicable prudential norms under the Scale Based Regulation (SBR) framework *as applicable to Base Layer NBFCs*.

2. Scope

This Policy applies to all on-balance sheet and off-balance sheet exposures including:

- Loan portfolio
- Investments
- Borrowings (secured/unsecured)
- Subordinated debt
- Debentures (if any)
- Bank borrowings
- Inter-corporate deposits
- Other liabilities
- *Foreign currency borrowings (if any)*
- *Off-balance sheet items (e.g., guarantees, letter of comfort, undrawn commitments)*
- The Policy covers:
 - Liquidity Risk
 - Interest Rate Risk (IRR)
 - Funding Risk
 - Market-related funding stress
 - *Concentration Risk in funding sources*

3. Regulatory Framework

This Policy is framed in accordance with:

- RBI Guidelines on Liquidity Risk Management Framework for NBFCs (*November 2019, as amended*)
- *Master Direction - Reserve Bank of India (Non-Banking Financial Company - Scale Based Regulation) Directions, 2023 (as amended up to 2025)*
- RBI Prudential Norms for NBFC-ICC
- *Relevant provisions of the Companies Act, 2013, including Section 134(3)(n) regarding the Board's responsibility for risk management, and Section 177 regarding the Audit Committee's evaluation of risk management systems.*
- *Applicable Accounting Standards (e.g., Ind AS 107 for Financial Instruments: Disclosures).*
- As an NBFC-Base Layer entity, the Company adopts proportionate but effective ALM controls.

4. Governance structure

4.1 Board Oversight

The Board of Directors shall, *in accordance with Section 179 of the Companies Act, 2013:*

- Approve the ALM Policy *and review it annually*
- Define *the overall* risk appetite and tolerance levels
- Review ALM reports quarterly
- Monitor liquidity stress indicators
- Ensure compliance with RBI regulations *and statutory requirements*

4.2 Asset Liability Management Committee (ALCO)

Constitution of ALCO

The ALCO shall comprise:

- Managing Director – Chairperson
- Chief Financial Officer
- Head of Risk / Compliance Officer (*or Chief Risk Officer, if appointed*)
- Other senior executives as required (*e.g., Head of Treasury/Resource Mobilization*)

4.3 Role and Responsibilities of ALCO

The ALCO shall:

1. Formulate and review *the* ALM strategy
2. Monitor liquidity gaps and interest rate gaps
3. Set prudential mismatch limits *in line with RBI directives*
4. Review *the* funding profile and *ensure adequate* diversification
5. Monitor stress testing results *and macroeconomic indicators*
6. Ensure compliance with RBI LCR norms (*if applicable in the future due to scale-up*)
7. Report to the Board *and the Audit/Risk Management Committee* periodically

4.4 Frequency of Meetings

ALCO shall meet at least quarterly, and more frequently during stress situations *or material market volatility.*

5. Liquidity risk management

Liquidity Risk refers to the risk that the Company may not be able to meet its financial obligations as they fall due *without incurring unacceptable losses*.

5.1 Maturity Bucket Framework

Assets and liabilities shall be classified into the following time buckets *based on their residual maturity*:

- 1 day to 7 days
- 8 days to 14 days
- 15 days to 30/31 days
- Over 1 month to 2 months
- Over 2 months to 3 months
- 3 months to 6 months
- 6 months to 1 year
- Over 1 year to 3 years
- Over 3 years to 5 years
- Over 5 years

Residual maturity shall be considered *for behavioral adjustments where applicable*.

5.2 Structural Liquidity Statement (SLS)

The Company shall prepare a Structural Liquidity Statement showing:

- Cash inflows
- Cash outflows
- Cumulative mismatch

Mismatch limits (internal prudential limits *mandated by RBI for NBFCs*):

- *1 to 7 days: Net cumulative negative mismatch shall not exceed 10% of cumulative cash outflows.*
- *8 to 14 days: Net cumulative negative mismatch shall not exceed 10% of cumulative cash outflows.*
- *15 to 30/31 days: Net cumulative negative mismatch shall not exceed 20% of cumulative cash outflows.*
- 1–90 days: Controlled within Board-approved limits

Breaches shall be reported to ALCO immediately.

5.3 Liquidity Coverage Ratio (LCR)

While the statutory LCR mandate applies primarily to Middle and Upper Layer NBFCs under the SBR framework, the Company, as a prudent Base Layer NBFC, shall endeavor to maintain:

- A Minimum prescribed *internal* LCR
- Adequate High Quality Liquid Assets (HQLA) (*e.g., cash, bank balances, unencumbered approved securities*)
- Even if LCR is not mandatorily applicable, the Company shall maintain *an* internal liquidity buffer equivalent to at least one month of expected outflows *to withstand short-term liquidity shocks*.

5.4 Cash Flow Projections

- Monthly rolling cash flow statements
- 3-month and 12-month liquidity projections
- Scenario-based projections under stress (*e.g., severe market disruption, specific counterparty default*)

5.5 Contingency Funding Plan (CFP)

The Company shall maintain a documented Contingency Funding Plan including:

- Emergency credit lines *with banks*
- Liquidation of *liquid* investments
- Promoter support (if available)
- Curtailment of disbursements
- Repricing of liabilities

Triggers for activation:

- Sudden funding withdrawal
- Credit rating downgrade (*if externally rated*)
- Market disruption *or macroeconomic shock*
- Significant NPA spike *causing cash flow delays*

6. Interest rate risk management

Interest Rate Risk (IRR) arises due to repricing mismatches between assets and liabilities.

6.1 Interest Rate Gap Analysis

Assets and liabilities shall be classified into repricing buckets to assess:

- Rate sensitive assets (RSA)
- Rate sensitive liabilities (RSL)
- Repricing gap

6.2 Earnings at Risk (EaR)

ALCO shall assess *the* impact of interest rate shocks (*e.g., ±100 bps and ±200 bps*) on:

- Net Interest Income (NII)
- Profitability

6.3 Economic Value of Equity (EVE)

Where applicable, long-term interest rate sensitivity impact on net worth shall be evaluated.

6.4 Risk Limits

ALCO shall define:

- Maximum acceptable repricing gap
- Maximum decline in NII under stress
- Capital impact thresholds

7. Funding Strategy

7.1 Diversification of Funding

The Company shall diversify funding sources across:

- Banks
- Financial institutions
- Non-convertible debentures
- Subordinated debt
- Inter-corporate deposits

Over-reliance on a single lender shall be avoided *in compliance with RBI concentration risk guidelines*.

7.2 Tenor Management

Balanced mix of:

- Short-term borrowings
- Medium-term funding
- Long-term funding

Avoid excessive short-term borrowings funding long-term assets *to prevent severe asset-liability mismatches*.

8. Capital Adequacy & Buffer

The Company shall:

- Maintain CRAR as prescribed by RBI (*minimum 15% for NBFC-ICC*)
- Maintain *an* internal capital buffer above *the* regulatory minimum
- Align growth with capital availability

Capital planning shall consider:

- Asset growth
- Stress scenarios
- Potential provisioning shocks

9. Stress Testing Framework

9.1 Liquidity Stress Testing

Scenarios may include:

- 20–30% funding withdrawal
- Delay in borrower repayments
- Increase in NPAs
- Market-wide liquidity crunch

9.2 Interest Rate Stress Testing

Simulate:

- 100 bps / 200 bps rate increase
- Rate decrease scenarios
- Yield curve flattening

Stress results shall be presented to ALCO and *the* Board.

10. Monitoring & Reporting

10.1 Internal Monitoring

Monthly review of:

- Liquidity gap statements
- Cumulative mismatch
- Cost of funds
- Funding concentration

10.2 Board & Regulatory Reporting

Quarterly ALM report shall include:

- Liquidity position
- Interest rate sensitivity
- Stress testing results
- Compliance status
- Corrective measures

· *Ensure timely submission of ALM returns (e.g., DNBS4B) to the RBI through the XBRL portal as per the prescribed calendar.*

11. ALM Information Systems

The Company shall maintain:

- Reliable MIS *capable of granular data extraction*
- Automated maturity classification
- Repricing analytics
- Accurate data reconciliation *with general ledger*

Data integrity shall be reviewed periodically *by internal audit.*

12. Escalation Mechanism

If internal *or regulatory* limits are breached:

- Immediate reporting to ALCO
- Corrective plan within *a* defined timeframe
- Board notification if material *or if regulatory thresholds are crossed*

13. Review of Policy

This Policy shall be:

- Reviewed annually
- Updated upon regulatory change *or business model shift*
- Approved by the Board *based on ALCO/Risk Management Committee recommendations*

14. Effective Date

This **ASSET LIABILITY MANAGEMENT (ALM) POLICY** has been approved by the Board of Directors of THIRUKOCHI FINCAP PRIVATE LIMITED at its meeting held on 12/03/2026.

Effective Date: 12/03/2026

