Asset Liability Management Policy

of

Authum Investment & Infrastructure Limited

adopted on 14/11/2019

and

reviewed on

13/02/2023

1. Preamble

The Board of Directors ("**Board**") of Authum Investment & Infrastructure Limited ("**Company**" or "**Authum**"), has adopted the following policy to establish guidelines to ensure prudent management of assets and liabilities. These guidelines address management and reporting of capital, liquidity and interest rate risk.

2. Purpose

This Policy has been framed in accordance with the ALM framework as issued by Reserve Bank of India ("**RBI**") and amendments thereon.

This policy intends to establish the importance of ALM systems that need to be put in place since intense competition for business involving both the assets and liabilities requires the Company to maintain a good balance among spreads, profitability, and long-term viability. Imprudent liquidity management can put Authum's earnings and reputation at great risk. The Company's management needs to base their business decisions on a dynamic and integrated risk management system and process, driven by corporate strategy. Authum is exposed to several major risks during its business i.e.

- Credit risk,
- Interest rate risk,
- Equity / commodity price risk,
- Liquidity risk and
- Operational risk.

It is, therefore, important that Authum introduces effective risk management systems that address the issues relating to interest rate and liquidity risks. This policy also defines the process that Asset-Liability Committee ("**ALCO**") will use to evaluate the effectiveness of the Authum's internal control procedures.

3. Definitions

"**ALCO**" means Asset Liability Committee
"**ALM**" means Asset Liability Management
"**Board**" means Board of Directors of the Company.
"**Company**" means Authum Investment & Infrastructure Limited
"**Directors**" mean individual Director or Directors on the Board of the Company.
"**NCD**" means Non-Convertible Debentures
"**Policy**" means Asset Liability Management Policy
"**RBI**" means Reserve Bank of India

4. Policy

4.1 Role and Responsibilities of ALCO

The ALCO constituted by the Board of Directors shall be responsible for ensuring adherence to various operational limits set by the Board of Directors as well as deciding the business strategy of Authum (assets and liabilities) in line with overall business objectives. The adherence would also ensure that the statutory compliances set out by the RBI are complied with.

The ALCO shall perform the following roles and responsibilities:

a) Management of profitability by maintain relevant Net interest margins (NIM)
b) Ensuring Liquidity through maturity matching.
c) Management of balance sheet in accordance with internal policies and applicable regulatory requirements.
d) Review reports on liquidity, market risk and capital management.
e) Ensuring appropriate mix of different forms of debt.
f) Giving directions to the ALM team on the interest rate risk.
g) Satisfy itself that the less fundamental risks are being actively managed, with the appropriate controls in place and working effectively.
h) Articulate the current interest rate review and formulate future business strategy on this view.

The Asset - Liability Committee (ALCO) consisting of the Authum’s senior management & Directors shall be responsible for ensuring adherence to the limits set by the Board as well as for deciding the business strategy of Authum (on the assets and liabilities sides) in line with the Authum's budget and decided risk management objectives.

The ALCO is a decision-making unit responsible for balance sheet planning from risk return perspective including the strategic management of interest rate and liquidity risks. The business and risk management strategy of the Company shall ensure that it operates within the limits / parameters set by the Board.

Board of Directors Meeting and Reviews

The Board of directors in their Board meetings will oversee the implementation of the system and review its functioning periodically.

4.2 ALM Process:

The scope of ALM function can be described as follows:

i. Liquidity risk management

ii. Management of market risks
iii. Funding and capital planning
iv. Profit planning and growth projection
v. Forecasting and analyzing and preparation of contingency plans

(i) Liquidity Risks Management

Measuring and managing liquidity needs are vital for effective operation. Liquidity management can reduce the probability of an adverse situation developing. Authum's management shall measure not only the liquidity positions on an ongoing basis but also examine how liquidity requirements are likely to evolve under different assumptions. Experience shows that assets commonly considered as liquid, like Government securities and other money market instruments, could also become illiquid when the market and players are unidirectional. Therefore, liquidity has to be tracked through maturity or cash flow mismatches.

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

For measuring and managing net funding requirements, the use of a maturity ladder and calculation of cumulative surplus or deficit of funds at selected maturity dates is to be adopted as a standard tool.

The Maturity Profile would be used for measuring the future cash flows of Authum in different time buckets as under:
(i) 1 day to 30/31 days (One month)
(ii) Over one month and upto 2 months
(iii) Over two months and upto 3 months
(iv) Over 3 months and upto 6 months
(v) Over 6 months and upto 1 year
(vi) Over 1 year and upto 3 years
(vii) Over 3 years and upto 5 years
(viii) Over 5 years

Investments as a part of liquidity management

Short-term investments and excess cash shall be managed in a manner that is consistent with liquidity needs, asset/liability strategies and safety and soundness concerns for the benefit of the Company and within the framework of guidelines stated by RBI.

The Statement of Structural Liquidity (ALM-Annexure I) should be prepared by placing all cash inflows and outflows in the maturity ladder according to the expected timing of cash flows. A maturing liability will be a cash outflow while a maturing asset will be a cash inflow.

While determining the likely cash inflows / outflows, the Company have to make a number of assumptions according to its asset - liability profiles. While determining the tolerance levels, the Company may take into account all relevant factors based on their asset-liability base, nature of business, future strategy, etc. The RBI is interested in ensuring that the tolerance levels are determined keeping all necessary factors in view and further refined experience gained in Liquidity Management.

The guidelines given in this note mainly address management of risks associated with capital management, liquidity, and interest rate fluctuations. Risk identification is not an annual process and hence employees are encouraged to dynamically assess changes that may occur throughout the year.

(ii) Currency Risk

Floating exchange rate arrangement has brought in its wake pronounced volatility adding a new dimension to the risk profile of the NBFC's balance sheets having foreign assets or liabilities. The increased capital flows across free economies following deregulation have contributed to increase in the volume of transactions. Large cross border flows together with the volatility has rendered the Company's balance sheets vulnerable to exchange rate movements.

The Committee members are authorized to negotiate the forex conversion rates with the Authorized dealers/banks as and when any foreign investment is received by the Company or any foreign remittance in the form of interest payments/ any other payment is made by the Company.

(iii) Interest Rate Risk ('IRR')

IRR management and reporting helps identify potential risks to earnings and capital resulting from adverse fluctuations in market interest rates. It also identifies asset/funding balance and repricing mismatches. Proper identification of potential risks and mismatches assists management in devising asset/liability strategies to minimize these potential risks.

The Gap or Mismatch risk can be measured by calculating Gaps over different time intervals as at a given date. Gap analysis measures mismatches between rate sensitive liabilities and rate sensitive assets (including off-balance sheet positions). An asset or liability is normally classified as rate sensitive if:

(i) Within the time interval under consideration, there is a cash flow;
(ii) The interest rate resets/re-prices contractually during the interval;
(iii) Dependent on RBI changes in the interest rates/Bank Rate;
(iv) It is contractually pre-payable or withdrawal before the stated maturities.

4.3 Meeting of ALCO

The meetings of the ALCO shall be meet frequently but no later than half yearly and at least 2 meetings will be held in each year. Apart from the members, CFO and persons involved in fund raising activities can also be a part of the meeting but would not form part of quorum.

4.4 Policy Review and Approval

The policy governing financial risk management activities and guidelines described herein shall be submitted to the ALCO of the Company as and when required for review and approval.

4.5 Internal Controls

Effective internal controls are an integral part of managing financial risk. Pursuant to the guidelines set forth in this policy, adequate controls must be established to ensure proper management of financial risks and to provide safeguards against mismanagement of the Company funds and capital resources.