GEECEE FINCAP LIMITED

ASSET LIABILITY &
LIQUIDITY RISK MANAGEMENT POLICY

Effective from	**18.05.2017**
1st Review	**04.02.2025**

Background

In order to strengthen and raise the standard of the Asset Liability Management ("ALM") framework applicable to Non-Banking Financial Companies ("NBFCs"), Reserve Bank of India ("RBI") has revised the extant guidelines on liquidity risk management for NBFCs.

GeeCee Fincap Limited is an investment company. With the newly introduced concept of Multiple NBFCs it is categorized as a Systemically Important Non-deposit taking NBFC. The company is engaged in the business of lending, investing in securities and mobilization of capital. As per the Guidelines of 'Liquidity Risk Management Framework for Non-Banking Financial Companies' issued by RBI vide Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 dated October 19, 2023, it will be the responsibility of the Board of Directors ("Board") to ensure that these guidelines are being followed.

These guidelines deal with following aspects of liquidity risk management:

a) Liquidity Risk Management, Strategies and Practices.
b) Management Information System (MIS).
c) Internal Controls.
d) Maturity profiling.
e) Liquidity Risk Measurement – Stock Approach.
f) Managing Interest Rate Risk.
g) Liquidity Risk Monitoring Tools.

The Board has formulated and adopted the Asset Liability & Liquidity Risk Management Policy ("Policy") to ensure adherence to the above guidelines of the RBI.

A. Governance

a. Board of Directors

The Board have the overall responsibility for management of liquidity risk. The Board decides the strategy, policies and procedures of the NBFC 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 consists of Director and Business head of risk verticals, are responsible 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 board of directors and the Business head of operations is responsible for ensuring adherence to the risk tolerance as well as implementing the liquidity risk management strategy of the Company. The Business operations head of the company shall be the head of this Committee. The role of the ALCO with respect to liquidity risk includes, inter alia, decision on the 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.

Liquidity Risk Management, Strategies and Practices

This Company shall focus on ensuring maintenance of 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 of the Company.

Key elements of the liquidity risk management framework are as under:

i) Governance of Liquidity Risk Management

Successful implementation of any risk management process shall emanate from the top management with a strong commitment to integrate basic operations and strategic decision making with risk management. The Chief Financial Officer of the Company shall be involved in the process of identification, measurement and mitigation of liquidity risks. The Company shall have the following set up for liquidity risk management:

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 to manage liquidity risk in accordance with the liquidity risk tolerance/limits decided by the Board.

b. Risk Management Committee

The Risk Management Committee of the Board shall be responsible for evaluating the overall risks faced by the Company on a periodic basis, including liquidity risk. The Risk Management Committee has been constituted with the following members:

1. Non- Executive Director - Chairman
2. Executive Director - Member
3. Non-Executive Director - Member

c. Asset-Liability Management Committee (“ALM”)

The liquidity risk management of the Company has been delegated to the ALM. ALM has been constituted with the following members:

1. Executive Director - Chairman
2. Non-Executive Director - Member
3. Non-Executive Director - Member

The ALM shall be responsible for ensuring adherence to the risk tolerance/limits set by the Board as well as implementing the liquidity risk management strategy. ALM should decide on desired maturity profile & mix of incremental assets and liabilities, sale of assets as a source of funding, the structure, responsibilities & controls for managing liquidity risk and overseeing the liquidity position of the Company.

ALCO may designate certain personnel from operating staff (if any) as part of ALM Support group on a specific requirement basis. The support group shall be responsible for analysing, monitoring and reporting the liquidity risk profile to the ALCO.

Quorum: The Chairman and in aggregate 1/3 (one third) strength of the committee or minimum two members (including chairman mandatorily) shall be the quorum of ALCO.

Process: The Reserve Bank of India has stipulated templates for reporting Structural liquidity, Dynamic Liquidity and Interest Rate Sensitivity. ALCO will use the indicative formats for compiling the figures and the Reports on Structural Liquidity, Dynamic Liquidity and Interest Rate Sensitivity for reviewing the liquidity and interest rate risk.

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

The meetings shall broadly take into consideration the following agenda in addition to any other specific agenda as may be determined:

1. Action taken from previous meeting
2. Report on Forecast V/s Actual liquidity flows
3. Risk Identification & Categorization / Re-categorization
4. Sufficiency of Risk tolerance limits
5. Review of Statement of Structural Liquidity & Interest Rate sensitivity
6. Review of Stress-testing / sensitivity reports
7. Confirmation of adequacy of contingency funds & availability of unencumbered collaterals
8. Review of near-limit / breach instances
9. Liquidity Mismatch handling

ii) **<u>Liquidity risk Tolerance</u>**

The Company shall have a sound process for identifying, measuring, monitoring and controlling liquidity risk to clearly articulate a liquidity risk tolerance that is appropriate for its business strategy and its role in the financial system. ALM shall develop and monitor the strategy to manage liquidity risk in accordance with such risk tolerance and ensure that the Company maintains sufficient liquidity.

iii) **<u>Liquidity Costs, Benefits and Risks in the Internal Pricing</u>**

ALCO shall endeavour to develop a process to quantify liquidity costs and benefits so that the same may be incorporated in the internal product pricing, performance measurement and new product approval process for all material business lines, products and activities.

iv) **Off-balance Sheet Exposures and Contingent Liabilities**

The process of identifying, measuring, monitoring and controlling liquidity risk shall include a robust framework for comprehensively projecting cash flows arising from assets, liabilities and off-balance sheet items over an appropriate set of time horizons. The management of liquidity risks relating to certain off-balance sheet exposures on account of special purpose vehicles, guarantees and commitments will also be taken into account due to the difficulties that many NBFCs have in assessing the related liquidity risks that could materialize from these in times of stress.

The company considers off-balance sheet exposures in determining liquidity stress and necessary actions are taken to address such off-balance sheet exposures.

ALCO shall review investments, future commitments and off balance sheet items of the company on a quarterly basis.

v) **Risk Identification**

Risk identification is crucial for efficient risk management throughout the Company. The outputs of the risk identification are to be used as an input for risk assessment. Risk Identification is an iterative process that needs to be continuously repeated on an ongoing basis. The process shall be rigorous to make sure that all possible risks are identified.

The Company may adopt mechanisms to identify potential risks efficiently. Such mechanisms include extensive document verification, third-party confirmations, physical verifications, general industry environment and financial stress on the prospective borrower.

The risk identification process shall illustratively include the following steps:

- Gathering information from various reliable sources.
- Applying risk identification tools and techniques, wherever needed - The choice of the best Suitable techniques shall depend on the types of risks and activities. The techniques shall be Updated regularly and will increase effectiveness on organizational maturity.
- Documenting the risks - Identified risks may be documented and a risk breakdown structure, along with its causes and consequences.
- Critical assessment of the risk identification process' effectiveness.

The Company identifies liquidity risk positions for the following:

a) Future cash flows of assets and liabilities;
b) Sources of contingent liquidity demand and related triggers associated with on and off-balance sheet positions;

A robust framework for comprehensively projecting cash flows arising from assets, liabilities, and derivatives over an appropriate set of time horizons under both normal conditions and stressed scenarios is also to be established by the Company.

Further, the Internal Controls shall also act as a vital tool in the identification of the risks, and, therefore, are to be designed and monitored accordingly.

It shall be noted that no defined process can be effective in identifying all associated risks, and therefore, practical scenario runs and experiences are also to be factored in by the relevant authority in the decision-making process.

vi) <u>**Risk Prioritization and Assessment**</u>

In order to ensure effective and impactful responses to assessed risks, the Company shall prioritize the risks so identified and assessed and shall address the risks with prioritization of probable loss. Materiality for risk prioritization need not necessarily be limited to financial parameters but may also include other aspects.

The Company shall assess identified risks on the basis of the potential such risks hold for financial loss, based on the risk tolerance limits of the Company, and accordingly categorize the proposed transaction based on internally devised risk rating systems.

Identified risks to the organization are to be assessed on its probable impact as a threat to the Company, financially or otherwise. Such risk assessment is to be done keeping consideration to the Company's overall risk tolerance limit, and the Company's ability to respond to the risk, if it materializes.

The illustrative steps for conducting risk assessment process shall be:

- Identification of the nature of detected risks
- Defining the assets such risks pose a threat to, and the extent of probable loss
- Document the risks identified and the actions taken
- Enact a maker-checker concept in the risk assessment process to address possible errors

The management shall ensure that its liquidity risk assessment considers a variety of factors. These include vulnerabilities to changes in liquidity needs and funding capacity over short-term and medium-term horizons.

vii) <u>**Collateral Position Management**</u>

The Company shall actively manage its collateral positions, differentiating between encumbered and unencumbered assets. It should monitor the legal entity and demat statement where collateral is held and how it may be mobilized in a timely manner. Further, the management shall ensure sufficient collateral to meet expected and unexpected borrowing needs and potential increases in margin requirements over different time frames.

As stated above, the Company ensures that not more than 75% of its total investments are held encumbered. Such a mechanism provides a substantial cushion of safety.

ALCO shall review details of securities which are encumbered on quarterly basis.

viii) **Funding Strategy - Diversified Funding**

The Company shall establish a funding strategy that provides effective diversification in the sources and tenor of funding. It shall maintain an ongoing presence in its chosen funding markets and strong relationships with fund providers to promote effective diversification of funding sources. It shall regularly gauge its capacity to raise funds quickly from each source. There should not be over-reliance on a single source of funding.

The Company's funding strategy is as under shall be decided by the ALCO committee members and board of director's, based on company's requirements, business requirements, operational requirements, interest rates, borrowing strategies etc. from time to time.

ix) **Stress testing**

Stress testing shall form an integral part of the overall governance and liquidity risk management culture in the Company. The Company shall conduct stress tests on quarterly basis for a variety of short-term and protracted NBFC-specific and market-wide stress scenarios (individually and in combination). In designing liquidity stress scenarios, the nature of the Company's business, activities and vulnerabilities will be taken into consideration so that the scenarios incorporate the major funding and market liquidity risks to which the Company is exposed. Some of the situations which can be simulated by the Company while conducting such stress test will include;

a) Reduction in collection efficiency;
b) Reduction or cancellation of debt lines to the Company by the borrowers; and
c) Increase in NPAs of the Company;
d) Decline in Investment Value;
e) Increase in Operating Expenses.

x) **Contingency Funding Plan**

The Company has formulated a Contingency Funding Plan ("CFP") for responding to severe disruptions which might affect its ability to fund some or all of its activities in a timely manner and at a reasonable cost. The CFP details procedures for determination and steps to be implemented in case of severe liquidity crisis arising from either internal/external factors.

The Company has a contingency funding plan (CFP) as below for responding to severe disruptions which might affect the Company's ability to fund its activities in a timely manner and to handle liquidity crisis and also develop procedures for making up for short falls in cash flows:

Sr. No.	Particulars of contingency funding sources	Amount/ estimated amount which can be drawn from these sources	Time needed to tap additional funds
1	**Liquid Mutual Funds/ Liquid Securities*-** The Company shall at all times keep the minimum 20% of Total investment in Liquid Mutual Funds/ Liquid Securities which can easily be sold/redeemed in case of contingency/emergency.	Minimum 20% of Total investment	GeeCee Fincap Ltd should invest in schemes of Mutual Funds & Securities (Listed Equity Shares) which are liquid in nature and money can be sourced within One to Seven working days
2	**Availing revolving Loan Facility-** The Company has borrowing limit of Rs. 400 crores as approved by the Board of the Directors and Shareholders of the Company. The Company can avail revolving Loan Facility from within the group considering the approved limits of the Reserve Bank of India as and when required.	400 crores	GeeCee Fincap Ltd will get yearly approval of Audit Committee and Board for all related party transactions.

*If the liquidity of the Liquid Mutual Funds/ Liquid Securities goes below the specified limit (given above) then the Company shall immediately change the portfolio to be equipped for any unforeseen contingency.

xi) **Public disclosure**

As per the "Appendix 1: LCR Disclosure Template" in Liquidity Risk Management Framework for Non-Banking Financial Companies, the Company shall publicly disclose information on its website and in the annual financial statements as notes to accounts which will enable market participants to make an informed judgment about the soundness of its liquidity risk management framework and liquidity position.

xii) **Interest Rate Risk**

Interest rate risk is the risk where changes in market interest rates might adversely affect the Company's financial condition. The immediate impact of changes in interest rates is on the earnings (i.e. reported profits) by change in Net Interest Income. A long-term impact of changing interest rates is on the Company's Net Worth as the economic value of the 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.

An asset or liability shall normally be classified as rate sensitive if:
- within the time interval under consideration, there is a cash flow
- the interest rate resets / reprices contractually during the interval
- they are dependent on RBI changes in the interest rates / Bank Rate
- it is contractually pre-payable or withdrawal before the stated maturities

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), as prescribed under RBI's Liquidity Risk Management framework.

The time buckets for identification of mismatches shall be:
i. 1 day to 7 days
ii. 8 days to 14 days
iii. 15 days to 1 month
iv. Over 1 month to 2 months
v. Over 2 months to 3 months
vi. Over 3 months to 6 months
vii. Over 6 months to 1 year
viii. Over 1 year to 3 years
ix. Over 3 to 5 years
x. Over 5 years
xi. Non-sensitive

The management shall review the interest rate sensitivity on a frequency as deemed fit, but at least once in a quarter.

xiii) **Currency Risk**

Exchange rate volatility imparts a new dimension to the risk profile of a Company's balance sheets having foreign assets or liabilities. The Board of Directors shall recognise the liquidity risk arising out of such exposures and develop suitable preparedness for managing the risk as and when currency exposures are undertaken.

B. Management Information System (MIS)

The Company shall have a reliable MIS designed to provide timely and forward looking information on the liquidity position of the Company to ALCO, both under normal and stress situations covering all sources of liquidity risk, including contingent risks and those arising from new activities, and have the ability to furnish more granular and time-sensitive information during stress events.

C. Internal Controls

The Company shall have appropriate internal controls, systems and procedures to ensure adherence to liquidity risk management policies and procedure, including MIS on monthly collection, GNPA position, deposit mobilization, available & expected credit lines with the company.

D. Maturity Profiling

i) 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 adopted as a standard tool. The maturity profile as per "**Annexure-1**" used for measuring the future cash flows of Company in different time buckets. The time buckets shall be distributed in the same intervals as provided in the ALM Policy of the Company. The Statement of Structural Liquidity may be prepared by placing all cash inflows and outflows in the maturity ladder according to the expected timing of cash flows. A maturing liability shall be a cash outflow while a maturing asset shall be a cash inflow.

ii) Within each time bucket, there could be mismatches depending on cash inflows and outflows. While the mismatches up to one year would be relevant since these provide early warning signals of impending liquidity problems, the main focus shall be on the short-term mismatches, viz, 30/31 days. The Company, however, is expected to monitor its cumulative mismatches (running total) across all time buckets by establishing internal prudential limits with the approval of the ALCO. The net cumulative negative mismatches in the Statement of Structural Liquidity in the maturity buckets 1-7 days, 8-14 days, and 15-30 days, in normal course, may not exceed the limits specified under the ALM Policy of the Company.

iii) In order to monitor the short-term liquidity on a dynamic basis over a time horizon spanning from 1 day to 6 months, the Company shall estimate its short-term liquidity profiles on the basis of business projections and other commitments for planning purposes.

Within each time bucket, there could be mismatches depending on cash inflows and outflows. The priority of addressing mismatches shall be given to mismatches expected to occur in the short term. The Management, however, shall also monitor long-term mismatches and cumulative mismatches, and establish internal prudential limits. The net cumulative negative mismatches in the Statement of Structural Liquidity in the maturity buckets shall not exceed the following, of the cumulative cash outflows in the respective time buckets:

Time Bucket	Maximum limit as % of Cumulative Cash Outflows
1 day to 7 days	10%
8 days to 14 days	10%
15 days to 1 month	10%
Over 1 month to 2 months	10%
Over 2 months to 3 months	10%
Over 3 months to 6 months	10%
Over 6 months to 1 year	10%
Over 1 year to 2 years	10%

The management may, however, establish more stringent limits, if deemed necessary to address volatility and liquidity risks.

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 10% of the cash outflows.

E. Liquidity Risk Measurement – Stock Approach

The Company shall adopt a "stock" approach to liquidity risk measurement and monitor certain critical ratios in this regard by putting in place internally defined limits as approved by the Board of Directors of the Company. Accordingly the following is the indicative list of certain critical ratios to monitor are short-term liability to total assets; short-term liability to total advances, short-term liability to long term assets; short-term liabilities to total liabilities (less net worth); long-term assets to total assets and long term assets to total advances etc.

Particulars	Ratio
Short-term Liability To Total Assets	Up to 50%
Short-term Liability To Long-term Assets	2 times
Short-term Liabilities to Total Liabilities (less Net Worth)	Up to 100%

Long-term Assets To Total Assets	Up to 98%

The above-mentioned ratios are reviewed by ALCO on quarterly basis.

F. Liquidity Risk Monitoring Tools

The Statement of Structural Liquidity is currently one of the prescribed monitoring tools to assess asset liquidity risk. In addition to this Statement of Structural Liquidity, the following tools shall be monitored by the Company from liquidity risk management perspective:

- **Concentration of Funding**

This metric is meant to identify those critical sources of funding, the withdrawal of which could trigger liquidity problems. The Company shall maintain balance across various sources of funding, thereby reducing reliance on single/few sources of funding.

- **Available Unencumbered Assets**

This metric shall provide information on available unencumbered assets, which have the potential to be used as collateral to raise additional funding in secondary markets, capturing the details of the amount and type of available unencumbered assets that could serve as a collateral for secured borrowing in secondary markets.

- **Market-related Monitoring Tools**

This includes high frequency market data that can serve as early warning indicators in monitoring potential liquidity difficulties of the Company including foreign exchange rates, movement in benchmark interest rates, inflation etc.

G. Policy Exceptions

Any exceptions to this policy shall only be with the prior approval of the Board of Directors of the Company.

H. Adoption, Effective Date and Review

This policy shall be reviewed by the Board of Directors on at least an Annual basis.

Annexure-1

Heads of Accounts	**Time-bucket category**
A. Outflows	
Share capital	
Equity capital	In the 'over 5 years' time-bucket.
Preference capital	As per the residual maturity of the shares.
Borrowings	
Term loan	As per the terms
Demand loan	within 2-3 months
Current liabilities	
Sundry creditors	As per the due date or likely timing of cash outflows
Expenses payable	As per the likely time of cash outflow
Other provisions	As per the purpose/nature of the underlying transaction.
B. Inflows	
Cash	In 1 to 7 day time-bucket.
Balances with banks	
Current account	In 1 to 7 day time-bucket.
Loans	
Demand loans	Within 1 year
Term loan	As per Terms agreed
Investments (net of provisions)	
Listed shares other than group-unencumbered	1 day to 30/ 31 days (One month)" Over one month and upto 2 months" and "Over two months and upto 3 months" and "Over three months and upto 6 months"
Listed shares other than group-encumbered	based on maturity of loans
Listed shares-group	"Over 5 years"
Mutual fund	1 day to 30/ 31 days (One month)
Unlisted shares	"Over 5 years"
AIF units/venture capital units	"Over 5 years"

Fixed assets	"Over 5 years"
Other assets	
Intangible assets and items not representing cash inflows.	In the 'over 5 year' time-bucket
Accrued income, Trade receivable or other Receivable and staff loans	In respective maturity buckets as per the timing of the cashflows.