GEO VPL FINANCE LIMITED

ALM Policy

ASSET LIABILITY MANAGEMENT

OBJECTIVES

- A monitoring system within the Company for ensuring that there is no asset- liability mismatch.
- In case of identifying ALM mismatch, to take immediate remedial actions for mitigating the same.
- To monitor various risks that the company is exposed to such as interest rate risk, liquidity risk, credit risk etc.

ALM SYSTEM

The ALM process rests on three pillars:

- ALM Information Systems
- Management Information Systems
- Information availability, accuracy, adequacy and expediency

ALM Organization

- Structure and responsibilities
- Level of top management involvement

ALM Process

- Risk parameters
- Risk identification
- Risk measurement
- Risk management
- Risk policies and tolerance levels.

1. ALM Information Systems

i. 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 .The management information system shall be developed to provide information on a periodical basis as decided by the Asset Liability Management Committee. (ALCO). The MIS shall include the maturity profile of assets as well as liabilities. It shall also provide information on the rate on respective heads to ascertain the interest rate risk and also to detect negative or positive gaps and to measure its impact on the business of the company.

ii. The central element for the entire ALM exercise is the availability of adequate and accurate information.

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iii. The MIS shall be developed in such a manner that it reflects the liability side of the balance sheet covering all borrowings and its maturity /repayment obligations. The company's borrowings includes debentures, subordinated debts, term loans from banks/NBFCs and cash credit limits with different repayment tenures.

2. ALM Organisation

a) The Board shall have overall responsibility for management of risks and shall decide the risk management policy of the company and set limits for various risks including, liquidity and interest rate. In line with the policy the ALM function will be monitored by a committee consisting of the senior management constituted by the Board.

b) The Asset - Liability Committee (ALCO)

i. The Company will have an Asset Liability management Committee (ALCO), consisting of;

- Mr,Pradeesh Lawrence, Managing Director
- Mrs.Julie Pradeesh, Director
- Mr.George Shan, Chief Operating Officer
- Chief Financial Officer
- Company Secretary

Reserve Bank of India has stipulated templates for reporting Structural liquidity (ALM-1).Dynamic Liquidity (ALM-2) and Interest Rate Sensitivity (ALM-3). RBI has issued guidelines for Asset Liability Management (ALM) system in NBFCs .They have also provided indicative formats. 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.

ii. The ALM Support Groups consisting of operating staff shall be responsible for analysing, monitoring and reporting the risk profiles to the ALCO.

iii. The ALCO shall also take into consideration volume of stock of and analyse the business issues such as product pricing for borrowing and lending, maturity profile.

iv. ALCO shall be responsible for ensuring adherence to the risk tolerance limits set by the Board as well as for deciding the business strategy of the company in line with its budget and decided risk management objectives.

v. Review of the general trend of the economy, market practices,and level of competition.

vi. The committee shall review new product offerings, revision of pricing of existing products etc.

vii. The Committee shall review the interest rate structure and the possible future movements to build up proper strategy for business growth and earnings in different market scenarios.

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viii. The committee shall plan and devise proper funding mix like short term, long term, retail borrowing, whole sale borrowing and infusion of equity capital etc.

ix. The Committee shall oversee the functioning of the risk management practices and policies as may be framed from time to time. Particularly of;

a. Credit risk/default risk
b. Security risk
c. Interest rate risk
d. Liquidity risk
e. Currency risk
f. Employee fraud related risk
g. Political and economic risk
h. Competition risk
i. Technological risk
j. Business continuity

x. Periodicity of Meetings:

The ALCO may meet as and when it feels necessary and it shall meet at least once in 6 months.

Discussion paper covering the following areas will be deliberated by ALCO namely

- Liquidity risk management
- Management of market risk
- Funding and capital planning
- Profit planning and growth projection
- Forecasting and preparation of contingency plans

Minutes of the meeting will be prepared and preserved and the same shall be put up to the Board for their perusal.

c) Committee of Directors.

The Internal Audit Compliance Committee of the Board shall oversee the functioning of the ALM functioning within the company and shall review it on a half yearly basis.

3. ALM Process:

The scope of ALM function includes the following,

a) Liquidity risk management
b) Management of market risks
c) Funding and capital planning
d) Profit planning and growth projection
e) Forecasting and analysing 'What if scenario' and preparation of contingency plans

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a) Liquidity Risk Management

Measuring and managing liquidity needs are vital for effective operation of every NBFCs. By ensuring an its ability to meet its liabilities as they become due, liquidity management can reduce the probability of an adverse situation developing. The importance of liquidity transcends individual institutions, as liquidity shortfall in one institution can have repercussions on the entire system. The management should measure not only the liquidity positions but also examine how liquidity requirements are likely to evolve under different assumptions on an ongoing basis.

The most important function in the ALM process is the liquidity management. The process shall be able to identify the future obligations of the company precisely in advance and to make available the resources to meet the liability without disturbing the normal functions of the company.

The time buckets may be distributed as under for matching the cash inflows and out flows of the company:

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

The ALM function shall ideally ensure that there is no negative mismatch (excess of liability over asset in a given bucket) there could be scenarios of mismatch in the 1-30/31 bucket and in that event the ALM shall ensure that in normal course it is not exceeding 15% of the cash outflows in this time bucket.

b) Structural Liquidity

The ALM function shall generate a **Statement of Structural Liquidity** 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 in line with the maturity profiles. Considering the nature of business of the company and its lending profile, ALM mismatch (negative) is not expected in the normal course; however, the negative mismatch in the structural liability shall not exceed 15% of the total outflow in the 1-30/31 days bucket.

The ALCO shall monitor the short-term liquidity on a dynamic basis over a time horizon spanning from 1 day to 6 months based on short-term liquidity profiles on the basis of business projections and other commitments for planning purposes.

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c) **Currency Risk**

Since the company has no foreign assets or liabilities, the company is not directly exposed to currency risk as of now. In the event of it is getting exposed to foreign assets or liabilities including borrowings in foreign currency, the exchange risk shall be covered by appropriate positions (hedging) based on cost benefit analysis.

d) **Interest Rate Risk (IRR)**

The operational flexibility given to NBFCs in pricing most of the assets and liabilities imply the need for the financial system to hedge the 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). There are many analytical techniques for measurement and management of Interest Rate Risk. To begin with, the traditional Gap analysis is considered as a suitable method to measure the Interest Rate Risk in the first place.

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/reprices 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.

The Gaps may be identified in the following time buckets:

i. 1-30/31 days (One month)
ii. Over one month to 2 months
iii. Over two months to 3 months
iv. Over 3 months to 6 months
v. Over 6 months to 1 year
vi. Over 1 year to 3 years
vii. Over 3 years to 5 years
viii. Over 5 years
ix. Non-sensitive

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The Gap is the difference between Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL) for each time bucket. The positive Gap indicates that it has more RSAs than RSLs whereas the negative Gap indicates that it has more RSLs than RLAs. The Gap reports indicate whether the company is in a position to benefit from rising interest rates by having a positive Gap (RSA > RSL) or whether it is in a position to benefit from declining interest rates by a negative Gap (RSL > RSA). The Gap can, therefore, be used as a measure of interest rate sensitivity.

4. General

The classification of various components of assets and the liabilities of the company into different time bucket and the sensitivity to interest rate for the time being is set in the Schedule- A shall be adopted. Based on experience, the ALCO may review the same and may adopt a more responsive classification as it deems fit and in line with the regulatory directions in this respect.

Amendment

The management reserves its right to amend or modify the policy in whole or in part, at any time without assigning any reason whatsoever. The policy will be reviewed every year.

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For Geo VPL Finance Limited

Pradeesh Lawrence
Managing Director
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