



Asset Liability Management Policy

PREFACE

Policy Title	Asset Liability Management Policy
Version Number	01
Effective Date	March 2, 2020
Authorised by	Board of Directors
Number of Revisions	-
Revised Date	-

The Reserve Bank of India vide its Master Direction DNBR.PD. 003/03.10.119/2016-17 dated August 25, 2016 (hereinafter referred to as the “**RBI Directions**”) has laid down directions with respect to prudential regulations, corporate governance, conduct of business regulations and statutory provisions etc. applicable to Core Investment Company (CIC-ND-SI). JSW Investments Private Limited is a CIC-ND-SI operating in business environment such as long term Investments, lending money, giving guarantee and extending securities by way of pledge to secure third party borrowings, with in the group companies and thereby is exposed to various types of risk such as securities price risk, interest rate risk, liquidity risk etc.

Therefore, a broad and comprehensive Asset Liability Management System is required to be put in place to ensure that all the business decisions and corporate strategy of the company is implemented on the basis of the guidelines laid down under the said Asset Liability Management System. Thus, to ensure smooth functioning, long term viability and stability in the business of the company, the present Asset Liability Management Policy is framed and adopted by the Board of Directors (hereinafter referred to as “**the Board**”).

The ALM policy has been framed in compliance with the RBI Directions. The ALM process rests on three pillars.

(A) ALM Information Systems

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



(B) ALM Organization

- Structure and responsibilities.
- Level of senior management involvement.

(C) ALM Process

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

ALM INFORMATION SYSTEM:

An updated, comprehensive and sound information system is a vital factor in successful implementation of the ALM process. ALM needs be supported by a management philosophy which clearly specifies the risk policies and tolerance limits. The Risk policies formulated by the Board are to be based on a comprehensive and accurate information system. Thus, the key to ALM process is availability and obtaining of accurate information in a scheduled and timely manner and maintaining proper system to record and collect information through enhanced use of Management Information System.

The Company shall have a reliable Management Information System (MIS) designed to provide timely and forward-looking information on the liquidity position of the Company to the Board and ALCO, both under normal and stress situations. It should capture 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.

ALM ORGANIZATION:

The successful implementation and streamlining of business decisions and processes in line with the any policy entirely depends on the intent and commitment on the part of the Top Management of the Company and it is the responsibility of the Senior Management to ensure that all the business decisions and corporate strategy is decided in line with the framework and the objective of the Asset Liability Management Policy.



To ensure that the Board adheres to the policy and the business strategy of the company is in line with the policy an Asset Liability Committee consisting of following members is established:

- 1) Mr. Vineet Agrawal, Director
- 2) Mr. Sundeep Jain, Director & CFO

The Committee shall be responsible to overview and monitor the implementation of the AL policy and review the same on a periodical basis and accordingly the Committee shall submit its recommendations and suggestions to the Board for its approval.

ALM PROCESS :

The scope of ALM function would include the following:

- Liquidity risk management
- Management of asset liability match & maturity profiles
- Interest rate risk management
- Funding requirements and capital planning
- Funding Requirements and Capital Planning
- Liquidity Risk Tolerance
- Liquidity Costs, Benefits and Risks in the Internal Pricing
- Off-Balance Sheet Exposures and Contingent Liabilities
- Funding Strategy - Diversified Funding
- Collateral Position Management
- Stress Testing
- Contingency Funding Plan
- Intra Group Transfers
- Internal Controls

Liquidity Risk Management

Measuring and managing liquidity needs are vital for effective operations of the Company. The Asset Liquidity Management Committee should measure not only the liquidity positions of company on an ongoing basis but also examine how liquidity requirements are likely to evolve under different circumstances and scenarios. Liquidity has to be tracked through maturity or cash flow mismatches. 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.

Management of asset liability match & maturity profiles

In line with RBI Directions, the following maturity profile would be used for measuring the future cash flows in different time buckets

- i. 1 day to 7 days
- ii. 8 days to 14 days
- iii. 8 days to 30/31 days (one month)
- iv. Over one month and up to 2 months
- v. Over 2 months and upto 3 months.
- vi. Over 3 months and up to 6 months
- vii. Over 6 months and up to 1 year
- viii. Over 1 year and up to 3 years
- ix. Over 3 years and up to 5 years
- x. Over 5 years

Any mismatches between bucket-wise cash inflows and cash outflows need to be closely monitored at all times. Any mismatches up to one year would be more sensitive since these provide early warning signals of potential liquidity problems. The main focus should be on the short-term mismatches viz. from 1 month to 3 month buckets where the negative gap in normal course should not exceed 15% of cash outflows in these time buckets.

Interest Rate Risk

Interest rate risk is the risk where changes in market interest rates might adversely affect company's financial condition. The operational flexibility in pricing company assets and liabilities imply the need for considering hedging of interest Rate Risk. The changes in interest rates affect company in many ways.

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 Gap Report shall be generated by grouping rate sensitive liabilities, assets and off-balance sheet positions into time buckets according to residual maturity (as stated below) or next repricing period, whichever is earlier. The difficult task in Gap analysis is determining rate sensitivity.

The Gaps may be identified in the following buckets

- i. 1 day to 7 days
- ii. 8 days to 14 days
- iii. 8 days to 30/31 days (one month)
- iv. Over one month and up to 2 months
- v. Over 2 months and upto 3 months.
- vi. Over 3 months and up to 6 months
- vii. Over 6 months and up to 1 year
- viii. Over 1 year and up to 3 years
- ix. Over 3 years and up to 5 years
- x. Over 5 years
- xi. Non-sensitive

Funding Requirements and Capital Planning

The Company shall establish a funding strategy that provides effective diversification in the sources and tenor of funding. It should maintain an ongoing presence in its chosen funding markets and strong relationships with fund providers to promote effective diversification of funding sources. They should regularly gauge its capacity to raise funds quickly from each source. There should not be over-reliance on a single source of funding. Funding strategy should also take into account the qualitative dimension of the concentrated behaviour of deposit withdrawal (for deposit taking NBFCs) in typical market conditions and over-reliance on other funding sources arising out of unique business model.



Liquidity Risk Tolerance

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

Liquidity Costs, Benefits and Risks in the Internal Pricing

The Company should 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

Off-Balance Sheet Exposures and Contingent Liabilities

The process of identifying, measuring, monitoring and controlling liquidity risk should 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, financial derivatives, and, guarantees and commitments may be given particular importance in assessing the related liquidity risks that could materialise in times of stress.

Funding Strategy - Diversified Funding

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



Collateral Position Management

The Company shall actively manage its collateral positions, differentiating between encumbered and unencumbered assets. It should monitor the legal entity and physical location where collateral is held and how it may be mobilised in a timely manner. Further, an NBFC should have sufficient collateral to meet expected and unexpected borrowing needs and potential increases in margin requirements over different timeframes.

Stress Testing

The Company should conduct stress tests on a regular basis for a variety of short-term and protracted the Company-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 should be taken into consideration so that the scenarios incorporate the major funding and market liquidity risks to which the Company is exposed.

Contingency Funding Plan

The Company shall formulate a contingency funding plan (CFP) for responding to severe disruptions which might affect the Company'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/ prioritisation 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.

Intra Group Transfers

Due to risk arising in Intra-Group transactions and exposures (ITEs), the Chief Financial officer (CFO) shall develop and maintain liquidity management processes and funding programmes that are consistent with the complexity, risk profile, and scope of operations of the company. The Group liquidity risk management processes and funding programmes are expected to take into account lending, investment, and other activities, and ensure that adequate liquidity is maintained. Processes and programmes should fully incorporate real and potential constraints, including legal and regulatory restrictions, on the transfer of funds among these entities and between these entities and the principal.



Internal Controls

The Company shall have appropriate internal controls, systems and procedures to ensure adherence to liquidity risk management policies and procedure. Management should ensure that an independent party regularly reviews and evaluates the various components of the NBFC's liquidity risk management process.

AMENDMENTS:

The Board may amend the provisions of this Policy from time to time.

Unless otherwise specified, such amendments shall be effective from the date of the Board meeting at which such amendments are approved.

* * * * *