ASSETS AND LIABILITY MANAGEMENT POLICY

NAMDEV FINVEST PRIVATE LIMITED

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Registered Office:
S-1, S-7-8, SHREE NATH PLAZA, SECOND FLOOR,
NEER SAGAR MARKET, BHANKROTA, JAIPUR,
RAJASTHAN-302026
INDIA

CIN NO: U65921RJ1997PTC047090

Reviewed by Board – May 09th, 2023

Asset Liability Management Policy

1. Preamble

The Board of Directors (“Board”) of Namdev Finvest Private Limited (“Company” or “NFPL”), 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”) vide Master Direction DNBR. PD. 008/03.10.119/2016-17 dated September 01, 2016 (“RBI Circular”) 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 NFPL’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. NFPL is exposed to several major risks during its business i.e.

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

It is, therefore, important that NFPL 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 NFPL'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 Namdev Finvest Private 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

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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 NFPL (assets and liabilities) in line with overall business objectives. The adherence would also ensure that the statutory compliances set out by the Reserve Bank of India ('RBI') are complied with.

The ALCO shall perform the following roles and responsibilities:

a) Understanding business requirement and devising appropriate pricing strategies

b) Management of profitability by maintain relevant Net interest margins (NIM)

c) Ensuring Liquidity through maturity matching.

d) Management of balance sheet in accordance with internal policies and applicable regulatory requirements.

e) Ensure the efficient implementation of balance sheet management policies as directed by ALCO.

f) Review reports on liquidity, market risk and capital management.

g) To identify balance sheet management issues that are leading to under-performance and ensure corrective action.

h) Ensuring appropriate mix of different forms of debt i.e. Bank Loans, Non-Convertible Debentures, etc.

i) Giving directions to the ALM team on the interest rate risk.

j) ALCO delegates the daily management of liquidity risk and interest rate risk to ALM.

k) Approving major decisions affecting NFPL's risk profile or exposure (product pricing for advances, desired maturity profile and mix of the incremental assets and liabilities, prevailing interest rates offered by peer NBFCs for the similar services/product, etc).

l) Satisfy itself that the less fundamental risks are being actively managed, with the appropriate controls in place and working effectively.

m) Articulate the current interest rate review and formulate future business strategy on this view.

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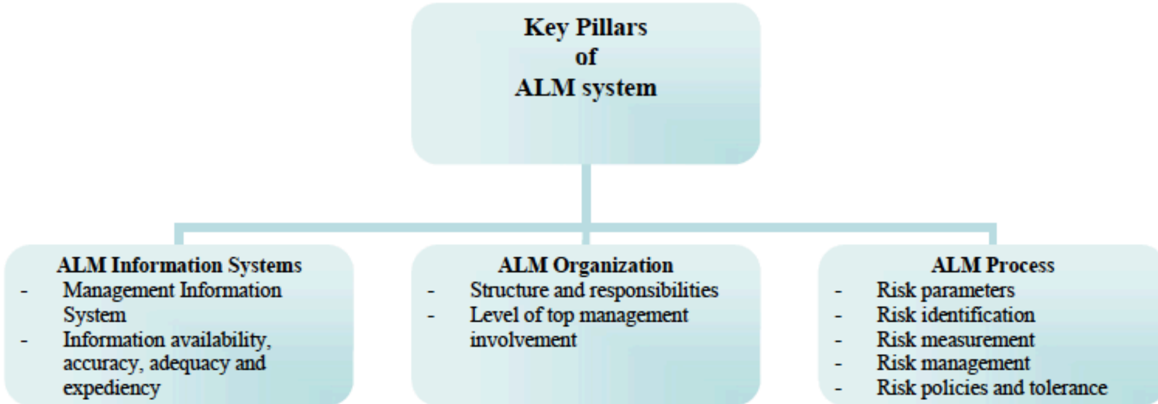
4.2 Key Pillars of ALM



ALM system of the Company is based on the following key pillars:

I. ALM Information systems

- MIS

ALM needs 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. There are various methods prevalent world-wide for measuring risks. These range from the simple Gap Statement to extremely sophisticated and data intensive Risk Adjusted Profitability Measurement methods. - Information availability, accuracy, adequacy and expediency However, though the central element for the entire ALM exercise is the availability of adequate and accurate information with expedience; and the systems existing. Adequate measures are to be taken to collect accurate data in a timely manner through computerization.

II. ALM Organization

- Structure and responsibilities Successful implementation of the risk management process shall require strong commitment on the part of the senior management in the NBFC, to integrate basic operations and strategic decision making with risk management. The Board shall have overall responsibility for management of risks and shall decide the risk management policy of the NBFC and set limits for liquidity, interest rate and equity price risks. Key Pillars. of - Level of top management involvement

Asset - Liability Committee (ALCO)

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

The ALM Support Groups consisting of operating staff shall be responsible for analyzing, monitoring, and reporting the risk profiles to the ALCO. The staff shall also prepare forecasts (simulations) showing the effects of various possible changes in market conditions related to the balance sheet and recommend the action needed to adhere to Company's internal limits.

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 the it operates within the limits / parameters set by the Board. The business issues that an ALCO shall consider, inter alia, shall include product pricing for both deposits and advances, desired maturity profile and mix of the incremental assets and liabilities, prevailing interest rates offered by other peer NBFCs for the similar services/product, etc. In addition to monitoring the risk levels of the NBFC, the ALCO shall review the results of and progress in implementation of the decisions made in the previous meetings. The ALCO shall also articulate the current interest rate view of the NBFC and base its decisions for future business strategy on this view. In respect of the funding policy, for instance, its responsibility shall be to decide on source and mix of liabilities or sale of assets. Towards this end, it will have to develop a view on future direction of interest rate movements and decide on funding mixes between fixed vs floating rate funds, wholesale vs retail deposits, money market vs capital market funding, domestic vs foreign currency funding, etc.

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Individual NBFCs shall have to decide the frequency of holding their ALCO meetings.

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.

III. 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 analysing 'What if scenario' and preparation of contingency plans

(i) Liquidity Risks Management

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Measuring and managing liquidity needs are vital for effective operation. Liquidity management can reduce the probability of an adverse situation developing. NFPL 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.

In addition to the above the Board had approved the avenues for deployment of temporary liquidity.

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 format of the Statement of Structural Liquidity should be as given on https://xbrl.rbi.org.in/orfsxbrl/.

The Maturity Profile as given in Appendix A would be used for measuring the future cash flows of NFPL in different time buckets as under:

(i) 0 days to 7 days

(ii) 8 days to 14 days

(iii) 15 days to 30/31 days

(iv) Over one month and upto 2 months

(v) Over two months and upto 3 months

(vi) Over 3 months and upto 6 months

(vii) Over 6 months and upto 1 year

(viii) Over 1 year and upto 3 years

(ix) Over 3 years and upto 5 years

(x) Over 5 years

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Granular Maturity Buckets and Tolerance Limits

The 1-30 days' time bucket in the Statement of Structural Liquidity is segregated into granular buckets of 1-7 days, 8-14 days, and 15-30 days. The net cumulative negative mismatches in the maturity buckets of 1-7 days, 8-14 days, and 15-30 days shall not exceed 10%, 10% and 20% of the cumulative cash outflows in the respective time buckets.

However, in reference with RBI circular dated November 04, 2019, the company will monitor cumulative mismatches (running total) across all other time buckets up to 1 year and

the cumulative negative mismatch in the maturity buckets up to 1 year shall not go beyond 15%.

Investments as a part of liquidity management (see the NFPL Investment Policy for details)

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 NFPL and within the framework of guidelines stated by RBI. Please refer to the investment policy for details.

NFPL's all investment securities may be placed in any of the time buckets depending upon the residual maturity period proposed by NFPL. The unlisted securities (e.g.; equity shares, securities without a fixed term of maturity etc.) may be placed in the "Over 5 years" buckets, whereas unlisted securities having a fixed term of maturity may be placed in the relevant time bucket as per residual maturity. NFPL's current investments may be shown under appropriate time bucket below one year and long-term investments may be shown under "over 5 years" time bucket based on the estimation by the management of NFPL. However, if NFPL acquired the shares of the assisted units as part of the initial financing package may be slotted in the relative time bucket keeping in view the pace of project implementation/time-overrun, etc., and the resultant likely timeframe for divesting such shares.

The Statement of Structural Liquidity 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, NFPL have to make a number of assumptions according to its asset - liability profiles. While determining the tolerance levels, NFPL 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.

In order to monitor short-term liquidity on a dynamic basis over a time horizon spanning from 0 day to 6 months, NFPL may estimate its short-term liquidity profiles on the basis of business projections and other commitments for planning purposes. The format) for estimating dynamic Liquidity can be referred on https://xbrl.rbi.org.in/orfsxbrl/.

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.

Cash Buffer

Due to liquidity crunch witnessed by the financial sector over the past decade due to various economic and governance factors within the sector amongst some companies due to which Non-Banking Financial Company ("NBFCs") and Housing Finance Companies ("HFCs") found it difficult to raise long term and short term funds from banks as well as the capital markets due to the negative sentiment towards the NBFC and HFC sector. Due to such liquidity crunch in the market, the cost of borrowing also increased significantly due to which the Company on a conservative basis may keep 6 months of liabilities and expenses available in cash i.e. liquid funds or fixed deposits or sanctioned and other immediately drawable limits to cover from any kind of ALM mismatch. It was also decided that an update to the senior management on the present market situation and its impact on the business of the Company be provided on a weekly basis.

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Resource Allocation

Considering the Assets of the Corporate and the Consumer Business, ALCO has decided to have the following short term and long-term resources for the company depending on the business plans for FY 2023-24:

- Short term- Cash Credit Limits

- Long Term- Bank Borrowing/NCD's/ECB/ Other Long-term borrowings

These limits have been allocated based on past borrowing trends and also depending on the requirements of each business line and operations. Such % of resources can vary depending upon availability of the funds from the market and the same will be decided/changed by ALCO accordingly.

(ii) 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;

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(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 should be generated by grouping rate sensitive liabilities (NIL in NFPL's case), assets and off-balance sheet positions into time buckets according to residual maturity or next repricing period, whichever is earlier. The difficult task in Gap analysis is determining rate sensitivity. All investments, advances, deposits, borrowings, purchased funds, etc. that mature/reprice within a specified timeframe are interest rate sensitive. Similarly, any principal repayment of loan is also rate sensitive if NFPL expects to receive it within the time horizon. This includes final principal payment and interim installments. Certain assets and liabilities to receive/pay rates that vary with a reference rate. These assets and liabilities are re-priced at pre-determined intervals and are rate sensitive at the time of re-pricing. While the interest rates on term deposits are fixed during their currency, the tranches of advances portfolio are basically floating. The interest rates on advances received could be re-priced any number of occasions, corresponding to the changes in PLR.

The Gaps may be identified in the following time buckets:

(i) 1-7 days

(ii) 8-14 days

(iii) 15-30/31 days (One month)

(iv) Over one month to 2 months

(v) Over two 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 years to 5 years

(x) Over 5 years

The various items of rate sensitive assets and liabilities and off-balance sheet items may be classified as explained in Appendix B and the Reporting Format for interest rate sensitive assets and liabilities is given on https://xbrl.rbi.org.in/orfsxbrl/.

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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 NFPL 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.

The Company shall set prudential limits on individual gaps with the approval of the Board Committees. The prudential limits shall have a relationship with the total assets, earning assets or Equity. The Company may work out Earnings at Risk (EaR) or Net Interest Margin (NIM) based on their views on interest rate movements and fix a prudent level with the approval of the Board Committees. For working out EaR or NIM any of the current models may be used. General The classification of various components of assets and liabilities into different time buckets for preparation of Gap reports (Liquidity and Interest Rate Sensitivity) as indicated in Appendices A & B is the benchmark. NFPL when better equipped to reasonably estimate the behavioral pattern of various components of assets and liabilities on the basis of past data / empirical studies will classify them in the appropriate time buckets, subject to approval from the ALCO / Board. The present framework does not capture the impact of premature closure of deposits and prepayment of loans and advances on the liquidity and interest rate risks profile. The magnitude of premature withdrawal of deposits at times of volatility in market interest rates is quite

substantial. NFPL, therefore, should evolve suitable mechanism, supported by empirical studies and behavioral analysis to estimate the future behaviour of assets, liabilities, and off-balance sheet items to changes in market variables and estimate the probabilities of options. Detailed clauses pertaining to premature exit or prepayment would be clearly stated in the loan agreement.

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 ALM Reporting

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Comprehensive reporting is designed to monitor key risks and their controls as per the NBFC regulations as enacted from time to time by RBI. Decisions relating to any corrective action are made as and when they seem necessary.

The following reports will be provided to ALCO showing compliance with established guidelines outlined in this policy and in accordance with guidelines established by RBI.

Quarterly, DNBS 3 XBRL return in place of NBS-7

Quarterly Return on important financial parameters

Quarterly DNBS 4A XBRL return in place of NBS-ALM1

Monthly DNBS4 B XBRL return in place of NBS-ALM2 and NBS-ALM3

Exceptions to guidelines outlined in this policy will be reported to ALCO no later than the next regularly scheduled meeting after a policy exception is identified.

4.5 Policy Review and Approval

The policy governing financial risk management activities and guidelines described herein shall be submitted to the ALCO of NFPL at least Annually for review and approval.

4.6 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 NFPL funds and capital resources.

GLOSSARY

1. Current Investments – In accordance with the RBI Directions referred above and Accounting Standard 13 ('AS-13') issued by the Institute of Chartered Accountants of India ('ICAI'), investments that, by their nature are readily realizable and are intended to be held for not more than a year from the date on which such investments are made, are to be classified as current investments.

2. Long Term Investments -– As per the RBI Directions and ICAI's AS-13, a long-term investment is defined as on that which is other than a current investment.

3. Non-performing asset/Loans ("NPA") means:

-an asset will be declared as NPA, in respect of which following are overdue:

a. Interest

b. term loan instalment inclusive of unpaid interest

c. demand or call loan

d. bill

e. the interest in respect of a debt or the income on receivables under the head 'other current assets' in the nature of short term loans/advances

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