

Asset- Liability Management Policy
(As approved by the Board & effective from 20.11.2017,
Modified on 20.08.2021 - as per Liquidity Risk Management Framework issued by RBI
dated November 4, 2019 {DOR.NBFC (PD) CC. No.102/03.10.001/2019-20})

OBJECTIVE

In order to ensure a sound and robust liquidity risk management system, the Board of our company has framed a liquidity risk management framework which ensures that it maintains 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.

APPLICABILITY

This policy shall come into effect from the date it is approved by the Board of Directors.

RESPONSIBILITY

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 it.

DEFINITIONS

- **“Liquidity”** means the capacity to fund the increase in assets and meet both expected and unexpected cash and collateral obligations at reasonable cost and without incurring unacceptable losses.
- **“Liquidity Risk”** means inability to meet such obligations as they become due without adversely affecting the financial condition. Effective liquidity risk management helps to ensure ability to meet its obligations as and when they fall due and reduces the probability of an adverse situation developing.
- **“High Quality Liquid Assets (HQLA)”** means liquid assets that can be readily sold or immediately converted into cash at little or no loss of value or used as collateral to obtain funds in a range of stress scenarios.

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Reg. Office : GOVE Building, 1st floor, Old No. 144, New No. 199, Anna Salai, Chennai – 600 002. Tamilnadu.
CIN No : U65921TN1983PLC010029 / GSTIN (TN) : 33AAACG2117P1ZQ.

- **Liquidity Coverage Ratio (LCR)** is represented by the following ratio:

$$\frac{\text{Stock of High Quality Liquid Assets (HOLA)}}{\text{Total Net Cash Outflows over the next 30 days}}$$

iii. "Unencumbered" means free of legal, regulatory, contractual or other restrictions on the ability of the company to liquidate, sell, transfer, or assign the asset.

REQUIREMENT OF THE POLICY

To spell out the entity-level liquidity risk tolerance; funding strategies; prudential limits; system for measuring, assessing and reporting/ reviewing liquidity; framework for stress testing; liquidity planning under alternative scenarios/formal contingent funding plan; nature and frequency of management reporting; periodical review of assumptions used in liquidity projection; etc.

COMPOSITION OF THE ALCO COMMITTEE

Asset- Liability Management Co (ALCO): Asset- Liability Management will be overseen by a Committee consisting of the following officials.

Sl.No.	Name	Position
1	Mr.V.K.Surendra, Director	Chairman
2	Mr.V.P.Mahendra, Director	Member
3	Dr.B.S.Santhavadanan, Independent Director	Member

ROLES & RESPONSIBILITIES OF THE COMMITTEE

ROLES

The role of the ALCO with respect to liquidity risk should include, inter alia, decision on 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, and overseeing the liquidity positions of all branches.



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RESPONSIBILITIES

ALCO shall be responsible for ensuring adherence to the risk tolerance/limits set by the Board as well as implementing the liquidity risk management strategy of the company.

PERIODICITY OF MEETING:

Members will arrange for convening the meetings of ALCO periodically or as and when needed depending upon the necessity. 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 analyzing 'What if scenario' and preparation of contingency plans Minutes of the meeting will be prepared and preserved.

SCOPE OF THE POLICY

- The Risk Management Committee shall be responsible for evaluating the overall risks faced including liquidity risk. The Risk Management Committee will evaluate the risk half-yearly.
- At Present, the Company has sufficient fixed deposits for funding. Considering the current size of our business, for future funding needs the company can raise further fixed deposits from public.
- During liquidity stress or severe disruptions, to meet the company's obligation in a timely manner and at a reasonable cost, our company has taken OD against FD in TMB Ltd. as a contingency funding plan.
- The Company will disclose the liquidity position in the Annual financial statement and will ensure that it is being disclosed in the Company's website as prescribed by the Reserve Bank of India.

Some of the current regulatory prescriptions applicable to your company on ALM framework have been recast below,



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i) Granular Maturity Buckets and Tolerance Limits

The 1-30 day 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, our company is expected to monitor their cumulative mismatches (running total) across all other time buckets upto 1 year by establishing internal prudential limits with the approval of the Board. The above granularity in the time buckets would also be applicable to the interest rate sensitivity statement required to be submitted.

ii) Liquidity risk monitoring tools

Your Company shall adopt liquidity risk monitoring tools/metrics in order to capture strains in liquidity position, if any. Such monitoring tools shall cover a) concentration of funding by counterparty/ instrument/ currency, b) availability of unencumbered assets that can be used as collateral for raising funds; and, c) certain early warning market-based indicators, such as, book-to-equity ratio, coupon on debts raised, breaches and regulatory penalties for breaches in regulatory liquidity requirements. The Board of our company shall put in place as necessary internal monitoring mechanism in this regard.

iii) Adoption of "stock" approach to liquidity

In addition to the measurement of structural and dynamic liquidity, your company also mandates to monitor liquidity risk based on a "stock" approach to liquidity. The monitoring shall be by way of predefined internal limits as decided by the Board for various critical ratios pertaining to liquidity risk. Indicative liquidity ratios are short-term liability to total assets; short-term liability to long-term assets; commercial papers to total assets; non-convertible debentures (NCDs) (original maturity less than one year) to total assets; short-term liabilities to total liabilities; long-term assets to total assets; etc.

iv) Extension of liquidity risk management principles

In addition to the liquidity risk management principles underlining extant prescriptions on key elements of ALM framework, it has been decided to extend relevant principles to cover other aspects of monitoring and measurement of liquidity risk, viz., off-balance sheet and contingent liabilities, stress testing, intra-group fund transfers, diversification of funding, collateral position management, and contingency funding plan.



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Liquidity Coverage Ratio (LCR)

Your Company shall maintain a liquidity buffer in terms of LCR which will promote resilience of your company to potential liquidity disruptions by ensuring that they have sufficient High Quality Liquid Asset (HQLA) to survive any acute liquidity stress scenario lasting for 30 days.

The LCR requirement shall be binding on NBFCs from December 1, 2020 with the minimum HQLAs to be held being 50% of the LCR, progressively reaching up to the required level of 100% by December 1, 2024, as per the time-line given below:

From	December 1, 2020	December 1, 2021	December 1, 2022	December 1, 2023	December 1, 2024
Minimum LCR	50%	60%	70%	85%	100%

REVIEW

The Committee shall, as and when required, assess the adequacy of this Policy and make any necessary amendments to ensure it remains consistent with the Board's objectives, current law and best practices.

REFERENCES

RBI Guidelines - DOR.NBFC (PD) CC. No.102/03.10.001/2019-20.

AMENDMENT

The Board may amend this policy from time to time.

For Gove Finance Limited



V.K.Surendra
Director
DIN: 00459069

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