

Document Title: Policy Asset Liability Management (ALM)	Reliance Capital Limited
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Reliance Capital Limited

Policy Asset Liability Management (ALM)

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1. Introduction and Objective

This policy establishes the framework for Asset Liability Management (ALM) at Reliance Capital Limited (RCL), an unlisted Non-Banking Financial Company (NBFC). The primary objectives of this policy are to:

- Compute and monitor the maturity pattern of assets and liabilities to ascertain the extent of mismatches.
- Analyze the impact of interest rate movements on profitability.
- Maintain adequate liquidity to meet obligations under various stress scenarios.
- Ensure compliance with regulatory requirements and promote sound risk management practices.

2. Definitions

- Asset Liability Management (ALM): ALM is the comprehensive process of planning, organizing, and controlling Company's assets and liabilities, considering their types, amounts, and maturities, to achieve specific financial objectives. This process aims to optimize returns while managing risks, particularly liquidity risk and interest rate risk.
- Asset Liability Management Committee (ALCO): ALCO is a key management committee responsible for formulating and implementing the ALM strategy. It plays a central role in monitoring and controlling liquidity and interest rate risks.
- High Quality Liquid Assets (HQLA): HQLA are assets that can be easily and immediately converted into cash at little or no loss of value. These assets are crucial for meeting short-term liquidity obligations, especially during periods of stress.
- Maturity Profile: A maturity profile is the distribution of assets and liabilities across various time bands or buckets, categorized according to their residual maturity. This profile is essential for analyzing potential liquidity mismatches and interest rate exposures.

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- **Interest Rate Sensitivity:** Interest rate sensitivity refers to the degree to which changes in market interest rates can affect Company's earnings, economic value, and capital. Managing this sensitivity is crucial for maintaining profitability and financial stability.
- **Internal Capital Adequacy Assessment Process (ICAAP):** ICAAP is the internal process of assessing Company's overall capital adequacy in relation to its risk profile. While originating from Basel guidelines, it's implemented and overseen by the RBI.
- **Other Definitions:** Additional definitions are provided as per the relevant RBI Master Directions on liquidity risk management, asset classification, provisioning, and other related areas, as well as definitions provided within the Companies Act, 2013, concerning financial reporting and corporate governance.

3. Governance of Liquidity Management

- **3.1 Asset Liability Management Committee (ALCO):**
 - The Asset Liability Management Committee (ALCO) is the primary body responsible for overseeing and managing the Company's liquidity and interest rate risks.
 - The ALCO's composition is critical and shall include key members of senior management with expertise in treasury, finance, risk management, and business operations. This ensures a holistic approach to ALM.
- **3.1.1 Responsibilities of ALCO:**
 - ALCO is responsible for regularly reviewing and analyzing liquidity mismatches and interest rate sensitivity positions, identifying potential vulnerabilities, and taking corrective actions.
 - ALCO oversees the Company's resource mobilization (fund raising) strategies and the deployment of funds in various assets, ensuring alignment with the overall business strategy and risk appetite.

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- ALCO plays a crucial role in approving strategies for asset deployment, loan pricing, deposit pricing, and other product pricing decisions, considering their impact on profitability, liquidity, and interest rate risk.
 - ALCO monitors funding concentrations to avoid excessive reliance on any single funding source and ensures the availability of a sufficient amount of unencumbered, high-quality assets that can be used to raise funds in times of stress.
 - ALCO is responsible for ensuring compliance with all applicable regulatory guidelines issued by the RBI, including the maintenance of other prudential norms.
- 3.1.2 Quorum of ALCO:
 - The quorum for ALCO meetings shall be minimum 2 member.
- 3.1.3 Periodicity of Meeting and Discussion Points:
 - ALCO meetings shall be held minimum of once in every quarter.
 - Detailed minutes of ALCO meetings shall be recorded, accurately reflecting the discussions and decisions, and these minutes shall be presented to the Board of Directors for their information and oversight.
 - ALCO meetings should cover key discussion points, including the Company's liquidity risk tolerance, the results of stress testing exercises, funding plans and strategies, and contingency funding plans.
- 3.2 Stress Testing:
 - The Company must conduct regular and rigorous stress tests to assess the potential impact of adverse scenarios on its liquidity position.
 - Stress testing should consider a range of severe but plausible stress factors, including market illiquidity, funding constraints, credit events, operational

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disruptions, and combinations of these factors. The details list of stress test has been defined in Annexure 1.

- The results of stress tests must be thoroughly discussed in ALCO meetings, and the committee must develop and implement appropriate mitigating actions to address any identified vulnerabilities.

4. Liquidity Management

- 4.1 Maturity Profiling:
 - Maturity profiling is a fundamental technique for measuring and managing liquidity risk. It involves analyzing the timing of cash inflows and outflows from assets, liabilities, and off-balance sheet items across various defined time buckets.
- 4.1.1 Time Buckets:
 - The Company must define appropriate time buckets for analyzing maturity mismatches, considering its business activities, risk profile, and regulatory requirements. Time buckets typically range from overnight to long-term periods (e.g., beyond 5 years).
- 4.1.2 Maturity Profiling for Cash Flows Under Investments:
 - The policy should specify how cash flows from investments are categorized within the maturity profile, considering factors such as contractual maturities, embedded options, and expected redemption patterns.
- 4.1.3 Maturity Profiling for Trading Book:
 - If applicable, the policy should outline the specific procedures for maturity profiling of trading book positions, considering the short-term nature of trading activities and the potential for rapid changes in market conditions.
- 4.2 Focus on Cash Flow Mismatches:

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- The Company must emphasize the importance of closely monitoring short-term cash flow mismatches, as these can quickly create liquidity pressures.
- 4.3 Statement of Structural Liquidity:
 - The Statement of Structural Liquidity is a key report that provides a comprehensive view of the Company's cash inflows and outflows across different time horizons, enabling the ALCO to assess the overall liquidity position.
- 4.4 Liquidity Monitoring Tools:
 - The Company will utilize a range of tools to monitor liquidity risk effectively, including:
- 4.4.1 Concentration of Funding:
 - Guidelines should be established to prevent excessive reliance on specific funding sources (e.g., large depositors, short-term wholesale funding), as concentration can increase vulnerability to funding disruptions.
- 4.4.2 Available Unencumbered Assets:
 - The Company must maintain a sufficient amount of unencumbered assets (i.e., assets free from any legal or regulatory restrictions) that can be readily used to obtain funding in contingency situations.
- 4.4.3 Market-Related Monitoring Tools:
 - Monitoring relevant market indicators (e.g., interbank rates, credit spreads) can provide early warning signals of potential liquidity problems.

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- 4.4.4 Internal Limits for Monitoring Liquidity Risk:

Table 1: Structural Liquidity Statement

Particulars	Regulatory Limit	Internal Limit
0 day to 7 days	-10%	-5%
8 days to 14 days	-10%	-5%
15 days to 30/31 days (One month)	-20%	10%
Over one month and upto 2 months	-	10%
Over two months and upto 3 months	-	10%
Over 3 months and upto 6 months	-	10%
Over 6 months and upto 1 year	-	10%
Over 1 year and upto 3 years	-	0%
Over 3 years and upto 5 years	-	0%
Over 5 years	-	0%

Table 2: Interest Rate Sensitivity

Particulars	Internal Limit
0 day to 7 days	-5%
8 days to 14 days	-5%
15 days to 30/31 days (One month)	-10%
Over one month and upto 2 months	-10%
Over two months and upto 3 months	-10%
Over 3 months and upto 6 months	-10%
Over 6 months and upto 1 year	-10%
Over 1 year and upto 3 years	-
Over 3 years and upto 5 years	-
Over 5 years	-
Non-sensitive	-

Table 3: Short Term Dynamic Liquidity

Particulars	Proposed Internal Limit
0 day to 7 days	-5%
8 days to 14 days	-5%
15 days to 30/31 days (One month)	-5%
1 month to 3 months	-5%
3 months to 6 months	-5%

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5. Benchmark Rates and Interest Rate Sensitivity

- 5.1 Benchmark Lending Rate:
 - The Company shall define its benchmark lending rate (if applicable) and clearly document the methodology for its calculation, ensuring transparency and fairness.
- 5.2 Risk-Based Pricing:
 - Guidelines should be established for pricing loans based on a thorough assessment of customer risk profiles, reflecting the inherent credit risk in each lending transaction.
- 5.3 Interest Sensitivity:
 - The Company must analyze the potential impact of changes in interest rates on its assets, liabilities, net interest income, and overall profitability.
 - The measurement of interest rate risk should incorporate relevant guidance from the RBI and, where applicable, Basel Committee principles, particularly within the framework of the Internal Capital Adequacy Assessment Process (ICAAP).

6. Liquidity Risk Measurement - Stock Approach

- The Company will employ a "stock" approach to measure liquidity risk, which involves monitoring key ratios (e.g., liquid asset ratios, loan-to-deposit ratios) and comparing them against internally established limits and regulatory benchmarks.

7. Technology Solutions for ALM

- The Company will utilize appropriate technology solutions to support its ALM processes, including systems for data management, cash flow forecasting, scenario analysis, and reporting.

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- The technology solutions must be robust, scalable, and regularly updated to ensure accuracy, reliability, and the ability to handle increasing data volumes and complexity.

8. Policy Review and Amendments

- Establish a process for regular review and updates of the ALM policy to ensure its relevance and compliance.
- Any amendments to the policy must be approved by the Board of Directors.

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Annexure 1

Details of Stress Test

Credit Risk – Stress Scenario		Baseline (B)		Medium (M)		Severe (S)	
#	Shock	P&L	RWA	P&L	RWA	P&L	RWA
1	Increase in NPAs - (i) net NPA increase by 50/100/150% with 30%/100%/100% provision for substandard and doubtful; and (ii) increase in standard provision from 40bps to 100bps.						
2	Increase in NPAs in top 5 industries -net NPAs increase by 3/5% with 30%/50% provision for substandard and doubtful.-Not Applicable.						
3	Increase in NPAs in specific sectors - increase in net NPAs in agriculture, power, real estate, telecom and road sectors by 3/5/0% with 30%/100% provision for substandard and doubtful- Not Applicable						
4	Slippage of Restructured Standard Assets- Not Applicable						
5	Depletion in Collateral - provision increase by 10/15/20%						
6	Downgrade in counter-party rating - one notch for 5/10/20% of borrowers in each grade						
7	Concentration risk - individual borrowers : default by top3/top 6/top 10 borrowers; IRAC Provision						-
8	Concentration risk - group : Default by all members of the Top borrower group - 30%/50%/100% provision for substandard doubtful and loss.- Not Applicable						-
9	Concentration risk - industries / sector : default by top/top 3/top 5 industries / sectors; 30% provision- Not Applicable						-
10	Decline in value of largest subsidiary (5%/10%/15%)						

Interest Rate Risk – Stress Scenario		Impact		
#	Shock	P&L	% impact on PAT	% impact on NII
1	Interest Rate – upward parallel shift by 100 bps			
2	Interest Rate – downward parallel shift by 100 bps			
3	Liability increase by 1% with no increase in Asset Interest			

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Liquidity risk – Stress Scenario				Impact	
#	Shock			P&L	Capital
1	The Company has decided on following stress Scenario				
	Parameter	Baseline	Medium		
	NCD repayment % of total outstanding	25%	50%		
	Liquidity discount on investment / asset values	20%	30%		
	The financing costs including incremental costs over average borrowing rate applied on negative gaps arising from the stressed cash flows up to 5 years should be considered to quantify the risk.				