SATYA MICROCAPITAL LIMITED

Asset Liability Management Policy

Version 2.0

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Document review and approval

Revision history

Version	Author	Date	Revision
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This document has been reviewed by

	Reviewer	Date reviewed
1	Mr. Sudhindra Sharma	May 2018
2	Mr. Sudhindra Sharma	Nov 2019
3	Ms. Vandita Kaul	13 Nov 2021
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1	Mr. Vivek Tiwari	13 Nov 2021
2	Board Members	13 Nov 2021
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1. Introduction & Objectives

The objective of this policy is to institute the principal guidelines for the SATYA's Asset Liability Management ('ALM') framework. SATYA has constituted an Asset Liability Management Committee ('ALCO') to oversee the continuous process of formulating, implementing, monitoring and revising strategies associated to company's assets and liabilities to achieve its financial goals for a given set of risk tolerances and constraints.
The RBI has issued guidelines administering the functions of ALCO for NBFCs with asset size of more than Rs. 500 crore.

2. Target Audience

The members of the Board, Risk Department, Operations Department, Finance Department and Information Technology shall be the primary audience for this document. The document shall not be circulated beyond mentioned individuals.

3. Applicability & Validity of the Policy

This policy will become applicable from such date approved by the Board of Directors. This policy shall be read in conjunction with the company's Risk Management Policy. The Board / ALCO will review, validate, update, and approve the Asset Liability Management policy at least annually. Any revisions in specific aspects of this policy may be communicated through mandates issued by the relevant authority and will become part of this policy from the date they become effective.

4. Regulatory Reference

This policy has been framed in accordance with the ALM framework as issued by Reserve Bank of India ("RBI") vide its Master Direction DBNR.PD.008/03.10.119/2016-17 dated September 01, 2016 ("RBI Circular") and amendments thereon and Liquidity Risk Management framework for Non-Banking Financial Companies vide Notification DOR.NBFC (PD) CC. No. 102/03.10.001/2019-20.

Further, Circular no. RBI/2011-12/30 DNBS (PD) CC No.236 /03.02.001/2011-12 has instructed NBFCs to adopt guidelines on Asset Liability Management System. Circulars No. RBI/2015-16/87 DNBS.IT.CC.No.01/24.01.191/2015-16 & DNBR (PD) CC.No.055/03.10.119/2015-16 for submission of returns.

5. Function

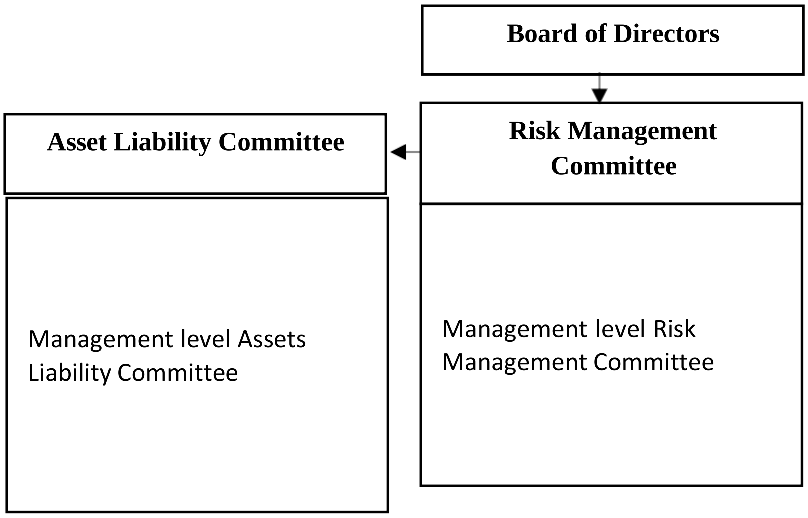
The three pillars of the Asset Liability Management Function are as follows:

ALM Governance Framework

ALM Operations

ALM Information Systems

i. ALM Governance framework



The Board of Directors of SATYA will have the overall responsibility to implement this policy and may specify limits for capital management, interest rates and liquidity risk, acting through the ALCO.

ii. ALCO Constitution

Considering the size of the Company, it is mandatory for the Company to have Asset Liability Committee to manage the Asset Liability mismatch risks. To ensure commitment of the Top Management and timely response to market dynamics, the MD should head the Committee and the Committee shall internally appoint a chairman within the committee.

The Committee shall consist of such number of members as may be determined by the board as well as in accordance with RBI Asset Liability Management (ALM) System for NBFCs - Guidelines DNBS (PD).CC.No.15 /02.01 / 2000-2001 dated June 27, 2001 and amendments from time to time.

The Committee may decide other invitees to the meetings of the committee basis agenda of the meeting.

In addition, the Head of the Technology Division should also be an invitee for building up of MIS and related computerisation as may be required from time to time.

Quorum: There shall be at least three members to constitute a valid quorum for an ALCO meeting.

iii. Roles & Responsibilities for ALCO and Support Functions

In order to ensure a sound and robust liquidity risk management system, the Board shall frame 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. It shall 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, which may include the prevailing economic scenario, historic trend of maturity of various assets and liabilities, interest rates predictions etc.

a) Role of Board of Directors

The Board is responsible for management of liquidity risk by defining the strategy, policies, procedures and controls to manage liquidity risk in accordance with the liquidity risk tolerance/limits decided by it.

(b) Role of Treasury

The Finance Department shall provide information to the ALCO with respect to:

- Developments in the money market / capital markets.
- Current micro / macroeconomic indicators, including typical borrowing avenues (such as CPs, NCDs, ELDs, OCDs, bank borrowings etc.) and borrowing cost associated with each avenue.
- Information / reports relating to the debt mix, investments and derivative positions held by the Company.
- Ensuring that adequate funds are available to meet the cash flow needs.
- Preparing contingency plans for review by the ALCO.
- Intimating ALCO about various developments due to external events on the asset and liability portfolio.

(c) Role of Accounts Department

The role of the Accounts Department is as follows:

- Accounts Department shall assist in providing data inputs from the financial statements for preparation of the ALM reports (liquidity and interest rate reports).
- Review short term sources of liquidity available in the market.
- Advising Treasury about major prepayments/advance receipt of funds if known in advance
- The Accounts department may appoint staff to liaise with the interfacing departments such as the treasury. They shall also monitor limit exceptions to this policy, developing other internal MIS reports for internal purposes and compile and prepare the ALM reports.

(d) Role of Compliance Department

The Compliance Department will be responsible for:

- Filing the ALM returns with RBI on timely basis.
- Updating status of ALM filing to ALCO on a periodic basis.

(e) Role of Risk Management Committee:

The Risk Management Committee is responsible for evaluating the overall risks, including liquidity risk, faced by the Company and to oversee the implementation of the systems, procedures and controls and to review its functioning periodically.

(f) Role of Asset-Liability Management Committee (ALCO):

The ALCO headed by CEO/MD is responsible for ensuring adherence to the risk tolerance / limits set by the Board as well as implementing the liquidity risk management strategy and to;

- Review the Cash flows so as to avert the possible Liquidity Mismatches, if any.
- Review any mismatch / possible mismatch of assets and liabilities and steps to be taken to minimize / avert the same.
- Direct the management to take necessary steps to minimize / avert the mismatch.
- Update the Board / Risk Management Committee from time to time about any mismatch / possible mismatch of assets and liabilities and the steps taken by the Committee / Management of the Company to minimize / avert such mismatch.
- Review the prevailing Interest Rate dynamics and the Interest-Rate Sensitivity position
- Review the Resource mobilization plan its Deployment vis-a-vis Cost of borrowings / Yields on advances
- Review the product mix and product pricing
- Strategies for deployment of surplus funds

The role of the ALCO includes the decision on desired maturity profile and mix of incremental assets and liabilities, sale of Receivables as a source of funding, the structure, responsibilities and controls for managing liquidity risk, and overseeing the liquidity position.

(g) Role of Asset Liability Management (ALM) Support Group

The ALM Support Group consisting of the operating staff shall be responsible for analysing, monitoring and reporting the liquidity risk profile to the ALCO. Such support groups will be constituted depending on the size and complexity of liquidity risk management in an NBFC.

iv. Meetings of ALCO

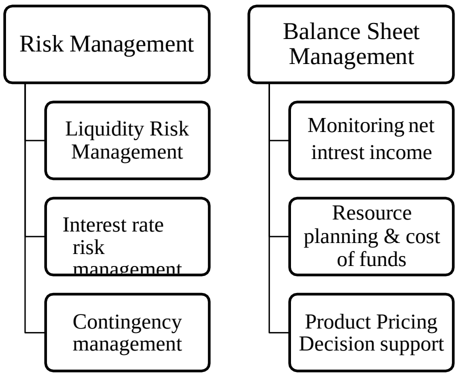
At least once every quarter, or as and when required or as may be decided by the Board from time to time. There shall be at least three members to constitute a valid quorum for an ALCO meeting, of which at least one person will be either the Chairman or the Deputy Chairman. Minutes of all ALCO meetings are required to be maintained. The ALCO shall issue specific instructions through mandates.

ALM OPERATIONS

The Asset Liability Management policy covers the operational as well as the strategic objective of risk management and balance sheet management.

The ALM philosophy is guided by two distinct set of principles, viz. balance sheet management principles and risk management principles. While measurement and management of liquidity and interest rate risk shall remain the basic objectives of ALM, the Company shall use ALM as a tool for balance sheet management.

A broad overview of the functioning of ALM activities is depicted below:



v. Liquidity Risk Management

Identifying, measuring, monitoring and controlling the liquidity risk is a very critical to ensure the Company's ability to meet its liabilities as they become due. Effective liquidity management ensures reduction of the probability of developing an adverse situation. Liquidity management involves not only measuring liquidity position on ongoing basis but also examine how liquidity requirements are likely to evolve under different assumptions. For measuring and managing net funding requirements, the use of a maturity profiling for both assets and liabilities and calculation of cumulative surplus or deficit of funds at selected maturity bucket is to be adopted as a standard tool, in line with RBI stipulations.

The Maturity Profile should be used for measuring the future cash flows of the Company in different time buckets as mentioned under;

(i) 1 day to 7 days
(ii) 8 day to 14 days
(iii) 15 days to 30/31 days (One month)
(iv) Over one month and upto 2 months
(iv) Over two months and upto 3 months
(v) Over 3 months and upto 6 months
(vi) Over 6 months and upto 1 year
(vii) Over 1 year and upto 3 years
(ix) Over 3 years and upto 5 years
(x) Over 5 years

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.

(a) Liquidity risk Tolerance

To ensure enough liquidity in the system, the company has decided to adhere to the following prudential limits and the tolerance limits for structural liquidity under different time buckets;

- Individual Gap in the time bucket of 1-30/31days should not be negative mismatch.

The net cumulative negative mismatches in the Statement of Structural Liquidity in the maturity buckets 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.

Satya will monitor cumulative mismatches upto 1 year.

(b) Liquidity Costs, Benefits and Risks in the Internal Pricing

Liquidity costs and benefits are to be quantified, from time to time and to incorporate the same in the internal product pricing, performance measurement and new product approval process for all material business lines, products and activities.

(c) Off-balance Sheet Exposures and Contingent Liabilities

Liquidity risks associated with Off-Balance Sheet exposures and contingent liabilities identified, measured, monitored and controlled, on an ongoing basis, and suitable steps to be taken, from time to time, to align the same with the normal business activities.

(d) Contingency Funding Plan

In order to deal with contingency, the Company on conservative basis may keep 3 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.

(e) Collateral Position Management

The collateral positions of the Company are to be differentiated, on an ongoing basis, between encumbered and unencumbered Receivables so as to ensure mobilization of additional resources against the unencumbered Receivables, in times of need.

(f) Stress Testing

Stress tests are to be considered as an integral part of the overall governance and liquidity risk management culture and to carry out stress tests on a regular basis for a variety of short-term and protracted company specific and market specific stress scenarios (individually and in combination) keeping in view the Company's business, activities and vulnerabilities so that the scenarios incorporate the major funding and market liquidity risks to which the Company is exposed.

(g) Public Disclosure

Disclosures, as per regulatory prescriptions, are to be made from time to time to enables market participants to make an informed judgment about the soundness of its liquidity risk management framework and liquidity position.

vi. Management Information System (MIS)

A sound information system is the key to the ALM process. ALM has to be supported by the management clearly specifying the risk policies and tolerance limit. This framework needs to be built on a sound methodology with necessary information systems as back up. Thus, collecting information/ data in a timely manner is the key to the ALM process.

ALM data is prepared based on certain assumptions and is analyzed on the basis of residual maturity of various assets & liabilities.

The ALM data is to be complied timely on the basis of forward-looking information on the liquidity position of the Company, 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.

vii. Internal Controls

Appropriate internal controls, systems and procedures are to be put in place to ensure adherence to liquidity risk management policies and procedure and continue to review the same, from time to time, to evaluate the various components of the Company's liquidity risk management process.

viii. Liquidity Risk Measurement

Appropriate critical ratios, like short-term liability to short term assets, short-term liability to total assets; short-term liability to long term assets; commercial papers / WCDL to total assets; non-convertible debentures (NCDs) (original maturity of less than one year) to total assets; short-term liabilities to total liabilities; long-term assets to total assets; etc., based on Company's liquidity risk management capabilities, experience and profile, to put in place to effectively measure the liquidity risk at regular intervals

ix. Currency Risk

The Company is to put in place appropriate currency risk management tools as and when decided to opt for raising funds by way of External Commercial Borrowings.

x. 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 re-pricing 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:

a. Within the time interval under consideration, there is a cash flow;
b. The interest rate resets/re-prices contractually during the interval;
c. Dependent on RBI changes in the interest rates/Bank Rate;
d. It is contractually pre-payable or withdrawal before the stated maturities.

The Gap Report should be generated by grouping rate sensitive liabilities, 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, etc. that mature/re- price within a specified timeframe are interest rate sensitive. Similarly, any principal repayment of loan is also rate sensitive. This includes final principal payment and interim installments. Certain assets and liabilities to receive/pay rates that varies 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.

The Gaps may be identified in the following time buckets:

i. 1 day to 7 days
ii. 8 days to 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
xi. Non-sensitive

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.

xi. Balance Sheet Management

SATYA shall use ALM as a tool for balance sheet management. Accordingly, ALM shall support management of Net Interest Income ('NII'), Net Interest Margins (NIM), product pricing and funding.

(a) Monitoring Net Interest Income (NII)

While NII is likely to be a factor of business growth, riskiness of asset portfolios and availability of credit, the ALM function shall focus on monitoring NII until a risk-based capital allocation model can be put in place.

The ALM function shall report on NII & NIM, factors that are likely to affect NII & NIM from the perspective of liquidity risk, interest rate risk and increase in cost of funds. As per RBI guidelines, the scope of ALM function includes profit planning. The Business units along with the Treasury will determine the acceptable spread based on the prevailing market rates and credit risk associated with specific advance.

The ALCO shall also evaluate the performance of the company's investments on a quarterly basis.

(b) Resource Planning and Cost of Funds

Once lending commitments are made by SATYA, it is important for the Treasury Team to tie-up funding sources while maintaining an acceptable NII spread.

The ALM function shall focus on:
- Evaluating the cost of funds vis-à-vis market based pricing benchmarks.
- Prescribing an equitable mix between long term and short term funding sources to manage structural mismatches and cost of funds.

(c) Product Pricing Decision Support

The ALM function will focus on evaluation of asset returns versus market based pricing benchmarks. The ALM function shall assist in giving insights to the business teams about the prevailing market rates of various lending products.

xii. ALM Information Systems

Management information systems are necessary for quality of ALM process. SATYA shall integrate the loan systems, treasury systems and accounting systems which will be

vital for monitoring and reporting of asset liability mismatches. These system will assist in providing:

- Accurate information that will assist in monitoring the structure of the balance sheet.
- Information while preparing ALM reports for the purpose of compliance.

6. Reporting Calendar

The table below summarizes the ALM reporting guidelines established by the Reserve Bank of India ("RBI").

Particulars	**Purpose & (Frequency)**	**Primary Responsibility**	**Reviewing Authority**	**Reporting**
DNBC - 4A Short term Dynamic liquidity	Short Term Dynamic Liquidity (Monthly)	Finance Department	ALCO/Board of Directors	Finance Department
DNBS – 4B Structural Liquidity & InterestRate Sensitivity)	Liquidity Risk Management (Quarterly)	Finance Department	ALCO/Board of Directors	Finance Department

Monthly Statement(s) shall be submitted within 10 days of the close of the month to which it relates and Quarterly statement(s) within 15 days of the close of the quarter to which it relates, to the Regional Office of the RBI Department in whose jurisdiction, SATYA is registered.

7. Reporting Requirements

Company shall comply with all the reporting required to be made to the RBI or any other department under the act from time to time as are applicable on the non-deposit taking NBFCs having assets size above 100 crores.

Glossary

S.no	Term	Definition
1	Breakup value	"Breakup value" means the equity capital and reserves as reduced by intangible assets and revaluation reserves, divided by the number of equity shares of the investee company.
2	Carrying Cost	"Carrying cost" means book value of the assets and interest accrued thereon but not received.
3	Current Investment	"Current investment" means an investment which is by its nature readily realizable and is intended to be held for not more than one year from the date on which such investment is made.
4	Defeasance period	Defeasance period Refers to the time taken to liquidate the position on the basis of liquidity in the secondary market. Where defeasance period is used as a measure, the securities should be classified under current investments. Additionally, securities held in the mandatory investment category may also be classified based on defeasance period with the prior approval of the ALCO.
5	Fair Value	"Fair value" means the mean of the earning value and the breakup value.
6	Earning value	"Earning value" means the value of an equity share computed by taking the average of profits after tax as reduced by the preference dividend and adjusted for extra-ordinary and non-recurring items, for the immediately preceding three years and further divided by the number of equity shares of the investee company and capitalized at the following rate.
7	Hybrid debt	"Hybrid debt" means capital instrument which possesses certain characteristics of equity as well as of debt.
8	Long term investment	"Long term investment" means an investment other than a current investment.
9	Net asset value	"Net asset value" means the latest declared net asset value by the mutual fund concerned in respect of that particular scheme.
10	Net book value	"Net book value" means: (a) In the case of hire purchase asset, the aggregate of overdue and future instalments receivable as reduced by the balance of unmatured finance charges and further reduced by the provisions made as per paragraph 9(2)(i) of these Directions. (b) In the case of leased asset, aggregate of capital portion of overdue lease rentals accounted as receivable and depreciated book value of the lease asset as adjusted by the balance of lease adjustment account.