Asset-Liability Management Policy
(updated as on April 29, 2022)

PHF LEASING Limited

The Board of Directors **("Board")** of PHF LEASING Limited (hereinafter referred as **"the Company" or "PHF"**), has adopted the following policy to establish guidelines to ensure prudent Management of Assets and Liabilities. These guidelines address the issues relating to Liquidity Risk, Interest rate risk and Market Risk.

2. OBJECTIVE

The Asset Liability Management Policy (ALM Policy) has been framed in accordance with the ALM framework as issued by the 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 and Liquidity Risk Management Framework for Non-Banking Financial Companies and Core Investment Companies vide notification DOR.NBFC (PD) CC. No.102/03.10.001/2019-20 dated November 04, 2019.

This policy is aimed at establishing internal systems and processes to control and manage the assets and liabilities of the Company judiciously and prudently so as to proactively identify measure, manage and mitigate the key risks – liquidity, interest rate and Market risks by monitoring the same at regular intervals.

To manage the integrated risk, the Company shall form the Asset Liability Management Committee (ALCO) consisting of the Company's top management, 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.

3. RESPONSIBILTY

The Asset/Liability Management Policy of the Company falls under the authority of the Board of Directors, who in turn assigns authority for its formulation, revision and administration to the Asset/Liability Management Committee (ALCO). The Ultimate Responsibility for Effective

Asset/Liability Management would rest with the Board of Directors.
The Chief Financial Officer shall be responsible for the implementation of the ALM Policy and compliance of the same.

4. BOARD OF DIRECTORS

The Board of Directors has the ultimate responsibility for the Implementation of and Ensuring adherence to this policy. The Board will, at least annually, formally review this policy. The Board of Directors will, at least, quarterly review the Funds Management Activities of the Company. This review would include:

- Minutes of the Asset/Liability Committee (ALCO) meetings held since the Last Board Meeting
- Review of the Company's most recent Interest Rate Sensitivity Statement as per the Risk Appetite Statement
- Review of the Company's most recent Structured Liquidity Statement
- An analysis of the Company's Fund and Treasury Position.

5. ASSET/LIABILITY MANAGEMENT COMMITTEE (ALCO)

The Managing Director/ CEO or the Executive Director (ED) shall head the Committee.

5.1 Members of the Committee

The Board of Directors may constitute the Committe from the following Executives:

1. Members from Board
2. Chief Financial Officer- heading Investments, Treasury and Fund Management
3. Business Head- Heading Credit and Sales
4. Finance and Accounts Head
5. Company Secretary shall be the Secretary of the Committee.

5.2 Role of the Committee

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. The ALCO constituted by the Board of Directors shall be responsible for ensuring adherence to various risks and operational tolerance/ limits set by the Board of Directors as well as deciding the business strategy of the company (assets and liabilities) in line with overall business objectives and implementing the liquidity risk management strategy. 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:

- Monitoring the market risk levels by ensuring adherence to the various risk-limits set by the Board;
- Articulating the current interest rate view and a view on future direction of interest rate movements and base its decisions for future business strategy;
- Reviewing the cash flows so as to avert the possible Liquidity Mismatches, if any;
- Reviewing any mismatch / possible mismatch of assets and liabilities and steps to be taken to minimize / avert the same;
- Directing the management to take necessary steps to minimize / avert the mismatch;
- Updating the Board / Risk Management Committee from time to time about any mismatch / possible mismatch of assets and liabilities and the steps to be taken by the Committee / Management of the Company to minimize / avert such mismatch;
- Reviewing the prevailing Interest Rate dynamics and the Interest-Rate Sensitivity position;
- Reviewing the Resource mobilization plan and its Deployment vis-a-vis Cost of borrowings / Yields on advances;
- Reviewing the product mix and product pricing;
- Strategizing for deployment of surplus funds;
- Taking 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;
- Reviewing the results of and progress in implementation of the decisions made in the previous meetings

5.3 Quorum

Minimum 2 (two) or 1/3rd (one-third) Members whichever is higher shall constitute the quorum.

5.4 Periodicity of Meeting

The Company Secretary of the Company shall be responsible for convening the meetings of the Committee and may arrange to convene the Meetings of ALCO as and when needed depending upon the necessity in consultation with MD/CEO and CFO. ALCO may convene a meeting once in a quarter for review and taking corrective action, if required. However, Minimum 2 meetings shall be held during the financial year.

5.5 Recording of Minutes

Minutes of the meeting shall be prepared and preserved in the Minutes Book and the same shall be approved as per the Secretarial Standard-1.

6. ALM PROCESS

The scope of the Company's Asset and Liability Management include:

I. **Liquidity Risk Management**

Identifying, Measuring, Monitoring and Controlling the liquidity risk is very critical to ensure the Company's ability to meet its liabilities as and when they become due. Effective liquidity management helps ensure reduction of the probability of developing an adverse situation. Liquidity management involves not only measuring liquidity position on ongoing basis but also examines how liquidity requirements are likely to evolve under different assumptions.

Measuring Liquidity Risk

(i) Structured Liquidity Statement

The Statement of Structural Liquidity may be prepared by placing all cash inflows and outflows in the maturity ladder according to the expected timing of cash flows. A maturing liability shall be a cash outflow while a maturing asset shall be a cash inflow. The format prescribed by RBI in this regard under ALM System would be adopted for Measuring Cash Flows Mismatches in Different Time Buckets. The Cash Flows will be placed in Different Time Buckets based on Future Behavioral Pattern of Assets, Liabilities and Off-Balance Sheet Items. In other words, the Company would analyse the behavioral maturity profile of various components of on/Off-Balance Sheet Items **on the basis of assumptions and trend analysis supported by time series analysis, as detailed in Appendix II** of Reserve Bank of India Master Direction DNBR. PD. 008/03.10.119/2016-17 dated September 01, 2016 ("RBI Circular") and amendments thereon.

ALCO would Review Structured Liquidity Statement on an Ongoing Basis and should ensure that the Mismatch in Different Time Buckets shall remain within Tolerance Limits stated below:

Liquidity Risk Tolerance Limit in Different Time Buckets is tabulated as under:

Time Bucket	**Liquidity Risk Tolerance Limit Cumulative Mismatch**
1 day to 7 days	10%
8 days to 14 days	10%
15 days to 30/31 days (One Month)	20%
Over One Month and up to 2 Months	25%
Over 2 Months and up to 3 Months	30%
Over 3 Months and up to 6 Months	30%
Over 6 Months and up to 1 Year	35%
Over 1 Year and up to 3 Years	40%

Over 3 Years and up to 5 Years	50%
Over 5 Years	60%

While the mismatches up to one year would be relevant since these provide early warning signals of impending liquidity problems, the main focus shall be on the short-term mismatches, viz., 1-30/31 days. The Company shall calculate mismatches in different Time Buckets standalone and on Cummulative basis. In Case, 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 exceed 10%, 10% and 20% respectively of the cumulative cash outflows in the respective time buckets, the ALCO should explore and record as to how it proposes to finance the gap to bring mismatch within Prescribed Limits. The company shall prepare Structured Liquidity Statement statement at least once in every quarter and the MD/CEO shall ensure adherence to tolerance limits as mentioned.

(ii) Dynamic Liquidity Statement

In order to enable the Company to monitor the short-term liquidity on a dynamic basis over a time horizon spanning from 1 day to 6 months, the Company shall estimate its short-term liquidity profile on the basis of business projections and other commitments. The Company shall prepare Dynamic Liquidity Statement at least on half yearly basis. The Dynamic Liquidity Statement to be prepared should be as per the format given in **Annexure- A**.

(iii) **Liquidity Ratios**

An Indicative List of Certain Critical Ratios to monitor the Company's Liquidity Position:

1. Short-Term Liability to Total Assets
2. Short-Term Liability to Long-Term Assets
3. Non-Convertible Debentures (NCDs) (Original Maturity of Less than one Year) to Total Assets
4. Short-Term Liabilities to Total Liabilities
5. Long-Term Assets to Total Assets

II. Interest Rate Risk Management

The changes in interest rates affect the Company in a larger way. The immediate impact of changes in interest rates is on the Company's earnings (i.e. reported profits) by changing its Net Interest Income (NII). A long-term impact of changing interest rates is on the Company's Market Value of Equity (MVE) or Net Worth as the economic value of the Company's assets, liabilities and off-balance sheet positions get affected due to variation in market interest rates. The interest rate risk when viewed from these two perspectives is known as 'earnings perspective' and 'economic value perspective', respectively. The risk from the earnings perspective can be measured as changes in the Net Interest Income (NII) or Net Interest Margin (NIM). There are many analytical techniques for measurement and management of Interest Rate Risk. To begin with, the traditional Gap analysis (TGA) is considered as a suitable method to measure the Interest Rate Risk in the first place.

The focus of the TGA is to measure the level of the company's exposure to interest rate risk in terms of sensitivity of its NII to interest rate movements. The interest rate gap is a common form of interest rate sensitivity measurement. GAP under TGA is equal to rate sensitive assets (RSA) minus rate sensitive liabilities (RSL). A rate sensitive asset/liability is one whose yield/cost varies with base rate fluctuations.
With the TGA methodology, the Company's assets and liabilities will be organised into repricing "buckets" using book values. The analysis will allow to determine the effect in the Company's income due to a change in interest rates. A positive GAP under TGA exists when there is more RSA than RSL, and a negative GAP under TGA exists when there is more RSL than RSA.

The Company will strive to achieve a balance between reducing risk to earnings from adverse movements in interest rates, and enhancing net interest income through correct anticipation of the direction and extent on interest rate changes. By running a positive GAP under TGA, the Company will benefit if interest rates rise, and by running a negative GAP under TGA, it will benefit if interest rates fall. The Company's GAP under TGA and the interest rate exposure will be compiled and reviewed on a monthly basis. The TGA reports as per the format prescribed by RBI will be used to measure risk to net interest income arising from the repricing of assets and liabilities over time. While the TGA reports will be used to indicate the timing and sources of interest rate risk, it is understood that maintaining a balanced position for all time periods in a TGA report does not ensure immunity from interest rate risk.

The framework used for TGA **is as per Appendix III** of Reserve Bank of India Master Direction DNBR. PD. 008/03.10.119/2016-17 dated September 01, 2016 ("RBI Circular") and amendments thereon.

III. Market Risk Management

Market risk refers to the uncertainty of future earnings resulting from changes in interest rates, exchange rates, market prices and volatilities. The Company assumes market risk from Consumer and Corporate Loans, Position Taking, and Trading and Investment Activities.

The Strategy for Controlling Market Risk shall involve:

- Stringent Control and Limits
- Strict Segregation of Front and Back Office Duties
- Daily Reporting of Positions
- Regular Independent Review of all Controls and Limits
- Rigorous Testing and Auditing of all Pricing, Trading, Risk Management and Accounting Systems

5. POLICY REVIEW

The Policy shall be reviewed at least annually by the ALCO and thereafter, by the RMC and Board. However, the policy can be reviewed at short notice depending on the exigencies/extraordinary situations, which may emanate during the course of Company's business.

This Policy shall remain in force till the next revision is carried out and disseminated.

Annexure- A

Statement of Short-Term Dynamic Liquidity Statement as on ___________

(Amount in Cr.)

S.No.	**Particulars**	**1 day to 7 days**	**8 days to 14 days**	**15 days to 30/31 days (One Month)**	**Over One Month and up to 2 Months**	**Over One Month and up to 2 Months**	**Over 2 Months and up to 3 Months**	**Over 3 Months and up to 6 Months**
A.	**Outflows**							
	Net Increase in Loans and Advances							
	Net Increase in Investments							
	Off Balance Sheet Items							
	Others (including Refinance)							
	Total Outflows							
B.	**Inflows**							

	Net Cash Position							
	Net Increase in Deposits							
	Interest on Investments							
	Off Balance Sheet Items							
	Others							
	Total Inflows							
C.	**Mismatch (B-A)**							
D.	**Cumulative Match**							
E.	**C as a % to Total Outflows**							