

HOMESHREE HOUSING FINANCE LIMITED (HHFL)

ASSET LIABILITY MANAGEMENT POLICY

**Following the RBI Master Direction – Non-Banking Financial Company –
Housing Finance Company (Reserve Bank) Directions, 2021**



HOMESHREE HOUSING FINANCE LIMITED

Policy on Asset Liability Management

Summary of Policy

Policy Name	Asset Liability Management Policy
Date of Implementation	November 27, 2014
Date of Last Review	05 June 2024
Date of current review	31 March 2025
Version No.	04
Owner / Contact	Compliance Department
Approver	Board of Directors

ASSET LIABILITY MANAGEMENT POLICY

1. Introduction

In the present market scenario, every Housing Finance Company are exposed to credit and market risks in the view of the asset-liability transformation. With the linearization in Indian financial markets over the last few years and growing integration of the domestic markets with external markets, the risk associated with the operation of an HFC have become complex and large, requiring strategic management. Observing all these events, HomeShree Housing Finance Limited (hereinafter referred to as “**HomeShree or HHFL**”) have to take business decisions on the basis of dynamic and integrated risk management system and streamline their process driven by corporate strategy.

In relation to the risk management system, HHFL has formulated Asset Liability and Risk Management Policy. This policy lays down guidelines in respect of system for management of liquidity and interest risks. The main focus in formulation of this policy is to enforce the discipline of market risk management viz. managing business after assessing the market risk involved. The prime objective of Asset Liability and Risk Management Policy is to evolve strategic tool for effective management of the company.

The purpose of this document is to define the Asset Liability and Risk Management Policy for the company in accordance with the NHB Directions for housing finance companies. This is living documents and supposed to be updated on a regular basis. Any, regulatory change that would impact the accounting aspects of the company would be reflected here. This document should not be seen in isolation but in conjunction with the other policy documents that define the overall working of the company. For the sake of simplicity and to avoid confusion, any matter covered in other policy documents is not repeated in this document.

2. OBJECTIVES

Asset liability management basically refers to the process by which a company manages its balance sheet in order to allow for alternative interest rate and liquidity scenario. Every housing finance company provide services which expose them to various kinds of risks like credit risk, interest risk and liquidity risk. Asset liability management is an approach that provides company with projections that makes such risks acceptable. Asset liability management models enable company to measure and monitor risks and provide suitable strategies for their managements. It includes not only a formalization of this understanding but also a way to quantify and manage these risks. Asset liability Management is a first step in the long term strategic planning process. Therefore, it can be considered as a planning function for an intermediate term.

3. ASSET LIABILITY COMMITTEE

The Board of Directors will formulate a committee called as Asset Liability Committee (ALCO). The Board will decide on the role, powers and responsibilities of the committee so as to ensure that it operate within the limits and parameters set by the Board. The ALCO has been formed to oversee

the implementation of the Asset Liability System and review its functioning periodically. The Committee consists of the following members:

Mr. Amit Singla - Managing Director
Mr. Jitender Khanna - Director
Mr. Manoj Khanna- Director

4. GUIDELINES OF THE ALCO:

- a. ALCO will be headed by Mr. Amit Singla (Chairman).
- b. ALCO would meet once every quarter.
- c. The minutes and actions items of the meeting would be documented and monitored to closure by Company Secretary of the Company.
- d. Following will be the structure of the ALCO meeting:
 - ALCO would go through the minutes of the previous meeting and actions taken.
 - ALCO would discuss the macro-economic environment and its impact on the overall business.
 - Various asset management and risk parameters for the previous quarter would be presented and discussed one by one. If there are any parameters outside the prudential limit, corrective actions would be defined.
 - The limits of the parameters would be discussed and adjusted considering the changed market and regulatory conditions.

5. PROCESS FOR ASSET LIABILITY MANAGEMENT

The Asset Liability Management process rest on three pillars:

- ALM Information System
- ALM Organization
- ALM Process

i. ALM INFORMATION SYSTEM:

Information is the key to the ALM process. Considering the lack of an adequate system to collect information required for ALM which analyses information on the basis of residual maturity and behavioural pattern it will take time in the present state to get the requisite information. The problem of ALM needs to be addressed by following an ABC approach i.e. analysing the behaviour of asset & liability products for significant business, then making rational assumptions about the way in which asset & liability products for significant business, and then making rational assumptions about the way in which assets and liabilities would behave. The data and assumptions can then be refined over time as the bank management gain experience of conducting business within an ALM framework.

ii. ALM ORGANIZATION:

The Board should have overall responsibility for management of risks and should decide the risk management policy of the bank and set limits for liquidity, Interest rate, foreign exchange, and equity price risks.

The ALCO is a decision-making unit responsible planning from risk-return perspective including the strategic management of interest rate and liquidity risks. Each company will have to decide on the role of its ALCO, its responsibility as also the decision to be taken by it.

The business and risk management strategy of the company should ensure that the company operates within the limits / parameters set by the board. The business issues that an ALCO would consider, inter alia, will include product pricing for advances, of the incremental assets and liabilities, etc.

In addition to monitoring the risk levels of the company, the ALCO should review the results of and progress in implementation of the decision made in the previous meetings. The ALCO would also articulate the current interest rate view of the bank and base its decisions for future business strategy on this view.

In respect of the funding policy, for instances, its responsibility would 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 a funding mix between fixed vs. floating rate funds, wholesale vs. retail deposits, money market vs. capital market funding, domestic vs. foreign currency funding, etc.

iii. ALM PROCESS:

The scope of ALM function can be described as under:

- Liquidity risk management
- Management of market risks
- Funding and capital planning
- Profit planning and growth projection
- Forecasting and analysing 'what if scenario' and preparation of contingency plans.