

Corporate Office: Plot No. A9, Sector 3, Noida - 201301 Noida - 201 303
Registered Office: CP-3, Sector-8, IMT Manesar,
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Tel: +91 120 4306000 Fax: +91 120 4310288
CIN: U65923HR2008PTC046947

VAMA SUNDARI INVESTMENTS (DELHI) PRIVATE LIMITED

ASSET LIABILITY MANAGEMENT POLICY

(Approved in the Board dated 27th September, 2018 and reviewed at its meeting held on 18th November, 2019, 30th September, 2020, 16th March, 2021, 15th March, 2022, 17th November, 2022, 9th May, 2023, 18th March, 2024 and 28th January, 2025)

In terms of Master Direction-Core Investment Companies (Reserve Bank) Directions, 2016, Asset Liability Management Policy has been formulated. Asset Liability Management (ALM) Policy establishes a framework for the sound management of asset liability and sets forth the principles and practices related to the first line of defense responsibilities for interest rate risk and currency risk management.

In terms of RBI Circular DOR.NBFC (PD) CC. No.102/03.10.001/2019-20 dated November 4, 2019 in order to strengthen and raise the standard of the Asset Liability Management (ALM) framework it has been decided to revise the extant guidelines on liquidity risk management for NBFCs. All non-deposit taking NBFCs with asset size of ₹ 100 crore and above and systemically important Core Investment Companies shall adhere to the set of liquidity risk management guidelines.

Objectives:

1. To focus on the funding/liquidity risk of the Company, meaning its ability to meet its current and future cash-flow obligations and collateral needs, both expected and unexpected.
2. To evaluate the risk of losses resulting from movements in interest rates and their impact on future cashflows.
3. To evaluate the risk of losses resulting from movements in exchange rates.
4. To ensure the maintenance of adequate capital on a continuous basis. It is a dynamic and ongoing process considering both short and longer term capital needs.
5. To deal with aspects relating to credit risk.
6. To approve a contingency plan.

Composition of Asset Liability Management Committee: The ALM Committee shall comprise of atleast three Directors . Presently, the composition of ALM Committee is as under :

- | | |
|-----------------------------------|----------|
| 1. Mr. Shikhar Neelkamal Malhotra | Chairman |
| 2. Mr. Shiv Nadar | Member |
| 3. Ms. Roshni Nadar Malhotra | Member |
| 4. Mr. Pawan Kumar Danwar | Member |
| 5. Ms. Rita Gupta | Member |

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Minimum Number and Periodicity of Meetings:

There shall be minimum one meeting in each quarter and atleast four meetings in a calendar year.

Role of CRO

- (a) The CRO shall undertake such duties or perform such roles or exercise such powers as entrusted to it by the Board, in accordance with the Applicable Laws.
- (b) The CRO shall be involved in the process of identification, measurement and mitigation of risks.
- (c) The CRO shall also vet the credit policies of the Company. The CRO shall be an advisor in deciding credit proposals.

Asset Liability Management

The ALM approach shall be to limit potential losses by keeping consumption of economic capital under limits allocated to ALM risks, to be applied as Value at Risk (Hvar) limits.

The Treasury team shall be responsible for analysing, monitoring and reporting the liquidity risk profile through Treasury Head.

Liquidity Risk

The Company will ensure its ability to meet cash flow obligations by managing liquidity risk with a perspective informed by the following core themes:

- a) Funding sources and term of funding should be diversified.
- b) Funding needs during business-as-usual and stress scenarios should be anticipated and available through contingency funding plans.
- c) The Company has fixed the tolerance limit for cumulative negative mismatch in its ALM policy at 10%.

The Liquidity Portfolio assets will be selected with key criteria being

- a) relatively low volatility of market value during times of stress and
- b) expected ability to sell the assets in times of stress.

An effective management information system (MIS) is an important prerequisite that enables these foundational capabilities for achieving sound liquidity risk management (LRM) practice. The liquidity risk MIS should enable timely and relevant information to the board of directors, senior management and liquidity managers to address both operational liquidity management and regulatory requirements effectively. A robust MIS infrastructure should be automated, auditable, adaptive, and sustainable. The core components of the liquidity risk MIS infrastructure should include a centralized data foundation, advanced analytical and stress test engines, management information portal,

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and reporting platform, all supported by a well-defined data governance and quality control framework.

This ALM Policy requires an effective system of internal control for market and liquidity risk.

Such controls shall ensure the implementation of:

- (a) appropriate limits and enforcement on risk taking;
- (b) adequate systems and standards for identifying, measuring, monitoring and evaluating risk;
- (c) a comprehensive ALM risk reporting and ALM review process; and
- (d) effective internal controls.

Clear lines of authority and responsibility for the management and control of ALM risk.

The Board of Directors shall ensure the implementation and observance of this Policy through issuing Directives, which shall:

- Determine how duration is managed and specify duration limits.
- Establish a prudently governed short-term investment program.
- Specify methodologies for allocating equity as a funding source.
- Define responsibilities and structure of hierarchy mindful of the need to avoid potential conflicts of interest.

The following shall be key roles and responsibilities of the Committee :

- Liquidity risk management
- Management of market risks
- Trading risk management
- Funding and capital planning
- Profit planning and growth projection

Liquidity Costs, Benefits and Risks in the Internal Pricing

The management should endeavour to develop a process to quantify liquidity costs and benefits so that the same may be incorporated in the internal product pricing, performance measurement and new product approval process for all material business lines, products and activities.

Off-balance Sheet Exposures and Contingent Liabilities

The process of identifying, measuring, monitoring and controlling liquidity risk should include a robust framework for comprehensively projecting cash flows arising from assets, liabilities and off-balance sheet items over an appropriate set of time horizons. The management of liquidity risks relating to certain off-balance sheet exposures on account of special purpose vehicles, financial derivatives, and, guarantees and commitments may be given particular importance due to the difficulties that many Companies have in assessing the related liquidity risks that could materialise in times of stress.

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Funding Strategy – Diversified Funding

The management shall establish a funding strategy that provides effective diversification in the sources and tenor of funding. It should maintain an ongoing presence in its chosen funding markets and strong relationships with fund providers to promote effective diversification of funding sources. The Company should regularly gauge its capacity to raise funds quickly from each source. There should not be overreliance on a single source of funding.

Collateral Position Management

The management shall actively manage its collateral positions, differentiating between encumbered and unencumbered assets. It should monitor the legal entity and physical location where collateral is held and how it may be mobilised in a timely manner. Further, the Company should have sufficient collateral to meet expected and unexpected borrowing needs and potential increases in margin requirements over different timeframes.

Stress Testing

Stress testing shall form an integral part of the overall governance and liquidity risk management culture in the Company. The Company should conduct stress tests on a regular basis for a variety of short-term and protracted Company-specific and market-wide stress scenarios (individually and in combination). In designing liquidity stress scenarios, the nature of the Company's business, activities and vulnerabilities should be taken into consideration so that the scenarios incorporate the major funding and market liquidity risks to which the Company is exposed.

Contingency Funding Plan

The Company shall formulate a contingency funding plan (CFP) for responding to severe disruptions which might affect the Company's ability to fund some or all of its activities in a timely manner and at a reasonable cost. Contingency plans should contain details of available/ potential contingency funding sources and the amount/ estimated amount which can be drawn from these sources, clear escalation/ prioritisation procedures detailing when and how each of the actions can and should be activated, and the lead time needed to tap additional funds from each of the contingency sources.

Intra Group transfers

With a view to recognizing the likely increased risk arising due to Intra-Group transactions and exposures (ITEs), the Group Chief Financial officer (CFO) is expected to develop and maintain liquidity management processes and funding programmes that are consistent with the complexity, risk profile, and scope of operations of the companies in the Group. The Group liquidity risk management processes and funding programmes are expected to take into account lending, investment, and other activities, and ensure that adequate liquidity is maintained at the head and each constituent entity within the group. Processes and programmes should fully incorporate real and potential constraints, including legal and regulatory restrictions, on the transfer of funds among these entities and between these entities and the principal.

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Management Information System (MIS)

The Company shall have a reliable MIS designed to provide timely and forward-looking information on the liquidity position of the Company and the Group to the Board and ALCO, 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.

Liquidity Risk Measurement – Stock Approach

The Company shall adopt a “stock” approach to liquidity risk measurement and monitor certain critical ratios in this regard by putting in place internally defined limits as approved by their Board. The ratios and the internal limits shall be based on a Company’s liquidity risk management capabilities, experience and profile. The policy note recorded by the Company on treatment of the investment portfolio for the purpose of ALM and approved by their Board/ALCO shall be forwarded to the Regional Office of the Department of Supervision of RBI under whose jurisdiction the registered office of the company is located.

Currency Risk

Exchange rate volatility imparts a new dimension to the risk profile of Company’s balance sheets having foreign assets or liabilities. The Board of Company should recognise the liquidity risk arising out of such exposures and develop suitable preparedness for managing the risk.

Managing Interest Rate Risk (IRR)

a) The operational flexibility given to Company in pricing most of the assets and liabilities imply the need for the financial system to hedge the Interest Rate Risk. Interest rate risk is the risk where changes in market interest rates might adversely affect a Company's financial condition. The changes in interest rates affect the Company in a larger way. The immediate impact of changes in interest rates is on Company's earnings (i.e. reported profits) by changing its Net Interest Income (NII). A long-term impact of changing interest rates is on Company's Market Value of Equity (MVE) or Net Worth as the economic value of 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 less than one year is considered as a suitable method to measure the Interest Rate Risk in the first place. It is the intention of RBI to move over to the modern techniques of Interest Rate Risk measurement like Duration Gap Analysis, Simulation and Value at Risk over time when Company acquire sufficient expertise and sophistication in acquiring and handling MIS. b) 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: i. within the time interval under consideration, there is a cash flow; ii. the interest rate resets/reprices contractually during the interval; iii. dependent on RBI changes in the interest rates/Bank Rate; iv. it is contractually prepayable or withdrawal before the stated maturities. c) The Gap Report shall be generated by grouping rate

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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, purchased funds, etc. that mature/reprice within a specified timeframe are interest rate sensitive. Similarly, any principal repayment of loan is also rate sensitive if the Company expects to receive it within the time horizon. This includes final principal payment and interim instalments. Certain assets and liabilities to receive/pay rates that vary with a reference rate. These assets and liabilities are repriced at predetermined intervals and are rate sensitive at the time of repricing. While the interest rates on term deposits are fixed during their currency, the tranches of advances portfolio is basically floating. The interest rates on advances received could be repriced any number of occasions, corresponding to the changes in PLR. d) The Gaps may be identified in the following time buckets: i) 1 day to 7 days ii) 8 days to 14 days iii) 15 days -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) Nonsensitive The various items of rate sensitive assets and liabilities and off-balance sheet items shall be classified e) 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 institution 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. f) The Company shall set prudential limits on individual Gaps with the approval of the Board/Management Committee. The prudential limits shall have a relationship with the Total Assets, Earning Assets or Equity. The Company may work out Earnings at Risk (EaR) or Net Interest Margin (NIM) based on their views on interest rate movements and fix a prudent level with the approval of the Board/Management Committee. For working out EaR or NIM any of the current models may be used. g) The classification of various components of assets and liabilities into different time buckets for preparation of Gap reports (Liquidity and Interest Rate Sensitivity) as indicated in II is the benchmark. Companies which are better equipped to reasonably estimate the behavioral pattern of various components of assets and liabilities on the basis of past data / empirical studies could classify them in the appropriate time buckets, subject to approval from the ALCO / Board.

A copy of the note approved by the ALCO / Board shall be sent to the Regional Office of the Department of Supervision of RBI under whose jurisdiction the registered office of the company is located. These notes may contain 'what if scenario' analysis under various assumed conditions and the contingency plans to face various adverse developments. h) The present framework does not capture the impact of premature closure of deposits and prepayment of loans and advances on the liquidity and interest rate risks profile of Companies. The magnitude of premature withdrawal of deposits at times of volatility in market interest rates is quite substantial. Companies shall, therefore, evolve suitable mechanism, supported by empirical studies and behavioral analysis to estimate the future behavior of assets, liabilities and off-balance sheet items to changes in market variables and estimate the probabilities of options. i) A scientifically evolved internal transfer pricing model by assigning values on the basis of current market rates to funds provided and funds used is an important component for effective implementation of ALM System. The transfer price mechanism can enhance the management of margin i.e. lending or credit

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spread, the funding or liability spread and mismatch spread. It also helps centralising interest rate risk at one place which facilitates effective control and management of interest rate risk. A well-defined transfer pricing system also provides a rational framework for pricing of assets and liabilities.

Maturity Profiling

a) For measuring and managing net funding requirements, the use of a maturity ladder and calculation of cumulative surplus or deficit of funds at selected maturity dates is adopted as a standard tool. The Maturity Profile should be used for measuring the future cash flows of Company in different time buckets. The time buckets shall be distributed as under: (i) 1 day to 7 days (ii) 8 days to 14 days (iii) 15 days to 30/31 days (one month) (iv) Over one month and upto 2 months (v) Over two months and upto 3 months (vi) Over 3 months and upto 6 months (vii) Over 6 months and upto 1 year (viii) Over 1 year and upto 3 years (ix) Over 3 years and upto 5 years (x) Over 5 years b) The Company would be holding in their investment portfolio, securities which could be broadly classifiable as 'mandatory securities' (under obligation of law) and other 'non-mandatory securities'. In case of Company not holding public deposits, all investments in securities, and in case of Company holding public deposits, the surplus securities (held over and above the requirement), shall fall in the category of 'non-mandatory securities'. Alternatively, the Company may also follow the concept of Trading Book as per the extant prescriptions for Company. c) The Company holding public deposits may be given freedom to place the mandatory securities in any time buckets as suitable for them. The listed non-mandatory securities may be placed in any of the "1 day to 7 days, 8 days to 14 days, 15 days to 30/31 days (One month)", "Over one month and upto 2 months" and "Over two months and upto 3 months" buckets depending upon the defeasance period proposed by Company. The unlisted nonmandatory securities (eg; equity shares, securities without a fixed term of maturity etc.) may be placed in the "Over 5 years" buckets, whereas unlisted non-mandatory securities having a fixed term of maturity may be placed in the relevant time bucket as per residual maturity. The mandatory securities and listed securities may be marked to market for the purpose of the ALM system. Unlisted securities may be valued as per Prudential Norms Directions. d) Alternatively, the Company may also follow the concept of Trading Book which is as follows: i. The composition and volume are clearly defined; ii. Maximum maturity/duration of the portfolio is restricted; iii. The holding period not to exceed 90 days; iv. Cut-loss limit prescribed; v. Defeasance periods (product-wise) i.e. time taken to liquidate the position on the basis of liquidity in the secondary market are prescribed; Company which maintain such 'Trading Books' and complying with the above standards shall show the trading securities under "1 day to 30/31 days (One month)", "Over one month and upto 2 months" and "Over two months and upto 3 months" buckets on the basis of the defeasance periods. The Board/ALCO of the Company shall approve the volume, composition, holding/defeasance period, cut loss, etc. of the 'Trading Book'. The remaining investments shall also be classified as short term and long term investments as required under Prudential Norms. e) The policy note recorded by the Company on treatment of the investment portfolio for the purpose of ALM and approved by their Board/ALCO shall be forwarded to the Regional Office of the Department of Supervision of RBI under whose jurisdiction the registered office of the company is located. f) Within each time bucket, there could be mismatches depending on cash inflows and outflows. 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.,

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30/31 days. 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. The Company, however, are expected to monitor their cumulative negative mismatches (running total) across all other time buckets upto 1 year by establishing internal prudential limits with the approval of the Board. The Company shall also adopt the above cumulative negative mismatch limits for their structural liquidity statement for consolidated operations. g) 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. h) In order to enable the Company to monitor their short-term liquidity on a dynamic basis over a time horizon spanning from 1 day to 6 months, the Company shall estimate their short-term liquidity profiles on the basis of business projections and other commitments for planning purposes.