



SAHARA HOUSINGFINA CORPORATION LIMITED
(CIN No.L18100WB1991PLC099782)

GUIDELINES ON LIQUIDITY RISK FRAMEWORK INCLUDING ASSET LIABILITY MANAGEMENT (ALM) & RISK MANAGEMENT POLICY

1. INTRODUCTION AND EXECUTIVE SUMMARY

In view of the inherent risks attached to the activities of a Housing Finance Company (HFC), it is but imperative for them to implement an adequate Liquidity Risk Framework covering Asset Liability Management and Risk Management System primarily revolving over Liquidity Risk Management and managing Interest Rate Risk. The core objective is to cushion the HFCs from such intrinsic risks.

In this respect, the Reserve Bank of India (RBI) issued a fresh set of **“Master Direction as “Reserve Bank of India (Housing Finance Companies) Directions, 2025”** vide Circular No. RBI/DoR/2025-26/365 DOR.FIN.REC.284/03-10-119/2025-26 dated 28/11/2025 (hereinafter referred to as **“RBI Directions, 2025”**). The updated **“RBI-HFC Directions, 2025”**, read with **“Chapter I (Preliminary), Para 5.(18) of Clause – C (Applicability with other directions) of “Reserve Bank of India (Non-Banking Financial Companies – Asset Liability Management) Directions, 2025** encourages all (non-deposit) taking HFCs with asset size of even less ₹100 crore (**alike us**) to adopt these guidelines on voluntary basis, and accordingly adhere/pursue Liquidity Risk Management, which *inter alia* should cover adherence to gap limits, making use of liquidity risk monitoring tools and adoption of stock approach to liquidity risk. The said framework and the internal controls put in place by the HFCs as per **“RBI-HFC Directions, 2025”** shall be subject to supervisory review.

This updated directions **rescinds** the previous guidelines of RBI in this respect, notified under **“Clause 3.1.1 of Chapter I of the Master Direction - Non-Banking Financial Company – Housing Finance Company (Reserve Bank) Directions, 2021** vide RBI/2020-21/73 DOR.FIN.HFC.CC.No.120/03.10.136/2020-21 dated 17/02/2021.

The guidelines primarily deal with following aspects of Liquidity Risk Management framework:

- A. Liquidity Risk Management Policy, Strategies and Practices
- B. Management Information System (MIS)
- C. Internal Controls
- D. Maturity profiling
- E. Liquidity Risk Measurement – Stock Approach
- F. Currency Risk
- G. Managing Interest Rate Risk
- H. Liquidity Risk Monitoring Tools

In order to accomplish the above objective, the Company needs to formulate a **LIQUIDITY RISK MANAGEMENT FRAMEWORK INCLUDING ASSET LIABILITY MANAGEMENT (ALM) & RISK MANAGEMENT POLICY** in harmony with the **“RBI-HFC Directions, 2025, which must ensure it maintains sufficient liquidity.**

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2. THE APPROACH

A general review of the draft guidelines of the regulator demonstrate that a substantial portion of the risk framework is presently not applicable on the Company at its extremely modest and even limited operational dynamics, a fact that has been also intimated to the National Housing Bank (NHB) during our previous deliberations. However, considering the formulation of the risk framework is imperative in nature, the Company for the purpose of regulatory compliance and for implementing basic internal control mechanism has formulated a rudimentary **LIQUIDITY RISK MANAGEMENT FRAMEWORK INCLUDING ASSET LIABILITY MANAGEMENT (ALM) & RISK MANAGEMENT POLICY**, one that presently encompass only the basic risks that needs to be mitigated, predominantly for the purpose of regulatory compliance and to also mitigate any risk that may be applicable in its existing size, scale, complexity and activity. Needless to mention, the framework shall be reviewed, revised, upgraded and expanded so as to aptly include the entire gamut of the risk framework as envisaged and outlined by the regulator, once such features/situations/risks arises or become applicable on the Company, and which needs to be suitably mitigated to safeguard its interest and the interest of all its stakeholders.

As a result, this framework/policy paper has been formulated to offer a broad guideline on the subject based on the revised regulatory guidelines notified by RBI to HFCs to manage their risks. The policy mainly discusses the “applicable features” of the two primary risks viz. Liquidity Risk and Interest Rate Risk and risk relating to Currency Risk has not been discussed in the current limited business exposure of the Company.

While preparing this policy, care has been taken to see that it does not become hindrance for normal day to day operation of the Company and hence the Norms/Limits set out herein should not be considered as the watertight rules and can be modified as and when deemed necessary by the Board of the Company.

This policy is intended to be the basic framework for further development on the subject. New advance policies and procedures would further be incorporated as we make progress in understanding and implementing the basics.

3. LIQUIDITY RISK MANAGEMENT

The cause and effect of Liquidity Risk are primarily linked to the nature of Assets and Liabilities of the Company. All investment and financing decision of the Company irrespective of whether they have long term or short term implication, do affect Asset - Liability position of a Company which may further affect its liquidity position. In such a scenario the Company should continuously monitor its liquidity position in the long run and also on periodical basis.

To measure and manage this liquidity risk related to net funding requirement, all the Assets and Liabilities (Cash flow i.e. Inflows and Outflows) should be classified under different time buckets by the use of a maturity ladder and calculation of cumulative surplus or deficit of funds at selected maturity dates as a standard tool. The Maturity Profile as specified by the Regulator (*Appendix-*

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II of Para 15A of Master Direction -Non-Banking Financial Company – Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016) shall be used for measuring the future cash flows of the Company in different time buckets. The time bucket may 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 to upto 2 months;
- (v) Over two months to upto 3 months;
- (vi) Over 3 months and upto 6 months;
- (vii) Over 6 months to upto 1 year;
- (viii) Over 1 year to upto 3 years;
- (ix) Over 3 years to 5 years;
- (x) Over 5 years;

The **RBI-HFC Directions, 2025** permits mismatches depending on cash inflows and outflows in different time buckets. 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 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. However, HFCs, are expected to monitor their cumulative mismatches (running total) across all other time buckets upto 1 year by establishing internal prudential limits with the approval of the Board. HFCs shall also adopt the above cumulative mismatch limits for their structural liquidity statement for consolidated operations.

The Statement of Structural Liquidity shall be prepared by placing all cash inflows and outflows in the maturity ladder according to their expected timing of cash flows. A maturing liability shall be a cash outflow while a maturing asset shall be a cash inflow.

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.

The following tolerance level (limit) is prescribed hereby for better management of the cash flow position:

Mismatch for 1-7 days	Cumulative Negative Gap should not exceed 10% of the total outflow in that time bucket. (Regulatory Norms: 10%)
Mismatch for 8-14 days	Cumulative Negative Gap should not exceed 10% of the total outflow in that time bucket. (Regulatory Norms: 10%)
Mismatch for 15-30 days	Cumulative Negative Gap should not exceed 20% of the total outflow in that time bucket. (Regulatory Norms: 20%)

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Mismatch over 1 month and upto 1 year	Cumulative Negative Gap should not exceed 20% of Cumulative Outflow till 1 year. (regulatory norms 20%)
Mismatch over 1 year to upto 3 years	Cumulative Negative Gap should not exceed 20% of Cumulative Outflow till 1 year. (regulatory norms 20%)
Mismatch over 3 years to upto 5 years	Cumulative Negative Gap should not exceed 20% of Cumulative Outflow till 1 year. (regulatory norms 20%)
Cumulative Mismatch for over 5 years	Cumulative Negative Gap should not exceed 20% of Cumulative Outflow till 1 year. (regulatory norms 20%)

Liquidity by the Company is measured by its ability to raise cash when it needs at a reasonable cost and/or with a minimum of loss. The Company must be capable of meeting all its obligations towards the lenders community as well as to meet customer demands. And therefore, the active management of our liquidity position is critical.

Given below are the two approaches to eliminate liquidity risk:

- I. Fundamental Approach (for long run approach)
- II. Technical Approach (for short run approach)

A. FUNDAMENTAL APPROACH

Since long term sustenance is a driving factor in this approach, the Company tries to tackle/eliminate the liquidity risk in the long run by basically controlling its assets and liabilities position. A prudent way of tackling this situation can be by adjusting the maturity of assets and liabilities or by diversifying and broadening the source of fund. Two alternatives available with the management to control liquidity under this approach are Asset Management and Liability Management. This implies that liquidity can be imparted into the system either by liability creation or by asset liquidation, whichever suits the situation.

The Company's, Asset Management technique does not give the effective result as the product mix of assets are predominantly limited to Housing Loans and mainly depend on the customer demand. Hence, the Liability Management becomes more effective technique for handling liquidity mismatch in long term. This can be done by either or all of the following options:

- (i) Refinance from the regulator – National Housing Bank (NHB). However, NHB is not the lender of last resort for Housing Finance Companies unlike in case of Banks where RBI stands as the lender of last resort.
- (ii) Funding from Banks and Financial Institution. (to strike balance between tenure and price)
- (iii) Issue of Convertible and Non Convertible bonds/debentures (normally for medium term, but embedded option may shorten the maturity)
- (iv) Issue of Equity Share/Preference Shares (long term or for CAR)

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B. TECHNICAL APPROACH

Technical approach focuses on the liquidity position of a Company in short run. Liquidity in short run is primarily linked to the cash flows arising out of the operational transactions. Working Fund Approach and Cash Flow Approach are the two methods to assess the liquidity position in the short run. Of these two approaches, the former concentrates on the actual cash position and depending on the factual data it arrives at the liquidity requirements. The latter approach goes a step forward and forecasts the cash flows i.e. estimates any change in the deposits/withdrawals/credit accommodation/pre payments of loans etc. Hence in the short run liquidity may be supplemented with alternative sources such as:

For Near Term Liquidity Mismatch:

- (i) Liquidation of Investment Portfolio (subject to analysis of potential gains or losses and minimum SLR requirement.)
- (ii) Undrawn Lines of Credit (Long Term Loans, NCD's etc)
- (iii) Sanction of Overdraft Facility
- (iv) Fund raising from Money Market by issue of short term instrument like CP, Bonds, ICD etc. (Finer credit rating is essential)
- (v) Raise money against pledge of assets (When the necessity for pledging assets arises, the least marketable securities should be offered)
- (vi) Sale of Other assets (Generally the assets Sales would be a last resort, as it would usually necessitate giving up more yield than the borrowing cost or incurring losses which may worsen the liquidity position)

The investment portfolios of HFCs are broadly classified as "Mandatory Securities" and Non-Mandatory Securities". HFCs holding "Public Deposits" are required to invest a prescribed percentage of their deposits into approved securities in terms of liquid asset requirement under Section 29B of the NHB Act, 1987 which is broadly classified as "Mandatory Securities". As a result, in such HFCs (i.e. HFCs holding public deposits), the surplus securities (held over and above the stipulated requirement) shall fall under the category of "Non-Mandatory Securities". And in case of HFCs (alike us) who do not hold and / or accept public deposits, their entire investments in securities fall under "Non-Mandatory Securities". HFCs holding public deposits may be given freedom to place their 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 14days, 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 HFCs. The unlisted non-mandatory securities (e.g., 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.

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The concept of Trading Book being presently not necessary applicable to the Company considering its existing modest size and restricted dynamics (beside it being a non-deposit taking HFC) coupled with no/insignificant exposure in investment portfolios. The above concept shall be followed if and when the Company decides to invest in “non-mandatory securities”.

The Company’s existing size and dynamic being extremely nominal, has an insignificant and constant investment in Listed Equity Shares (of Indian Overseas Bank) since Year 2004. There has been no further/additional investment made by the Company since the one stated above nor does the Company has any plan in the immediate future to make any additional investments. The treatment of the present nominal investment portfolio which is classified under the listed non- mandatory securities shall be in line with the regulations stated above and its accounting treatment shall be in harmony with the guidelines encompassed under Clause 11 of the **“RBI-HFC Directions, 2025”**. Further, for the purpose of compliance, the Company has in place a rudimentary “Policy on “Investment and Treasury Management” commensurate to its size, scale, activity and dynamics.

C. LIQUIDITY RISK MEASUREMENT - STOCK APPROACH

The Company shall adopt a “stock” approach to liquidity risk measurement and monitor certain critical ratios (including public disclosure as mandated) commensurate to its size, profile and dynamics. An indicative list of certain critical ratios to monitor are short-term liability to total assets; short-term liability to long term assets; commercial papers to total assets; non-convertible debentures (NCDs) (with original maturity of less than one year) to total assets; short-term liabilities to total liabilities; long-term assets to total assets; etc.

4. INTEREST RATE RISK

The operational flexibility given to HFCs 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 HFCs financial condition. The changes in interest rates affect HFCs 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)/Net Interest Margin (NIM).

The Company manages the risk on NII/NIM by pricing its loan products to customers at a rate which covers interest rate risk. The risk from the earnings perspective can be measured as changes in the Net Interest Income (NII) or Net Interest Margin (NIM). Measurement of such risk is done at the time of deciding rates to be offered to the Customers. Once interest rate risk is measured, the lending rates of the new loans are finalized accordingly.

The Company is currently at a comfortable Net Interest Margin of 3.50% (±10%) which covers the above stated risk(s) and maintains a modest profit on the AUM, which is regularly monitored by the ALCO.

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A. INTEREST RATE RISK MANAGEMENT

Due to the very nature of Housing Finance, we are exposed to higher Interest Rate Risk. This risk has a major impact on the balance sheet as well as the income Statement of the Company. The Interest Rate Risk arises due to:

- i) Changes in Regulatory or Market Condition affecting the interest rate
- ii) Short term Volatility
- iii) Prepayment risk Translating into a reinvestment risk
- iv) Real interest rate risk.

In short run, change in interest rate affects Company's earnings (measured by NII or NIM) and in long run it affects Market Value or Equity (MVE) or net worth. It is essential for the Company to not only quantify the interest rate risk but also to manage it proactively. There are various methods available for measurement and management of interest rate risk like:

- Maturity Gap Method (Traditional Approach)
- Rate adjusted Gap Method
- Duration Analysis
- Sensitivity Analysis
- Simulation and Value at Risk.

At the nascent stage of our ALM system, this policy discusses the Maturity Gap Method to quantify the interest rate risk. Also the regulator has suggested to adopt this technique in the initial phases and later migrate to the advance techniques once the company acquires sufficient expertise and sophistication in acquiring and handling MIS.

B. MATURITY GAP METHOD

The Company should first decide on the Planning Horizon (usually one year) and then identify Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL) falling within that period. RSA/ RSL are identified based on whether they are subject to repricing within planning horizon because of the following situations:

Any cash flows accruing within the Horizon Period

- Contractual resetting of interest rates due to Floating Interest Rate Clause on Asset.
- Pre payable/withdrawable before stated maturity
- It is dependent on change in regulatory rates.

C. RATE SENSITIVE ASSETS:

Based on the above definition of RSA, following represents some of the examples of such Rate sensitive Asset for the Company:

- Cash Inflow (principal and interest receipts) on all loans (Housing Loan as well as other Loans) that are to be received during the

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Horizon period including the impact of expected prepayments (based on historical analysis)

- All Housing Loan maturing within the planning horizon
- Loans with floating interest rates, and when the floating rate is expected to be changed within the Horizon Period.
- Investment maturing within the planning horizon
- Any Cash flow arising on the Investment portfolio during the planning horizon.

D. RATE SENSITIVE LIABILITIES:

Rate sensitive liabilities (RSL) are all interest bearing liabilities that can be re-priced (as dictated historically) either up or down in interest rates within planning horizon. The following represent some examples of rate sensitive liabilities for the Company :

- Cash Outflow (principal and interest payments) on all liabilities (term loan, debenture, etc.) that are payable during the Horizon period.
- All liabilities maturing within the planning horizon
- Loans/bond with floating interest rates, and when the floating rate is expected to be changed within the Horizon Period.

E. ONE YEAR HORIZON

Since the impact of rate changes due to mismatched balance sheet positions in the one-year horizon can quickly and materially affect the current year's income statement, they require constant monitoring and management.

F. GAP REPORT

GAP report should be generated by grouping RSA & RSL into different time buckets. Although the planning horizon is for one year, the report may run till the maturity. Based on the regulator's guidelines this GAP report (i.e. Interest Rate Gap) may be identified in the following time buckets:

1. 1 day to 7 days;
2. 8 days to 14 days;
3. 15 days to 30/31 days (one month)
4. Over one month to upto 2 months;
5. Over two months to upto 3 months;
6. Over 3 months and upto 6 months;
7. Over 6 months to upto 1 year;
8. Over 1 year to upto 3 years;
9. Over 3 years to 5 years;
10. Over 5 years;
11. Non- rate sensitive

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The various items of rate sensitive assets and liabilities and off-balance sheet items shall be classified as explained in **Appendix- II of Para 15A of Master Direction -Non-Banking Financial Company – Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016**. For each of the above time bucket, the GAP, commonly referred to as Rate Sensitive (RSG), is calculated as the difference between RSA and RSL. i.e. $RSG = RSA - RSL$. The position of RSG should be analysed with reference to the view on future interest rate movement. According the decision should be taken to reshuffle Asset/ Liability Mix respect to their term and interest rate, or both as may appropriate.

POSITION GAP: (RSAs > RSLs)

Scenario	Events	Impact
Rising int. rates	Increase in interest income will be more than increase in service cost of liabilities (more reparable assets than reparable liabilities)	Increase in NII
Falling int. rates	Decrease in interest income will be more than decrease in service cost of liabilities	Decrease in NII

NEGATIVE GAP: (RSAs < RSLs)

Scenario	Events	Impact
Rising int. rates	Increase in interest income will be lesser than increase in service cost of liabilities (less reparable assets than reparable liabilities)	Decrease in NII
Falling int. rates	Decrease in interest income will be lesser than decrease in service cost of liabilities	Increase in NII

To improve the Net Interest Income, it is suggested to have a Positive Gap in case of rising interest rate scenario and to have Negative Gap in case of falling interest rate scenario.

Following steps to be followed to quantify the Interest rate risk by this method:

Steps	Remarks
1. Arrive at Gap (RSG) as stated above.	Computation of GAP is with reference to future cash flows
2. Make a forecast for quantum and direction of Interest rate Change	This variable is obtained by using forecasting technique or provided by specialist officer
3. Determine the Percentage variation in NIM that is acceptable /tolerable.	It is a policy variable decided by the top management. As set out in Appendix A
4. Calculate Change in NII = Change in NIM x RSG	

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ALCO's should broadly incorporate their decision of the impact of change in the interest rate on Nil of SHCL. The decision should be tabulated as under:

Maturity Gap	Change in interest rates	Change in interest income		Change in interest expenses	Change in net interest income
		↑ Or ↓	>, <, =	↑ Or ↓	↑ Or ↓
Positive	↑				
Positive	↓				
Negative	↑				
Negative	↓				
Zero	↑				
Zero	↓				

The other financial limits can be set out based on actual performance vis-a-vis previous estimates. However, there are few limitations with the Maturity Gap Method. These are:

Limitation of Maturity Gap Method	Measure Suggested
1. It requires high level of accuracy for forecasting the interest rate changes.	Specialist officer may be deputed to carry out the forecasting.
2. It assumes equal change in Interest rate for all RSA and RSL, which may not be practical.	Rate Adjusted Gap method should be used. Whereby all RSA and RSL will be adjusted by assigning weights based on the expected change in interest rate for different assets and liabilities.
3. This method ignores time value of money. Also the market value of even those assets and liabilities which are not re-priced during the Gap period will be affected.	Duration Gap technique should be used.

G. RATE ADJUSTED GAP METHOD

The Maturity Gap Method assumes a uniform change in the interest rates for all the assets and liabilities. Looking at the operational environment of our Company, it is very common to have a situation where the interest rate on Liabilities is reduced by 0.50% where as the reduction in the home loan interest rate may not be reduced by the same quantum.

Hence to do away with this assumption **Rate Adjusted Gap method** should be used. In this method RSA and RSL will be adjusted by assigning rates based on the estimated changes in the rate for the different assets/liabilities for a given change in the interest rate. This method seems to be superior to the Maturity Gap Method discussed above.

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Illustration of Positive Gap:

Liability (Rs.)	Rate (%)	Increased Rate	Weight	Assets (Rs.)	Rate (%)	Increased Rate (%)	Weight
200				200			
1800*	11.00	10.75	0.75	800*	12.00	12.50	0.50
2000	11.00	11.00		1000*	14.00	14.25	0.25
				1000*	16.00	16.50	0.50
				1000	18.00	18.00	

Thus, it is observed from the illustration that by assigning the weight, the positive Gap (as per Maturity Gap Method) has actually become negative. Therefore it is suggested that ALCO should decide on assigning the weight to the respective category of Assets and Liabilities to arrive at most realistic decision.

H. DURATION GAP METHOD

The Maturity Gap method does not consider the time value of money and change in the market value of Non-rate sensitive assets and liabilities. Therefore Duration Gap Method # is used to measure and manage Interest rate risk. Duration Analysis explains the effect of rate fluctuation on the market value of Assets and liabilities and NIM, with the help of Duration.

Following key points to be noted:

1. Identification of RSA and RSL will be based on the duration rather than on maturity of assets/liabilities as in case of Maturity Gap method.
2. Duration Gap will then be arrived as RSA - RSL (as calculated in 1 above)
3. Duration Analyses can be further used to study the sensitivity of market value of assets and liabilities to the change in interest rate. The excess of assets over liabilities is termed as Surplus Gap available to the shareholder. Thus the duration analyses measures the duration of this Surplus in order to assess the exposure of the shareholder's wealth to the interest rate risk.
4. Duration Analyses has not been considered as a Risk Management technique at this point of time. However, once SHCL gains sufficient expertise in managing interest rate risk, it should incorporate Duration Gap Analysis in the ALM policy and should start using the method as one of the controlling tool to manage interest rate risk.

I EARNING AT RISK

The Maturity Gap method also assumes that the Change in Interest Rate for RSA & RSL is for the entire residual maturity of asset /liabilities. Therefore to overcome this following method is suggested.

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1. Classify RSA & RSL in the respective time bucket up to 1 Year
2. Calculate the product by multiplying the RSA / RSL by Average Remaining Month of Maturity, (as under)

Time Bucket	Average Remaining Months of Maturity	Product
Upto 1 month	12 months	
1 to 2 months	11 months	
2 to 3 months	10 months	
3 to 6 months	8 months	
6 to 12 months	4 months	

3. Sum the product for RSA & RSL
4. Derive at Interest Income say. $A = \text{Sum Product of RSA} \times 0.01$ (for 1% change)
5. Derive at Interest Expenses say. $B = \text{Sum Product of RSL} \times 0.01$ (for 1% change)
6. Earning at Risk = $A - B$

5. ASSET LIABILITY MANAGEMENT (ALM) AND RISK MANAGEMENT

The above forms an integral part of the Housing Finance Companies (HFCs), and so a structured and systematic ALM process results in assisting to effectively measure & manage the risk perception and the financial position of the HFC. ALM in general is concerned with strategic balance sheet management, involving risk caused by changes in the interest rate and liquidity position of the HFC. While managing these risks form the epicenter of ALM, credit risk and contingency risk also form a part of ALM.

The importance of this function has increased over recent years for number of reasons like:

- The growing reliance of HFC on market related sources for funding purposes;
- The increasing awareness on the importance of maintaining of the adequacy of balance sheet ratios and gearing;
- Narrowing levels of margin and return on earning assets.
- Greater emphasis by Regulatory Agency for adopting and implementing written ALM policies in Housing Finance Companies.

The object of any ALM policy is two folds - ensuring profitability and liquidity. In simple terms ALM is an attempt to match the Assets and the Liabilities in terms of their maturities and interest rate sensitivities so that the risk arising from such mismatches can be contained within the desired limit.

Active management of risks can address two very important needs. Firstly, it can protect the business from financial shocks and secondly, it can make future cash flows more predictable.

In view of the fresh guidelines of RBI, the prevalent ALM & Risk Management Framework of the company has to undergo certain modification/changes including resting of prudential limits thereby further sensitizing the policy.

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A. DEFINITION OF ASSET LIABILITY MANAGEMENT (ALM)

Asset Liability Management is a tool, which comprises a set of actions and procedures designed to identify, measure, monitor and control the risk (mainly liquidity risk and interest rate risk).

B. PURPOSE OF ALM

The Assets and Liabilities of the Company shall be managed in a manner to optimize the earnings (NII), liquidity and safety of its Balance Sheet.

The Company recognizes the importance of the risk management system and therefore introduces ALM system that addresses the issues related to Interest rate and liquidity risk. The aim of risk management is to maintain overall and specific risk at the desired levels.

Thus, the overall purpose of our ALM policy is to:

- Outline the Scope and Responsibilities of the Asset/Liability Management Committee,
- Define, Measure and Manage various risks that SHCL is exposed to,
- Establish guidelines to meet various regulatory statutes and compliance,
- Form a consistent co-policy with other policies of SHCL (investments, lending, operations, etc.)
- Coordinate the management of SHCL's financial position.

These objectives shall be pursued within the framework of written policies. The Board of Directors believes that accepting some level of risk is necessary in order to achieve realistic profit goals. The Asset/Liability Management Committee (ALCO) will be responsible for directing the asset/liability management procedures.

C. OBJECTIVES

At the macro level, ALM leads to the formulation of critical business policies, efficient allocation of capital and designing of the products with appropriate pricing strategies. And at the micro level, the objectives functions of the ALM are two-fold. It aims at profitability through price matching while ensuring liquidity by means of maturity matching. The Board or the Management Committee of the Company shall set out the policy statement on ALM techniques which:

- Stabilize the short term profits (measured by Net Interest Income - Nil)
- Long term earnings (measured by Market Value of Equity - MVE)
- Long term sustenance of the company, (measured by Capital Ratio - CAR)

The Company assumes some amount of risk as part of normal operations. It is the policy of the company to manage and control the amount of risk it assumes.

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D. ALCO ORGANISATION AND RESPONSIBILITIES

The Company recognizes that the management of Risk should be handled at two level; macro-level and micro-level. The macro-level risk management will involve providing a risk management framework for the company and hence the decision makers will comprise the company's board and its top management. On the other hand, at the micro-level (support group) the business decision will be taken by the business managers but within the broad framework laid at the macro-level

Thus, at the macro-level broad guidelines will be given in order to enable day to day decisions to be taken relating to individual proposals for investment and borrowings without the involvement of the top management. The Board will clearly communicate to the business managers the acceptable level of Risk in terms of the parameters chosen.

The ALM 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). Any deviation from the guidelines would require Board's approval and ratification.

GOVERNANCE OF LIQUIDITY RISK MANAGEMENT

The organizational set up for liquidity risk management shall be as under:
(Note: The appointment of Chief Risk Officer by the Company is presently not applicable in its prevailing asset size.)

E. BOARD OF DIRECTORS

The Board of Directors shall be responsible for establishing and reviewing the **LIQUIDITY RISK MANAGEMENT FRAMEWORK INCLUDING ASSET LIABILITY MANAGEMENT (ALM) & RISK MANAGEMENT POLICY** and for ensuring that the funds are managed in accordance with the established framework. The Board will review the policy as and when deemed essential. The Board will establish an ALM Committee (ALCO) and shall delegate authority to this committee to manage the Company's funds and other duties as deemed necessary. The Board will review the minutes of the ALCO meetings and additional summarized information on a Half Yearly basis. If necessary the Board will modify or grant exception to the policy for recommended actions that are in the best interest of the Company.

F. ASSET LIABILITY MANAGEMENT COMMITTEE (ALCO) & RISK MANAGEMENT COMMITTEE

The macro-level management of Risk will be done by the Asset Liability Management Committee (ALCO). ALCO shall not consider individual cases for decision making. The role of ALCO is, thus, to formulate and oversee the function of ALM in the company without getting into the day to day decision making process for raising or deployment, of resources.

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Typically in a large financial organization, the responsibility of Asset liability Management is on the Treasury Department of the Company. The ALM desk of the Treasury Department analyses the Balance Sheet and places its recommendations in the ALCO meeting, where important decisions are made to minimize risk and maximize returns. However, presently the Company's organizational structure does not comprise of a separate Treasury Department and hence the functional responsibility will primarily rest on Finance division and Operation division for reporting to ALCO.

The responsibilities and functions of ALCO include:

- (i) Developing an Asset/Liability Management Process and related procedures;
- (ii) developing asset/liability strategies and tactics;
- (iii) establishing a monitoring and reporting system;
- (iv) submitting a written report to the Board at least Half Yearly and overseeing the maintenance of a Management Information System that supplies, on a timely basis, the information and data necessary for the ALCO to fulfill its role as asset/liability manager of the institution.
- (v) To receive and review reports on liquidity risk, interest rate risk and capital management as covered in this report.
- (vi) To identify balance sheet management issues like balance sheet gaps, interest rate gap/profiles etc.
- (vii) To review product-pricing strategy for the market.
- (viii) Review liquidity contingency plan for the Company.

G. ALCO MEETINGS - AGENDA

The items cited below do not necessarily represent an all-inclusive list of ALCO's duties, given the dynamic nature of its responsibilities. ***On a regular basis, ALCO should hold a formal meeting at least once every Half Year i.e. to review position as on September 30 and March 31 of every financial year.*** Nonetheless, if need is felt between the given period, the ALCO meetings can also be held on need based. ALCO's responsibilities inter-alia, includes product pricing for both assets and liabilities, desired maturity profile and mix of the incremental assets and liabilities, prevailing interest rates offered by other peer HFCs for similar services/product, etc. In addition:

- (i) Review Year-to-date operating results
- (ii) Review Liquidity position (current and prospective) and monitor alternative funding arrangement.
- (iii) Review mismatches in the Balance Sheet
- (iv) Anticipate the funding needs.
- (v) Anticipate the loan demands.
- (vi) Review the (GAP) Rate Sensitivity measures
- (vii) Review Net Interest Margin / Interest Rate Risk Measures
- (viii) Forecast the Change of interest rate for each category of Asset and liabilities.
- (ix) Review the internal cost of funds (recent pricing)
- (x) Review the Capital levels (risk based and total) to determine

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- sufficiency in relation to expected growth, interest rate risk, price risk, and asset mix/quality.
- (xi) It will have to develop a view on future direction of interest rate movements and decide on funding mixes between fixed vrs. floating rate funds.
 - (xii) Develop alternate strategies deemed appropriate, which take into account changes in:
 - interest rate levels and trends,
 - loan products and liability mix,
 - RBI's Regulations, and
 - monetary and fiscal policy.
 - Investment portfolio.
 - Tax Position
 - (xiii) Measure the performance against the established standard
 - (xiv) Develop the contingency liquidity plan.
 - (xv) Report the minutes to the Board of Directors.

Also, ALCO will ensure that it is aware of the overall financial performance of the Company and, therefore, will keep abreast of significant changes/trends in its Financial Results.

(Note: The above listed agendas and responsibilities are meant more specifically for a highly dynamic and networked HFC and hence in the prevailing modest size and scale of the Company, many agendas/responsibilities though included, are forward looking measures, that will be more prudent & applicable once the business operations and complexities, rises.)

H. ALCO MEETINGS – FREQUENCY

The Committee should meet at least once every half year and at least three members should be present in all the meetings. The frequency may be increased as per the business requirements in terms of increased level of operation and when specific issues may arise.

I. ALCO MEMBERSHIP

The Committee will consist of:

- (i) Chief Executive Officer (CEO);
- (ii) Chief Financial Officer (CFO);
- (iii) Head – Operations;
- (iv) Manager – Secreterial;
- (v) ALCO may invite any other executive for the effective management of ALM;

J. ASSET LIABILITY MANAGEMENT (ALM) SUPPORT GROUP

As the size and complexity of the Liquidity Risk Management is rudimentary in nature, the support group (though included in this process) consisting of business manager(s)/operating staff(s) shall be constituted as and when the business dynamics and size so demand.



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K. OFF-BALANCE SHEET EXPOSURES AND CONTINGENT LIABILITIES

The Company shall assess its Off-Balance Sheet exposures and Contingent Liabilities, which currently is restricted to “Undisbursed Loan Commitments” and Demand of Income Tax (challenged by the Company) only and aptly measure and consider it in its Liquidity Risk Management.

L. FUNDING STRATEGY – DIVERSIFIED FUNDING

Once the Company is able to mitigate its prevalent resource mobilization challenges it 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 market and strong relationship with fund providers to promote effective diversification of funding sources. The Company shall regularly gauge its capacity to raise funds from each source and there should not be over-reliance on a single source of funding.

M. COLLATERAL POSITION MANAGEMENT

The Company shall effectively manage its collateral positions i.e. differentiating between its encumbered and unencumbered assets. It should monitor the legal entity and physical location where collateral is held and how it may be mobilized in a timely manner. The Company shall endeavor to maintain sufficient collateral to meet its expected and unexpected borrowing needs and potential increases in margin requirements over different timeframes. In the current scenario, the Company has issued a Non-Convertible Debentures (NCD) to the tune of Rs.30 crores only with asset cover of 1:1, thus denoting that only Rs.30.00 crores of its overall asset portfolio/collaterals are encumbered, with the rest free and unencumbered to raise funds for the Company.

N. STRESS TESTING

The Company shall 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 the present scenario, the Company has no immediate stress on its short-term borrowings, as maturity on borrowings, over a period of 18 months is fully secured by way of term deposits already invested into to take care of the redemption/maturity that fall due till Year 2025.

O. CONTINGENCY FUNDING PLAN

Once the Company is able to mitigate its prevailing challenges, it shall formulate a contingency funding plan (CFP) for responding to severe disruptions which might affect its ability to fund some or all of its activities in a timely manner and at a reasonable cost. The 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/prioritization 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.

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P. PUBLIC DISCLOSURE

The Company shall publicly disclose information (as per **Appendix I** of the Para 15A of Master Direction -Non-Banking Financial Company – Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016) on a quarterly basis on the official website of the Company (www.saharahousingfina.com) and in the annual financial statement as notes to account so as to enable the market participant/stakeholders to make an informed judgment about the soundness of its liquidity risk management framework and liquidity position.

6. INTRA GROUP TRANSFERS

The Company being a Listed and Regulated entity maintains arms-length distance with its Group (in harmony with the directive of the Regulator/Supervisor and SEBI), and thus there are NO continuous intra-group transactions and exposures, save and except the transactions in the form of Loans & Advances and Rent, all that are aptly and duly disclosed in detail in the Related Party Transactions in all regulatory and statutory compliances/disclosures. Thus, the Company's liquidity risk management process is completely distinct and unconnected to the Group liquidity risk management (that may be) applicable to each (related/non-related) constituent entity within the group.

7. MANAGEMENT INFORMATION SYSTEM (MIS)

The Company, commensurate to its size, scale and complexity of activity/liquidity risks shall design a reliable MIS, one that is able to provide timely/advance and forward looking information of its liquidity position to the Board and ALCO. The MIS should capture all sources of liquidity risk (including contingent risks) arising from new activities that may be undertaken by it, and must have the ability to furnish more granular and time-sensitive information during stress events.

8. INTERNAL CONTROLS

The Company shall have appropriate internal controls, system and procedures (commensurate to its size and complexity) to ensure adherence to liquidity risk management policies and procedures including timely compliance. At the current stage of its modest activity and limited liquidity risk, the management shall ensure regular reviews so as to evaluate the various components of its liquidity risk management process, and upon it achieving the critical asset mass of Rs.250.00 crores, the Company shall additionally ensure that an independent party regularly reviews and evaluates the various components of its liquidity risk management process.

9. FOREIGN EXCHANGE RISK / CURRENCY RISK

The risk that relates to the gain/losses that arises due to fluctuations in the exchange rates. All assets and liabilities that are denominated in foreign

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exchange are exposed to foreign exchange risk. Transaction in foreign exchange will involve sale of foreign currency and the purchase of another currency at a given exchange rate. The exchange rate keeps changing depending on the value of the currency, which is influenced by various factors which include demand and supply, balance of payment, trade deficit, government borrowings, inflation, interest rates and political stability.

All assets and liabilities of the Company is denominated in local currency, hence does not have any foreign exchange exposure in its book. Thus Management of exchange rate risk does not comprise the vital part of this ALM & Risk Management Policy.

This Policy/Framework comes into immediate effect and shall supersede the previous "Asset Liability Management (ALM) & Risk Management Policy that was last reviewed and thereafter approved by the Board of Directors of the Company in their meeting held on November 07, 2023.

(D J Bagchi)
CEO

Place : Kolkata
Date : May 29, 2026

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