Asset- Liability Management Policy MANBA FINANCE LIMITED (As reviewed by the Board dated 05-04-2021)

Introduction

Manba Finance Limited (MFL), a company registered as non-deposit taking NBFC with Reserve Bank of India, is predominantly engaged in the business of lending against two-wheeler. MFL's funding consists of both short term and long term sources with different maturity patterns and varying rates of interest. Its assets also are of varyingduration and interest. Hence, maturity mis- matches can occur which has an impact on the liquidityand profitability of the company. It is therefore necessary that MFL constantly monitor and manage its asset and liability in such a manner that asset liability mismatches remain within reasonable limits. This is also a statutory obligation as RBI as the regulating agency for NBFCs hasstipulated that NBFCs should have an effective Asset-Liability Management (ALM) system as partof their overall system for effective risk management.

Policy

Role and Responsibilities of ALCO

The ALCO constituted by the Board of Directors shall be responsible for ensuring adherence to various operational limits set by the Board of Directors as well as deciding the business strategy of MFL (assets and liabilities) in line with Company's budget and decided risk management objectives.

The ALCO shall support operating officials, who shall be responsible for analysing, monitoring and reporting the risk profiles to the ALCO. The officials shall prepare forecasts showing the effects of various possible changes in market conditions related to the balance sheet and recommend the action needed to adhere to Company's internal limits. Policies of balance sheet management as directed by ALCO should be ensured that is implemented efficiently. ALCO shall review the reports on liquidity market risk and capital management

ALCO shall identify balance sheet management issues that are leading to under-performance and ensure corrective action. h) Ensuring appropriate mix of different forms of debt i.e. Bank Loans, Commercial Paper, Non-Convertible Debentures, etc. i) Giving directions to the ALM team on the interest rate risk. j) ALCO delegates the daily management of liquidity risk and interest rate risk to ALM. k) Approving major decisions affecting DMI's risk profile or exposure (product pricing for advances, desired maturity profile and mix of the incremental assets and liabilities, prevailing interest rates offered by peer NBFCs for the similar services/product, etc). l) Satisfy itself that the less fundamental risks are being actively managed, with the appropriate controls in place and working effectively. m) Articulate the current interest rate review and formulate future business strategy on this view.

Objective and Scope

This objective of this policy is to create an institutional mechanism to compute and monitor periodically the maturity pattern of the various liabilities and assets of MFL to

(a) ascertain in percentage terms the nature and extent of mismatch in different maturity buckets,especially the 1-7 days, 8-14 days, and 15-30/31 days bucket, which would indicate the structuralliquidity
(b) the extent and nature of cumulative mismatch in different buckets indicative of short term structural liquidity
(c) the residual maturity pattern of repricing of assets and liabilities which would show the likelyimpact of movement of interest rate in either direction. on profitability. This policy will guide theALM system in MAFIL and
(d) maintaining high quality liquidity assets to withstand a range of stress events, including thoseinvolving the loss or impairment of both unsecured and secured funding sources.

An efficient ALM needs (a) a good information system (b) internal controls (c) a policy for the company setting limits for liquidity, interest rate (d) liquidity planning under alternate scenarios/formal contingent funding plan (e) a Committee of Senior functionaries for ensuring adherence to the limits approved by the Board of Directors and (f) a well defined process.

Asset- Liability Management Co (ALCO): Asset- Liability Management will be overseen by a Committee consisting of the following officials.

Independent Director – Chairman
Independent Director – Member
Managing Director - Member
Chief Financial Officer - Invitee
CTO- Invitee
Company Secretary

Quorum: One third of total members or Two members whichever is higher will constitutethe quorum..

Process: Reserve Bank of India has stipulated templates for reporting Statement of Structural liquidity, Statement of Interest Rate Sensitivity and Statement of short- term Dynamic Liquidity. ALCO will use the indicative formats for compiling the figures and Reports for reviewing the liquidity and interest rate risk. Apart from above, NBFC shall publicly discloseinformation as per format given by RBI on a quarterly basis on the official website of the company and in the annual financial statement as notes to account.

Periodicity of Meeting The CFO will arrange for convening the meetings of ALCO once a quarter or as and when needed depending upon the necessity. Discussion paper covering the following areas will be deliberated by ALCO namely

- Liquidity risk management
- Management of market risk
- Managing interest rate risk

· Funding and capital planning

· Profit planning and growth projection

· Forecasting and analyzing 'What if scenario' and preparation of contingency plansMinutes of the meeting will be prepared and preserved.

1. The ALM process rests on three pillars:

ALM Information Systems
⇒Management Information Systems
⇒Information availability, accuracy, adequacy and expediency

ALM Organisation
⇒Structure and responsibilities
⇒Level of top management involvement

ALM Process
⇒Risk parameters
⇒Risk identification
⇒Risk measurement
⇒Risk management
⇒Risk policies and tolerance levels.

2. ALM Information Systems

2.1 ALM has to be supported by a management philosophy which clearly specifies the risk policies and tolerance limits. This framework needs to be built on sound methodology with necessary information system as back up. Thus, information is the key to the ALM process. There are various methods prevalent world-wide for measuring risks. These range from the simple Gap Statement to extremely sophisticate and data intensive Risk Adjusted Profitability Measurement methods.

However, though the central element for the entire ALM exercise is the availability of adequate and accurate information with expedience; and the systems existing. Adequate measures are to be taken to collect accurate data in a timely manner through full scale computerisation.

3. ALM Organisation

3.1 a) Successful implementation of the risk management process would require strong commitment on the part of the senior management in the Company, to integrate basic operations and strategic decision making with risk management. The Board of Directors lead by Chairman and Managing Director will have overall responsibility formanagement of risks and should decide the risk management policy of the NBFC and set limits for liquidity, interest rate and equity price risks.

b)The ALM Support Groups consisting of operating staff should be responsible for analysing, monitoring and reporting the risk profiles to the ALCO. The staff should also prepare forecasts(simulations) showing the effects of various possible changes in market conditions related to the balance sheet and recommend the action needed to adhere to Company's internal limits.

3.2 The ALCO is a decision making unit responsible for balance sheet planning from risk return perspective including the strategic management of interest rate and liquidity risks. The business and risk management strategy of the Company will 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 both deposits and advances, desired maturity profile and mix of the incremental assets and liabilities, prevailing interest rates offered by other peer NBFCs for the similar services/product, etc. In addition to monitoring the risk levels of the Company, the ALCO should review the results of and progress in implementation of the decisions made in the previous meetings. The ALCO would also articulate the current interest rate view of the Company and base its decisions for future business strategy on this view. In respect of the funding policy, for instance, 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 funding mixes between fixed ***vs*** floating rate funds, wholesale ***vs*** retail deposits, money market ***vs*** capital market funding, domestic ***vs*** foreign currency funding, etc.

The frequency of holding their ALCO meetings will be at least two in every financialyear.

3.3 Board of Directors Meetings and Review

The Board of Directors, in their board meetings, will oversee the implementation of the system and review its functioning at regular interval.

3.4 ALM Process:

The scope of ALM function can be described as follows:

- 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

4. Liquidity Risk Management

4.1 Measuring and managing liquidity needs are vital for effective operation of the Company. The importance of liquidity transcends individual institutions, as liquidity shortfall in one institution can have repercussions on the entire system. ALCO should measure not only the liquidity positions of the Company on an ongoing basis but also examine how liquidity requirements are likely to evolve under different assumptions. Experience shows that assets commonly considered as liquid, like Government securities and other money market instruments, could also become illiquid when the market and players are unidirectional. Therefore, liquidity has to be tracked through maturity or cash flow mismatches. 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 asa standard tool. The format of the **Statement of Structural Liquidity** as prescribed by Reserve Bank of India (RBI) may be used for this purpose.

4.2 The Maturity Profile based on DNBS-4B Structural Liquidity could be used for measuringthe future cash flows of the Company in different time buckets. The time buckets, may be distributed as under:

(i) 0 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

4.3 The policy note recorded by the Company on treatment of the investment portfolio for the purpose of ALM and approved by their Board/ALCO should be forwarded to the Regional Office of the Department of Non-Banking Supervision of RBI under whose jurisdiction the registered office of the Company is located.

4.4 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 should be on the short-term mismatches viz., 1-30/31days. Company, however, is expected to monitor its cumulative mismatches (running total) across all time buckets by establishing internal prudential limits with the approval of the ALCO. The mismatches (**negative gap**) during 1- 30/31 days in normal course may not exceed 10% of the cash outflows in this time bucket.

The prudential limits for cumulative negative mismatch across all buckets upto 1 year are as follow:

Time bucket	0 day to 7 days	8 days to 14 days	15 days to 30/31 days (One month)	Over one month and upto 2 months	Over two months and upto 3 months	Over 3 months and upto 6 months	Over 6 months and upto 1 year
Bucket name	1st	2nd	3rd	4th	5th	6th	7th
Net cumulative negative mismatch	10%	10%	10%	10%	15%	20%	20%

4.5 The **Statement of Structural Liquidity** shall be prepared by placing all cash inflows and outflows in the maturity ladder according to the expected timing of cash flows. A maturing liability will be a cash outflow while a maturing asset will be a cash inflow. While determining the likely cash inflows / outflows, Company will have to make a number of assumptions according to their asset - liability profiles. While determining the tolerance levels, the Company may take into account all relevant factors based on their asset- liability base, nature of business, future strategy, etc.

4.6 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, Company will estimate their short-term liquidity profiles on the basis of business projections and other commitments for planning purposes. An indicative format (DNBS-4A) issued by RBI for estimating **Short- term Dynamic Liquidity** will be used for the said purpose.

5. Currency Risk

The Company does not have any currency risk as of now as there are no transactions entered by the Company which will involve currency risk. However, in future, if such transactions are entered into, the Company will take appropriate steps to modify this policy and incorporate measures to check currency risk.

6. Interest Rate Risk (IRR)

6.1 The operational flexibility given to NBFCs 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

7. the risk where changes in market interest rates might adversely affect an NBFC's financial condition. The changes in interest rates affect Company in some 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). As such Berar Finance Limited is into funding of loans which are always fixed rate loans. The loans borrowed from banks are mostly at floating rates. The Company manages this risk on NII 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 customers. Once interest rate risk is measured by the ALCO, lending rates are finalized. RBI has prescribed (DNBS4B-IRS) for the purpose of Interest Rate Risk Monitoring and Company may use the same for the purpose of measurement and monitoring of interest rate risk.

8. The prudential limits for interest rate sensitivity on individual gaps are as follow:

Time bucket	0 day to 7 days	8 days to 14 days	15 days to 30/31 days (One month)	Over one month and upto 2 months	Over two months and upto 3 months	Over 3 months and upto 6 months	Over 6 months and upto 1 year
Bucket name	1st	2nd	3rd	4th	5th	6th	7th
Net cumulative negative mismatch		10%		10 %	15%	20%	20%

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