

ASSET- LIABILITY MANAGEMENT POLICY MANBA FINANCE LIMITED

Introduction

The asset liability management (ALM) policy describes the framework in accordance with RBI Master Directions – Reserve Bank of India (NBFC- Scale Based Regulations) Directions, 2023 dated October 19, 2023 and as amended from time to time and also based on internal policies of the company.

Manba Finance Limited (MFL), has built a comprehensive ALM framework for measuring, monitoring and managing the liquidity risk and interest rate risk arising from the on- balance sheet and off-balance sheet items 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 has stipulated that NBFCs should have an effective Asset-Liability Management (ALM) system as part of their overall system for effective risk management.

1. Objective of the Policy

As the business profile of Manba Finance Limited (“MFL/ Company”) involves constant borrowings and lending, the Company is exposed to various financial risks associated with such businesses. The financial risks to which MFL can be exposed to has been identified and captured as part of this policy document. The key risks identified during the risk assessment process relating to the Treasury and financial aspects of FSBFL business were:

- Liquidity Risks
- Interest Rate Risks

In order to manage these risks by way of a structured approach it is proposed to put in place a comprehensive Financial Risk & Asset Liability Management Policy. The objective of this policy is to lay down operating boundaries for the organisation to manage the potential risks in terms of variance in earnings and profitability due to volatility in the financial markets which may result in the above risks.

The following points detail out the objective of the policy:

- Providing a comprehensive and dynamic framework for identifying, measuring, monitoring, and managing all treasury related risks.
- Efficient liquidity risk management to ensure MFL’s ability to meet its liability obligations as they become due is sustained, not only during normal times but also during any crisis.
- Measuring interest rate sensitivity of assets and liabilities to ascertain the impact of change in interest rate on MFL’s liability profile.
- Recommend pricing, borrowing mix and maturity profile of both assets & liabilities consistent with the interest rate view and risk-management objectives.

2. Organization Structure (Liability)

Board of Directors

The Board of Directors will review directly or through delegated committee(s) / key managerial persons the following on a periodic basis:

- Key treasury activities like borrowings / investments and associated cost of funds / returns
- Changes in Committee or Delegation of authority for treasury activities
- Changes in treasury related policies
- Risks associated with treasury activities and mitigants the

3. ALCO Committee:

Asset Liability Management Committee (ALCO) shall function under the leadership of the Managing Director and/or CEO with reporting responsibility to the Board. ALCO shall be the decision-making unit responsible for financial management relating to treasury activities. The ALCO shall be responsible for ensuring adherence to the risk limits set by the Board as well as for deciding the treasury strategy of MFL.

4. ALCO - OBJECTIVE:

The organization and the management should constantly monitor the amount of funds raised and take necessary approvals to ensure that the Company has the borrowing limits as per relevant sections of the Companies Act & as per regulatory guidelines.

It is imperative that the organization try and minimize its cost of funds to the maximum extent possible so that the benefit can be passed on to the borrowers in the form of lower cost loans.

ALCO Composition:

The ALCO shall be constituted as follows:

- i. Managing Director, Chief Financial Officer, Head-Treasury, Others may be invited on a need basis.
- ii. Managing Director shall be the Chairman of the Committee and in the absence of Managing Director, the members shall elect a Chairman for the meeting.
- iii. The Managing director can nominate any senior management of the company as member of ALCO. The managing director shall be chairperson and company secretary shall act as the secretary of the committee
- iv. Minimum quorum of ALCO is two members.
- v. Meeting frequency: The ALCO shall meet at least once every quarter
- vi. Minutes of ALCO: The Minutes of the concluded ALCO meeting are to be circulated to the ALCO meeting participants by the convenor along with the presentation made at the meeting

5. Role and Responsibilities of ALCO

ALCO shall be responsible for:

- i. Ensuring that the treasury management strategy is consistent with MFL's liquidity risk management policies including maintenance of Liquidity Risk Coverage ratio and that the policy Limits set by the regulator in this regard are adhered to.
- ii. Articulating current interest rate view of MFL and based on this view decide on product pricing, desired maturity profile of liabilities and also the mix of incremental assets & liabilities.
- iii. Liquidity and interest rate risk management by review of structural liquidity gap, dynamic liquidity statement and duration gap (interest rate sensitivity) statement.
- iv. Funding and capital planning: At every meeting of the ALCO the borrowings plan for the next 2/3 months are to be presented including the requirement for Tier I/ II borrowings/ capital infusion/ securitization of assets.
- v. Recommending 'cost of funds' or 'transfer price' for new products.
- vi. Forecasting and analyzing "what if scenario" and preparation of contingency plan for borrowings required, on a need basis.
- vii. Reviewing regulatory requirements having a bearing on Treasury activities (including any new regulatory requirements) and CRAR / ALM returns submitted with RBI from time to time.
- viii. Derivative products to be used for hedging of foreign currency and interest rate risk if any.

6. ALM Support Group

The ALM Support Groups consisting of operating staff from

- a. Treasury
- b. Accounts and Finance
- c. Risk Management

They shall 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.

7. Liquidity Risk Management

MFL's Board or the designated Sub-Committees ALCO shall review and monitor the management of Liquidity risks and it shall decide the risk management policy and set limits for liquidity, interest rate, risk.

The Treasury / Liquidity Risk Management encompasses the following principles and the approach that would be adopted by MFL has also been highlighted in the respective sections.

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

8. Liquidity Risk Management Policy, Strategies & Practices

The Objective is to spell out liquidity risk tolerance levels, funding strategies, prudential limits, systems to measure & assess liquidity, stress testing, liquidity planning under alternative sources, contingent funding plan, nature & frequency of management reporting & periodic review in the assumptions used in liquidity projection.

Liquidity Management Framework is one of the most important requirements for any NBFC. It is very essential to have continuous inflow of funds which can be used for on-lending to borrowers. Liquidity management and resultant Asset-Liability Management assumes paramount importance and has a significant impact on the survival of an NBFC.

In order to ensure a sound and robust liquidity risk management system, the Board of MFL has framed a liquidity risk management structure / framework which ensures that it maintains sufficient liquidity, including a cushion of unencumbered, high quality liquid assets to withstand a range of stress events, including those involving the loss or impairment of both unsecured and secured funding sources. It has spell out the entity-level liquidity risk tolerance; funding strategies; prudential limits; system for measuring, assessing and reporting/ reviewing liquidity; framework for stress testing; liquidity planning under alternative scenarios/formal contingent funding plan; nature and frequency of management reporting; periodical review of assumptions used in liquidity projection; etc

1. Liquidity Risk Management

1.1 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 as a standard tool. The format of the **Statement of Structural Liquidity** as prescribed by Reserve Bank of India (RBI) may be used for this purpose.

1.2 The Maturity Profile based on DNBS-4B Structural Liquidity could be used for measuring the 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

1.3 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.

1.4 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., 1-30/31 days. 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%

1.5 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.

1.6 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.

2. 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.

3. Interest Rate Risk (IRR)

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 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.

4. 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%
