MANAPPURAM ASSET FINANCE LIMITED (MAAFIN)

Asset Liability Management Policy

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Policy Owner	**Head – Risk Management Department.**
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Reviewed By	**Policy Review Committee.**
Approved By	**Board**

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MANAPPURAM ASSET FINANCE LIMITED

Asset- Liability Management Policy

1.Introduction

Manappuram Asset Finance Limited (MAAFIN), a company registered non deposit taking NBFC with Reserve Bank of India, is predominantly engaged in the business of lending against household jewellery, Immovable properties, Vehicles etc. The Company funding consists of both short- and long-term sources with different maturity patterns and varying rates of interest. Its assets also are of varying duration and interest. Hence, maturity mis- matches can occur which has an impact on the liquidity and profitability of the company. It is therefore necessary that the Company constantly monitors and manages 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.

2.Objective and Scope

This objective of this policy is to create an institutional mechanism to compute and monitor periodically the maturity pattern of various liabilities and assets of the Company 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 days bucket, which would indicate structural liquidity.
(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 likely impact of movement of interest rate in either direction on profitability. This policy will guide the ALM system in the Company.
(d) maintaining high quality liquidity assets to withstand a range of stress events, including those involving the loss or impairment of both unsecured and secured funding sources.

An efficient ALM needs (a) a good information system (b) internal control (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.

Branches of the Company are networked under a core system and accurate, adequate and real time information is available on a centralized basis.

3. Governance of Liquidity Management

3.1 Asset- Liability Management Committee (ALCO): The ALCO consisting of company's top management shall be responsible for implementing its liquidity risk management strategy. The MD shall head the Committee. The committee consisting of the following officials

- Managing Director -Chairman
- CEO-Member
- CFO – Member
- CCO -Member
- CRO -Member

Head-Treasury- Secretary to the ALCO

3.1.1 Responsibilities of ALCO: ALCO would also be responsible for ensuring adherence of liquidity risk limits set by the Board as well as deciding business strategies of the company in line with the overall budget and risk management policy and shall review/decide the following:

- Review of Liquidity Mismatches.
- Review of Interest-Rate Sensitivity position.
- Review of Resource Raising and Deployment vis-a-vis Cost of borrowings/ Yields on advances.
- Review the product mix and product pricing.
- Strategies for deployment of surplus funds.
- Decision on Entering into interest rate derivatives contracts.
- Decision on hedging currency risk.
- Concentration of funding.
- Availability of unencumbered assets.

- Review movements in book to equity ratio, Price to Book value, market price etc, Review coupon at which long term and short term debts are raised vis a vis the peers.
- Review of LCR requirements and maintenance of HQLAS (High Quality Liquid Assets).
- Review of any other directions from RBI relating to ALCO functions.

The role of the ALCO with respect to liquidity risk shall also include, inter alia, decision on desired maturity profile and mix of incremental assets and liabilities, sale of assets as a source of funding, the structure, responsibilities, and controls for managing liquidity risk, and overseeing the liquidity positions of all branches.

3.1.2 Quorum of ALCO: One third of total members or three members whichever is higher will constitute the quorum.

3.1.3 Periodicity of Meeting and Discussion Points : The CFO will arrange for convening the meetings of ALCO once in a quarter or as and when needed depending upon the necessity. Minutes of the meeting shall contain discussions in detail and shall be placed to the Board for noting.

The following areas of liquidity risks (Illustrative) should be deliberated by ALCO

- Compliance to Liquidity risk tolerance levels
- Liquidity cost, benefits, and risks in internal pricing
- Off balance sheet exposures and contingent liabilities
- Funding and capital planning
- Collateral position management
- Profit planning and growth projection
- Forecasting and analyzing 'What if scenario' and preparation of contingency plans.
- Adequacy of hedging forex exposures.
- Interest rate sensitivity

3.2 Stress Testing : The company shall perform stress tests or scenario analysis on a regular basis in order to identify and quantify its exposures to possible future liquidity stresses, analysing possible impacts on the institution's cash flows, liquidity position, profitability and solvency. The active involvement of senior management is vital to the stress testing process. Illustrative assumptions for the liquidity stress test are given below:

- A simultaneous drying up of market liquidity in previously highly liquid markets.
- Asset market illiquidity and the erosion in the value of liquid assets. (E.g. Gold).
- Run-off of retail funding.
- Severe constraints in accessing secured and unsecured funding.
- Unavailability of wholesale funding sources.
- Additional margin calls and collateral requirements.
- Potential draw downs on committed lines extended to borrowers and associates.
- Budget for future balance sheet growth.
- Default / delay in realisation of debt by the borrowers, while compulsion to honour repayment commitments to lenders according to their contractual specifications.
- Changes in the maturity pattern of the assets.
- Impact of credit rating triggers and financial triggers in financing documents.
- Movement in interest rates.

The results of these stress tests should be discussed thoroughly by ALCO and based on this discussion, should form the basis for taking remedial or mitigating actions to limit the company's exposures, build up a liquidity cushion and adjust its liquidity profile to fit its risk tolerance. Results of the stress test should be placed to the Risk Management Committee of the Board.

3.3 Asset Liability Management (ALM) Support Group: The ALM Support Group consisting of the operating staff shall be responsible for analyzing, monitoring, and reporting the liquidity risk profile to the ALCO. The group shall consist of Head of Treasury and senior operating staff of Treasury and Accounts nominated by CFO. The operating staff shall 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. The group shall also review the macroeconomic environment to provide key information to ALCO for taking critical decisions, if required.

4. Liquidity Management

4.1 Maturity Profiling : Measuring and managing liquidity are vital for effective operation of the company. By ensuring company's ability to meet its liabilities as they become due, liquidity management can reduce the probability of developing an adverse situation. Liquidity management involves measuring liquidity position on ongoing basis and also examine how liquidity requirements are likely to evolve under different assumptions. 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 bucket may be adopted as a standard tool, in line with RBI guidelines.

4.1.1 Time Buckets: The maturity profile should be used for measuring the future cashflows of the company in different time buckets. The time buckets shall be distributed as

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 up to 2 months
V. Over two months and up to 3 months
VI. Over 3 months and up to 6 months
VII. Over 6 months and up to 1 year
VIII. Over 1 year and up to 3 years
IX. Over 3 years and up to 5 years
X. Over 5 years

4.2 Focus to Cash Flow Mismatches: 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 focus shall be on the short-term mismatches, viz., 1-30/31 days. As per regulations 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. As a prudent liquidity management measure, the company will strive to restrict the negative cumulative mismatch of maturity buckets to one year to a maximum of 10% of the cumulative cash outflows.

4.3 Statement of Structural Liquidity: This statement 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 shall be a cash outflow while a maturing asset shall be a cash inflow.

In order to monitor short-term liquidity on a dynamic basis over a time horizon spanning from 1 day to 6 months, ALCO supporting group shall present short-term liquidity profiles on the basis of realistic business projections and other commitments for planning purposes in the short-term dynamic liquidity statement to RBI and ALCO.

While estimating the liquidity profile in a dynamic way, due importance may be given to the :

i. Seasonal pattern of loans; and

ii. Potential liquidity needs for meeting new loan demands, unavailed credit limits, devolvement of contingent liabilities, investment obligations, statutory obligations. cash collateral for the securitisation transactions, margin calls from the derivative providers etc.

4.4 Liquidity Monitoring Tools: In addition to Statement of Structural Liquidity, the following tools shall be adopted for internal monitoring of liquidity requirements:

4.4.1 Concentration of Funding: This metric is meant to identify those significant sources of funding, withdrawal of which could trigger liquidity problems. In order to avoid concentration risks, guidelines for mix of resources provided in the Policy for Resource Planning may as given below may be followed:

- Share of long term financial resources shall be minimum 25%.
- The company shall raise minimum 25% of its incremental borrowings of above 1 year in the form of NCDs/subdebts.
- Borrowings shall be diversified and dependence on single lender shall not exceed 15% of the total borrowings.

4.4.2 Available Unencumbered Assets: Unencumbered assets, which have the potential to be used as collateral to raise additional secured funding from financial institutions and markets have significant importance in liquidity risk management. The company as a prudent practice endeavour to maintain undrawn lines of credit and unencumbered assets to meet contingencies. While the ALCO supporting group makes presentation to ALCO it shall include details of the available unencumbered assets and its potentials for raising loans against it.

4.4.3 Market Related Monitoring Tools: Market related information can serve as early warning indicators in monitoring potential liquidity difficulties at the NBFCS. ALCO Support Group shall monitor on a monthly basis, the movements in their book-to-equity ratio for listed NBFCs and the coupon at which long-term and short-term debts are raised.

5. Benchmark Rates and Interest Rate Sensitivity

5.1 MAAFIN Benchmark Lending Rate (MBLR): RBI has given operational flexibility to NBFCs for pricing most of the assets and liabilities. Following the practice of banks in India to fix benchmark lending rate based on the marginal cost of borrowings, we have adopted MBLR comprising, marginal cost of funds, operating costs and liquidity premium. ALCO shall review MBLR on a quarterly basis.

5.2 Risk Based Gradation of Interest Rates: The Lending Rate will be different for different categories of borrowers, considering profile of the customer, tenure of customer relationship, past repayment track record, customer segment, market reputation, inherent credit and default risk in the products, subventions and subsidies available, ancillary business opportunities, future potential, group strength and value to lender group, overall customer yield, Loan-to Value (LTV) ratio, nature and value of primary and collateral security etc. The Lending Rate is determined on a case to case basis.

Pricing of each loan product shall be derived from MBLR after considering the Credit Risks

5.3 Interest Sensitivity:

The major portion of the Company's liabilities consists of NCDs and Bank borrowings which re prices without a perceptible time lag with changes in market interest rates. Assets on the other hand trail behind slightly in re pricing and are also bound by the ceiling stipulated by the Board. the Company's Net Interest Margin and Profitability therefore rises when interest rate decreases.

The interest sensitive assets and liabilities will be clubbed into the following buckets for ascertaining the Gap in individual buckets and the cumulative Gap.

i. 1days to 7 days
ii. 8 days to 14 days
iii. 15 days to 30/31 days (One month)
iv. Over 1 month to 2 months
v. Over 2 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 to 5 years
x. Over 5 years

The Indicated template for Statement of Interest Rate Sensitivity will be used for computing the Gaps in each time bucket. (Please refer to Annexure 1). The company has an overwhelmingly positive mismatch in the short term buckets and also a positive cumulative Gap in all the buckets. If at any time a negative Gap were to arise ALCO will ensure that such Gap, individual as well as cumulative, do not exceed 15%.

6. Maintenance of Liquidity Coverage Ratio

The LCR standard aims to ensure that a company maintains an adequate level of unencumbered HQLAS that can be converted into cash to meet its liquidity needs for a 30 calendar day time horizon under a significantly severe liquidity stress scenario specified by supervisors. At a minimum, the stock of liquid assets shall enable the Financial Institution to survive until 30 days of the stress scenario, by which time it is assumed that appropriate corrective actions can be taken.

6.1 Management of HQLAS: All assets in the stock of liquid assets shall be managed requirements: specifically by the ALCO supporting group and shall be subject to the following operational requirements :

i. Must be available at all times to be converted into cash;
ii. Shall remain unencumbered;
iii. Shall not be co-mingled/ used as hedges on trading position; designated as collateral or credit enhancement in structured transactions or designated to cover operational costs
iv. Shall be managed with sole intent for use as a source of contingent funds; and,
v. Shall be under the control of ALCO.

Part of the HQLAS should be monetised periodically through repo or outright sale to test the saleability of these assets and to minimize the risk of negative signalling during period of stress. If an eligible liquid asset becomes ineligible (e.g. due to downgrade), such assets shall be replaced within 30 calendar days. Churning of the portfolio and replacement of the assets shall be done in consultation with CFO.

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Interest Sensitivity (Annexure)	
Heads of accounts	Rate sensitivity of time bucket
LIABILITIES	
1. Capital, Reserves & Surplus	Non-sensitive
2. Gifts, grants & benefactions	
3. Notes, bonds & debentures:	-do-
a) Fixed rate (plain vanilla) including zero coupons	Sensitive; reprice on maturity. To be placed in respective time buckets as per the residual maturity of such instruments.
b) Instruments with embedded options	Sensitive; could reprice on the exercise date of the option particularly in rising interest rate scenario. To be placed in respective time buckets as per the next exercise date.
4.Deposits	
a) Deposits/Borrowings	
i) Fixed rate	Sensitive; could reprice on maturity or in case of premature withdrawal being permitted, after the lock-in period, if any, stipulated for such withdrawal. To be slotted in respective time buckets as per residual maturity or as per residual lock-in period. as the case may be. The prematurely withdrawable deposits with no lock- in period or past such lock-in period, shall be slotted in the earliest /shortest time bucket.
b) ICDs	Sensitive; reprice on maturity. To be slotted as per the residual maturity in the respective time buckets.
5. Borrowings:	
a) Term-money borrowing	Sensitive; reprices on maturity. To be placed as per residual maturity in the relative time bucket.
b) Borrowings from others	

i) Fixed rate	Sensitive; reprice on maturity. To be placed as per residual maturity in the relative time bucket.
6. Current liabilities & provisions	
Sundry creditors	Non-sensitive
Expenses payable	
Swap adjustment a/c.	
Advance income received/receipts from borrowers pending adjustment	
Interest payable on bonds/deposits Provisions	
7. Repos/ bills rediscounted/forex Sensitive; reprices on maturity. To be placed as per swaps (Sell/Buy)	Sensitive ;reprices on maturity.To be placed as per the residual maturity in respective buckets
ASSETS:	
1. Cash	Non-sensitive
2. Remittance in transit	Non-sensitive
3. Balances with banks in India	
a) In current a/c.	Non-sensitive
b) In deposit accounts, Money at call and short notice and other placements	Sensitive;reprices on maturity.To be placed as per residual maturity in respective time-buckets
4. Investments	
a) Fixed income securities (e.g. govt. securities, zero coupon bonds, bonds, debentures, cumulative, non-cumulative, redeemable preference shares, etc.)	Sensitive on maturity. To be slotted as per residual maturity.However, the bonds/debentures valued by applying NPA norms due to non-servicing of interest, shall be shown, net of provisions made, in:3-5 year bucket - if sub-std. norms applied. Over 5 year bucket - if doubtful norms applied.
b) Equity shares, convertible preference shares, shares of subsidiaries/joint ventures, venture capital units.	Non-sensitive
5. Advances (performing)	
a) Bills of exchange, promissory notes discounted & rediscounted	Sensitive on maturity. To be slotted as per the residual usance of the underlying bills.
b) Term loans/corporate loans/Short Term Loans (rupee loans only)	

i) Fixed Rate	Sensitive on cash flow/ maturity.
6. Non-performing loans:(net of provisions, interest suspense and claims received from ECGC)	
(Sub-standard Doubtful and loss)	To be slotted as indicated at item B.7 of Appendix I.
7. Assets on lease	The cash flows on lease assets are sensitive to changes in interest rates. The leased asset cash flows be slotted in the time-buckets as per timing of the cash flows.
8. Fixed assets (excluding assets on lease)	Non-sensitive.
9. Other assets	
a) Intangible assets and items not representing cash flows.	Non-sensitive.
b) Other items (e.g. accrued income, other receivables, staff loans, etc.)	Non-sensitive.
10. Reverse Repos/Swaps (Buy /Sell) and Bills rediscounted (DUPN)	Sensitive on maturity. To be slotted as per residual maturity.
11. Other (interest rate) products	
a) Interest rate swaps	Sensitive; to be slotted as per residual maturity in respective time buckets.
b) Other Derivatives	To be classified suitably as per the residual maturity in respective time buckets