Asset- Liability Management Policy

MANAPPURAM ASSET FINANCE LIMITED

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 house hold jewelry, Immovable properties, Vehicles etc. MAAFIN'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 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 MAAFIN 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. .

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 MAAFIN to

(a) ascertain in percentage terms the nature and extent of mismatch in different maturity buckets, especially the 1-30/31days bucket, which would indicate the structural liquidity (b) the extent and nature of cumulative mismatch in different buckets indicative of short term dynamic liquidity and (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 MAAFIN.

An efficient ALM needs (a) a good information system (b) a policy for the company setting limits for liquidity, interest rate (c) a Committee of Senior functionaries for ensuring adherence to the limits approved by the Board of Directors and (d) a well defined process.

MAAFIN, branches are networked under a core system and accurate, adequate and real-time information is available on a centralized basis.

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

Managing Director -Chairman

CEO-Member

CFO – Member

Head-Risk **-** Member representing Risk Management

Periodicity of Meeting: Meetings of ALCO will be held once 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

· Funding and capital planning

· Profit planning and growth projection

· Forecasting and analyzing 'What if scenario' and preparation of contingency plans .

Liquidity Risk Management:

ALCO will deliberate on the ability of MAAFIN to meet its maturing liabilities as they become due and ensure against any adverse situation from developing. ALCO will review on an ongoing basis how the situation is likely to develop under different assumptions. For measuring and managing net funding requirements, ALCO will use as a standard tool the maturity ladder and calculation of cumulative surplus at selected maturity dates. ALCO will use the same time buckets suggested by RBI (shown below) for measuring the net funding needs.

i)1 day to 14 days

ii)14 days to 1 month

iii)Over 1 month to 2 months

iv)Over 2 months to 3 months

v)Over 3 months to 6 months

vi)Over 6 months to 1 year

vii)Over 1 year to 3 years

viii)Over 3 to 5 years

ix)Over 5 years

Reserve Bank of India has stipulated that the cash outflows in the 1-30/31 buckets should not normally exceed the cash inflows by more than 15%. Higher ceiling, for any special reason, need specific approval of the Board. As a prudent liquidity management measure, MAAFIN will strive to restrict the negative mismatch in the 1-30/31 days bucket to a maximum of 10% of cash outflows.

ALCO will also deliberate on the estimated short term dynamic liquidity profile based on the business projections and other commitments and plans of the Company. The cumulative negative gap will be restricted to not more than 15% of the cash outflows.

Interest Rate Risk: Gold loans, HP Loans and SME Loans constitute more than 99% of MAAFIN's assets, RBI has given operational flexibility to NBFCs for pricing most of the assets and liabilities. Board, however, has fixed an internal ceiling of 26% as maximum interest on loans. The major portion of MAAFIN's liabilities consists of NCDs and Bank borrowings which reprices without a perceptible time lag with changes in market interest rates. Assets on the other hand trail behind slightly in repricing and are also bound by the ceiling stipulated by the Board. MAAFIN'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)1 day to 14 days

ii)14 days to 1 month

iii)Over 1 month to 2 months

iv)Over 2 months to 3 months

v)Over 3 months to 6 months

vi)Over 6 months to 1 year

vii)Over 1 year to 3 years

viii)Over 3 to 5 years

ix)Over 5 years

MAAFIN 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%