

ASSET- LIABILITY MANAGEMENT POLICY

INDEL MONEY LIMITED

Introduction

INDEL MONEY LIMITED a company registered as systematically important non deposit taking NBFC with Reserve Bank of India, is predominantly engaged in the business of lending against house hold jeweler. Indel Money Limited 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 mismatches can occur which has an impact on the liquidity and profitability of the company. It is therefore necessary that Indel Money Limited 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 INDEL MONEY LIMITED 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 INDEL MONEY LIMITED.

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.

INDEL MONEY LIMITED, 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.

1. Executive Director & CEO- Chairman
2. Director: Finance
3. Head Finance & Accounts- Member-Secretary
4. Head Business
5. Head IT- Representing IT department
6. Head Credit & Risk

Quorum: The Chairman, Director Finance and Head Finance & Accounts and one of the members will constitute the quorum.

Process: Reserve Bank of India has stipulated templates for reporting Structural liquidity (ALM-1). Dynamic Liquidity (ALM-2) and Interest Rate Sensitivity (ALM-3). They have also provided indicative formats as per Annexure I and Annexure II for compiling the figures. ALCO will use the indicative formats for compiling the figures and the Reports on ALM 1, ALM 2 and ALM3 for reviewing the liquidity and interest rate risk.

Periodicity of Meeting: The Member-Secretary will arrange for convening the meetings of ALCO once a month 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
- Minutes of the meeting will be prepared and preserved.

Liquidity Risk Management:

ALCO will deliberate on the ability of INDEL MONEY LIMITED 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. For this purpose, the templates ALM-1 and Annexure I will be made use of. 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, INDEL MONEY LIMITED 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 constitute more than 99% of INDEL MONEY LIMITED'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 25% as maximum interest on gold loans. The major portion of INDEL MONEY LIMITED's liabilities consists of 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. INDEL MONEY LIMITED'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

The Indicated template Annexure II and Reporting Format ALM-3 will be used for computing the Gaps in each time bucket. As can be seen from the annexures and reporting formats, INDEL MONEY LIMITED 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%.