N.B.I. INDUSTRIAL FINANCE CO. LTD.

ASSET LIABILITY MANAGEMENT POLICY

1. **Introduction**

In the normal course, NBFCs are exposed to credit and market risks in view of the asset liability transformation. With liberalisation in Indian financial markets over the last few years and growing integration of domestic markets with external markets and entry of MNCs for meeting the credit needs of not only the corporates but also the retail segments, the risks associated with NBFCs' operations have become complex and large, requiring strategic management.

NBFCs are now operating in a fairly deregulated environment and are required to determine on their own, interest rates on deposits, subject to the ceiling of maximum rate of interest on deposits they can offer on deposits prescribed by the Bank; and advances on a dynamic basis. The interest rates on investments of NBFCs in government and other securities are also now market related.

2. **Definitions**

- "ALCO" means Asset Liability Committee.
- "ALM" means Asset Liability Management.
- "Board" means Board of Directors of the Company.
- "Company" means Digvijay Finlease Limited.
- "CP" means Commercial Paper.
- "Directors" mean individual Director or Directors on the Board of the Company.
- "DMI" means Digvijay Finlease Limited.
- "NCD" means Non-Convertible Debentures.
- "Policy" means Asset Liability Management Policy.

3. **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 NBI to:

- 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 structural liquidity
- the extent and nature of cumulative mismatch in different buckets indicative of short-term structural liquidity

- 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 NBI and

- 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.

4. Composition of efficient Asset Liability Management

An efficient Asset Liability Management (ALM) needs:

- a good information system
- internal controls
- a policy for the company setting limits for liquidity, interest rate
- liquidity planning under alternate scenarios/formal contingent funding plan
- a Committee of Senior functionaries for ensuring adherence to the limits approved by the Board of Directors and
- a well-defined process.

5. Role and Responsibilities of Asset Liability Committee (ALCO)

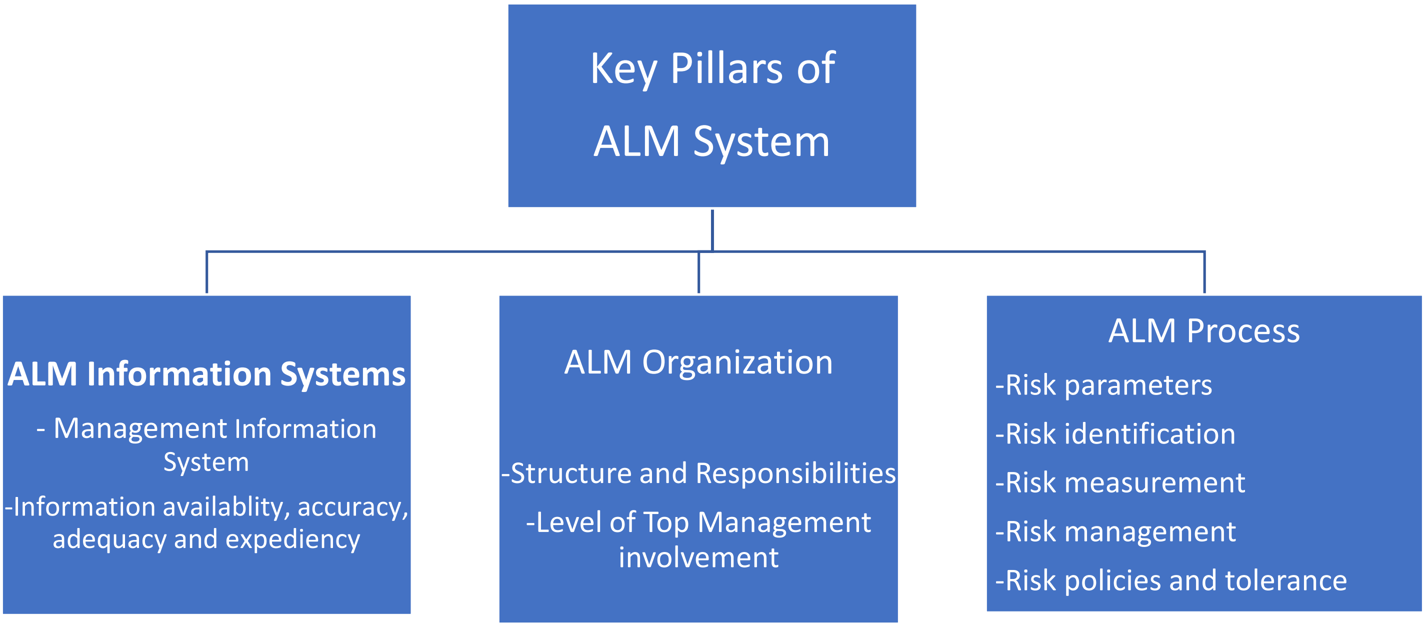
The Asset Liability Committee constituted by the Board of Directors shall be responsible for ensuring adherence to various operational limits set by the Board of Directors as well as deciding the business strategy of NBI (assets and liabilities) in line with overall business objectives. The adherence would also ensure that the statutory compliances set out by the Reserve Bank of India ('RBI') are complied with.

The ALCO shall perform the following roles and responsibilities:

- Understanding business requirement and devising appropriate pricing strategies
- Management of profitability by maintain relevant Net interest margins (NIM)
- Ensuring Liquidity through maturity matching.
- Management of balance sheet in accordance with internal policies and applicable regulatory requirements.
- Ensure the efficient implementation of balance sheet management policies as directed by ALCO.
- Review reports on liquidity, market risk and capital management.
- To identify balance sheet management issues that are leading to under-performance and ensure corrective action.
- Ensuring appropriate mix of different forms of debt i.e., Bank Loans, Commercial Paper, Non-Convertible Debentures, etc.
- Giving directions to the ALM team on the interest rate risk.
- ALCO delegates the daily management of liquidity risk and interest rate risk to ALM.
- Approving major decisions affecting NBI'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).
- Satisfy itself that the less fundamental risks are being actively managed, with the appropriate controls in place and working effectively.
- Articulate the current interest rate review and formulate future business strategy on this view.

6. Key Pillars of ALM

ALM system of the Company is based on the following key pillars:



a.) ALM Information systems

- **Management Information System**

ALM needs 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 sophisticated and data intensive Risk Adjusted Profitability Measurement methods. –

- **Information availability, accuracy, adequacy and expediency**

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 computerization.

b.) ALM Organization

- **Structure and responsibilities**

Successful implementation of the risk management process shall require strong commitment on the part of the senior management in the NBFC, to integrate basic operations and strategic decision making with risk management. The Board shall have overall responsibility for management of risks and shall decide the risk management policy of the NBFC and set limits for liquidity, interest rate and equity price risks.

- **Level of top management involvement**
  Asset Liability Committee (ALCO)

The Asset - Liability Committee (ALCO) consisting of the NBI’s senior management shall be responsible for ensuring adherence to the limits set by the Board as well as for deciding the business strategy of NBI (on the assets and liabilities sides) in line with the NBI's budget and decided risk management objectives. The ALM Support Groups consisting of operating staff shall be responsible for analysing, monitoring, and reporting the risk profiles to the ALCO. The staff shall 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.

Board of Directors Meeting and Reviews

The Board of directors in their Board meetings will oversee the implementation of the system and review its functioning periodically.

c.) ALM Process

The scope of ALM function can be described as follows:

(i) Liquidity risk management
(ii) Management of market risks
(iii) Funding and capital planning
(iv) Profit planning and growth projection
(v) Forecasting and analysing 'What if scenario' and preparation of contingency plans

7. Asset- Liability Management Committee (ALCO)

The size (number of members) of ALCO would depend on the size of each institution, business mix and organisational complexity. Asset- Liability Management will be overseen by a committee consisting of the following officials:

- Director – Ashok Bhandari - Chairman
- Director – J P Mundra – Member
- Director - T. K. Bhattacharya - Member

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

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 analysing 'What if scenario' and preparation of contingency plans Minutes of the meeting will be prepared and preserved.

8. Liquidity Risk Management

i. Maturity Profiling

ALCO will deliberate on the ability of NBI 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 of Statement of Structural Liquidity and Statement of Interest Rate Risk will be made use of. ALCO will use the same time buckets suggested by RBI (shown below) for measuring the net funding needs.

- 1 days to 7 days
- 8 days to 14 days
- 15 days to 30/31 days (One month)
- Over 1 month to 2 months
- Over 2 months to 3 months
- Over 3 months to 6 months
- Over 6 months to 1 year
- Over 1 year to 3 years
- Over 3 to 5 years
- Over 5 years

Reserve Bank of India has stipulated that the net cumulative negative mismatches in the maturity buckets of 1-7 days, 8-14 days and 15-30/31 days shall not exceed 10%, 10% and 20% of the cumulative cash outflows in the respective time buckets. Cumulative mismatches for other time buckets upto 1 year by establishing internal prudential limits with the approval of Board. Higher ceiling, for any special reason, need specific approval of the Board. As a prudent liquidity management measure, NBI will strive to restrict the negative mismatch upto 1-30/31 days (One Month) bucket to a maximum of 10% of cash outflows.

ii. Interest Rate Risk

RBI has given operational flexibility to NBFCs for pricing most of the assets and liabilities. Interest Rate Risk is the risk where changes in the market interest rates might adversely affect an NBFC's financial condition. The immediate impact of changes in interest rates is on NBFC's earnings (reported profits) by changing its Net Interest Income. A long-term impact of changing interest rates is on NBFC's Market Value of Equity or Net Worth as the economic value of NBFC's assets, liabilities and off-balance sheet positions get affected due to variation in market.

The Gap or Mismatch Risk can be measured by calculating Gaps over different time intervals as at a given date. Gape analysis measures mismatches between rate sensitive liabilities and rate sensitive assets. The Gaps may be identified in the following time buckets:

Board, however, has fixed Net Interest Margin (NIM) cap of 16% for the gold loans. Maximum interest rate approved by the board for other verticals is 36% p.a. The major portion of NBI'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. NBI'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.

- 1 days to 7 days

- 8 days to 14 days
- 15 days to 30/31 days (One month)
- Over 1 month to 2 months
- Over 2 months to 3 months
- Over 3 months to 6 months
- Over 6 months to 1 year
- Over 1 year to 3 years
- Over 3 to 5 years
- Over 5 years

NBI has an overwhelmingly positive mismatch in the short - term buckets and also a positive cumulative Gap in all the buckets.

iii. **Liquidity Risk Measurement**

Stock Approach: ALCO will adopt a “Stock” approach to liquidity risk management and monitor certain critical ratios in this regard by putting in place internal defined limits as approved by the Board. An indicative list of certain critical ratios to monitor short term liability to total assets, short term liability to long term assets, commercial papers to total assets etc.

iv. **Introduction of Liquidity Coverage Ratio (LCR)**

LCR requirement shall be binding on all non-deposit taking systematically important NBFC’s with asset size of Rs. 10000 crore and above and all deposit taking NBFCs irrespective of asset size from December 1, 2020 with minimum LCR to be 50%, progressively increasing, till it reaches required level of 100%, by December 1, 2024 as per the time line given below:

From	December 1 ,2020	December 1 ,2021	December 1 ,2022	December 1 ,2023	December 1 ,2024
Minimum LCR	50%	60%	70%	85%	100%

Further Non-Deposit taking NBFC’s with asset size of Rs. 5000 crore and above but less than Rs. 10000 crores shall also maintain the required level of LCR starting December 1, 2020 as per the time-limit given below:

From	December 1 ,2020	December 1 ,2021	December 1 ,2022	December 1 ,2023	December 1 ,2024
Minimum LCR	30%	50%	60%	85%	100%