MUTHOOTTU MINI FINANCIERS LIMITED

ALM POLICY

Reviewed in the Meeting of the Board of Directors held on 20-07-2020

Introduction

Muthoottu Mini Financiers Limited (MMFL), a company registered as systemically important non deposit taking NBFC with Reserve Bank of India, is predominantly engaged in the business of lending against house hold gold jewellery. MMFL's funding consists of both short term and long term 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 MMFL 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. .

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 MMFL to

(a) Ascertain in percentage terms the nature and extent of mismatch in different maturity buckets, especially the 1-14 and 15-31days 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 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 MMFL.

(d) Finalizing the interest rates and tenure for new gold loan products of the Company

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

Asset- Liability Management Committee (ALCO):

Asset- Liability Management will be overseen by a Committee consisting of the following officials.

Chairman and wholetime Director – Mrs. Nizzy Mathew- Member and Chairperson of Committee

Managing Director- Mr Mathew Muthoottu- Member

Chief operations Officer- Mr. P E Mathai- Member representing overall Company Operations.

Risk Officer –Mr. Krishnan Y-Member representing Risk Management

Chief Financial Officer – Ann Mary George -Member representing Finance and Accounts

Company Secretary shall act as the secretary of the Committee

Quorum: The Chairman, one of the Executive Directors and one other member 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). RBI has issued guidelines for **Asset Liability Management (ALM) system in NBFCs .**They have also provided indicative formats as per Appendix I and Appendix 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 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 preparation of contingency plans

Minutes of the meeting will be prepared and preserved and the same shall be put up to the Board for their perusal.

Liquidity Risk Management:

ALCO will deliberate on the ability of MMFL to meet its maturing liabilities as and when 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 Appendix 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 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

Reserve Bank of India has stipulated that the focus on cash flow mismatches would be in the 1-30/31 buckets. The net cumulative negative mismatches in the Statement of Structural Liquidity in the maturity buckets 1 – 7 days, 8 -14 days and 15 – 30/31 days shall not exceed 10%, 10% and 20% of the cumulative cash out flows in the respective time buckets. Higher ceiling, for any special reason, need specific approval of the Board. 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.

Sources of Funding:

The Company has different sources of funding as under:

1. Cash credit/working capital limits from banks
2. Amounts raised from the public through issue of Non-Convertible debentures through public and private placements.
3. Subordinated debt in accordance with RBI regulations .

Interest Rate Risk:

Gold loans constitute more than 95% of MMFL assets, RBI has given operational flexibility to NBFCs for pricing most of the assets and liabilities. The major portion of MMFL liabilities consists of subordinate debt and Non-Convertible debentures both public and private where the interest rate is fixed.

The Company also has 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. MMFL 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 Appendix II and Reporting Format ALM-3 will be used for computing the Gaps in each time bucket.

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%

Review:

The policy shall be reviewed on a yearly basis and as and when required

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