Unimoni Financial Services Limited
Asset Liability Management Policy
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ALM Policy

Sign Off

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GLOSSARY

“Current investment” means an investment which is by its nature readily realizable and is intended to be held for not more than one year from the date on which such investment is made.

“Long term investment” means an investment other than a current investment;

“Non-performing asset/Loans (“NPA”) means:

a) an asset, in respect of which, interest has remained overdue for a period of six months or more;

b) a term loan inclusive of unpaid interest, when the installment is overdue for a period of six months or more or on which interest amount remained overdue for a period of six months or more;

c) a demand or call loan, which remained overdue for a period of six months or more from the date of demand or call or on which interest amount remained overdue for a period of six months or more;

d) a bill which remains overdue for a period of six months or more;

e) the interest in respect of a debt or the income on receivables under the head other current assets in the nature of short term loans/advances, which facility remained overdue for a period of six months or more;

f) any dues on account of sale of assets or services rendered or reimbursement of expenses incurred, which remained overdue for a period of six months or more;

Provided that the period of six months or more stipulated in sub-clauses (a) to (f) shall be five months or more for the financial year ending March 31, 2016; four months or more for the financial year ending March 31, 2017 and three months or more, for the financial year ending March 31, 2018 and thereafter.

g) the lease rental and hire purchase installment, which has become overdue for a period of twelve months or more;

Provided that the period of twelve months or more stipulated in this sub clause shall be nine months or more’ for the financial year ending March 31, 2016; six months or more’ for the financial year ending March 31, 2017; and three months or more for the financial year ending March 31, 2018 and thereafter.

h) in respect of loans, advances and other credit facilities (including bills purchased and discounted), the balance outstanding under the credit facilities (including accrued interest) made available to the same borrower/beneficiary when any of the above credit facilities becomes non-performing asset: Provided that in the case of lease and hire purchase transactions, a non-banking financial company may classify each such account on the basis of its record of recovery.

“Operational Group” means a group comprising of any one of CEO& MD, CFO, Head MIS and statutory compliances, Head funding and CRO for the purpose of reviewing and approving various ALM returns and other returns, intimations and forms required to be filed periodically with the RBI.

PREAMBLE

The purpose of this Asset Liability Management policy (ALCO Policy) is to establish guidelines to ensure prudent management of assets and liabilities for UNIMONI Financial Services Limited (“UFSL”) (“the company’). These guidelines address management and reporting of capital, liquidity and interest rate risk.

The ALCO Policy also complies with the requirement of RBI circular DNBS (PD).CC.No.15/ 02.01/ 2000- 2001 dated 27 June 2001, as amended from time to time.

Broadly this Policy:

a) Forms part of the UFSL internal control and governance arrangements.

b) Explains the UFSL underlying approach to liquidity management. It also outlines key aspects of the risk management process related to ALM process and identifies the main reporting procedures.

In addition, it describes the process, the assets liability Committee (“ALCO”) will use to evaluate the effectiveness of UFSL internal control procedures.

Background

NBFCs are exposed to credit and market risks in view of the asset-liability transformation or transactions. With liberalization in Indian financial markets over the last few years, growing integration of domestic markets with external markets and entry of MNCs for meeting the credit needs of not only the corporate but also the retail segments, the risks associated with NBFCs operations have become complex and large. Competition for business; involving both the assets and liabilities has brought pressure on the management to maintain a good balance among spreads, profitability and long term viability. Imprudent liquidity management can put earnings and reputation at risk. These pressures call for structured and comprehensive measures and not just ad hoc action.

The managements have to base their business decisions on a dynamic and integrated risk management system and process, driven by corporate strategy. NBFCs are exposed to several major risks in the course of their business such as capital management, credit risk, liquidity risk and interest rate risk. Management of credit risk shall be covered by the Credit policy of UFSL, whereas capital management, liquidity and interest rate risk (ALM risks) shall be the domain of the ALCO, which has been addressed in the current policy.

UFSL needs to address these risks in a structured manner, adopting comprehensive ALM practices. ALCO Policy provides a comprehensive and dynamic framework for assessment, measuring, monitoring and managing ALM risks. It also involves altering the asset-liability portfolio in a dynamic way in order to manage ALM risks.

ALM Organisation and Responsibility

Successful implementation of the risk management process would require strong commitment on the part of the senior management to integrate basic operations and strategic decision making with risk management. The Board should have overall responsibility for management of above risks.

The Board of Directors of UFSL will have the overall responsibility to implement this policy and may specify limits for capital management, interest rates and liquidity risk, acting through the ALCO.

The Asset/Liability Committee (“ALCO”) will be constituted and comprise of senior management of UFSL (including the Chief Executive Officer) and will be responsible for ensuring adherence to the limits set by the Board of Directors of UFSL as well as for deciding the business strategy of UFSL (on the assets and liabilities sides) in line with its budget and risk management objectives. The adherence would also ensure that the statutory compliance set by the RBI are complied with. The Board / ALCO will review, update, and approve the Asset Liability Management policy at least annually.

ALCO has a fundamental role to play in the management of ALM risk. Its role is to:

a) Set a tone and influence the culture of ALM risk management with UFSL.
b) Determine the appropriate ALM risk appetite or level of exposure for the UFSL.
c) Deliberate on product pricing methods / strategies adopted / followed by the Company for advances made by it.
d) Approve major decisions affecting ALM risk (product pricing for deposits, desired maturity profile and mix of the incremental assets and liabilities, prevailing interest rates offered by other peer NBFCs for the similar services/product, etc).
e) Identify ALM risks, measure their impact and monitor the management of fundamental risks to reduce the likelihood of unwelcome surprises.
f) Satisfy it that the less fundamental risks are being actively managed, with the appropriate controls in place and working effectively.
g) Review the results of and progress in implementation of the decisions in its meetings.
h) Articulate the current interest rate review and formulate future business strategy on this view
i) Its responsibility would be to decide, with inputs from Origination & Credit teams on source and mix of liabilities or sale of assets for giving out loans. Towards this end, it will have to develop a view on future direction of interest rate movements and decide on funding mixes between fixed vs. floating rate funds, bank funding vs. capital market funding, etc.

The Key operating staff is in place which acts as a support group for ALCO. The ALCO will designate and authorize personnel to carry out transactions on behalf of UFSL. ALCO has assigned UFSL management with the responsibility of complying with the guidance and risk limits set forth in this policy and for the day-to-day administration and implementation of this policy.

Role of Key Staff

a) To implement policies on ALM risk management and internal control.
b) To analyze and moniter the risk profiles and identify and evaluate the fundamental risks faced by UFSL fro consideration by UFSL.
c) Provide adequate information in timely manner to ALCO on the status of risks and controls and system associate with it and provides reports to ALCO.
d) The operating staff will also provide forcasts on the balance sheets of the possible changes in the market conditions and recommend action for adherence to the limits set out by the ALCO.

The ALM Team will comprise of:

1. MD & CEO
2. CFO
3. Head Accounts
4. Head Funding
5. Head Fraud & Risk
6. Any other Member recommended by CEO

ALM Process

The Scope of ALM Function can be described as follows:

- Capital Management
- Liquidity risk management
- Interest rate risk management
- Forecasting and analysing Stress testing plans , what if scenario, and preparation of contingency plan, Assets liquidation plan etc.

The guidelines given in the note mainly address Capital Management, Liquidity Risk and interest rate risk management.

Overview

1. Capital Management :

Capital guidelines ensure the maintenance and independent management of prudent capital levels for UFSL to preserve safety and soundness of the company, to support desired balance sheet growth and realization of new business; and to provide a cushion against unexpected losses.

The following Regulatory ratios are monitored and reported by the designated staff to the ALCO on a quarterly basis. The limits described below are calculated according to guidelines prescribed by the RBI.

Regulatory Ratio	Current Regulatory Standard	UFSL Policy Limits
Total Risk-Based Capital (Minimum) **Capital Adequacy Ratio**	15.00%	20.00%

2. Liquidity Risk Management

Measuring and managing liquidity needs are vital for effective operation. Liquidity management can reduce the profitability on an adverse situation developing.

UFSL management should measure not only the liquidity positions on an ongoing basis but also examine how liquidity requirements are likely to evolve under different assumptions. Experience shows that assets commonly considered as liquid, like Government securities and other money market instruments, could also become illiquid when the market and players are unidirectional. Therefore, liquidity has to be tracked through maturity or cash flow mismatches.

Besides, liquidity management ensures that funds are available for anticipated loan growth, investment and cash management transactions and general operational expenses without causing an undue rise in cost and without causing a disruption in normal operating conditions.

As a non-deposit taking NBFC, UFSL currently depends on the following sources of liquidity (listed in order of priority):

i. Operating cash on hand.
ii. Funds held in permitted short-term investments
iii. Inter-company loans.
iv. Financing obtained from banks and capital markets.
v. Sell Down of credit exposures.

ALCO is responsible for determining the appropriate mix of available funding sources utilized to ensure company liquidity is managed prudently and appropriately. In this process, ALCO considers the current economic and market environment, near-term loan growth projections and long-term strategic business decisions.

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 dates is adopted as a standard tool along with relevant ratios. The format of the Statement of Structural Liquidity is given in Annexure I.

The Maturity Profile as given in Appendix A should be used for measuring the future cash flows of UFSL in different time buckets. The time buckets, may be distributed as under:

1. Overnight
2. Over 1 day to 30 day (Including granular buckets of 1-7 days, 8-14 days, and 15-30 days)
3. Over 2 to 3 months
4. Over 3 to 6 months
5. Over 6 months to 1 year
6. Over 1 year to 3 years
7. Over 3 years to 5 years
8. 5 years+
9. Non-Sensitive

Short Term deployment of funds in highly liquid debt instruments, as a part of Liquidity management, in accordance with the Treasury Policy of the Company as may be amended from time to time.

Short-term investments and excess cash shall be managed in a manner that is consistent with liquidity needs, asset/liability strategies and safety and soundness concerns for the benefit of UFSL and within the framework of relevant RBI & FDI guidelines

UFSL is primarily engaged in providing financing to India based companies. The nature of the UFSL's lending business and the exclusion from taking deposits dictates that its investment policy is based on capital protection, liquidity and then return. No equity exposure is to be taken.

Sell down of loan assets also form an important component of liquidity and risk management for the Company. Loan assets in form of loans would be sold down to potential informed investors viz NBFCs, Banks. Loan assets shall be sold down in accordance with the Sell Down Mandate of the Company, as may be adopted from time to time.

Within each time bucket, there could be mismatches depending on cash inflows and outflows. While the mismatches upto one year would be relevant since these provide early warning signals of impending liquidity problems. **UFSL** shall monitor cumulative mismatches (running total) across all time buckets by establishing internal prudential limits with the approval of the Board / Management Committee. The mismatches (negative gap) during 1 day – 1 year time bucket, i.e. the first five time buckets defined earlier in this section, in the normal course should be NIL.

The various items of rate sensitive assets and liabilities and off balance sheet items may be classified as explained in **Appendix B** and the reporting format for interest rate sensitive assets and liabilities is given in ALM Appendix -II.

The GAP is difference between Rate sensitive assets (RSA) and Rate sensitive liabilities (RSL) for each time bucket. The positive GPA indicates that it has more RSAs than RSLs whereas the negative Gap indicates that it has more RSLs than RLAs. The Gap reports indicate whether UFSL is in a position to benefit from rising interest rates by having a positive Gap (RSA > RSL) or whether it is in a position to benefit from declining interest rates by a negative Gap (RSL > RSA). The Gap can, therefore, be used as a measure of interest rate sensitivity.

The agenda of each regularly scheduled ALCO meeting will include a review of the Statement of Interest Rate Sensitivity and a discussion of interest rate risk management practices applicable to UFSL.

General

The classification of various components of assets and liabilities into different time bucket for preparation of Gap reports (Liquidity and Interest Rate Sensitivity) as indicated in Appendices I & II is the benchmark. UFSL when better equipped to reasonably estimate the behavioural pattern of various components of assets and liabilities on the basis of past data / empirical studies and will classify them in the appropriate time buckets, subject to approval from the ALCO / Board.

The present framework does not capture the impact of premature closure of deposits and prepayment of loans and advances on the liquidity and interest rate risks profile. The magnitude of premature withdrawal of deposits at times of volatility in market interest rates is quite substantial detailed clauses pertaining to premature exit or prepayment would be clearly stated in the loan agreement.

Meeting of ALCO

At least 1 meeting every quarter, or as and when required or as may be decided by the Board from time to time.

Monitoring and Reporting

The following reports will be provided to ALCO showing compliance with established guidelines outlined in this policy and in accordance with guidelines by the Reserve Bank of India (“RBI”) and as may be applicable.

i. Capital Adequacy Statement – Quarterly.
ii. Statement of Structural Liquidity – Half Yearly
iii. Statement of Dynamic (short-term) Liquidity - Quarterly
iv. Statement of Interest Rate Sensitivity – Half Yearly.
v. Any other relevant MIS prepared and reviewed by Operational Group.

Exceptions to guidelines outlined in this policy will be reported to ALCO no later than the next regularly scheduled meeting of the Committee after a policy exception is identified.

Reporting to RBI

In view of the possibilities of leveraged investments and assets liability mismatches resulting from use of short term sources to fund UFSL activities, a system of reporting will be followed. The return will comprise of:

(i) Statement of short term dynamic liquidity [NBS-ALM1],
(ii) Statement of structural liquidity [NBS-ALM2] and
(iii) Statement of Interest Rate Sensitivity [NBS-ALM3].

The periodicity of the Statement of short term dynamic liquidity [NBS-ALM1] shall be quarterly and that of Statement of structural liquidity [NBS-ALM2] half-yearly. It shall be submitted within 15 days of the close of the quarter to which it relates and half yearly statement within 20 days of the close of the half year to which it relates to and ALM 3 shall be submitted before 20 days of the close of half year to which it relates to, to the Regional Office of the Department in whose jurisdiction, UFSL is registered. Operational Group will review and approve the same for submission to RBI.

Policy review and approval

The policy governing financial risk management activities and guidelines described herein shall be submitted to ALCO, at least annually, for review and approval.

Internal Control

Effective internal controls are integral part of managing risk. Pursuant to the guidelines set forth in this policy, adequate controls have to be established to ensure proper management of ALM risk.

Appendix A

Maturity profile- Liquidity

Head of Accounts ***Time Bucket Category***

A. Outflow

1. Capital Funds	
a) Equity capital, non redeemable or perpetual preference share capital, compulsory convertible preference shares, Reserves Funds and Surplus.	*In the over 5 year time bucket category*
b) *Preference Capital- redeemable non perpetual*	*As per the residual maturity of shares.*
2. Notes, Bonds and Debentures	
a) Plain vanila bonds/debentures	*As per the residual maturity of debentures.*
b) Bonds/debentures with embedded call/put options (including zero coupon/deep discount bonds)	*As per the residual period for the earliest exercise date for the embedded option*
c) Fixed rate notes	*As per the residual maturity*
3. Deposit	
a) Inter-corporate Deposit	*As per the residual maturity*
4. Borrowings	
a) Term money borrowings (Term loan)	*As per the residual maturity*
b) Cash credit/WCDL etc	*Over 6 months and up to 1 years*
5 Current Liabilities and Provision	
a) Sundry Creditors	*As per the due date or likely timing of cash outflow. A behavioral analysis can also be made to assess the trends of outflows and the amount slotted accordingly.*
b) Expenses other than interest	*As per likely time of cash flow*
c) Advance income received, receipts from borrowers pending adjustment	*In the over 5 years time bucket as these do not involve any cash outflow.*
d) Interest payable on Bonds/Deposit	*In respective time buckets as per the due date of payment*
e) Provision for NPAs	*The amount of provision be shown as an item under outflows in stipulated time-buckets.*
f) Provision for investment portfolio	*The amount of provision to be shown as per outflows in the stipulated time bucket.*
g) Other Provision	*To be bucketed as per the purpose/Nature of the underlying transaction.*

B. inflow ***1. Cash*** ***2. Remittance in Transit***	 ***Overnight or 1-30 days time bucket*** ***-----------------------do--------------------***
3. Balance with Bank (In India only) ***Deposit/Short Term Deposit***	*The Stipulated minimum balance be shown 6 m to 1 years bucket. The Balance excess of minimum balance be shown in 1 to 30 days time bucket.* *As per residual Maturity*
4. Investments (Net of provisions) *a) Mandatory Investment* *b) Non Mandatory Listed* *c) Non Mandatory unlisted Securities* *d) Non Mandatory unlisted securities* *e) Venture Capital units*	 *As suitable to the NBFC* *1 to 30 days or over 1 m- 2m or over 2 m to 3 m Depending upon defeasance period proposed by the NBFC's.* *Over 5 years* *As per residual Maturity* *In the over 5 years Bucket*
5. In case of Trading book is followed *Equity shares, convertible preference shares, shares of subsidiary/joint ventures and units in open ended mutual fund and other investment*	 ***(i)*** *Shares classified as "current" investments adding book of the NBFC may be shown in time buckets of "1 day to 30 days (One month)""Over one month and upto 2 months" and "Over two months and upto 3 months" buckets depending upon the defeasance period proposed by the NBFCs. However, the shares of the assisted units/companies acquired as part of the initial financing package, may be slotted in the relative time bucket keeping in view the pace of project implementation/time-overrun, etc., and the resultant likely timeframe for divesting such shares.* *(ii) Shares classified as "long term" investments may be kept in over "5 years time" bucket or as per the investment plan*
6 Advances (Performing) *a) Bill of Exchange and promissory notes discounted and re discounted* *b) Term Loan (rupee only)* *c) Other Loans*	 *As per residual maturity* *Cash inflow on account of the interest and principal of the Loan may be slotted in respective time bucket as per timing of cash flow as stipulated in the original/Revised repayment schedule.* *As per the residual maturity*
7. Non Performing Loans *(May be shown net of the provisions, interest suspense held)* *a) Sub-standard*	*In the 3 to 5 year time-bucket*

i) All overdues and installments of principal falling due during the next three years	
ii) Entire principal amount due beyond the next three years ***b) Doubtful and loss*** *i) All installments of principal falling due during the next five years as also all overdues* *ii) Entire principal amount due beyond the next five years*	*In the over 5 years time-bucket* *In the over 5 years time-bucket* *In the over 5 years time-bucket*
8. Assets on lease	*Cash flows from the lease transaction may be slotted in respective time buckets as per the timing of the cash flow.*
9. Fixed assets (excluding leased assets)	*In the 'over 5 year' time-bucket or as per fixed asset policy*
10. Other assets *(a) Intangible assets and items not representing cash inflows* *(b) Other items (such as accrued income, other receivables, staff loans, etc.)*	 *In the 'over 5 year' time-bucket.* *In respective maturity buckets as per the timing of the cash-flows*
11. Contingent liabilities *(a) Letters of credit/guarantees (outflow through devolvement)* *(b) Loan commitments pending disbursal (outflow)* *(c) Lines of credit committed to/by other Institutions (outflow/inflow)*	 *Based on the past trend analysis of the devolvements vis-à-vis the outstanding amount of guarantees (net of margins held), the likely devolvements should be estimated and this amount could be distributed in various time buckets on judgmental basis. The assets created out of devolvements may be shown underespective maturity buckets on the basis of probable recovery dates.* *In the respective time buckets as per the sanctioned disbursement schedule.* *As per usance of the bills to be received under the lines of credit.*

Note:

a) Any event-specific cash flows (e.g. outflow due to wage settlement arrears, capital expenses, income tax refunds, etc.) should be shown in a time bucket corresponding to timing of such cash flows.

b) All overdue liabilities be shown in the 1 to 30/31 days time bucket.

c) Overdue receivables on account of interest and installments of standard loans / hire purchase assets / leased rentals should be slotted as below:

(i) Overdue for less than one month. In the 3 to 6 month bucket.
(ii) Interest overdue for more than one month but less than seven months (i.e. before the relative amount becomes past due for six months)
- ***In the 6 to 12 month bucket without reckoning the grace period of one month.***

(iii) Principal instalments overdue for 7 months but less than one year ***- In 1 to 3 year bucket.***

D. Financing of gaps

The mismatches (negative gap) during 1 day – 1 year time bucket, i.e. the first five time buckets defined earlier in this section, in the normal course should be NIL. In case there exists a gap, the measures proposed for bridging the gaps, should be shown by a footnote in the relative statement.

Appendix B:

Interest rate Sensitivity

Heads of accounts	**Rate sensitivity of time bucket**
Liabilities	
1. Capital, Reserves & Surplus	**Non Sensitive**
2. Notes, bonds & debentures a) Floating rate sensitive b) Fixed rate (plain vanilla) including zero coupons c) Instruments with embedded options	Reprice the rollover pricing Date should be slotted in respective time buckets as per the repricing dates. Sensitive; reprice on maturity. To be placed in respective time buckets as per the residual maturity of such instruments. 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.
3. Inter-corporate Deposits	Sensitive; reprice on maturity. To be slotted as per the residual maturity in the respective time buckets
4. Borrowing **a) Term-money borrowing** **b) Borrowings from others** **i) Fixed rate** **ii) Floating rate**	Sensitive; reprices on maturity. To be placed as per residual maturity in the relative time bucket Insensitive; reprice on maturity. To be placed as per residual maturity in the relative time bucket. Sensitive; reprice on the roll-over/ repricing date. To be placed as per residual period to the repricing date in the relative time bucket.
5. Current Liabilities & provision a) Sundry creditors b) Expenses payable c) Swap adjustment a/c. d) Advance income received/receipts from borrowers pending adjustment e) Interest payable on bonds/deposits f)) Provisions	Non Sensitive
7. Repos/ bills rediscounted/forex swaps (Sell/Buy)	Sensitive; reprices on maturity. To be placed as per the residual maturity in respective buckets.

Unimoni Financial Services Ltd.

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Assets

1. Cash	Non Sensitive
2. Remittance in transit	Non Sensitive
3. Balance with Banks in India **a)** In current account **b)** In deposit accounts money at call and short notice and other placements	Non Sensitive Non Sensitive Sensitive (Except for fixed coupon instruments) 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.) b) Floating rate securities c) Equity shares, convertible preference shares, shares of subsidiaries/joint ventures, venture capital units.	Sensitive on maturity (Except for fixed coupon instruments). To be slotted as per residual maturity. However, the bonds/debentures valued by applying NPA norms due to non-servicing of interest, should be shown, net of provisions made, in: (i) 3-5 year bucket - if sub-std. norms applied. (ii) Over 5 year bucket - if doubtful norms applied. Sensitive; reprice on the next repricing date. To be slotted as per residual time to the repricing date. Non Sensitive
5. Advance (Performing) **a) Bills of exchange, promissory notes discounted & rediscounted** **b) Term loans/corporate loans / Short Term Loans (rupee loans only)** **i) Fixed Rate** **ii) Floating Rate**	Sensitive on maturity. To be slotted as per the residual usance of the underlying bills. Sensitive on cash flow/ maturity. Sensitive only when PLR or risk premium is changed by the NBFCs. The amount of term loans should be slotted in time buckets which correspond to the time taken by NBFCs to effect changes in their PLR in response to market interest rates.
6. Non-performing loans: (net of provisions, interest suspense and claims received from ECGC) a) Sub-standard b) Doubtful and loss	To be slotted as indicated at item B.7 of Appendix A.
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. b) Other items (e.g. accrued income, other receivables, staff loans, etc.)	Non Sensitive Non-sensitive
10. Reverse Repo/Swaps (Buy/Sell) and Re-discounted	Sensitive on maturity. To be slotted as per residual maturity.
11. Other (interest rate) products **a) Interest rate swaps** **b) Other derivatives**	Sensitive; to be slotted as per residual maturity in respective time buckets. To be classified suitably as and when introduced.