BENGAL & ASSAM COMPANY LIMITED (BACL)

Asset-Liability Management (ALM) Policy

Adopted on 19th May, 2018

1. Bengal & Assam Company Limited (BACL) was incorporated in the year, 1947 and is an existing Non-Banking Financial Company (CIC-ND-SI) duly registered with Reserve Bank of India, Kolkata. BACL is authorized to and is primarily engaged in the business activity of holding and dealing in investments and other financial assets and matters incidental and ancillary thereto. As the Company is CIC-ND-SI, it is mainly investing in its group companies' shares and loans and advances to the group Companies.

1.1 BACL'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 mismatches can occur which has an impact on the liquidity and profitability of the Company. It is, therefore, necessary that BACL 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.

2. **ALM Organization**

a. The Company has laid down broad guidelines in respect of liquidity risk management systems in the Company, which form part of the Asset-Liability Management (ALM) function. The initial focus of the ALM function would be to enforce the risk management discipline i.e managing business after assessing the risks involved.

b. Successful implementation of risk management process would require strong commitment on the part of the senior management in the Company. The Board of Directors believes that accepting some level of risk is necessary in order to achieve desirable results. The Asset Liability Management Committee (ALCO) will be responsible for managing and directing the Asset/Liability Management policies and procedures.

c. The Asset-Liability Management Committee (ALCO) consisting of following members would be responsible for ensuring adherence to the limits set by the Board as well as for deciding the business strategy of the Company (on assets and liabilities sides) in line with the Company's budget and decided risk management objectives.

1. Dr. R.P. Singhania - Chairman
2. Shri A.K. Kinra - Member
3. Shri U.K. Gupta (CFO) - Member

d. The business issues that an ALCO would consider, inter alia, will include desired maturity profile, mix of the incremental assets and liabilities, prevailing interest rates offered by other peer NBFCs for the similar services/product, etc. In addition to monitoring the risk levels of the Company, the ALCO will review the results of and progress in implementation of the decisions made in the previous meetings. The frequency of holding the ALCO meetings will **be half yearly.**

2.1 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.

2.2 **Quorum**: The Chairman and one member will constitute the quorum. In case Chairman is not available, Members' present will form the Quorum.

3. **Board of Directors Meeting and Review**

The Board of Directors, in their meetings, will oversee the implementation of the system and review its functioning periodically. The Board of Directors, if necessary, can modify the recommended policy which is in the best interest of the Company.

4. **Liquidity Risk Management**

a. ALCO would measure not only the liquidity position of the Company on an ongoing basis but also examine how liquidity requirements likely to evolve under different assumptions. Therefore, liquidity has to be tracked through maturity or cash flow mismatches. The format of the Statement of Structural Liquidity as prescribed by Reserve Bank of India (RBI) may be used for this purpose.

b. The Maturity Profile based on ALM-II could be used for measuring the future cash flows of Company in different time buckets. The time buckets, may be distributed as under:- 1) 1 day to 30/31 days (one month) ii) over 1 month and upto 2 months iii) over 2 months and upto 3 months iv) over 3 months and upto 6 months v) over 6 months and upto 1 year vi) over 1 year and upto 3 year vii) over 3 years and upto 5 years vii) over 5 years.

c. The **Statement of Structural Liquidity** shall be prepared by placing all cash inflows and outflows in the maturity ladder according to the expected timing of cash flows. A maturity liability will be a cash outflow while a maturing asset will be a cash inflow. While determining the tolerance levels, the Company may take into account all relevant factors based on their asset-liability base, nature of business, future strategy etc.

d. In order to enable the Company to monitor their short term liquidity on a dynamic basis over a horizon spanning from 1 day to 6 months, company will estimate its short term liquidity process on the basis of business projections and other commitments for planning purposes. An indicative format ALM-1 issued by RBI for estimating Short Term Dynamic Liquidity will be used for the said purpose.

5. **Current Risk**

The Company does not have any currency risk as per investment pattern. However, in future, if investment pattern changed, the company will take appropriate steps to modify this policy and incorporate measures to check currency risk.

6. **Interest Rate Risk (IRR)**

The operational flexibility given to NBFCs in pricing most of the assets and liabilities imply the need for the financial system to hedge the Interest Rate Risk. Interest rate risk is the risk where changes in market interest rates might adversely affect an NBFC's financial condition. The changes in interest rates affect company in some way. The immediate impact of changes in interest rates is on company's earnings (i.e. reported profits) by changing its Net Interest Income (NII). As such BACL is majority into funding of loans which are always fixed rate loans. The loans borrowed from banks are mostly at floating rates. The company manages this risk on NII by pricing its loan products to customers at a rate which covers interest risk. The risk from the earnings perspective can be measured as changes in the Net Interest Income (NII) or Net Interest Margin (NIM). Measurement of such risk is done at the time of deciding rates to be offered to customers. Once interest rate risk is measured by the ALCO, lending rates of the new loans are finalized accordingly.