BENGAL & ASSAM COMPANY LIMITED
Asset Liability Management Policy

Adopted and approved by the Board of Directors at its Meeting held on 19th May, 2018 and further amended by the Board at its Meeting held on 29th May, 2023.

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 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. Shri U. K. Gupta, Manager & CFO - Chairman
2. Dr. R.P. Singhania - Member
3. Shri A.K. Kinra - 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 ALCO shall provide guidance in following areas:

- Monitor and discuss the status and results of asset/liability management strategies and tactics implemented.
- Review measurement reports on various risks (e.g., liquidity, market, interest rate changes etc.)
- Review parameters for the pricing and maturity distributions of loans and investments.
- Review of Asset Liability Management Model, if required.

- Monitoring market risk management systems, compliance with the asset liability management policy and prudent gaps and tolerance limits and reporting systems set out by the Board of Directors and ensuring adherence to the RBI Guidelines issued in this behalf from time to time..
- Review the source and mix of liabilities and need for sale of assets and other resource augmentation.

2.3 **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. MATURITY PROFILING

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 isadopted as a standard tool. The Maturity Profile shall be used for measuring the future cash flows of Company in different time buckets. The time buckets shall be distributed as under:

a) 1 day to 7 days
b) 8 day to 14 days
c) 15 days to 30/31 days (One month)
d) Over one month and upto 2 months
e) Over two months and upto 3 months
f) Over 3 months and upto 6 months
g) Over 6 months and upto 1 year
h) Over 1 year and upto 3 years
i) Over 3 years and upto 5 years
j) Over 5 years

The Maturity Profile would be used for measuring the future cash flows of company in different time buckets mentioned as above.

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.

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, the main focus shall be on the short term mismatches viz., 1-30/31 days. The net cumulative negative mismatches in the statement of Structural Liquidity in the maturity buckets 1-7 days, 8-14 days and 15-30 days would not exceed 10% of the cumulative cash outflows in the respective time buckets. The net cumulative negative mismatches in the statement of Structural Liquidity in the maturity buckets of over 1 to 2 months, over 2 to 3 months, over 3 to 6 months, over 6 months to 1 year, over 1 year to 3 years and over 5 years would not exceed 20% of the cumulative outflows in the respective time buckets.

The Company will monitor their cumulative mismatches (running total) across all other time buckets upto 1 year by establishing internal prudential limits with the approval of the Board and will also adopt the above cumulative mismatch limits for their structural liquidity statement for consolidated operations.

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. **Stress Testing**

The Company being CIC-ND-SI all its investments are in equity of Group Companies in compliance with the CIC Master Directions,. The source of income of the Company derives from the dividend received from investee companies.

The management conducts stress testing based on Company's stress text methodology to identify potential liquidity strain and to ensure exposures remain in accordance with the established liquidity risk tolerance. The testing is done on a frequency as deemed fit by the management, but at least once in a quarter.

Given the limited operation of the Company in terms of complexity, the stress Testing may be limited to assessing impact on liquidly position from (i) Change in interest rates i.e. +/- 0.5% to +/- 2.00% and (ii) unfavourable loan to value ratio, if granted.

The stress test outcome are used to adjust its liquidly management strategies, policy positing and develop effective contingency plan by the ALCO / Board.

ALCO/Board also monitor its portfolio across different parameters and analyses the spread of risk among different asset classes. It also monitors portfolio at risk (PAR) which is an overdue portfolio (1 day overdue and more) and business lines to identify any impending stress, if any.

6. **Currency 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.

7. **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.

8. **Reporting To the Board**

Proceedings of the Assets Liability Management Committee needs to be placed before the Board.