MASTER TRUST LIMITED
ASSET LIABILITY MANAGEMENT POLICY
(Pursuant to RBI Guidelines and Master direction issued by RBI as amended from time to time)

BACKGROUND
NBFCs are exposed to risks emanating from asset-liability transformation. Intense competition for business involving both the assets and liabilities has brought pressure on the management of NBFCs to maintain a good balance among spreads, profitability and long-term viability. Imprudent liquidity management can put NBFCs' earnings and reputation at great risk. These pressures call for structured and comprehensive measures.

NBFCs need to adopt a comprehensive Asset-Liability Management (ALM) practice which is closely integrated with the NBFCs' business strategy. It involves assessment of various types of risks and altering the asset-liability portfolio in a dynamic way in order to manage risks. NBFCs should have an effective Asset-Liability Management (ALM) system as part of their overall system for effective risk management.

POLICY OBJECTIVES
The objective of this policy is to lay down an ALM process covering the following:
a) Liquidity risk management
b) Management of market risks
c) Funding and capital planning
d) Profit planning and growth projection
e) Forecasting and analyzing 'What if scenario' and preparation of contingency plans

RESPONSIBILITY & POLICY REVIEW
The Asset and Liability Management Committee will be responsible for managing various risk associated with the assets and liability of the company.

The Policy shall be reviewed as and when required by the applicable rules and regulations.

ALM PROCESS
I. The ALM Process will rest on the following three pillars:
- a. ALM Information Systems
  - I. Management Information Systems
  - II. Information availability, accuracy, adequacy and expediency
- b. ALM Organization
  - I. Structure and responsibilities
  - II. Level of top management involvement
- c. Well defined ALM Process

II. The Scope of ALM Function will be as under:

a) Capital Management
b) Liquidity Risk Management
c) Market Risk Management
d) Interest Rate Risk Management
e) Funding and Capital Planning
f) Profit planning and growth projection
g) Forecasting and analyzing 'What If Scenario' and Preparation of Contingency Plans.
h) Off-balance Sheet Exposures and Contingent Liabilities

The Policy addresses Capital Management, Liquidity Risk, Market Risk, Interest Rate risk management, Profit Planning, Maturity profile, currency risk and Contingency Planning.

CAPITAL MANAGEMENT

ALCO will ensure maintenance and management of prudent capital levels for the Company to preserve its safety and soundness, to support desired balance sheet growth and realization of new business; and to provide a cushion against unexpected losses.

LIQUIDITY RISK MANAGEMENT

Measuring and managing liquidity needs are vital for effective operation of the Company. By ensuring timely satisfaction of its liabilities as they become due, liquidity management can reduce the probability of an adverse situation developing.

Besides liquidity, management will ensure that funds are available for anticipated 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.

INTEREST RATE RISK MANAGEMENT

The operational flexibility available to the Company in pricing most of the assets and liabilities implies the need for hedging the Interest Rate Risk. Interest rate risk is the risk where changes in market interest rates might adversely affect the Company's financial condition. The changes in interest rates affect an NBFC in a larger way.

PROFIT PLANNING

The scope of the ALM function includes profit planning. The management / business units will determine the acceptable spread based on prevailing market rates and credit risk associated with the specific advance.

CONTINGENCY PLANNING

The Company will measure and forecast its prospective cash flows for assets and liabilities over a variety of time horizons, under normal conditions and a range of stress scenarios, including scenarios of severe stress. It will perform stress tests or scenario analysis on a regular basis in

order to identify and quantify its exposures to possible future liquidity stresses, analyzing possible impacts on the cash flows, liquidity position, profitability and solvency.
The results of these stress tests will be discussed thoroughly for Contingency planning and remedial or mitigating actions will be taken to limit the Company's exposures, build up a liquidity cushion and adjust its liquidity profile to fit its risk tolerance.

FUNDING AND CAPITAL PLANNING

Company shall establish a funding strategy that provides effective diversification in the sources and tenor of funding. It will maintain an ongoing presence in its chosen funding markets and strong relationships with fund providers to promote effective diversification of funding sources. Company shall regularly gauge its capacity to raise funds quickly from each source. There should not be over-reliance on a single source of funding.

MATURITY PROFILING

a) 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. The Maturity Profile shall be used for measuring the future cash flows of NBFCs in different time buckets. The Maturity Profile as given in Appendix I could be used for measuring the future cash flows of NBFCs in different time buckets. The time buckets shall be distributed as under:

(i) 1 day to 7 days
(ii) 8 days to 14 days
(iii) 15 days to 30/31 days (one month)
(iv) Over one month and up to 2 months
(v) Over two months and up to 3 months
(vi) Over 3 months and up to 6 months
(vii) Over 6 months and up to 1 year
(viii) Over 1 year and up to 3 years
(ix) Over 3 years and up to 5 years
(x) Over 5 years

CURRENCY RISK

Exchange rate volatility imparts a new dimension to the risk profile of Company's balance sheets if company holds any foreign assets or liabilities. In that case company shall recognise the liquidity risk arising out of such exposures and develop suitable preparedness for managing the risk.

MANAGEMENT INFORMATION SYSTEM (MIS)

An NBFC shall have a reliable MIS designed to provide timely and forward-looking information on the liquidity position of the NBFC and the Group to the Board and ALCO, both under normal and stress situations. It should capture all sources of liquidity risk, including contingent risks and those arising from new activities, and have the ability to furnish more granular and time-sensitive information during stress events.

MONITORING AND REPORTING

Any exceptions to this policy will be reported to the Assets and Liability committee in the very next meeting of the Committee after such policy exception is identified.

INTERNAL CONTROL

An NBFC shall have appropriate internal controls, systems and procedures to ensure adherence to liquidity risk management policies and procedure. Management should ensure that an independent party regularly reviews and evaluates the various components of the NBFC's liquidity risk management process.