

FEDEX FINANCE PRIVATE LIMITED

ALM/Liquidity Risk Management Policy

Fedex Finance Private Limited

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ALM/Liquidity Risk Management Policy

1. Objective of the Policy

As the business profile of Fedex Finance Private Limited (“FFPL/ Company”) involves constant borrowings and lending, the Company is exposed to various financial risks associated with such businesses. The financial risks to which FFPL can be exposed to has been identified and captured as part of this policy document. The key risks identified during the risk assessment process relating to the Treasury and financial aspects of FFPL business were:

- Liquidity Risks
- Interest Rate Risks
- Reviewing of Investment Portfolio, Provisioning and Limit Compliance

In order to manage these risks by way of a structured approach it is proposed to put in place a comprehensive **Asset Liability Management Policy**. The objective of this policy is to lay down operating boundaries for the organisation to manage the potential risks in terms of variance in earnings and profitability due to volatility in the financial markets which may result in the above risks.

The following points detail out the objective of the policy:

- Efficient liquidity risk management to ensure FFPL’s ability to meet its liability obligations as they become due is sustained, not only during normal times but also during any crisis.
- Measuring interest rate sensitivity of assets and liabilities to ascertain the impact of change in interest rate on FFPL’s liability profile.
- Recommend pricing, borrowing mix and maturity profile of both assets & liabilities consistent with the interest rate view and risk-management objectives.

2. Business Planning

- **Business Planning Estimate:** The Annual Business Plan for any given financial year is completed by Q4 of the previous financial year. This is to be approved by the Board of Directors. The Treasury aspects of the Business Plan will cover the following:
 - a) **Cash Flows:** The funding requirement for the period is arrived at based on the business growth, collections, repayments and expenses. The borrowings requirement is arrived at considering liability maturities and equity infusion, if any.
 - b) **Borrowing mix:** The ideal mix of short-term borrowings and long-term borrowings is arrived at considering the projected ALM.
 - c) **Interest rate estimate:** Inputs are obtained on the expected interest rates for the financial year for which business plan is being prepared. Coupled with the company’s financial position, rating and cost of incremental debt, the final borrowing rates are determined and

business projections are built.

For existing borrowings, the prevailing rate of interest is considered irrespective of whether the borrowing is a fixed rate / floating rate borrowing.

- d) **Maturity profile:** The repayment amounts on account of existing borrowings are taken into consideration while drawing up the funding requirement. Likewise, the interest servicing on such borrowings is also taken into consideration.
 - e) **Interest cost:** Month wise and borrowing type wise interest cost including processing fee/ arranger fee are estimated and the likely finance cost (interest cost+ processing/arranger fee) is arrived at for each month/quarter, aggregating to the financial year.
- **Revised Estimate:** On a quarterly basis the borrowings are updated for the actual borrowings, latest cash flows and estimation is done for the balance period. Comparison with budget is also provided. This is discussed in the ALCO meetings.
 - **Projected ALM:** Based on the business asset growth, product segment wise maturity pattern is plotted in respective time buckets. Basis this, fresh borrowings mix is estimated for the proposed borrowings as per Business Plan.

3. Organization Structure (Liability)

The Board of Directors of FFPL obtain the powers for borrowings from the shareholders during the Annual General Meeting (AGM). For the rest of the treasury operations the Board of Directors is the highest approving authority. In order to facilitate operational flexibility, the Board delegates their powers with regard to treasury related authority to the various sub-committees / management team like ALCO, Other officials etc.

➤ **Board of Directors**

The Board of Directors will review directly or through delegated committee(s) / key managerial persons the following on a periodic basis:

- Key treasury activities like borrowings / investments and associated cost of funds / returns
- Changes in Committee or Delegation of authority for treasury activities
- Changes in treasury related policies
- Risks associated with treasury activities and mitigants thereof

➤ **ALCO**

Asset Liability Committee (ALCO) shall function under the leadership of the Director with reporting responsibility to the Board. ALCO shall be the decision-making unit responsible for financial management relating to treasury activities. The ALCO shall be responsible for ensuring adherence to the risk limits set by the Board as well as for deciding the treasury strategy of FFPL.

a) ALCO - OBJECTIVE:

The organization and the management should constantly monitor the amount of funds raised and take necessary approvals to ensure that the Company has the borrowing limits as per relevant sections of the Companies Act & as per regulatory guidelines.

It is imperative that the organization try and minimize its cost of funds to the maximum extent possible so that the benefit can be passed on to the borrowers in the form of lower cost loans.

b) Roles & Responsibility: ALCO shall be responsible for –

- i. Ensuring that the treasury management strategy is consistent with FFPL's liquidity risk management policies including maintenance of Liquidity Risk Coverage ratio and that the policy Limits set by Board and by the regulator in this regard are adhered to.
- ii. Articulating current interest rate view of FFPL and based on this view decide on product pricing, desired maturity profile of liabilities and also the mix of incremental assets & liabilities.
- iii. Liquidity and interest rate risk management by review of structural liquidity gap, dynamic liquidity statement and duration gap (interest rate sensitivity) statement.
- iv. Funding and capital planning: At every meeting of the ALCO the borrowings plan for the next 2/3 months are to be presented including the requirement for Tier I/ II borrowings/ capital infusion/ securitization of assets.
- v. Reviewing regulatory requirements having a bearing on Treasury activities (including any new regulatory requirements) and CRAR / ALM returns submitted with RBI from time to time.

4. Treasury Risk Management

FFPL's Board or the designated Sub-Committees like ALCO shall review and monitor the management of Treasury risks and it shall decide the risk management policy and set limits for liquidity, interest rate, and foreign exchange risk.

The Treasury / Liquidity Risk Management encompasses the following principles and the approach that would be adopted by FFPL.

- A.** Liquidity Risk Management Policy, Strategies and Practices
- B.** Liquidity Risk Measurement
- C.** Liquidity Risk Monitoring Tools - Liquidity Coverage Ratio
- D.** Management Information System (MIS)
- E.** Internal Controls
- F.** ALM & Maturity profiling
- G.** Managing Interest Rate Risk
- H.** Currency Risk
