

FEDEX FINANCE PRIVATE LIMITED

ALM/Liquidity Risk Management Policy

Fedex Finance Private Limited

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ALM/Liquidity Risk Management Policy

This Liquidity Risk Management Policy outlines the framework to effectively identify, measure, monitor and control liquidity risk.

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

A. Liquidity Risk Management System Strategies and Practices

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.

Key elements of the liquidity risk management framework are as under:

i) Governance of Liquidity Risk Management

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) ALCO shall be responsible for –

- i) Ensuring the adherence to the Risk tolerance/limits set by the Board and implementing the liquidity risk management strategy as defined in this Framework
- ii) Decision on desired Maturity Profile and Mix of incremental assets and liabilities,
- iii) Sale of Assets as a source of Funding
- iv) Structure, responsibilities and controls for managing Liquidity Risk;
- v) Overseeing the Liquidity Position
- vi) Such other matters, as required by the Board or the RBI in terms of any amendment in the Rules, Regulations, Master Directions etc from time to time.

The ALCO will, apart from reviewing the liquidity returns being submitted to RBI, consider all the aspects of the Framework and update on any of the adverse features of the operations of the Company along with the mitigation plans.

ii) **Liquidity risk Tolerance, Costs, Benefits**

A strategy to manage liquidity risk in accordance with risk tolerance and ensure that the Company maintains sufficient liquidity has been put in place. A sound process for identifying, measuring, monitoring and controlling liquidity risk has also been developed.

The Company endeavors to develop a process to quantify liquidity costs and benefits, of identifying, measuring, monitoring and controlling liquidity risk that includes -

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.

iii) Funding Strategy - Diversified Funding, Contingency Funding Plan

One of primary activities for a NBFC is to raise financial resources to fund the operations of the company. These resources can be raised through a multitude of channels and through various financial instruments. The company can raise resources vide Bank/FI Borrowings, CP, NCD, Securitisation, ECBs etc.

There shall not be over-dependency on a single source of funding and thus the Company with the approval of the Board shall establish a funding strategy that provides effective diversification in the sources, nature/instrument and tenor of funding. At the same time, it will be ensured that any single type of borrowing will not exceed 50% of the overall borrowing books of the company.

The Company shall have sufficient collateral to meet expected and unexpected borrowing needs and potential increases in margin requirements over different timeframes.

A contingency funding plan (CFP) shall be formulated for responding to likely severe disruptions which might affect the Company's ability to fund some or all of its activities from market borrowings in a timely manner and at a reasonable cost. The Company shall keep at least next 2 month's debt obligations in form of cash/bank/liquid investments. The contingency sources shall include Short term funding such as Cash credit facilities/Overdraft.

The cashflow and liquidity is tracked by ALCO and any reduction in the tolerance amount actually held by the

company is discussed in detail at the ALCO.

iv) Stress Testing

Stress testing shall form an integral part of the overall governance and liquidity risk management culture in the Company. In designing liquidity stress scenarios, the nature of the Company's business, activities and vulnerabilities shall be taken into consideration so that the scenarios incorporate the major funding and market liquidity risks to which the Company is exposed, if the maturity mismatch is above the RBI prescribed tolerance limits.

The Company shall conduct stress tests on a regular basis if the maturity mismatch is above the RBI- prescribed tolerance limits.

v) Public disclosure

The Company shall publicly disclose information in a format prescribed by RBI in this regard on a quarterly basis on its website that enables market participants to make an informed judgment about the soundness of its liquidity risk management framework and liquidity position.

vi) Intra Group transfers

With a view to recognise the likely increased risk arising due to Intra-Group transactions and exposures, there is need to develop and maintain liquidity management processes and funding programs that are consistent with the complexity, risk profile and scope of operations of the companies in the Group. The liquidity risk management processes are expected to take into account lending, investment, and other activities and ensure that adequate liquidity is maintained at the head and each constituent entity within the group. Processes and programs should fully incorporate real and potential constraints, including legal and regulatory restrictions, on the transfer of funds among these entities and between these entities.

B. MANAGEMENT INFORMATION SYSTEM (MIS)

The Company shall have a reliable MIS designed to provide timely and forward-looking information on the liquidity position of the Company to the Board and ALCO, both under normal and stress situations. It shall 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.

C. INTERNAL CONTROLS

The Company shall have appropriate internal controls, systems and procedures to ensure adherence to liquidity risk management policies and procedure.

D. MATURITY PROFILING

i) For measuring and managing net funding requirements, 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 the Company in different time buckets.

ii) Within each time bucket, there could be mismatches depending on cash inflows and outflows. While the mismatches up to 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 shall not exceed 10%, 10% and 20% of the cumulative cash outflows in the respective time buckets. The Company, however, shall monitor its cumulative negative mismatches (running total) upto 1 year bucket shall not exceed 20% of the cumulative cash outflows.

iii) The Statement of Structural Liquidity shall be prepared by placing all cash inflows and outflows according to the expected timing of cash flows. A maturing liability shall be a cash outflow while a maturing asset shall be a cash inflow.

E. MANAGING INTEREST RATE RISK (IRR)

As per RBI mandate, the Gap or Mismatch risk can be measured by calculating Gaps over different time intervals as at a given date.

The various items of rate sensitive assets and liabilities and off-balance sheet items shall be classified as per the RBI (Master Direction). The bucketing of assets/liabilities for the purpose of measuring Interest Rate Sensitivity shall be as per RBI norms.

Presently, all the lending by the Company is on a fixed rate basis, while borrowings are a mix of fixed rate and floating rates. The Board may review the Net Interest Margin (NIM) and decide to review lending rates based on the market situation and the likely impact on the Company's NIMs.

F. AMENDMENTS

The ALCO/ RMC may, subject to applicable law, amend, suspend or rescind this Policy at any time. Any difficulties or ambiguities in this Policy will be resolved by the ALCO in line with the broad intent of this Policy, as and when required.

G. CHANGE IN LAW

In case of any subsequent changes in the provisions of the Act or further rules and regulations / guidelines from the Reserve Bank of India or any other regulations / Directions which makes any of the provisions of this Policy inconsistent, then the provisions of the Act or such other regulations / Directions would prevail over this Policy and the relevant provisions contained in the Policy would be modified accordingly in due course to make it consistent with applicable laws.
