MAG FINSERV COMPANY LIMITED

(MAG's)

LIQUIDITY RISK MANAGEMENT POLICY

Approved By:

Board of Directors

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Introduction

The liquidity risk management policy is designed in line with the liquidity risk management framework issued by Reserve Bank of India dated November 04, 2019 as amended. At present the framework is not applicable to the Company, however it is adopted on prudent basis considering that the Company will achieve AUM limit of INR 100 crore in near future.

Objectives

The main objective of liquidity risk management policy is to identify the risk arising from liquidity mismatch and to ensure that liquidity mismatch is adequately managed and it will not have impact on day to day operations of the Company.

Liquidity and Risk Management

The board of directors of the Company has overall responsibility of management of liquidity risk. In order to manage this risk following tolerance limits are set. The Company shall adhere these limits on day to day basis and any deviation from these limits shall be immediately reported to the Managing Director of the Company and necessary steps shall be taken to bring the mismatch in order immediately.

Any liquidity maintenance requirement come with opportunity cost of non-utilisation of funds at higher rate accordingly, liquidity risk should not be overemphasised. Considering the structure of the Company, Asset Under Management ('AUM') needs to be bifurcated on the basis of security. AUM related to highly liquid security should also be considered as risk free for the purpose of liquidity risk as the probability of default is very remote.

Liquidity Limits

Liquidity limits are prescribed considering following:

- Assets Under Management
- Assets under Management consisting highly liquid security
- Short term obligations of long-term borrowings
- Short term loans secured by highly liquid assets of the Company
- Stress scenario for 30 days, 60 days, 90 days and above 90 days commitments
- Concentration of credits
- Asset quality
- Loan to value ratio

AUM threshold

On the basis of AUM the Company shall maintain over all liquidity in below limits. The limits on the basis of AUM are defined at first place as it is very easy to monitor for operational heads and it will also ensure that business growth will not have adverse impact on liquidity even if borrowing composition is changed.

Particulars	% of Liquid Assets
Total AUM	1.5%
AUM net off loans secured by highly liquid assets	2.5%

A buffer of 0.75 basis point is allowed in above limits provided that at each quarter the prescribed limits shall be brought in order. Further, cases of non-maintenance shall be reported to the board on quarterly basis.

Overall limit linked with AUM will ensure adequate liquidity buffer in growth as well as easy monitoring.

Maturity pyramid

The Company shall use maturity ladder for measuring and managing liquidity risk, for this purpose cumulative surplus or deficit of funds at select maturity date should be considered. The maturity profile shall be use for measuring future cash flows in different time buckets as mentioned below:

- 1 day to 7 days
- 8 day to 14 days
- 15 days to one month
- Over 1 month and up to 2 months
- Over 2 months and up to 3 months
- Over 3 months and up to 6 months
- Over 6 months and up to 1 year
- Over 1 year and up to 3 years
- Over 3 years and up to 5 years
- Over 5 years

Within each time bucket there could be mismatches depending up on cash inflows and outflows. Mismatch 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 i.e. 1 day to 31 days. The cumulative negative mismatch in the maturity buckets of 1-7 days, 8-15 days and 15-onemonth shall not exceed 10%, 10% and 20% of the cumulative cash outflows in the respective time buckets. It is suggested that there should not be cumulative mismatch across all time buckets of 1 year, 3 year and 5 year.

Liquidity Risk Monitoring

The Company shall adopt following tools to monitor risk arises from liquidity on day to day basis. These tools will help to identify liquidity risk at early stage. Risk arising from liquidity should be immediately reported to the Asset Liability Management Committee ('ALMC'). ALMC will analyse the probability of risk and will take adequate measures to mitigate the same.

Further ALMC will report to the board of directors on quarterly basis events of liquidity risk along with necessary measures taken.

If required, ALMC may take advise of board of directors on any liquidity issue immediately.

1) **<u>Concentration of funding</u>**

   Concentration on source of funding shall be avoided as it may lead to liquidity issues if withdrawal triggers. The Company should diversify its funding requirements with different products and different counterparties. The Company shall maintain 10% threshold limit of total liabilities from single lender. Borrowings from banks and from financial institution against security of gold and fixed deposit should be excluded from above limit as these are 100% secured and probability of call back is remote.

2) **<u>Unencumbered Assets</u>**

   Availability of adequate unencumbered assets will have the potential to use as collateral to raise additional funds. The Company shall maintain updated record of unencumbered assets and other available security. In case of immovable property such as land and buildings the Company shall obtain valuation report once in three years and update the current market value to work out additional funding available to short notice.

3) **<u>Contingency funding plan</u>**

The Company shall formulate a contingency funding plan for responding to serve disruption which might be affect the Company's ability to fund some or all of its activities in a timely manner and at reasonable cost. The contingency plan will have details of assets to be secured and expected amount of funding with expected interest rate and days required to process the loan.

4) <u>Stress testing</u>

The Company shall apply stress test for its future cash flow to work out liquidity risk. Stress test will trigger liquidity risk and will give early warning signal which will enable the Company to take adequate measures.