DEEVEE COMMERCIALS LIMITED
LIQUIDITY RISK MANAGEMENT POLICY

Liquidity Planning is an important facet of risk management framework in NBFCs. Liquidity is the ability to efficiently accommodate borrowings and other liability decreases, as well as, fund loan portfolio growth and the possible funding of off-balance sheet claims. An NBFC has adequate liquidity when sufficient funds can be raised, either by increasing liabilities or converting assets, promptly and at a reasonable cost. The liquidity risk in the company manifest in the following two dimensions:-

i) Time Risk:- need to compensate for non-receipt of expected inflows of funds i.e borrowing from banks and performing loans assets become non-performing assets.

ii) Call Risk:- due to crystallization of contingent liabilities and unable to undertake profitable business opportunities when desirable.

The first step towards liquidity management is to put in place an effective liquidity management policy, which, inter alia, should spell out the funding strategies, liquidity planning under alternative scenarios, prudential limits, liquidity reporting / reviewing etc.

Experiences show that assets commonly considered as liquid like Govt. Securities, other money market instruments etc. have limited liquidity as the market and players are unidirectional. Thus, analysis of liquidity involves tracking of cash flow mismatches. For measuring and managing net funding requirements, the Company uses maturity ladder and calculation of cumulative surplus or deficit of funds at selected maturity dates has been adopted as a standard tool as per the format prescribed by RBI under ALM system. The cash flow are placed in different time bands based on future behavior of assets, liabilities and off-balance sheet items. The Company also undertakes variance analysis, at least, once in six months to validate the assumptions. Apart from the above, the Company also undertake the impact of prepayments of loans.

The difference between cash inflows and outflows in each time period, the excess or deficit of funds, becomes a starting point for the measure of the company's future liquidity surplus or deficit, at a series of point of time.

The liquidity profile of the Company are analyzed on a static basis, wherein the assets and liabilities and off-balance sheet items are pegged on a particular day and the behavioural pattern and the sensitivity of these items to change in market interest rates and environment are duly accounted for. The Company also estimate the liquidity profile on a dynamic way by giving due importance to:

I) Seasonal pattern of loans

II) Potential liquidity needs for meeting new loan demands, unavailed credit, loan policy, investment obligations etc.

The liquidity profile of the Company depends on the market conditions, which influence the cash flow behavior. Thus, the Company evaluates liquidity profile under different conditions, viz, normal situation, NBFC specific crisis and market crisis scenario. The Company establishes benchmark for normal situation, cash flow profile of on / off balance sheet items and manage net funding requirements.

GOVERNANCE OF LIQUIDITY RISK MANAGEMENT

Successful implementation of any risk management process has to emanate from the top management with the demonstration of its strong commitment to integrate basic operations and strategic decision-making with risk management. The Chief Risk Officer appointed by the Company shall be involved in the process of identification, measurement and mitigation of liquidity risks. The organisational set up for liquidity risk management consists of:

i) **Board of Directors**

The Board shall have the overall responsibility for management of liquidity risk. The Board shall decide the strategy, policies and procedures to manage liquidity risk in accordance with the liquidity risk tolerance/limits decided by it.

ii) **Risk Management Committee**

The Risk Management Committee, which reports to the Board shall be responsible for evaluating the overall risks faced by the Company including liquidity risk.

iii) Asset- Liability Management Committee (ALCO)

The ALCO consisting of the top management shall be responsible for ensuring adherence to the risk tolerance/limits set by the Board as well as implementing the liquidity risk management strategy of the Company. The role of the ALCO with respect to liquidity risk should include, inter alia, decision on desired maturity profile and mix of incremental assets and liabilities, sale of assets as a source of funding, the structure, responsibilities and controls for managing liquidity risk, and overseeing the liquidity positions.

iv) Asset Liability Management (ALM) Support Group

The ALM Support Group consisting of the operating staff shall be responsible for analysing, monitoring and reporting the liquidity risk profile to the ALCO.

LIQUIDITY RISK TOLERANCE

The Company shall devise a sound process for identifying, measuring, monitoring, and controlling liquidity risk and also articulate a liquidity risk tolerance that is appropriate for the business strategy and functioning of the Company. The Board should develop the strategy to manage liquidity risk in accordance with such risk tolerance and ensure that the Company maintains sufficient liquidity.

LIQUIDITY COSTS, BENEFITS AND RISKS IN THE INTERNAL PRICING

The Company shall develop a process to quantify liquidity costs and benefits so that the same may be incorporated in the internal product pricing, performance measurement and new product approval process for all material business lines, products and activities.

OFF- BALANCE SHEET EXPOSURES AND CONTINGENT LIABILITIES

The process of identifying, measuring, monitoring and controlling liquidity risk should include a robust framework for comprehensively projecting cash flows arising from assets, liabilities and off-balance sheet items over an appropriate set of time horizons. The management of liquidity risks relating to certain off-balance sheet exposures on account of special purpose vehicles, financial derivatives, and, guarantees and commitments may be given particular importance due to the difficulties that many NBFCs have in assessing the related liquidity risks that could materialise in times of stress.

FUNDING STRATEGY

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

COLLATERAL POSITION MANAGEMENT

The Company shall actively manage its collateral positions, differentiating between encumbered and unencumbered assets. It shall monitor the legal entity and physical location where collateral is held and how it may be mobilised in a timely manner. Further, the Company should have sufficient collateral to meet expected and unexpected borrowing needs and potential increases in margin requirements over different timeframes.

STRESS TESTING

Stress testing shall form an integral part of the overall governance and liquidity risk management culture in the Company. It shall conduct stress tests on a regular basis for a variety of short-term and protracted NBFC-specific and market-wide stress scenarios (individually and in combination). In designing liquidity stress scenarios, the nature of the business, activities and vulnerabilities should be taken into consideration so that the scenarios incorporate the major funding and market liquidity risks to which the Company is exposed.

CONTINGENCY FUNDING PLAN

The Company shall formulate a contingency funding plan (CFP) for responding to severe disruptions which might affect the Company's ability to fund some or all of its activities in a timely manner and at a reasonable cost. Contingency plans should contain details of available/ potential contingency funding sources and the amount/ estimated amount which can be drawn from these sources, clear escalation/ prioritization procedures detailing when and how each of the actions can and should be activated, and the lead time needed to tap additional funds from each of the contingency sources.

INTRA GROUP TRANSFERS

With a view to recognizing the likely increased risk arising due to Intra-Group transactions and exposures (ITEs), the Group Chief Financial officer (CFO) is expected to develop and maintain liquidity management processes and funding programmes that are consistent with the complexity, risk profile, and scope of operations of the companies in the Group. The Group liquidity risk management processes and funding programmes 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 programmes should fully incorporate real and potential constraints, including legal and regulatory restrictions, on the transfer of funds among these entities and between these entities and the principal.

RISK MANAGEMENT

Risk is the integral part of our business and sound risk management is critical to our success. As a financial institution, the Company is exposed to risks that are peculiar to its lending and the environment within which it operates. Comprehensive polices and procedure to identify, assess, monitor and manage risk throughout the company including liquidity risks, have been identified and implemented.

The primary objectives of implementing this framework is to ensure that

- Risks faced by the Company are identified and collected in a central repository, enabling top management to take a comprehensive understanding.

- Risks taken by the management are within the Company's risk appetite and that these risks are managed proactively.

The Risk Management Committee has been constituted to oversee the various risk management activities. The Committee reviews key risk indicators covering areas such as credit risk, operational risk, market risk, portfolio risk, and competition risks and the limits framework, including stress test limit for various risks. The oversight and management of risk is primarily carried out by effective utilization and adherence to existing policy.

REVIEW

The Liquidity Risk Management Policy will be reviewed at annual internals. The Policy will thereafter be placed before the Board of Directors, for their approval.