Ujjivan Financial Services Limited

Liquidity Risk Management Framework

A. Background:

In order to strengthen and raise the standard of the Asset Liability Management (ALM) framework applicable to NBFCs, Reserve Bank of India has revised the extant guidelines on liquidity risk management for NBFCs. All non-deposit taking NBFCs with asset size of Rs 100 crore and above, systemically important Core Investment Companies and all deposit taking NBFCs irrespective of their asset size, shall adhere to the set of liquidity risk management guidelines stipulated by RBI.

Ujjivan Financial Services Limited is registered as NBFC Non-Deposit taking Systemically Important Core Investment Company (NBFC-NDSI-CIC). As a non-operating holding company the primary objective of the Company is to hold investments in its subsidiary viz. Ujjivan Small Finance Bank (USFB)

As per the Guidelines of Liquidity Risk Management Framework for Non-Banking Financial Companies and Core Investment Companies issued by RBI vide notification RBI/2019-20 / 88 DOR.NBFC (PD) CC. No.102/03.10.001/2019-20 dated 4th November 2019, it shall be responsibility of the Board to frame the Guidelines for Liquidity Management and ensure they are adhered to.

This policy is prepared in compliance with this regulatory guidelines.

B. LIQUIDITY POLICY – OVERARCHING RATIONALE

(a) Given the very limited day-to-day operations of the Company and the impending merger of the Company with its subsidiary Ujjivan Small finance Bank, subject to regulatory approvals, the Company shall adopt a very conservative approach in regard to its investments, funding and liquidity policies. The company's principal objective shall be to be able to fund the Company's day to day operational and administrative expenses and accordingly fine tune its cash flows.

(b) The Company shall focus on ensuring maintenance of sufficient liquidity including a cushion of unencumbered, high quality liquid assets to withstand a range of stress events, including those involving the loss or impairment of both unsecured and secured funding sources.

(c) The Company shall prepare annual and quarterly cash flows and periodically review the same.

C. Liquidity Management -Governance Framework:

a) 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 the Board.

b) Risk Management Committee

The Risk Management Committee of the Board shall be responsible for evaluating the overall risks faced by the Company including liquidity risk. This committee will further oversee implementation of ALM system and review its functioning.

c) Asset-Liability Management Committee (ALCO)

The liquidity risk management of the Company has been delegated to Asset & Liability Management Committee (ALCO). ALCO has been constituted with the following Members:

1. Chief Executive Officer & CFO who shall be the Chairman of the committee
2. Company Secretary

ALCO key tasks:

- **Liquidity risk Tolerance**
  ALCO shall develop and monitor the strategy to manage liquidity risk in accordance with such risk tolerance and ensure that the Company maintains sufficient liquidity.
- **Maturity Profiling:** For measuring and managing net funding requirements, ALCO shall adopt appropriate maturity ladder and calculate cumulative surplus or deficit of funds at selected maturity dates The Maturity Profile should be used for measuring the future cash flows of Company in different time buckets. The time buckets shall be distributed as under:
  - 1 day to 7 days
  - 8 day to 14 days

- 15 days to 30/31 days (One month)
  - Over one month and upto 2 months
  - Over two months and upto 3 months

f) Over 3 months and upto 6 months
g) Over 6 months and upto 1 year
h) Over 1 year and upto 3 years
i) Over 3 years and upto 5 years
j) Over 5 years

- **Off-balance Sheet Exposures and Contingent Liabilities**
  ALCO shall evaluate periodically all contingent liabilities and any off balance sheet exposures if and when they arise and evaluate the liquidity risk and initiate necessary action and report to the Board.

- **Contingency Funding Plan**
  ALCO shall periodically review the contingency funding plan (CFP) approved by the Board 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/ prioritisation 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.

- **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 ALCO, both under normal and stress situations covering 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.
- Considering the limited scope of business activities, MIS pertains to financial statements and other statutory reports being created by the company and filed with regulators. Further on demand reports are created for Management and Board consumption which details the liquidity of the company.

D. Internal Controls

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

Adequate controls are in place to ensure timely and proper placement of investments. Investments are created with prior approval from CEO & CFO and are deployed with Banks offering best interest rates for the period of investments under consideration.

The policy will be reviewed annually.