BIZLOAN PRIVATE LIMITED

LIQUIDITY RISK MANAGEMENT POLICY

Version Control

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<u>LIQUIDITY RISK MANAGEMENT POLICY</u>

1. <u>Introduction</u>

1.1. All non-deposit-taking NBFCs with asset size of INR 100 crores and above, systemically important Core Investment Companies, and all deposit-taking NBFCs irrespective of their asset size, are required to adhere to the set of liquidity risk management guidelines given below.

1.2. Bizloan Private Limited (the "**Company**") has framed this Liquidity Risk Management Policy ("**Policy**" or "**LRM Policy**") taking into account and in accordance with the Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 which are being updated from time to time ("**SBR Guidelines**").

1.3. The LRM Policy has been framed taking into account the RBI guidelines and reflects the business model requirements of the Company and is approved by the Board.

2. Liquidity Risk Management Policy, Strategies, and Practices

In order to ensure a sound and robust liquidity risk management system, the Board of the Company has framed this Policy to ensure that it maintains, 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 lending. Key elements of the liquidity risk management framework are as under:

2.1. <u>Governance of Liquidity Risk Management</u>

The Board, aided by ALCO, shall be involved in the process of identification, measurement, and mitigation of liquidity risks. The Board of Directors of the Company shall have overall responsibility for the management of liquidity risk. The ALCO 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 ALM Support Group comprising of the operating staff headed by Head Finance reporting to the CFO shall be responsible for analysing, monitoring and reporting the liquidity risk profile to the ALCO.

2.2. <u>Liquidity Risk Tolerance</u>

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.

2.3. <u>Liquidity Costs, Benefits, and Risks in the Internal Pricing</u>

The Company endeavours to 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.

2.4. <u>Off-balance Sheet Exposures and Contingent Liabilities</u>

The process of identifying, measuring, monitoring and controlling liquidity risk includes a robust framework for comprehensively projecting cash flows arising from assets, liabilities and off-balance sheet items over an appropriate set of time horizons.

2.5. <u>Funding Strategy – Diversified Funding</u>

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 and tenor of funding. It should maintain an ongoing presence in its chosen funding markets taking benefit of strong relationships with fund providers to promote effective diversification of funding sources and regularly gauge its capacity to raise funds quickly from each source.

2.6. Collateral Position Management

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

2.7. 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 as and when considered necessary for a variety of short-term and protracted Company-specific and market-wide stress scenarios (individually and in combination), if the maturity mismatch is above the RBI-prescribed tolerance limits.

2.8. Contingency Funding Plan

A contingency funding plan (CFP) shall be formulated by the Company 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. 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.

2.9. Public Disclosure

To enable market participants to make an informed judgment about the soundness of its liquidity risk management framework and liquidity position, the Company (since it is a closely held private limited entity and that it has no plans to raise borrowings from the public) shall publicly disclose information in the annual financial statement and provide to other stakeholders on a need-to-know basis as and when required and in accordance with applicable laws and RBI guidelines.

2.10. Intra Group Transfers

On and from when the Company has a group, the Board of Directors shall develop and maintain liquidity management processes at a group level in accordance with the RBI guidelines.

3. Management Information System (MIS)

3.1. 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. Some of the MIS reports include:

3.1.1. Cash flow Reports – to cover all inflows and outflows, actuals for past periods, and estimates/projections for future periods, factoring in contractual maturities for both receivables and payables

3.1.2. Portfolio Quality Reports

3.1.3. Portfolio Yield/IRR Reports

3.1.4. Borrowing Cost Reports

3.1.5. Upcoming Debt Repayments Calendar, Reports

3.1.6. Undrawn Debt Sanctions Reports

4. <u>Internal Controls</u>

4.1. The Company shall have appropriate internal controls, systems, and procedures to ensure adherence to liquidity risk management policies and procedures. The management of the Company should ensure that an independent party regularly reviews and evaluates the various components of the Company's liquidity risk management process.

5. <u>Maturity Profiling</u>

5.1. For measuring and managing net funding requirements, the use of a maturity ladder and calculation of cumulative surplus or deficit of funds at selected maturity dates is adopted as a standard tool. The Maturity Profile (prepared in accordance with the RBI guidelines) shall be used for measuring the future cash flows of the Company in different time buckets. The time buckets shall be distributed as under:

i. 1 day to 7 days

ii. 8 day to 14 days

iii. 15 days to 30/31 days (One month)

iv. Over one month and upto 2 months

v. Over two months and upto 3 months

vi. Over 3 months and upto 6 months

vii. Over 6 months and upto 1 year

viii. Over 1 year and upto 3 years

ix. Over 3 years and upto 5 years

x. Over 5 years

5.2. 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 mismatches (running total) across all other time buckets upto 1 year by establishing internal prudential limits with the approval of the Board. The Company shall also adopt the above cumulative mismatch limits for their structural liquidity statement for consolidated operations.

5.3. The Statement of Structural Liquidity shall be prepared by placing all cash inflows and outflows in the maturity ladder 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.

5.4. In order to monitor its short-term liquidity on a dynamic basis over a time horizon spanning from 1 day to 6 months, the Company shall estimate its short-term liquidity profiles on the basis of business projections and other commitments for planning purposes.

6. <u>Liquidity Risk Measurement – Stock Approach</u>

6.1. The Company shall adopt a "stock" approach to liquidity risk measurement and monitor certain critical ratios in this regard by putting in place internally defined limits as approved by its Board. An indicative list of certain critical ratios to monitor are short-term liability to total assets; short-term liability to long term assets; commercial papers to total assets; non-convertible debentures (NCDs) (original maturity of less than one year) to total assets; short-term liabilities to total liabilities; long-term assets to total assets; etc.

7. **<u>Currency Risk</u>**

7.1. The Company recognizes exchange rate volatility may impart a new dimension to the risk profile of the Company's balance sheet when it does have foreign assets or liabilities. The Board shall at the relevant time ensure that they recognize the liquidity risk arising out of such exposures and develop suitable preparedness for managing the risk.

8. **<u>Managing Interest Rate Risk (IRR)</u>**

8.1. Interest rate risk is the risk where changes in market interest rates might adversely affect the Company's financial condition. The changes in interest rates may affect the Company in a larger way. The immediate impact of changes in interest rates will be on the Company's earnings (i.e. reported profits). In this regard the Board shall monitor the same closely.

8.2. The Gap or Mismatch risk shall be measured by calculating Gaps over different time intervals as at a given date. Gap analysis measures mismatches between rate sensitive liabilities and rate sensitive assets (including off-balance sheet positions). An asset or liability is normally classified as rate sensitive if:

i) within the time interval under consideration, there is a cash flow;

ii) the interest rate resets/reprices contractually during the interval;

iii) dependent on RBI changes in the interest rates/Bank Rate;

iv) it is contractually pre-payable or withdrawal before the stated maturities.

8.3. The Gap Report shall be generated by grouping rate sensitive liabilities, assets and off-balance sheet positions into time buckets according to residual maturity or next repricing period, whichever is earlier. All investments, advances, borrowings, purchased funds, etc. that mature/reprice within a specified timeframe are interest rate sensitive. Similarly, any principal repayment of loan is also rate sensitive if the Company expects to receive it within the time horizon. This includes final principal payment and interim instalments. Certain assets and liabilities to receive/pay rates vary with a reference rate.

8.4. The Gaps shall be identified in the following time buckets:

i) 1-30/31 days (One month)

ii) Over one month to 2 months

iii) Over two months to 3 months

iv) Over 3 months to 6 months

v) Over 6 months to 1 year

vi) Over 1 year to 3 years

vii) Over 3 years to 5 years

viii) Over 5 years

ix) Non-sensitive

8.5. The Company shall set prudential limits on individual Gaps with the approval of the Board.

8.6. Over and above the RBI mandated interest rate risk assessment tool, the RMC shall actively seek, if required, to hedge interest rate risk with instruments like interest rate swap.

9. **<u>Revision of Policy</u>**:

9.1. The Board shall review the Policy annually or earlier if considered necessary and undertake all steps in that regard.

9.2. This Policy should always be read in conjunction with RBI guidelines, directives and instructions, from time to time.