SHRIRAM CREDIT COMPANY LIMITED

LIQUIDITY MANANGEMENT POLICY

PREAMBLE

Measuring and managing liquidity needs are vital for the effective operation of Non-Banking Financial Companies (NBFCs) . Shriram Credit Company Limited (SCCL) being a Systemically important Non Deposit taking Non Banking Financial Company (NBFC-ND-SI) gives due weightage to the effective management and administration of its Liquidity policy.

Liquidity management can reduce the probability of an adverse situation developing by ensuring an NBFC's ability to meet its liabilities as they become due. The importance of liquidity transcends individual institutions, as liquidity shortfall in one institution can have repercussions on the entire system. The Company's management shall measure not only the liquidity positions of the company on an ongoing basis but also examine how liquidity requirements are likely to evolve under different assumptions.

OBJECTIVE

The Liquidity policy sets out the broad goals and objectives of the Company with regards to liquidity, as established by the Board of Directors. This policy governs all liquidity policy constraints and helps address new situations where policy does not yet exist. Therefore, liquidity has to be tracked through maturity or cash flow mismatches. 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.

While goals and objectives will differ depending upon the circumstances and environment of the Company, important principles of liquidity management policy shall aim to address the following principles:

- ensuring enough liquidity to guarantee the orderly funding:
- providing a prudent cushion for unforeseen liquidity needs;
- managing liquid assets effectively in order to prevent them from becoming bad;
- investing liquid funds in a manner which emphasizes the need for security and liquidity;
- sources and acceptable ranges of operational liquidity;
- quality of assets used for liquidity purposes;
- maximum limits on liquidity borrowing.

DEFINITIONS

Words and Definitions used in the Policy have the same meaning as mentioned in the Reserve Bank of India (RBI) Act, 1934 and the Notifications and Circulars framed there under, as amended from time to time.

LIQUIDITY SHORTAGE AND REMEDIES

SCCL's major source of income is from charging interest against loans and receiving dividends from its subsidiary companies. Further as the company grants loans only on the basis of secured assets, it takes the position of a Secured Creditor and hence can sell, assign or otherwise transfer in any manner whatsoever, in whole or in part, and in such manner and on such terms when the buyer is unable to repay the loan amount. Expenditures of the Company are in the nature of regular operating expenses and financing charges incurred in the normal course of business.

Given the favorable operating Cash Flow that the Company enjoys, chances of liquidity shortage are very remote. However, if such a situation arises, the Company as a NBFC-ND-SI shall undertake the following initiatives:

1. It shall take the route of redeeming its investments in Debt funds i.e. Mutual Funds, Bonds etc;
2. It has the option of borrowing funds from it's holding company, Shriram Capital Limited (SCL) or use the Credit lines available.

Further, whenever shortage in liquidity levels are discovered, management shall prepare marketing and financial strategies to align liquidity levels within desired targets, or take defensive actions. Many asset prices drop significantly during shortage in liquidity. Hence, asset prices are subject to liquidity risk and risk averse investors naturally require higher expected return as compensation for this risk.

EXCESS LIQUIDITY

Where the Company has significant liquidity in excess of statutory requirements, the management shall examine options to maintain such liquidity at equilibrium. High levels of liquidity generally has an unfavorable effect on profitability, as the rate of return earned on short-term investments are generally not as high as the yield on loans. In order to reduce liquidity which is in excess of operational requirements, management shall ensure centralizing the deployment of surplus liquidity.

LIQUIDITY RISK MANAGEMENT

Imprudent liquidity management can put the Company's' earnings and reputation at great risk. These pressures call for structured and comprehensive measures and not just ad hoc action. The management shall base their business decisions on a dynamic and integrated risk management system, driven by corporate strategy. As the Company gets exposed to several major risks in the course of their business, like credit risk, interest rate risk, equity risk , liquidity and operational risk, introduction of an effective risk management system will address the issues relating to interest rate and liquidity risks.

Review of asset and liability mismatch is one of the tools for identification of liquidity risks. A close control on the utilization of short term funds for long term assets and vice versa, would lead to maturity mismatches. Effective credit monitoring and operations of the Company can reduce the impact of the liquidity risk. The Company has the following in place to combat risks related to liquidity:

- A good internal control review and online monitoring system
- identification of weakness in the systems and procedure
- managing the inflow and outflow of funds effectively.

The management shall also ensure that any interest outgo is adequately covered from matching interest inflows and the rates for both are always aligned to the market. It will also ensure that the tenure of the loan given / taken do not suffer from any mismatch which may lead to liquidity risk.