LIQUIDITY

POLICY AND PROCEDURES MANUAL

1. PREAMBLE

Yetfu Sonkhe Savings and Credit Cooperative Society herein referred to as "The Society", aims at ensuring that the ***Society*** does not suffer from lack of liquidity and also that it does not hold excess liquidity. The failure of the ***Society*** to meet its obligations due to lack of sufficient liquidity, will result in poor credit worthiness and loss of ***members*** confidence. A very high degree of liquidity shall also be ***discouraged***. Therefore, it is necessary to strike a proper balance between high liquidity and lack of it.

VISION:

To be a leading customer centric, sustainable and dynamic SACCO.

MISSION STATEMENT:

Striving to uplift members` financial freedom by providing diverse, Competitive products and services, whilst breaking new grounds.

CORE VALUES:

- ***Efficiency***
- ***Delivery***
- ***Agility***
- ***Integrity***
- ***Transparency***
- ***Respect***

Goals

The goal of this liquidity and asset liability management policy is to:

a. Ensure that sound investments are undertaken so that the ***Society*** remains profitable during fluctuations in interest rates.
b. Provide a stable flow of earnings to meet loan demand and day to day business expense requirements.
c. Ensure that the dividends and interest rates are realistic and reflect prevailing market conditions.
d. Monitor profits, assets and capital to ensure balanced and stable growth.

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1.1 Liquidity Management Philosophy

Liquidity Management Philosophy sets out the broad goals and objectives of the ***Society*** with regards to liquidity, as established by the board of directors. This philosophy governs all liquidity policy constraints and help address new situations where policy does not yet exist. Important principles of liquidity management shall address the following;

a. Ensuring that there is enough liquidity to guarantee the orderly funding of member's needs,
b. Providing a prudent cushion for unseen liquidity needs,
c. Investing liquid funds in a manner which emphasizes the need for security and liquidity.

1.2 Purpose and Objectives

For purposes of this policy, liquid assets shall ***include*** bank balances, ***and investment accounts.***

The liquidity policy ***is*** intended to provide guidelines to management for maintaining ***current*** assets and liabilities, interest rate risks and liquidity position. The goals of the policy shall be, but not limited to ***ensuring*** that:

a. The ***Society*** has adequate liquidity resources to meet its liquidity needs while at the same time avoiding to the extent possible, an ***excess*** of liquidity.
b. The ***Manager*** possesses an accurate assessment of the potential liquidity needs of the ***Society.***
c. Procedures are established for effective monitoring of the liquidity condition of the ***Society*** and any changes therein.
d. The liquidity policy is properly coordinated with other related asset/liability policies of the ***Society***.
e. The Manager presents to the board regular reports on the ***Society's*** liquidity condition and keep it informed immediately if any problems shall arise.
f. The liquidity policy and the ***Society's*** risk management policy is compatible and reinforcing.
g. Administrative matters, such as staff training and back up personnel for key liquidity management staff of the ***Society***, are properly addressed.

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1.3 Legal and regulatory framework

The liquidity and asset liability management policy has been developed within the relevant frameworks set by the Financial Services Regulatory Act, 2010 and ***the Society's*** regulations (bye laws) and international accounting standards.

The Board of Directors shall be responsible for formulating, reviewing and adjusting the Liquidity management policy of the ***Society*** on a regular basis or as and when the need arise.

The Society shall maintain minimum of 15% of ***its*** short-term investment + liquid assets-short term payable/savings deposit.

1.4 Guiding Principles

The principles guiding this policy include co-operative principles, cooperative governance and appropriate international standards.

2. General Procedures

a. The ***Society*** shall periodically review deposit structure, ***including*** the volume and trend of total deposits ***and*** the various types of deposits offered, the maturity distribution of time deposits, rates being paid on each type of deposit, rates being paid by the trade area deposits, and any other information needed.
b. The ***Society*** shall formulate policies and procedures that address funding concentration in or excessive reliance on any single source or type of funding, such as borrowed funds, interest from loans or other types of sources, and other similar rate sensitive or credit sensitive deposits.
c. The ***Society*** shall formulate a method of computing its cost of funds.
d. In conjunction with the ***Society's*** investment policy, the ***Society*** shall determine which types of investments are permitted, the desired mix among those investments, the maturity distribution and the amount of funds that shall be available, and reviews pledging opportunities and requirements.
e. The ***Society*** shall convey the board's risk and tolerance and establishes ***such*** and target liquidity ratios such as loan-to-deposit ratio, longer-term assets funded by less stable funding sources, individual and aggregate limits on borrowed funds by type and source, or a minimum limit on the amount of short-term investments.

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f. The ***Society*** shall provide an adequate system of internal controls that ensures the independent and periodic review of the liquidity management process, and compliance policies and procedures.
g. The ***Society*** shall ensure that management and the board are given the means to periodically review compliance with policy and guidelines, such as compliance with established limits and legal reserve requirements and verify that duties are properly segregated.
h. The ***Society*** shall have a contingency plan that addresses alternative sources of funds if initial projections of funding sources and uses are incorrect or if a liquidity crisis arises.
i. The ***Society*** shall define approval procedures for exceptions to its policies, limits, and authorizations.
j. The Society shall adhere to tax regulations and other statutory requirements.

3. Policy Guidelines

3.1 Person Responsible for Liquidity Management

The person responsible for liquidity management shall be the Manager. ***The Manager's*** duties shall be but not limited to:

a. Ensure liquidity and asset liability policy is communicated throughout the ***Society.***
b. Ensure that the board is informed regularly of the liquidity situation of the ***Society.***
c. Responsible for monitoring and controlling liquidity risks.
d. Ensure that the ***Society*** has in place appropriate policies and procedures that set and provide regular review of limits on the size of liquidity positions over particular time horizons.
e. Ensure that the ***Society*** has a management information system adequate to measure, monitor and report liquidity risk and produce timely reports.
f. Ensure that the ***Society*** has a contingency plan and determines the frequency to review it.
g. Ensure that the ***Society*** maintains an adequate system of internal control that involves regular independent reviews and evaluations of the effectiveness of the liquidity management system.

3.2 Monitoring of Liquidity

Analysis and reports of Liquidity needs shall be done on monthly and quarterly basis by drawing cash budgets (cash allocation) and cash flow statement.

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3.3 The Frequency of Analyzing the Liquidity Management

The ***Society*** shall calculate the average monthly balances of its deposits and borrowings to determine the liquidity requirement.

3.4 Liquidity Gap Management

The ***Society*** shall identify areas to mitigate against the liquidity risks.

3.5 Board Reports and Frequency

The measurements of liquidity shall be reported to the Board, so that ***it*** can also monitor the liquidity portfolio and ensure adherence to regulatory requirement. Material variances from plan and their causes, as well as management's plan to correct the ***variance***, shall also be included in the report. The manager shall also provide the board with a summary on compliance with liquidity policy and relevant regulatory requirements.

4. Policy Review and Adoption

This policy has been approved by the Board to give guidance to Management in liquidity according to sound cooperative principles and Society's by-laws.

In order to ensure continued relevance of this Liquidity Policy, the Board of Directors shall review this policy from time to time, and as and when necessary.

We, the undersigned, individually and collectively, give commitment to the implementation of the Liquidity Policy by appending our signatures **on this** ......17th......day of ......July.......... ***2024*** at Mhlume on behalf of ***Society.***

Name	Signature	Date
Douglas Dlamini Chairperson		17/07/2024
Lewis G Thobela Vice-Chairperson		17/07/2024
Vusi N. Malubane Secretary		2024/7/17
Sizwe L Maseko Treasurer		17/07/2024

Appendix 1- Definition of Terms

a) **Asset and Liability Management (ALM)**- means the practice of managing risks that arise due to mismatches between the assets and liabilities (debts and assets) of the ***SOCIETY***.

b) **Liquidity**- The ability to convert an asset to cash conveniently and with ease at short call.

c) **Current Ratio**- An indication of the ***SOCIETY's*** ability to meet short-term debt obligations; the higher the ratio, the more liquidity. Current ratio is equal to current assets divided by current liabilities. If the current assets are more than twice the current liabilities, then the ***SOCIETY*** shall be generally considered to have good short-term financial strength. If current liabilities exceed current assets, then the ***SOCIETY*** may have problems meeting its short-term obligations.

d) **Cash Ratio**- The cash ratio measures the extent of which to the ***SOCIETY*** can quickly liquidate assets and cover short-term liabilities, and therefore is of interest to short-term creditors. Also called **liquidity ratio** or **cash asset ratio.**

e) **Interest Rate Sensitivity**- the degree of change in the price of an asset in response to fluctuations in the market interest rates.

f) **Interest Sensitive Assets**- assets, principally loans, that are subject to changes in interest rates, either at maturity or when they are re-priced according to an index rate.

g) **Interest Sensitive Liabilities**- Any type of short-term deposit held by the ***SOCIETY*** that pays a variable rate of interest to the customer.

h) **Current Assets**- A balance sheet item which equals the sum of cash and cash equivalents, accounts receivable, inventory, marketable securities, prepaid expenses, and other assets that could be converted to cash in less than one year.

i) **Short Term Liability**- Obligations that have to be satisfied in one year, includes things such as short-term loans, accounts payable, dividends and interest payable, consumer deposits and reserves.

j) **Non-Earning Assets**- means investments in shares in respect of which no dividends have been received during the twelve months preceding the date of a return that is to be submitted in accordance with these Regulations;

k) **Quick Ratio**- An indicator of ***SOCIETY's*** short term liquidity. The quick ratio measures a ***SOCIETY's*** ability to meet its short-term obligations with its most liquid assets. The higher the quick ratio, the better the position of the ***SOCIETY***. The quick ratio is calculated as:

$$\textbf{Quick Ratio} = \frac{\textbf{Current Assets} - \textbf{Inventories}}{\textbf{Current Liabilities}}$$