LIQUIDITY RISK MANAGEMENT POLICY
Version 1

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 ₹ 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. RAR Fincare Limited ('The Company') is a Non-Deposit taking NBFC.

As per the Guidelines of Liquidity Risk Management Framework stated in Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023, it will be the responsibility of the Board that the Guidelines are adhered to.

These guidelines deal with following aspects of Liquidity Risk Management framework:

a) Liquidity Risk Management Policy, Strategies and Practices
b) Management Information System (MIS)
c) Internal Controls
d) Maturity profiling
e) Liquidity Risk Measurement – Stock Approach
f) Currency Risk
g) Managing Interest Rate Risk
h) Liquidity Risk Monitoring Tools

Liquidity Risk Management Policy, Strategies and Practices
This policy 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.

Key elements of the liquidity risk management framework are as under:

i) Governance of Liquidity Risk Management

Successful implementation of any risk management process shall emanate from the top management with the demonstration of its strongcommitment to integrate basic operations and strategic decision- making with risk management. The Chief Financial Officer, the Chief Risk Officer, the Chief Operations Officer, the Chief Executive Officer and the Asset Liability Committee shall be involved in the process of identification, measurement and mitigation ofliquidity risks. The Company shall have the following set up for liquidity risk management:

a) Board of Directors
The Board shall have 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) Audit & Risk Management Committee
The Audit & Risk Management Committee reporting to the Board shall be responsible for evaluating the overall risks faced by the Company including liquidity risk.

c) Asset-Liability Management Committee (ALCO)

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

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. ALCO's work frame with respect to liquidity risk should include, inter alia, deciding 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 of the Company.

ii) Liquidity Risk Tolerance

The Company shall have a sound process for identifying, measuring, monitoring and controlling liquidity risk to clearly articulate a liquidity risktolerance that is appropriate for its business strategy and its role in the financial system. ALCO shall develop and monitor the strategy to manage liquidity risk in accordance with such risk tolerance and ensurethat the Company maintains sufficient liquidity.

iii) Consideration of Liquidity Costs, Benefits and Risks in the Internal Product Pricing

The Company shall develop a process of quantifying liquidity costs and benefits and the same shall be considered in the process of internal product pricing, performance measurement and new product approval process.

iv) Off-balance Sheet Exposures and Contingent Liabilities

The process of identifying, measuring, monitoring and controlling liquidity risk shall 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 managementof liquidity risks relating to certain off-balance sheet exposures onaccount of special purpose vehicles, financial derivatives, and guarantees and commitments may be given importance due to the difficulties that many NBFCs have in assessing the related liquidity risks that could materialize in times of stress.

v) Funding strategy – Diversification in sources and tenor of funding

The Company's funding strategy shall be such that there is effective diversification in the sources and tenor of funding. An ongoing presence in the chosen funding markets and strong relationships with fund providers should be maintained to promote effective diversification of funding sources. The Company shall not over rely on a single source of funding and shall have the capacity to tap funding quickly from each source without any delay.

vi) Collateral Position Management

The Company shall actively manage its collateral positions, differentiating between encumbered and unencumbered assets. It should monitor the legal entity and physical location where collateral is held and how it may be mobilised in a timely manner. The Company's collateral position should be such that it could fulfil both expected and unexpected borrowing needs and potentially increasing margin requirements over different time frames.

vii) Stress Testing

There must be periodic stress test for a variety of short term and specific and market related stress scenarios depending upon nature of NBFC business, activities and vulnerabilities so that the Company gets accustomed to handle scenarios of major funding and market liquidity risks.

viii) 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/ 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. Hence, the objectives set for this plan document are as under:

- Ensure minimal disruptions in business operations.
- Ensure that all possible means are exhausted to mitigate, if not altogether avoid, any losses from disruption of normal operations; and,
- Identify and take advantage of opportunities while under the adverse or disruptive conditions

ix) Public Disclosure

The Company shall disclose information as given in Annexure A on a quarterly basis on the official website of the Company and in the annual financial statements as notes to accounts that enables market participants to make informal judgement about the soundness of its liquidity risk management framework and liquidity position.

A. 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 the Board and 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 information during stress events.

B. Internal Controls

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

C. Maturity Profiling

i) 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 should be used for measuring the future cash flows of Company in differenttime buckets. The time buckets shall be distributed as under:

a) 1 day to 7 days
b) 8 day to 14 days
c) 15 days to 30/31 days (One month)
d) Over one month and upto 2 months

e) 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

ii) The Company being a Non-Deposit taking NBFC, all investments in securities shall fall in the category of 'non-mandatory securities'. Alternatively, the Company may also follow the concept of Trading Book as per the extant prescriptions for NBFCs.

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

b) The Statement of Structural Liquidity may 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.

c) To monitor the 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.

D. Liquidity Risk Measurement – Stock Approach

The Company may adopt a "stock" approach for liquidity risk measurement in circumstances where the surplus funds of the Company is invested in market stocks and securities. In such circumstances, the Company shall monitor certain critical ratios by setting internally defined limits as approved by their Board. The ratios and the internal limits shall be based on Company's liquidity risk management capabilities, experience and profile. 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.

E. Currency Risk

Exchange rate volatility imparts a new dimension to the risk profile IF THE company gains foreign assets or liabilities. The Company in such circumstances should recognise the liquidity risk arising out of such exposures and develop suitable preparedness for managing the risk.

F. Managing Interest Rate Risk (IRR)

Since the Company is a NBFC MFI, the interest rate is guided by RBI as per its extant regulatory prescriptions and is managed accordingly.

G. **Liquidity Risk Monitoring Tools**

The Statement of Structural Liquidity is currently one of the prescribed monitoring tools. In addition to this, the following tool shall be adopted by the Company for internal monitoring of liquidity requirements:

Concentration of Funding

This metric is meant to identify those significant sources of funding, withdrawal of which could trigger liquidity problems. The metric thus encourages diversification of funding sources and monitoring of each of the significant counterparty*, significant product / instrument** and significant currency.

Note:

*A "Significant counterparty" is defined as a single counterparty or group of connected or affiliated counterparties accounting in aggregate for more than 1% of the NBFC-NDSI's, NBFC-Ds total liabilities and 10% for other non-deposit taking NBFCs.

**A "significant instrument/product" is defined as a single instrument/product of group of similar instruments/products which in aggregate amount to more than 1% of the NBFC-NDSI's, NBFC-Ds total liabilities and 10% for other non-deposit taking NBFCs.

Available Unencumbered Assets

This metric shall provide significant information on available unencumbered assets, which have the potential to be used as collateral to raise additional secured funding in secondary markets, capturing the details of the amount, type and location of available unencumbered assetsthat could serve as collateral for secured borrowing in secondary markets.

Market-related Monitoring Tools

This includes high frequency market data that can serve as early warning indicators in monitoring potential liquidity difficulties of the Company.

Annexure A

Public disclosure on liquidity risk

(i) Funding Concentration based on significant counterparty (both deposits and borrowings)

Sr. No	No of significant counterparties	Amount (₹ crore)	% of Total deposits	% of Total Liabilities

(ii) Top 20 large deposits (amount in ₹ crore and % of total deposits)

(iii) Top 10 borrowings (amount in ₹ crore and % of total borrowings)

(iv) Funding Concentration based on significant instrument/product

Sr. No.	Name of the	Amount (₹	% of Total

	instrument/product	**crore)**	**Liabilities**

(iv) Stock Ratios:

(a) Commercial papers as a % of total public funds, total liabilities and total assets;

(b) Non-convertible debentures (original maturity of less than one year) as a % of total public funds, total liabilities and total assets;

(c) Other short-term liabilities, if any as a % of total public funds, total liabilities and total assets.

(v) Institutional set-up for liquidity risk management.

Approved by the Board of Directors in its meeting held on 20th February, 2024

Senior Management – Reviewer	***Senior Management – Approver***	***Custodian***
SD/- ***Chief Risk Officer*** ***SD/-*** ***Chief Financial Officer*** ***SD/-*** ***Company Secretary***	***SD/-*** ***Chief Operations Officer*** ***SD/-*** ***Chief Executive Officer***	***SD/-*** ***Company Secretary***