WINRO COMMERCIAL (INDIA) LIMITED

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LIQUIDITY RISK MANAGEMENT POLICY

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Background

In order to strengthen and raise the standard of the Asset Liability Management ("ALM") framework applicable to Non-Banking Financial Companies ("NBFCs"), Reserve Bank of India ("RBI") has revised the extant guidelines on liquidity risk management for NBFCs. 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, shall adhere to the set of liquidity risk management guidelines stipulated by RBI.

Winro Commercial (India) Limited ("Company") is a Non-deposit taking systemically important NBFC and is engaged in Investment, trading in shares and securities and lending activites. As per the Guidelines of 'Liquidity Risk Management Framework for Non-Banking Financial Companies' issued by RBI vide notification RBI/2019-20/88 DOR.NBFC (PD) CC. No.102/03.10.001/2019-20 dated November 4, 2019, it will be the responsibility of the Board of Directors ("Board") to ensure that these guidelines are being followed.

These guidelines deal with following aspects of liquidity risk management:

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

The Board has formulated and adopted the Liquidity Risk Management Policy ("Policy") to ensure adherence to the above guidelines of the RBI.

A. Liquidity Risk Management, Strategies and Practices

This 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 of the Company.

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 a strong commitment to integrate basic operations and strategic decision-making with risk management. The Chief Financial Officer of the Company shall be involved in the process of identification, measurement and mitigation of liquidity risks. The Company shall have the following set up for liquidity risk management:

ii) 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.

iii) Risk Management Committee

The Risk Management Committee of the Board shall be responsible for evaluating the overall risks faced by the Company on a periodic basis, including liquidity risk. The Risk Management Committee has been constituted with the following members:

1. Non- Executive Chairman
2. Non-Executive Independent Director
3. Non-Executive Director

iv) Asset-Liability Management Committee ("ALM")

The liquidity risk management of the Company has been delegated to the ALM. ALM has been constituted with the following members:

1. Non- Executive Chairman
2. Chief Executive Officer
3. Non-Executive Director
4. Non-Executive Independent Director

The ALM shall be responsible for ensuring adherence to the risk tolerance/limits set by the Board as well as implementing the liquidity risk management strategy. ALM should decide on desired maturity profile & mix of incremental assets and liabilities, sale of assets as a source of funding, the structure, responsibilities & controls for managing liquidity risk and overseeing the liquidity position of the Company.

v) Liquidity risk Tolerance

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

vi) 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 management of liquidity risks relating to certain off-balance sheet exposures on account of special purpose vehicles, guarantees and commitments will also be taken into account due to the difficulties that many NBFCs have in assessing the related liquidity risks that could materializes from these in times of stress.

vii) 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 mobilized in a timely manner.

viii) Funding Strategy - Diversified Funding

The Company shall establish a funding strategy that provides effective diversification in the sources and tenor of funding. It shall maintain an ongoing presence in its chosen funding markets and strong relationships with fund providers to promote effective diversification of funding sources. It shall regularly gauge its capacity to raise funds quickly from each source. There should not be over-reliance on a single source of funding. Funding strategy should also take into account the qualitative dimension of the concentrated behaviour of deposit withdrawal (for deposit taking NBFCs) in typical market conditions and over-reliance on other funding sources arising out of unique business model.

ix) Stress testing

Stress testing shall form an integral part of the overall governance and liquidity risk management culture in the Company. The Company shall conduct stress tests on quarterly basis for a variety of short-term and protracted NBFC-specific and market-wide stress scenarios (individually and in combination). In designing liquidity stress scenarios, the nature of the Company's business, activities and vulnerabilities will be taken into consideration so that the scenarios incorporate the major funding and market liquidity risks to which the Company is exposed. Some of the situations which can be simulated by the Company while conducting such stress test will include a) reduction in collection efficiency; b) reduction or cancellation of debt lines to the Company by the borrowers; and c) increase in NPAs of the Company.

x) Contingency Funding Plan

The Company has formulated a Contingency Funding Plan ("CFP") for responding to severe disruptions which might affect its ability to fund some or all of its activities in a timely manner and at a reasonable cost. The CFP details procedures for determination and steps to be implemented in case of severe liquidity crisis arising from either internal/external factors.

xi) Public disclosure

As per the "Appendix 1: LCR Disclosure Template" in Liquidity Risk Management Framework for Non-Banking Financial Companies, the Company shall publicly disclose information on its website and in the annual financial statements as notes to accounts which will enable market participants to make an informed judgment about the soundness of its liquidity risk management framework and liquidity position.

B. 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 information during stress events.

C. Internal Controls

The Company shall have appropriate internal controls, systems and procedures to ensure adherence to liquidity risk management policies and procedure, including MIS on monthly collection, GNPA position, deposit mobilization, available & expected credit lines with the company.

D. 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 different time buckets. The time buckets shall be distributed in the same intervals as provided in the ALM Policy of the Company. 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.

ii) The Company being a deposit taking NBFC, all investment in securities for SLR purpose shall be mandatory securities. All investment other than above shall be non- mandatory securities.

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 Company, however, is expected to monitor its cumulative mismatches (running total) across all time buckets by establishing internal prudential limits with the approval of the ALCO. 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, in normal course, may not exceed the limits specified under the ALM Policy of the Company.

iv) In order 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.

E. Liquidity Risk Measurement – Stock Approach

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 the Board of Directors of the Company. Accordingly the following is the indicative list of certain critical ratios to monitor are short-term liability to total assets; short-term liability to total advances, short-term liability to long term assets; short-term liabilities to total liabilities (less net worth); long-term assets to total assets and long term assets to total advances etc.

Particulars	**Ratio**
Short-term Liability To Total Assets	upto 50%
Short-term Liability To Total Advances	upto 60%

Short-term Liability To Long-term Assets	2 times
Short-term Liabilities to Total Liabilities (less Net Worth)	upto 66.67%
Long-term Assets To Total Assets	upto 35%
Long-term Assets To Total Advances	upto 40%

F. Liquidity Risk Monitoring Tools

The Statement of Structural Liquidity is currently one of the prescribed monitoring tools to assess asset liquidity risk. In addition to this Statement of Structural Liquidity, the following tools shall be monitored by the Company from liquidity risk management perspective:

- **<u>Concentration of Funding</u>**

This metric is meant to identify those critical sources of funding, the withdrawal of which could trigger liquidity problems. The Company shall maintain balance across various sources of funding, thereby reducing reliance on single/few sources of funding.

- **<u>Available Unencumbered Assets</u>**

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

- **<u>Market-related Monitoring Tools</u>**

This includes high frequency market data that can serve as early warning indicators in monitoring potential liquidity difficulties of the Company including foreign exchange rates, movement in benchmark interest rates, inflation etc.

G. Reviewed and Approval

The Board shall further review and amend the Policy, as necessary.

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