

**CHARTERED FINANCE & LEASING  
LTD. (CFL)**

**(“NBFC/ B-13.02480”)**

**Liquidity Risk Management Policy /  
ALM Policy**

**SUMMARY OF POLICY**

Particular	Details
Policy Name	Liquidity Risk Management Policy / ALM Policy
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Approver	Board of Directors of Chartered Finance & Leasing Ltd

**VERSION HISTORY**

VERSION NO.	APPROVAL	VERSION DESCRIPTION	REGULATORY REFERENCE	REMARKS
I	07-Apr-2022	2022	RBI Regulation	Policy adopted by the Board
II	20-May-2025	2025	RBI Regulation	Reviewed by Board
III	07-April-2026	2026	RBI Regulation	Reviewed by Board

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## 1. BACKGROUND

In order to strengthen and raise the standard of the Asset Liability Management (ALM) framework applicable to NBFCs, the 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 liquidity risk management guidelines stipulated by RBI.

The primary and foremost objective is to manage the assets and liabilities of the company judiciously and prudently so as to minimize/avert any asset-liability mismatch which may arise during the normal course of business.

This Policy has been framed in accordance with the regulations, directions, notifications and circulars issued Reserve Bank of India (“RBI”).

These guidelines deal with the following aspects of the the 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

## 2. LIQUIDITY RISK MANAGEMENT POLICY, STRATEGIES AND PRACTICES

Managing liquidity risk is one of the most important functions of a financial services entity. Liquidity risk management can reduce the chances of the origination of an adverse situation by assuring to meet liabilities when they become due. Liquidity risk also arises from the market-related variables which lead to a liquidity crunch in the market resulting in liquidity gaps. Liquidity risk can result in serious repercussions for CFL. This may lead to a) Loss in reputation of the CFL in the market b) Higher cost for additional borrowing c) Rating downgrade. Effective liquidity management can reduce the probability of serious repercussions as mentioned above. Therefore, analysis of liquidity not only requires the measurement of liquidity on an ongoing basis but also requires managing and monitoring the liquidity risk on a continuous basis. It would also involve examining the funding requirement under various stress scenarios. In order to ensure a sound and robust liquidity risk management system, the Board of the CFL has a liquidity risk management framework, which ensures 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 funding sources.

### Entity-Level Liquidity Risk Tolerance

The Company has a sound process for identifying, measuring, monitoring and controlling liquidity risk and has adequate liquidity risk tolerance that is appropriate for its business strategy and its role in the financial system.

The Company has identified following liquidity risk management strategy:

1. The degree of concentration of surplus funds – Surplus funds of the company should be diversified into various market investment products like G-Sec/SDLs/T Bills and non-G-sec products like MF/FD/CD/CP/Bonds. The funds will be invested in different avenues as decided by the Board.
2. The size and composition of a liquidity reserve consisting of liquid assets which can be sold or used as collateral in times of stress – Company to maintain at least 15% of its NOF as on last audited financials of the company in the form of liquid assets. Currently, surplus funds that are considered as liquid assets are invested in mutual funds, Fixed Deposits and Gsec/T-bill. The composition and maturity profiles of assets, liabilities and off-balance sheet positions – Company's short term negative ALM mismatch in individual bucket shall be maintained as per extant regulatory prescriptions.
3. Intraday liquidity management – Company should actively manage its intraday liquidity positions and risks to meet payment and settlement obligations on a timely basis under both normal and stressed conditions. The company has robust framework for comprehensively projecting cashflows arising out of its assets and liabilities.

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

### **3. GOVERNANCE OF LIQUIDITY RISK MANAGEMENT**

Successful implementation of any risk management process shall emanate from the top management with the demonstration of its strong commitment to integrate basic operations and strategic decision making with risk management. The Chief Risk Officer, 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:

a) Board of Directors

The Board shall have the overall responsibility for the 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) Risk Management Committee

The Risk Management Committee of 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). ALCO has been constituted with the following Members with effect from 01.10.2025:

1. Managing Director, who shall be the Chairman
2. Chief Risk Officer,
3. Other members as approved by the Board

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 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.

#### **d) Asset Liability Management (ALM) Support Group**

The ALM Support Group consisting of the operating staff headed by the CRO shall be responsible for analysing, monitoring, and reporting the liquidity risk profile to the ALCO. Such support groups will be constituted depending on the size and complexity of liquidity risk management in an NBFC.

#### **4. LIQUIDITY RISK TOLERANCE / INTEREST RATE RISK TOLERANCE**

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

<b>Sl. No.</b>	<b>Time Bucket</b>	<b>Cumulative Negative Gap as % of outflow</b>
1.	1-7 days	10%
2.	8-14 days	10%
3.	15-30/31 days	20%
4.	1 to 2 months	20%
5.	2 month to 1 year	20%
6.	1 year to 5 years	30%
7.	5 years onwards	40%

#### **5. OFF-BALANCE SHEET EXPOSURES AND CONTINGENT LIABILITIES**

Liquidity risks associated with Off-Balance Sheet exposures and contingent liabilities are identified, measured, monitored and controlled, on an ongoing basis, and suitable steps to be taken, from time to time, to align the same with normal business activities.

#### **6. FUNDING STRATEGIES**

The CRO shall prepare, discuss and review the Cash Flow Statement with the Board at regular intervals and prepare the Strategy to Fund the shortfall. The Funding Plan is to be updated regularly throughout the year to reflect changes in the Cash Flow requirements. The Company may raise Funds by intra-group fund transfers, new issues of short- and long-term debt instruments, Equity, sale of subsidiaries, joint ventures or lines of business, asset securitization etc. The ALCO should regularly measure the Company's capacity to raise funds quickly from various sources.

#### **7. COLLATERAL POSITION MANAGEMENT**

The collateral positions of the Company are to be differentiated, on an ongoing basis, between encumbered and unencumbered Receivables so as to ensure mobilization of additional resources against the unencumbered Receivables, in times of need. The Funding Plan is to be updated regularly throughout the year to reflect changes in the Cash Flow requirements.

## **8. 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 a 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) Prematurity of ICD; c) increase in NPAs of the Company

## **9. INTRA GROUP TRANSFERS**

Inter Group transfers are to be carried out, in line with the regulatory prescriptions, from time to time, to ensure and maintain liquidity management processes and funding programmes that are consistent with the complexity, risk profile, and scope of operations of the companies in the Group.

## **10. CONTINGENCY FUNDING PLAN**

A contingency Funding Plan (CFP), containing the details oavailable/potentialal 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, is to be put in place.

## **11. PUBLIC DISCLOSURE**

Disclosures, as per regulatory prescriptions, are to be made from time to time to enable market participants to make an informed judgment about the soundness of its liquidity risk management framework and liquidity position.

## **12. MANAGEMENT INFORMATION SYSTEM (MIS)**

A sound information system is the key to the ALM process. ALM has to be supported by the management clearly specifying the risk policies and tolerance limit. This framework needs to be built on a sound methodology with necessary information systems as backups. Thus, collecting information/ data in a timely manner is the key to the ALM process.

ALM data is prepared based on certain assumptions and is analyzed on the basis of the residual maturity of various assets & liabilities.

The ALM data is to be complied with timely based on forward-looking information on the liquidity position of the Company, both under normal and stress situations. It should 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.

## **13. INTERNAL CONTROLS**

Appropriate internal controls, systems and procedures are to be put in place to ensure adherence to liquidity risk management policies and procedures and continue to review the same, from time to time, to evaluate the various components of the Company's liquidity risk management process.

#### 14. MATURITY PROFILING

- a. Identifying, measuring, monitoring and controlling the liquidity risk is very critical to ensure the Company's ability to meet its liabilities as they become due. Effective liquidity management ensures a reduction of the probability of developing an adverse situation. Liquidity management involves not only measuring liquidity position on an ongoing basis but also examining how liquidity requirements are likely to evolve under different assumptions. For measuring and managing net funding requirements, the use of a maturity profiling for both assets and liabilities and calculation of cumulative surplus or deficit of funds at selected maturity buckets is to be adopted as a standard tool, in line with RBI stipulations.

The Maturity Profile should be used for measuring the future cash flows of the Company in different time buckets as mentioned:

Ratio / Metric	Limits
Cumulative negative mismatch: 1–7 days	Max 10% of cumulative cash outflows
Cumulative negative mismatch: 8–14 days	Max 10% of cumulative cash outflows
Cumulative negative mismatch: 15–30/31 days	Max 20% of cumulative cash outflows
Cumulative negative mismatch: Over 1 month to 2 months	Max 20% of cumulative cash outflows
Cumulative negative mismatch: Over 2 months to 3 months	Max 25% of cumulative cash outflows
Cumulative negative mismatch: Over 3 months to 6 months	Max 30% of cumulative cash outflows
Cumulative negative mismatch: Over 6 months to 1 year	Max 35% of cumulative cash outflows

- b. The Company being a Non-Deposit taking Core Investment Company, 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.
- c. 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 is expected to monitor the cumulative mismatches (running total) across all other time buckets for up to 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.
- d. 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.
- e. 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.
- f. Maturity profile of all the assets and liabilities have been specified in Annex I of this policy.

## 15. LIQUIDITY RISK MEASUREMENT – STOCK APPROACH

Appropriate critical ratios, like short-term liability to short-term assets, short-term liability to total assets; short-term liability to long-term assets; commercial papers / WCDL to total assets; ICDs (original maturity of less than one year) to total assets; short-term liabilities to total liabilities; long-term assets to total assets; etc., based on Company's liquidity risk management capabilities, experience and profile, to put in place to effectively measure the liquidity risk at regular intervals by ALCO.

The monitoring shall be by way of predefined internal limits as decided by the board for various above-critical ratios.

Liquidity Risk Measurement – Stock Approach	Limits
Short-term liabilities to total assets	Max 25%
Short-term liabilities to long-term assets	Max 30%
Commercial paper to total assets	Max 10% / NIL if not applicable
Short-term NCDs (orig. maturity < 1 yr) to total assets	Max 10% / NIL if not applicable
Short-term liabilities to total liabilities	Max 30%
Long-term assets to total assets	Max 75%

## 16. CURRENCY RISK

The Company is to put in place appropriate currency risk management tools as and when decided to opt for raising funds by way of External Commercial Borrowings

## 17. INTEREST RATE RISK ('IRR')

IRR management and reporting help identify potential risks to earnings and capital resulting from adverse fluctuations in market interest rates. It also identifies asset/funding balance and re-pricing mismatches. Proper identification of potential risks and mismatches assists management in devising asset/liability strategies to minimize these potential risks.

The Gap or Mismatch risk can 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).

The Gaps may be identified in the following time buckets:

- 1 day to 7 days
- 8 days to 14 days
- 15 days to 30/31 days (One month)
- Over one month and up to 2 months
- Over two months and up to 3 months
- Over 3 months and up to 6 months
- Over 6 months and up to 1 year
- Over 1 Year and up to 3 years
- Over 3 years and up to 5 years
- Over 5 Years

## 18. LIQUIDITY RISK MONITORING TOOLS

The Statement of Structural Liquidity is currently one of the prescribed monitoring tools to asset liquidity risk. 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, the 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.

### **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 assets that could serve as collateral for secured borrowing in secondary markets.

### **Market-related Monitoring Tools**

- i. This includes high-frequency market data that can serve as early warning indicators in monitoring potential liquidity difficulties at the NBFCs.
- ii. The Board/committee set up for the purpose shall monitor on a monthly basis, the movements in their book-to-equity ratio for listed NBFCs and the coupon at which long-term and short-term debts are raised by them. This also includes information on breach/penalty in respect of regulatory liquidity requirements, if any.

## 19. POLICY REVIEW

The Policy would ideally be reviewed at periodic intervals, preferably on an annual basis. However, the policy can be reviewed at short notice depending on the exigencies/extraordinary situations, which may emanate during the course of the Company's business.

### **Annexure I : ALM Guidelines for maturity profile of Assets and Liabilities**

The following ALM guidelines have been laid down based on the policy issued by RBI through its circular DNBS (PD) CC. NO. 15/02.01/2000-01 dated June 27, 2001.

A.	
1. Capital funds	
a) Equity capital, Non-redeemable or perpetual preference capital, Reserves, Funds and Surplus	In the 'over 5 years' time bucket.
b) Preference capital - redeemable/nonperpetual	As per the residual maturity of the shares.
2. Gifts, grants, donations and benefactions	The 'over 5 years' time-bucket. However, if such gifts, grants, etc. are tied to specific end-use, then these may be slotted in the time- bucket as per the purpose/end-use specified.
3. Notes, Bonds and debentures	
a) Plain vanilla bonds/debentures	As per the residual maturity of the instruments
b) Bonds/debentures with embedded call/put options (including zero-coupon/deep discount bonds)	As per the residual period for the earliest exercise date for the embedded option.

c) Fixed rate notes	As per the residual maturity
4. Deposits:	
a) Inter Corporate Deposits	These, being institutional/wholesale deposits, should be slotted as per their residual maturity
b) Certificates of Deposit	As per the residual maturity.
5. Borrowings	
a) Term money borrowings	As per the residual maturity
b) From RBI, Govt. & others	As per the residual maturity
c) Bank borrowings in the nature of WCDL, CC etc.	Over six months and up to one year
6) Current liabilities and provisions:	
a) Sundry creditors	As per the due date or likely timing of cash outflows. A behavioral analysis could also be made to assess the trend of outflows and the amounts slotted accordingly.
b) Expenses payable (other than interest)	As per the likely time of cash outflow.
c) Advance income received, receipts from borrowers pending adjustment	In the 'over 5 years' time-bucket as these do not involve any cash outflow.
d) Interest payable on bonds/deposits	In respective time buckets as per the due date of payment.
e) Provisions for NPAs	The amount of provision may be netted out from the gross amount of the NPA portfolio and the net amount of NPAs be shown as an item under inflows in stipulated time buckets.
f) Provision for Investments portfolio	The amount may be netted from the gross value of the investments portfolio and the net investments be shown as an inflow in the prescribed timeslots. In case provisions are not held security-wise, the provision may be shown on the "over 5 years" time bucket.
g) Other provisions	To be bucketed as per the purpose/nature of the underlying transaction.
B. Inflows	
1. Cash	In 1 to 30 /31 daytime bucket.
2. Remittance in transit	In 1 to 30 /31 daytime bucket.
3. Balances with banks (in India only)	
a) Current account	The stipulated minimum balance is shown in 6 months to 1-year bucket. The balance in excess of the minimum balance is shown in the 1 to 30-day time bucket.
b) Deposit accounts/short-term deposits	As per residual maturity.
4. Investments (net of provisions)	
a) Mandatory investments	As suitable to the NBFC
b) Non-Mandatory Listed	"1 day to 30/31 days (One month)" Over one month and up to 2 months" and "Over two months and up to 3 months" buckets depending upon the defeasance period proposed by the NBFCs

c) Non-Mandatory unlisted securities (e.g. shares, etc.)	"Over 5 years"
d) Non-mandatory unlisted securities having a fixed term maturity	As per residual maturity
e) Venture capital units	In the 'over 5 years' time bucket.
5. In case a Trading book is followed	
Equity shares, convertible preference shares, non-redeemable/perpetual preference shares, shares of subsidiaries/joint ventures and units in open-ended mutual funds and other investments.	(i) Shares classified as "current" investments representing the trading book of the NBFC may be shown in time buckets of "1 day to 30 days (One month)" Over one month and up to 2 months" and "Over two months and up to 3 months" buckets depending upon the defeasance period proposed by the NBFCs.
	(ii) Shares classified as "long term" investments may be kept in over "5 years" bucket. However, the shares of the assisted units/companies acquired as part of the initial financing package, may be slotted in the relative time bucket keeping in view the pace of project implementation/time-overrun, etc., and the resultant likely timeframe for divesting such shares.
6. Advances (performing)	
a) Bill of Exchange and promissory notes discounted and rediscounted	As per the residual usance of the underlying bills.
b) Term loans (rupee loans only)	The cash inflows on account of the interest and principal of the loan may be slotted in respective time buckets as per the timing of the cash flows as stipulated in the original/revised repayment schedule.
c) Corporate loans/short-term loans	As per the residual maturity
7. Non-performing loans	
(May be shown net of the provisions, interest suspense held)	
a) Sub-standard	
i) All over dues and instalments of principal falling due during the next three years	In the 3 to 5-year time bucket.
ii) Entire principal amount due beyond the next three years	In the over 5 years time-bucket
b) Doubtful and loss	
i) All instalments of principal falling due during the next five years as also all over dues	In the over 5-year time-bucket
ii) Entire principal amount due beyond the next five years	In the over 5-year time-bucket
8. Assets on lease	Cash flows from the lease transaction may be slotted in respective time buckets as per the timing of the cash flow.
9. Fixed assets (excluding leased assets)	In the 'over 5 years' time-bucket.
10. Other assets	
(a) Intangible assets and items not representing cash inflows.	In the 'over 5 years' time-bucket.

