CHARTERED FINANCE & LEASING LTD. (CFL)

(“NBFC/ B-13.02480”)

RISK MANAGEMENT POLICY

SUMMARY OF POLICY

Particular	Details
Policy Name	Risk Management Policy
Version	V3
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Review Cycle	Annually
Approver	Board of Directors of Chartered Finance & Leasing Ltd

VERSION HISTORY

Version	Approval	Version Description	Regulatory Reference	Remark
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II	Board Meeting dated 20th May, 2025	2025	RBI Regulation	Reviewed by the Board
III	Board Meeting dated 07th April, 2026	2026	RBI Regulation	Reviewed by the Board

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1. Introduction

Chartered Finance & Leasing Limited (hereinafter "**CFL**" or "**Company**") is registered as a Non-Banking Financial Company (NBFC) with RBI.

The Company aims to operate within an effective risk management framework to actively manage all the risks faced by it in its day to day business in a manner consistent with its risk appetite. The Company aims to effectively manage its risks, while aiming to optimize returns for its stakeholders.

The Company is required to have a Risk Management Policy in place in view of Section 134(3) of the Companies Act, 2013, which states that the Board's Report should contain a statement indicating development and implementation of a risk management policy for the Company including identification therein of elements of risk, if any, which in the opinion of the Board may threaten the existence of the Company. Further, in terms of Section 177 (4) of the Companies Act, the Audit Committee is required to act in accordance with the terms of reference specified in writing by the Board which shall, inter alia, include evaluation of internal financial controls and risk management systems.

The Company has framed this Risk Management Policy based on the Prudential Regulations contained in the Master Direction – Reserve Bank of India (Non-Banking Financial Company –Scale Based Regulation) Directions, 2023 (the Directions), issued by Reserve Bank of India (RBI) as amended from time to time.

2. Objectives of the Policy

The objectives of the policy are as under: -

(a) Promote a robust risk culture by ensuring that risks are clearly identified, understood, assessed and effectively managed.

(b) Define / Evaluate the risk appetite of the Company.

(c) Align business objectives with the risk appetite.

(d) Empower Risk managers to take decisions and establishment of processes for escalation, where appropriate.

(e) Ensure expertise and independence of Risk managers.

3. Governance Structure:

Board of Directors:

The Board has the ultimate responsibility for the Company's risk management framework and has the overall responsibility for management of risks. The Board is principally responsible for approving the Company's risk appetite, risk tolerance and related strategies and policies.

The key responsibilities of the Board of Directors related to overall risk management of the Company include:

i. Approving and annually reviewing the Company's risk appetite, risk tolerance and relatedstrategies
ii. Approving the business and risk governing policies and frameworks as required
iii. Delegating responsibilities to appropriate management cadre / authorities and fixationof accountability thereof
iv. Ensuring that the Senior Management maintains an adequate and effective system ofinternal controls.
v. Assessing the adequacy of capital needed to support business activities undertaken by the Company
vi. Deciding the strategy, policies and procedures of the Company to manage liquidity risk inaccordance with the liquidity risk tolerance/ limits approved by the Board.
vii. Ensuring that risks of new products and activities are subject to adequate risk management procedures and controls before being introduced or undertaken, and approved in advance by the Board of directors or its appropriate committee.

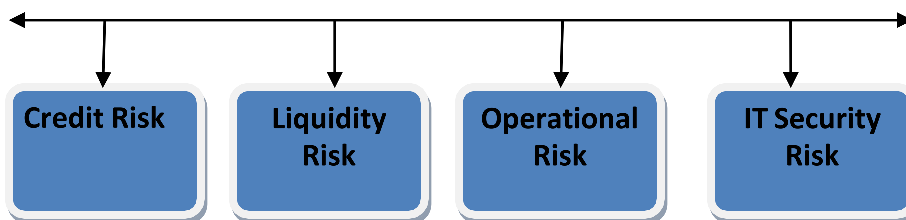
The Company shall ensure compliance with Chapter XI – Corporate Guidelines of the Directions issued by RBI, as amended from time to time. The Company has framed internal guidelines on Corporate Governance, which have been duly approved by the Board. These guidelines would be published on the Company's website for information of all its stakeholders.

Risk Management Committee of the Board (RMCB)

To ensure that the Company has a sound system of risk management and internal controls in place, the Board has established a Risk Management Committee of the Board (RMCB). The RMCB is responsible for evaluating the overall risks faced by the Company.

4. Types of Risks

The Company is exposed to various risks in the course of its business as an NBFC, as outlined below:



This policy covers issues relating to credit risk, liquidity risk, Fraud Risk and operational risk. IT Security Risk is addressed in a separate policy.

5. Key elements in the Risk Management Process

The Risk Management Framework provides the strategic direction and ensures that an effective risk management and measurement process is adopted throughout the Company. Some of the key elements are outlined below.

RCSA Process

The identification of risks, their assessment, measurement and evaluation of mitigation measures in place would form part of a Risk Control Self-Assessment (RCSA) process.

Key steps involved in conducting an RCSA exercise would include:

- Identification and self-assessment of risks by various operational departments within the Company
- Identification and self-assessment of controls and adherence to operating systems/ procedures by various departments within the Company
- Arriving at the residual risks; and
- Formulation of an action plan for the gaps identified and for risks beyond the tolerance levelof the Company.

Risk Measurement

The tracking of individual internal incidents data is an essential pre-requisite to the development and functioning of a robust Risk measurement system. The losses and its analysis provide insight to the quantum of risks faced by the Company.

Risk Monitoring

The Company would monitor risks through Key Risk Indicators (KRI). The Company would put in place a process to regularly monitor KRI on a half yearly basis. The analysis of the KRI data and the KRI trends would be done by the Risk Management Department based on the findings.

- Based on the Risk Control Self – Assessment (RCSA) process and other risk analysis, the Risk Management Department in close coordination with the various departments would identify and monitor metrics called Key Risk Indicators (KRI). The starting points for identification of KRI's are potential risks, threats and vulnerabilities.
- These indicators would be reviewed periodically to alert the Company to changes that may be indicative of risk concerns.

Risk Mitigation

The Company shall control / mitigate Risks broadly in the following ways:

- Losses that might arise on account of natural disasters would be mitigated through adequate insurance.
- Losses arising out of disruptions of any kind would be mitigated through robust business continuity planning. The Company has established a disaster recovery and business continuity plan to address the concern relating to disruption in services, ability to operate on an on-going basis and limit losses in the event of severe business disruption.
- The Company has developed IT Security Policies and guidelines to mitigate the information technology security related risks.
- The Company has Board approved KYC / AML Policies in place and carries out regular monitoring and reporting of suspicious transactions.
- The Company has put in place an "Outsourcing Policy" to address risks relating to outsourcing of its activities.
- Loss due to internal factors, like employee fraud or product flaws, will be mitigated through strong internal controls and internal auditing procedures.
- Regular training would be provided to the Company's employees to generate awarenessand communicate any updates relating to risk management policies and procedures.

Risk Identification in New Products

The Company has institutionalized a Product Approval Committee (PAC) to act as a central forum for approval of new products / services, including any modifications thereto. PAC assesses the proposed product offering from an operational perspective, examines the feasibility of the system requirements for supporting the product / service and ensures that adequate risk mitigation measures, legal and compliance aspects have been taken care of in detail and documented. The PAC also carries out a review of product note(s) and compliance with operational procedures on an annual basis.

Reporting to the Board

The Company would put up the following information to the Board of Directors, at regular intervals:

(a) the progress made in putting in place a progressive risk management system and risk management policy and strategy followed by the Company;

(b) conformity with corporate governance standards viz., in composition of various committees, their role and functions, periodicity of the meetings and compliance with coverage and review functions, etc.

6. Credit Risk

The key risk for NBFC or any other financial institution involved in lending business is Credit Risk. Credit risk is defined as the possibility of losses associated with diminution in the credit quality of borrowers or counterparties.

Hence, it is imperative for the Company to have a robust credit risk management system to address the above risk. The effective management of credit risk is a critical component of the Company's comprehensive risk management and is considered essential for the long-term success of the company.

The Credit Risk Policy must also be read in conjunction with the Know Your Customer (KYC) Norms and Anti-Money Laundering (AML) Policy and the Fair Practice Code, which have been approved by the Board of Directors, and other risk and process guidelines of the Company, as relevant.

Governance Structure:

Board of Directors:

The Board of Directors would be ultimately responsible for effective management of Credit Risk

Management Committee of the Board:

The Risk Management Committee of the Board shall be responsible for evaluating the overall risks faced by the Company on a periodic basis, including credit risk, faced by the Company on a periodic basis, including credit risk.

Risk Management committee of Executive (RMCE) The Board has constituted a Risk Management committee of Executive (RMCE).

Credit Approval Process and Other Key Aspects

The Company focuses on loans to customers for MSME loans, vehicle loans, Supply Chain finance, Loan against securities, Loan against properties and Solar Loans. Once the loan application is received, initial checks shall be done through an automated process. This process, which is system driven, enables evaluation of preliminary eligibility criteria, based on the basic information such as Customer Identity, location, CIBIL score, Banking behavior, and income.

Thereafter, the Company will also be required to run certain further checks as specified under the Know Your Customer Norms and Anti-Money Laundering Policy of the Company.
Once the preliminary eligibility criteria are complied with, the process is taken further with the customer, who shall be requested to submit further information, as specified in its internal guidelines.

Multiple and Independent evaluation of credit worthiness and bankability of credit proposals would be undertaken. While appraising the credit proposal, the company shall ensure that the financial statements / cash flows and income assessments of borrowers are reviewed diligently. The company would rely both on quantitative and qualitative parameters while assessing the income.

The Company would have detailed guidelines in place on the following aspects:

- Target customers- Eligible borrowers, positive and negative sectors
- Collateral related risks- selection of collaterals, valuations, inspection, safe custody etc.
- Loan Products- Quantum of Loan, Acceptable Debt burden ratio, interest rates to be charged, penalinterest, repayment terms, frequency of EMI
- Credit Approval Process- Pre-defined checks for sanction of Loans, Due compliance with the KYCand AML checklists, Process for sanction of loans
- Post sanction supervision and fair practices for recovery of loans
- Asset classification and provisioning norms
- Credit concentration norms
- Review of the credit sanction process, including a review of rejection cases, default rates etc.

The key features of each product such as the average financed amount, terms of the loan, tenure, moratorium period, pricing, etc. shall be decided by the Product Approval Committee consisting of the Chief Risk Officer and other designated members. Every credit proposal will also be subjected to evaluation and assessment of credit risk and measures proposed to minimize the risk.

Risk reduction through verification

Risk Department also use a comprehensive and proactive approach to managing risks associated with loans sanctioned and disbursed. It is done to ensure the accuracy and authenticity of the information provided by customers through diligent pre/ post-disbursal verifications.

Pre-Sanction verification

In the sanction phase, accounts team examine relevant documents, including bank statements, income documents, business registrations, as per the credit assessments process. In case the credit manager identifies any unfavorable findings or system-generated alerts during this evaluation, the accounts t team forwards these documents to the accounts team. Subsequently, the accounts team engages vendors or accounts teams to authenticate these documents. This process makes sure that the information is correct and helps us clear up any doubts that might come up.

Post-Sanction verification

After the disbursal of loan post-disbursal checks done to confirm that the details provided during the application process align with the actual situation and to maintain a high standard of lending practices and minimize potential risks.

Risk Based Pricing Model

Loan assets created by the Company will be priced based on a risk-based pricing model taking into account the borrowing rate of funds (cost of funds), the risks associated with the quality of portfolio of customers and the probability of default, as decided in the interest rate policy.

Provisioning Requirements

Besides, the Company shall comply with provisioning requirements as stipulated in RBI's Master Direction. Provisions for bad and doubtful debts shall be disclosed in the Balance Sheet of the Company. These shall be separately shown without netting them from the income or against the value of assets.

Concentration risk

Concentration Risk is the risk that arises from the concentration of companies' exposure to particular geography or a borrower or a particular group. The Company would take adequate steps to address the risk of credit concentration.

The Company has set the following prudential limits on credit to Single borrowers and group borrower group.

Lending	**Prudential limits**
Single borrowers	15% of owned funds of the Company
Single group	25% of owned funds of the Company

Investment	**Prudential limits**
Investment in Single Entity	10% of owned funds of the Company
Investment in Single group	20% of owned funds of the Company

Lending and Investment	**Prudential limits**
Lending and Investment in Single Entity	25% of owned funds of the Company
Lending and Investment in Single group	40% of owned funds of the Company

Investment:

Investment will be done as per the board approved investment policy. Risk mitigation techniques like diversification, portfolio rebalancing is essential to control risk exposure. Company in their investment activities, put risk management procedures in place. This entails evaluating the operational, liquidity, market, and credit risks connected to the investment portfolio.

Liquidity Risk

Liquidity risk means the inability of the Company to meet obligations when they become due without adversely affecting its financial condition.

In order to enhance the standard of the Asset Liability Management ("ALM") framework applicable to Non-Banking Financial Companies ("NBFCs"), 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, are required to adhere to the set of liquidity risk management guidelines stipulated by RBI.

The Company aims to maintain sufficient liquidity 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 outlined below:

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 Company shall have the following set up for liquidity risk management:

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.

Risk Management Committee (RMCB)

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.

Asset-Liability Management Committee (ALCO)

The ALCO consisting of the Company's top management would be responsible for ensuring adherence to the risk tolerance limits set by the Board as well as implementing the liquidity risk management strategy of the Company. It would be the responsibility of ALCO to ensure that the Company maintains sufficient liquidity.
The ALCO consists of those members as mentioned in Appendix-1. The role of the ALCO with respect to liquidity risk would include, inter alia, decisions with regard to the following

- Desired maturity profile and mix of incremental assets and liabilities,
- Sale of assets as a source of funding,
- Structure, responsibilities and controls for managing liquidity risk, and
- Overseeing the liquidity positions of all branches/offices

ALM Support Group

The Company would have an ALM support group in place consisting of operating staff. This support group would be responsible for analyzing, monitoring and reporting the liquidity risk profile to the ALCO.

Minimum Capital Ratio

The Company would maintain a minimum capital ratio consisting of Tier I and Tier II capital which shall not be less than 15 per cent of its aggregate risk weighted assets on-balance sheet and of risk adjusted value of off-balance sheet items. The Tier I capital at any point of time shall not be less than 10 per cent.

Liquidity risk Tolerance

The Company shall have a sound process for clearly articulating a liquidity risk tolerance that is appropriate for its business strategy. ALCO shall develop and monitor the strategy to manage liquidity risk in accordance with such risk tolerance and ensure that the Company maintains sufficient liquidity.

To this effect the Company will ensure that the prudential limits mentioned herein with regard to Structural Liquidity and Interest Rate Sensitivity are adhered to by the Company.

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. Liquidity risks relating to certain off-balance sheet exposures on account of special purpose vehicles, guarantees and commitments will also be taken into account in assessing the related liquidity risks that could materialize from these in times of stress.

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. Further, the Company would have sufficient collateral to meet expected and unexpected borrowing needs and potential increases in margin requirements over different timeframes.

Liquidity Costs, Benefits and Risks in the Internal Pricing

The Company would develop a process to quantify liquidity costs and benefits so that the same may be incorporated in the internal product pricing, performance measurement and new product approval process for all material business lines, products and activities.

Funding Strategy - Diversified Funding

The Company would establish a funding strategy that provides effective diversification in the sources and tenor of funding. It should maintain an ongoing presence in its chosen funding markets and strong relationships with fund providers to promote effective diversification of funding sources. The Company would regularly gauge its capacity to raise funds quickly from each source. There should not be over-reliance on a single source of funding.

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 would contain details of the following:

- details of available/ potential contingency funding sources and the amount/ estimated amount which can be drawn from these sources
- Procedures for determination and steps to be implemented in case of severe liquidity crisis arising from either internal/external factor.
- 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.

Intra Group transfers

With a view to recognizing the likely increased risk arising due to Intra-Group transactions and exposures (ITEs), the Group Chief Risk officer (CRO) is expected to develop and maintain liquidity management processes and funding programs that are consistent with the complexity, risk profile, and scope of operations of the companies in the Group. The Group liquidity risk management processesand funding programs would take into account lending, investment, and other activities, and ensure that adequate liquidity is maintained at the head and each constituent entity within the group. Processes and programmers would fully incorporate real and potential constraints, including legal and regulatory restrictions, on the transfer of funds among these entities and between these entities and the principal.

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.

Internal Controls

The Company shall have appropriate internal controls, systems and procedures to ensure adherence to liquidity risk management policies and procedures. An independent party would regularly review and evaluate the various components of the Company's liquidity risk management process.

Maturity Profiling

In order to measure and manage net funding requirements, the Company would adopt the use of a maturity ladder and calculation of cumulative surplus or deficit of funds at selected maturity dates. The Maturity Profile would be used for measuring the future cash flows of the Company in different time buckets, as prescribed in the RBI directions.

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 would also monitor cumulative mismatches (running total) across all other time buckets 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.
The Statement of Structural Liquidity would 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.
The Company shall estimate its short-term liquidity profile on the basis of business projections and other commitments for planning purposes.

Adoption of "stock" approach to liquidity

In addition to the measurement of structural and dynamic liquidity, the Company would monitor liquidity risk based on a "stock" approach to liquidity. The monitoring shall be by way of predefined internal limits as decided by the Board for various critical ratios pertaining to liquidity risk. The internal limits, as approved by the Board are as below:

Ratios	Limits
Short term liability to total assets	0.75:1
Commercial Papers to total assets	1:2
Non-Convertible Debentures (NCDs) with original maturity of less than one year to total assets	1:2
Short term liabilities to total liabilities	1:1
Long term assets to total assets	0.75:1

Managing Interest Rate Risk (IRR)

The Company would manage interest rate risk as per the extant regulatory prescriptions.

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 Company would adopt the following liquidity risk monitoring tools/ metrics in order to capture strains in its liquidity position.

- Concentration of Funding:

This metric is meant to identify those significant sources of funding, withdrawal of which would trigger liquidity problems. The Company should look at diversification of funding sources, thereby reducing reliance on single/few sources of funding.

This would also help in monitoring of significant counterparty, significant product/instrument and significant currency (as defined in RBI directions).

- Available Unencumbered Assets

This metric would 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 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 including foreign exchange rates, movement in benchmark interest rates, inflation etc.

7. Operational Risk:

Nature of risks

The Company is exposed to various operational risks in the course of its business as a Non-Banking Financial Company (NBFC). The Company aims to put in place a strong operational risk management structure, including effective internal controls and reporting mechanism.

An Operational Risk loss may be defined as the risk of loss due to inadequate or failed internal processes, people and/or systems, or from external events

Operational Risk Events:

- Clients, products and business practices- For example, fiduciary breaches, misuse of confidential customer information, improper trading activities on the Company's account, money laundering, and sale of unauthorized products.
- Business disruption and system failures. For example, hardware and software failures, telecommunication problems, and utility outages.
- Execution, delivery and process management. For example: data entry errors, collateral management failures, incomplete legal documentation, and unauthorized access given to client accounts, mis performance by the Company's agents, vendor disputes etc.

These events may lead to actual loss or have an impact in the future. Some of them may not lead to any loss to the company-these would be near miss incidents or accidental gain events.

Operational Risk Management Framework

The Operational Risk Management framework has the following key objectives:

- Assign clear accountability and responsibility for management and mitigation of Operational Risk.
- Develop a common understanding of Operational Risks across CFL, so as to assessexposure with respect to Operational Risks and take appropriate actions.
- Strengthen the internal control environment throughout the Company reducing the probability andpotential impact of Operational Risk losses.
- Minimizing losses and customer dissatisfaction due to failures in processes
- Developing a loss database to collect, record and monitor Operational Risk related losses in theCompany.

Governance

Board of Directors

The Board of Directors would have the ultimate responsibility for effectively managing Operational Risks.

Risk Management Committee (RMCE)

In order to have an effective oversight on risk management, the Company has constituted a Risk Management Committee of executive (RMCE). This Committee would assess, review and monitor Credit risk, Operational Risks including Fraud Risk, understand future changes and threats, and prioritize action/ steps. The members of the Risk Management Committee of executive (RMCE) shall be as per Appendix-1.

The Risk Management Committee would be responsible for overseeing implementation of the risk management framework across CFL and providing recommendations to the RMCB. The primary objective of the Risk Management Committee is mitigation of risks related to daily operations of the Company.

The roles and responsibilities of the Risk Management Committee of CFL are as below:

i. Translate this risk management policy, which has been approved by the Board of Directors, into specific processes and procedures that can be implemented and verified within the different business units.
ii. Oversee the management of Risks, including outsourcing risks and fraud risks, in line with this Policy.
iii. Ensure separation of responsibilities and reporting lines between Risk control functions, business lines and support functions in order to avoid conflict of interest.
iv. Design System triggers that throw up exceptional transactions, taking note of customer/employee alerts/disputes, timely and effective audits and encouraging employees/customers to report suspicious transaction/behaviors for fraud detection.
v. Ensure proper internal controls for managing Risk.
vi. Promote a risk awareness culture within the Company and communicate to business areas and staff, the importance of Risk Management.
vii. Review new products /processes and any modifications in products / processes to highlight Risks in them.
viii. Ensure adequate internal audit coverage to ensure that policies and procedures are adhered to.

8. Review & Amendments

This policy shall be reviewed by the Board of Directors at such intervals as and when deemed necessary, in order to align the same with the prevalent regulatory and business requirements.

If at any point a conflict of interpretation / information between this policy and any regulations, rules, guidelines, notification, clarifications, circulars, master circulars/ directions issued by relevant authorities ("Regulatory Provisions") arises, then interpretation of the Regulatory Provisions shall prevail. In case of any amendment(s) and/or clarification(s) to the Regulatory Provisions, this policy shall stand amended accordingly from the effective date specified as per the Regulatory Provisions.