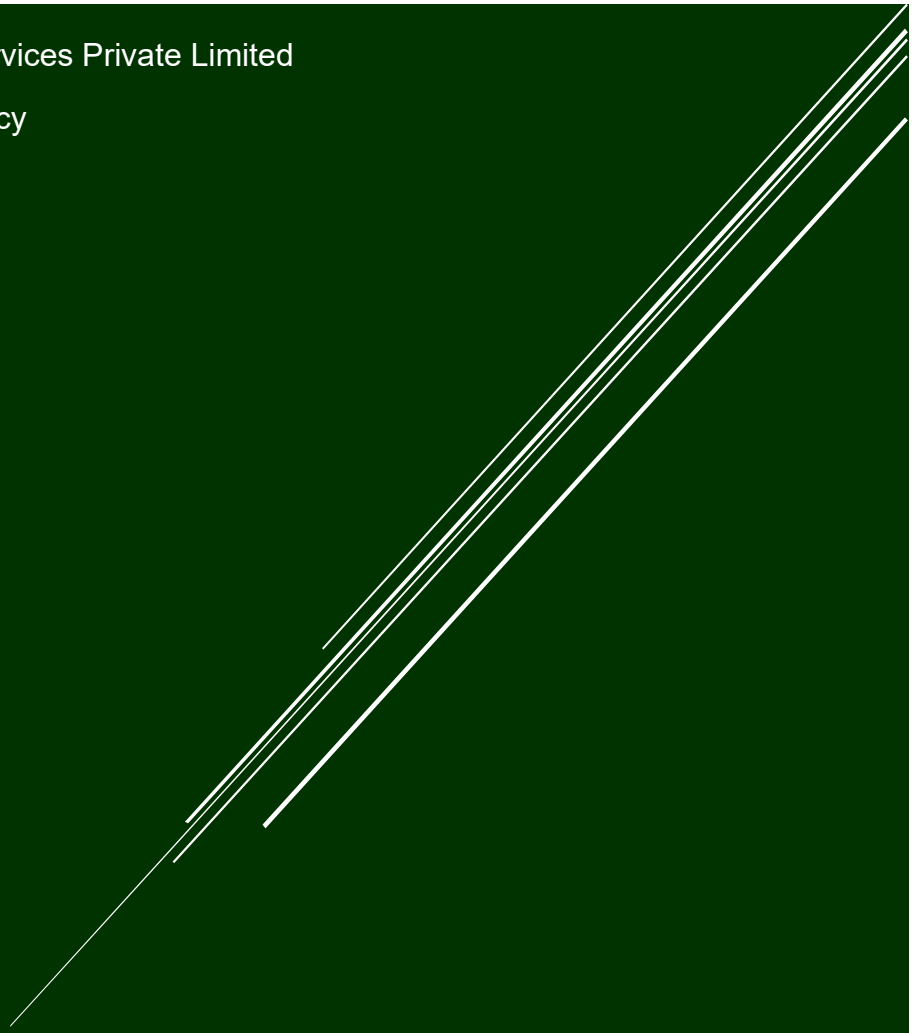


Alpha Alternatives Financial Services Private Limited

Liquidity Risk Management Policy



Version 4.0

Date of Approval: 24.04.2026

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1. Introduction

All non-deposit taking NBFCs with an asset size of ₹100 crore and above are mandated to comply with the Master Direction-Reserve Bank of India (Non-Banking Financial Company-Scale Based Regulation) Directions, 2023 dated October 19, 2023, updated as on February 27, 2025.

It will be the responsibility of the Board to ensure that the guidelines are adhered to. The internal controls required to be put in place by AAFSPL as per these guidelines shall be subject to supervisory review.

2. Liquidity Risk Management Policy, Strategies and Practices

The liquidity risk management framework 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. It shall spell out the entity-level liquidity risk tolerance, funding strategies, prudential limits, system for measuring, assessing and reporting/reviewing liquidity, framework for stress testing, liquidity planning under alternative scenarios/formal contingent funding plan, nature and frequency of management reporting, periodical review of assumptions used in liquidity projection, etc.

The Company shall also assess liquidity risks relating to off-balance sheet exposures on account of special purpose vehicles, financial derivatives, guarantees, and commitments.

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. The Company shall regularly assess its capacity to raise funds quickly from different sources.

The Company shall actively manage its collateral positions, differentiating between encumbered and unencumbered assets. It shall monitor the legal entity and physical location where collateral is held and how it may be mobilised in a timely manner. The Company shall have sufficient collateral to meet expected and unexpected borrowing needs and potential increases in margin requirements over different timeframes.

3. Governance of Liquidity Risk Management

3.1.1. Board of Directors:

The Board shall have the overall responsibility for management of liquidity risk. The Board shall decide the strategy, policies and procedures of the AAFSPL to manage liquidity risk in accordance with the liquidity risk tolerance/limits decided by it.

3.1. 2. Asset–Liability Management Committee (ALCO)

(i) The ALCO consisting of the AAFSPL's top management is responsible for ensuring adherence to the risk tolerance and limits set by the Board as well as implementing the liquidity risk management strategy of the AAFSPL. The Executive Director is the head the committee, with Head Investment/Treasury, CFO, COO, and CRO are the other members of the committee.

(ii) The role of the committee with respect to liquidity risk inter alia include:

- (a) the decision on product pricing, desired maturity profile and mix of the incremental assets and liabilities,
- (b) review the current interest rate scenario, and formulate future business strategy,
- (c) review of borrowings and future funding plans of the company,
- (d) review of the periodical stress testing and compliance with the risk appetite/tolerance limits,
- (e) decision on the structure, responsibilities, and controls for managing liquidity risk.

4. Maturity Profiling

The Company shall adopt the maturity ladder approach as the standard tool for measuring and managing net funding requirements. The Company shall prepare a Maturity Profile to measure the future cash flows in different time buckets. The time buckets shall be distributed as under:

- (1) 1 day to 7 days;
- (2) 8 days to 14 days;
- (3) 15 days to 30 / 31 days (one month);
- (4) Over one month and upto 2 months;
- (5) Over two months and upto 3 months;
- (6) Over 3 months and upto 6 months;
- (7) Over 6 months and upto 1 year;
- (8) Over 1 year and upto 3 years;
- (9) Over 3 years and upto 5 years; and
- (10) Over 5 years

The Company not holding public deposit, all investments in securities shall be categorized as non-mandatory. Non-mandatory securities:

(i)The listed non-mandatory securities shall be placed in any of the "1 day to 7 days, 8 days to 14 days, 15 days to 30 / 31 days (One month)", "Over one month and upto 2 months", and "Over two months and upto 3 months" buckets, depending upon the defeasance period proposed by The Company.

(ii)The unlisted non-mandatory securities (e.g., equity shares, securities without a fixed term of maturity) shall be placed in the "Over 5 years" buckets, whereas unlisted non-mandatory securities having a fixed term of maturity may be placed in the relevant time bucket as per residual maturity.

Unlisted securities shall be valued as per the Reserve Bank of India (Non-Banking Financial Companies - Classification, Valuation and Operation of Investment Portfolio) Directions, 2025.

Alternatively, The Company may follow the concept of 'Trading Book' for maturity profiling of their investment portfolio, which is as follows:

- (1) The composition and volume are clearly defined;
- (2) Maximum maturity / duration of the portfolio is restricted;
- (3) The holding period does not exceed 90 days;
- (4) Cut-loss limit prescribed; and
- (5) Defeasance periods are prescribed (product-wise).

The Company if maintains such Trading Book and complies with the above criteria shall show the trading securities under "1 day to 30 / 31 days (One month)", "Over one month and upto 2 months", and "Over two months and upto 3 months" buckets on the basis of the defeasance periods.

The remaining investments shall also be classified as short- term and long- term investments as required under Reserve Bank of India (Non-Banking Financial Companies - Classification, Valuation and Operation of Investment Portfolio) Directions, 2025.

5. Liquidity Mismatch Management

Within each time bucket, The Company shall monitor mismatches arising from cash inflows and outflows, including mismatches upto one year, which are early warning signals of impending liquidity problems. The primary focus shall be on short-term mismatches viz. 1-30 / 31 days. The net cumulative negative mismatches in the Structural Liquidity Statement (SLS) (refer Annex IV) in the maturity buckets shall not exceed 10 per cent in the 1-7 days bucket, 10 per cent in 8-14 days bucket, and 20 per cent in 15-30 days bucket, measured as percentage of cumulative cash outflows in the respective time buckets.

The Company shall monitor its cumulative mismatches (running total) across all other time buckets upto 1 year by establishing internal prudential limits with the approval of the Board. It shall also adopt the above cumulative mismatch limits in the SLS for consolidated operations. The SLS shall 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 over a time horizon spanning from 1 day to 6 months, based on business projections and other commitments for short term liquidity planning and monitoring on dynamic basis.

6. Interest Rate Risk (IRR) Management

Interest rate risk from the 'earnings perspective' is the immediate impact of interest rate changes on NBFC's earnings (i.e., reported profits) by changing its Net Interest Income (NII). The interest rate risk from 'earnings perspective' is measured using the Traditional Gap Approach (TGA). The Company shall implement appropriate systems to hedge Interest Rate Risk (IRR) arising from fluctuations in market interest rates. The Company shall follow TGA to measure the IRR.

7. Liquidity Risk Tolerance

AAF SPL shall have a sound process for identifying, measuring, monitoring and controlling liquidity risk. The senior management shall develop the strategy to manage liquidity risk in accordance with such risk tolerance and ensure that AAF SPL maintains sufficient liquidity.

The liquidity risk tolerance that is appropriate for its business strategy has been articulated as given below:

- a. Liquidity Coverage Ratio: more than 110%
- b. Net cumulative negative mismatches for 90 days: no negative mismatch
- c. Net cumulative negative mismatches for six months: 5% negative mismatch
- d. Net cumulative negative mismatches up to one year: 10% negative mismatch
- e. Stock ratios

Parameter	Tolerance Limit
i. Concentration of funding (% of total liabilities)	
CP	<10%
Bank lines	<75%
NCD	<60%
ii. Stock ratios (including MLDs)	
Short-term liabilities as a % of total public funds	25.0%
Short-term liabilities as a % of total liabilities	22.5%
Short-term liabilities as a % of total assets	20.0%

8. Liquidity Costs, Benefits and Risks in the Internal Pricing

AAF SPL shall 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.

9. 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, financial derivatives, guarantees and commitments may be given particular importance due to the difficulties it may have in assessing the related liquidity risks that could materialise in times of stress.

10. Funding Strategy- Diversified Funding

AAF SPL 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 shall not be over-reliance on a single source of funding and other funding sources arising out of unique business model.

11. Collateral Position Management

AAF SPL shall actively manage its collateral positions, differentiating between encumbered and unencumbered assets. It shall monitor the legal entity and physical location, where collateral is held and how it may be mobilised in a timely manner. It shall have sufficient collateral to meet expected and unexpected borrowing needs and potential increases in margin requirements over different timeframes.

12. Stress Testing

AAF SPL shall conduct stress tests on a regular 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 its business, activities and vulnerabilities shall be taken into consideration so that the scenarios incorporate the major funding and market liquidity risks to which it is exposed. Some indicative scope and coverage of periodic stress testing exercise are given below.

- (i) partial loss of unsecured wholesale funding capacity
- (ii) partial loss of secured, short-term financing with certain collateral and counterparties
- (iii) additional contractual outflows that would arise from a downgrade in AAF SPL's credit rating, including collateral posting requirements

(iv) increases in market volatilities that impact the quality of collateral or potential future exposure of derivative positions and thus require larger collateral haircuts or additional collateral, or lead to other liquidity needs

(v) unscheduled draws on committed but unused credit and liquidity facilities that the NBFC has provided to its clients; and

(vi) potential need for the NBFC to buy back debt or honour non-contractual obligations in the interest of mitigating reputational risk

13. Contingency Funding Plan

AAF SPL shall formulate a contingency funding plan (CFP) for responding to severe disruptions which might affect its ability to fund some or all its activities in a timely manner and at a reasonable cost.

The contingency plans shall 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.

14. Intra Group transfers

With a view to recognizing the likely increased risk arising due to intra-group transactions and exposures, the CFO shall develop 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. The group liquidity risk management processes and funding programmes shall consider lending, investment, and other activities, and ensure that adequate liquidity is maintained at the head and each constituent entity within the group. The processes and programmes shall 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.

15. Management Information System (MIS)

AAF SPL shall have a reliable MIS designed to provide timely and forward-looking information on its liquidity position and the group to the Board and ALCO, both under normal and stress situations. It shall capture all sources of liquidity risk, including contingent risks and those arising from new activities, and could furnish more granular and time-sensitive information during stress events.

16. Internal Controls

AAF SPL shall have appropriate internal controls, systems and procedures to ensure adherence to liquidity risk management policies and procedure. The Risk Based Internal Audit should ensure that an independent party regularly reviews and evaluates the various components of its liquidity risk management process.

17. Liquidity Risk Measurement-Stock Approach

AAF SPL 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. The ratios and the internal limits shall be based on its liquidity risk management capabilities, experience and profile. An indicative list of certain critical ratios is given below:

- (i) short-term liability of less than one year to total assets
- (ii) short-term liability of less than one year to long term assets
- (iii) commercial papers to total assets
- (iv) non-convertible debentures of original maturity of less than one year to total assets,
- (v) short-term liabilities of less than one year to total liabilities
- (v) long-term assets to total assets

18. Liquidity Coverage Ratio (LCR)

All non-deposit taking NBFCs with asset size of ₹ 5000 crore and above, are required to shall maintain Liquidity Coverage Ratio (LCR) of 100%.

LCR is defined as *Stock of High-Quality Liquid Assets (HQLAs) / Total Net Cash Outflows over next 30 calendar days*

AAF SPL shall maintain an adequate level of unencumbered HQLAs that can be converted into cash to meet its liquidity needs for a 30 calendar-day time horizon under a significantly severe liquidity stress scenario.

The computation of LCRo, HQLA, total net cash outflow, disclosure, etc. shall be as per the LCR Guidelines issued by the Reserve Bank of India.

AAF SPL shall disclose information on their LCR every quarter and it disclose information on LCR for all the four quarters in its annual financial statements under Notes to Accounts. The disclosure format is given in the Annexure-2

AAF SPL shall also provide sufficient qualitative discussion in its annual financial statements under Notes to Accounts about the LCR to facilitate understanding of the results and data provided. For example, where significant to the LCR, it could discuss:

- (a) the main drivers of their LCR results and the evolution of the contribution of inputs to the LCR's calculation over time
- (b) intra-period changes as well as changes over time
- (c) the composition of HQLAs
- (d) concentration of funding sources
- (e) derivative exposures and potential collateral calls
- (f) currency mismatch in the LCR

(g) other inflows and outflows in the LCR calculation that are not captured in the LCR common template, but which the institution considers to be relevant for its liquidity profile

19. Regulatory Reporting and Periodicity

The Company shall submit the following returns:

- (1) Short Term Dynamic Liquidity (STDLE) return (DNBS04A) at quarterly interval.
- (2) Structural Liquidity and Interest Rate Sensitivity return (DNBS04B) at monthly interval.
- (3) Information on LCR every quarter

The Company shall refer to Reserve Bank of India (Filing of Supervisory Returns) Directions, 2024 for submission timelines for above regulatory returns.

20. Policy Review

The policy shall be reviewed and approved by Board annually.

Annexure-1: Public Disclosure on Liquidity Risk

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

Sr No.	Number of Significant Counterparties	Amount (₹ crore)	% of Total deposits	% of Total Liabilities

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

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

(iv) Funding Concentration based on significant instrument/product

Sr No.	Name of the instrument/product	Amount (₹ crore)	% of Total Liabilities

(v) Stock Ratios:

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

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

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

Annexure-2: LCR Disclosure

LCR Disclosure Template			
(₹ in Crore)		Total Unweighted Value (average)	Total Weighted Value (average)
High Quality Liquid Assets			
1	Total High Quality Liquid Assets (HQLA) *		
Cash Outflows			
2	Deposits (for deposit taking companies)		
3	Unsecured wholesale funding		
4	Secured wholesale funding		
5	Additional requirements, of which		
(i)	<i>Outflows related to derivative exposures and other collateral requirements</i>		
(ii)	<i>Outflows related to loss of funding on debt products</i>		
(iii)	<i>Credit and liquidity facilities</i>		
6	Other contractual funding obligations		
7	Other contingent funding obligations		
8	TOTAL CASH OUTFLOWS		
Cash Inflows			
9	Secured lending		
10	Inflows from fully performing exposures		
11	Other cash inflows		
12	TOTAL CASH INFLOWS		
			Total Value Adjusted
13	TOTAL HQLA		
14	TOTAL NET CASH OUTFLOWS		
15	LIQUIDITY COVERAGE RATIO (%)		

**Components of HQLA need to be disclosed