



ICAAP POLICY

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1. INTRODUCTION

1.1 Background

ESAF Financial Holdings Private Limited (Formerly Known as ESAF Microfinance and Investments Private Limited) ("the Company) is the promoting institution for 'ESAF Small Finance Bank'.

The company was registered as a non-deposit accepting Non-Banking Financial Company (NBFC-ND) with the Reserve Bank of India ('RBI') vide Certificate of Registration number B.07.00652 dated 22 August, 2007 and got classified as a Non-Banking Financial Company - Micro Finance Institution ('NBFC-MFI') with effect from 7 January 2014. The Company was primarily engaged in providing Microfinance services to the weaker sections of society, and mainly women who are organized in Joint Liability Groups.

On 18th November, 2016, the company received approval from Reserve Bank of India ('RBI') to set up a Small Finance Bank, pursuant to the same, the company executed an agreement to transfer its business undertaking to its wholly owned subsidiary ESAF Small Finance Bank Limited ('The Bank"). The Bank Commenced operations w.e.f 10 March, 2017, on which date the company ceased to operate as a Microfinance Company.

Based on the Licensing guidelines of RBI applicable to the Bank and pursuant to above changes, the company applied for registration as Core Investment Company ('CIC') on 18th March, 2019. The Company surrendered its NBFC-MFI license and received the approval of the Reserve Bank of India ('RBI') on 26th February 2020, as NBFC-CIC-ND-SI (Core Investment Company - Non-Deposit taking - Systemically Important) entity.

The Company does not have much operations and is not involved in any complex business. It is not having any dealings in securities and do not have any borrowing or lending activities. The Company has raised capital and has invested in the equity capital of ESAF Small Finance Bank Ltd and small amount is invested in the Tier II Bonds of the Bank.

1.2 The Need for an ICAAP Policy

The Internal Capital Adequacy Assessment Process (ICAAP) Policy is a critical component of the risk management framework for Non-Banking Financial Companies (NBFCs), mandated by the Reserve Bank of India (RBI) under the Master Direction - Reserve Bank of India (Non-Banking Financial Company - Scale Based Regulation) Directions, 2023. The primary objective of the ICAAP Policy is to ensure that the company maintain sufficient capital to support their operations and absorb potential losses, thereby promoting financial stability and resilience.

The need for an ICAAP Policy arises from several key factors:

- **Regulatory Compliance:** The RBI requires all NBFCs to implement an ICAAP to comply with the Scale Based Regulation framework. This policy ensures adherence to regulatory expectations, fostering a robust risk management culture within the organization.
- **Risk Management:** An effective ICAAP Policy helps the company identify, assess, and manage various types of risks, including credit risk, market risk, operational risk, and liquidity risk. By comprehensively evaluating these risks, company can ensure they hold adequate capital buffers to mitigate potential adverse impacts.

- **Capital Adequacy:** The ICAAP Policy is designed to assess the capital adequacy of a company in relation to its overall risk profile and business strategy. This process ensures that the company maintains a sound capital base to support its growth and absorb unexpected losses, thus safeguarding stakeholders' interests.
- **Strategic Planning:** Incorporating ICAAP into the strategic planning process enables company to align their capital management with long-term business objectives. This alignment supports sustainable growth and helps in making informed decisions about capital allocation, investment opportunities, and risk-taking activities.
- **Market Confidence:** A well-implemented ICAAP Policy enhances the confidence of investors, creditors, and other stakeholders in the company's ability to manage risks effectively and maintain financial stability. This confidence is crucial for maintaining access to funding and competitive positioning in the market.
- **Operational Resilience:** By continuously monitoring and assessing capital adequacy, the ICAAP Policy helps the company prepare for and respond to economic downturns, market volatility, and other external shocks. This proactive approach ensures operational continuity and resilience in challenging environments.
- **Corporate Governance:** The ICAAP Policy promotes sound corporate governance by ensuring that senior management and the board of directors are actively involved in the capital adequacy assessment process. This involvement ensures accountability and transparency in risk management and capital planning decisions.

The need for an ICAAP Policy is driven by the imperative to maintain capital adequacy, manage risks effectively, comply with regulatory requirements, and support the strategic and operational resilience of the company. By establishing a comprehensive ICAAP framework, company can achieve sustainable growth, protect stakeholders' interests, and enhance their overall financial stability.

2. SCOPE AND OBJECTIVES OF ICAAP

2.1 Scope of ICAAP

The Internal Capital Adequacy Assessment Process (ICAAP) Policy is an integral part of the overall risk management framework of Non-Banking Financial Companies (NBFCs). This section outlines the comprehensive scope of the ICAAP Policy, detailing the various dimensions and activities it encompasses to ensure a robust capital adequacy and risk management system. The scope of the ICAAP Policy includes:

- 1) Risk Identification and Assessment
- 2) Capital Adequacy Measurement
- 3) Capital Planning
- 4) Governance and Oversight
- 5) Regulatory Compliance

By encompassing these key elements, the ICAAP Policy provides a comprehensive framework for assessing and managing the capital adequacy of the company. This ensures that the company is well-equipped to withstand potential risks and continue its operations sustainably and profitably.

2.2 ICAAP – Objectives

The Objectives of ICAAP are:

- To assess and maintain sufficient capital to cover all material risks faced by the company, beyond the minimum regulatory capital requirements.
- To integrate capital planning with the company 's overall risk management framework.
- To promote accountability and transparency in the decision-making process related to capital management and risk mitigation.
- To align capital adequacy assessment with the company's strategic objectives and business plans.
- To enable the company to understand Capital requirements under different economic scenarios and stress scenarios.
- To strengthen the company's position to respond to increasing focus on Capital and Risk management by the Regulators, Investors, Creditors, Rating agencies, Analysts and other stakeholders.
- To comply with the requirements set forth by the Reserve Bank of India under the Scale Based Regulation framework.

2.3 ICAAP – The Principle of Proportionality

The degree of sophistication adopted in the ICAAP with regard to risk measurement and management shall commensurate with the nature, scope, scale and the degree of complexity in the company's business operations. The nature of complexity can be classified as:

- Simple
- Moderately Complex
- Complex

The company believes that its operations are "Simple", The Regulatory requirement for a NBFC that classifies itself as simple are that it:

- a) Identifies and considers its largest losses over the last 3 to 5 years and whether those losses are likely to recur
- b) Prepares a short list of the most significant risks to which it is exposed
- c) Considers how it would act, and the amount of capital that would be absorbed in the event that each of the risks identified were to materialize.
- d) Considers how it's capital requirement might alter under the scenarios in (c) and in line with its business plans for the next 3 to 5 years; and
- e) Documents the ranges of capital required in the scenarios identified above and form an overall view on the amount and quality of capital which that company shall hold, ensuring that its senior management is involved in arriving at that view.

The company shall review its nature of complexity under the principle of proportionality on an annual basis.

3. ICAAP FRAMEWORK AND PROCESS

3.1 ICAAP Framework

The ICAAP policy requires the company to internally assess its capital requirements on an annual basis under an ICAAP framework as on 31st March of every year or as at any other

date/s that the RBI may prescribe from time to time.

The ICAAP shall address all materials risks including but not limited to credit, market and operational risks and assess the capital requirements in such a manner that adequate capital is available to meet the minimum capital requirements set under Pillar I and cover additional risks under Pillar II. Such an assessment shall be evaluated against the prospective plans for future asset growth also in terms of available headroom in capital adequacy.

The company shall use the ICAAP to evaluate its future capital needs and prepare annual plans to raise additional capital, after factoring in the expected plough backs from profit for the year/s, within the then applicable regulatory guidelines. Raising additional capital shall be through any of the available and permissible capital instruments. The choice of a specific route or instrument to raise capital shall be determined by the company, based on the cost of such capital instruments and then prevailing market appetite/conditions.

3.2 ICAAP Process

The ICAAP is a process that consists of the following:

- ICAAP policy approved by the Board gives direction of risk measurement and capital management in the Company.
- The implementation of the ICAAP centers around the risk measurement, capital management and business applications as put forth by the Board of Directors.
- The development and integration of appropriate systems to support risk measurement, capital management and to generate management information.

The steps in the ICAAP Process are detailed below:

1. **Risk Identification:** The company takes appropriate steps and flags off any material risks that emerge as part of its business. These risks shall be included in the steps mentioned below.
2. **Risk Measurement and Monitoring:** After the identification of material risks, the company puts techniques in place to measure or quantify these risks and continuously monitor them.
3. **Risk Aggregation:** The entire gamut of risks that are identified and quantified are aggregated by summing up the estimated total capital required.
4. **Capital Planning:** Future capital planning is conducted based on the results and the relevant risks that are identified.
5. **Capital Allocation, Business Decision Making:** This step relates to the role that the ICAAP process above-enumerated plays in the management of capital adequacy levels. It helps refine strategic initiatives based on the risks identified.

3.3 The Review and Approval of the ICAAP Policy

The ICAAP Policy shall be approved by the Board of Directors of the company. The Policy shall be reviewed by the Board at least on an annual basis. Shorter frequencies of review shall be associated with specific events or material changes which warrant a review.

Company's Secretariat shall be the custodian of the Policy and be responsible for periodic

review and modification with the approval of Board of Directors keeping abreast of changes in regulations/ modified instructions issued by Reserve Bank of India/ Government of India/ other competent authorities from time to time.

4. GOVERNANCE STRUCTURE

4.1 Board of Directors

The Board of Directors has the overall responsibility for design, oversight and implementation of the ICAAP.

Key responsibilities

- Review and approval of ICAAP policy.
- Ensure that the ICAAP is integrated with the company's strategic planning processes, ensuring alignment between capital planning, risk management, and business objectives.
- Ensure that the company maintains adequate capital levels to cover all identified risks, beyond the minimum regulatory requirements.
- Establish a robust governance framework for the ICAAP process, ensuring clear roles and responsibilities at all levels of the organization.
- Regularly monitor the implementation and effectiveness of the ICAAP Policy through comprehensive reports from senior management and independent reviews.
- Ensure compliance with all applicable regulatory requirements related to capital adequacy and risk management as prescribed by the Reserve Bank of India.
- Delegate suitable powers to the RMCB for operational oversight of the ICAAP document and policy.
- Approve the capital plan, detailing the company's capital needs, its anticipated capital utilization, its desired level of capital, limits related to capital erosion and a general contingency plan for dealing with divergences and unexpected events

4.2 Risk Management Committee of the Board (RMCB)

The Risk Management Committee of the Board is accountable for entity-wide risk oversight. RMCB will act as the Steering committee for ICAAP.

Key Responsibilities

- The RMCB shall oversee the matters relating to execution of the policy and provides guidance to the Board and other sub Risk Management committees in the matter of implementation of ICAAP.
- The RMCB will further delegate work to appropriate authorities to the ALCO for conducting ICAAP.

The committee shall be responsible for reviewing the ICAAP document and ensure implementation of policy through various subcommittees.

4.3 Audit Committee of the Board

The ICAAP shall be subject to regular and independent review through an internal or external audit process to ensure that the ICAAP is comprehensive and proportionate to the nature, scope, scale and level of complexity of the company's activities. In internal or external review of the ICAAP beyond an internal audit shall be done by the Bank as per RBI guidelines. After

the audit conclusion, key findings from the internal or external audit of the ICAAP shall be presented to the Audit Committee of the Board.

Key Responsibilities

- To review the audit findings with respect to ICAAP policy compliance
- To review the issues related to non-compliance of ICAAP in the company as per RBI guidelines and Company's internal policy and procedures

4.4 Asset Liability Committee (ALCO)

The Asset Liability Committee (ALCO) shall monitor and supervise the matters relating to Market risk and Asset Liability Mismatch for the ICAAP Policy. The roles and responsibilities of the ALCO shall be adopted for ICAAP purpose also. There shall be a functional owner for the committee, who is responsible for ICAAP related conduct.

5. RISK IDENTIFICATION

5.1 Risk identification

The important aspect of Risk Management Process is the informed understanding of the inherent risks, present and potential, in the operating environment and as such the company considers Risk Identification as the essential part of risk management.

Risk identification is to recognize all potential risks that could impact the company's financial health and capital adequacy. This process ensures that no significant risk is overlooked and that adequate capital is allocated to cover these risks.

By systematically identifying and assessing all material risks, the ICAAP Policy ensures that the company is well-equipped to manage its capital adequacy and maintain financial stability.

Other Sources for Risk Identification

- **Risk based reports** – The company is required to file the Report of Risk Assets and Off-Balance sheet items with Reserve Bank of India on a quarterly basis. Any observation in the report shall be considered appropriately for the risk identification, where applicable.
- **Management discussions** - Senior management, during the course of various meetings / discussions identifies top risks in their respective units and measures to mitigate these.

5.2 Consolidation of Material Risks

For the purpose of consolidation of material risks, all the outputs of the various risk identification methodology are reviewed by the respective stakeholder. These risks are aggregated, capturing the key risk mitigating controls and other details about the particular risk.

5.3 Frequency of Risk Assessment

The material risk assessment consolidation will be done annually. Shorter frequencies of risk assessment shall be associated with specific events or material changes which warrant an immediate assessment of risks.

5.4 Risk Measurement

The company shall follow extant guidelines of RBI in this regard. The Risk Measurement of various risks for the purpose of ICAAP are detailed in “*Risk Measurement & Monitoring*” section.

5.5 Internal Controls

Risk management processes should be frequently monitored and tested by independent control areas and internal, as well as external, auditors. The aim is to ensure that the information on which decisions are based is accurate so that processes fully reflect management policies and that regular reporting, including the reporting of limit breaches and other exception-based reporting, is undertaken effectively. The risk management function of company must be independent of the business lines in order to ensure an adequate separation of duties and to avoid conflicts of interest.

6. RISK MEASUREMENT AND MONITORING

6.1 Pillar 1 Risks

Pillar 1	
Risk Factor	Short Definition
Credit Risk	Credit risk is defined as “the possibility that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms.”
Market Risk	Market risk is defined as “the risk that the value of ‘on’ or ‘off’ balance sheet positions will be adversely affected by movements in equity and market interest rate, currency exchange rates, and commodity prices.
Operational Risk	Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

6.1.1 Credit Risk

As the Company is a Non-Deposit Taking – Systemically Important – Non-Banking Financial Company (ND-SI-NBFC) registered as a Core Investment Company (CIC) with RBI, the company do not undertake any borrowing or lending activities. Accordingly, the company’s exposure to credit risk is very low.

Risk weights prescribed by RBI and as applicable for the company, pertaining to the various Balance sheet items with regard to Credit risk shall be considered for capital computation by the company.

6.1.2 Market Risk

The Company has raised capital and has invested in the equity shares of ESAF Small Finance Bank Ltd and small amount is invested in the Tier II Bonds of the Bank. The Company is the major shareholder of the Bank. These are not trade investments and so, the company is not required to mark to market the investments. Also, as of now, RBI has not mandated the Capital requirement for Market risk for Middle layer NBFCs (NBFC-ML).

6.1.3 Operational Risk

Based on the company's own experiences, following are the key operational risks that the company may encounter.

a) Employment practices and workplace safety

This risk may arise due to breach in some of the statutory payments with respect to employee benefits such as timely payment and remittance of employee provident fund, gratuity, statutory bonus etc. In order to mitigate such risks company keeps track on timely payment and remittance of such dues. As the company has established a fool proof system of cross checking by the accounts team on monthly basis and it also verified by the statutory auditors every quarter, the perceived risk with respect to employee practices is considered insignificant.

Risk with regards to workplace safety may arise due to discrimination, sexual harassment or general liability because of damage incurred by the company's staff. The company policies have zero tolerance on such issues and take a strict disciplinary action, including even termination of such errant employee from his/her job. Because of such strict policy being in place perceived risk with respect to workplace safety is quite low. Impact on capital from both of these risks is also low.

b) Business disruption and system failures

Business disruption risk due to unforeseen circumstances such as pandemic, political unrest, changes in the government/ regulatory policies, etc. may pose high risk for the company. As the company do not have control over such kind of external risk, the company mitigate this risk by maintaining adequate capital and taking appropriate measures well in time.

Impact of Risk of system failures is low in frequency and medium in impact as the company has adopted adequate measures to mitigate this risk. Moreover, company do not perceive significant impact on capital because of this risk.

Also, as of now, RBI has not mandated the Capital requirement for Operational risk for Middle layer NBFCs (NBFC-ML). Any risks identified and not covered under Pillar 1 shall be appropriately treated in Pillar 2 risks.

6.2 Pillar 2 Risks

A few risks are explained below:

Pillar 2	
Risk Factor	Short Definition
Liquidity Risk	Liquidity risk refer to the Company's inability to obtain funds at reasonable rates for meeting Cash Flow obligations.
Strategic Risk/Business Risk	The risk that arise when a business strategy fails to deliver the expected outcomes, affecting the entity's development and growth. The risk may be due to a technological change, an evolving competitive landscape, or changes in customer demands.
Reputation Risk	Reputation risk is any sort of threat or danger that can damage the good standing of entity's business and negatively impact the entity's reputation with customers and overall business success. These risks are typically unexpected and can occur with little to no warning.

Cyber Security Risk	Cyber risk commonly refers to the risk of financial loss, disruption or reputational damage to an organization resulting from the failure of its IT systems. These episodes include malicious cyber incidents (cyberattacks) where the threat actor intends to do harm (e.g. ransomware attacks, hacking incidents or data theft by employees).
Legal Risk	Legal risk is the potential loss that a company or individual could face as the result of a legal issue. It is the result of non-compliance with laws, rules and regulations of the Govt. and other statutory bodies that control businesses. Legal risks can cause both monetary and non-monetary losses to a business.
Compliance Risk	Compliance risk is the risk of impairment to the Organization's business model, reputation and financial condition resulting from failure to meet laws and regulations, internal standards and policies and the expectations of key stakeholders such as customers, employees and society as a whole.
Residual Risk	Residual risk is the amount of risk or danger associated with an action or event remaining after natural or inherent risks have been reduced by risk controls.

6.3 Policy on Maintaining Minimum Capital

Based on the assessment of the various risks, it is clear that the risks which can majorly impact the company's capital are Pillar I risks.

The company has been comfortably managing the perceived risks by maintaining the capital over and above the RBI prescribed capital limit of Capital to Risk Weighted Assets (CRAR) of 30%, with Tier I capital. As of now, the company does not have Tier II capital.

Pillar 1:

The Adjusted Net Worth of a CIC shall at no point of time be less than 30% of its aggregate risk weighted assets on balance sheet and risk adjusted value of off-balance sheet items as on the date of the last audited balance sheet as at the end of the financial year.

The degrees of credit risk expressed as percentage weights have been assigned to balance sheet assets and degrees of credit risk exposure attached to off-balance sheet items have been expressed as percentage of credit conversion factor. RBI norms for calculation of risk weighted assets of On-Balance Sheet items and risk adjusted value of off-balance sheet items are detailed in **Annexure 1**.

Pillar 2:

As the Reserve Bank of India has not mandated the Capital requirement for Market Risk and Operational risk under Pillar 1 Risks for NBFC-ML, the company has considered the same under Pillar 2 Risks.

Market risk:

The minimum capital requirement for market risk is expressed in terms of two separately calculated charges.

- a. Specific Risk – The charge for each security, which is designed to protect against an adverse movement in the price of an individual security owing to factors related to the

individual issuer both for short and long positions.

- b. General Market Risk – The capital requirements for general market risk are designed to capture the risk of loss arising from changes in market interest rates.

The company follows the Standardized Duration Method as prescribed by RBI for to arrive at the capital charge for general market risk as per procedures laid down by the regulator in this regard. The same is calculated for each instrument based on the modified duration of the instrument and assumed change in the yield (market value * modified duration * assumed change in yield = capital required).

The company has considered the Equity at acquisition cost and since the same has been already considered in Pillar 1 risks, no capital charge is found required to be maintained under Pillar 2 risks.

In respect of the unquoted Bonds of the Associate held by the company, the company follows the Standardized Duration Method, to arrive at the capital charge for the general market risk. Specific risk in respect of the bonds is covered in Pillar 1.

Operational risk:

The company adopts Basic Indicator Approach for arriving at capital charge for operational risk in accordance with the RBI guidelines applicable for commercial banks. Under this approach company must hold capital for operational risk equal to the average over the previous three years of a fixed percentage of positive annual gross income.

Other Pillar 2 risks:

Considering the nature of activities of the company, the probability of the occurrence of other Pillar 2 risks as mentioned above is negligible. The Management shall consider those Pillar 2 risks, as and when need arises.

Leverage Ratio:

The outside liabilities of a CIC shall at no point of time exceed 2.5 times its Adjusted Net Worth as on the date of the last audited balance sheet as at the end of the financial year. As of now, directions on leverage ratio have not been made applicable for ML-NBFCs and the company does not have outside borrowings as of now.

CRAR (Capital to Risk Assets Ratio) mostly relating to Pillar 1 credit risks as prescribed by RBI is 30 %. Investments exceeding 10% of the owned funds in the group companies are to be netted from capital funds as per RBI guidelines. The Adjusted Networkth arrived at after such netting is reckoned for computing the CRAR. The company shall compute CRAR at combined level on Pillar 1 items as prescribed by RBI and on Pillar 2 items as per the ICAAP Policy.

6.4 Remedial Actions

The Company shall assess the CRAR as per ICAAP Policy at half yearly intervals. The floor level CRAR/ targeted level of capital shall be prescribed at 40%, which gives a margin of safety of 10% above the RBI prescribed minimum of 30%.

The company shall resort to necessary corrective measures, in case the ICAAP CRAR is about to reach the floor level of 40%.

7. RISK AGGREGATION

The Company's overall capital requirement is thus the summation of the capital required for each of the individual material risks identified. The company shall also take into consideration the benefits of diversification of their risk in this assessment going forward.

Implementation and reporting of the aggregated capital at risk shall be conducted by the ALCO and RMCB. The Company assesses the Pillar 1 capital requirements in accordance with the RBI guidelines and Pillar 2 capital requirements for each material risk.

The Risk assessment shall be made on a half yearly basis and the same shall be reported to the Risk Management Committee of Board, on a half yearly basis.

8. CAPITAL PLANNING AND MANAGEMENT

Capital requirements are impacted by any changes in the regulatory requirements, economic environment and the risks arising out of the company's activities. Capital planning shall serve the purpose of ensuring capital adequacy at times when the company faces economic headwinds, such as a recessionary scenario. In its capital planning process, the Company shall assess:

- o The adequacy of its capital buffers above regulatory minimums
- o Its current capital position and requirements based on the company's risk profile (for all material risks)
- o Its targeted level of capital, commensurate with its risk appetite.
- o Changes in the dividend policy, if any, and its subsequent impact on the retention of net profits
- o Based on the above analysis, possible sources of capital and management action plans shall be developed to ensure adequate level of capitalization for the Company.
- o Company's strategy and business objectives, use in determining the acceptable levels of risk, and measures taken to achieve the desired growth plans.

ANNEXURE – 1

On balance sheet assets			
Degrees of credit risk expressed as percentage weights have been assigned to balance sheet assets. Hence, the value of each asset / item requires to be multiplied by the relevant risk weights to arrive at risk adjusted value of assets. The aggregate shall be taken into account for reckoning the capital ratio. The risk weighted assets shall be calculated as the weighted aggregate of funded items as detailed hereunder:			
Weighted risk assets - On-Balance Sheet items			Percentage weight
(i)		Cash and bank balances including fixed deposits and certificates of deposits with banks	0
(ii)		Investments	
	a)	Approved securities [Except at (c) below]	0
	b)	Bonds of public sector banks	20
	c)	Fixed deposits/certificates of deposits/bonds of public financial institutions	100
	d)	Shares of all companies and debentures / bonds/commercial papers of all companies and units of all mutual funds	100
(iii)		Current assets	
	a)	Stock on hire (net book value)	100
	b)	Intercompany loans/deposits	100
	c)	Loans and advances fully secured against deposits held	0
	d)	Loans to staff	0
	e)	Other secured loans and advances considered good [Except at (vi) below]	100
	f)	Bills purchased/discounted	100
	g)	Others (To be specified)	100
(iv)		Fixed Assets (net of depreciation)	
	a)	Assets leased out (net book value)	100
	b)	Premises	100
	c)	Furniture & Fixtures	100
(v)		Other assets	
	a)	Income tax deducted at source (net of provision)	0
	b)	Advance tax paid (net of provision)	0
	c)	Interest due on Government securities	0
	d)	Others (to be specified)	100
(vi)		Domestic Sovereign	
	a)	fund based claims on the Central Government	0
	b)	Direct loan / credit / overdraft exposure and investment in State Government securities	0
	c)	Central Government guaranteed claims	0
	d)	State Government guaranteed claims, which have not remained in default / which are in default for a period not more than 90 days	20
	e)	State Government guaranteed claims, which have remained in default for a period of more than 90 days	100
Notes:			
(i)	Netting shall be done only in respect of assets where provisions for depreciation or for bad and doubtful debts have been made.		
(ii)	Assets which have been deducted from owned funds to arrive at net owned funds shall have a weight of 'zero'.		
(iii)	While calculating the aggregate of funded exposure of a borrower for the purpose of assignment of risk weight, such CICs shall net off the amount of cash margin/caution money/security deposits (against which right to set-off is available) held as collateral against the advances out of the total outstanding exposure of the borrower.		

- (iv) The counterparty credit risk, arising out of exposure of CICs to CCIL on account of securities financing transactions (CBLOs) shall carry a risk weight of zero, as it is presumed that the CCP's exposures to their counterparties are fully collateralised on a daily basis, thereby providing protection for the CCP's credit risk exposures. The deposits / collaterals kept by CICs with CCIL shall attract a risk weight of 20%.

Off-balance sheet items

Degrees of credit risk exposure attached to off-balance sheet items have been expressed as percentage of credit conversion factor. Hence, the face value of each item requires to be first multiplied by the relevant conversion factor to arrive at risk adjusted value of off-balance sheet item. The aggregate shall be taken into account for reckoning the minimum capital ratio. This shall have to be again multiplied by the risk weight of 100. The risk adjusted value of the off-balance sheet items shall be calculated as per the credit conversion factors of non-funded items as detailed hereunder: -

Nature of item		Credit conversion factor Percentage
i)	Financial & other guarantees	100
ii)	Share/debenture underwriting obligations	50
iii)	Partly-paid shares/debentures	100
iv)	Bills discounted/rediscounted	100
v)	Lease contracts entered into but yet to be executed	100
vi)	Sale and repurchase agreement and asset sales with recourse, where the credit risk remains with the NBFC	100
vii)	Forward asset purchases, forward deposits and partly paid shares and securities, which represent commitments with certain draw down	100
viii)	Lending of NBFC securities or posting of securities as collateral by the NBFC, including instances where these arise out of repo style transactions	100
ix)	Other commitments (e.g., formal standby facilities and credit lines) with an original maturity of up to one year	20
	over one year	50
x)	Similar commitments that are unconditionally cancellable at any time by the NBFC without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	0
xi)	Take-out Finance in the books of taking-over institution	
	(a) Unconditional take-out finance	100
	(b) Conditional take-out finance	50
Note: As the counter party exposure will determine the risk weight, it will be 100% in respect of all borrowers or zero % if covered by Government guarantee.		
xii)	Commitment to provide liquidity facility for securitization of standard asset transactions	100
xiii)	Second loss credit enhancement for securitization of standard asset transactions provided by the third party	100
xiv)	Other contingent liabilities (To be specified)	50
Notes:		
1.	Cash margins/deposits shall be deducted before applying the conversion factor.	
2.	Where the non-market related off-balance sheet item is an undrawn or partially undrawn fund-based facility, the amount of undrawn commitment to be included in calculating the off-balance sheet non-market related credit exposures is the maximum unused portion of the commitment that could be drawn during the remaining period to maturity. Any drawn portion of a commitment forms a part of NBFC's on-balance sheet credit exposure.	