



ABANS FINANCE PRIVATE LIMITED

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP) POLICY

Version I

Version	Adoption / Amended	Authority	Date
I	Adoption	Board of Directors	May 27, 2025

I. POLICY STATEMENT AND PURPOSE

Abans Finance Private Limited ("Company") is registered as a non-deposit taking/accepting NBFC with the RBI, *vide* certificate of registration number B-13.02044 dated April 22, 2013, and is recognized as a middle-layer NBFC with effect from year ended March 2024.

The Company's lending activities comprise exposures to both group entities and external parties

The Company also undertakes: (i) treasury operations whereby it undertakes trading in derivatives and making investments in G-Secs, which can be also funded through external borrowings including TREPS borrowings; (ii) trading in derivatives which are utilized for the purposes of hedging the borrowings raised through MLDs. (iii) adopting of a risk-appetite framework ("RAF") that determines the risk appetite of the Company as approved by the Board, and more particularly captured in Schedule 1 hereunder.

The Need for an ICAAP Policy

The ICAAP Policy is a critical component of the risk management framework for NBFCs mandated by the RBI under the Scale Based Directions. The primary objective of the ICAAP Policy is to ensure that the Company maintains sufficient capital to support its operations and absorb potential losses, thereby promoting financial stability and resilience in its overall functioning.

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

1. **Regulatory Compliance:** The RBI requires all NBFCs to implement an ICAAP Policy in order to comply with the Scale Based Directions. This ICAAP Policy ensures adherence to the regulatory expectations, fostering a robust risk management culture within the organization.
2. **Risk Management:** An effective ICAAP Policy helps the Company identify, assess and manage various types of risks, including without limitation: (i) credit risk; (ii) market risk; (iii) operational risk; and (iv) liquidity risk. By comprehensively evaluating these risks, the Company can ensure they hold adequate capital buffers to mitigate potential adverse impacts during the course of its business operations.
3. **Capital Adequacy:** The ICAAP Policy is also designed to assess the capital adequacy of the 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 any unexpected losses that arise during the course of its operations, thereby safeguarding the various stakeholders' interests.
4. **Strategic Planning:** Incorporating ICAAP into the strategic planning process enables the Company to align their capital management process with their long-term business objectives. This alignment facilitates sustainable growth and assists the Company and its personnel in making informed decisions about capital allocation, investment opportunities and risk-taking activities.

5. **Market Confidence:** A well-implemented ICAAP Policy enhances the confidence of the investors, creditors and other stakeholders in the Company's ability to manage its risks effectively and maintain financial stability. This confidence is crucial for ensuring access to funding and competitive positioning in the market.
6. **Operational Resilience:** By continuously monitoring and assessing the capital adequacy maintained by the Company, 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.
7. **Corporate Governance:** The ICAAP Policy promotes sound corporate governance by ensuring that the senior management and the Board of the Company are actively involved in capital adequacy and assessment process. This involvement ensures accountability and transparency in the risk management and capital planning decisions of the Company.

The need for an ICAAP Policy is driven by the imperative to: (i) maintain capital adequacy; (ii) manage risks effectively; (iii) comply with regulatory requirements; and (iv) aid in the strategic and operational resilience of the Company. By establishing a comprehensive ICAAP framework, the Company can achieve sustainable growth, protect its various stakeholders' interests and enhance its overall financial stability.

II. SCOPE

As stated hereinbefore, the ICAAP Policy is an integral part of the overall risk management framework of 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:

- Risk Identification and Assessment;
- Capital Adequacy Measurement;
- Capital Planning;
- Governance and Oversight; and
- 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 in a sustainable and profitable manner.

III. OBJECTIVES OF ICAAP

The Objectives of the ICAAP Policy are:

- i. To assess and maintain sufficient capital to cover all material risks faced by the Company, beyond the minimum regulatory capital requirements prescribed by the RBI or any other Governmental Authority.

- ii. To integrate capital planning as part of the Company's overall risk management framework.
- iii. To promote accountability and transparency in the decision-making process related to capital management and risk mitigation of the Company.
- iv. To align capital adequacy assessment with the Company's strategic objectives and business plans.
- v. To enable the Company to understand its capital requirements under different economic scenarios and stress scenarios.
- vi. To strengthen the Company's position in responding to increasing focus on capital and risk management by the regulators, investors, creditors, rating agencies, analysts and various other stakeholders.
- vii. To comply with the requirements set forth by the RBI under the Scale Based Directions.

The Principle of Proportionality

The degree of sophistication adopted in the ICAAP Policy with respect to risk measurement and management shall be commensurate with the nature, scope, scale and degree of complexity in the Company's business operations. The nature of complexity can be classified as: (i) simple; or (ii) moderately complex; or (iii) complex.

The operations of the company can be classified under the broad head of simple/moderately complex/complex. The Company believes that its operations are simple in this case.

The following paragraphs illustratively enumerates the Broad approach which could be considered by NBFCs with varying levels of complexity in their operations, in formulating their ICAAP.

As the NBFC defines its activities and risk management practices as simple, in carrying out its ICAAP, that NBFC could:

- (a) identify and consider their largest losses over the last 3 (three) to 5 (five) years and whether those losses are likely to recur;
- (b) prepare a short list of the most significant risks to which that the NBFC is exposed to;
- (c) consider how the NBFC would act, and the amount of capital that would be absorbed in the event that each of the risks identified were to materialise;
- (d) consider how the NBFC's capital requirement might alter under the scenario in (c) and how its capital requirement might alter in line with its business plans for the next 3 (three) to 5 (five) years; and

(e) document the ranges of capital required in the scenarios identified above and form an overall view on the amount and quality of capital which that NBFC should 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.

IV. ICAAP FRAMEWORK AND PROCESS

A. ICAAP Framework and Capital Planning

The ICAAP Policy requires the Company to internally assess its capital requirements on an annual basis under an ICAAP framework as on the 31st of March of every year or as at any other date/s that the RBI may prescribe, from time to time.

The ICAAP Policy shall address all materials risks, including but not limited to credit, market, liquidity 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 of the Basel III Regulations and cover additional risks/capital buffers under Pillar II of the Basel III Regulations.

Such an assessment shall be evaluated against the prospective plans for future asset growth also, in terms of available headroom in capital adequacy. Such a capital adequacy assessment by the Company is undertaken for both normal and stressed scenarios, experienced/to be experienced by the Company.

The Company shall use the ICAAP Policy 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 within the then applicable regulatory guidelines. The overall capital planning horizon for the Company is 3 (three) years, with an annual review of the performance, in accordance with the Scale Based Directions.

B. ICAAP Process

The ICAAP is a process that consists of the following:

- (i) The ICAAP Policy as approved by the Board shall give directions of risk measurement and capital management in the Company.
- (ii) The implementation of the ICAAP centers around risk measurement, capital management and business applications as put forth by the Company's Board.
- (iii) The development and integration of appropriate systems to support risk measurement, capital management and for generation of management information.

The steps in the ICAAP process are detailed below:

- A. **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 risk identification

and quantification process mentioned below.

- B. **Risk Measurement and Monitoring:** After the identification of any material risks, the Company will put techniques/measures in place to identify and quantify these risks and continuously monitor them.
- C. **Risk Aggregation:** The entire gamut of risks that are identified and quantified are then aggregated by summing up the estimated total capital required for protection against such identified risks.
- D. **Capital Planning:** Future capital planning is conducted based on the results and the relevant risks that are identified by the Company in the manner stated hereinabove.
- E. **Capital Allocation and Business Decision Making:** This step relates to the role that the ICAAP process enumerated above plays in the management of capital adequacy levels. It helps the Company to refine/modify the strategic initiatives proposed to be undertaken by the Company proportionate to the risks identified and quantified in accordance with paragraph 3.2.2(C) above.

V. GOVERNANCE STRUCTURE

A. Board of Directors

The Board has the overall responsibility for design, oversight and implementation of the ICAAP Policy and process. The key responsibilities of the Board in relation to the ICAAP Policy include:

- i. reviewing and approving ICAAP Policy on at least an annual basis;
- ii. ensuring that the ICAAP Policy and the objectives contained herein are integrated with the Company's strategic planning processes, thereby ensuring alignment between capital planning, risk management and the business objectives of the Company;
- iii. ensuring that the Company maintains adequate capital levels to cover all identified risks, beyond the minimum regulatory requirements prescribed by the RBI;
- iv. establishing a robust governance framework for the ICAAP process, thereby ensuring clear roles and responsibilities at all levels of the organization;
- v. regularly monitoring the implementation and effectiveness of the ICAAP Policy through comprehensive reports from senior management and undertaking independent reviews of the same;
- vi. ensuring compliance with all applicable regulatory requirements related to capital adequacy and risk management as prescribed by the RBI, including without limitation, the Scale Based Directions;
- vii. delegating suitable powers to the Risk Management Committee ("RMC") for operational oversight of the ICAAP Policy, as required; and
- viii. approving the capital plan that contains the details of the Company's capital needs, its

anticipated capital utilization, its desired level of capital, any limits related to capital erosion and a general contingency plan for dealing with divergences/contingent events and unexpected events.

B. Risk Management Committee

The RMC of the Board is accountable for ensuring and maintaining an entity-wide risk oversight. The RMC will act as a steering committee for the purposes of this ICAAP Policy. The key responsibilities of the RMC include:

- i. identification and quantification of the various risks identified by the Company, to ensure compliance with the Scale Based Directions;
- ii. overseeing the matters relating to execution of the policy and providing guidance to the Board and other sub risk management committees on the matters relating to the implementation of this ICAAP Policy; and

The RMC shall also review the ICAAP Policy.

C. Finance Committee (“FC”)

The FC has the responsibility of overseeing the lending and proprietary investment decisions, that forms a core business for the Company.

D. Audit Committee of the Board (“AC”)

The ICAAP shall be subject to regular and independent review through an internal and/or external audit process to ensure that the ICAAP Policy is comprehensive and proportionate to the nature, scope, scale, size and level of complexity of the Company’s activities.

In the internal or external review of the ICAAP Policy beyond an internal audit, it shall be done by the NBFC as per RBI guidelines/notifications/instructions. After the conclusion of the audit by an external auditor, the key findings from the internal and/or external audit of the ICAAP Policy shall be presented to the AC of the Board.

The key responsibilities of the AC include:

- i. to review the audit findings as presented/identified in the internal/external audit with respect to ICAAP Policy and its compliance by the Company; and
- ii. to review the issues related to non-compliance of the ICAAP Policy maintained by the Company as per RBI guidelines, including the Scale Based Directions and the Company’s internal policy and procedures.

E. Asset Liability Committee (“ALC”)

The ALC shall bear the primary responsibility for management of the liquidity, interest rate and funding risks associated with the business of the Company. It should also monitor and supervise matters relating to market risk and asset liability mismatch for the purposes of the ICAAP Policy.

VI. RISK IDENTIFICATION

The important aspect of the 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 an essential part of the risk management process.

Risk identification is the process of recognizing all potential risks that could impact the Company's financial health and capital adequacy, which form the cornerstone of this ICAAP Policy. This process ensures that no significant risk is overlooked and that the adequate capital required to be maintained and allocated to cover these risks is being duly maintained.

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.

A. Other Sources for Risk Identification

Risk-based reports: The Company is required to file a report of '*risk assets and off-balance sheet items*' with the RBI, on a quarterly basis. Any observation in the report shall be considered appropriately for risk identification, where applicable.

Management discussions: The Company's senior management, during the course of various meetings/ discussions identifies top risks in their respective units and measures to mitigate these..

B. Consolidation of Material Risks

For the purpose of consolidation of material risks of the Company, the output(s) of the various risk identification methodology(ies) are to be reviewed by the respective stakeholders. These risks are then aggregated, thereby capturing the key risk mitigating controls and other details about the particular risk.

C. Frequency of Risk Assessment

The material risk assessment consolidation will be done on an annual basis. Shorter frequencies of risk assessment shall be associated with specific events or any material changes in the Company that warrant an immediate assessment of the present and potential risks experienced by the Company.

D. Risk Measurement

The Company shall follow the extant guidelines of the RBI in this regard, including the Scale Based Directions. The risk measurement of various risks for the purpose of ICAAP are detailed in the "*Risk Measurement & Monitoring*" section of this ICAAP Policy below.

E. Internal Controls

The 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 made by the various committees/sub-committees of the Company is accurate so that the 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 the Company must be independent of the business lines in order to ensure adequate separation of duties and to avoid conflicts of interest in its reporting.

VII. RISK MEASUREMENT AND MONITORING

Pillar 1 Risks

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

A. Credit Risk

- The Company’s lending activities are primarily for its group companies and the concentration of its funds to the group entities is closely monitored by the Company. Any lending by the Company is required to undergo a credit evaluation process

- The Company will adopt the expected credit loss (“ECL”) methodology for the purpose of provisioning of its assets, in accordance with the Scale Based Directions.
- Risk weights prescribed by the RBI and as applicable to the Company, pertaining to the various balance sheet items with regard to credit risk shall be considered for capital computation by the Company.

B. Market Risk

- The Company has undertaken proprietary derivative trading and MLD hedging, which is subject to ‘Value at Risk’ limits.
- The interest rate risks on the G-Secs invested by the Company are monitored
- As per RBI Scale Based Directions, the Company being a middle-layer NBFC has maintained the required minimum capital base.

C. Liquidity Risk

- The overall liquidity risk of the Company will be monitored.
- The TREPS borrowings of the Company are managed to ensure adequate asset-liability mismatch, as prescribed by the RBI, from time to time.

D. Operational Risk

Based on the Company’s experience, the following are some of 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, the Company keeps track of timely payment and remittance of such dues, accrued and payable. The Company has established a fool-proof system of cross-checking by the accounts team on a monthly basis which is also verified by the statutory auditors every quarter, thereby the Company believes that the perceived risk with respect to employee practices is considered insignificant.

Risks with regard to workplace safety may arise due to discrimination, sexual harassment or general liability, because of the damage incurred by the Company’s staff. The Company’s policies have zero tolerance on such issues, and it takes strict disciplinary actions, including termination of such errant employees from his/her job. On account of this strict policy being in place, the perceived risk with respect to workplace safety is significantly low. The overall impact on capital from these risks is therefore low.

b) Business disruption and system failures

Business disruption is the risk arising due to unforeseen circumstances such as the pandemic, political unrest, changes in the government/ regulatory policies, etc. may pose high risk for the Company. As the Company has no control over the occurrence and the impact of such unpredictable external risks, the Company undertakes to mitigate this risk by maintaining adequate capital and taking appropriate measures well in time to assuage any substantial damage from such an event.

The overall impact of system failures is low in frequency and medium in impact as the Company has adopted adequate measures to mitigate this risk by undertaking risk-control self-assessment process on an annual basis. Moreover, the Company does not anticipate significant impact on capital because of this risk.

c) Exposure due to Group Lending

The amounts lent by the Company to its group entities are monitored, tracked and reviewed on an arm's length basis and in accordance with the Applicable Law, including prudential norms.

Any risks identified and not covered under Pillar 1 shall be appropriately treated in Pillar 2 risks.

Pillar 2 Risks

A few risks are explained below:

Pillar 2	
Risk Factor	Short Definition
Strategic Risk/Business Risk	The risk arises when a business strategy fails to deliver the expected outcomes, thereby affecting the entity's development and growth. The risk may be due to technological changes, evolving competitive landscape or changes in customer demands.
Reputation Risk	The risk arises as a result of any threat or danger that can damage the good standing of the entity's business and negatively impact the entity's reputation with its customers and thereby affect the overall business success/growth of the Company. This risk is typically unexpected and can occur with little to no warning.
Cyber Security Risk	The risk of financial loss, disruption or reputational damage to an organization resulting from the failure of its information technology systems. These episodes include malicious cyber incidents such as cyberattacks, where the threat actor intends to do harm (e.g.

	ransomware attacks, hacking incidents or data theft by employees or external third-parties).
Legal Risk	The potential loss that the Company could face as a result of a legal imbroglio. It is the result of non-compliance with laws, rules and regulations of the Governmental Authorities and other statutory bodies that control businesses, especially the guidelines issued by the RBI. Legal risks can cause both monetary and non-monetary losses to a business.
Compliance Risk	The risk of impairment to the Company'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 the society as a whole.
Residual Risk	The amount of risk or danger associated with an action or event remaining after natural or inherent risks have been reduced by risk controls.

Policy on Maintaining Minimum Capital

The Company will adhere to the minimum capital requirements under the Scale Based Directions at all the times.

Remedial Actions

- The Company shall assess the CRAR as per ICAAP Policy at regular intervals.
- The floor level CRAR shall be as per the RBI prescribed minimum of 15% (fifteen percent) guidelines.
- The Company shall resort to necessary corrective measures, in case the ICAAP CRAR is about to reach the floor level of 17% (seventeen percent).

STRESS TESTING

The Company conducts stress tests on a in case of adverse scenarios faced by the Company such as: (i) deterioration of the overall credit portfolio/profile of the Company; (ii) volatility of the market that affects the proprietary books of the Company; and (iii) liquidity crunches/losses.

The outcome of such an assessment is communicated to the RMC, which takes into account, the results obtained thereunder and incorporates such updates while determining the capital adequacy and buffers to be maintained by the Company.

RISK AGGREGATION

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

The Company assesses the Pillar 1 capital requirements and Pillar 2 capital requirements for each material risk, in accordance with the RBI guidelines, including the Scale Based Directions.

The risk assessment shall be undertaken by the Company at periodic intervals, and the same shall be reported to the RMC, on a quarterly basis.

VIII. 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:

- (i) the adequacy of its capital buffers above the required regulatory minimum;
- (ii) its current capital position and requirements based on the Company's overall risk profile (for all material risks);
- (iii) the targeted level of capital, commensurate with the Company's risk appetite and the nature, scope and size of the Company;
- (iv) changes in the dividend policy, if any, and its subsequent impact on the retention of net profits;
- (v) based on the above analysis, possible sources of capital and management action plans to ensure an adequate level of capitalization for the Company; and
- (vi) its strategy and business objectives, to determine the acceptable levels of risk and measures taken to achieve the desired growth plans.

IX. REVIEW AND APPROVAL OF THE ICAAP POLICY

The ICAAP Policy shall be approved by the Board of the Company and shall be reviewed by the Board at least on an annual basis, in accordance with the Scale Based Directions. Shorter frequencies of review shall be associated with specific events or any material changes to the risk assessment process/framework of the Company, which shall warrant a review of the ICAAP Policy.

The Company's secretariat shall be the custodian of this ICAAP Policy and shall be responsible for periodic review and modification with the approval of the Board, being kept

abreast of any changes in regulations/modifications/notifications/instructions issued by RBI or any other Governmental Authority, including without limitation, the Government of India.

X. AMENDMENT

The Board of Directors of the Company reserves the power to review and amend this Policy from time to time, subject to revision / amendment in accordance with applicable laws as may be issued by relevant statutory, governmental and regulatory authorities, from time to time. In case of any amendment(s), clarification(s), circular(s) etc. issued by the relevant statutory, governmental and regulatory authorities are not consistent with the provisions laid down under this Code, then such amendment(s), clarification(s), circular(s) etc. shall prevail upon the provisions hereunder.

GLOSSARY

“Act”	shall refer to the Companies Act, 2013, as amended and reinstated from time to time.
“Basel III Regulations”	shall refer to the Master Circular- Basel III Capital Regulations, dated May 12, 2023, as may be amended from time to time, issued by the RBI.
“Board”	shall refer to the board of directors of the Company.
“Company”	shall be a reference to Abans Finance Private Limited.
“CRAR”	shall refer to capital to risk-weighted assets ratio.
“Directors”	shall have the meaning ascribed to the term in the Act.
“ECL”	shall refer to the expected credit losses.
“G-Sec”	shall refer to the government securities.
“Governmental Authority”	shall mean any: (a) government (central, state or otherwise) or sovereign state; (b) governmental agency, semi-governmental or judicial or quasi-judicial or regulatory or administrative entity, department or authority, or any political subdivision thereof; or (c) international organization, agency or authority including, without limitation, any stock exchange or any self-regulatory organization, established under any applicable law.
“ICAAP”	shall be a reference to the internal capital adequacy assessment process.
“ICAAP Policy”	shall be a reference to this policy document that lays down the ICAAP process for the Company.
“Middle Layer NBFC”	shall have the meaning ascribed to the term in the Scale Based Directions.
“MLDs”	shall refer to market linked non-convertible debentures.
“NBFC”	shall refer to non-banking financial company.
“NCDs”	shall refer to non-convertible debentures.

“Net Owned Funds”	shall have the meaning ascribed to the term in the Scale Based Directions.
“Net-Worth”	shall have the meaning ascribed to the term in the Act.
“RBI”	shall be a reference to the Reserve Bank of India.
“Scale Based Directions”	shall refer to the RBI Master Direction (Non-Banking Financial Company- Scale Based Regulation) Directions, 2023, dated October 19, 2023, and as updated from time to time.
“TREPS”	shall refer to treasury bills repurchase.

SCHEDULE 1

Risk Appetite Framework (“RAF”)

1. Objective

The RAF articulates the level and types of risk that the Company is willing to accept in pursuit of its strategic and financial objectives. This framework ensures that the Company operates within prudent risk boundaries, while aligning risk-taking with its capital position, earnings profile, and business model.

2. Guiding Principles

- a) The risk-taking decisions of the Company are aligned with its capital strength, earnings stability and liquidity capacity.
- b) The Company prioritizes capital preservation over short-term profitability.
- c) Any risk-related decisions are made on a fully informed, forward-looking basis, considering both normal and stressed conditions.

3. Qualitative Risk Appetite Statements

a) Credit Risk

The Company maintains a conservative position, with a focus on high-quality borrowers and group entities having robust cash flows. The exposure of the Company’s funds to group entities must be prudently monitored and periodically assessed for creditworthiness.

b) Market Risk

The Company permits proprietary trading and MLD hedging within defined ‘Value at Risk’ and stop-loss limits. The Company shall actively avoid speculative positions.

c) Liquidity Risk

The Company seeks to maintain sufficient high-quality liquid assets to withstand a 30 (thirty) day severe liquidity stress scenario without accessing emergency funding.

d) Operational Risk

The Company maintains a low tolerance for operational failures and seeks to proactively mitigate risks through strong internal controls and periodic risk-control self-assessment process.

e) **Group Exposure Risk**

Group lending by the Company is governed by arm's-length principles and is subject to internal caps that are significantly below the permissible regulatory thresholds.

f) **Regulatory Risk**

The Company has a zero tolerance for regulatory non-compliance and aims for timely adherence to all RBI and statutory obligations which forms a part of its core business value.

4. Quantitative Risk Limits

The Company maintains the following:

Ratio	Company's policy
Capital to Risk-Weighted Assets	Regulatory requirement of 15% (fifteen percent)
Group lending exposure (as percentage of the overall lending book of the Company)	not exceeding 40% (forty percent) of the Net Owned Funds of the Company
Single party exposure (excluding any group exposures)	25% (twenty five percent) of the Net Owned Funds of the Company
Leverage	not exceeding 7x (Seven times)

5. Monitoring & Governance

- Board of Directors**: Approves the RAF and receives quarterly updates in relation to the same.
- RMC**: Responsible for overseeing the implementation and monitoring of risk appetite metrics.
- ALC**: Monitors the interest rate and liquidity-related risk appetite parameters.
- Internal Audit**: Independently validates the adherence of RAF by the Company and reports deviations (if any).

6. Breach Management

- Any breach of risk appetite limits will be escalated to the RMC and the Board along with a root cause analysis report and a corrective action plan to remedy the same.

- b) Temporary and approved breaches of the said risk appetite limits may be allowed under extraordinary conditions, provided the same has been previously approved in writing by the senior management.

7. Review

This RAF shall be reviewed at least annually or upon the introduction of any material changes in the business strategy, risk profile of the Company or introduction of any regulatory requirements by the RBI.