

CHARTERED FINANCE & LEASING LTD.
(CFL)

(“NBFC/ B-13.02480”)

SUMMARY OF POLICY

Particular	Details
Policy Name	Internal Capital Adequacy Assessment Process (ICAAP)
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Review Cycle	Annually
Approver	Board of Directors of Chartered Finance & Leasing Ltd

VERSION HISTORY

VERSION NO.	APPROVAL	VERSION DESCRIPTION	REGULATORY REFERENCE	REMARKS
I	11 th July, 2025	2025	RBI Regulation	Policy adopted by the Board

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Internal Capital Adequacy Assessment Process (ICAAP)

1. Capital Adequacy framework

Reserve Bank of India has issued scale-based regulation for NBFC. As per this guideline, the NBFC is required to make internal assessment of the need for capital commensurate with the risk of the business.

This internal assessment shall be on similar lines as ICAAP prescribed for commercial banks under Pillar 2 as per Basel III capital regulation.

Basel III reforms strengthen the bank-level i.e. micro prudential regulation, with the intention to raise the resilience of individual banking institutions in periods of stress. The new global regulatory and supervisory standards mainly seek to raise the quality and level of capital to ensure banks are better able to absorb losses on both a going concern and a gone concern basis, increase the risk coverage of the capital framework.

2. Scope of application of capital adequacy framework:

The Company is required to calculate capital adequacy ratio, which measures the capital adequacy based on its capital strength and risk profile.

The Company will quarterly evaluate capital adequacy and consider different business case scenarios to see minimum threshold capital requirement maintained even at worst-case scenario.

Three pillars of capital adequacy

The Capital Adequacy Framework rests on three components or three Pillars. Pillar 1 is the Minimum Capital Ratio while Pillar 2 and Pillar 3 are the Supervisory Review Process (SRP) and Market Discipline, respectively.

- Pillar 1: Minimum Capital Requirements - which prescribes a risk-sensitive calculation of capital requirements that explicitly, includes operational risk in addition to market and credit risk.
- Pillar 2: Supervisory Review Process (SRP) - which envisages the establishment of suitable risk management systems in banks and their review by the supervisory authority.
- Pillar 3: Market Discipline - which seeks to achieve increased transparency through expanded disclosure requirements for banks.

The main aspects to be addressed under the SRP would include:

- (a) the risks that are not fully captured by the minimum capital ratio prescribed under Pillar 1;
- (b) the risks that are not at all taken into account by the Pillar 1; and
- (c) The factors external to the bank/NBFC.

The capital adequacy ratio prescribed by the RBI under the Pillar 1 of the Framework is only the regulatory minimum level, addressing only three specified risks (viz., credit, market and operational risks). Additional capital might be necessary for Regulated Entity (RE), because of both possibility of some under-estimation of risks under the Pillar 1 and the actual risk exposure of a bank vis-à-vis the quality of its risk management architecture.

3. Internal Capital Adequacy Assessment Process (ICAAP)

Pillar 2 requires RE's to implement an internal process, called the Internal Capital Adequacy Assessment Process (ICAAP) for assessing their capital adequacy in relation to their risk profiles as well as a strategy for maintaining their capital levels.

The ICAAP comprises a bank's procedures and measures designed to ensure the following:

- (a) An appropriate identification and measurement of risks;
- (b) An appropriate level of internal capital in relation to the RE's risk profile; and
- (c) Application and further development of suitable risk management systems in the Company.

4. Board of Directors Meeting and Review

The Board of Directors, in their board meetings, will oversee the implementation of the system and review its functioning periodically. The ultimate responsibility for designing and implementation of the ICAAP lies with the Company's board of directors.

5. Scope

Internal Capital Adequacy Assessment Process (ICAAP)

While working on ICAAP unit is taking an integrated, firm wide perspective of a regulated entity's (RE) risk exposure, in order to support its ability to identify and react to emerging and growing risks in a timely and effective manner.

6. Purpose

The purpose of this guidance is the need to enhance firm-wide oversight, risk management and controls around REs' business activities of RE.

This system developed considering the following key features:

- (a) Active board and senior management oversight;
- (b) Appropriate policies, procedures and limits;
- (c) Comprehensive and timely identification, measurement, mitigation, controlling, monitoring and reporting of risks;
- (d) Appropriate management information systems (MIS) at the business and firm-wide level;
- (e) Comprehensive internal controls.

7. Methodology

The board and senior management must first have an understanding of risk exposures on a firm-wide basis. To achieve this understanding, the appropriate members of senior management must bring together the perspectives of the key business and control functions. There is Risk Management committee, which meets at regular intervals to assess the risks related to business.

The Board should ensure that the senior management of the RE:

- (a) Establishes a risk framework in order to assess and appropriately manage the various risk exposures of the RE.
- (b) Develops a system to monitor the RE's risk exposures and to relate them to the RE's capital and reserve funds.
- (c) Establishes a method to monitor the RE's compliance with internal policies, particularly about risk management.
- (d) Effectively communicates all relevant policies and procedures throughout the RE.

8. Stress Testing Scenario

ICAAP to Include Stress Tests and Scenario Analyses

- (a) As part of the ICAAP, the management of a RE shall, as a minimum, conduct relevant stress tests periodically, particularly in respect of the RE's material risk exposures, in order to evaluate the potential vulnerability of the RE to some unlikely but reasonable events or movements in the market conditions that could have an adverse impact on the RE.
- (b) The first objective of an ICAAP is to identify all material risks. Risks that can be measured and quantified should be treated rigorously as per

data and methods allow. The appropriate means and methods to measure and quantify those material risks are likely to vary across RE's.

- (c) Some of the risks to which REs are exposed include credit risk, market risk, operational risk, interest rate risk, credit concentration risk and liquidity risk.
- (d) Additionally, if REs employs risk mitigation techniques, they should understand the risk to be mitigate and the potential effects of that mitigation, reckoning its enforceability and effectiveness, on the risk profile of the RE.

The Company has considered the following scenario for calculating CRAR under various stress conditions.

- (a) Increase in NPA. Deterioration in the credit quality due to economic downturn
- (b) Concentration Risk. Deterioration in the credit quality of top borrowers due to economic downturn/other factors.
- (c) Spiral effect of inflation on macroeconomic factors such as increase in repo rate, reduction of liquidity in market, etc.
- (d) Negative impact of stock market due to adverse news, policies, geopolitical risks, climate risks, etc., on investment portfolio of the company.
- (e) Increase in margin requirement due to volatility in market movements.