

Document Title: Policy on Internal Capital Adequacy Assessment Process (ICAAP)	Reliance Capital Limited
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Reliance Capital Limited **Policy on Internal Capital Adequacy Assessment Process (ICAAP)**

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1. Introduction

1.1 Preamble Reliance Capital Limited (RCL) (the "Company"), an unlisted Non-Banking Financial Company - Core Investment Company (NBFC-CIC) registered with the Reserve Bank of India (RBI), is committed to maintaining robust capital levels commensurate with its risk profile and business strategy. The Internal Capital Adequacy Assessment Process (ICAAP) is a critical framework that enables the Company to proactively identify, measure, assess, and manage all material risks and to determine the amount of capital required to cover these risks, thereby ensuring its financial soundness and long-term sustainability. This Policy outlines the Company's approach to ICAAP, aligning with regulatory expectations and sound risk management practices.

1.2 Objectives The primary objectives of this ICAAP Policy are to:

- Ensure that the Company maintains adequate capital to support all material risks inherent in its business activities and strategic objectives.
- Establish a comprehensive framework for identifying, assessing, and measuring various risks, including those not fully captured by Pillar 1 (minimum regulatory capital requirements).
- Facilitate robust capital planning, forecasting, and allocation processes.
- Integrate risk management and capital planning with the Company's overall strategic planning and decision-making.
- Satisfy the requirements of the Reserve Bank of India's (RBI) regulatory framework for NBFCs.
- Enhance the Company's resilience to potential adverse events through effective stress testing and contingency planning.

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1.3 Applicability This Policy applies to **RCL** and covers all its business activities, operations, and risks. It is relevant to the Board of Directors, its committees, senior management, and all functions involved in risk management, finance, business planning, and internal audit.

2. Regulatory Framework

This Policy is formulated and implemented in compliance with, but not limited to, the following key regulatory provisions and guidelines issued by the Reserve Bank of India (RBI) and other relevant acts:

- **RBI Master Direction – Core Investment Companies (Reserve Bank) Directions, 2016 (as amended from time to time):** Specific provisions related to capital requirements and operations of CICs.
- **Basel II/Pillar 2 Framework:** The principles underlying Pillar 2 of the Basel II framework, which focuses on the Internal Capital Adequacy Assessment Process, are adopted as a best practice framework for internal capital management.
- **Companies Act, 2013:** Pertaining to general corporate governance, board responsibilities, financial reporting, and duties of directors in maintaining sound financial health.
- Other relevant circulars, guidelines, and notifications issued by the RBI from time to time.

3. Definitions

For the purpose of this Policy, the following definitions shall apply:

- **Company:** Refers to **Reliance Capital Limited**.
- **Capital Adequacy:** The ratio of a company's capital to its risks.
- **Core Investment Company (CIC):** An NBFC-CIC, as defined by RBI, primarily engaged in the business of acquisition of shares and securities.

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- **Economic Capital:** The capital required to cover unexpected losses over a specified time horizon at a given confidence level, based on the Company's internal risk assessment models. It reflects the true risks faced by the Company.
- **Internal Capital Adequacy Assessment Process (ICAAP):** The Company's internal process for assessing its overall capital adequacy in relation to its risk profile and for maintaining a strategy for managing its capital.
- **Pillar 1:** Minimum capital ratio as prescribed by the RBI.
- **Pillar 2:** The supervisory review process that ensures the Company has sound internal processes to assess its capital adequacy in relation to its risk profile and to develop a strategy for maintaining its capital levels. This is largely covered by the ICAAP.
- **Risk Appetite:** The aggregate level and types of risk the Company is willing to assume to achieve its strategic objectives.
- **Stress Testing:** A forward-looking quantitative and qualitative analysis of the impact of plausible, severe but plausible, adverse scenarios on the Company's financial condition, including capital adequacy.

4. Governance Structure for ICAAP

Effective ICAAP is an integral and embedded component of the Company's overall corporate governance, risk management framework, and strategic decision-making processes. A well-defined governance structure with clear roles, responsibilities, and accountability at all levels is fundamental for the successful design, implementation, and continuous operation of the ICAAP. This ensures that the ICAAP is not merely a compliance exercise but a strategic tool for proactive capital management and risk oversight.

4.1 Board of Directors The Board of Directors ("the Board") holds the ultimate responsibility for establishing, overseeing, and approving the ICAAP framework and the overall capital adequacy of the Company. In alignment with the principles of the Companies Act, 2013, and

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the RBI SBR Master Direction 2023 (particularly relevant for NBFCs in Middle and Upper Layers, and as a strong best practice for all regulated NBFCs), the Board's responsibilities include:

- Policy Approval and Oversight:
 - o Approving the ICAAP Policy and any significant revisions thereof, ensuring its alignment with the Company's strategic objectives, risk appetite, and regulatory requirements.
 - o Ensuring that the ICAAP remains robust, comprehensive, and proportionate to the Company's size, complexity, and risk profile.
- Risk Appetite and Capital Targets:
 - o Defining and approving the Company's overall risk appetite, risk tolerance limits, and capital adequacy targets. These targets must exceed regulatory minimums (Pillar 1) and account for Pillar 2 risks identified through ICAAP.
 - o Regularly reviewing the relevance and appropriateness of the risk appetite and capital targets in light of changes in the business environment, risk profile, and strategic direction.
- Capital Plan Approval:
 - o Reviewing and approving the annual capital adequacy assessment, including the results of stress testing and scenario analysis.
 - o Approving the forward-looking capital plan, ensuring that it adequately addresses potential capital needs, growth strategies, and contingent capital requirements.
- Resource Allocation:
 - o Ensuring that adequate resources (human, technological, and financial) are allocated for the effective design, implementation, and ongoing execution of the

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ICAAP. This includes ensuring that personnel involved possess the requisite skills, experience, and independence.

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- Challenging and Decision-Making:
 - o Actively challenging the assumptions, methodologies, and outcomes of the ICAAP process presented by senior management and the Risk Management Committee (RMC).
 - o Endorsing the overall capital adequacy assessment and ensuring that the ICAAP results are effectively integrated into key strategic decisions, business planning, and risk management practices.
 - o Ensuring that appropriate and timely corrective actions are taken based on the ICAAP findings, including any identified capital shortfalls or emerging risks.
- Reporting and Communication:
 - o Receiving and reviewing comprehensive and timely periodic reports on the Company's capital position, risk profile, ICAAP results, and capital management activities.
 - o Overseeing internal and external communication of the ICAAP framework and results, where appropriate and mandated by regulation.

4.2 Risk Management Committee (RMC) The Risk Management Committee (RMC), a duly constituted sub-committee of the Board, plays a crucial role in assisting the Board in its oversight of the ICAAP. The RMC's responsibilities, in line with good corporate governance practices for NBFCs, include:

- Policy Review and Recommendation:
 - o Reviewing the ICAAP Policy and recommending it to the Board for approval, ensuring its completeness and alignment with regulatory expectations.

- Methodology Oversight:
 - o Reviewing and assessing the soundness and appropriateness of the risk identification, measurement, and assessment methodologies employed within the ICAAP.
- Stress Testing Review:
 - o Reviewing the stress testing framework, including the selection of scenarios (both historical and hypothetical), assumptions, methodologies, and the analysis of results.
 - o Challenging the rigor and relevance of stress tests and their implications for the Company's capital.
- Risk Profile Monitoring:
 - o Continuously monitoring the Company's overall risk profile against the approved risk appetite and tolerance limits, identifying any significant deviations or emerging risk concentrations.
- Capital Recommendations:
 - o Providing well-reasoned recommendations to the Board on internal capital targets, capital buffers, and strategic capital allocation decisions based on the ICAAP outcomes.
- Documentation and Reporting Adequacy:
 - o Reviewing the adequacy, accuracy, and completeness of the ICAAP documentation and the internal and external reports related to capital adequacy and risk management.
- Integration and Effectiveness:
 - o Ensuring that the ICAAP is effectively integrated into the Company's overall risk management framework and contributes to sound business practices.

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4.3 Senior Management led by the Managing Director/CEO, is accountable for the effective design, robust implementation, and ongoing execution of the ICAAP framework and processes. Their responsibilities include:

- Framework Development and Maintenance:
 - o Developing, implementing, and maintaining the ICAAP framework, including detailed policies, procedures, methodologies, and internal controls, ensuring consistency and adherence to Board-approved principles.
- Resource Management:
 - o Ensuring that adequate and competent human resources, along with necessary technological infrastructure and financial allocations, are available for all ICAAP-related activities.
- Integration and Operationalization:
 - o Driving the integration of ICAAP into day-to-day strategic planning, business development initiatives, product pricing, and overall risk management decisions, ensuring that capital considerations influence operational activities.
- Capital Plan Execution:
 - o Implementing and continuously monitoring the approved capital plan, ensuring that capital levels are maintained within the approved targets and buffers.
- Reporting and Communication:
 - o Ensuring the accuracy, timeliness, and clarity of all ICAAP results and reports submitted to the RMC and the Board, providing actionable insights for decision-making.
 - o Communicating the importance of ICAAP and capital management throughout the organization.

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4.4 Risk Management Function The Risk Management Function (e.g., headed by the Chief Risk Officer or a dedicated Risk Manager/Team) plays a pivotal role in the day-to-day execution and technical aspects of the ICAAP. Its responsibilities include:

- ICAAP Process Champion:
 - o Acting as the central driving force for the ICAAP process, coordinating activities across various departments.
 - o Developing, refining, and applying methodologies for comprehensive risk identification, measurement, and assessment, including both Pillar 1 and Pillar 2 risks.
- Stress Testing Execution:
 - o Designing, executing, and analyzing various stress tests and scenario analyses, including reverse stress testing, to assess their impact on the Company's capital position.
- Capital Aggregation and Quantification:
 - o Aggregating and consolidating the capital requirements for all material risks, performing appropriate diversification analyses (if applicable and justified), to determine the overall economic capital.
- Reporting and Analysis:
 - o Preparing detailed and analytical ICAAP reports, presentations, and supporting documentation for senior management, the RMC, and the Board, highlighting key findings, assumptions, and recommendations.
- Risk Monitoring and Reporting:
 - o Continuously monitoring the Company's risk exposures and capital position, escalating any breaches or emerging risks to senior management.

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4.5 Finance/Treasury Function The Finance/Treasury Function is crucial for the financial aspects of ICAAP, capital planning, and liquidity management. Its responsibilities include:

- Capital Structure Management:
 - o Actively managing the Company's capital structure, including regulatory capital, and ensuring optimal funding strategies.
- Financial Forecasting and Projections:
 - o Providing accurate and timely financial data, balance sheet projections, profit and loss forecasts, and cash flow statements, which form critical inputs for the ICAAP and capital planning.
 - o Forecasting capital needs based on strategic business plans, projected growth, and the outputs of the ICAAP.
- Capital Optimization and Raising:
 - o Developing and implementing strategies for capital optimization, including evaluating options for capital raising (e.g., equity, debt) to ensure the Company meets its current and future capital requirements.
- Liquidity Integration:
 - o Collaborating with the Risk Management Function to integrate liquidity risk assessment into the overall ICAAP, particularly regarding the capital impact of liquidity stress scenarios.

4.6 Internal Audit Function The Internal Audit Function provides independent assurance on the effectiveness and integrity of the ICAAP framework, processes, and controls. Its responsibilities, as per the RBI guidelines on Internal Audit for NBFCs and general auditing standards, include:

- Independent Assessment:

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- o Conducting periodic (e.g., at least annually) and independent audits of the entire ICAAP framework, including its governance, methodologies, processes, and controls.
- Validation and Verification:
 - o Assessing the accuracy, integrity, and robustness of the data, assumptions, calculations, and models used in the ICAAP.
 - o Verifying that the ICAAP process is aligned with the Board-approved policy and regulatory requirements.
- Control Effectiveness:
 - o Evaluating the effectiveness of internal controls embedded within the ICAAP process to mitigate risks and ensure data quality.
- Reporting and Recommendations:
 - o Reporting audit findings, observations, and recommendations directly to the Audit Committee of the Board, and copying relevant findings to the RMC and senior management.
 - o Following up on the implementation of corrective actions arising from audit findings.

5. Principles of ICAAP

The Internal Capital Adequacy Assessment Process (ICAAP) at RCL is meticulously designed and rigorously implemented, adhering to fundamental principles that ensure its effectiveness as a core component of the Company's risk and capital management framework. These principles are aligned with the Reserve Bank of India's (RBI) Master Direction – Reserve Bank of India (Non-Banking Financial Company - Scale Based Regulation) Directions, 2023, and encapsulate global best practices for robust capital adequacy assessment.

The ICAAP process is guided by the following overarching principles:

- **Comprehensiveness (Inclusion of All Material Risks):** The ICAAP comprehensively identifies, assesses, and quantifies all material risks to which the Company is exposed. This extends beyond the risks explicitly covered by Pillar 1 regulatory capital calculations (e.g., credit risk, market risk, operational risk) to include significant Pillar 2 risks such as:
 - o **Strategic Risk:** Risk of loss arising from poor business strategies, inadequate resource allocation, or failure to adapt to changes in the business environment.
 - o **Reputational Risk:** Risk of damage to the Company's reputation, potentially leading to a loss of business, reduced access to funding, or legal action.
 - o **Concentration Risk:** Risk arising from concentrated exposures to a single counterparty, group of connected counterparties, sector, industry, or geographical area.
 - o **Liquidity Risk (Capital Impact):** While primarily managed through separate liquidity frameworks, the ICAAP assesses the potential capital impact of severe liquidity stress scenarios that could necessitate significant capital injections or asset sales at distressed prices.
 - o **Interest Rate Risk in the Banking Book (IRRBB):** Risk to the Company's earnings or economic value arising from adverse movements in interest rates that affect its non-trading book exposures.
 - o **Contagion Risk (Group Entities):** For Core Investment Companies (CICs), this includes assessing the potential capital impact arising from stress or default within group entities.
 - o **Compliance Risk:** Risk of legal or regulatory sanctions, material financial loss, or loss of reputation arising from failure to comply with laws, regulations, rules, prescribed practices, or ethical standards.

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- o **Cybersecurity Risk (Capital Impact):** The potential capital impact arising from significant cyber incidents, data breaches, or technology failures.
 - o **Climate Risk (Emerging):** Assessing the financial and capital implications of both physical risks (e.g., extreme weather events impacting assets or borrowers) and transition risks (e.g., policy changes, technological advancements impacting business models due to climate change). This ensures that the internal capital assessment provides a holistic view of the capital required to cover all material risks.
- **Proportionality (Fit for Purpose):** The sophistication, granularity, and complexity of the ICAAP framework, including its methodologies, processes, and systems, are proportionate to RCL's size, business complexity, scale of operations, nature and extent of its risk profile, and its systemic importance. This principle ensures that the ICAAP is practical and effective without imposing undue burdens, while still meeting regulatory expectations for robust capital management.
- **Forward-Looking (Prospective Assessment):** The ICAAP is fundamentally a forward-looking process. It assesses the Company's future capital needs by considering:
 - o Strategic plans and projected business growth over a defined planning horizon (typically 3-5 years).
 - o Anticipated changes in the internal and external risk environment, including macroeconomic forecasts, industry trends, and evolving regulatory landscapes.
 - o The results of rigorous stress testing and scenario analysis that model the impact of plausible severe but adverse events on the Company's financial

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performance and capital position. This helps in identifying potential capital shortfalls before they materialize.

- **Integration (Embedded in Decision-Making):** ICAAP is not a standalone exercise but is deeply integrated into the Company's overall risk management framework, strategic planning, and day-to-day business decisions. This integration ensures that:
 - o Capital considerations are central to business strategy formulation, target setting, product development, and resource allocation.
 - o Risk management outcomes directly inform capital planning and capital allocation decisions.
 - o The ICAAP influences the Company's risk appetite framework, internal limits, and overall business strategy.
- **Sound Methodology (Robustness and Reliability):** The methodologies, models, and assumptions used for risk identification, measurement, aggregation, capital quantification, and stress testing are sound, well-validated, and consistently applied. Key aspects include:
 - o **Documentation:** All methodologies, models, data inputs, and assumptions are thoroughly documented, transparent, and auditable.
 - o **Validation:** Models are independently validated and reviewed regularly to ensure their accuracy, predictive power, and continued relevance.
 - o **Data Quality:** Emphasis is placed on the quality, completeness, and integrity of data used in the ICAAP process.
 - o **Regular Review:** Methodologies and assumptions are subject to regular review and refinement to incorporate new risks, updated market conditions, and evolving regulatory guidance.

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- **Independence and Oversight (Challenge and Assurance):** The ICAAP process benefits from strong independent challenge and robust oversight to ensure its integrity and objectivity. This includes:
 - o **Senior Management:** Active involvement and challenge from senior management in the development and execution of the ICAAP.
 - o **Risk Management Committee (RMC):** The RMC provides critical oversight, reviews methodologies, and challenges results before recommending them to the Board.
 - o **Board of Directors:** The Board provides ultimate oversight, approves the ICAAP policy and capital plan, and challenges the key assumptions and outcomes.
 - o **Internal Audit:** The Internal Audit Function provides independent assurance on the effectiveness, robustness, and compliance of the ICAAP framework, methodologies, and controls, reporting its findings to the Audit Committee of the Board. This multi-layered oversight ensures that the ICAAP is not merely a compliance exercise but a reliable tool for capital management.

6. Key Elements of the ICAAP Framework

The Company's Internal Capital Adequacy Assessment Process (ICAAP) framework is a comprehensive and dynamic system designed to identify, measure, monitor, and manage all material risks and determine the appropriate level of internal capital required to support its business activities. This framework aligns with the Reserve Bank of India (RBI) Master Direction – Core Investment Companies (Reserve Bank) Directions, 2016, and as a strong best practice for all regulated NBFCs, including Core Investment Companies (CICs)).

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The framework comprises the following interconnected key elements:

6.1 Risk Identification and Assessment (Pillar II Risks) The Company maintains a robust process for the systematic identification and comprehensive assessment of all material risks that could individually or collectively impact its capital adequacy. These "Pillar II" risks, not fully captured by Pillar 1 regulatory capital calculations, are critical to ensuring a holistic view of the Company's risk profile. For a Core Investment Company (CIC) like RCL, the emphasis is particularly on risks arising from its investment portfolio and group exposures. These risks include, but are not limited to:

- **6.1.1 Credit Risk:** The risk of loss arising from a borrower's, issuer's, or counterparty's failure to meet its financial obligations as per agreed terms, or from a deterioration in their creditworthiness.
 - **For a CIC:** This predominantly relates to the creditworthiness and financial health of its investee (group) companies, particularly those to whom direct or indirect financial support (e.g., loans, guarantees, capital infusions) is provided. This assessment includes evaluating the quality of their asset portfolios, leverage, profitability, and governance.
 - **Expected Credit Losses (ECL):** While ECL provisioning is an accounting standard (Ind AS 109), the underlying credit risk assessment and its impact on the Company's financial statements and thus capital position, are integrated into the ICAAP.
- **6.1.2 Market Risk:** The risk of losses in on-balance sheet and off-balance sheet positions arising from adverse movements in market prices or volatility. For a CIC, given its investment-centric nature, this risk is paramount:
 - **Equity Price Risk:** The significant risk due to adverse movements in the market value of equity investments held in group companies or other entities.

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This requires robust valuation methodologies (aligned with Ind AS and fair value norms as mentioned in "Investment Policy.docx").

- o **Currency Risk:** The risk of losses arising from adverse movements in exchange rates, particularly if the Company has unhedged foreign currency assets, liabilities, or exposures.
- o **Other Price Risks:** Includes risks associated with movements in commodity prices (if any direct exposure), or other financial instruments.
- **6.1.3 Operational Risk:** The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This is a broad category encompassing:
 - o **Fraud Risk:** Both internal (e.g., employee misconduct, embezzlement) and external fraud (e.g., cyber fraud, phishing attacks).
 - o **IT System Failures and Cybersecurity Breaches:** Given the increasing reliance on technology, this risk covers system outages, data corruption, ransomware attacks, and unauthorized access, requiring robust IT and Cybersecurity Policies.
 - o **Business Process Errors:** Errors or failures in day-to-day operations, data entry, transaction processing, or reporting.
 - o **Legal and Compliance Risks:** The risk of legal or regulatory sanctions, financial loss, or damage to reputation due to failure to comply with laws, regulations (including the RBI Master Directions), internal policies. This includes potential fines, penalties, or litigation costs.
 - o **Human Capital Risk:** Risk associated with inadequate human resources, loss of key personnel, lack of necessary skills, or employee misconduct.

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- o **Vendor and Outsourcing Risk:** Risk arising from reliance on third-party service providers, including service disruption, data breaches by vendors, or non-compliance with terms.
- **6.1.4 Liquidity Risk (Capital Implications):** While comprehensive liquidity risk management is typically covered by a separate *Liquidity Risk Management Policy* (as per regulatory expectation), the ICAAP specifically assesses the *capital implications* of severe liquidity stress scenarios. This evaluates how a liquidity crisis (e.g., inability to meet obligations, forced asset sales at distressed prices) could impact the Company's capital position, potentially requiring additional capital to absorb losses.
- **6.1.5 Strategic Risk:** The risk of loss arising from poor business decisions, improper implementation of decisions, or a lack of responsiveness and adaptability to significant changes in the business environment, market dynamics, or competitive landscape. For a CIC, this includes risks related to its long-term investment strategy and its ability to achieve its core objectives.
- **6.1.6 Reputation Risk:** The risk of damage to the Company's standing or image due to negative public perception.
- **6.1.7 Group/Concentration Risk (Specific to CICs):** For a CIC, this is a distinct and critical risk category, explicitly emphasized by the RBI.
- **6.1.8 Other Emerging Risks:** The Company maintains a continuous monitoring mechanism to identify, assess, and integrate new and emerging risks that could impact its capital adequacy. This proactive approach includes, but is not limited to:
 - o **Climate-Related Financial Risks (ESG Risks):** Both physical risks (e.g., impact of extreme weather on assets or borrowers) and transition risks (e.g., policy changes, technological shifts impacting business models due to climate

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change). This aligns with the broader push by the RBI and global regulators towards integrating ESG factors into risk management.

- o **Geopolitical Risks:** The potential impact of geopolitical instability, trade wars, or international conflicts on economic conditions and financial markets.
- o **Pandemic/Health Crises:** The financial and operational implications of widespread health crises.

6.2 Capital Assessment Methodology

The Company quantifies the capital required for each identified material risk. The methodologies employed are rigorous, transparent, and proportionate to the complexity and materiality of the specific risk. These may include a combination of:

- **Scenario Analysis:** Assessing the potential capital impact under various hypothetical adverse scenarios, both quantitative (e.g., interest rate shocks) and qualitative (e.g., loss of a key business segment).
- **Sensitivity Analysis:** Evaluating the impact on capital from changes in key risk parameters (e.g., a specific percentage increase in non-performing assets, a decline in equity valuations).
- **Simplified Models / Expert Judgment:** For risks that are inherently difficult to quantify statistically or where data is scarce, qualitative assessments, expert judgment, and internal risk rating matrices are employed to determine appropriate capital add-ons.
- **Historical Loss Data Analysis:** Analyzing past loss experiences (internal and, where appropriate, external) to project future capital needs for certain quantifiable risks (e.g., operational losses, credit losses).

The overall **Internal Capital** (often referred to as Economic Capital) is derived by aggregating the capital required for individual risks. The Company applies appropriate methodologies for aggregation, including consideration of diversification benefits, but only where such benefits

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are statistically justifiable, robustly modeled, and demonstrably stable across various stress conditions. The objective is to determine a comprehensive capital buffer beyond Pillar 1 requirements to absorb unexpected losses from all material risks.

6.3 Stress Testing and Scenario Analysis The Company conducts regular and comprehensive stress tests and scenario analyses to assess the potential impact of severe but plausible adverse events on its capital adequacy. This is a crucial forward-looking element of ICAAP:

- **Scenarios:** Stress testing scenarios are diverse, challenging, and tailored to RCL's specific business model and risk profile, including but not limited to:
 - o Significant downturns in Indian and global equity markets, severely affecting investment valuations of group companies and other portfolio investments.
 - o Credit default or significant deterioration in the financial health of one or more key investee group companies, leading to large write-downs or the need for capital support.
 - o Sharp increases in interest rates impacting funding costs, debt portfolio valuations, and the solvency of highly leveraged group entities.
 - o Major operational disruptions, such as a large-scale cyber-attack leading to data loss and reputational damage, or system failures affecting critical operations.
 - o Severe liquidity crunch in the financial markets or within the group, making it difficult to raise funding or forcing distressed asset sales.
 - o Contagion effect from distress in a large, interconnected group entity, leading to cross-defaults or reputational spillover.

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- o Adverse macroeconomic downturns in India (e.g., significant GDP contraction, high inflation, increased unemployment) impacting the overall financial health of investee companies and the market value of assets.
 - o Specific sectoral stress scenarios relevant to RCL's significant exposures.
- **Frequency:** Stress tests are conducted at least annually, or more frequently if there are significant changes in the economic environment, regulatory landscape, business strategy, or the Company's overall risk profile.
- **Integration:** The results of stress testing directly feed into the capital planning process, informing the setting of internal capital targets, risk appetite limits, and the development of robust capital contingency plans. This ensures that the Company is adequately prepared for potential future shocks.

6.4 Capital Adequacy Targets and Buffers

- Based on the comprehensive ICAAP results, the Board of Directors, in conjunction with the Company's defined risk appetite and strategic plans, sets **internal capital targets**. These targets are consistently maintained above the minimum Pillar 1 regulatory capital requirements, acknowledging the capital needed for Pillar 2 risks.
- Appropriate **capital buffers** are maintained over and above these internal targets to absorb unexpected losses arising from Pillar 2 risks, market volatility, and the outcomes of stress testing. The size and composition of these buffers are dynamically determined by factors such as:
 - o The Company's approved risk appetite and risk tolerance levels.
 - o The outcomes of internal risk assessments, including the severity of potential losses identified through stress tests.
 - o Future business plans, projected growth, and anticipated capital deployment needs.

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- o The prevailing macroeconomic environment, industry specific risks, and evolving regulatory expectations from the RBI.
- o The need for flexibility to navigate unforeseen events without breaching regulatory or internal capital thresholds.

6.5 Capital Planning and Allocation

- The ICAAP results are a fundamental input to a comprehensive **multi-year capital plan** (typically covering a 3 to 5-year horizon). This plan forecasts the Company's future capital needs, considering both organic growth and potential inorganic opportunities.
- The capital plan explicitly outlines strategies for **capital generation** (e.g., retained earnings, fresh capital infusion, debt issuance) and **capital deployment** to support business growth, investments in group entities, and risk-taking activities, all while ensuring continuous adherence to the established capital adequacy targets.
- Furthermore, the ICAAP informs the process of **capital allocation** to various business lines, investment segments, and risk categories. This ensures that capital is deployed efficiently to maximize risk-adjusted returns, promoting a culture where capital is viewed as a scarce resource. This approach helps in optimizing the Company's overall financial performance while maintaining a sound capital base.

7. Documentation and Reporting

7.1 Internal Documentation Comprehensive documentation of the entire ICAAP process is maintained, including:

- This ICAAP Policy.
- Detailed methodologies and assumptions used for risk identification, measurement, and capital assessment.
- Stress testing scenarios, parameters, and results.

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- Capital plans, projections, and contingency plans.
- Minutes of Board/RMC meetings where ICAAP findings and capital plans are discussed and approved.
- Validation reports of ICAAP models (if applicable).

7.2 Internal Reporting

- The Risk Management Function prepares detailed ICAAP reports at least annually for the RMC and the Board of Directors.
- These reports include:
 - o A summary of the Company's risk profile.
 - o Assessment of capital adequacy against internal targets and regulatory minimums.
 - o Results of stress testing and their implications for capital.
 - o Analysis of systemic issues and recommendations for risk mitigation or capital management.
 - o The proposed capital plan for the upcoming period.

8. Review and Validation of ICAAP

8.1 Annual Review This ICAAP Policy and the underlying ICAAP framework, methodologies, and assumptions shall be reviewed at least **annually** by the Risk Management Committee and approved by the Board of Directors. The review will assess:

- The continued relevance and adequacy of the Policy.
- The effectiveness of the ICAAP process in identifying and measuring risks.
- The appropriateness of capital targets and buffers.
- The validity of stress testing scenarios and assumptions.
- Alignment with regulatory changes and industry best practices.

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8.2 Internal Audit The Company's Internal Audit function shall periodically (e.g., at least annually) conduct an independent review of the ICAAP process. This audit will assess:

- The integrity and reliability of data used in ICAAP.
- The robustness and consistency of methodologies.
- Compliance with the ICAAP Policy and regulatory guidelines.
- The effectiveness of internal controls related to capital management.
- The appropriateness of the governance framework for ICAAP.

8.3 Independent Validation (if applicable) For more complex models or if required by the Board/RMC or regulators, the Company may engage independent third parties to validate its ICAAP models and methodologies.

9. Disclosure and Transparency

While unlisted NBFC-CICs are not subject to the extensive Pillar 3 market discipline disclosures of Basel III, the Company is committed to enhancing transparency regarding its capital adequacy and risk management. This includes:

- Making appropriate disclosures in its annual financial statements and annual report as mandated by RBI regulations, Indian Accounting Standards (IND-AS), and the Companies Act, 2013.
- Providing relevant information to the RBI during supervisory engagements.

10. Policy Ownership and Amendments

- This Policy is owned by the **Chief Risk Officer** who is responsible for its implementation and ongoing maintenance.
- The Policy shall be reviewed at least **annually**, or earlier if there are:
 - o Significant changes in the Company's business strategy, risk profile, or operational environment.

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- o Amendments to RBI Master Directions, circulars, or other relevant laws/regulations.
 - o Key findings from internal audits or supervisory reviews.
- Any amendments or revisions to this Policy must be recommended by the Risk Management Committee and approved by the **Board of Directors**.
- All approved changes shall be communicated to relevant stakeholders within the Company.