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INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

(Approved & adopted on 21st December, 2023 and reviewed on 20th November, 2024)

Reserve bank of India (RBI) vide its circular "RBI/2021-22/112 OR.CRE.REC.No.60/03.10.001/2021-22 dated October 22, 2021" has come up with revised regulatory framework for Non-Banking Finance Companies (NBFCs) viz. Scale Based Regulation (SBR) The objective of the SBR frame work is to align risk of the NBFCs with its size and complexity. On the basis of size, activity and the perceived risk, the frame work divides the NBFCs in four broader layers which are as under –

1. Base layer (NBFC – BL)
2. Middle layer (NBFC – ML)
3. Upper layer (NBFC – UL)
4. Top layer (NBFC – TL)

Based on the categorisation descriptions, Vama Sundari Investments (Delhi) Pvt. Ltd. (VSIDFPL) shall fall under middle layer category and it has to follow the frame work guidelines applicable for middle layer category. Among the various facet of SBR, it is required for NBFCs to put in place board approved capital adequacy assessment process to maintain adequate capital to absorb the potential business risk. This document describes how the capital adequacy is assessed and maintained by the company.

Objective Basic objective of Internal Capital Adequacy Assessment Process (ICAAP) is to align Company's capital with the risk associated with its business model and complexity of the business in various scenarios including unforeseen business scenarios. Assessment of risk will be done from time to time but at least once in a year to ensure Company is maintaining required capital to meet out its planned business growth and to be in compliant with the regulatory requirements set out by the regulators.

Capital adequacy assessment process Company's capital requirement changes with the type of risk the company is exposed with.

(a) Concentration Risk As a lending company concentration risk is another critical risk which may affect the loan portfolio quality of the company and thereby it may influence capital as well. However, the Company is not engaged in lending to entities outside group and it extends loan to its subsidiaries/associates/group entities. Hence the impact of concentration risk is minimal.

<u>Market Risk</u>

a. <u>Interest Rate Risk</u>: Since the Company does not avail any term loan/any sort of borrowings for its investment or its lending activities, it is not exposed to such interest rate risk.

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b. Foreign Exchange Risk : Since the Company does not avail any ECBs it is not exposed to any foreign exchange risk.

c. Operational Risk: Based on the Company's own experiences, following are the key operational risks that the Company may be exposed to. These risks shall be analysed in light of their impact on Company's capital.

(i) Internal fraud : The Company has digitised its majority of the process, The scope of fraud does not exist when there are no cash transactions.

(ii) 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.

(iii) Clients, products and business practices There is no possibility of such risk since the Company does not have customer interface.

(iv) Business disruption and system failures Business disruption risk due to unforeseen circumstances such as pandemic, political unrest, government policy decision such as demonetisation etc. are the 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.

(v) 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.

To mitigate this risk, company assesses the expected credit loss through a scientifically devised credit loss estimation model and provide for adequately based on the loss estimated by the model. After adjusting such losses on account of loan portfolio provisioning, company ensures that it maintains the capital above the minimum threshold prescribed by the RBI.

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