

PRUDENTIAL NORMS ON CAPITAL ADEQUACY POLICY

(For Base Layer NBFC – Investment and Credit Company)

1. Preamble

This Policy on Prudential Norms on Capital Adequacy (“Policy”) is framed in accordance with the Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023, as amended from time to time, issued by the Reserve Bank of India, and the applicable provisions of the Companies Act, 2013, including the rules framed thereunder.

This Policy lays down the internal framework for maintenance, monitoring, and reporting of Capital Adequacy Ratio (CRAR) *and Net Owned Fund (NOF)* by the Company, classified as a Base Layer NBFC–Investment and Credit Company (NBFC–ICC).

2. Objective of the Policy

The objectives of this policy are:

- To ensure adequate capital is maintained at all times *in proportion to the risk profile of the Company's assets*
- To safeguard depositor/creditor interest
- To absorb unexpected losses
- To ensure long-term financial stability
- To comply with RBI regulatory requirements *and statutory mandates under the Companies Act, 2013*
- *To maintain the minimum Net Owned Fund (NOF) as prescribed under the RBI scale-based regulations*

3. Minimum Capital Requirement

(A) CRAR Requirement

NBFC-BL shall maintain:

Minimum Capital to Risk Weighted Assets Ratio (CRAR): 15% *(maintained as an internal prudential measure or as specifically directed by RBI)*

Capital Structure Requirement:

Component	Minimum Requirement
Tier I Capital	≥ 10% of RWA
Total Capital (Tier I + Tier II)	≥ 15% of RWA

Failure to maintain this level attracts supervisory action by RBI.

(B) Net Owned Fund (NOF) Requirement

The Company shall ensure maintenance of a minimum Net Owned Fund of ₹10 Crore on an ongoing basis (or strictly adhere to the RBI glide path ensuring a minimum of ₹7 Crore by March 31, 2025, and ₹10 Crore by March 31, 2027).

4. Components of Capital

A. Tier I Capital (Core Capital)

Tier 1 capital shall comprise the following:

- i. Paid-up equity share capital issued by the NBFC *in accordance with Section 43 of the Companies Act, 2013*
- ii. Share premium resulting from the issue of equity shares *regulated by Section 52 of the Companies Act, 2013*;
- iii. Capital reserves representing surplus arising out of sale proceeds of assets
- iv. Statutory Reserves *created pursuant to Section 45-IC of the Reserve Bank of India Act, 1934*
- v. Revaluation Reserves arising out of change in the carrying amount of an NBFC's property consequent upon its revaluation in accordance with the applicable Accounting Standards / *Indian Accounting Standards (Ind AS)* may, at the discretion of the NBFC, be reckoned as Tier 1 capital (instead of as Tier 2 capital) at a discount of 55 per cent under extant regulations, subject to meeting the following conditions:
 - a) the property is held for own use by the NBFC;
 - b) the NBFC is able to sell the property readily at its own will and there is no legal impediment in selling the property;
 - c) the revaluation reserves are presented / disclosed separately in the financial statements of the NBFC *in compliance with Schedule III of the Companies Act, 2013*;
 - d) revaluations are realistic, in accordance with applicable Accounting Standards;
 - e) valuations are obtained from two independent valuers (*registered under Section 247 of the Companies Act, 2013*) at least once in every three years;
 - f) where the value of the property has been substantially impaired by any event, it shall be immediately revalued and appropriately factored into capital adequacy computations; and
 - g) the external auditors of the NBFC have not expressed a qualified opinion on the revaluation of the property;
- vi. Other disclosed free reserves, if any, as defined under Section 2(43) of the Companies Act, 2013
- vii. Balance in Statement of Profit and Loss Account after allocations and appropriations i.e., retained earnings at the end of the previous financial year. Accumulated losses shall be reduced from Tier I;
- viii. Profits in current financial year may be included on a quarterly basis if it has been audited or subject to limited review by the statutory auditors of the NBFC. Further, such profits shall be reduced by average dividend paid in the last three years
- ix. Less: Regulatory adjustments / deductions applied in the calculation of Tier 1 capital [i.e., to be deducted from the sum of items (i) to (viii)] as per paragraph below

The following regulatory adjustments / deductions shall be made from Tier 1 capital:

(1) Goodwill and other intangible assets

(i) Goodwill and all other intangible assets shall be deducted from Tier 1 capital.

(ii) The full amount of the intangible assets may be deducted net of any associated deferred tax liabilities (DTL) which would be extinguished if the intangible assets become impaired or derecognised under the relevant Accounting Standards. For this purpose, the definition of intangible assets shall be in accordance with the applicable Accounting Standards / *Ind AS 38*. Losses in the current period and those brought forward from previous periods shall also be deducted from Tier 1 capital, if not already deducted.

(2) Deferred Tax Assets (DTAs)

The following DTAs shall be deducted in full from Tier 1 capital:

(i) DTAs associated with accumulated losses; and

(ii) DTAs (excluding DTAs associated with accumulated losses) net of DTL.

Where the DTL is in excess of the DTA (excluding DTA associated with accumulated losses), the excess shall neither be adjusted against item (i) nor added to Tier 1 capital.

DTAs may be netted with associated DTLs only if the DTAs and DTLs relate to taxes levied by the same taxation authority and offsetting is permitted by the relevant taxation authority. The DTLs permitted to be netted against DTAs shall exclude amounts that have been netted against the deduction of goodwill, intangibles, and defined benefit pension assets;

(3) Investment in shares of other NBFCs and in shares, debentures, bonds, outstanding loans and advances including hire purchase and lease finance made to and deposits with subsidiaries and companies in the same group exceeding, in aggregate, ten per cent of the owned fund of the NBFC.

Notes -

(i) The lower of acquisition cost or fair value of investments / advances shall be used to arrive at the amount of deduction mentioned above; and

(ii) For the above deduction, margin money placed with a subsidiary or company in the same group shall be considered as deposits;

(4) Impairment Reserve *created under Ind AS 109 provisions* shall not be recognised in Tier 1 capital;

(5) Securitisation Transactions:

(6) Defined benefit pension fund assets and liabilities: Defined benefit pension fund liabilities, as included on the balance sheet, shall be fully recognised in the calculation of Tier 1 capital

(7) Investments in own shares (Treasury stock) *subject to the buyback restrictions outlined in Section 68 of the Companies Act, 2013.*

B. Tier II Capital (Supplementary Capital)

Tier 2 capital of an NBFC shall comprise the following:

- (i) Preference shares other than those which are compulsorily convertible into equity *issued pursuant to Section 55 of the Companies Act, 2013;*
- (ii) Revaluation Reserves at a discounted rate of 55 per cent;
- (iii) General provisions (including that for Standard Assets) and loss reserves to the extent these are not attributable to actual diminution in value or identifiable potential loss in any specific asset and are available to meet unexpected losses, to the extent of 1.25 per cent of RWAs.
- (iv) Hybrid debt capital instruments;
- (v) Subordinated debt;

Provided that book value of subordinated debt shall be subject to discounting as provided under:

Remaining Maturity of the instruments	Rate of discount
Up to one year	100%
More than one year but up to two years	80%
More than two years but up to three years	60%
More than three years but up to four years	40%
More than four years but up to five years	20%

to the extent such discounted value does not exceed fifty percent of Tier 1 capital.

5. Risk Weighted Assets (RWA) Computation

CRAR is calculated as:

$$\text{CRAR} = \text{Tier 1 capital} + \text{Tier 2 capital} / \text{RWAs}$$

A. On-Balance Sheet Items

Each asset is assigned a risk weight as per RBI guidelines.

Sr. No.	On-balance sheet items	Percentage weight
(1)	Cash and bank balances including fixed deposits and certificates of deposits with banks	0
(2)	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 fund	100
(e)	All assets covering PPP and post commercial operations date (COD) infrastructure projects in existence over a year of commercial operation.	50
(3)	Current assets / Other financial assets	
(a)	Stock on hire (net book value)	100
(b)	Inter corporate 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 (6) below]	100
(e) (i)	Consumer credit exposure categorised as retail loans, excluding housing loans, educational loans, vehicle loans, loans against gold jewellery and microfinance / SHG loans	125
(e) (ii)	Credit card receivables	125
(f)	Bills purchased / discounted	100
(g)	Others (To be specified)	100
(4)	Fixed assets (net of depreciation)	

Sr. No.	On-balance sheet items	Percentage weight
(a)	Assets leased out (net book value)	100
(b)	Premises	100
(c)	Furniture and fixtures	100
(5)	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) (including ROU assets <i>under Ind AS 116</i>)	100
(6)	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

B. Off-Balance Sheet Exposures

The risk-weighted amount of an off-balance sheet item that gives rise to credit exposure shall be calculated as under:

(i) The notional amount of an off-balance sheet transaction shall be converted into a credit equivalent amount, by multiplying the notional amount with the specified CCF or by applying the current exposure method;

(ii) The resulting credit equivalent amount shall be multiplied by the applicable risk weight, viz., zero per cent for exposure to Central Government / State Governments, 20 per cent for exposure to banks and 100 per cent for others; and

(iii) The total risk weighted off-balance sheet credit exposure shall be the sum of the risk-weighted amount of the market related and non-market related off-balance sheet items.

Non-market-related off-balance sheet items.

The credit equivalent amount in relation to a non-market related off-balance sheet item shall be determined by multiplying the contracted amount of that particular transaction by the relevant CCF.

Sr. No.	Instruments	CCF
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Sr. No.	Instruments	CCF
(1)	Financial and other guarantees	100
(2)	Share / debenture underwriting obligations	50
(3)	Partly paid shares / debentures	100
(4)	Bills discounted / rediscounted	100
(5)	Lease contracts entered into but yet to be executed	100
(6)	Sale and repurchase agreement and asset sales with recourse, where the credit risk remains with the NBFC	100
(7)	Forward asset purchases, forward deposits and partly paid shares and securities, which represent commitments with certain draw down	100
(8)	Lending of NBFC securities or posting of securities as collateral by the NBFC, including instances where these arise out of repo style transactions	100
(9)	Other commitments (e.g., formal standby facilities and credit lines) with an original maturity of	
	up to one year	20
	over one year	50
(10)	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
(11)	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 shall determine the risk weight, it shall be 100 per cent in respect of all borrowers or zero per cent if covered by Government guarantee	
(12)	Commitment to provide liquidity facility for securitisation of standard asset transactions	100
(13)	Second loss credit enhancement for securitisation of standard asset transactions provided by the third party	100
(14)	Other contingent liabilities (To be specified)	50

Market related off-balance sheet items shall include:

- (a) Interest rate contracts – including single currency interest rate swaps, basis swaps, forward rate agreements, and interest rate futures;
- (b) Foreign exchange contracts, including contracts involving gold -includes cross currency swaps (including cross currency interest rate swaps), forward foreign exchange contracts, currency futures, currency options;
- (c) Credit Default Swaps; and
- (d) Any other market related contracts specifically allowed by the Reserve Bank which give rise to credit risk.

6. Leverage Ratio

The leverage ratio (*calculated as Total Outside Liabilities divided by Owned Funds*) of an NBFC - BL shall not be more than seven at any point of time.

7. Regulatory Reporting

The Company shall:

- Submit statutory returns as prescribed by RBI *including applicable SBR-based periodic returns through the XBRL portal*
- Disclose CRAR *and NOF metrics* in financial statements *as required under Schedule III of the Companies Act, 2013*
- Obtain auditor certification where required *under statutory audit provisions of Section 143 of the Companies Act, 2013*
- Immediately inform RBI *and the Board of Directors* in case of breach of minimum capital norms
- *Ensure filing of necessary e-forms with the Registrar of Companies (RoC) under the Companies Act, 2013 for any structural changes to capital.*

8. Breach of Capital Adequacy

If CRAR *or NOF* falls below regulatory minimum:

- Immediate intimation to Board *of Directors and the Risk Management Committee*
- Freeze on asset growth (if necessary)
- Restriction on dividend distribution *in strict compliance with Section 123 of the Companies Act, 2013 and RBI circulars*
- Preparation of capital restoration plan
- Capital infusion within prescribed timeline

9. Disclosure Requirements

The Company shall disclose in its financial statements:

- CRAR
- Tier I and Tier II capital
- Risk weighted assets
- Capital adequacy position

As per RBI disclosure norms *and applicable Ind AS / AS requirements within the Notes to Accounts forming part of the financial statements. Additionally, material deviations shall be disclosed in the Board's Report under Section 134 of the Companies Act, 2013.*

10. Review of Policy

This Policy shall be:

- Reviewed annually
- Updated as per amendments issued by the Reserve Bank of India *and the Ministry of Corporate Affairs (MCA)*
- Approved by the Board of Directors *upon recommendation by the Audit / Risk Management Committee*

11. Effective Date

This policy has been approved by the Board of Directors of THIRUKOCHI FINCAP LIMITED at its meeting held on 12/03/2026

Effective Date: 12/03/2026

Version:1

