

POLICY ON INCOME RECOGNITION, ASSET CLASSIFICATION AND PROVISIONING (IRACP)

(For Base Layer NBFC – Investment and Credit Company)

1. Preamble

This Policy is framed pursuant to:

- RBI Master Direction – *Reserve Bank of India (Non-Banking Financial Company - Scale Based Regulation) Directions, 2023.*
- Reserve Bank of India (Non-Banking Financial Companies – Income Recognition, Asset Classification and Provisioning) Directions, 2025 (Updated as on February 13, 2026).
- *The Companies Act, 2013 (specifically Section 129 regarding Financial Statements and Section 133 regarding Accounting Standards).*
- *Companies (Indian Accounting Standards) Rules, 2015 / Companies (Accounting Standards) Rules, 2021 (as applicable).*

This Policy establishes the *strict prudential* framework governing:

- Recognition of income (*accrual vs. cash basis*).
- Classification of assets (*Standard, Sub-standard, Doubtful, Loss*).
- Identification of *Non-Performing Assets (NPAs)*.
- Provisioning norms *and Expected Credit Loss (ECL) modeling*.
- Upgradation norms *from NPA to Standard*.
- Special asset categories (*e.g., Restructured loans, CRE*).
- Ind AS compliance requirements *and the creation of an Impairment Reserve*.

2. Objectives

The objectives of this Policy are:

1. To ensure prudent recognition of income *to prevent the overstatement of profits*.
2. To maintain uniform, *system-driven*, and borrower-wise asset classification.
3. To comply *strictly* with RBI prudential norms *and the Companies Act, 2013*.
4. To provide an adequate provisioning buffer *to absorb expected and unexpected credit losses*.
5. To ensure *absolute* transparency in financial reporting *and disclosures*.
6. To prevent *the* evergreening of advances *through strict monitoring and audit*.

Part I– income recognition

3. General principle

Income shall be recognised strictly on the basis of recognised accounting principles (*Ind AS 109 / AS 9*), subject *always* to RBI prudential norms. *Where RBI norms are more conservative than accounting standards, the regulatory norms shall prevail for the purpose of profit distribution.*

4. Income on Standard Assets

Income including:

- Interest
- Discount
- Hire charges
- Lease rentals
- Processing fees (*to be amortised over the loan tenure using the Effective Interest Rate (EIR) method under Ind AS*)
- Any other charges

shall be recognised *on an accrual basis*, provided the account remains *classified as standard and there is no significant increase in credit risk.*

5. Income on Non-Performing Assets (NPA)

1. Income on NPA accounts shall be recognised **only** on actual realisation (cash basis).
2. Any income accrued and credited *to the profit and loss account* prior to the account becoming NPA, and remaining unrealised, shall be reversed *or fully provided for in the current accounting period.*
3. No further income shall be accrued on NPA accounts *in the financial statements (though it may be tracked in a separate memorandum account for recovery purposes).*

6. Moratorium cases

Where *a moratorium is granted at the time of sanction:*

- Interest may be recognised *on an accrual basis* if the asset remains standard.
- If *the account becomes NPA after the moratorium period:* Capitalised interest accrued during *the moratorium* need not be reversed, *but adequate provisioning against the total outstanding must be made.*

Part ii – asset classification

7. Borrower-wise classification

Asset classification shall be borrower-wise and not facility-wise.

If any facility of a borrower becomes NPA, **all** facilities extended to that borrower *by the Company* shall be classified as NPA, *irrespective of their individual performance*.

8. Categories of Assets

The Company shall classify its credit exposures into:

1. Standard Assets
2. Sub-Standard Assets
3. Doubtful Assets
4. Loss Assets

9. Definition of NPA (NBFC-BL)

An asset shall be classified as NPA if:

- Interest *has remained* overdue beyond *the* prescribed period;
- *An instalment of principal has remained* overdue beyond *the* prescribed period;
- *A demand/call loan has remained* unpaid beyond *the* prescribed period;
- *Bills purchased or discounted have remained* overdue beyond *the* prescribed period;
- *Lease rental or hire purchase instalment has remained* overdue;
- *Any other receivable has remained* overdue beyond *the* prescribed period.

10. z norm – glide path

*In adherence to the SBR framework, for Base Layer NBFCs, the overdue period for NPA classification is strictly regulated. * As of March 31, 2026, the Company shall recognize NPAs on a >90 days overdue basis.*

(If the Company was already complying with the 90-day norm prior to this mandate, the glide path shall not apply).

11. Sub-standard asset

An asset shall be *classified as* sub-standard if:

- It has remained NPA for a period less than or equal to 18 months; OR
- It has been restructured and is within *the specified* one-year period of satisfactory performance.

12. Doubtful asset

An asset that *has* remained sub-standard for a period exceeding 18 months.

13. Loss asset

An asset identified as uncollectible or of *such* little value *that its continuance as a bankable asset is not warranted, although there may be some salvage or recovery value.*

Such assets shall be written off or fully (100%) provided for.

Part iii – upgradation norms

1. Upgradation to Standard Asset shall occur **only** if *the entire arrears of principal and interest* are paid *by the borrower*.
2. In *the* case of multiple facilities: All arrears across **all** facilities must be cleared *simultaneously for the borrower to be upgraded*.
3. Restructured accounts: Upgradation is subject to satisfactory performance *during the specified period* as per *the RBI Prudential Framework for Resolution of Stressed Assets Directions*.

Part iv – provisioning norms

14. Provision for standard assets (NBFC-BL)

- *A general provision of 0.25% of the outstanding standard assets shall be maintained.*
- *This shall be shown as “Contingent Provision against Standard Assets” in the balance sheet.*
- *It shall not be deducted from gross advances but shown separately under 'Provisions'.*

15. Provision for Sub-Standard Assets

Provision = **10%** of *the* total outstanding *balance*.

16. Provision for Doubtful Assets

16.1 Unsecured Portion

100% provision *to the extent the advance is not covered by the realizable value of the security.*

16.2 Secured Portion

(Provisioning on the net secured portion)

| Period as Doubtful | Provision |

| Up to 1 year | 20% |

| 1–3 years | 30% |

| More than 3 years | 50% |

The realizable value of the security shall be estimated on a strictly realistic basis and validated periodically by registered valuers.

17. Provision for Loss Assets

- *The entire asset shall be written off.*
- *If retained in the books (for legal/recovery purposes) → 100% provision shall be maintained.*

Part v – project finance exposures

For project loans, the following general provisioning rates apply during the 'Standard' phase:

Category	Construction Phase	Operational Phase
CRE (<i>Commercial Real Estate</i>)	1.25%	1.00%
CRE-RH (<i>CRE - Residential Housing</i>)	1.00%	0.75%
Others	1.00%	0.40%
Additional provisions are required for the deferment of the Date of Commencement of Commercial Operations (DCCO) as per RBI Resolution Directions.		

Part vi – hire purchase & lease assets

The Provisioning base shall be the total dues minus:

- Unmatured finance charges
- Depreciated asset value (20% straight-line method)

Additional provision based on the overdue period:

Overdue Period	Provision on Net Book Value (NBV)
≤ 12 months	Nil
12–24 months	10%
24–36 months	40%

Overdue Period	Provision on Net Book Value (NBV)
36–48 months	70%
> 48 months	100%
<i>Note: After 12 months from the last instalment due → 100% provision on the net book value is required.</i>	

PART VII – IND AS COMPLIANCE

18. Expected Credit Loss (ECL)

(Applicable to NBFCs complying with Ind AS)

The Company shall:

- Compute ECL as per Ind AS 109 *(based on Stage 1, Stage 2, and Stage 3 categorization)*.
- Maintain provisioning as per RBI prudential norms *(as a prudential floor)*.

19. Impairment reserve

If the Ind AS ECL provision < RBI prudential provision:

- The difference shall be transferred from retained earnings to an “Impairment Reserve”.
- This reserve is **not** eligible for inclusion in regulatory capital *(Tier I or Tier II)*.
- No withdrawal can be made from this reserve without prior RBI approval.

Part viii – special cases

20. Restructured assets

- Classified and provided for as per the RBI Resolution Directions.
- Standard restructured accounts → *must be* downgraded to sub-standard *immediately upon restructuring*.
- Upgradation is permitted only after the satisfactory performance period is completed.

21. Transfer of Loans

Asset classification and provisioning for acquired/sold portfolios shall comply with the RBI Master Direction – Transfer of Loan Exposures, 2021.

22. Default loss guarantee (DLG)

For DLG-backed *digital lending* portfolios:

- *The ECL model may consider the DLG if it is strictly integral to the loan contract and complies with RBI Digital Lending guidelines.*
- *Upon invocation, the DLG cover reduces.*
- *The ECL must be recomputed accordingly without delay.*

Part ix – disclosure requirements

The Company shall make *comprehensive* disclosures in *the* Notes to Accounts of its Annual Financial Statements as per the RBI (NBFC – Financial Statements: Presentation and Disclosures) Directions, 2025, and Schedule III of the Companies Act, 2013.

Part x – governance framework

The Company shall ensure:

- Automated, day-end asset classification *through its core Loan Management System (LMS) without manual intervention.*
- Maker-checker validation of *manual overrides or provisioning adjustments.*
- Quarterly Board (*or Audit Committee*) review of:
 - *NPA levels and slippages*
 - *Provision Coverage Ratio (PCR)*
 - *Sectoral concentration risk*
- Internal audit verification of IRACP compliance (*as part of the statutory internal audit under Section 138 of the Companies Act, 2013*).
- Annual policy review.

23. Policy review & approval

This Policy:

- Shall be approved by the Board of Directors.
- Shall be reviewed annually.
- Shall be amended immediately upon any regulatory change issued by RBI *or the Ministry of Corporate Affairs.*

24. Effective date and approval

This **POLICY ON INCOME RECOGNITION, ASSET CLASSIFICATION AND PROVISIONING (IRACP)** has been approved by the Board of Directors of **THIRUKOCHI FINCAP PRIVATE LIMITED** at its meeting held on **12/03/2026**.

Effective Date: 12/03/2026.