

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%
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 LIMITED** at its meeting held on **12/03/2026**.

Effective Date: 12/03/2026.

Version:1