AQUILA FINANCE LIMITED

ASSET CLASSIFICATION, INCOME RECOGNITION, AND PROVISIONING POLICY

AFL/POL/10/25-R003-10

History of the Document	Adopted by	Date of Adoption/Review
Originally Adopted	Board of Directors	10-06-2023
Review	Board of Directors	01-04-2025
Review	Board of Directors	25-10-2025

1. INTRODUCTION & REGULATORY BACKGROUND

This policy outlines the framework for Income Recognition, Asset Classification, and Provisioning (IRACP) for Aquila Finance Limited ("the Company"). It is formulated in compliance with the Master Companies (NBFCs Directions issued by the Reserve Bank of India (RBI) for Non-Banking Financial) and subsequent clarifications, including the crucial circular on 'Prudential norms on IRACP pertaining to Advances' dated November 12, 2021.

The primary objective is to ensure that the Company's financial statements present a true and fair view of its financial health by adhering to prudent and conservative accounting practices for its loan portfolio.

2. FINANCIAL YEAR

The Company shall follow the financial year from April 1st to March 31st for the preparation of its financial statements and for the application of this policy.

3. CAPITAL ADEQUACY

The Company shall maintain a minimum Capital to Risk-Weighted Assets Ratio (CRAR) as prescribed by the RBI from time to time. Furthermore, the Company shall manage its leverage ratio (Total Outside Liabilities / Tangible Net Worth) prudently to ensure financial stability and the ability to raise funds at competitive rates.

4. PRINCIPLES OF INCOME RECOGNITION

4.1. The Company follows the accrual basis of accounting. However, income recognition shall be suspended on assets classified as Non-Performing Assets (NPAs) as per the criteria defined in this policy.

4.2. Interest Income: Interest on performing assets shall be accrued and recognized on a time-proportion basis. In respect of an NPA, interest income shall not be recognized on an accrual basis but shall be accounted for only when it is actually received. Any interest accrued and recognized in the past, but remaining unrealized, shall be reversed in the current period.

4.3. Fees and Commission: Processing and other upfront fees shall be recognized as income over the tenure of the loan.

5. ASSET CLASSIFICATION

The Company's loan assets shall be classified into the following four categories:

1. Standard Assets
2. Special Mention Accounts (SMA)
3. Non-Performing Assets (NPA), which are sub-divided into:

- Sub-standard Assets
- Doubtful Assets
- Loss Assets

5.1. Special Mention Accounts (SMA)

To recognize incipient stress, an account shall be classified as SMA immediately upon a default (i.e., any overdue). The categorization is as follows:

SMA Category	Basis for Classification (Principal or Interest overdue)
SMA-0	Principal or interest payment overdue for up to 30 days
SMA-1	Principal or interest payment overdue for more than 30 days and up to 60 days
SMA-2	Principal or interest payment overdue for more than 60 days and up to 90 days

- SMA classification is applicable to all loans, irrespective of size.

5.2. Non-Performing Assets (NPA)

An asset becomes an NPA if it remains overdue for a period of more than 90 days.

Definition of Overdue: Any amount due to the Company under a credit facility if it is not paid on the due date fixed by the Company.

Illustration of NPA Classification:

- Term Loan: If an installment due on January 1st is not paid, it becomes overdue on January 2nd. It will be classified as:
  - o SMA-0: From January 2nd to January 31st.
  - o SMA-1: From February 1st to March 2nd.

- o SMA-2: From March 3rd to March 31st.
- o NPA: Upon running the day-end process on April 1st (i.e., after 90 days of being overdue).

• Gold Loan (Demand/Call Loan): If a 6-month gold loan sanctioned on January 1st matures on June 30th and is not repaid, it becomes overdue on July 1st. It will be classified as NPA upon running the day-end process on September 29th (i.e., after 90 days of being overdue).

5.3. Definitions of NPA Categories

• Sub-standard Asset: An asset that has been classified as an NPA for a period not exceeding 12 months.

• Doubtful Asset: An asset that has remained in the 'sub-standard' category for a period exceeding 12 months.

• Loss Asset: An asset which is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted, although there may be some salvage or recovery value. This includes accounts identified as loss by the Company, internal/statutory auditors, or the RBI.

6. PROVISIONING REQUIREMENTS

The Company shall make provisions against its loan portfolio as per the following norms:

Asset Category	**Provisioning Requirement**
Standard Assets	.25% of the outstanding balance.
Sub-standard Assets	10% of the outstanding balance.
Doubtful Assets	100% of the unsecured portion. Plus, on the secured portion: - Up to 1 year in doubtful category: 20% - 1 to 3 years in doubtful category: 30% - More than 3 years in doubtful category: 50%

Loss Assets The entire asset shall be written off. If permitted to remain in books for any reason, 100% provision is required.

7. UPGRADATION OF LOAN ACCOUNTS

A loan account classified as an NPA may be upgraded to a 'Standard' category only if the entire arrears of interest and principal are paid by the borrower. In cases where a borrower has multiple credit facilities, upgradation is contingent upon the clearance of all dues across all facilities.

8. DISCLOSURES IN FINANCIAL STATEMENTS

* Provisions made towards NPAs and standard assets shall be separately disclosed in the balance sheet.

* These provisions shall not be netted from the income or the value of assets.

* Provisions shall be debited to the Profit and Loss Account.

9. REVIEW AND EFFECTIVENESS

This policy shall be reviewed by the Board of Directors at least annually. Any amendments shall become effective from the date of Board approval. In case of any inconsistency between this policy and a subsequent RBI directive, the RBI directive shall prevail to the extent of the inconsistency.

BY THE ORDER OF THE BOARD OF DIRECTORS

For AQUILA FINANCE LIMITED