AQUILA FINANCE LTD.

POLICY ON COMPROMISED SETTLEMENT AND TECHNICAL WRITE – OFF OF LAON ACCOUNTS

AFL/POL/10/25-R002-18

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

1. Introduction and Background

In accordance with the Reserve Bank of India (RBI) circular DOR.STR.REC.20/21.04.048/2023-24 dated June 8, 2023, Aquila Finance Ltd. ("the Company") is required to have a Board-approved policy for compromise settlements and technical write-offs. This policy outlines the framework for negotiating settlements with borrowers and writing off accounts for accounting purposes, aiming to balance recovery maximization with prudent risk management.

1.1 Definitions

- Compromise Settlement: A negotiated arrangement with a borrower to fully settle the Company's claims in cash, which may involve a sacrifice of the amount due and a corresponding waiver of claims to that extent.
- Technical Write-Off: An accounting action where a non-performing asset (NPA) is fully or partially written off from the Company's financial statements. The debt remains outstanding on the borrower's account, and the Company retains the right to pursue recovery.

2. General Principles for Compromise Settlements

2.1. Compromise settlements are not standard practice and shall only be considered in deserving cases to limit the Company's losses or to resolve irregular/NPA accounts.

2.2. The primary objective is to recover the maximum possible amount, ensuring financial prudence.

2.3. All settlements must comply with the specific provisions for different loan types, as detailed below.

3. Compromise Settlement by Loan Type

3.1 Gold Loans

A compromise settlement may be initiated in the following scenarios:

a) Significant erosion in the market value of the underlying gold ornaments.

b) A report from auditors/inspectors indicating lower gold purity than initially assessed.

c) Expiry of the loan tenure where disposal may result in under-recovery.

d) Death or permanent disability of the borrower.

Procedure:

- The proposal shall be prepared by the Department Head of the concerned division (e.g., Gold Loan Recovery).
- The compromise amount shall be calculated based on the IBJA closing price 22ct. gold, adjusted for the last known purity.
- In case of purity differences, accountability shall be fixed on the concerned staff.
- The proposal requires approval by the Managing Director.
- For borrowers with high credit limits (as defined by the Board), approval from the Board Committee for Management (BCM) is required. The Managing Director shall recuse themselves from voting.

Financial Minimum: The settlement must recover the principal, the cost of borrowing, and at least 50% of the annual operating cost, or achieve an IRR of 15% p.a., whichever is lower.

3.2 Unsecured Loans

A compromise settlement may be initiated when:

a) The account is classified as an NPA, or has been irregular for 6 months with 2+ installments.

b) Death or permanent disability of the borrower.

c) For single-repayment loans, upon expiry of the tenure.

Procedure:

- The proposal shall be prepared by the Department Head of Collections.
- It requires approval by the Managing Director.
- High-value limits require BCM approval, with the Managing Director recusing themselves.

Financial Minimum: The settlement must recover the principal and the cost of borrowing. For NPAs below ₹10,000 where legal recovery is cost-prohibitive, the amount may be written off upon recommendation of the Department Head and approval by the Managing Director (who shall recuse themselves from the approval if they were involved in the sanction).

3.3 Secured Loans (Other than Gold)

A compromise settlement may be initiated when:

a) The account is an NPA and has been irregular for 6+ months.

b) The security is irrevocably lost or under-recovery from insurance is likely.

c) Death or permanent disability of the borrower.

Procedure:

- The proposal shall be prepared by the Department Head of Collections.
- The realizable value of the security must be assessed via reputable online platforms, dealers, or approved valuers.
- The proposal requires approval by the Managing Director.
- High-value limits require BCM approval, with the Managing Director recusing themselves.

Financial Minimum: The settlement must recover the principal, cost of borrowing, and annual operating cost, or achieve an IRR of 15% p.a., whichever is lower.

3.4 Accounts Classified as Fraud

Proposals for compromise or technical write-off for accounts classified as fraud, suspected fraud, or wilful defaulters must be approved by the Board. This is without prejudice to any ongoing criminal proceedings.

3.5 Implementation Timeline

Once agreed, the borrower must complete all settlement payments within three months.

4. Technical Write-Offs

4.1. Secured Loans: Accounts classified as NPAs for over 6 months may be written off if the security's realizable value (as per clause 3.3) is insufficient to cover the outstanding amount.

4.2. Unsecured Loans: NPAs may be written off for accounting purposes.

4.3. Recovery Action: For technically written-off accounts with an outstanding of ₹10,000 or more, legal recovery proceedings must be initiated.

4.4. Procedure: The write-off proposal shall be prepared by the Department Head of Collections and approved by the Managing Director. Proposals for loans originally sanctioned by the Managing Director require Board approval, with the Managing Director recusing themselves.

4.5. Staff Accountability: All write-offs must be examined for potential staff collusion. If found, accountability must be fixed, and disciplinary action taken.

5. Post-Settlement and Write-Off Provisions

5.1. Future Recoveries: Both compromise settlements and technical write-offs are without prejudice to the Company's right to pursue future recoveries from the borrower, where legally permissible.

5.2. Prudential Treatment: Partial technical write-offs must meet the extant provisioning requirements as computed on the gross value of the asset.

5.3. Cooling Period: A cooling period of 12 months shall be observed before considering any fresh credit facilities for borrowers involved in a compromise settlement or technical write-off.

6. Governance and Reporting

6.1. Reporting to Board: The management shall report to the Board on a quarterly basis all compromise settlements and technical write-offs approved by any authority other than the Board.

6.2. Board Information: The Board shall be provided with quarterly and yearly trends on the number and value of accounts, breakups by fraud/wilful default categories, and recovery reports on technically written-off accounts.

7. General Clauses

7.1. Implementation: Management is authorized to issue necessary circulars and guidelines for the implementation of this policy.

7.2. Severability: If any part of this policy is rendered inoperative by a change in RBI regulations, the remainder shall continue to be in force.

7.3. Interpretation: Words in the singular include the plural and vice versa. Words in the masculine gender include the feminine and vice versa.

7.4. Effective Date: This policy is effective from the date of its approval by the Board of Directors of Aquila Finance Ltd.

BY THE ORDER OF THE BOARD OF DIRECTORS

For AQUILA FINANCE LIMITED