

**CHARTERED FINANCE & LEASING
LTD. (CFL)**

(“NBFC/ B-13.02480”)

**NON-PERFORMING ASSET (NPA)
POLICY**

SUMMARY OF POLICY

Particular	Details
Policy Name	Non-Performing Asset (NPA) Policy
Version	V1
Latest Approval/Review Date	11 th July, 2025
Review Cycle	Annually
Approver	Board of Directors of Chartered Finance & Leasing Ltd

VERSION HISTORY

Version	Approval	Version Description	Regulatory Reference
I	Board Meeting dated 11 th July, 2025	2025	RBI Regulation

Purpose

This Policy has been framed in accordance with Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances issued by Reserve Bank of India (“RBI”).

This policy intends to provide the brief about the RBI Circular on the classification of assets and provisioning on these assets. This policy also defines at what level company recognise the case as NPA.

1. Objective

- To reduce the Company’s NPA level in absolute terms by preventing slippage of accounts and accelerating recoveries in the existing NPAs.
- To take a pro-active approach in finding solutions which could involve restructuring of loans if intent of borrower is positive. Compromise solutions would be encouraged in certain situations, though the endeavour would remain recovery of 100% principal and interest dues when possible.
- To update system of identification and reporting of accounts showing signs of slippage of ‘NPA’ category.
- To provide directions to contain slippage to NPA category.

2. Classification of Assets

A. Classification as Special Mention Account (SMA)

Loans other than revolving facilities	
SMA Sub-categories	Basis for classification -Principal or interest payment or any other amount wholly or partly overdue
SMA-0	Upto 30 Days
SMA-1	More than 30 days and upto 60 days
SMA-2	More than 60 days and upto 90 days

For revolving facilities like Cash Credit/ Overdraft, default would mean, if the outstanding balance remains continuously in excess of the sanctioned limit or drawing power, whichever is lower, for more than 30 days.

In the above context, it is further clarified that borrower accounts shall be flagged as overdue by CFL as part of our day-end processes for the due date, irrespective of the time of running such processes. Similarly, classification of borrower accounts as SMA as well as NPA shall be done as part of day-end process for the relevant date and the SMA or NPA classification date shall be the calendar date for which the day end process is run. In other words, the date of SMA/NPA shall reflect the asset classification status of an account at the day-end of that calendar date. Also, the NPA classification will be done on Borrower-wise and not facility wise. All the facilities granted by Company to a borrower will be treated as NPA and not the particular facility or part thereof which has become NPA.

B. Classification as Non-Performing Asset

A loan asset should be classified as Non-performing if:

- I. Interest and / or instalments of principal remain overdue for a period of more than 90 days in respect of Term Loan.
- II. The bill remains overdue for a period of more than 90 days in the case of bills purchased / Bills Discounted.
- III. The instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops.
- IV. The instalment of principal or interest thereon remains overdue for one crop seasons for long duration crops.
- V. In respect of Overdraft/ Cash Credit accounts, if they remain “Out of Order” continuously for 90 days.

In order to facilitate assessment of quality of the advances portfolio and to enable them to make adequate provisions, CFL classify loan assets into the following categories.

I. Standard Assets

Asset in respect of which, no default in repayment of principal or payment of interest is perceived and which does not disclose any problem nor carry more than normal risk attached to the business.

II. Sub-standard

Assets are classified substandard which has remained NPA for a period less than or equal to 12 months. They have well defined credit weaknesses and are characterised by the distinct possibility that the company will sustain some loss if the deficiencies are not rectified.

III. Doubtful

Assets are classified as doubtful if it remained in the sub-standard category for 12 months. They have all the weaknesses inherent in sub-standard assets with the added characteristic that collection or liquidation of the dues is highly improbable.

IV. Loss Assets:

These are assets where loss has been identified by the company or Internal / external auditors or RBI inspection, but the amount has not been written off, wholly or in part.

Upgradation of Accounts classified as NPAs

The loan accounts classified as NPAs may be upgraded as 'standard' asset only if entire arrears of interest and principal are paid by the borrower. Partial payment, such as payment of only interest or only one instalment, shall not result in the upgradation of the loan account

Once a loan account is classified as an NPA, it shall remain as such till the time the entire outstanding amount is repaid.

C. Provisions

In conformity with prudential norms, CFL creates provisions on the NPAs based on classification of assets as prescribed above.

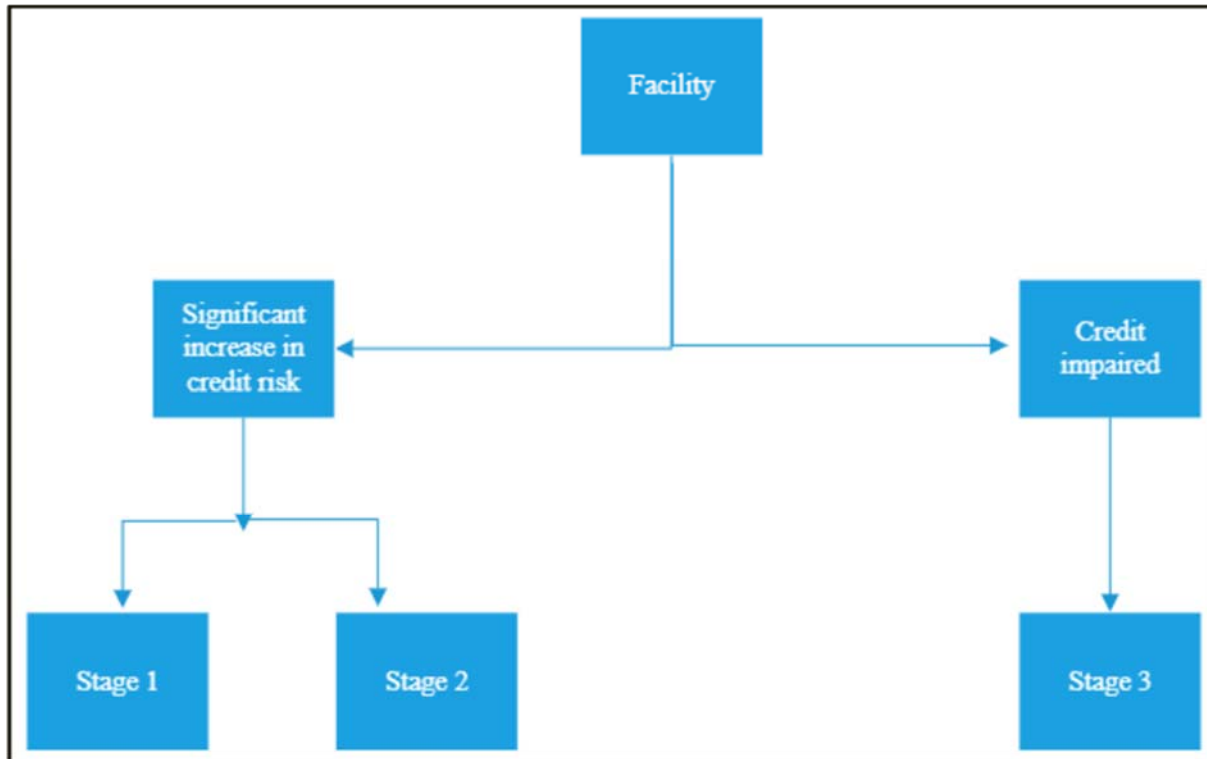
	Asset category	Provision required	Provision Rates
1	Loss	The CFL will either write off the entire outstanding loan amount or make 100% provisioning for the outstanding loan amount.	100%
2	Doubtful	(a) 100% of the portion not covered by the realisable value of security	
		(b) Over and above item (a) depending upon the period up to which the asset has remained doubtful, 20% - 50% of the secured portion (i.e. estimated realisable value) as given below:	
		Up to 1 year	20%
		1-3 years	30%
		Over 3 years	50%
3	Sub standard	A general provision of 10% on total outstanding	10%
4.	Standard	A general provision of 0.25% on total outstanding loan amount	0.25%

In addition to provisions created as per the RBI provisioning norms, Company will also perform quarterly internal assessments where Company will follow “Three-stage” model for impairment in the form of Expected Credit Loss (ECL) based on changes in credit quality since initial recognition. The provisioning shall be done after considering both the approaches provided that the provision shall not fall below the amount calculated as per RBI provisioning norms. In addition to provision calculated, additional provision may be created depending on management overlay considering various factors.

The building blocks for the estimation of ECL that are considered by the Company are:

- Portfolio segmentation
- Staging (determination of significant increase in credit risk)
- Probability of Default (forward looking)
- Loss Given Default
- Exposure At Default

D. The ECL calculation approach:



E. Definition of default and stage assessment

For the measurement of ECL, Ind AS 109 distinguishes between three impairment stages. All loans need to be allocated to one of these stages, depending on the credit risk since initial recognition:

Stage 1: includes loans for which the credit risk at the reporting date is in line with the credit risk at the initial recognition (i.e. disbursement date).

Stage 2: includes loans for which the credit risk at reporting date is significantly higher than at the risk at the initial recognition (Significant Increase in Credit Risk).

Stage 3: Includes default loans. A loan is considered default if the obligor is past due more than 90 days on any material credit obligation to the company.

The Company has identified the following stage classification to be the most appropriate for its Loans:

Stage 1: 0 to 30 DPD

Stage 2: 31 to 90 DPD

Stage 3: above 90 DPD (Default)

F. Calculation of ECL

ECL consists of three key components: Probability of Default (PD), Exposure at Default (EAD) and Loss given default (LGD). ECL is calculated by multiplying them.

(i) Probability of Default (PD)

The probability of default ('PD') is the likelihood that an obligor will default on its obligations in the future. Ind AS 109 requires a separate PD for a 12-month duration and lifetime duration depending on the stage allocation of the obligor. PD describes the probability of a loan to eventually falling in default (>90 days past due) category. To calculate the PD, loans are classified in three stages based on risk profile of the individual loans. PD %age is calculated for each loan account separately and is determined by using available historical observations.

PD for stage 1: is derived as 5-year average %age of loans in stage 1 moving into stage 3 in 12-month time.

PD for stage 2: is derived as sum of marginal PD derived by survival analysis based on PD rate of stage 1 considering average tenure of loans as 5 years.

PD for stage 3: is derived as 100% considering that the default occurs as soon as the loan becomes overdue for 90 days which matches the definition of stage 3.

(ii) Loss given default (LGD)

The LGD is usually defined as the amount of the credit that is lost by a financial institution when an obligor defaults. The Company has applied an individual account level computation of LGD.

(iii) Exposure at default (EAD)

The amount which the obligor will owe to the Company at the time of default is defined as the exposure at default (EAD). Exposure at default (EAD) is the sum of outstanding principal (including overdue principal) on each loan as at reporting date.

3. Monitoring of Non-Performing Assets

Following steps should be initiated once account has been identified as NPA:

- The borrower and the guarantor be vigorously followed up for recovery/regularization of the account.
- The position of recovery in NPA accounts should be reviewed on a monthly basis and the position of recovery be placed before the Management.
- The accounting treatment including reversal on income booked but not received will be done as per the applicable RBI guidelines.
- Recoveries affected in NPA assets be first be appropriated firstly towards Interest, then towards Principal and then towards Charges.

4. Technical Write Off

As per RBI circular DOR.STR.REC.20/21.04.048/2023-24 Technical write-off for this purpose shall refer to cases where the non-performing assets remain outstanding at borrowers' loan account level, but are written-off (fully or partially) by the RE only for accounting purposes, without involving any waiver of claims against the borrower, and without prejudice to the recovery of the same.

Technical write-offs shall be without prejudice to any mutually agreed contractual provisions between the RE and the borrower relating to future contingent realizations or recovery by the RE.

In case of partial technical write-offs, the prudential requirements in respect of residual exposure, including provisioning and asset classification, shall be with reference to the original exposure, provided that the amount of provision including the amount representing partial technical write-off shall meet the extant provisioning requirements, as computed on the gross value of the asset

According the RBI circular DOR.STR.REC.20/21.04.048/2023-24 Entity shall draft reporting mechanism to the next higher authority, at least on a quarterly basis, with respect to compromise settlements and technical write offs approved by a particular authority. Compromise settlements and technical write-offs approved by the MD & Board Level Committee would be reported to the Board.

Entity shall prepare reporting format so as to ensure adequate coverage of following aspects: -

- I. trend in number of accounts and amounts subjected to compromise settlement and/or technical write-off (q-o-q and y-o-y);
- II. out of (i) above, separate breakup of accounts classified as fraud, red-Flagged, wilful default and quick mortality accounts.
- III. amount-wise, sanctioning authority wise, and business segment / asset-class wise grouping of such accounts.
- IV. extent of recovery in technically written-off accounts.

Entity may undertake technical write-offs in respect of accounts categorised as wilful defaulters or fraud without prejudice to the criminal proceeding underway against such debtors.

Staff Accountability

Reason for an asset classify to NPA are primarily on account of lacking in exercise of control and follow up at branch level itself. Staff involvement is also a major reason. It has hence become necessary to define staff accountability in such cases. The time lines and actions for such staff accountability exercise should be as per Company's internal process as defined from time to time.

Process Flow

1. For Cases which are classified as NPA for more than 2 years, Collection department will initiate technical write-off process with approval of MD.
2. Collection department will share list of cases for which 2 years have not lapsed from date of NPA classification but which needs to be written-off based on their assessment with approval of MD.

Delegation of Power

All cases which are eligible to technical write-off, are approved by MD.

The technical write off of NPA is resorted to for accounting purpose in case of "Loss assets" and 100% provisioning be made without entailing any waiver of claims against the borrower and guarantors without affecting right to recover in any way. Company may consider technical / prudential write off exercise in the following cases:

- The NPA accounts / bad debts which are either considered as unrecoverable or whose recovery is likely to consume dis-appropriate resources of the Company as decided by Management. The competent authority for approving any type of technical / prudential write off shall be Chief Risk Officer.

- Such write off is essentially a prudent accounting measure to reduce the level of Gross NPA as such accounts are either fully provided for or substantial provision is already available.
- The technical / prudential write off shall be for the accounting purpose only and all legal remedies available shall be followed suitably.
- All such technical write offs shall be reported to Board on quarterly basis as per reporting format approved by Board.

5. REVIEW:

The Company would review and refine the Non-Performing Asset Management Policy, as may be required periodically, based on its own experience and fresh guidelines, if any, to be issued by the RBI in this regard.

If at any point a conflict of interpretation / information between this policy and any regulations, rules, guidelines, notification, clarifications, circulars, master circulars/ directions issued by relevant authorities (“Regulatory Provisions”) arises, then interpretation of the Regulatory Provisions shall prevail. In case of any amendment(s) and/or clarification(s) to the Regulatory Provisions, this policy shall stand amended accordingly from the effective date specified as per the Regulatory Provisions.