

**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	V2
Latest Approval/Review Date	07 th April,2026
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
II	Board Meeting dated 07 th April,2026	2026	RBI Regulation

Purpose

This Policy has been framed in accordance with the Reserve Bank of India (Non-Banking Financial Companies – Income Recognition, Asset Classification and Provisioning) Directions, 2025, the Reserve Bank of India (Non-Banking Financial Companies – Resolution of Stressed Assets) Directions, 2025 and the Reserve Bank of India (Non-Banking Financial Companies – Treatment of Wilful Defaulters and Large Defaulters) Directions, 2025.

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

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.

1. 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

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. Asset classification shall be borrower-wise and not facility-wise. All the facilities granted by CFL to a borrower and investment in all the securities issued by the borrower shall be treated as NPA / Non-Performing Investment (NPI) and not the particular facility / investment or part thereof which has become irregular.

CFL shall clearly specify in the loan agreement the exact due dates for repayment, frequency of repayment, breakup between principal and interest, and examples of dates of classification as SMA / NPA, apprise the borrower of the same at sanction and at subsequent changes, and place consumer education literature on its website explaining the concepts of date of overdue, SMA and NPA classification and upgradation with reference to the day-end process.

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. An asset in respect of which interest has remained overdue for a period of more than 90 days; a demand or call loan which remained overdue for a period of more than 90 days from the date of demand or call or on which interest amount remained overdue for a period of more than 90 days; the interest in respect of a debt or the income on receivables under the head 'other current assets' in the nature of short-term loans / advances, which facility remained overdue for a period of more than 90 days; any dues on account of sale of assets or services rendered or reimbursement of expenses incurred, which remained overdue for a period of more than 90 days; and the lease rental and hire purchase instalment which has become overdue for a period of more than 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; or an asset, where the terms of the agreement regarding interest and / or principal have been renegotiated or rescheduled or restructured after commencement of operations, until the expiry of one year of satisfactory performance under the renegotiated or rescheduled or restructured terms. 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, or an asset which is adversely affected by a potential threat of non-recoverability due to either erosion in the value of security or non-availability of security or due to any fraudulent act or omission on the part of the borrower.

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

In case of borrowers having more than one credit facility, loan accounts shall be upgraded from NPA to standard asset category only upon repayment of entire arrears of interest and principal pertaining to all the credit facilities.

For upgradation norms applicable to restructured accounts specifically (including the minimum satisfactory-performance monitoring period before upgradation to 'standard' asset category), refer to CFL's Loan Restructuring Policy, which is aligned with the Resolution of Stressed Assets Directions, 2025.

The class of assets shall not be upgraded merely as a result of rescheduling, unless it satisfies the conditions required for upgradation as laid out in the Reserve Bank of India (Non-Banking Financial Companies – Resolution of Stressed Assets) Directions, 2025.

Where a resolution plan is implemented for a borrower impacted by a calamity in terms of Chapter VI-A of the Resolution of Stressed Assets Directions, 2025, the account shall be classified as follows. Accounts classified as 'Standard' may be retained as such upon implementation. Accounts which slipped into NPA between the date of occurrence of the calamity and implementation of the resolution plan shall be upgraded as 'Standard' upon implementation, and subsequent asset classification shall be governed by this Policy. Accounts restructured under Chapter VI-A of those Directions, where a subsequent restructuring is necessitated under Chapter VI-A, shall continue to be classified as 'Standard'.

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 0.40% on total outstanding loan amount	0.40%

The provision towards standard assets shall not be netted from gross advances but shall be shown separately as ‘Contingent Provisions against Standard Assets’ in the balance sheet and shall not be reckoned for arriving at net NPAs. For project finance exposures, general provisions shall be maintained at the rates prescribed in the IRACP Directions, and provisioning for hire purchase and leased assets shall be as prescribed in the IRACP Directions.

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.

For borrowers for whom a resolution plan has been implemented under Chapter VI-A of the Resolution of Stressed Assets Directions, 2025, CFL shall make an additional specific provision of five per cent of the outstanding debt, and a further five per cent for each instance of repeated restructuring under that Chapter. These provisions are over and above the applicable prudential provisions, subject to a ceiling of 100 per cent, and may be written

back once the borrower has paid at least 20 per cent of the outstanding debt without slipping into NPA and without being subjected to another restructuring. Interest income on such accounts shall be recognised on accrual basis, and on cash basis for accounts subjected to repeated restructuring.

Wilful Defaulters and Large Defaulters Framework

In terms of the Reserve Bank of India (Non-Banking Financial Companies – Treatment of Wilful Defaulters and Large Defaulters) Directions, 2025, CFL shall examine the wilful default aspect in all NPA accounts with outstanding of ₹25 lakh and above (or such other amount as may be notified by RBI) and, where wilful default is observed in the internal preliminary screening, complete the process of classification within six months of the account being classified as NPA. The evidence of wilful default shall be examined by an Identification Committee chaired by an officer not more than one rank below the MD/CEO, with two senior officials not more than two ranks below the chairperson as members; the proposal of the Identification Committee shall be considered by a Review Committee chaired by the MD/CEO with two independent directors or non-executive directors or equivalent officials as members, none of whom shall be a member of the Identification Committee.

Where the Identification Committee is satisfied that an event of wilful default has occurred, it shall issue a show-cause notice to the borrower/guarantor/promoter/director/persons in charge and responsible for the management of the affairs of the entity, disclosing all material on which it is based and calling for submissions within 21 days, and, if satisfied after considering the submissions, make a proposal to the Review Committee with reasons in writing. The persons concerned shall be advised of the proposal and given 15 days to make a written representation to the Review Committee and an opportunity of personal hearing (without the right to be represented by a lawyer). The Review Committee shall pass a reasoned order, to be communicated to the wilful defaulter. The show-cause notice and the order shall be issued and served by an official of the rank of not below that of the Chief Financial Officer or the Company Secretary and shall state that they have the approval of the Identification/Review Committee, as the case may be, and identify its members.

Accounts in which wilful default was not observed at the initial examination shall be re-examined at such periodicity as may be specified by the Board; CFL shall consider commissioning a forensic audit of the affairs and books of accounts of the borrower where the outstanding in the account exceeds the threshold fixed by the Board; and photographs of persons classified and declared as wilful defaulters shall

be published only in accordance with non-discriminatory criteria approved by the Board. The periodicity, threshold and criteria so fixed by the Board shall form part of this Policy.

Periodicity for re-examination: annually; threshold for commissioning forensic audit: aggregate outstanding exposure of ₹10 crore and above, or any amount where the Identification Committee finds prima facie evidence of diversion or siphoning of funds; non-discriminatory criteria for publishing photographs: CFL shall publish the photographs of all persons, and only those persons, who satisfy each of the following conditions, without regard to any other consideration: (a) the person has been classified and declared as a wilful defaulter by a reasoned order of the Review Committee passed under this Policy; (b) the order has been communicated to the person; (c) the name of the person has been reported to the credit information companies and continues to appear in the List of Wilful Defaulters; and (d) the classification, or its publication, has not been stayed or restrained by any court or tribunal. The photographs shall be taken only from CFL's records, shall be published in the same manner for all such persons, and shall be withdrawn from CFL's website, with a corrigendum where published in print, upon removal of the name from the List of Wilful Defaulters.

CFL's internal auditors shall specifically look into adherence to the instructions for classifying a borrower as a wilful defaulter, and the Audit Committee shall periodically review the cases of wilful default and recommend steps to be taken to prevent such occurrences and for their early detection.

CFL shall not grant additional credit facility to any wilful defaulter or entity with which a wilful defaulter is associated, which bar shall continue for one year after removal of the name from the List of Wilful Defaulters, and no facility for floating new ventures shall be granted for five years thereafter. CFL shall incorporate a covenant in loan agreements that the borrower shall not induct on its board a person whose name appears in the List of Wilful Defaulters. CFL shall submit at monthly intervals to all credit information companies the lists of large defaulters and of wilful defaulters (suit-filed and non-suit-filed), and shall inform removal of a name from the List of Wilful Defaulters not later than thirty days from the outstanding falling below ₹25 lakh, subject to the said Directions. Before transferring a defaulted loan with outstanding of ₹25 lakh and above, CFL shall examine it from a wilful default perspective. A director other than a whole-time director shall not be considered a wilful defaulter unless the conditions specified in the Wilful Defaulters Directions are conclusively established.

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)

Impairment Reserve: CFL, being required to comply with Ind AS, shall hold impairment allowances as required by Ind AS and, in parallel, maintain the asset classification and compute provisions as per the IRACP Directions, 2025, which shall act as the prudential floor for provisioning. Where the impairment allowance under Ind AS 109 is lower than the prudential floor, CFL shall appropriate the difference from its net profit or loss after tax to a separate 'Impairment Reserve'. The balance in the Impairment Reserve shall not be reckoned for regulatory capital, no withdrawals shall be made from it without prior permission of the Department of Supervision, RBI, and the appropriation shall be considered for computing the prudential floor but not for calculating net NPAs.

- 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.

2. 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.

3. Technical Write Off

As per the Reserve Bank of India (Non-Banking Financial Companies – Resolution of Stressed Assets) Directions, 2025 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 CFL, subject to such claims not being recognised in any manner on the balance sheet of CFL at the time of the settlement or subsequently till actual realisation; any such claims recognised on the balance sheet shall render the arrangement to be treated as restructuring.

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

In accordance with the Reserve Bank of India (Non-Banking Financial Companies – Resolution of Stressed Assets) Directions, 2025, 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.

The Board shall mandate a suitable 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. Staff accountability in compromise settlements and technical write-offs shall be examined under the following graded framework: (a) every such account shall be examined for lapses, if any, at the stages of appraisal, sanction, documentation, disbursement, post-disbursement monitoring and recovery, distinguishing bona fide business decisions from negligence, mala fide action or non-compliance with policy; (b) accounts up to the lower threshold shall be examined by an official at least one level higher than the sanctioning authority, and accounts above that threshold by a committee nominated by the MD & CEO, in either case comprising officials who were not involved in the sanction, monitoring or recovery of the account; (c) the findings, the evidence relied upon and the reasons shall be recorded in writing, and the official(s) concerned shall be given an opportunity to be heard before any accountability is fixed; and (d) cases in which lapses are established shall be referred for action under the applicable service and disciplinary rules, and a summary of the examinations completed and pending, and of the action taken, shall be placed before the Board along with the reports on compromise settlements and technical write-offs. The monetary thresholds for each grade and the timelines for completing the examination shall be: (i) Grade I – accounts with total dues (principal and interest) of up to ₹25 lakh at the time of the compromise settlement or technical write-off, to be examined by an official at least one level higher than the sanctioning authority within 60 days; and (ii) Grade II – accounts with total dues above ₹25 lakh, to be examined by a committee nominated by the MD & CEO within 90 days; the period in each case being reckoned from the date of approval of the compromise settlement or technical write-off.

Process Flow

1. For Cases which are classified as NPA for more than 2 years, Collection department will initiate technical write-off process with the approval of the authority competent to approve technical write-offs under this Policy.
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 the approval of the authority competent to approve technical write-offs under this Policy.

Delegation of Power

The power to approve technical write-offs shall rest with an authority (individual or committee) at least one level higher in hierarchy than the authority vested with the power to sanction the credit / investment exposure, namely: (a) where the exposure was sanctioned by an official or by the MD & CEO – the Credit Committee; (b) where the exposure was sanctioned by the Credit Committee – the Risk Management Committee of the Board; and (c) where the exposure was sanctioned by the Board or a Committee of the Board – the Board, and any official who was part of sanctioning the loan shall not be part of approving the proposal in any capacity.

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.
- 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.

The cooling period before assuming fresh exposure to borrowers whose exposures have been technically written off shall be 12 (twelve) months from the date of technical write-off in the case of retail / individual borrowers, and 24 (twenty-four) months in all other cases; any fresh exposure thereafter shall be sanctioned by an authority one level higher than the authority otherwise competent to sanction it.

4. 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.