

LAKME INVESTMENT AND FINANCE LIMITED

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PRUDENTIAL NORMS POLICY BOARD MEETING DATE: 20.03.2026

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1. PREAMBLE:

Lakme Investment and Finance Limited (“the Company”) is a Non-Banking Financial Company – Base Layer (NBFC-BL) registered with the Reserve Bank of India (“RBI”) and is committed to maintaining sound financial discipline, transparency, prudence, and regulatory compliance in all its operations. The Company recognizes that adherence to prudential norms is essential for ensuring the quality of assets, adequacy of capital, financial stability, and protection of stakeholder interests.

This Prudential Norms Policy has been formulated to provide a comprehensive framework for compliance with the prudential regulations and guidelines prescribed by the RBI and other applicable regulatory authorities from time to time. The Policy sets out the principles and procedures governing income recognition, asset classification, provisioning requirements, capital adequacy, concentration of exposures, investment valuation, leverage, and other prudential requirements applicable to the Company.

The objective of this Policy is to ensure that the Company maintains a robust financial reporting and risk management framework by recognizing income appropriately, identifying stressed assets on a timely basis, maintaining adequate provisions against credit losses, preserving capital strength, and ensuring transparency in financial disclosures. The Policy also seeks to promote consistency in accounting and regulatory practices while supporting effective monitoring and management of credit and financial risks.

The Company shall comply with the applicable provisions of the Reserve Bank of India Act, 1934, RBI Master Directions for Non-Banking Financial Company – Base Layer entities, applicable accounting standards, and other statutory and regulatory requirements governing prudential regulation of NBFCs. The Policy shall be implemented in conjunction with the Company's Credit Policy, Risk Management Policy, Asset Liability Management framework, Fair Practices Code, and other internal governance policies.

The Board of Directors and senior management shall be responsible for ensuring effective implementation of this Policy and for maintaining appropriate systems, controls, and monitoring mechanisms to achieve ongoing compliance with applicable prudential requirements. The Company shall periodically review and update the Policy to reflect changes in regulatory prescriptions, accounting standards, business operations, and risk profile.

Through this Policy, the Company aims to strengthen its financial resilience, enhance stakeholder confidence, maintain regulatory compliance, and support sustainable growth through prudent and responsible financial management practices.

2. OBJECTIVES:

- a. Ensure compliance with RBI prudential norms;
- b. Strengthen financial discipline;
- c. Ensure proper asset classification;
- d. Improve credit monitoring;
- e. Ensure transparent financial reporting;
- f. Maintain capital adequacy and governance standards.

3. SCOPE:

This Prudential Norms Policy shall apply to all business activities, financial transactions, assets, liabilities, investments, exposures, and accounting practices of Lakme Investment and Finance Limited ("the Company") and shall govern compliance with prudential regulatory requirements prescribed by the Reserve Bank of India (RBI) for NBFC–Base Layer entities.

The scope of this Policy includes:

- a. Recognition of income from loans, advances, investments, and other earning assets in accordance with RBI prudential norms and applicable accounting standards;
- b. Classification of assets into Standard Assets, Special Mention Accounts (SMA), Non-Performing Assets (NPA), Sub-standard Assets, Doubtful Assets, and Loss Assets as prescribed by RBI;
- c. Creation and maintenance of provisions, impairment reserves, and expected credit loss allowances in accordance with RBI regulations and applicable accounting standards;
- d. Valuation, classification, monitoring, and accounting treatment of investments held by the Company;
- e. Maintenance of leverage and capital-related prudential parameters as prescribed by RBI from time to time;
- f. Compliance with prudential exposure limits applicable to individual borrowers, group borrowers, related parties, and other counterparties;
- g. Financial reporting, regulatory disclosures, and presentation of financial statements in accordance with RBI directions, the Companies Act, 2013, and applicable accounting standards;
- h. Declaration and payment of dividends in compliance with RBI guidelines and applicable statutory requirements;
- i. Monitoring of credit risk, concentration risk, investment risk, and other prudential risks impacting the Company's financial position;
- j. Periodic review, reporting, and compliance monitoring of prudential norms by the Board of Directors, management, and relevant committees of the Company.

This Policy shall be read in conjunction with the RBI Scale Based Regulation (SBR) Framework, RBI Master Directions applicable to NBFCs, circulars and notifications issued by RBI from time to time, the Companies Act, 2013, and applicable Accounting Standards/Indian Accounting Standards (Ind AS), as amended from time to time.

4. INCOME RECOGNITION, SMA & ASSET CLASSIFICATION PRINCIPLES:

The Company shall recognise income, classify assets and identify stress accounts in accordance with RBI prudential norms applicable to NBFCs from time to time.

4.1 Income Recognition Principles

Income recognition shall be objective and based on the record of recovery and repayment performance of the borrower.

A. Standard Assets

Loans classified as Standard Assets shall be recognised as follows:

- a. Interest income shall be recognised on accrual basis in accordance with applicable accounting standards.

- b. Processing fees, documentation charges and other charges shall be recognised as per contractual terms and applicable accounting principles.
- c. Interest income on restructured accounts classified as standard assets may continue on accrual basis subject to RBI guidelines.

B. Special Mention Accounts (SMA)

Borrower accounts showing signs of incipient stress but not yet classified as NPA shall be categorised as follows:

Classification	Overdue Status	Income Recognition
SMA-0	Principal/interest overdue upto 30 days	Accrual basis
SMA-1	Overdue >30 days and upto 60 days	Accrual basis with enhanced monitoring
SMA-2	Overdue >60 days and upto 90 days	Accrual basis with caution; intensified recovery measures
NPA	Overdue >90 days	Realisation basis only

The Company shall establish early warning systems for SMA accounts and undertake recovery interventions before accounts slip into NPA category.

C. Non-Performing Assets (NPA)

An account shall be classified as NPA when principal or interest remains overdue for more than 90 days, or such period prescribed by RBI from time to time.

For NPA accounts:

- a. Interest income shall be recognised only on actual realization basis.
- b. Unrealised accrued interest already booked shall be reversed immediately upon asset becoming NPA.
- c. No further interest shall be debited or recognised as income unless actually received. However interest should be calculated and recorded for facility of recovery/write off .
- d. Income on NPAs shall be recognised only on basis of past due and not merely due to security availability or guarantees.
- e. Income on Government guaranteed exposures shall also follow RBI income recognition norms unless specifically exempted.

D. Appropriation of Recoveries in NPA Accounts

In absence of specific contractual agreement, recoveries received in NPA accounts shall be appropriated consistently as follows as per Company policy towards:

1. Expenses/recovery charges;
2. Interest dues;
3. Principal outstanding;
4. Order approved by the Board.

E. Restructured / Rescheduled Accounts

Fees and commissions earned due to renegotiation or restructuring of loans shall be recognised over the period covered by the revised repayment arrangement.

F. Moratorium Accounts

Where moratorium is granted:

- Income may continue to be recognised on accrual basis for accounts remaining standard;
- Accounts becoming NPA after moratorium shall be governed by NPA recognition norms.

4.2 SMA Monitoring & Reporting Framework

The Company shall monitor:

- SMA-0 accounts — monthly review;
- SMA-1 accounts — recovery intervention;
- SMA-2 accounts — escalation to management/recovery committee;
- NPA accounts — provisioning and recovery action.

Periodic SMA ageing reports shall be placed before Management/Board.

3.3 NPA Recognition Summary

Category	DPD Status
Standard	No overdue
SMA-0	1–30 days
SMA-1	31–60 days
SMA-2	61–90 days
NPA	Above 90 days

5. ASSET CLASSIFICATION, SMA & NPA NORMS

The Company shall classify loan assets based on repayment behaviour, degree of credit weakness, recoverability and ageing of overdue amounts in accordance with RBI prudential norms applicable to NBFCs.

Asset classification shall be borrower-wise and not facility-wise, except where specifically permitted by RBI.

5.1 Standard Asset

A **Standard Asset** means an asset in respect of which:

- No default in repayment of principal or interest is perceived; or
- Overdue, if any, are within permissible limits and do not indicate significant credit weakness;
- The account carries only normal business risk.

Standard Assets include performing accounts and accounts classified under SMA categories.

5.2 Special Mention Accounts (SMA)

Accounts showing early signs of stress before becoming Non-Performing Assets (NPA) shall be classified as:

Category	Overdue Period	Classification
SMA-0	1–30 days overdue	Incipient stress
SMA-1	>30 days to 60 days overdue	Moderate stress
SMA-2	>60 days to 90 days overdue	High stress requiring immediate monitoring
NPA	More than 90 days overdue	Non-Performing Asset

The Company shall implement:

- a. Early warning systems;
- b. Recovery follow-up;
- c. Portfolio monitoring;
- d. Escalation mechanisms for SMA accounts.

Ordinarily, SMA accounts shall continue to remain **standard assets** until crossing 90 Days Past Due (DPD).

5.3 Non-Performing Asset (NPA)

A loan account shall be classified as **NPA** where:

- a. Principal remains overdue for more than 90 days; or
- b. Interest remains overdue for more than 90 days; or
- c. Any other RBI prescribed condition for NPA recognition is triggered.

Upon NPA classification:

- a. Income recognition shall cease on accrual basis;
- b. Interest shall be recognised only on actual recovery basis;
- c. Existing unrealised income shall be reversed.

5.4 Sub-standard Asset

A **Sub-standard Asset** means an asset which:

- a. Has remained NPA for a period **up to 12 months**; and/or
- b. Displays well-defined credit weaknesses jeopardizing repayment.

Such accounts require enhanced monitoring and provisioning.

5.5 Doubtful Asset

A **Doubtful Asset** means an asset which:

- a. Has remained in the **Sub-standard category for more than 12 months**; or
- b. Collection or liquidation is highly questionable despite available security.

Provisioning shall be made based upon:

- a. Security value;
- b. Recoverability;
- c. Period classified as doubtful.

5.6 Loss Asset

A **Loss Asset** means an asset identified as irrecoverable by:

- a. Internal Audit;
- b. Statutory Auditor;
- c. RBI inspection;
- d. Management;
- e. External auditor; or
- f. Other competent authority.

Loss Asset indicates:

- a. Erosion in security value;
- b. Absence of recoverable collateral;
- c. Fraudulent diversion;
- d. Extremely weak recovery prospects.

The asset shall be:

- a. Written off; or
- b. Provided at **100% of outstanding exposure** , where retained in books.

5.7 Upgradation of NPA Accounts

Accounts classified as NPA may be upgraded to Standard category only when:

- a. Entire overdue principal and interest are cleared; and
- b. Repayment performance becomes regular.

5.8 Asset Classification Principles

The Company shall ensure:

- a. Timely identification of stress;
- b. Accurate borrower-wise classification;
- c. Consistent application of RBI norms;
- d. Periodic review of overdue accounts;
- e. Board oversight over portfolio quality.

Summary of Classification

Category	Overdue Status	Asset Type
Standard	No overdue	Performing
SMA-0	1–30 DPD	Standard
SMA-1	31–60 DPD	Standard
SMA-2	61–90 DPD	Standard (High Risk)
NPA/Sub-standard	>90 DPD upto 12 months	Non-performing
Doubtful	NPA >12 months	Non-performing
Loss Asset	Identified unrecoverable	Loss

6. IMPAIRMENT ASSESSMENT / EXPECTED CREDIT LOSS (ECL)

The Company shall assess impairment of financial assets and recognize provisions for expected credit losses, wherever applicable, in accordance with applicable Accounting Standards and regulatory requirements.

Expected Credit Loss (ECL) assessment shall consider, among other factors:

- a. Probability of default;
- b. Past repayment behaviour;
- c. Ageing of exposures;
- d. Borrower creditworthiness;
- e. Collateral/security coverage;
- f. Macroeconomic and forward-looking information;
- g. Portfolio risk indicators.

Such impairment recognition shall be in addition to, and not in substitution of, prudential provisioning requirements prescribed by the Reserve Bank of India ("RBI"). The Company shall periodically review impairment assumptions and provisioning adequacy to ensure true and fair representation of asset quality and financial position. Any amendments in accounting standards or RBI directions relating to impairment recognition shall automatically become applicable under this Policy.

7. INVESTMENT VALUATION:

The Company shall classify and value investments in accordance with applicable RBI Directions, Accounting Standards and prudential norms prescribed from time to time.

A. Current Investments

Current investments shall be valued at Lower of Cost or Fair/Market Value, category-wise, at each reporting period.

Where aggregate market value of investments within a category is lower than aggregate cost, the net depreciation shall be recognised and provided for in the financial statements.

Any appreciation in value shall generally not be recognised unless permitted under applicable accounting standards or regulatory requirements.

B. Long-Term Investments

Long-term investments shall ordinarily be carried at historical cost.

Provision shall be made for:

- a. Permanent diminution in value, where decline in value is considered other than temporary; or
- b. Any impairment identified based on recoverability, financial condition of investee, market conditions or other relevant factors.

C. Periodic Review

The Company shall periodically review the classification and valuation of investments and place material changes, impairment provisions or significant exposures before the Board/Management, as applicable.

D. Regulatory Compliance

Investment valuation shall be undertaken in accordance with prevailing RBI guidelines, applicable Accounting Standards and statutory requirements, as amended from time to time.

8. LEVERAGE RATIO

The Company shall maintain leverage within the limits prescribed by the Reserve Bank of India (“RBI”) from time to time and shall continuously monitor leverage to ensure prudential stability and capital adequacy.

For NBFC–Base Layer (NBFC-BL) entities having customer interface and not accepting public funds, the Company shall maintain leverage ratio within the limits prescribed by the Reserve Bank of India (“RBI”) from time to time and ensure continuous monitoring to comply with applicable prudential requirements.

Leverage Ratio shall be calculated as:

$$\text{Leverage Ratio} = \frac{\text{Outside Liabilities}}{\text{Owned Funds}}$$

Where:

- a. **Outside Liabilities** include all liabilities excluding:
 - i. Paid-up equity capital;
 - ii. Free reserves;
 - iii. Share premium;
 - iv. Capital reserves representing surplus arising from sale proceeds of assets;
 - v. Accumulated losses and deferred expenditure.
- b. **Owned Funds** shall have the meaning assigned under applicable RBI Directions.

The Company shall:

1. Monitor leverage ratio on a periodic basis;
2. Place leverage monitoring reports before the Board/Management periodically;
3. Undertake corrective action where leverage approaches regulatory thresholds;
4. Ensure borrowing growth remains consistent with capital position and risk appetite.

Any revision in leverage limits prescribed by RBI shall automatically become applicable without requiring separate amendment to this Policy.

9. CAPITAL ADEQUACY & RISK WEIGHTED ASSETS RATIO (CRAR)

The Company shall maintain adequate capital levels in accordance with prudential norms prescribed by the Reserve Bank of India (“RBI”) applicable to NBFC–Base Layer (NBFC-BL) entities having customer interface and not accepting public deposits.

The Company shall maintain **minimum Capital to Risk Weighted Assets Ratio (CRAR) of 15%**, with **Tier I Capital not less than 10%**, or such higher percentage as prescribed by RBI from time to time for applicable NBFC categories.

Capital adequacy shall be computed considering:

- a. Tier I Capital;
- b. Tier II Capital;
- c. Risk Weighted Assets (RWA);
- d. Off-balance sheet exposures;
- e. Other regulatory adjustments prescribed by RBI.

The Company shall ensure that capital levels remain sufficient to absorb:

- a. Credit risk;
- b. Operational risk;
- c. Market risk (where applicable);
- d. Concentration risk;
- e. Portfolio deterioration;
- f. Unexpected losses.

The Company shall periodically monitor and report:

- a. Capital Adequacy Ratio (CRAR);
- b. Tier I Capital ratio;
- c. Growth in Risk Weighted Assets;
- d. Capital buffers;
- e. Regulatory capital compliance.

Capital adequacy status shall be reviewed periodically by the Board/Management and corrective measures shall be initiated where ratios approach regulatory thresholds.

Any amendment issued by RBI relating to capital adequacy requirements shall automatically become applicable under this Policy.

10. RISK WEIGHTED ASSETS (RWA):

The Company shall compute **Risk Weighted Assets (RWA)** in accordance with the prudential norms and capital adequacy framework prescribed by the Reserve Bank of India ("RBI") from time to time.

Risk weights shall be assigned to **on-balance sheet exposures, off-balance sheet exposures**, and other applicable items for determining capital adequacy requirements.

A. Risk Weights for On-Balance Sheet Exposures

The Company shall assign risk weights to exposures broadly in accordance with RBI guidelines, including but not limited to:

Exposure Type	Indicative Risk Weight*
Cash and balances with Scheduled Commercial Banks	0%
Bonds of Public Sector banks	20%
Fixed deposits with Banks/ bonds of public financial institutions	100%
Government securities / Central Government exposures	0%
Claims guaranteed by Central Government	0%
Claims on State Governments (where applicable)	100%
Loans secured by deposits with Company	0%
Housing loans	100%
Loans Against Property (LAP)	100%
Personal loans / unsecured retail loans	125%
MSME exposures	100%
Corporate loans	100%
Investments in corporate securities	100%
Equity investments	125%
Capital market exposures	125%
NPAs (net of provisions)	100%
Fixed assets	100%
Other assets / receivables	100%

*Risk weights shall be updated in accordance with prevailing RBI Directions.

B. Risk Weights for Off-Balance Sheet Exposures

Off-balance sheet exposures shall first be converted into Credit Equivalent Amount (CEA) using Credit Conversion Factors (CCF), after which applicable risk weights shall be assigned.

Indicative treatment:

Off-Balance Sheet Item	Credit Conversion Factor (Indicative)
Financial guarantees	As RBI prescribed
Performance guarantees	Applicable RBI conversion factor
Undrawn commitments	Applicable RBI conversion factor
Forward commitments	Applicable RBI conversion factor
Other contingent liabilities	RBI prescribed factor

After conversion:

$$\text{Credit Equivalent Exposure} = \text{Exposure} \times \text{CCF}$$

Applicable risk weights shall then be assigned to derive Risk Weighted Assets.

C. Computation of Risk Weighted Assets

Risk Weighted Assets shall broadly include:

$$\text{WA} = \text{Credit Risk Weighted Assets} + \text{Operational Risk} + \text{Market Risk (where applicable)}$$

The Company shall periodically compute:

- a. Total Risk Weighted Assets;
- b. Tier I Capital;
- c. Tier II Capital;
- d. CRAR;
- e. Exposure concentration;
- f. Capital buffer adequacy.

D. Periodic Review

The Company shall periodically review:

- a. Changes in RBI prescribed risk weights;
- b. Portfolio risk profile;
- c. Concentration exposures;
- d. NPA migration;
- e. Stress testing results;
- f. Capital adequacy.

E. Regulatory Compliance

Any revision in RBI prescribed:

- a. Risk weights;
- b. Credit conversion factors;
- c. Capital adequacy norms;
- d. Exposure treatment;

shall automatically become applicable under this Policy without requiring separate amendment.

11. NET OWNED FUND (NOF)

The Company shall maintain **Net Owned Fund (NOF)** at or above the minimum level prescribed by the Reserve Bank of India (“RBI”) from time to time and ensure continuous compliance with regulatory capital requirements applicable to NBFC–Base Layer entities.

For the purpose of this Policy, **Net Owned Fund (NOF)** shall have the meaning assigned under applicable RBI Directions and shall be computed in accordance with prevailing regulatory guidelines.

The Company shall:

- a. Periodically monitor NOF levels and regulatory capital position;
- b. Ensure adequate capital is maintained to support business growth and risk profile;
- c. Place compliance status before the Board/Management at periodic intervals;
- d. Take corrective measures where NOF approaches regulatory minimum thresholds.

Any revision in minimum NOF requirements prescribed by RBI shall automatically become applicable under this Policy without requiring separate amendments.

12. PROVISIONING NORMS:

Asset Category	Minimum Provision
Standard Asset	0.25%
Sub-standard	10%
Doubtful	20%–100%
Loss Asset	100%

13. DIVIDEND DECLARATION:

Dividend declaration shall comply with Section 45-IC of RBI Act and prevailing RBI guidelines.

Dividend declaration shall consider:

- a. NPA levels;
- b. Regulatory compliance;
- c. Audit qualifications;
- d. Capital position;
- e. RBI restrictions.

Existing framework can continue with updated references.

14. DISCLOSURES IN FINANCIAL STATEMENTS

Company shall disclose:

- a. Asset quality;
 - b. Provisioning;
 - c. Related party exposure;
 - d. Capital adequacy;
 - e. NPA disclosures;
 - f. Concentration risk;
- as required by RBI and accounting standards.

15. STRESS TESTING & RISK REVIEW

Management shall periodically (at least on half yearly basis) undertake:

- a. Portfolio stress testing;
- b. Scenario analysis;
- c. Liquidity review.

16. REGULATORY REPORTING

Timely filing of:

- a. RBI returns;
- b. Statutory disclosures;
- c. Prudential reports.

17. REVIEW OF POLICY

This policy shall be reviewed **Annually** or upon RBI amendments.

18. BOARD APPROVAL:

The Prudential Policy is approved by the Board at the meeting held on 20.03.2026