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Policy Owner	:	Finance & Accounts Dept.
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Reviewed by	:	Policy Review Committee
Approved by	:	Board of Directors

Income recognition Policy for Loans

I. INTRODUCTION:

Income recognition for Non-Banking Financial Companies (NBFCs) offering gold loans in India is primarily governed by the Reserve Bank of India (RBI) guidelines. Income on gold loans, like interest and other charges, should be recognized on an accrual basis. However, interest income from non-performing assets (NPAs) should be recognized only on a cash basis, not on an accrual basis.

NPA Classification

A gold loan account is classified as an NPA if the overdue period exceeds 90 days.

Treatment of overdue loans

If a gold loan becomes overdue, any accrued interest on such loans is to be reversed from income. Income can be recognized only when the overdue amounts (including interest) are actually recovered.

Repossession and Sale of Gold

If a borrower defaults and the gold pledged is sold, income recognition should be done only to the extent of the actual proceeds received from the sale after adjusting the outstanding loan and expenses related to the sale.

Provision for NPA

NBFCs are required to maintain provisions for NPAs based on RBI guidelines/Board Approved ECL Policy. This ensures adequate reserves to cover potential losses from non-performing loans.

Disclosure Requirements

NBFCs are required to disclose their income recognition policies, including any deviations from the standard accrual method, in their financial statements.

Important RBI Circulars & Guidelines

- Master Directions for NBFCs: RBI periodically issues updated guidelines on income recognition and asset classification, which must be strictly adhered to.
- Fair Practices Code: NBFCs must also ensure transparency in interest computation and disclose terms to borrowers.

NBFCs engaged in gold loans must align their policies with these regulatory requirements while ensuring fair practices and accurate financial reporting.

The Company is following certain procedures and practices in the matter of interest recognition on Gold Loans and Other Non-Gold Loan products.

II. OBJECTIVE:

The objective of an income recognition policy, often referred to as revenue recognition, is to establish clear guidelines for when and how revenue should be recognized for loans in financial statements. This ensures that the financial information presented is accurate, consistent, and comparable across different periods and entities.

III. GOLD LOAN

1) Loans Before becoming NPA

Income is recognized on receipt basis or accrued based on a time proportion basis, considering the amount outstanding and the rate applicable.

Gold Loan Interest Income accrued to the extent of net realizable value of the underlying security.

2) NPA Loans

Income recognition and asset provisioning is made as per the relevant directions issued by the Reserve Bank of India or amended by ECL policy of the Company approved by Board of Directors.

3) Mark to Market (MTM)

The loans are classified as MTM when the net realizable value of gold collateral (disbursed 22ct weight) is less than the recoverable amount. The net realizable value of gold collateral is estimated at 90% of the Kerala market gold rate calculated based on the moving average of the

immediately preceding month. For loans where customers have serviced interest exceeding 10% of the total interest accrued, it is assumed that the loans will be redeemed by the customer themselves. In such cases, interest income is recognized on accrual basis, as it is reasonable certain that the customer will continue to service the loan.

4) Rolled Over/ LTV Leveraged loans

In case of Rolled over/LTV Leveraged loans, if the customer is not serviced any interest, income accrued and recognized up to the contractual period (maturity date).

IV. OTHER LOANS

1) Loans Before becoming NPA

Interest Income on other loans given is recognized on a time accrual basis, taking into account the amount outstanding and the interest rate applicable.

2) NPA Loans

Income recognition is made as per the relevant directions issued by the Reserve Bank of India or amended by ECL policy of the Company approved by Board of Directors.