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INDEL MONEY LIMITED(IML)

Policy on Credit Loss Estimation

1. Background

1.1 The Board of Directors (the "Board") of Indel Money Limited (the "Company" or "Indel Money"), has adopted the following Credit Loss Estimation Policy for impairment of the financial instruments using the expected credit loss (ECL) approach as per the requirements of AS-109.

1.2 The policy has been framed in accordance of the notification of the Ministry of Corporate Affairs (MCA) dated 18 January 2016, requiring the company to change from Indian Generally Accepted Accounting Principal (IGAAP) to Indian Accounting Standard (Ind AS) effective from March-2020.

1.3 It is also in compliance with the notification issued by the Reserve Bank of India providing guidance on implementation of Indian Accounting Standards by non-banking financial companies which lays down that the Company should have a Board approved Expected Credit Loss policy, which should articulate and document the business models and portfolios of the Company, methodologies for computation of Expected Credit Losses.

2. Purpose

2.1 The purpose of this policy is to provide a model for calculation of the ECL for the credit impairment of its financial instruments. The implementation of the IND-AS as per the aforesaid circular of MCA requires changes in the methodology of calculating the credit impairment apart from the other changes in the accounting of any entity.

2.2 This policy describes the basis of Expected Credit Loss model and its key consideration while calculating the credit impairment for the company

3. Scope

3.1 This policy is applicable to for all loan portfolio originated, managed by the company including loans assets which are own, under direct assignment, under securitisation arrangements, under co-lending transactions and through business correspondents.

4. Basis

4.1 The accounting Standard IND AS 109 relating to Financial Instruments issued by Ministry of Corporate Affairs shall be the basis to arrive at the expected credit loss. Further, the directions issued by the Reserve Bank of India related to accounting for Financial Instruments shall also be taken into consideration while arriving at the expected credit loss for the company.

4.2 The standard (Ind AS 109) deals with classification, recognition, de-recognition and measurement for all financial assets and liabilities

5. Classification of financial assets

5.1 An entity shall classify its financial assets based on its business model for managing the financial assets or the contractual cash flow pattern of financial asset subsequently measured at:

Sl.No	Business Model	Measurement
1	The financial asset is held to collect contractual cash flows and the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.	Amortised cost
2	Financial asset is held by both collecting contractual cash flows & selling financial assets The financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.	Fair Value Through Other Comprehensive Income (FVTOCI)
3	If it does not meet the criteria for the above two methods – residual	Fair Value Through Profit & Loss (FVTPL)

5.2 Company's approach – Classification of financial instruments

5.2.1 Loans extended by the Company (Indel Money) are financial asset, which are held to collect contractual cash flows which arise on specified dates. These cash flows are solely payments of principal and interest on the principal amount outstanding. Thus the company shall measure all its financial assets which satisfy the above condition at Amortized Cost.

5.2.2 If the company acquires any financial assets which is held for both, for collecting contractual cash flows & selling financial assets, the company shall measure such financial asset at Fair Value Through Other Comprehensive Income (FVTOCI).

5.2.3 The company shall measure financial assets through Fair Value Through Profit & Loss (FVTPL), if it does not meet the requirements specified for (a) or (b) above.

6. Measurement of ECL

6.1 Ind AS 109 prescribes three broad approaches to measure ECL, which is explained below

6.1.1 General Approach

a) Recognise life time ECL for all in-scope financial instruments where credit risk has increased significantly since initial recognition.

b) Recognise 12-month ECL in all other cases of assets where credit risk has not increased significantly since initial recognition.

6.1.2 Simplified Approach

Mandatorily required for trade and other receivables without significant financing component Can be applied optionally for lease and other trade receivables which have a significant financing component. Lifetime ECL is recognised for all assets under this approach, i.e. there is no staging

6.1.3 Purchased or originated credit impaired (POCI)

a) Relevant only for those assets that are purchased or originated as credit impaired
b) No ECL recognised at initial recognition since asset is recognised at fair value
c) changes in life time ECL are recognised in P&L subsequently

6.2 Approach - Company's policy

The company shall adopt the generalised approach for measurement by categorising the loans using the historical credit loss experience of the loss portfolio by categorising them into different stages based on their Days past due status (DPD status) which reflect the pattern of deterioration of the financial instrument. The stages are summarised below

a) Stage 1: 0-30 days past due
b) Stage 2: 31-89 days past due
c) Stage 3: 90 & above days past due

7. Expected Credit Loss

7.1 As per the Ind As 109, the impairment/provision on financial asset (loans) shall be on Expected Credit Loss which is the product of the following three components which shall be based on the segmentation of the loan portfolio.

a) Probability of Default (PD)
b) Exposure at Default (EAD)
c) Loss Given Default (LGD)

<u>7.1.a Probability of Default (PD)</u>

i. The probability of default ('PD') is the likelihood that an obligor will default on its obligations in the future. PD is arrived considering the default rate of the loans segmented based on product, business vertical and/or state and based on its default history for a pre decided period of time.

ii. The PD so arrived is applied on financial assets based on business product/verticals with respect to each States (wherever available). Where state wise data is not available, PD rate is considered based on overall movement of default rates of the company for the respective stages.

7.1.a.2 Estimation of PD - Company's policy

The company's estimate of PD shall be based on a historical data for a period not less than 3 years or the de-recognition of the loan(s), whichever is earlier.

7.1.b Exposure at Default (EAD)

7.1.b.1 Exposure at Default (EAD) can be defined simply as a measure of the monetary exposure should an obligor go into default. In other words, it is quantum of exposure the financial institution is/was exposed to the borrower at the time of default, as the default occurs at an unknown future date.

7.1.b.2 EAD - Company's policy

a) The company's EAD shall be the sum of outstanding principal and the interest amount accrued but not received on each loan as at reporting date.
b) The EAD for Stage 3 assets shall be the gross principal outstanding at the date of default.

7.1.c. Loss Given Default

7.1.c.1 Loss given default (LGD) is the amount of money a financial institution loses when a borrower defaults on a loan, after taking into consideration any recovery, represented as a percentage of total exposure at the time of loss.

7.1.c.2 LGD - Company's policy

a) The LGD in respect of the loan portfolio of the company is estimated based on the historical percentage of recovery in respect of the defaulted financial assets against the respective quantum of loan outstanding.

b) LGD in respect of the loans which are grouped under Stage 3 is reckoned as 100%.

8. Segmentation

8.1.1 As per Ind AS, depending on the nature of the financial instruments an entity may not be able to identify significant changes in credit risk for individual financial instruments before the financial instrument becomes past due as they are not monitored on an individual basis until the customer defaults or breaches the contractual terms. In such a situation, expected credit losses shall be recognised on a collective basis that considers comprehensive credit risk information.

8.1.2 For the purpose of determining significant increases in credit risk and recognising a loss allowance on a collective basis, an entity can group financial instruments on the basis of shared credit risk characteristics with the objective of facilitating an analysis that is designed to enable significant increases in credit risk to be identified on a timely basis. Examples of shared risk characteristics include, amongst others, instrument type, credit ratings, collateral, industry, geography of borrower, etc.

9. Recognition of the ECL

9.1.1 As per Ind AS 109, an entity shall measure the loss allowance for a financial instrument

a) at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition.

b) at an amount equal to 12-month expected credit losses where the credit risk on a financial instrument has not increased significantly since initial recognition

9.2 Recognition of the ECL – Company's policy

a) **Stage – 1**: For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

b) **Stage 2**: Lifetime ECL – for exposure where there been a significant increase in credit risk since initial recognition but are not credit impaired, a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset) is recognised based estimated PD and LGD for the financial asset.

c) **Stage 3**: For exposure which are credit impaired, the impairment of loss on financial asset shall be based on the life time ECL and the loss allowance shall be 100% of EAD where DPD is 365 days and above irrespective of the estimated PD and / or LGD for the asset.

10. Prudential Floor for ECL

10.1.1 The Company shall hold impairment allowances as required by Ind AS. In parallel the Company shall also maintain the asset classification and compute provisions as per extant prudential norms on Income Recognition, Asset Classification and Provisioning (IRACP) including borrower/beneficiary wise classification, provisioning for standard. A comparison between provisions required under IRACP and impairment allowances made under Ind AS 109 will be disclosed by the Company in the notes to their financial statements to provide a benchmark to their Boards, RBI supervisors and other stakeholders, on the adequacy of provisioning for credit losses.

10.1.2 Where impairment allowance under Ind AS 109 is lower than the provisioning required under IRACP (including standard asset provisioning), the Company shall appropriate the difference from their net profit or loss after tax to a separate 'Impairment Reserve'. The balance in the 'Impairment Reserve' shall not be reckoned for regulatory capital. Further, no withdrawals shall be permitted from this reserve without prior permission from the Department of Supervision, RBI. (c) The requirement for 'Impairment Reserve' shall be reviewed, going forward

11. Time value of money

11.1.1 Expected credit losses arrived above shall be discounted using the effective interest rate determined at initial recognition.

12. Policy review

12.1.1 The policy will be reviewed on annual basis or on need basis.