JSW INVESTMENTS PRIVATE LIMITED

Expected Credit Loss Policy (“ECL Policy”)

JSW INVESTMENTS PRIVATE LIMITED

Document Control Sheet	
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1 **<u>Back ground</u>**

The Reserve Bank of India (RBI) vide its circular no. RBI/DoR/2023-24/105 DOR.FIN.REC No. 45/03.10.119/2023-24 Dated 19.10.2023: Master Direction – Reserve Bank of India (Non-Banking Finance Company – Scale Based Regulation) Direction on "Implementation of Indian Accounting Standards by Non-Banking Financial Companies and Asset Reconstruction Companies" has directed to have a Board approved policy for computation of Expected Credit Loss (ECL) that addresses policies, procedures and controls for assessing and measuring credit risk on all lending exposures, commensurate with the size, complexity and risk profile specific to the NBFC. The parameters and assumptions considered in the ECL estimation as well as their sensitivity to the ECL output need to be documented.

In view of the above, Policy on Expected Credit Loss ("the Policy") has been prepared prescribing the guiding principles for assessing and measuring credit risk on all lending exposures, commensurate with the size, complexity and risk profile specific to the Company.

This policy covers the guiding principles for computation of ECL.

2 **<u>Purpose</u>**

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. Under IGAP, company was following fix percentage-based model directed by RBI through its master directions from time to time, however with the introduction of IND-AS, it will change to Expected Credit Loss (ECL) based model. ECL based credit impairment model is considered pragmatic and include many factors which make model widely accepted. This policy describes the basis of ECL model and its key consideration while calculating the credit impairment for the company.

3 **<u>Scope of Policy</u>**

The Policy covers the following:

a) Approach of the Company for computation of ECL.
b) Segmentation of loan portfolio.
c) Mechanics of the computation of ECL – including the assumptions of deriving various factors for computing ECL.
d) Changes in the assumptions by the management.
e) Prudential floor for provisioning against assets as per the applicable regulatory framework.

4 ECL Framework

The Company computes impairment using the following model:

ECL = Probability of Default (PD) × Loss Given Default (LGD) × Exposure at Default (EAD)

ECL represents a probability-weighted estimate of credit losses, considering time value of money and forward-looking information.

5 Approach

The Company shall measure the amount of ECL on a financial instrument in a way that reflects an unbiased and probability-weighted amount. The Company considers its historical loss experience and adjusts the same for current observable data. The key inputs into the measurement of ECL are the probability of default, loss given default and exposure at default. These parameters shall be derived from the Company's internally developed statistical models and historical data. In addition, the Company shall use reasonable and supportable information on future economic conditions including macroeconomic factors. Since incorporating forward looking information increases the judgment as to how the changes in the macroeconomic factor will affect ECL, the methodology and assumptions are reviewed regularly.

6 Exposure at Default and its Staging

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation. The Company determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding to multiple scenarios. Ind AS 109 requires financial instruments to be categorized into 3 different stages on the basis of degree of risk. Financial assets are classified into three stages:

Stage 1: 0 to 30 days

- No significant increase in credit risk (SICR) since initial recognition
- Recognize 12-month ECL

Stage 2: 31 to 90 days

- Significant increase in credit risk (SICR)
- Recognize Lifetime ECL

Stage 3: More than 90 days

- Objective evidence of impairment (e.g., default, financial distress)
- Recognize Lifetime ECL

Criteria for Significant Increase in Credit Risk (SICR)

In order to determine whether there has been a significant increase in credit risk (SICR) since initial recognition, the Company shall continuously monitor all assets subject to ECL Provisioning. SICR is based on the following:

- Days past due
- Deterioration in internal or external credit rating
- Adverse changes in borrower financials
- Group-level credit risk indicators

Assessment is made for each asset at borrowers' level to understand if the credit risk is significantly increased or the asset is credit impaired ECL is provided based on the categorization of each of the outstanding loan considering performance during the year and future outlook. As a matter of policy, ECL shall be applied on respective categories of Assets as per following process.

Net ECL amount is charged / credited to Profit & Loss account in the relevant financial year.

7 **Exposure at Default (EAD)**

The exposure at default (EAD) is an estimate of the exposure at a reporting date. It shall include outstanding loan amount accrued interest and expected drawdowns on non-discretionary loan commitments.

8 **Probability of Default (PD)**

The Probability of Default (PD) is the likelihood that the borrower will default in future.

Analysis of historical data regarding days past due (DPD) or delinquency of loans is the primary input into the determination of the term structure of PD for exposures. The Company shall look at performance and default information about its credit risk exposures analyzed by type of product or borrower as well as by DPD.

9 **Loss Given Default (LGD)**

Loss given default (LGD) is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

The Company uses collection details on previously default cases for calculating the estimated recoveries and consequently the LGD, and further deducts estimated direct cost of collection from default cases.

10 **Forward looking information**

The Company incorporates forward-looking information such as Macroeconomic indicators (GDP growth, sector outlook), Financial strength of group entities, Industry trends (Multiple scenarios (base, optimistic, pessimistic) may be considered, with appropriate probability weightings.)

11 **ECL computation**

Stage-wise Computation

- **Stage 1:** 12-month PD × LGD × EAD
- **Stage 2 & 3:** Lifetime PD × LGD × EAD

The impairment allowance computed under Ind AS 109 is lower than the provisioning required under IRACP (including standard asset provisioning), Company shall appropriate the difference from its net profit or loss after tax. Endeavor shall be made to make adequate provision through impairment allowance itself.

The difference appropriated against net profit or loss after tax shall be transferred to "Impairment Reserve", the withdrawal from which shall be possible only with the permission of the RBI, or in such manner as may be prescribed by the RBI from time to time.

ECL amount computed above is charged / credited to Profit & Loss account in the relevant financial year.

12 **Disclosures**

Appropriate disclosures as required in regulatory guidelines, from time to time, shall be made by the Company by way of notes to financial statement.

13 **Monitoring & Review of the Policy**

The Board of Directors shall monitor and review the Policy and can amend this policy to incorporate appropriate changes as and when deemed fit.