



ABANS FINANCE PRIVATE LIMITED

EXPECTED CREDIT LOSS (ECL) POLICY Version II

Version	Adoption / Amended	Authority	Date
I	Adoption	Board of Directors	August 16th, 2024
II	Amended	Board of Directors	August 5th 2025

I. POLICY STATEMENT AND PURPOSE

Abans Finance Private Limited ('AFPL' or 'the Company') is a Material subsidiary of Abans Financial Services Limited. From March 31, 2024, it has been categorized as a Middle-Layer NBFC (NBFC-ML). The purpose of this Policy is to comply with all applicable regulatory requirements and maintains the highest standards of corporate governance, risk management, and ethical conduct.

II. OBJECTIVE

This ECL Policy's objective is to ensure that the Company adheres to the Master Direction– Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 ("**Scale Based Regulations**") that contains the '*Regulatory Guidance on Implementation of Indian Accounting Standards by NBFCs*' and details the provisioning requirements to be satisfied by the Company. This ECL Policy gives an overview on how to determine the impairment stage of a loan facility that is extended by the Company, as well as explains the process of computation of appropriate provisioning requirement for the different stages, as also detailed in the Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances ("**IRAC Norms**").

III. SCOPE

ECL shall be applicable to the following items in the Company's financial statements:

- (a) Financial assets at amortized cost;
- (b) Debt financial assets;
- (c) Loans and Advances, including commitments;
- (d) Lease receivables;
- (e) Financial guarantee contracts; and
- (f) Other financial assets (whether recurring or not)

(only on-balance sheet items shall be considered for this purpose, however appropriate disclosure of impairment of contingent assets shall be made in financial statements (if any), in conjunction with the prescribed regulatory guidelines issued by the RBI, including the Scale Based Regulations and the IRAC Norms.)

IV. ROLES AND RESPONSIBILITY

A. Board of Directors

As the highest decision-making body of the Company, the Board determines the strategy for making lending decisions of the Company. The strategy shall be guided by the oversight of the ECL computed for different clients across different sectors. Apart from overseeing the computation of ECL, the Board shall have the following responsibilities:

- (1) Determination of appropriate mechanisms to bring down the ECL;
- (2) Recommend changes and propose appropriate methodologies and inputs to compute the ECL amounts;
- (3) Determine, in consultation with the Risk Management Committee (“**RMC**”), clients/industry members that pose material risks to the Company’s business strategy or its reputation;
- (4) Reviewing and as requested, approving exceptions to the ECL Policy, as required;
- (5) Suggest reporting mechanisms, to ensure quarterly comparison of the ECL figures as well as to review upward/downward trends in the asset quality;
- (6) Authorize the rebuttable presumption of 30 (thirty) days as suggested by IND AS 109 and ensure maintenance of appropriate records thereof; and
- (7) Ensure implementation of the recommendations of the internal as well as the statutory auditors.

B. Accounting Team

- (a) Shall determine Stage 1 and Stage 2 provisions upon deliberation with the credit team as well as the risk team, within the limits prescribed by the Board;
- (b) To implement actions for recovery of the amounts as laid down in the Company’s recovery/credit policy;
- (c) To ensure appropriate provisioning is created/maintained by the Company and appropriately reported to the regulatory authorities, including the RBI; and
- (d) To ensure appropriateness of the figures/amounts disclosed in the financial statements/website of the Company.

C. Methodology

The Company is mainly engaged in lending [in the form of loan facilities and short-term loans] to its group entities and a portion of its total funds to external parties (not being group entities). Considering the same, the Company has decided to compute ECL, in the manner detailed in this ECL Policy. The computation is as per the Annexure -A attached.

V. DATA INPUT AND CRITERIA

ECL are a probability weighted estimate of credit losses. The credit losses are measured as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the Company in accordance with the contract and the cash flows which the Company expects to receive).

The Company continuously monitors all financial assets that are subject to ECLs. On the relevant reporting date, an allowance (or provision for loan commitments and financial guarantees) is required for the 12 (twelve) month ECLs. If the credit risk is significantly increased since the initial recognition (“**Stage 1**”), an allowance (or provision) should be recognized as the lifetime ECLs for financial instruments, for which the credit risk has increased significantly since initial recognition (“**Stage 2**”) or which are credit impaired (“**Stage 3**”).

The Company assesses when a significant increase in the credit risk has occurred based on quantitative and qualitative assessments. Such exposures are considered to have resulted in a significant increase in credit risk and shall be moved to Stage 2, upon the occurrence of the following events:

- a) **Quantitative test:** Accounts/Financial assets that are 30 (thirty) calendar days or more days past due (“**DPD**”), move to Stage 2 automatically. Accounts/Financial assets that are 90 (ninety) calendar days or more DPD, move to Stage 3 automatically.
- b) **Qualitative test:** Accounts/Financial assets that meet the portfolio’s ‘*high risk*’ criteria are subject to closer credit monitoring. High risk customers may not be in arrears but either through an event or an observed behavior, exhibit credit distress.
- c) **Reversal in Stages:** Exposures/Distressed financial assets will move back to Stage 2 or Stage 1 respectively, once they no longer meet the quantitative criteria set out in paragraph 6.3(a) above. For exposures/distressed financial assets classified using the qualitative test, they will move back to Stage 2 or Stage 1 respectively,

when they no longer meet the criteria for a significant increase in credit risk and when any cure criteria used for credit risk management are met.

The definition of default for the purpose of determining ECLs has been aligned to the RBI's definition of default, which considers indicators that the debtor is unlikely to pay and is no later than when the exposure is more than 90 (ninety) DPD.

The Company continues to incrementally provide for the asset post initial recognition in Stage 3, based on its estimate of the recovery.

VI. MEASUREMENT OF EXPECTED CREDIT LOSS

The measurement of ECL by the Company is calculated using 3 (three) main components: (i) the probability of default (“**PD**”); (ii) loss given default (“**LGD**”); and (iii) the exposure at default (“**EAD**”).

- (a) The 12 (twelve) month and lifetime ECLs represent the PD occurring over the next 12 (twelve) months and the remaining maturity of the instrument, respectively.
- (b) The EAD represents the expected balance at default, after taking into account the repayment of the principal and interest from the balance sheet date to the default event, together with any expected drawdowns of committed facilities.
- (c) The LGD represents expected losses on the EAD given the event of default having been effected, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realized and the time value of money.

The Company applies a 3 (three) stage approach to measuring ECL on financial assets which are accounted for at amortized cost. The financial assets migrate through the following 3 (three) stages based on the change in credit quality since its initial recognition under Stage 1.

VII. STAGING MECHANISM

A. Stage 1: 12 (twelve) months' ECL

- (a) For exposures where there has not been a significant increase in the credit risk since its initial recognition and those financial assets that are not credit impaired since origination, the portion of the lifetime ECL associated with the PD events occurring within the next 12 (twelve) months is recognized.
- (b) Exposures with DPD less than or equal to 29 (twenty-nine) days are classified as Stage 1.

- (c) The Company has identified 0 (zero) bucket and bucket with DPD less than or equal to 29 (twenty-nine) days, as 2 (two) separate buckets.

B. Stage 2: Lifetime ECL– not credit impaired

- (a) For credit exposures where there has been a significant increase in the credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognized.
- (b) Exposures with DPD equal to 30 (thirty) days but less than or equal to 89 (eight-nine) days are classified as Stage 2.
- (c) At each reporting date, the Company assesses whether there has been a significant increase in the credit risk for the financial assets since its initial recognition by comparing the PD occurring over the expected life between the reporting date and the date of initial recognition.
- (d) The Company has identified cases with DPD equal to or more than 30 (thirty) days and less than or equal to 59 (fifty-nine) days and cases with DPD equal to or more than 60 (sixty) days and less than or equal to 89 (eighty-nine) days, as 2 (two) separate buckets.

C. Stage 3: Lifetime ECL– credit impaired

- (a) Financial assets are assessed as credit impaired when 1 (one) or more events that have a detrimental impact on the estimated future cash flows pertaining to that financial asset has occurred.
- (b) For a financial asset that has become credit impaired, a lifetime ECL is recognized on the outstanding principal amount as at period end.
- (c) Exposures with DPD equal to or more than 90 (ninety) days are classified as Stage 3.
- (d) A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash-flows has reduced significantly and there are no other indicators of impairment. The said ECL is recognized on EAD as at period end.
- (e) If the terms of a financial asset are renegotiated or modified due to financial difficulties of the borrower, then such financial asset is moved to Stage 3, and lifetime ECL under Stage 3 on the outstanding amount is applied.

VIII. ASSET CLASSIFICATION AND PROVISIONING

Loan asset classification and requisite provision made under RBI IRAC Norms and the Scale Based Regulations, as applicable to the Company, are given below:

Particulars	Criteria	IRAC Provision	ECL Allowance
Originated asset	the asset at the time of origination, which is standard in nature	0.40% (zero decimal point four zero percent)	based on a 12 (twelve) month PD
Standard asset	asset is between 30 (thirty) DPD and 89 (eighty-nine) DPD	0.40% (zero decimal point four zero percent) of the outstanding loan portfolio of standard assets	based on a lifetime PD
Sub-standard assets	asset is more than 89 (eighty-nine) DPD	starting from 10% (ten percent) of the outstanding loan portfolio of sub-standard assets, based on the different levels of sub-standard assets.	since default has already occurred, ECL will be based on LGD

IX. PROVISION IN BOOKS AND DISCLOSURE

After applying the above criteria, the Company's management/Board determines the minimum ECL provision required to be maintained. However, if the ECL provisioning calculated based on the abovementioned criteria is less than the minimum provisioning requirements stated by the RBI, then the Company will amend its provisioning rates as per the RBI stated rates. If the ECL provisioning as determined by the Company is higher than the applicable RBI rates, the higher provisioning as per the above criteria will continue to be applicable for the Company's provisioning purposes. Thus, the provisioning made by the Company shall be equal to or at higher than the RBI-required rates, at all times.

The Company shall provide a comparison between the provisions required under IRAC Norms and impairment allowances made under Ind AS 109 by way of disclosure

in the notes to their financial statements to provide a benchmark to the Board, RBI and its personnel/supervisors and other stakeholders, on the adequacy of provisioning for credit losses.

X. AMENDMENT

The Board of Directors of the Company reserves the power to review and amend this Policy from time to time, subject to revision / amendment in accordance with applicable laws as may be issued by relevant statutory, governmental and regulatory authorities, from time to time. In case of any amendment(s), clarification(s), circular(s) etc. issued by the relevant statutory, governmental and regulatory authorities are not consistent with the provisions laid down under this Code, then such amendment(s), clarification(s), circular(s) etc. shall prevail upon the provisions hereunder.

ANNEXURE - A

Methodology on expected credit losses (ECL)

The Company is required to recognise expected credit losses (ECLs) based on forward-looking information for all financial assets at amortised cost, lease receivables, debt financial assets, loan commitments and financial guarantee contracts.

At the reporting date, an allowance (or provision for loan commitments and financial guarantees) is required for the 12 month ECLs. If the credit risk has not significantly increased since initial recognition (Stage 1), an allowance (or provision) should be recognised for the lifetime ECLs for financial instruments for which the credit risk has increased significantly since initial recognition (Stage 2) or which are credit impaired (Stage 3).

The measurement of ECL is calculated using three main components:

- i. Probability of default (PD)- $\text{Gross Amount of Loans defaulted} \times 100 / \text{Total Loan Disbursed for last 7 years} \times \text{LGD}\%$
- ii. Loss given default (LGD)- the amount of money an entity loses when a borrower defaults on a loan.(alternatively for computation of ECL a percentage of default on gross loans is calculated)
- iii. The Exposure at default (EAD). The 12-month and lifetime PDs represent the PD occurring over the next 12 months and the remaining maturity of the instrument respectively. The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities. The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money.