Policy / Process Note Information	
Policy Name	**Provisioning Policy for Standard, Sub-Standard and Doubtful Assets of Intec Capital Limited pursuant to RBI guidelines and Indian Accounting Standard (RBI/2019-20/170 DOR (NBFC).CC.PD.No.109/22.10.106/2019-20) and RBI/2015-16/23 DNBR (PD) CC. No. 044/03.10.119/ 2015-16 & Indian Accounting Standard -109**
Approved by Board of Directors, if any	**Approved by Board of Directors on 10th June 2021**
Effective Date	**10th June 2021**

Provisioning Policy for Standard, Sub-Standard and Doubtful Assets

Purpose:

Intec Capital Limited is an Non-Banking Financial Companies (NBFCs) covered by Rule 4 of the Companies (Indian Accounting Standards) Rules, 2015 are required to comply with Indian Accounting Standards -109 (IND AS - 109) as well as RBI circular number:- RBI/2019-20/170 DOR (NBFC).CC.PD.No.109/22.10.106/2019-20) and RBI/2015-16/23 DNBR (PD) CC. No.044/03.10.119/2015-16 for the preparation of their financial statements and provisioning of Assets

Definitions: As per RBI

Standard Asset:
An asset in respect of which, no default in repayment of principal or payment of interest is perceived and which does not disclose any problem nor carry more than normal risk attached to the business;

Non-Performing Asset:
An asset, in respect of which, interest has remained overdue for a period of 180 days or more

A Term loan inclusive of unpaid interest, when the instalment is overdue for a period of six months or more or on which interest amount remained overdue for a period of six months or more

Sub-Standard Asset:
An asset which has been classified as non-performing asset for a period not exceeding 12 months.

Doubtful Asset:
An asset which remains a Sub-Standard asset for a period exceeding 18 months

Loss Asset:
an asset which is adversely affected by a potential threat of non-recoverability due to either erosion in the value of security or non-availability of security or due to any fraudulent act or omission on the part of the borrower

Provision requirements as per RBI Norms :

Standard Assets	A general Provision of 0.25% of total outstanding
Sub Standard	A general Provision of 10% of total outstanding

Doubtful Asset	a) 100% provision to the extent to which the advance is not covered by the realizable value of the security to which the Company has a valid recourse b) In addition to item (a) above, depending upon the period for which the asset has remained doubtful, provision shall be made on the following basis: Up to one year- 20% One to three years- 30% More than three years- 50%
Loss Assets	The entire asset shall be written off. If the assets are permitted to remain in the books for any reason, 100% of the outstanding should be provided for NPA Provision.

Indian Accounting Standard – 109 (Provisioning norms of the Financial Assets (Existing Policy)

Ind AS 109 requires the Company to recognize impairment loss allowance towards its financial assets including loans to customers (designated at amortized cost and fair value through other comprehensive income) using the expected credit loss (ECL) approach.

Treatment of the different stages of Financial Assets and the methodology of determination of Expected Credit Loss (ECL) under IND AS 109

(a) <u>Stage 3 - Credit impaired</u>

The Company recognizes a financial asset to be credit impaired and in stage 3 by considering relevant objective evidence, primarily whether:

- Contractual payments of either principal or interest are past due for more than 180 days;
- The loan is otherwise considered to be in default.

Restructured loans, where repayment terms are renegotiated as compared to the original contracted terms due to significant credit distress of the borrower, are classified as credit impaired. Such loans continue to be in stage 3 until they exhibit regular payment of renegotiated principal and interest over a minimum observation period, typically 12 months – post renegotiation, and there are no other indicators of impairment. Having satisfied the conditions of timely payment over the observation period these loans could be transferred to stage 1 or 2 and a fresh assessment of the risk of default is done for such loans.

(b) <u>Stage 2 - Significant increase in credit risk</u>

An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default of the loan exposure. However, unless identified at an earlier stage, 90 days past due is considered as an indication of financial assets to have suffered a significant increase in credit risk.
The measurement of risk of defaults under stage 2 is computed on homogenous portfolios, generally by nature of loans, tenors, underlying collateral, geographies and borrower profiles. The default risk is assessed using PD (probability of default) derived from past behavioral trends of default across the identified homogenous portfolios. These past trends factor in the past customer behavioral trends, credit transition probabilities and macroeconomic conditions. The assessed PDs are then aligned considering future economic conditions that are determined to have a bearing on ECL.

(c) <u>Stage 3- Without significant increase in credit risk since initial recognition</u>

ECL resulting from default events that are possible in the next 12 months is recognized for financial instruments in stage 1. The Company has ascertained default possibilities on past behavioral trends witnessed for each homogenous portfolio using application/behavioral score cards and other performance indicators, determined statistically.

(d) <u>Measurement of Expected Credit Loss (ECL)</u>

The assessment of credit risk and estimation of ECL are unbiased and probability weighted. It incorporates all information that is relevant including information about past events, current conditions and reasonable forecasts of future events and economic conditions at the reporting date.

In addition, the estimation of ECL takes into account the time value of money. Forward looking economic scenarios determined with reference to external forecasts of economic parameters that have demonstrated a linkage to the performance of our portfolios over a period of time have been applied to determine impact of macro-economic factors.
The Company has calculated ECL using three main components: a probability of default (PD), a loss given default (LGD) and the exposure at default (EAD). ECL is calculated by multiplying the PD, LGD and EAD and adjusted for time value of money using a rate which is a reasonable approximation of EIR.

- Determination of PD is covered above for each stage of ECL.
- EAD represents the expected balance at default, taking into account the repayment of principal and interest from the Balance Sheet date to the date of default together with any expected drawdowns of committed facilities.
- 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 realized and the time value of money.

Lending Category	Nature of businesses	Probability of Default (PD)			Exposure at Default (EAD)	Loss Given Default (LGD)
		Stage 1	Stage 2	Stage 3		
Business Loan	Unsecured loans to SMEs, corporate and others etc.	Use of past trend and data and statistical analysis thereof, external / internal ratings and internal evaluation with a management overlay.		100%	EAD is computed based assessment of time to default considering customers profile and time liquidation	Based on past trend of Recoveries associated risk of underlying security and estimated cash flows.
Mortgage Loan	Loans against collateral security of plant & machinery					
Commercial Loan	Loans against property					

Impairment allowance under Ind AS 109 is lower than the provisioning required under IRACP (including standard asset provisioning),

Where impairment allowance under Ind AS 109 is lower than the provisioning required under IRACP (including standard asset provisioning), NBFCs/ARCs 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.
The requirement for ‘Impairment Reserve’ shall be reviewed, going forward

Effective Date:

This Policy will be effective on the date of approval from Board of Directors.

Policy Review:

The Policy will be continuing in force unless superseded by a fresh policy.