SEEDS

EMPOWERING DREAMS

LOAN LOSS PROVISION AND WRITE OFF POLICY

SEEDS FINCAP PRIVATE LIMITED

SEEDS FINCAP PRIVATE LIMITED OFFICIAL SEAL

APPROVED IN THE BOARD MEETING HELD ON 30TH APRIL 2024

EMPOWERING DREAMS

1. Introduction and Objective

This policy aims at laying down guidelines and procedures involved in accounting operations for loan loss provisions and write off. It provides a framework for the functioning of the accounts department and involves the process of recording, classifying and summarizing economic events, leading to the preparation of financial statements.

The objectives of this policy are as follows:

a) Defining and classifying the parameters for provisioning of loan losses.
b) Setting up the procedures for accounting under such conditions.

2. Applicability & Validity of the Policy

The policy will become applicable from such date as approved by the Board of Directors. The policy needs to be updated periodically at least on annual basis. Any change in policy by way of additions and amendments due to changes in laws, regulations, accounting standards shall be implemented immediately with a report to Board of Directors subsequently.

3. Governance Framework

The Company's Board of Directors are responsible for the matters stated in Section 134(5) of the Companies Act, 2013 with respect to the preparation of financial statements that give a true and fair view of the financial position, financial performance of the Company in accordance with the accounting principal generally accepted in India including Accounting Standards specified under section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014.

This responsibility also includes ensuring maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting frauds and other irregularities, selection and application of appropriate accounting policies, making judgments and estimates that are reasonable and prudent and design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error. In order to ensure the above, the Executive senior management of the Company are required to present all policies for approval by the Board, diligently follow it and put before the Board all material facts of significance including financial statements, Audit reports, periodic review reports, other periodic reports pertaining to various policies and guidelines etc. on time.

4. Accounting Norms

In accordance with the principle of conservatism and prudence, financial statements should not overstate the assets and revenue of the organization, nor understate the liabilities or expenses. This implies that Amount receivables shall reflect a reasonable estimate of amounts that may not be collected in the future. An accounting entry, based on the prevailing norms of the regulatory and organizations policy, shall be passed in order to create the provision for loan loss as Loan loss reserve. It is a contra-account to the Loan Portfolio on the Balance Sheet.

4. Asset classification and Provisioning Norms

- Standard asset means the 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;

- A Non-Performing Asset (NPA) is a loan or an advance where Interest and / or instalment of principal remain overdue for a period of more than 90 days in respect of a Term Loan.

  A glide path is provided to NBFCs in Base Layer to adhere to the 90 days NPA norm as under-

NPA Norms	Timeline
>150 days overdue	By March 31, 2024
>120 days overdue	By March 31, 2025
>90 days overdue	By March 31, 2026

- Sub Standard Asset means an asset which has been classified as non-performing asset for a period not exceeding 18 months.

- Doubtful Asset an asset which remains a sub-Standard asset for a period exceeding 18 months.

- Loss Asset shall mean an asset which has been identified as loss asset by the Company or its internal or external auditor or by the Reserve Bank of India during the inspection, to the extent it is not written off.

  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.

Loan Ageing Report

Loan aging report allows the management to know how much of a delinquent loan is overdue and also for how long it has been overdue. The longer a loan payment is overdue, the higher is the risk of not getting the overdue amount and future payments. When loans become delinquent, they are referred as the principal at risk. In this case the total amount of loan balance is at risk, and not simply the overdue amount.

Aging Report of past due amounts also allows managers to determine whether delinquency management strategies of the organization are effective.

(a) Classification of Loans

<table>
<tr><td>Asset Classification</td><td colspan="2">Period of Overdue</td></tr>
<tr><td>Standard Assets</td><td colspan="2">Not Overdue</td></tr>
<tr><td rowspan="3">Non-Performing Assets (NPA)</td><td colspan="2">Overdue for a period of -</td></tr>
<tr><td>NPA Norms</td><td>Timeline</td></tr>
<tr><td>>150 days overdue</td><td>By March 31, 2024</td></tr>
</table>

<table>
<tr><td></td><td><table><tr><td>>120 days overdue</td><td>By March 31, 2025</td></tr><tr><td>>90 days overdue</td><td>By March 31, 2026</td></tr></table></td></tr>
<tr><td>Sub-Standard Assets</td><td>NPA for a period not exceeding 18 months</td></tr>
<tr><td>Doubtful assets</td><td>Sub-standard assets for more than 18 months.</td></tr>
<tr><td>Loss Assets</td><td>which has been identified as loss asset by the Company or its internal or external auditor or by the Reserve Bank of India during the inspection, to the extent it is not written off.</td></tr>
</table>

"Overdue" refers to interest and/ or principal and/ or instalment remaining unpaid from the date it became receivable.

(b) Provisioning Norms for Loans

<table>
<tr><th>Asset Classification</th><th>Provisioning %</th></tr>
<tr><td>Standard Assets</td><td>0.25%</td></tr>
<tr><td>Substandard</td><td>A general provision of 10% of total outstanding shall be made</td></tr>
<tr><td>Doubtful</td><td>(a) 100% provision to the extent to which the advance is not covered by the realisable value of the security to which the NBFC has a valid recourse shall be made. The realisable value is to be estimated on a realistic basis;

b) In addition to item (a) above, depending upon the period for which the asset has remained doubtful, provision to the extent of 20% to 50% of the secured portion (i.e. estimated realisable value of the outstanding) shall be made on the following basis:
<table><tr><td>Period for which the asset has been considered as doubtful</td><td>% of provision</td></tr><tr><td>upto one year</td><td>20</td></tr><tr><td>One to three years</td><td>30</td></tr><tr><td>more than three years</td><td>50</td></tr></table></td></tr>
<tr><td>Loss Assets</td><td>Entire asset to be written off or 100 percent provision on outstanding amount.</td></tr>
</table>

The Management can if so deem fit create a higher provision than required as per the policy.

(c) Write off

All the loans require to be written off will be recommended by Business Head and same will be written off in the system after the approval from MD & CEO. However, in case there is reasonable certainty of receiving the money from the borrower, MD & CEO can defer the writing off of loans for a further period as deemed fit considering the nature and situation of loan and borrower.

Glossary

Abbreviation	Description
MD & CEO	Managing Director & Chief Executive Officer
RBI	Reserve Bank of India
NPA	Non-Performing Assets
NBFC	Non-Banking Financial Company

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