

Compromise Settlement & Technical Write-off Policy

Summary of Policy

Policy Name	Compromise Settlement & Technical Write-off Policy
Periodicity of Review	Annual
Owner / Contact	Compliance Department
Approver	Board of Directors

Version	Effective Date
1	01-04-2025

1. Introduction and Objective:

Fintree Finance Private Limited. (FFPL) is a non-banking financial company registered with the RBI and is engaged *inter alia* in the business of providing financial assistance and/ or credit facilities to, including but not limited to micro, small and mini enterprises and individuals. The objective of this Policy is to provide a framework for compromise settlements and writing off NPAs in the form of a technical write-off.

2. One-Time/Compromise Settlement

Before considering a loan for write off, the Company officials shall make concerted effort for negotiating a one-time settlement with the borrower. One-time settlement refers to a negotiated settlement where a borrower offers to pay and the Company agrees to accept in full and final settlement of its dues, an amount less than the total amount due to the Company under the relative loan contract. The Company officials shall frame a settlement based on the circumstances necessitating its consideration to protect the Company's interest to the maximum possible extent.

3. Technical Write Off

A write-off is an accounting term for formal recognition in the financial statements that a borrower's asset no longer has value. Usually, loans are written off when they are 100 percent provisioned and there is no realistic prospect regarding either settlement or recovery. These loans are transferred to the off-balance sheet records.

The write-off is essentially a prudent accounting measure to reduce the level of Gross NPA as such accounts are either fully provided for or substantial provision is already available.

A write-off does not preclude the lender from enforcing, selling, or transferring the credit to another entity. Writing off a loan does not entail forgiving the debt. The borrower still owes money to the lender; however, the lender has de-recognized this asset from its financial statements due to non-recovery of dues.

4. Eligible accounts for write off:

- a. The accounts proposed to be written off should be classified as loss assets. The minimum ageing for a technical write-off should be at least 180 days from the date of the account turning NPA.
- b. Accounts where deterioration in collateral value warrant a technical write-off.
- c. The loan account should have adequate provision to contain the loss at a minimum level.
- d. Accounts where suits have been filed but chances of recovery are bleak even if the cases are decreed.
- e. Accounts that become substandard due to the death of the main earner can also be considered for write off as often the claim amount from the Insurance Company is not sufficient to fully settle the dues.

5. Process for write-off/compromise settlements:

- a. The Collection Head shall submit a report on non-recoverability of dues along with the proposal to write off the loan accounts to the CEO.
- b. All write-off proposals shall be thoroughly examined at Head office by the CBO or Head of collection before submitting for approval to the Managing Director (M.D) or CEO.
- c. The exercise of writing off the balance is carried out in consultation with the Chief Financial Officer (CFO) and the aggregate amount to be written off be finalized with the approval of the M.D or CEO.
- d. The CEO shall have the authority to write off/do compromise settlement for accounts up to 100% of interest overdue and charges and up to 25% of principal outstanding. Waiver of principal outstanding beyond 25% will require approval from M.D, Proposals for compromise settlements/write-off in respect of customers classified as fraud or willful defaulter, will require one time ratification of the Board.
- e. The follow up for recovery of a written off loan shall be continued on par with other

live accounts. All possible steps to recover the dues shall be initiated even after write off in the larger interest of the Company.

- f. The branches shall be advised to ensure that writing off loans should not in any manner dilute the recovery mechanism and should not give any negative signals to regular and prompt borrowers.
- g. The Collection Head shall ensure that all the relevant loan documents are enforceable and legal options / compromise proposals shall be explored.
- h. The Operations department shall ensure that the details of accounts written off are informed to the Bureaus / Credit Information Companies.
- i. The details of loan accounts written off shall be informed to the Board Members on a quarterly basis.

6. Accounting treatment of Write off of loan accounts:

- a. The writing off a loan account shall be accounted for by passing a journal entry to debit the “Bad Debt Expense account” and a credit to the loan account.
- b. In case the borrower resumes servicing its debt, or the exposure is sold, a recovered amount would be directly recorded as income in the profit and loss (P&L) account.

7. Staff Accountability

For all cases being written off or undergoing OTS/compromise settlement, the risk/ accounts team may as and when required perform a thorough investigation of the proposal including sourcing, credit underwriting and disbursement process to ensure that there is no lapse or ethical violation on account of any of the employees. If any lapses or ethical violations is found, the case report will be submitted to the MD & CEO, Chief Business Officer, Chief Risk Officer, and Chief Human Resource Officer for taking relevant staff side action within 60 days of report submission.

8. Methodology of arriving at Realizable Value

For all secured loans being written off or undergoing OTS/compromise settlement, technical valuation will be undertaken by the Collections department (independent of the technical department) to arrive at a realizable value. The valuation will be carried out through an empaneled valuer, one who is different from the valuer who did the valuation at the time of sanction.

9. Other Norms

- a. The compromise settlements and technical write-offs shall be without prejudice to any mutually agreed contractual provisions between Fintree Finance Private Limited. (FFPL) and the borrower relating to future contingent realizations or recovery by FFPL, subject to such claims not being recognized in any manner on the balance sheet of FFPL at the time of the settlement or subsequently till actual realization of such receivables. Any such claims recognized on the balance sheet of FFPL shall render the arrangement to be treated as restructuring.
- b. Compromise settlements where the time for payment of the agreed settlement amount exceeds three months shall be treated as restructuring.
(Restructuring is an act in which a lender, for economic or legal reasons relating to the borrower's financial difficulty, grants concessions to the borrower. Restructuring may involve modification of terms of the advances / securities, which would generally include, among others, alteration of payment period / payable amount / the amount of instalments / rate of interest; roll over of credit facilities; sanction of additional credit facility/ release of additional funds for an account in default to aid curing of default / enhancement of existing credit limits; compromise settlements where time for payment of settlement amount exceeds three months.)
- c. In case of partial technical write-offs, the prudential requirements in respect of residual exposure, including provisioning and asset classification, shall be with reference to the original exposure, provided that the amount of provision including the amount representing partial technical write-off shall meet the extant provisioning requirements, as computed on the gross value of the asset.
- d. In respect of borrowers subject to compromise settlements, there shall be a cooling period of 36 months before FFPL can assume fresh exposure to such borrowers.
- e. FFPL may undertake compromise settlements or technical write-offs in respect of accounts categorized as willful defaulters or fraud without prejudice to the criminal proceeding underway against such customers.

10. Reporting to Board

Compromise settlements and technical write-offs approved by the MD & CEO would be reported to the Board on a quarterly basis. A suitable reporting format so as to ensure adequate coverage of the following aspects has been prepared by the Company

- a. trend in number of accounts and amounts subjected to compromise settlement and/or technical write-off (q-o-q and y-o-y).
- b. out of (a) above, separate breakup of accounts classified as fraud, red-Flagged, willful default and quick mortality accounts.
- c. Amount-wise, sanctioning authority wise, and business segment / asset-class wise grouping of such accounts.
- d. extent of recovery in technically written-off accounts.

The Board may suggest amendments / additions to the format.

11. Amendments to the Policy

The policy shall be amended suitably to incorporate relevant changes as and when required with the approval of the Board of Directors.