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Board Meeting No:- 75 **Date 26th July 2024**

LCB FINANCE PLC
SLFRS 9
IMPAIRMENT POLICY &PROCEDURES MANUAL

Version III

Owner:- Finance Department

Approval by:- Board of Directors

Date of Approval:- 26th July 2024

Table of Contents

1. Introduction

LCB Finance (hereinafter referred as "Company") wishes to align loss allowances based on the guidelines provided by ICASL addressed in the final version of SLFRS 9 Financial Instruments (SLFRS 9, or the standard), bringing together the classification and measurement, impairment and hedge accounting phases of the ICASL's project to replace LKAS 39 and all previous versions of SLFRS 9.

1.1 Scope and objectives

The Finance Company's SLFRS 9 Impairment Policy ("the Policy") is the standard and primary source of reference for all SLFRS 9 impairment related activities, wherever they are undertaken within the Finance Company. The document highlights the policies that are within the purview of SLFRS 9 regarding impairments. This policy is an additional layer over all existing credit policies.

The scope of this policy covers assessment, approval, commitment, administration, monitoring and reporting related activities pertaining to SLFRS 9.

The objective of the policy is to provide a description of SLFRS 9 Impairment and related activities that need to be carried out as per requirements of SLFRS 9 Standard and provisions of LCB Finance Company SLFRS Implementation Guidelines. The Policy sets out to govern the following areas:

1. Develop and implement uniform SLFRS 9 standards and procedures.
2. Define the roles and responsibilities of Finance Company's business' and its constituents, Credit, Risk, Finance, Recoveries, IT and Internal Audit and other units involved in SLFRS 9 impairment decisions.
3. Establish and implement risk assessment and rating system for all credits on an "on-going" basis for SLFRS 9 impairment.
4. Specify any changes (in broad terms) to the types of risks and return, products, collateral etc., specific to SLFRS 9, apart from the existing credit policy guidelines.
5. Set the Company's SLFRS 9 policies and procedures to define and monitor classified accounts and create loan loss provisions.
6. Define guidelines for SLFRS 9 risk monitoring, control and reporting.

The Policy will be used on a day to day basis by all personnel responsible for managing SLFRS 9 impairment across various stages of expected credit loss computation. This should ensure that all impairment related activities are performed in accordance with the policies and guidelines contained herein.

1.2 Approval and updating

This Policy is a living and dynamic document and will be reviewed and updated at least annually. Any additions or amendments to this Policy will require the approval of The Board of Directors on recommendation of the Audit Committee, who is the ultimate owner of this policy.

The Policy will be updated with the approved revisions in both hard copy form and the electronic version and all stakeholders will be immediately informed through an internal memorandum, which may also be communicated via e-mail. A clear statement of the changes, and the rationale for them, should be provided when approval is sought and stakeholders are advised of any revision of the Policy, and should be retained for record.

A record of all approved revisions must be maintained in the format shown on Policy Summary Profile of this document. It should list the date of revision, version no, and date of approval.

1.3 Exceptions

Any exceptions to this Policy must be approved by The Board of Directors on recommendation of the Audit Committee as required, and must be ratified by the Board. Any exceptions that do not have a pre-fact approval; will be reported to the Board Audit Committee.

2. SLFRS 9 Impairment Overview

2.1 SLFRS 9 Impairment Requirements

The new impairment requirements in SLFRS 9 are based on an expected credit loss model and replace the LKAS 39 incurred loss model.

The expected credit loss model applies to debt instruments (such as deposits, loans, debt securities and trade receivables) recorded at amortized cost or at fair value through other comprehensive income, plus lease receivables, contract assets and loan commitments and financial guarantee contracts that are not measured at fair value through profit or loss.

The new SLFRS 9 impairment requirements eliminate the LKAS 39 threshold for the recognition of credit losses i.e. it is no longer necessary for a credit event to have occurred before credit losses are recognized. Instead, Expected Credit Loss (ECL) is always accounted for and the loss allowance is updated for changes in these ECLs at each reporting date to reflect changes in credit risk since initial recognition.

The guiding principle of the ECL model is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments.

The amount of ECLs recognized as a loss allowance or provision depends on the extent of credit deterioration since initial recognition.

The extent of credit deterioration helps define the credit stage of an obligor and hence the loss allowance.

2.2 Stage Assessment and SICR (Significant Increase Event of Credit Risk)

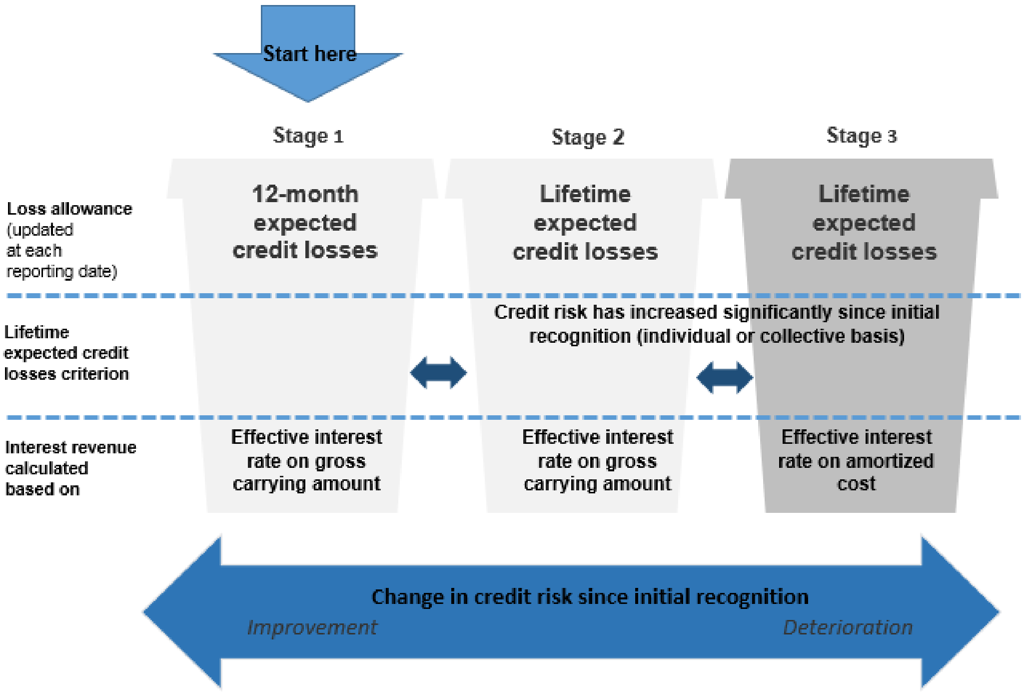
SLFRS 9 was introduced to overcome the delay in recognition of impairment by moving from incurred loss model to an ECL model. The ECL model accounts for increasing credit risk assessing and computing loss allowances

SLFRS 9 impairment uses a three stage approach recognizing increased credit risk at each higher stage:

1. **Stage 3 refers** to all impaired assets (purchased impaired and originally credit impaired assets). Lifetime losses are computed for all accounts classified as Stage 3
2. **Stage 2** refers to all accounts which have shown a significant deterioration in credit quality since origination. The definition of a significant deterioration (insert the section of the definition) is subject to assessment on a continuing assessment (See Section
4) and the governing policies regarding the same have been discussed in Section 5.
Lifetime losses are computed for all accounts classified as Stage 2
3. **Stage 1** refers to all accounts which have not shown any sign of deterioration since origination. All accounts which have been identified as Low Credit Risk (LCR) (under low credit risk expedient) shall be classified as Stage 1 without periodic check for Significant Increase in Credit Risk (SICR)

Stages 2 and 3 differ in how interest revenue is recognized. Under Stage 2 (as under Stage 1), interest is recognized on the gross carrying amount. Under Stage 3 (where a credit event has occurred, defined similarly to an incurred credit loss under LKAS 39), interest revenue is calculated on the net carrying amount after deducting the impairment allowance.

The diagram below illustrates the impact of stage SICR.



2.3 12 Month vs Lifetime ECL

SLFRS 9 requires 12 month ECL provision for all accounts in Stage 1 and lifetime expected credit losses for all other accounts.

2.3.1 12 Month Expected Credit Loss

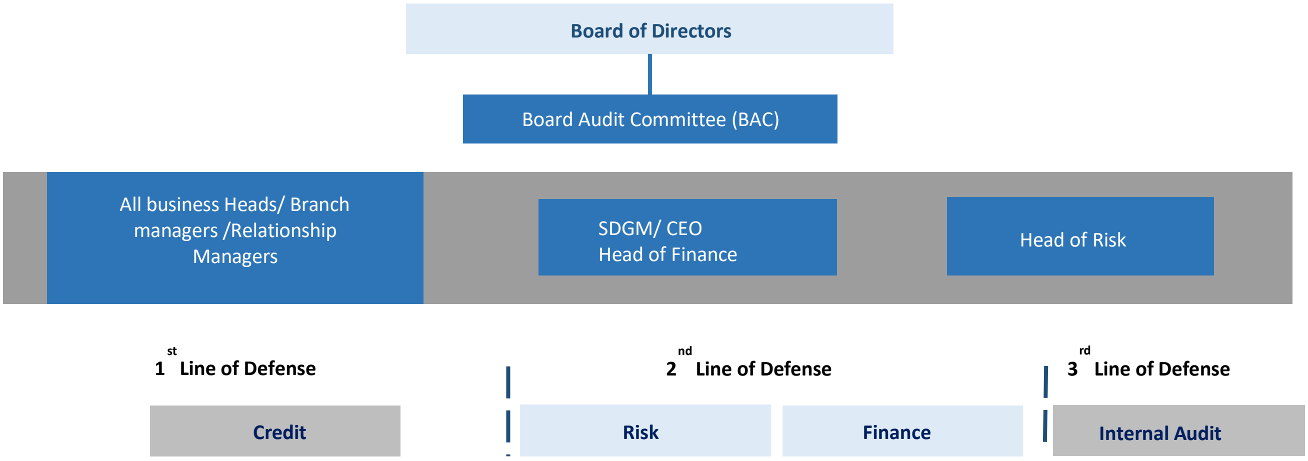
12 month credit loss refer to the portion of expected credit loss resulting from possible default events within 12 months after reporting date

2.3.2 Lifetime Expected Credit Loss

Lifetime losses result from all possible default events over the expected life of the financial instrument after the reporting date. The lifetime refers to the loan tenure of the financial instrument.

3. Overall Governance Structure

The principal governance structure is outlined in the figure below



3.1 Board of Directors

The final oversight and responsibility for the correctness of the implementation and disclosures of SLFRS 9 policy lie with the Board of Directors which operates through Board Committees.

3.2 Board Audit Committee

The BAC is responsible for maintaining an independent oversight of the company's framework, policies, procedures, controls, methodologies and reports pertaining to SLFRS 9.

1. The BAC has been entrusted with the responsibility of approving the Company's SLFRS 9Impairment guidelines (recommended by the management) and thereafter of monitoring them periodically to ensure that recommended requirements are adhered to thereafter. Where necessary the BAC may refer its recommendations to the Board for board approval. The specific responsibility of BAC includes: Reviewing and approving, or as the case may be ratifying the methodology, measures, targets, and tolerances associated with the SLFRS 9 impairment modeling and validation.
2. Reviewing and approving, or as the case may be, endorsing and/or ratifying, the Company's SLFRS 9 impairment policies and their ongoing amendments and upgrades, such that the established strategic objectives are achieved.
3. Delegating discretionary powers to Finance, Risk and Credit in all areas pertaining to SLFRS 9.
4. Acting in place of the Board on all areas pertaining to SLFRS 9, which are above the level of management's discretionary power.
5. Evaluating and implementing any changes relevant to SLFRS 9 which have been recommended by external or internal audit

6. Considering whether assumptions and methodologies are consistent with business and risk management practices and strategies, including assessing whether they are consistent with those used in other areas of reporting and planning on an annual basis.

7. Ensure that interpretations, assumptions and methodologies are documented and monitored by management as these may become inappropriate over time and solutions will need to be adaptable to changing circumstances.

3.3 Roles and Responsibilities of Departments

3.3.1 Department Risk

The Head of Risk oversees and governs- the following input governance, staging governance, ECL computation governance and model validation governance.

SLFRS 9 Input Governance

Company Risk shall be responsible for providing up-to date, correct and appropriate data for activities listed below:

1. Model input data required to operate impairment models such as the computation of the macro-economic factor model
2. Additional critical accounts not included within the individually significant criteria, but subject to Individual assessment to be added to the list for individual assessment.

Staging Governance

1. Wherever required will advise company Credit on finalizing staging, including overrides. Overrides should obey all applicable rules in this policy.
2. Recommend manual overrides on staging to Company Credit
3. Definition and review of Watch List criteria to define early warning indicators to assess potential for SICR in the Company's portfolio- these indicators could include, but not limited, to delinquency characteristics,

ECL Computation Governance

1. Review of Individual Impairment workings and assumptions by the credit officers relevant to individual impairment including back testing with previous quarter and provide recommendation on final assumptions to be used.
2. Provide credit risk related disclosures to Department Finance.

3.3.2 Model Validation and Governance

The Head of Risk shall be responsible for monitoring, validating and proposing modification of the SLFRS 9 models

1. Validation of ECL computation, including through-the-cycle and point-in-time models for PD (Profitability of Debt), LGD (Loss Given Debt) and CCF (Credit conversion factor), macroeconomic forecasting process, staging and the ECL computation

2. Recommend model changes including changes to through-the-cycle models and point-in-time models for PD, LGD and CCF, macroeconomic forecasting process, staging and the ECL computation.
3. Methodology review and back testing, refinements, and impact analysis.
4. Suggest changes / modifications / improvements to the BAC

3.3.3 Department Credit

The Credit team shall be responsible for the following input governance and staging governance

SLFRS 9 Input Governance

1. Wherever required will be advised by Company Risk on adding additional exposures that are critical for individual assessment to the list of exposures

Staging Governance

1. Responsible for completing individual assessment including objective evidence testing
2. Wherever required will be advised by the Company Risk on finalizing staging, including overrides. Overrides should obey all applicable rules in this policy
3. Responsible for maintaining follow-ups and obtaining latest status updates from their customers and updating the Company Risk on any issue that might impact the SLFRS 9 provisioning, staging and classification assessments.

3.3.4 IT

The Head of IT is responsible for the following input data required for SLFRS 9 ECL computations.

SLFRS 9 Input Governance

1. Data extraction from Company's data sources
2. Perform Data Quality checks through pre-defined rules
3. Extract Data Quality reports, highlight key issues/concerns to Company Risk- SLFRS
4. Take corrective actions on data based on information from Company Risk- SLFRS
5. Perform additional extractions from source data based on feedback/information from Company Risk- SLFRS
6. Upload additional data as per directives from Company Risk- SLFRS

Staging Governance

1. Implement changes to rule based staging framework after relevant approvals.

3.3.5 Department Finance

The AGM/ Head of Finance is responsible for overseeing and governing the following areas under SLFRS 9 Expected Credit Loss

Data reconciliation

1. Company Finance will be responsible for data extraction from Company's data sources and preparing a reconciliation report. Finance will raise issues to the IT department for taking corrective actions as required.

Staging

1. Apply rule based staging
2. Implement final staging - based on recommendation from Company Risk
3. Monitor the staging process and its outputs, including checking that individual assessment stages are reflected correctly in final results

ECL Computation

1. Identify the customers for individual assessment based on the quantification thresholds defined in this policy and communicate the list to business units and Recoveries
2. Collate the completed objective evidence test checklists and cash flow projections
3. Implement the recommendation by Risk Department on objective evidence testing and cash flow assumptions
4. Review the completeness of information in relation to individual impairment
5. Compute the ECL for each reporting period (on a monthly quarterly and annual basis).
6. Monitor the ECL computation and its outputs, including ECL results assessment.
7. Development of changes to the models based on the recommendations of Company Risk with clear methodologies and guidelines.
8. Department Finance will check with Auditors the recommendations made by Risk department and amend as appropriate.
9. All changes made to the ECL computation model shall be documented in a log by the Finance Department. The changes documented shall be approved at audit committee level.

Disclosure Reporting (See Section 6 for SLFRS 9 Disclosure Requirements)

1. Collate inputs from other departments for disclosure reporting
2. Ensure quality of other departments' inputs
3. Finalize and sign-off on disclosures
4. Prepare and submit draft disclosure to the BAC.

3.3.6 Credit Admin

The Credit Admin is responsible for providing the following input data to the Finance Department relevant to the SLFRS 9 Expected Credit Loss computation.

1. Collateral data for loans
2. Credit limit data for loans and advances

3.3.7 Recovery Department

The Recovery department is responsible for the individual assessment of significant customers who are handled by recovery officers.

3.3.8 Internal Audit

The Internal Audit division is responsible for the review of all Expected Credit Loss Computations, and the validation of input data, and adherence to this policy on a quarterly basis.

4.SLFRS 9 Policy Technical Interpretations

This section highlights the interpretation aspects of key areas under SLFRS 9 and decision taken by the Company based on the in-depth analysis of the available data and the existing Credit Policies.

4.1 Impairment Definition under SLFRS 9

As per SLFRS 9, impairment is based on a forward looking ECL model. It replaces the LKAS 39 incurred loss model. The ECL model applies to debt instruments recorded at amortized cost or at fair value through other comprehensive income (FVOCI) and contracts that are not measured at fair value through profit or loss (FVTPL).

The guiding principle of the ECL model is the general pattern of deterioration or improvement in the credit quality of financial instruments.

The amount of ECLs recognized as a loss allowance or provision depends on the extent of credit deterioration since initial recognition.

Company's Approach

12 Month Expected Credit Loss (12M ECL) is computed for stage 1 facility and Lifetime Expected Credit Loss (LECL) are calculated for every stage 2 & stage 3 facility. Both 12M ECL and LECL amounts would be the weighted average of the ECL amounts for the three macroeconomic scenarios considered.

All defaulted accounts are assigned to Stage 3. In addition, accounts can be moved to Stage 3 if the account is exhibiting severe signs of distress.

4.2 Facility vs. Obligor level Staging Assessment

SLFRS 9 does not specify whether the stage assessment is expected to be performed on an obligor or facility level. Keeping in view the fact that companies often tend to manage relationship risk at a counterparty level, it can be practical to perform the assessment of SICR at an obligor level. This means that if the obligor is assessed to have suffered SICR then all facilities under the counterparty would be deemed to have suffered SICR and will entail Lifetime Expected Credit Loss.

The measurement of SICR at obligor level also reflects the contagion risk of a default "spreading" to other facilities of the same obligor. This effect is especially common for high risk customers.

Company's Approach

SICR is evaluated as follows:

1. For the SICR rule applied using the +60DPD criteria. The SICR assessment will be at facility level (within each portfolio)

4.3 Individual vs. Collective Assessment

SLFRS 9 technically requires the assessment of SICR and ECL at the level of individual instruments using qualitative and quantitative information. This is referred to as individual assessment. However, keeping in view the fact that individual assessment would not be feasible or practical for exposures that are small and are managed on a portfolio basis, SLFRS 9 allows institutions to do collective assessments under certain conditions.

Company's Approach

The Company shall assess all individually significant facilities on an individual basis. Please refer Individual impairment process on pages hereto

Individual Assessment should be done considering a mix of Quantitative and Qualitative factors. A robust governance process should be followed in conducting the Individual Assessment which is detailed in Section 5.

Threshold for individual impairment assessment

Performing – Total Outstanding amount of Rs. 10 Mn or more
NPL – Total Outstanding amount of Rs. 5 Mn or more

List of impairment indicators for individual assessment a)

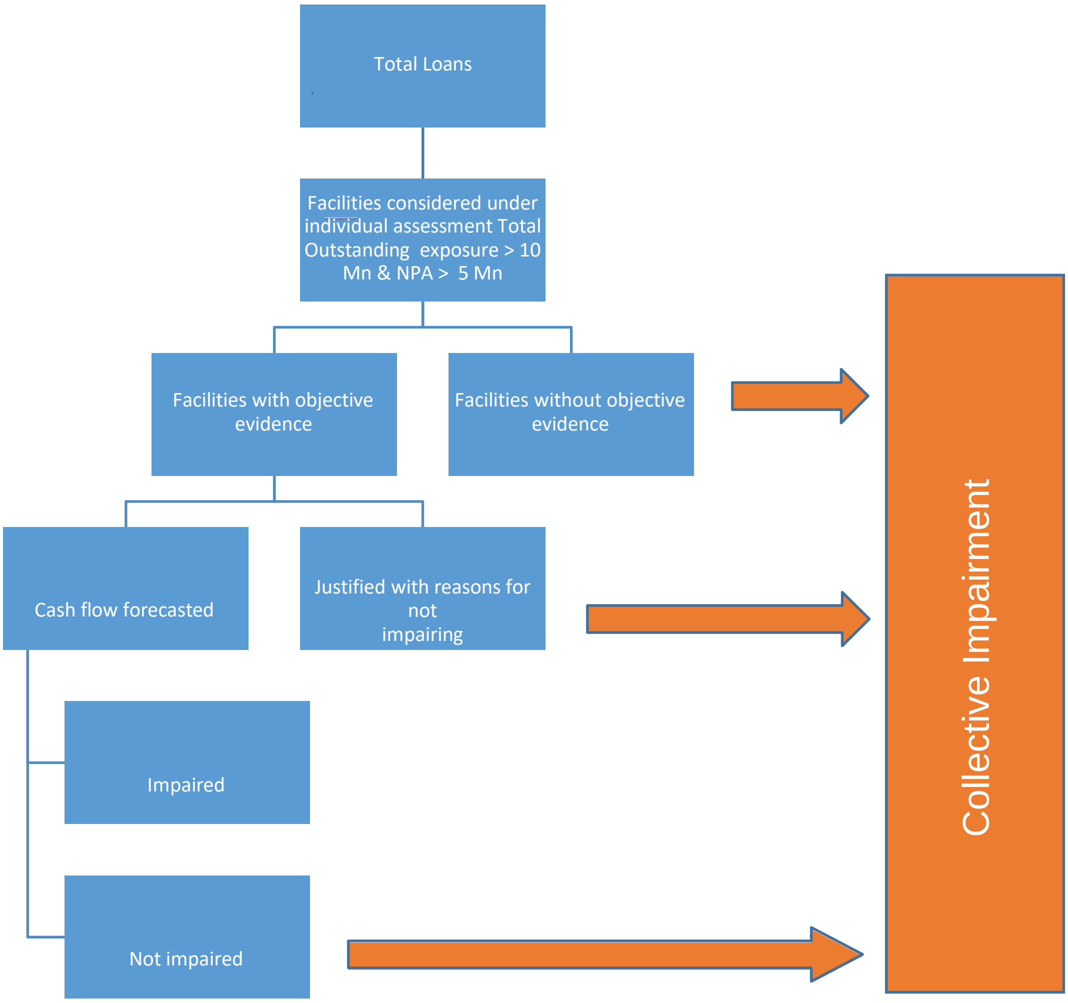
Indicators based on loan portfolio quality

- In NPL
- Rescheduled / Restructured
- More than **90 days** past due

b) Indicators for objective evidence evaluation

1. Significant decline(a fall of 50% or more) in revenue and/or profit before tax due to non-temporally reason such as loss of major customer, permanent loss of market share, variation in income etc.
2. The borrower's revenue forecast indicates that it will not generate enough cash to service external loans (Eg: Negative loan service coverage).
3. The industry in which the company is operating has negative outlook affecting the company. The company has failed to take adequate mitigating factors to overcome negative factors.
4. Reduction in risk grading (there is a two-notch downgrade in the Company's internal rating system).
5. Default with other financial institutions (CRIB indicates current delays > 90 days).
6. The company is experiencing serious loss of capital in terms of the Companies Act / erosion in net-worth by more than 25% when compared to the previous year.

7. The death of the borrower or permanent disability of the borrower/ the owner or management of the company cannot be located / frequent changes are seen in the senior management of an institutional customer.
8. The auditors have qualified their audit opinion due to a going concern issue.
9. Liquidation has already been commenced or is about to commence.
10. Other indicators exist that suggest the borrower will not be able to service the loan as agreed (Eg: any development within or outside the company that will impact the cash flows).



Cash flow Forecast

The cash flows are forecasted for the individually significant loans by the relevant credit officer or Branch manager of the Company. These predictions are to be independently reviewed by the Credit Risk division of the Company with the support of the credit officers.

The forecasted cash flows should be discounted at the loan's Effective Interest Rate (EIR) to the reporting period in order to determine the expected credit loss for the individually significant facilities.

When forecasting the cash flows the Company takes into consideration the time taken to execute legal action or ceasing of licensed vehicle rights in the case of a mortgage or lease facility. Further, the management shall also consider a reasonable time period for the realization of other types of collateral when forecasting future cash flows for facilities under individual impairment.(Minimum 3 years of realization period should be considered unless the contract in the finalization stage of the legal case)

The assumptions for cash flow projections are detailed in annexure 2. The

assumptions for collateral valuation are detailed in annexure 3.

Any deviations to the assumptions shall be supported by documentary evidence and approved by Managing Director/CEO with the recommendation of SDGM

4.4 Use of 12M PD vs. Lifetime PD

As per SLFRS 9, assessing whether the credit risk of a financial instrument has increased significantly is based on the changes in the risk of default occurring over the expected life of an instrument.

Company's Approach

The company assesses 12m ECL for facilities in 0-60 DPD and LECL for facilities >60 DPD.

4.5 Definition of Stage 1

Stage 1 is the stage when there is no SICR since initial recognition.

Company's Approach

Company assigns Stage 1 in the following cases:

1. Accounts for which none of the Stage 2 or Stage 3 triggers are active

4.6 Definition of Stage 2 (SICR Triggers)

Stage 2 consists of facilities that have undergone SICR since initial recognition. For all Stage 2 exposures, Lifetime Expected Credit Loss is recognized, which might have a significant impact on the overall ECL of facilities which were previously performing.

Company's Approach

A facility is assigned to Stage 2 based on qualitative, quantitative and backstop criteria as follows;

Rule	Rule Trigger	Stage Triggered
60+ DPD	If account is 60+ DPD on reporting date	Stage 2
Loans restructured	Loans that have been restructured once or twice (subject to reclassification based on monitoring period of 3 months)	Stage 2
Other indicators of SICR	Based on individual assessment of impairment indicators	Stage 2

4.7 Definition of Stage 3

All Loan and advances and Lease hire purchase which is past due for more than 90 days DPD are considered to be in Stage 3.

The definition of Stage 3 is critical as SLFRS 9 requires:

1. Lifetime expected loss computation for all Stage 3 accounts (the probability of default is 100% as the default has already occurred)
2. Documentation and disclosure of all Stage 3 accounts as per SLFRS 9 requirements

Company's Approach

The 90+ DPD criterions is used for defining Stage 3 accounts. Any account which is past due for more than 90 days will be assigned to Stage 3. Further, all facilities marked as rescheduled are considered as defaulted and assigned to Stage 3.

Rule	Rule Trigger	Stage Triggered
90+DPD	If account is currently 180+DPD	Stage 3
Restructured loans	Loans that have been restructured more than twice (subject to reclassification based on monitoring period of 3 months)	Stage 3
Rescheduled loans	If a loan is rescheduled (subject to reclassification based on monitoring period specified by CBSL)	Stage 3
CBSL NPL facilities	If a loan is classified as a non performing loan as per CBSL guidelines	Stage 3

4.8 30 DPD Rebuttal

Standard Requirement (SLFRS 9.5.5.11)

If reasonable and supportable forward-looking information is available without undue cost or effort, an entity cannot rely solely on past due information when determining whether credit risk has increased significantly since initial recognition. However, when information that is more forward-looking than past due status (either on an individual or a collective basis) is not available without undue cost or effort, an entity may use past due information to determine Whether there have been significant increases in credit risk since initial recognition. Regardless of the way in which an entity assesses significant increases in credit risk, there is a rebuttable presumption that the credit risk on a Financial Asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. An entity can rebut this presumption if the entity has reasonable and supportable information that is available without Undue cost or effort, that demonstrates that the credit risk has not increased significantly since initial recognition even though the contractual payments are more than 30 days past due. When an entity determines that there have been Significant increases in credit risk before contractual payments are more than 30 days past due, the rebuttable presumption does not apply.

Company's Approach

The Company does not consider rebutting the Standard presumptions of significant increase in credit risk if contractual cash flows are more than 30 days past due.

4.9 Default Definition (90 DPD Rebuttal)

Standard Requirement (SLFRS 9. B5.5.37)

The SLFRS 9 Standard recommends the application of default definition that is consistent with the definition used for internal credit risk management purposes for the relevant financial instrument. For most companies, this includes the 90 days past due criterion, as this is one of the default triggers defined by the Basel Accords. However, the SLFRS 9 Standard provides an option for the 90 DPD criterion to be rebutted, in case the institution can convincingly show, that 90 DPD is not a meaningful default criterion for its portfolios.

Company's Approach

The Company does not consider rebutting the Standard presumptions of default definition if contractual cash flows are more than 90 days past due.

4.10 Modification of Assets

Modification of Assets occurs when the contractual cash flows of a financial asset are renegotiated or otherwise modified but not de-recognized. Once an asset is modified, SLFRS 9 requires the change in fair value computed using original EIR to be recognized in P&L.

There could be multiple underlying factors which contribute to the decision of modifying an asset. Assessment of modified assets requires judgement as there is no specific guidance offered by SLFRS 9.

The assessment of SICR on modification of an asset due to various reasons needs to be taken care of separately. Modification of assets can occur due to one of the following reasons

- Asset modification due to commercial reasons
- Modification of assets due to credit related stress that is not construed as default
- Modification of assets due to financial difficulty that is construed as default

The treatment of each of the above cases would be different and hence it is important to define how to separate these three cases.

Company's approach

The Company shall classify asset modifications as follows:

Stage 1 – Modifications due to commercial reasons

Stage 2 – Modifications due to credit reasons not amounting to default (restructured loans) Stage

3 – Modifications due to credit reasons amounting to default (rescheduled loans) The above are

further explained below.

Asset modification due to commercial reasons

Loan assets modified purely because of non-stress reasons like retaining a reputed customer etc. are regarded as commercially modified assets. The Company does not incur material losses due to these kinds of restructures. The losses due to these would be compensated for by future benefits. Some examples of cases where asset modification due to commercial reasons occur are as follows:

1. Any changes in rates including reduction in contractual rates done for strategic reasons
2. Any payment holidays declared for particular Finance Company due to strategic or at behest of regulator
3. Any change to maturity that is initiated by the customer, who is in no financial difficulty, and the Company is comfortable that even if the modification is not done, the client would be able to service the debt

Such assets that are modified due to commercial reasons can be treated as Stage 1 as there are no other signs of significant increase of credit risk.

Asset modification due to credit reasons not amounting to default (restructured loans)

Assets can be modified due to credit related reasons. In some cases, these would not amount to default and in other cases these would be treated as default. Some of the examples of credit related modification of assets are:

1. Modification of cash flows for clients who are showing signs of financial difficulty, e.g. 60+ DPD or are showing any other signs of distress.
2. Extension of maturity or reduction in contractual rates that is not part of any strategic or regulatory mandate but is done because the client would not be able to service the original cash flows.
3. Any other modifications that the Company would not do in the normal course of business but has to do in a specific case due to financial difficulty of the client.

However, it could be that even if such modifications are done, they do not result in material loss to the Company. In such a case it need not be treated as default. Hence, such accounts should be moved into Stage 2.

The accounts should not be moved back into Stage 1 until the defined probation period is passed (See Backward Transition from Stage 2 to Stage 1).

Asset modification due to credit reasons amounting to default (rescheduled loans)

If the modification of an asset is due to credit reasons and it results in a material or significant loss to the company, then it should be treated as a default and moved into Stage 3 as per SLFRS 9.

'Originally Credit Impaired' (OCI) assets, are assets that fulfill the following conditions:

1. The asset is derecognized due to the restructure and is recognized as a new asset

4.11 Eligible Collateral under SLFRS 9

Under SLFRS 9, collaterals play a limited role in the SICR process. Since SICR is based on default risk and collaterals are loss mitigants (collaterals are not default mitigants, barring some exceptions) they are not considered in assessing SICR.

Company's Approach

SLFRS 9 allows the factoring in of cash flows from collaterals as part of the ECL computation process. It has not specified the different types of collateral which are eligible for consideration.

For the purpose of SLFRS 9, the company will recognize all eligible collateral as per Central Bank / Basel guidelines and consider any other collateral demonstrating legal certainty and enforceability; history and recovery,

4.12 Eligible methodologies for ECL Computation

SLFRS 9 establishes the objectives of ECL measurement as the difference between the cash flows that are due in accordance with the contractual terms of a financial instrument and the cash flows that are actually expected to be received.

There are 3 methodologies defined for ECL Computation

1. Sophisticated: Sum of marginal losses approach or PD/LGD approach
2. Simplified: Loss Rate
3. Simplified: Single Term to maturity

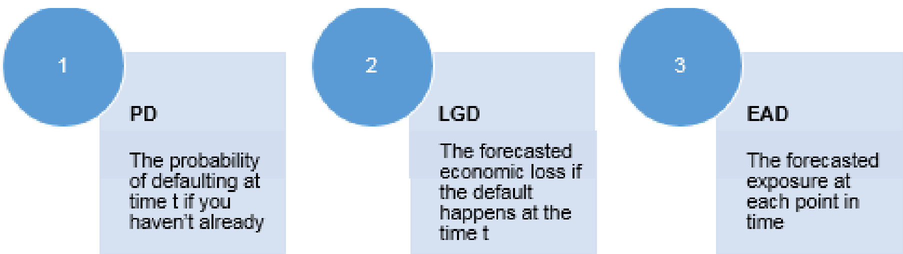
Company's Approach

ECL methodology

Sum of marginal losses or PD/LGD approach is used for ECL computation

$$ELC_T = \sum_{t=1}^{T} PD_t * LGD_t * EAD_t$$

"The lifetime expected loss is equal to the average loss given default averaged over the possible times of default where the Company has exposure"



The PD, LGD and EAD used for calculation of Lifetime Expected Loss will be Point-in-Time PD, LGD and EAD that will be calculated by the models in place in the SLFRS 9 tool.

Point in time PD will be derived by application of a macroeconomic overlay to the Through the Cycle PD.

4.13 ECL Models

The calculation of ECL by Company Finance essentially requires two categories of input:-

Loan, commitment and collateral data – Outstanding amounts from the Company's systems as at the reporting date.

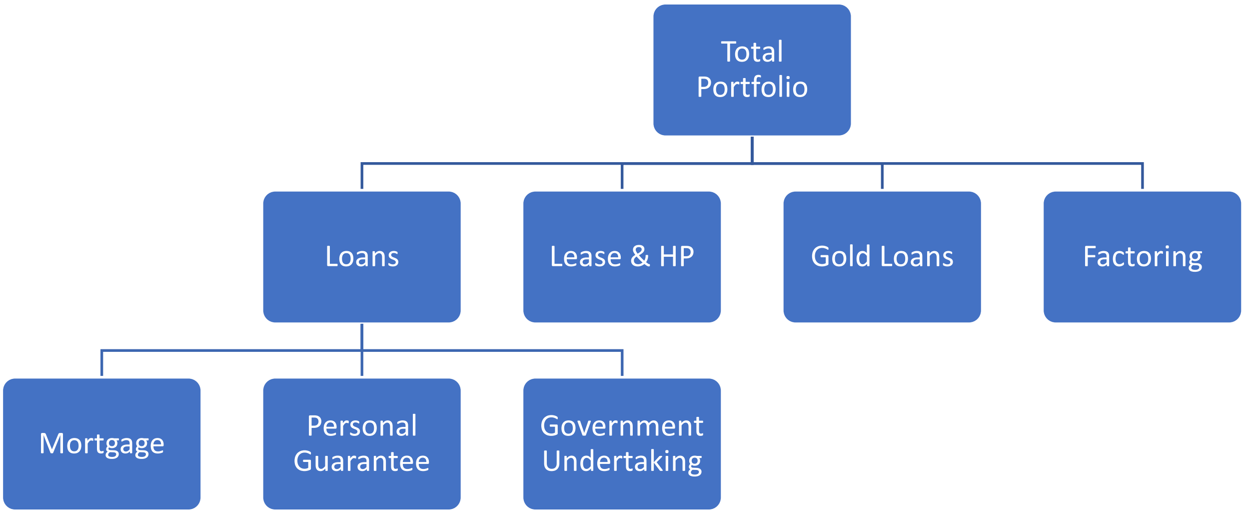
Predictive forecasts models for default – Which are typically derived from statistical model and are required to generate likely ECL amounts in the event of default.

Although major amendments are not frequently expected, ideally each of the steps should be reviewed and updated no less than annually to ensure that they remain relevant given the prevailing credit environment. Each of the seven major steps are summarized below.

Company's Approach

1. Segmentation of portfolio

The company currently segments the loan portfolio based on the product type as shown below.



2. Probability of Default (PD)

PD is the probability that the obligor will default within a given time horizon. As required by the SLFRS9, PDs must be Forward Looking and cover various scenarios. This is achieved as follows:-

- ➢ TTC (Through The Cycle) and PiT (Point in time) PD

- TTC PDs represents the long term average historical default rates, derived from the Company's existing PD Master Scale
- Combining a TTC PD with an economic factor adjustment will provide a forward looking PiT PD.

- ➢ Scenarios

- The Company shall use a minimum of three scenarios, as required by Central Bank (best, worst and base), and determine the Economic Factor Adjustment and will weigh each of them according to likelihood.

Company calculated PD for Personal guarantee, mortgage, Lease and Gold product using their own historical data base. For the Government undertaking Loans, company has not available sufficient data base for compute the PD as a result considering the product risk profile company used mortgage PD by applying 10% increment

3. Exposure at Default (EAD)

As SLFRS9 is forward looking, the EAD needs to reflect not only the outstanding exposure at the reporting date but also commitments that could be invoked before the date of any default.

EAD pertains to the amount outstanding with the Obligor at the time of likely default, including:-

- Drawn Amount

- This is attributable to the amount of money actually drawn (or used) by the Obligor from the approved/available line of credit.
- The outstanding future amounts are projected based on amortization assumptions (straight line or bullet).

- Undrawn Amount

- This is attributable to the amount of money undrawn (or Unused) by the Obligor from the approved/available line of credit.
- It can be undrawn loans or off-balance sheet commitments, such as guarantees and LCs
- Currently company has not Undrawn amounts for the any products.

- Lower recoverability of the contracts with over 5 years DPD (excluding legal matters)

- The company's impairment provision complies with applicable accounting standards, and The impairment provision appropriately considers contracts that are more than five years past due (DPD) separately.

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4. Loss Given Default (LGD)

LGD is actual loss that incurred for the defaulted contracts. Company used following contracts for the LGD computation

- All the contracts that 90 days defaulted and closed (4 Year closed contract consider for the LGD)
- All virtual closed accounts – Based on the company product wise defaulted contract behavior company consider 3 years above Loan, Lease and HP as virtual closed and 1 year above pawning article as virtual closed.

Company calculate LGD for the Personal guarantee, mortgage, Lease & HP and Gold Loan using their historical data. For the Government undertaking Loans, company has not available sufficient data base for compute the LGD as a result considering the product risk profile company used mortgage LGD by applying 10% increment.

Company used simple average method for the LGD computation as result of industry practice.

$$LGD = 1 - \frac{\text{Present Value of Cash flows from cutoff date}}{\text{Total loan + Interest outstanding on the cutoff date}}$$

5. Staging

- For the portfolio, there is no specific allowance that would trigger a case-by-case facility or customer review; rather the entire portfolio will be assessed at a facility level by applying the staging rule defined below.
- Delinquency (+60 DPD) at the reporting date will be an indicator of SICR and considered as a backstop criterion.
- The Company consider 90 days above contracts and rescheduled contracts as a stage 03.
- The Company shall recognize the lifetime expected losses of credit facilities with +60 DPD

6. Effective Interest Rate (EIR)

In order to accommodate the time value of money, SLFRS9 requires the discounting of future cash flows using effective interest rates. Quite often, unless there are material additional cash flows, the EIR rates will be directly comparable to the contractual rates of interest for each exposure.

7. Probability weighted multiple economic scenarios (Economic Factor Adjustment)

The Company considers the following economic factors in the probability weighted multiple economic scenarios computation due to the reasons;

1. There exists a direct relationship between the economy of a country with company default probabilities.
2. The economy of a country is solely driven by the following economic factors (cause-effect relationship).

Quantitative factors	**Qualitative factors**
GDP growth rate	Changes in Lending Policies and Procedure
Inflation	Changes in bankruptcy and lending related legislation
Interest rate	Credit Growth
Unemployment rate	Position of the Portfolio within the Business Cycle
Exchange Rate (US$:LKR)	
Exchange Rate (YoY)	Changes in exchange rate year on Year Movement.

7.1 Sources of quantitative macro-economic data:

GDP growth rate - https://www.adb.org/news/sri-lanka or https://www.imf.org/en/publications/weo

Inflation - https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/press/pr/press_ (CBSL Monetary_Policy_Review)

Interest rate - CBSL Treasury bill rates end of the period

Unemployment rate - https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/statistics/wei/WEI

7.2 Techniques used for the Model

The economic factor is comprised of two components.

1. Score - Establishes estimated future economic trend of the country.

   Technique used – Standardization

$$\boxed{Score = \frac{(Expected\ Value - Historical\ Average)}{Historical\ Standard\ Deviation}}$$

2. Weightage - Establishes the degree of relationship between economy of a country with company default probabilities (PDs).

   Technique used - Correlation Coefficient

7.3 Computational Assumptions/ Limitations

1. Exchange rate will not exceed 750 USD/LKR within next 5-6 years.
2. Expected forecasts of the multiple economic scenarios are derived based on judgmental weightage assigned by the management.
3. GDP growth, Inflation, Interest and unemployment rates follows a binomial distribution.
4. The length of the economic cycle is assumed to be four years on average.
5. First year “current” age bracket PDs are having the highest economic impact.
6. Model is restricted to correlation limitations.
7. Maximum correlation with the relevant magnitude and direction is taken for the weightage computation.

8. Expected Credit Loss Model

The current model for impairment was developed through external expert party.

4.14 Frequency of ECL computation

The forward looking SLFRS 9 impairment needs to be reported as part of financial statements. Financial statements are disclosed quarterly, with a more thorough annual disclosure at year-end.

PD and LGD recompute on quarterly basis while EFA recompute on annual basis and ECL computation is done on monthly basis (ECL computation process has been detailed in Section 5.)

4.15 Scenarios and Forward-Looking Information under SLFRS 9

Forward looking information would be incorporated within SICR determination, measurement of ECL and through scenarios linked to macro-economic factors used to compute EFA.

5 Policies for Governance around Key Areas under SLFRS 9

5.1 Generation and Approval of Macroeconomic Scenarios

SLFRS 9 mandates Company's to compute expected credit losses through incorporation of forward-looking information. It is expected that forward looking information would be incorporated within both SICR and the measurement of ECL.

Forward looking information is incorporated through the scenarios linked to macroeconomic factors. This requires the forecasting of macroeconomic variables for future years and multiple scenarios for each variable (e.g. 5 years for 3 scenarios).

The macroeconomic forecasts are updated on a regular or ad-hoc basis by risk department if there is a change in the economic situations.

Company Risk owns the responsibility of reviewing the macroeconomic forecasts. In case of major discrepancies between experts' expectations (data sourced from IMF, World Bank and/or Central Bank) and the forecast variables or values, Company Risk under the consultation of SDGM/CEO can override the macroeconomic variables and forecasts post an in-depth analysis and adequate documentation.

5.2 Changing of Staging Rules

Staging Rules both individual assessment and rule based should be monitored for any expected intuitive deviations against the actuals. A well monitored set of staging rules is required for a robust SLFRS 9 framework and an accurate ECL estimation.

The staging rules may be changed by the company in appropriate circumstances such as when rebutting the presumptions in the standard based on statistical evidence from the Company's credit history or based on regulator guidelines.

The Company Finance is responsible for monitoring the staging rules on an ongoing basis. Review and validation of the staging rules however should abide by the following rules:

Identification

1. Identify the rule that needs to be updated including change, addition or removal of the existing staging rule in order to align with the internal risk management practices and regulation.
2. Finance, Company Risk and Credit should be consulted for identifying any changes required in

existing staging rules.

Impact Analysis

1. Compute and discuss the impact of changes at portfolio level.
2. Finance is primarily responsible for computing the impact of the change. The impact analysis should be discussed with Credit and Risk and consensus should be obtained in order to incorporate proposed changes.

Approval and Documentation

The approval shall be obtained from BAC.

5.3 Manual Staging Overrides

Company Credit shall be responsible for any manual override of the stages for all portfolios. Risk will be consulted whenever required. Any manual overrides to the staging is however subject to a governance procedure listed below:

1. Stage overrides should be considered for cases arising due to :
   a. data quality
   b. special cases of high net worth individuals
   c. one off credit risk conditions that are not part of the staging rules due to their temporary nature (e.g. run-off portfolio of personal loans converted to bullet loans)
   d. other justified cases, where Credit's risk assessment deviates from the current assigned stage
2. Create list of accounts to be overridden, including override justification
3. Obtain approval and sign-off from Head of Risk on all staging overrides
4. Finance to apply overrides in the ECL computation
5. Document the changes in Staging along with the rationale behind change and archive the result

5.4 Backward Transition for of Individually Assessed Accounts

Backward transition refers to any movement of accounts from

1. Stage 2 to Stage1
2. Stage 3 to Stage 2 or Stage 1

All cases of backward transitions are under the purview of Risk. Backward Transition should be monitored through the process detailed below:

1. Identify accounts that are subject to individual assessment and currently in Stage 2 or Stage 3 and are slated to move to Stage 1 / Stage 2 as per staging rules.
2. The list of such accounts should be reviewed by Company Risk and approved by Head of Risk.
3. Archive the stage SICR details
4. Document all changes to stage SICR

5.5 Originated credit impaired assets

Section 4.13 describes the different types of modified assets, including the identification of Originated Credit Impaired Assets.

These cases require to be marked up in the ECL computation as Originated Credit Impaired Assets. As there is no automated process in place, the following manual process is followed:

1. As part of the monthly reporting to the Central Bank, restructured accounts are listed
2. The list is analyzed for accounts that fulfill the condition of Originated Credit Impaired Assets
3. In the staging process, all accounts flagged as 'OCI' are assigned to Stage 2 for lifetime.
4. Along with all other staging decisions, the staging of OCI accounts will be reviewed by authorized individual.

5.6 Incorporating Expert Overlays in the Impairment Model

Expert overlays can be applied at the following three stages in the impairment modelling lifecycle:

1. Override of model inputs
2. Override of intermediary model outputs
3. Override of final model output

Model overrides can be recommended by all involved departments, including Finance, Risk and Credit. Finance is responsible for incorporating all expert overrides. Changes should be done based on clearly stated rationale and all the underlying assumptions with regards to the override should be clearly documented.

Any adjustment or judgement based modification to the model inputs should be clearly documented and approved by the Company Audit Committee (BAC).

Any expert override requires an appropriate justification. Potential reasons are:

1. Lack of robust models
2. Issues with the quality of data
3. Other reasons that result in erroneous ECL values

Finance should analyse the reasons for expert overrides after every quarter-end computation. If there are indications of significant issues, a validation is to be conducted.

5.7 Monitoring and Validation

To ensure the robustness of ECL calculation systems including all underlying rating models and the correctness of their estimates, a rigorous governance process is required. This is split into two categories:

1. Monitoring comprises the ongoing checks and controls on all systems executed by the staff that operates the ECL models.
2. Validation is a thorough review of all systems to ensure their accuracy and consistency. Validation is usually carried out by staff independent of the staff operating the models in day-to-day business.

6 Policies for Disclosure and Reporting

This chapter depicts the roles and responsibilities as well as the disclosure process. The list of disclosure requirements related to impairments can be found in Appendix 1.

6.1 Roles and responsibilities

The overall disclosure process is owned by Finance which in charge of generating manual disclosures related to classification and measurement. The Head of Finance is responsible for quality assurance of the disclosures as well as aggregating the manually and automatically prepared disclosures.

IT is responsible for providing the required information from finance company's source systems. The development of disclosure reports is a joint responsibility between Company Finance (functional requirements) and IT (implementation).

The Head of Finance and Head of Risk are responsible for reviewing the respective set of SLFRS 9 impairment disclosures and signing off.

7 Table of Abbreviations

Abbreviation	Descriptions
BAC	Board Audit Committee
CBSL	Central Bank of Sri Lanka
CCF	Credit Conversion Factor
DPD	Days Past Due
EAD	Exposure at Default
ECL	Expected Credit Loss
EIR	Effective Interest Rate
FVOCI	Fair Value through Other Comprehensive Income
FVTPL	Fair Value through Profit & Loss
LECL	Life Time Expected Credit Loss
LGD	Loss Given Default
NPL	Non-Performing Loan
PD	Probability of Default
PIT	Point in Time
SICR	Significant Increase in Credit Risk
TTC	Through The Cycle

Annexure 1

Disclosure List

Impairment Disclosure Requirements
The credit risk disclosures made in accordance with paragraphs 35F–35N of SLFRS 7 shall enable users of financial statements to understand the effect of credit risk on the amount, timing and uncertainty of future cash flows. To achieve this objective, following credit risk disclosures should be provided:
a) Information about credit risk management practices and how they relate to the recognition and measurement of ECL, including the methods, assumptions and information used to measure ECL
b) Quantitative and qualitative information that allows users of financial statements to evaluate the amounts in the financial statements arising from ECL, including changes in the amount of ECL and the reasons for those changes
c) Information about credit risk exposure (i.e., the credit risk inherent in financial assets and commitments to extend credit) including significant credit risk concentrations
Disclosure of the vintage analysis should be provided, where it aids understanding of the credit risk exposures, particularly when there is a lending portfolio with heightened credit risk, and the period in which it was originated has a bearing on the extent of that credit risk and the resulting ECL
Quantitative disclosures around the key drivers of change in credit losses should be provided, but only where they are meaningful and relevant to understanding material changes:
a) Top and emerging risks and their impact (or not) on ECL calculation, either quantitatively or qualitatively as appropriate
b) Sensitivity disclosures, which can provide useful quantitative information when they are meaningful and relevant to understanding how credit losses can change materially. Examples include: - Variables that impact on an ongoing basis, i.e., house price indices on residential mortgages - Changes that emerge at a point in time for specific lending portfolios, i.e., an economic shock to specific country or industry
Credit risk in the company book should be tabulated, showing average probability of default (PD) and loss given default (LGD) as well as exposure at default (EAD), total Risk-Weighted Assets (RWA) and RWA density for Basel asset classes and major portfolios within the Basel asset classes at a suitable level of granularity based on internal ratings grades.

Impairment Disclosure Requirements
Applying this recommendation in the new ECL framework would require consideration of the following disclosures:
a) Whether credit quality disclosures can be made that are similar to those used for regulatory capital purposes
b) PDs, LGDs and EADs might not be used for measuring ECL for all their portfolios. Where other approaches to measuring ECL are used, consideration should be given to how best to describe and analyze calculations using other approaches. It would be helpful to analyze the balance sheet total between the different approaches used. Where material additional adjustments to the ECL are applied, these could also be described and analyzed as appropriate
Information that enables users of financial statements to understand whether there are companies or portfolios of financial instruments with particular features that could affect a large portion of that financial instruments such as concentration to particular risks should be provided. This could include, for example, loan-to-value Bankings, geographical, industry or issuer-type concentrations
If past due information is the only borrower-specific information available and past due information is used to assess whether credit risk has increased significantly since initial recognition in accordance with paragraph 5.5.10 of SLFRS 925, an analysis by past due status for those financial assets should be provided.
The following disclosures should be provided, also considering whether existing segmentation is sufficiently granular to appropriately understand credit risk under an ECL approach:
a) Break down portfolios by geography, line of business, product, credit quality and vintage;
b) Highlights of specific emerging risks, i.e., territory, industry, type of lending, etc.

Impairment Disclosure Requirements
When ECL is measured on a collective basis, it may not be possible to allocate the gross carrying amount of individual financial assets or the exposure to credit risk on loan commitments and financial guarantee contracts to the credit risk rating grades for which lifetime ECL are recognized. In that case, the requirement in paragraph 35M of SLFRS 7 is applied to those financial instruments that can be directly allocated to a credit risk rating grade and the gross carrying amount of financial instruments for which lifetime ECL have been measured on a collective basis are disclosed separately.
Credit risk management practices and how they relate to the recognition and measurement of ECL should be explained. To meet this objective, information that enables users of financial statements to understand and evaluate how the requirements in paragraph 5.5.12 of SLFRS 9 for the modification of contractual cash flows of financial assets have been applied should be disclosed, including how the Company:
a) Determines whether the credit risk on a financial asset that has been modified while the loss allowance was measured at an amount equal to lifetime ECL, has improved to the extent that the loss allowance reverts to being measured at an amount equal to 12-month ECL in accordance with paragraph 5.5.5 of SLFRS 9
b) Monitors the extent to which the loss allowance on financial assets meeting the criteria in (a) is subsequently premeasured at an amount equal to lifetime ECL in accordance with paragraph 5.5.3 of SLFRS 9
To enable users of financial statements to understand the nature and effect of modifications of contractual cash flows on financial assets that have not resulted in de-recognition and the effect of such modifications on the measurement of ECL, the following should be disclosed:
a) The amortized cost before the modification and the net modification gain or loss recognized for financial assets for which the contractual cash flows have been modified during the reporting period while they had a loss allowance measured at an amount equal to lifetime ECL
b) The gross carrying amount at the end of the reporting period of financial assets that have been modified since initial recognition at a time when the loss allowance was measured at an amount equal to lifetime ECL and for which the loss allowance has changed during the reporting period to an amount equal to 12- month ECL

Impairment Disclosure Requirements
The contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity should be disclosed.
For trade receivables, contract assets and lease receivables to which paragraph 5.5.15 of SLFRS 9 is applied, the disclosure required by paragraph 35M of SLFRS 7 should be provided (see item 15 of this Section). Note that for trade receivables, the disclosure may be based on a provision matrix (see paragraph B5.5.35 of SLFRS 9)
To explain the changes in the loss allowance and the reasons for those changes, a reconciliation from the opening balance to the closing balance of the loss allowance, by class of financial instrument, should be provided, in a table, showing separately the changes during the period for: a) The loss allowance measured at an amount equal to 12-month ECL
b) The loss allowance measured at an amount equal to lifetime ECL for: I. Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets
II. Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired)
III. Trade receivables, contract assets or lease receivables for which the loss allowances are measured in accordance with paragraph 5.5.15 of SLFRS 9
c) Financial assets that are purchased or originated credit-impaired In addition to the reconciliation, the total amount of undiscounted ECL at initial recognition on financial assets initially recognized during the reporting period should be disclosed
To enable users of financial statements to understand the changes in the loss allowance disclosed in accordance with paragraph 35H of SLFRS 7 (see item 29 above), an explanation of how significant changes in the gross carrying amount of financial instruments during the period contributed to changes in the loss allowance should be provided. The information must be provided separately for financial instruments that represent the loss allowance as listed in paragraph 35H(a)–(c) and must include relevant qualitative and quantitative information. Examples of changes in the gross carrying amount of financial instruments that contributed to the changes in the loss allowance may include:
a) Changes because of financial instruments originated or acquired during the reporting period
b) The modification of contractual cash flows on financial assets that do not result in a

Impairment Disclosure Requirements
de-recognition of those financial assets in accordance with SLFRS 9
c) Changes because of financial instruments that were derecognized (including those that were written-off) during the reporting period
d) Changes arising from whether the loss allowance is measured at an amount equal to 12-month or lifetime ECL
In addition to the reconciliation from the opening balance to the closing balance of the loss allowance, a narrative explanation of the changes should be provided. This narrative explanation may include an analysis of the reasons for changes in the loss allowance during the period, including:
a) The portfolio composition
b) The volume of financial instruments purchased or originated
c) The severity of the ECL
Information about the changes in the loss allowance for financial assets separately from those for loan commitments and financial guarantee contracts (for which the loss allowance is recognized as a provision) should be disclosed
A reconciliation of opening to closing balances of non-performing or impaired loans in the period, and the allowance for loan losses should be provided. Disclosure should include an explanation of the effects of loan acquisitions on ratio trends and qualitative and quantitative information about restructured loans. The reconciliation and explanation should disclose and discuss separately:
a) Transfer to lifetime ECL
b) Transfer to credit-impaired financial assets
c) Transfer to 12-month ECL
d) Financial assets that have been derecognized during the period (including write- off)
e) New financial assets originated or purchased (or another measure of increase in book size such as net increase/decrease)
f) Changes to models used for ECL calculation
g) Changes in credit risk parameters (model inputs)

Impairment Disclosure Requirements
h) Changes due to modification that did not result in DE recognition
i) Others
To enable users of financial statements to understand the effect of collateral and other credit enhancements on the amounts arising from ECL, by class of financial instrument, the following should be disclosed:
a) The amount that best represents its maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements (e.g., netting agreements that do not qualify for offset in accordance with IAS 32)
b) A narrative description of collateral held as security and other credit enhancements, including: I. A description of the nature and quality of the collateral held II. An explanation of any significant changes in the quality of that collateral or credit enhancements as a result of deterioration or changes in extant collateral policies during the reporting period III. Information about financial instruments for which a loss allowance has not recognized because of the collateral
c) Quantitative information about the collateral held as security and other credit enhancements (for example, quantification of the extent to which collateral and other credit enhancements mitigate credit risk) for financial assets that are credit- impaired at the reporting date
A narrative description of collateral and its effect on amounts of ECL should be provided, including information about:
a) The main types of collateral held as security and other credit enhancements (examples of the latter being guarantees, credit derivatives and netting agreements that do not qualify for offset in accordance with IAS 32)
b) The volume of collateral held and other credit enhancements and its significance in terms of the loss allowance
c) The policies and processes for valuing and managing collateral and other credit enhancements
d) The main types of counterparties to collateral and other credit enhancements and their creditworthiness

Impairment Disclosure Requirements
e) Information about risk concentrations within the collateral and other credit enhancements
For all financial instruments within the scope of this SLFRS, but to which the impairment requirements in SLFRS 9 are not applied, the following should be disclosed by class of financial instrument:
a) The amount that best represents its maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements (e.g., netting agreements that do not quality for offset in accordance with IAS 32); this disclosure is not required for financial instruments whose carrying amount best represents the maximum exposure to credit risk
b) A description of collateral held as security and other credit enhancements, and their financial effect (e.g., quantification of the extent to which collateral and other credit enhancements mitigate credit risk) in respect of the amount that best represents the maximum exposure to credit risk (whether disclosed in accordance with (a) or represented by the carrying amount of a financial instrument)

Recommended to the Board of Directors to approve adoption of this Manual

Signed
Assistant General Manager
(Finance & Strategic Planning)

Signed
CEO/ Executive Director

Annexure 2

The assumptions for cash flow projections are listed in the table below.

Recovery Stage	Identificati on n code	Cash Flow Assumption
1. Under negotiation		
1.1. Settlement under discussion. No final agreement reached	**1.1**	Lump sum recovery after 1 year from the reporting date- Total outstanding to be taken as the lump sum payment. Lower cash flow (than the total outstanding) can be considered depending on the circumstance
1.2. Definite repayment plan given - Formal Reschedulement	**1.2**	Cash flows according to the repayment plan agreed and accepted by the Company and the Borrower. Formal Reschedulement should be supported with offer letter. Cash flows should be forecasted 3 months from the reporting date
1.3. A repayment plan given by customer - Informal Reschedulement	**1.3**	Cash flows according to the repayment plan agreed by the Company and the Borrower. The informal reschedulement should be confirmed by Head of Business Units/Recoveries by signing the consent letter from the customer
1.4. Definite plan not given and the Company is confident that the loan will be regularized in next 3 months or before.	**1.4**	Cash flows can be forecasted from 3 months from the reporting date. If the company confident that they can recover the amount before 3 months, Cash flow can forecast before 3 moths but there should be written consent or any other written evidence for it
1.5. Expecting to dispose of mortgaged asset/any other asset and bring in lump sum payment for full settlement/partial settlement	**1.5**	The month in which lump sum payment is expected to receive subject to a minimum period of 6 months from the reporting date. If no definite period is given cashflows should be forecasted 1-year period from the reporting date.

2.Litigation		
Lump sum recovery amount to be expected as follows, except in the event of consent judgment.		
Security	***Lump Sum Recovery expected (The maximum amount)***	
a) *Land and/or building*	*Forced Sale Value (FSV) of the property*	
b) *Machinery, Motor Vehicles and other tangible securities except stock mortgage*	*Capital Balance plus Future Interest (Base on circumstance give waiver for future interest portion)*	
c) *Un-secured & stock mortgage*	*Capital due only*	
2.1. Company has decided to proceed with Legal Action	**2.1**	Lump sum recovery after 1 years from the date of “Letter of Demand” addressed to the borrower
2.2. Negotiation subsequent to LOD	**2.2**	Cash flows can be forecasted from 3 months of date of report. (base on the written evidence company can forecasted the cash flow before 3 months)
2.3. Legal action already initiated	**2.3**	Lump sum recovery after 1 years from the date of reporting date.
2.4. Expert Judgment received	**2.4**	Lump sum recovery after 6 months from the date of expert judgment.
2.5. Defendant intervene to the action, after ex-parte judgment is delivered	**2.5**	3 years from the date of intervention
2.6. Consent Judgment entered	**2.6**	Based on the terms of the settlement.
2.8. Trial-Judgment Received in favour of the company-Defendant not appealed	**2.8**	6 months from the date of judgment