Hindusthan Microfinance Private Limited (HMPL)

Loan Write-Off Policy

Hindusthan Microfinance Private Limited (*HMPL*)
704, 7thFloor, Sagar Tech Plaza 'B' Wing, Sakinaka Junction,
Kurla-Andheri Road, Andheri (East), Mumbai400072. Maharashtra, India.
Ph: +91 - 22 –2852 0410

Contents

INTRODUCTION

The Write-Off Policy of Hindusthan Microfinance Private Limited (HMPL) is designed to ensure compliance with the Reserve Bank of India's (RBI) prudential norms for Non-Banking Financial Companies (NBFCs) and NBFC Microfinance Institutions (NBFC MFIs). The policy outlines the principles and guidelines for the identification, assessment, and treatment of non-performing assets (NPAs) or impaired assets in the microfinance portfolio. *Usually ,loans are written off when provisioning is provided 100% and there are no realistic prospects of recovery .These loans are transferred to off balance sheet records .IFRS 9 requires a whole or partial write off if an entity has no reasonable expectation of recovering contractual cash flow under financial assets . Write off a loan does not lead to forgiving the debt. The borrower still owes money to the financial institution; however, the financial institution derecognizes the assets from the financial statements due to lack of any collection prospects*

OBJECTIVES

The primary objective of the Write-Off Policy is to maintain the financial soundness of HMPL by appropriately recognizing losses on loans or advances that are deemed irrecoverable, in line with RBI's prudential, norms, accounting prescriptions (IFRS9) and industry practice the policy seeks to promote transparency, accountability, and prudent financial management in microfinance operations. In formulating this policy and in evolving related operational guidelines, HMPL (Company) has following broader objectives:
. Firstly, by resolving Non-Performing Assets (NPA), the Company intends to focus on core business in terms of time and resources. By efficiently dealing with the NPA including writing off, it aims at allocating its productive resources to new lending instead of being bucked down in the management of bad assets Secondly, the main aim is the liquidation of assets with low recovery prospects, thereby leading to decrease the NPA ratio in the Company. Thirdly, the negative effects on the financial statements are minimized as the loans are fully provided and losses are already recorded in the Profit & Loss statements. Fourthly , it is expected that a decrease in the NPA ration would improve assessment of credit risks in the Company(by the regulating authorities) ,'

DEFINITION OF WRITE-OFF

Write-off refers to the process of removing an NPA or impaired asset from the books of HMPL when it is considered unlikely to be fully recovered, as per the guidelines provided by RBI. A loan is written off as a loss when all reasonable efforts to recover the outstanding amount have been exhausted, and the management determines that recovery is improbable.

IDENTIFICATION OF IMPAIRED ASSETS

HMPL shall follow the RBI's guidelines for the identification of NPAs and impaired assets in the microfinance portfolio. Impairment may result from various factors, including borrowers' defaults, loan repayment difficulties, or adverse economic conditions affecting the borrower's ability to repay. The NPAs could also arise because of diversion of funds, ghost loans, migration of borrowers and their families , natural calamities , pandemic (like Covid 19) , political /social unrest and Government Policies (e.g Andhra crisis , loan waiver ,etc)

WRITE-OFF CRITERIA & Processes and Coverage:

Eligibility Criteria: (i)Write Off of Loans; (a) Loans have become NPA & no recovery even after reasonable efforts & loan is deemed to be uncollectible (even after 180 days of loan maturity); (b) loans which are found to be fictitious by auditor /investigated after report by any whistle blower, (c) Legal cases initiated for loan recovery but no result is forthcoming / no settlement even after 3 years (d) non-traceability of the borrower;

(ii) Credit Life Insurance Cases

a) Insurance claims pending more than 365 days; (b) Legal heirs not submitting documents or there is no. survivor, (c) Legal cases giving no result after 3 years & (d) Insurer not responding even after reporting to the IRDA.

(iii)Other types of Insurance Policy-No recovery even after 3 years

(iv)Other grounds of Write Off : -

a) No recovery in case of loans not covered under credit life Insurance Loans-Asset loss;

b) Adverse judgement of the Court leading to financial loss to the Company;

The write-off decision shall be based on the following criteria:

a. The asset shall be classified as an NPA as per the RBI's Asset Classification norms. b. The asset shall have undergone the prescribed recovery efforts, but the chances of successful recovery are deemed remote. c. The write-off decision shall be approved by the designated authority, as per the delegation of powers prescribed by the Board of Directors.

Approval Process-Delegation

The write-off of an asset shall be approved as per the delegated authority set by the Board of Directors. The Board of Directors has delegated powers to the Audit Committee to consider the proposals of Management for write off of assets with all relevant details and the Committee resolves in conformity with Write off policy of the Company . The Committee after due consideration may recommend to the Board for approval . The authority for write-off shall be clearly defined, ensuring proper checks and balances are in place.

Methodology -Step-by Step Approach;

a) Analysis of financial data, recovery trend -case-by case ;(b) Making enquiries ,field visits /investigation for each case . (c) Scrutiny/verification by the Internal Auditor and reporting /recommendation to Head Office/Management for write off & (d) Management's proposal to the Board through the Audit Committee for write off.

ACCOUNTING TREATMENT

Upon the approval of the write-off, the outstanding amount of the asset shall be removed from the books of HMPL as an unrecoverable debt. The write-off shall be accounted for in the financial statements as per the RBI's guidelines , Company's Act, and accounting standards. Bad Debt written off may be accounted for against available " provision for doubtful Debt" or ,may be shown as a charge in the Profit &Loss Account in conformity with applicable accounting standards .

POST-WRITE-OFF RECOVERY

Even after a loan is written off, HMPL may continue its recovery efforts. Any subsequent recovery made on the written-off asset shall be recognized as income in the books of HMPL.

REPORTING REQUIREMENTS

HMPL shall comply with the reporting requirements if any prescribed by RBI or any other regulatory authories regarding write-off of impaired loans. This includes disclosure of such actions in the financial statements and annual reports.

POLICY REVIEW& Amendment

This Write-Off Policy shall be subject to periodic review to ensure its alignment with RBI's prudential norms ,accounting standards and industry best practices. Any updates or revisions to the policy shall be communicated to all relevant stakeholders. Any revision of the policy will be subjected to the Audit Committee's recommendation and Board's approval.

Mr. Anil Jadhav

Sd/-

(Chairman & Managing Director)