ECL Methodology

Asset Classification

Stage 1 - On initial recognition, all loans are classified as Stage 1. Subsequently, loans which are not more than 30 DPD on the reporting date are classified as Stage 1 as reflected in their DPD on the reporting date. Within Stage 1, there are 2 sub-categories

1 A – Accounts which never went to stage 3 earlier and accounts which went to Stage 3 but subsequently normalised (brought to 0 DPD) and currently in 0-30 days on the reporting date.

1 B – Accounts which went to stage 3 earlier and rolled back progressively but yet to normalise (become 0 DPD) though it has moved to 1-30 days DPD on the reporting date.

Stage 2 - It represents loans which have increase in credit risk since origination. Loans which are more than 30 DPD and upto 90 DPD on the reporting date are classified as Stage 2 as reflected in their DPD on the reporting date. Within Stage 2, there are 2 sub-categories

2 A – Accounts which never went to stage 3 earlier and accounts which went to Stage 3 but subsequently normalised (brought to 0 DPD) and currently in 31-90 days on the reporting date.

2 B – Accounts which went to stage 3 earlier, and rolled back progressively but yet to normalise, though it has moved to 31-90 DPD on the reporting date.

Stage 3 - Loans with more than 90 DPD on the reporting date are considered credit impaired.

PD is computed separately for each of the sub-segment. PD of stage 3 loan is 100% as it is already under default.

Forward looking information with reference to external forecasts of macro-economic parameters is also considered in the estimation of PD by applying appropriate weightages to the most likely, optimistic and pessimistic scenarios.

The sum of Stage 1B, Stage 2B and Stage 3 (under INDAS) will be the GNPA as per RBI norms.

Measurement Framework

Asset classification	ECL	Description
Stage 1A	$PD_{12m} \times LGD \times EAD$	• Assets with low risk (0-30 DPD) on reporting date (Never touched 90+ DPD/Normalised after touching 90+ DPD) • Loss estimate based on a 1 year forward estimate
Stage 1B	$PD_{12m} \times LGD \times EAD$	• Assets with low risk (1-30 DPD) on reporting date (Touched 90+ DPD in the past but yet to Normalise) • Loss estimate based on a 1 year forward estimate
Stage 2A	*Lifetime ECL*	• Assets with Significant Increase in Credit Risk (SICR) since initial recognition • Assets which never touched 90+ DPD/Normalised after touching 90+ DPD & currently in 31-90 DPD on reporting date are considered as Stage 2A • Lifetime expected loss is computed
Stage 2B	*Lifetime ECL*	• Assets with Significant Increase in Credit Risk (SICR) since initial recognition • Assets which touched 90+ DPD in the past but yet to Normalise & currently in 31-90 DPD on reporting date are considered as Stage 2B • Lifetime expected loss is computed
Stage 3	$PD(100\%) \times LGD \times EAD$	• Assets where default event has already happened as on reporting date • Assets which have DPD > 90 days as on reporting date are classified into stage 3

PD : Probability of default
LGD : Loss given default
EAD : Exposure at time of default
Segment wise Separate PD is applied for Stage 1A, 1B, 2A & 2B
Discounting of recoveries is done for respective Stages

Retail Pooling

Portfolios are segmented based on the below categories. PD term structure and LGDs are computed for each segment separately.

Chola

Vehicle Finance

- HCV New
- LCV New
- Mini LCV New
- PV New
- CE New
- CV Used (HCV, LCV & MLCV)
- PV Used
- CE Used
- CV Shubh
- PV Shubh
- Tractor New
- Tractor Used
- 2 Wheelers
- 3 Wheelers

Loan Against Property

- RTR (Repayment Track Record)
- Bank Surrogate
- Standard Prime
- Low LTV
- Liquid Income Program (LIP) / Gross Turn Over (GTO)

Home Loan

- Non SARFAESI
- SARFAESI

SME/ SBPL

- Provisioning % is applied based on reference from PD & LGD of LAP

CSEL

- Provisioning is done at Fixed rates based on DPD

PD & LGD computation will be done once sufficient historical data is available