

ECL Methodology

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- RBI had made changes to the method of evaluating the NPAs as per their circular dated 12th Nov 2021.
- While these changes are regarding evaluation of NPA as per Income Recognition and Asset Classification and Provisioning (IRACP) as defined by RBI and has no bearing directly on the ECL model and was further clarified by RBI in their Feb 15th circular.
- We have made suitable changes in presenting the stagewise asset categorization to bring in more transparency in our reporting to enable all stakeholders to relate the figures both under IRAC model and the IND AS ECL model.
- Separate Probability of Default were calculated for each of the sub-classifications under Stage 1 and Stage 2.
- Other Measurement framework and segmentation under ECL remains the same.

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. It also includes loans which have been reclassified from Stage 2 or Stage 3 on improvement in credit quality 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 normalized and currently in 0-30 days

1 B – Accounts which were stage 3 earlier, and roll backed but yet to normalize though it has moved to stage 1 currently

Stage 2 - It represents loans which have significant 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. It also includes loans which have been reclassified from Stage 3 on improvement in credit quality 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 normalized and currently in 31-90 days

2 B – Accounts which were stage 3 earlier, and roll backed but yet to normalize, though it has moved to Stage 2 currently

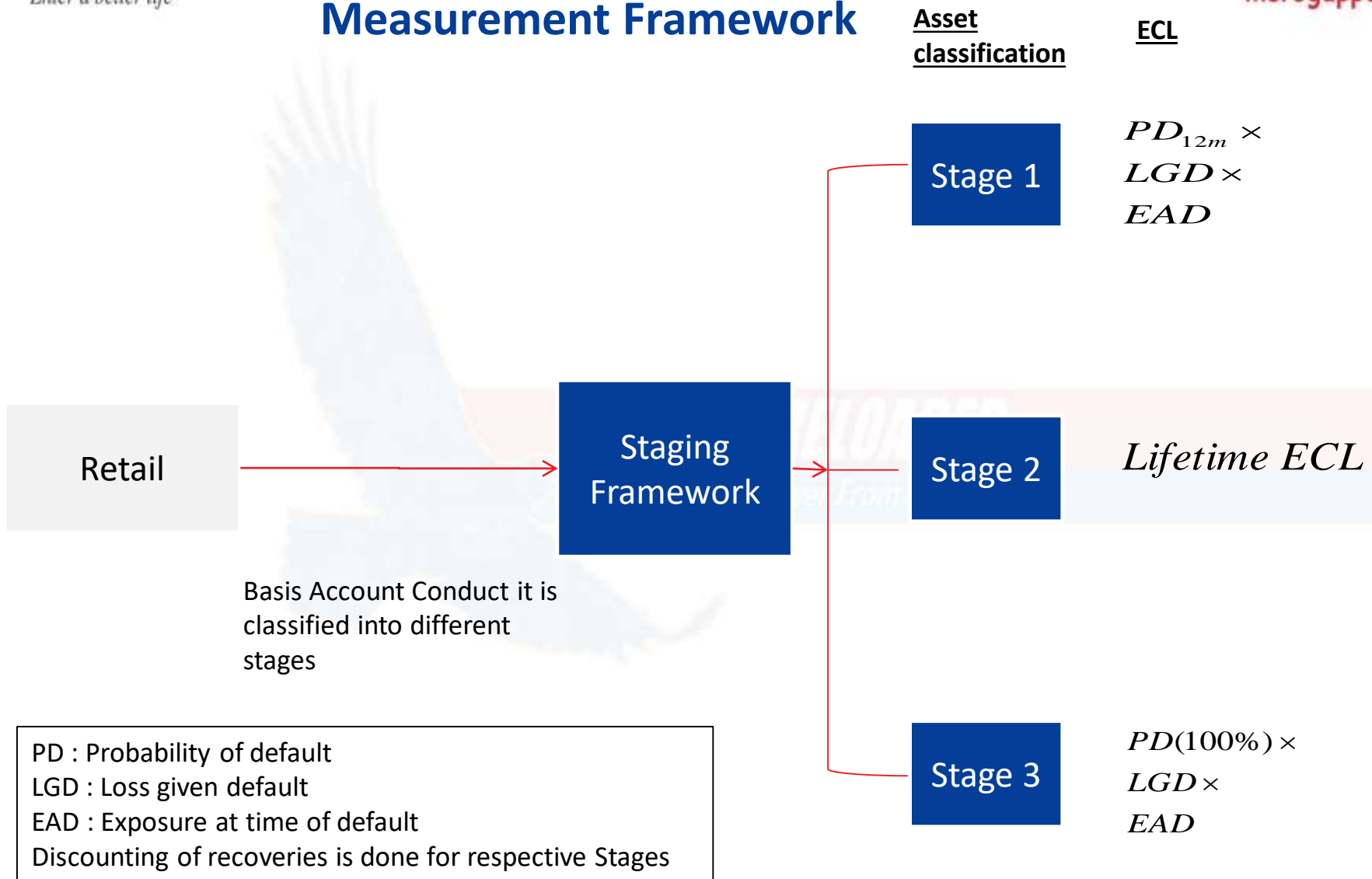
Stage 3 - Loans with more than 90 dpd on the reporting date are considered credit impaired.

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.

Addition of Stage 1B, Stage 2B and Stage 3 will be the GNPA as per RBI norms with INDAS values.

Measurement Framework



PD : Probability of default
 LGD : Loss given default
 EAD : Exposure at time of default
 Discounting of recoveries is done for respective Stages

Measurement Framework

Asset classification

ECL

Description

Stage 1

$$PD_{12m} \times LGD \times EAD$$

- Assets with low risk (0-30 DPD) on reporting date
- Loss estimate based on a 1 year forward estimate

Stage 2

$$Lifetime ECL$$

- Assets with Significant Increase in Credit Risk (SICR) since initial recognition
- Assets with > 30 DPD and < 90 DPD are considered as Stage 2
- Lifetime expected loss is computed

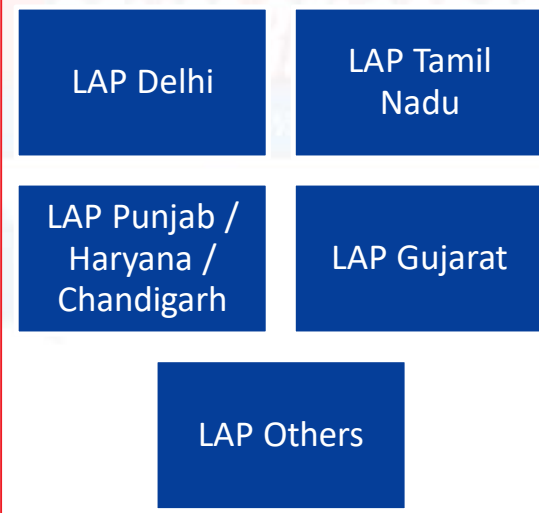
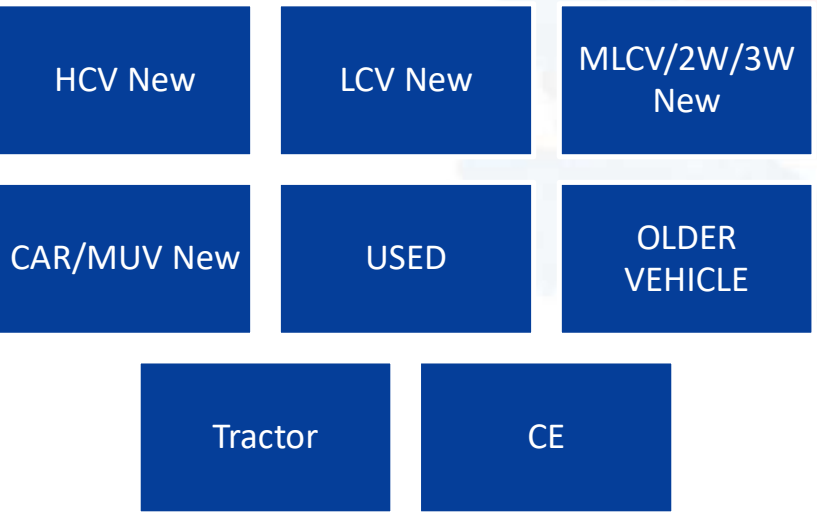
Stage 3

$$PD(100\%) \times LGD \times EAD$$

- 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

Retail Pooling

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



VF portfolio is split basis the product category

LAP portfolio is split basis geography

Home Loans and other smaller portfolios are not segmented

THANK YOU

Cholamandalam Investment and Finance Company Limited