

Muthoot Mercantile Limited

(A Unit of Muthoot Ninan Group)

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EXPECTED CREDIT LOSS POLICY

1. Background

The Board of Directors of Muthoot Mercantile Limited (MML) (the "Company"), has adopted the following Expected Credit Loss Policy

1. Impairment of the financial assets using the expected credit loss (ECL) approach is as per the requirements of AS-109 accounting practice adopted in India. The RBI mandates the NBFC's Board to approve the revised ECL methodologies.
2. The policy has been framed in accordance with the notification of the Ministry of Corporate Affairs (MCA), requiring the company to change from Indian Generally Accepted Accounting Principal (IGAAP) to Indian Accounting Standard (Ind AS).
3. Gold Loan NBFC's must compute and make provision for expected credit losses using three standard parameters
4. It is also in compliance with the notification issued by the Reserve Bank of India providing guidance on implementation of Indian Accounting Standards by non-banking financial companies which lays down that the Company should have a Board approved Expected Credit Loss policy, which should articulate and document the business models and portfolios of the Company, methodologies for computation of Expected Credit Losses.

II Purpose

5. The purpose of this policy is to provide a model for calculation of the ECL for the credit impairment of its financial assets. The implementation of the IND-AS as per the aforesaid direction of MCA requires changes in the methodology of calculating the credit impairment apart from the other changes in the accounting of an entity.

6. This policy describes the basis of Expected Credit Loss model and its key consideration while calculating the credit impairment for the company.

7. The assessment of ECL shall be done even if the loan is performing and ECL computation is to be done at the very inception of the loan.

III. Scope

8. This policy is applicable to loan portfolio originated and managed by the company including loan assets which are own, under direct assignment, under securitization arrangements and co-lending transactions

IV. Basis

1. The accounting Standard IND AS 109 relating to Financial assets, issued by ICAI shall be the basis to arrive at the expected credit loss. Further, the directions issued by the Reserve Bank of India related to accounting for Financial Instruments shall also be taken into consideration while arriving at the expected credit loss for the company.

Classification of financial assets

The company classify its financial assets based on the contractual cash flow pattern of financial asset subsequently measured at:

SL.No	Business Model	Measurement
1	The financial asset is held to collect contractual cash flows and the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.	Amortized cost
2	Financial asset is held by both collecting contractual cash flows & selling financial assets The financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.	Fair Value Through Other Comprehensive Income (FVTOCI)
3	If it does not meet the criteria for the above two methods – residual	Fair Value Through Profit & Loss (FVTPL)

Three stage classification of financial assets

An entity shall classify all its financial assets into three categories to determine its loss measured allowances;

- a) **Stage 1(Low credit Risk):** No significant increase in credit risk. Provisions are calculated based on 12 month expected losses where days past due are less than or equal to 30 days
- b) **Stage 2 (SICR);** Credit risk has increased significantly but the asset is not yet credit impaired. Days past due is between 31 to 90 days. Provision need to calculate based on credit loss resulting from default events within the next **12 months lifetime expected losses.**
- c) **Stage 3 (Credit impaired/NPA):** The loan has defaulted and days past due crossed more than 90 days. RBI mandates alignment between the Ind AS 109 default definition and regulatory definition of a NPA.

EXPECTED CREDIT LOSS FRAMEWORK

As per the Ind AS 109, the impairment /provision on financial assets shall be on Expected Credit Loss which is the product of following three components which shall be based on the segmentation of the loan portfolio.

- a) **Probability of Default (PD):** is the likelihood that a borrower will default on his/her payment obligations in future. PD is arrived considering the default rate history of the loans for a pre-decided period of time. The company shall consider overall movement of default rate for a period not less than 3 years.

For Gold Loans: LOW

Use historical data with low default probabilities, Gold price

Movements

- b) **Exposure at Default;** the quantum of exposure a company is exposed at the time of default occurs at an unknown future date. The company's EAD shall be the sum of outstanding principal and the interest amount accrued but not received on each loan
- c) **Loss Given Default:** is the amount of money a company loses when a

borrower defaults on a loan, after taking into consideration of any recovery. Company is estimating LGD on the historical percentage of recovery in respect of the defaulted financial assets against the respective quantum of loan outstanding.

For gold loan in our company is LOW

CALCULATION OF EXPECTED CREDIT LOSS

Expected credit loss is calculated by multiplying PD (%) EAD (Amount in actual) and LGD (%)

Segmentation

As per Ind AS, depending on the nature of the financial instruments an entity may not be able to identify significant changes in credit risk for individual financial assets before the instrument assets becomes past due as they are not monitored on an individual basis until the customer defaults or breaches the contractual terms. In such a situation, expected credit losses shall be recognized on a collective basis that considers comprehensive credit risk information.

For the purpose of determining significant increases in credit risk and recognizing a loss allowance on a collective basis, an entity can group financial assets on the basis of shared credit risk characteristics with the objective of facilitating an analysis that is designed to enable significant increases in credit risk to be identified on a timely basis. Examples of shared risk characteristics include, amongst others, instrument (Asset) type, credit ratings, collateral, industry, geography of borrower, etc.

2. Prudential Floor for ECL

The Company shall hold impairment allowances as required by Ind AS. In parallel the Company shall also maintain the asset classification and compute provisions as per extant prudential norms on Income Recognition, Asset Classification and Provisioning including borrower/beneficiary wise classification, provisioning for standard assets. A comparison between provisions required under IRACP norms and impairment allowances made under Ind AS 109 will be disclosed by the Company in the notes to their financial statements to provide a benchmark to their Boards, RBI supervisors and other stakeholders, on

the adequacy of provisioning for credit losses.

Where impairment allowance under Ind AS 109 is lower than the provisioning required under IRACP (including standard asset provisioning), the Company shall appropriate the difference from their net profit or loss after tax to a separate 'Impairment Reserve'. The balance in the 'Impairment Reserve' shall not be reckoned for regulatory capital. Further, no withdrawals shall be permitted from this reserve without prior permission from the Department of Supervision, RBI. (c) The requirement for 'Impairment Reserve' shall be reviewed, going forward

Time value of money

Expected credit losses arrived above shall be discounted using the effective interest rate determined at initial recognition.

3. COMPARISON OF ECL & IRAC NORMS

Expected Credit Loss evaluates credit loss based on probability of default which needs to be revaluated and can be subjective, whereas IRAC norms is mandatory standard set by the RBI

4. Policy review

The policy is approved on 18th April 2026 and shall be reviewed on annual basis or on need basis.

For Muthoot Mercantile Limited

S/d
Mathew Mathaininan
Chairman & Whole-time Director
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