

**POLICY ON
WRITE OFF
FOR
NEUZEN FINANCE PRIVATE LIMITED
(FORMERLY KNOWN AS UMANG TRADING PVT.LTD.)**

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1. Introduction and Objective:

Neuzen Finance Private Limited (NFPL) is an Investment and Credit Company focused on providing business loans to Individual/Firm/Corporates. Operations of NBFCs sometimes give rise to non-performing loan accounts, usually referred to as Non-performing Assets (NPA). It is advisable to write off an NPA after all avenues of recovery are exhausted and chances of recovery of due amount seem remote.

The objective of this Policy is to provide a framework for compromise settlements and writing off NPAs in the form of a technical write-off.

2. One-Time/Compromise Settlement

Before considering a loan for write off, the Company officials shall make concerted effort for negotiating a one-time settlement with the borrower. One-time settlement refers to a negotiated settlement where a borrower offers to pay and the Company agrees to accept in full and final settlement of its dues, an amount less than the total amount due to the Company under the relative loan contract. The Company officials shall frame a settlement based on the circumstances necessitating its consideration to protect the Company's interest to the maximum possible extent.

3. Technical Write Off

A write-off is an accounting term for the formal recognition in the financial statements that a borrower's asset no longer has value. Usually, loans are written off when they are 100 percent provisioned and there is no realistic prospect regarding either settlement or recovery. These loans are transferred to the off-balance sheet records.

The write off is essentially a prudent accounting measure to reduce the level of Gross NPA as such accounts are either fully provided for or substantial provision is already available.

A write-off does not preclude the lender from enforcing, selling, or transferring the credit to another entity. Writing-off a loan does not entail forgiving the debt. The borrower still owes money to the lender; however, the lender has derecognized this asset from its financial statements due to non recovery of dues.

4. Eligible accounts for write off:

- a. The accounts proposed to be written off should be classified as doubtful or loss assets. The minimum ageing for a technical write-off should be at least 12 months from the date of the account turning NPA.

- b. Accounts where deterioration in collateral value warrant a technical write-off.
- c. The loan account should have adequate provision to contain the loss at a minimum level.
- d. Accounts where suits have been filed but chances of recovery are bleak even if the cases are decreed.
- e. Accounts that become substandard due to the death of the main earner can also be considered for write off as often the claim amount from the Insurance Company is not sufficient to fully settle the dues.

5. Process for write-off/compromise settlements:

- a. The Head of Accounts Department shall submit a report on non-recoverability of dues along with the proposal to write off the loan accounts to the credit committee.
- b. All write off proposals shall be thoroughly examined by the credit Committee before submitting for approval to the Director.
- c. The exercise of writing off of the balance is carried out in consultation with the Accounts Head and the aggregate amount to be written off be finalized with the approval of the Director.
- d. The Director shall have the authority to write off/do compromise settlement for accounts with total outstanding/loss up to Rs.2.00 crores. In respect of the accounts with outstanding/loss above Rs.2.00 crores, the proposals shall be placed before the Audit Committee. In all such cases upto Rs. 2.00 crores, Director can waive upto 100% of interest overdue and upto 50% of principal outstanding. Waiver of principal outstanding beyond 50% will require approval from Audit Committee. In case, the director was the original sanctioning authority, the account will have to be put up to the Audit Committee directly. Proposals for compromise settlements/write-off in respect of customers classified as fraud or willful defaulter, will require approval of the Board in all such cases.
- e. The follow up for recovery of a written off loan shall be continued on par with other live accounts. All possible steps to recover the dues shall be initiated even after write off in the larger interest of the Company.
- f. The branches shall be advised to ensure that writing off loans should not in any manner dilute the recovery mechanism and should not give any negative signals to regular and prompt borrowers.
- g. The Accounts Head shall ensure that all the relevant loan documents are enforceable and legal options / compromise proposals shall be explored.
- h. The Compliance department shall ensure that the details of accounts written off are informed to the Bureaus / Credit Information Companies.
- i. The details of loan accounts written off shall be informed to the Audit Committee on quarterly basis.

6. Accounting treatment of Write off of loan accounts:

- a. The writing off a loan account shall be accounted for by passing a journal entry to debit the “Bad Debt Expense account” and a credit to the loan account.
- b. In case the borrower resumes servicing its debt, or the exposure is sold, a recovered amount would be directly recorded as income in the profit and loss (P&L) account.

7. Staff Accountability

For all cases being written-off or undergoing one time settlement (OTS)/compromise settlement, the credit team will do a thorough check / investigation of the proposal including sourcing, credit underwriting and disbursement process to ensure that there is no lapse or ethical violation on account of any of the employees. If any lapses or ethical violations is found, the case report will be submitted to the Director for taking relevant staff side action within 60 days of report submission.

8. Methodology of arriving at Realizable Value

For all cases being written-off or undergoing one time settlement (OTS)/compromise settlement, technical valuation will be undertaken by the Collections department to arrive at a realizable value. The valuation will be carried out through an empaneled valuer, one who is different from the valuer who did the valuation at the time of sanction.

9. Other Norms

- a. The compromise settlements and technical write-offs shall be without prejudice to any mutually agreed contractual provisions between Neuzen Finance Private Limited (NFPL) and the borrower relating to future contingent realizations or recovery by NFPL, subject to such claims not being recognized in any manner on the balance sheet of NFPL at the time of the settlement or subsequently till actual realization of such receivables. Any such claims recognized on the balance sheet of NFPL shall render the arrangement to be treated as restructuring.
- b. Compromise settlements where the time for payment of the agreed settlement amount exceeds three months shall be treated as restructuring.
- c. In case of partial technical write-offs, the prudential requirements in respect of residual exposure, including provisioning and asset classification, shall be with reference to the original exposure, provided that the amount of provision including the amount representing partial technical write-off shall meet the extant provisioning requirements, as computed on the gross value of the asset.

- d. In respect of borrowers subject to compromise settlements, there shall be a cooling period of 18 months before NFPL can assume fresh exposure to such borrowers.
- e. NFPL may undertake compromise settlements or technical write-offs in respect of accounts categorized as willful defaulters or fraud without prejudice to the criminal proceeding underway against such customers.

10. Reporting to Board

Compromise settlements and technical write-offs approved by the Director would be reported to the Board on a quarterly basis. A suitable reporting format so as to ensure adequate coverage of the following aspects has been prepared by the Company.

- a. trend in number of accounts and amounts subjected to compromise settlement and/or technical write-off (year-on-year).
- b. out of (a) above, separate breakup of accounts classified as fraud, red-Flagged, willful default and quick mortality accounts.
- c. Amount-wise, sanctioning authority wise, and business segment / asset-classwise grouping of such accounts.
- d. Extent of recovery in technically written-off accounts.

11. Amendments to the Policy

The policy shall be amended suitably to incorporate relevant changes as and when required with the approval of the Board of Directors.