ADVENTZ SECURITIES ENTERPRISES LIMITED
EXPECTED CREDIT LOSS (ECL) POLICY

INTRODUCTION

Adventz Securities Enterprises Limited ("the Company") is registered as a Non-Banking Financial Company (NBFC) – Investment and Credit Company with the Reserve Bank of India ("RBI") and is a non-deposit taking Company. Pursuant to the classification of the Company's parent as a Middle Layer NBFC under the Reserve Bank of India (Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation) Directions, 2025, the Company also stands classified as a Middle Layer NBFC ("NBFC-ML"). The Company is engaged in the business of investment on short or long term basis and providing financial assistance primarily, on a short term basis to body corporates.

This Policy has been reviewed and updated by the Board of Directors to reflect the Reserve Bank of India (Non-Banking Financial Companies – Income Recognition, Asset Classification and Provisioning) Directions, 2025 (RBI/DOR/2025-26/356 dated November 28, 2025) ("the IRACP Directions, 2025"), which have repealed and replaced all earlier RBI prudential norms on income recognition, asset classification, and provisioning applicable to NBFCs, including the norms with reference to which this Policy was last adopted.

With the applicability of "Ind AS 109 – Financial Instruments" ("Ind AS 109") to the Company, the erstwhile rule-based provisioning norms have transitioned to the "Expected Credit Loss" ("ECL") model based on Ind AS 109. Ind AS 109 replaces the earlier "Incurred Loss Model" with a forward-looking ECL Model. Under this approach, the Company does not wait for a loss event to occur before making a provision; instead, the Company is required to be forward-looking and to exercise credit modelling to make provisions based on changes in credit quality.

As required under the IRACP Directions, 2025, the Company continues to compute, in parallel with its Ind AS 109 ECL provisioning, its provisioning requirement under the IRACP Directions, 2025 (the "prudential floor"), as explained under 'Ind AS 109 ECL as Prudential Floor' below.

THE POLICY

In view of Ind AS 109 and the IRACP Directions, 2025, the Company's policy is set out below:

1. The expected credit loss impairment model applies to loans, debt securities, and other receivables measured at amortised cost or at fair value through other comprehensive income (FVOCI). The model also applies to lease receivables, irrevocable loan commitments, and financial guarantee contracts not measured at fair value through profit or loss (FVTPL).
2. The ECL-based credit impairment model replaces the earlier percentage-based provisioning norms prescribed by RBI, and continues to have a significant bearing on the Company's systems and processes on account of its requirement for forward-looking probabilities of default, historical data, and calculation.
3. ECL follows a three-stage impairment model, based on whether there has been a significant increase in credit risk of a financial asset since its initial recognition. These three stages determine the amount to be recognised as expected credit loss at each reporting date. The requirements under this model are as follows:
    a) Under the ECL model, all financial instruments are allocated to Stage 1 on initial recognition. However, if a significant increase in credit risk is identified at the reporting date as compared to initial recognition, the instrument is transferred to Stage 2. Where there is objective evidence of impairment, the asset is treated as credit-impaired and transferred to Stage 3.

b) For financial assets in Stage 1, impairment is calculated based on defaults that are possible in the next 12 months, whereas for financial instruments in Stages 2 and 3, the ECL calculation considers default events over the residual lifespan of the instrument.

c) To determine whether there has been a significant increase in credit risk, Ind AS 109 requires a comparison of the risk of default estimated on initial recognition with the risk of default estimated at the reporting date, using the change in the risk of default occurring over the expected life of the instrument.

d) The evaluation of whether there has been a significant increase in credit risk is carried out at each reporting date. An asset can move into and out of the lifetime ECL category based on its performance at the reporting date.

The objective of the impairment requirements is to recognise lifetime expected credit losses on all financial instruments for which there have been significant increases in credit risk since initial recognition, whether assessed on an individual or collective basis.

At each reporting date (annual), an allowance (or provision for loans and advances) is required on Stage 1 assets at 12-month ECL. Where credit risk has significantly increased since initial recognition (Stage 2), or where the asset is credit-impaired (Stage 3), an allowance for lifetime ECL shall be recognised.

MEASUREMENT OF ECL

The measurement of ECL is calculated using three main components:

(i) Probability of Default (PD);

(ii) Loss Given Default (LGD); and

(iii) Exposure at Default (EAD).

The 12-month ECL is calculated by multiplying the 12-month PD with LGD and EAD.

The 12-month and lifetime PDs represent the PD occurring over the next 12 months and over the remaining maturity of the instrument, respectively.

LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money.

EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event, together with any expected drawdowns of committed facilities.

Probability of Default represents the likelihood of a borrower defaulting on its financial obligation either over the next 12 months (12M PD) or over the remaining lifetime (Lifetime PD) of the obligation.

Loss Given Default (LGD) is the part of the asset that is lost, given that the asset has defaulted. The recovery rate is derived as a ratio of the discounted value of recovery cash flow (incorporating the recovery time) to the total exposure of the amount at the time of default.

Exposure at Default (EAD) is the total amount of an asset the Company is exposed to at the time of default, based on the characteristics of the asset, the outstanding exposure, the sanctioned amount of the loan, and the credit conversion factor for non-funded exposure.

SIGNIFICANT INCREASE IN CREDIT RISK AND STAGING

The Company assesses when a significant increase in credit risk has occurred based on quantitative and qualitative assessments. Exposures are considered to have resulted in a significant increase in credit risk and are moved to Stage 2 when:

i. Quantitative test: Rebuttable presumption for accounts that are 30 calendar days or more past due to move to Stage 2 automatically. Similarly, rebuttable presumption for accounts that are 90 calendar days or more past due to move to Stage 3 automatically.

ii. Qualitative test: Accounts that meet the portfolio's 'high risk' criteria and are subject to closer credit monitoring. High risk customers may not be in arrears, but either through an event or an observed behaviour, exhibit credit distress.

iii. Reversal in stages: Exposures move back to Stage 2 or Stage 1, once they no longer meet the quantitative criteria set out above. For exposures classified using the qualitative test, when they no longer meet the criteria for a significant increase in credit risk, and when any cure criteria used for credit risk management are met, they move up accordingly.

The definition of default for the purpose of determining ECL is aligned to the RBI's definition of default, which considers indicators that the debtor is unlikely to pay, and is no later than when the exposure is more than 90 days past due, consistent with the Company's classification as a Middle Layer NBFC under the IRACP Directions, 2025 (see paragraph 5 below). The Company continues to incrementally provide for the asset after its initial recognition in Stage 3, based on its estimate of recovery.

ASSET CLASSIFICATION AND PROVISIONING UNDER THE IRACP DIRECTIONS, 2025

As a Middle Layer NBFC, the Company is subject to the asset classification and provisioning norms applicable to all NBFCs under Chapter II of the IRACP Directions, 2025, as well as the additional norms applicable specifically to NBFCs-ML under Chapter IV thereof. These norms operate as the prudential floor for provisioning, alongside the Company's Ind AS 109 ECL computation, as explained under 'Ind AS 109 ECL as Prudential Floor' below.

4. Asset classification is borrower-wise and not facility-wise. All facilities granted to a borrower, and all investments in securities issued by that borrower, are classified as non-performing / non-performing investment together, and not merely the specific facility or investment that has become irregular.
5. For the Company, being an NBFC-ML, an asset is classified as a Non-Performing Asset (NPA) where interest or instalment remains overdue for a period of more than 90 days (or, in the case of a demand/call loan or bill, more than 90 days from the date of demand / call, as applicable).
6. A Sub-standard asset is an asset that has been classified as an NPA for a period not exceeding 12 months, or an asset whose terms have been renegotiated, rescheduled, or restructured, until the expiry of one year of satisfactory performance under the revised terms.
7. A Doubtful asset is an asset that remains a sub-standard asset for a period exceeding 12 months.
8. A Loss asset is an asset identified as a loss asset by the Company, its auditors, or the RBI, to the extent not written off, or an asset adversely affected by erosion in security value, unavailability of security, or fraud.
9. An NPA is upgraded to 'standard' asset category only when the entire arrears of interest and principal (across all credit facilities extended to that borrower) are paid in full.
10. The Company shall maintain a general (standard asset) provision at 0.40% of the outstanding amount, being the rate prescribed for NBFCs-ML under the IRACP Directions, 2025. This provision is shown separately as 'Contingent Provisions against Standard Assets' and is not netted against gross advances.

11. For non-performing assets, the Company shall maintain provisions at not less than: (a) 10% of total outstanding for sub-standard assets; (b) for doubtful assets, 100% of the unsecured portion plus 20% to 50% of the secured portion depending on the period for which the asset has remained doubtful (20% up to one year, 30% for one to three years, and 50% for more than three years); and (c) 100% for loss assets, which shall ordinarily be written off.
12. Income including interest or other charges on an NPA shall be recognised only when actually realised. Any income recognised before the asset became non-performing, and remaining unrealised, shall be reversed.

IND AS 109 ECL AS PRUDENTIAL FLOOR

As an NBFC required to comply with Ind AS, the Company holds impairment allowances as required by Ind AS 109. In parallel, the Company also computes its asset classification and provisioning under the IRACP Directions, 2025 described above, which acts as the prudential floor for provisioning.

Where the impairment allowance computed under Ind AS 109 is lower than this prudential floor, the Company shall appropriate the difference from its net profit or loss after tax to a separate 'Impairment Reserve'. The balance in the Impairment Reserve shall not be reckoned as regulatory capital, and no withdrawal shall be made from this reserve without the prior permission of the Department of Supervision, RBI. This appropriation is considered for computing the prudential floor but is not reckoned while calculating net NPAs.

GOVERNANCE, SYSTEMS, AND DISCLOSURES

All the above computations are prepared on an Excel-based (or other suitable) model, which is required to be reviewed by management, and the resulting provisions are recognised in the Company's financial statements, subject to statutory audit.

The Company shall make suitable disclosures in the Notes to Accounts to its financial statements, in accordance with the Reserve Bank of India (Non-Banking Financial Companies – Financial Statements: Presentation and Disclosures) Directions, 2025.

REVIEW OF THE POLICY

The Company is required to review this Policy at least once every two years, based on its own experience, business needs, and RBI guidelines in this regard. This Policy was originally adopted by the Board of Directors on 25th February, 2021, and was subsequently reviewed and modified at the Board meeting held on 11th August, 2023. This Policy has now been further reviewed and updated by the Board on 25th May, 2026 to reflect the Company's classification as a Middle Layer NBFC and the IRACP Directions, 2025.

This Policy shall continue to be reviewed by the Board at least once every two years, or earlier if warranted by changes in RBI guidelines, applicable accounting standards, or the Company's business.