USHA FINANCIAL SERVICES LIMITED

GUIDELINE FOR THE WRITE-OFF OF NON-PERFORMING ASSETS

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Write Off Policy

Introduction

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 are no realistic prospects of recovery. These loans are transferred to the off-balance sheet records.

Purpose

This Guideline for the write-off of non-performing assets (Guideline) sets out a broad framework for the write-off process at the Company so as to ensure consistency and prudence while writing-off non-performing assets in a timely manner. This should also assist the Company in cleaning their balance sheets. The objective behind the write off of a bad loan is to make use of the funds allocated at the time of lending the money to its borrowers to initiate more business. By writing off loans from the books makes the balance sheet presentable for the stakeholders

Eligible

All Loans those are bad and window of recovering of loan has dramatically dropped and they have to start using the attached assets of the defaulter or arbitration to recover their dues shall be eligible for write off.

Authority

All the decisions regarding the write off of loan shall be taken up by the committee constituted through the board; the composition of the committee shall be as under:

1. One senior member of the Board shall be chairperson of the committee
2. The Credit Manager/ Business Manager for evaluating current and future credit capacity/ viability including repayment capacity of the case.
3. Recovery head

Broad Write off Principles

1. Check the status of borrower whose loan becomes bad
2. A write-off can occur before legal efforts to recover the debt have been concluded. A write-off does not signify the company forfeiting its legal right to claim its dues.
3. The Write off account for the written-off amount should be created at the general ledger level and used for monitoring and reporting purposes. When it is determined that no recovery is forthcoming, the removal of the entry from the account should be as per the Company's Committee Recommendations.
4. Once an amount has been written-off from the balance sheet, there can be no write-back / reverse adjustments. In the event that there is any recovery on the account, it would be directly recognized in the income statement for the year.

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Write-Off Requirements for Non-Performing Assets

The write-off policy of a Company shall, as a minimum, set forth:

1. Regular conduct of the recovery analysis and review of the write-off policy at least annually based on findings of time period for material recovery for different types of non-performing assets;
2. Details on pre-defined roles, responsibilities and procedures in the write-off process, together with a chart of the delegated authorities and thresholds for sanctioning write-offs;
3. The principle that the write-off should normally be done at one level higher than the sanctioning authority and not by the same officer who approved the exposure;
4. Policy for related party exposures, in line with the *Guideline on Related Party Transactions* which stipulates that write-offs of related party credit exposures shall be subject to the prior approval of the Board of Directors;
5. Policy for different categories of assets such as secured/unsecured facilities, retail loans (excluding mortgages), mortgage loans, corporate loans, as per the requirement;
6. Notwithstanding the above specified periods, the requirement for a prompt write-off where there is no realistic prospect of further recoveries and in case of insolvency or fraudulent loans where recovery is bleak;
7. The requirement for an examination of the accountability of the staff, including an examination of staff performance in complying with extant guidelines and controls for material non- performing assets in the event of an impairment or a write-off, on a case-by-case basis. The documentation on lessons learn, identification of gaps, and corrective measures, if any, should also be part of the write-off process;
8. The policy that the write-off will not lead to removal of default data from the Credit Information Bureau;
9. The obligation for submission of information on written-off accounts with all relevant details, beyond a threshold, to the board at periodic interval for its information/observation/guidance;
10. The requirement for the disclosure of written-off amounts in the Company's audited financial statements, in accordance with existing accounting standards;
11. Emphasis on pursuing recovery efforts for written-off credit facilities

Exemptions/Exceptions to the Rule

It will be at the discretion of Company to write-off non-performing loans falling under the write off Policy

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