

NEXOME CAPITAL MARKETS LIMITED
(FORMERLY SMIFS CAPITAL MARKETS LIMITED)

EXPECTED CREDIT LOSS POLICY

(Adopted by the Board of Directors of the Company at their meeting held on 04.06.2025)

1. Purpose & Objectives

- Establish a structured framework for recognition, measurement, and disclosure of expected credit losses.
- Ensure compliance with **RBI Guidelines, SEBI Merchant Banker Regulations, the Companies Act, 2013, Ind AS 109**, and other applicable rules.
- Safeguard investor confidence and financial stability.

2. Scope

Applies to all financial assets, including:

- Debt instruments held for investment or underwriting.
- Loans, advances, guarantees, bridge financing.
- Trade receivables and advisory/syndication fees.
- Off-balance sheet exposures such as underwriting commitments.

3. Regulatory Framework

- **RBI:** Forward-looking ECL provisioning replacing incurred loss model (mandatory FY 2027).
- **SEBI:** Capital adequacy, risk management, and disclosure obligations under LODR.
- **The Companies Act, 2013:** Compliance with notified accounting standards.
- **Ind AS 109:** Three-stage impairment model.
- **ICAI Guidance Notes:** Implementation support for Ind AS 109.

4. Policy Principles

- **Forward-Looking Provisioning:** Historical data + current conditions + macroeconomic forecasts.
- **Three-Stage Model:**
 - Stage 1: Performing assets – 12-month ECL.
 - Stage 2: Underperforming assets – Lifetime ECL.
 - Stage 3: Credit-impaired assets – Lifetime ECL.
- **Prudential Floors:** Minimum provisioning levels as per RBI.
- **Transparency:** Clear disclosures in financial statements.

5. Governance & Oversight

- **Board of Directors:** Approves and reviews policy, oversee implementation.
- **Audit Committee:** Reviews adequacy of provisions and disclosures.
- **Compliance Officer:** Ensures adherence to SEBI and RBI guidelines.
- **Internal Audit:** Validates accuracy of ECL calculations.

6. Methodology

- **Data Inputs:** Historical default rates, credit ratings, sectoral risks, macroeconomic indicators.
- **Models:** PD (Probability of Default), LGD (Loss Given Default), EAD (Exposure at Default).
- **Validation:** Independent validation annually.
- **Stress Testing:** Scenario analysis for adverse conditions.
- **Documentation:** Assumptions, parameters, and methodologies documented for audit/regulatory review.

7. Disclosure & Reporting

- **Quarterly & Annual Disclosures:** As per SEBI LODR.
- **Financial Statements:** Notes on assumptions, methodologies, and sensitivity analysis.
- **Regulatory Reporting:** To RBI and SEBI as required.
- **Investor Communication:** Transparent reporting of provisioning impact.

8. Review & Updates

- Annual review or earlier if regulatory changes occur.
- Immediate update required if RBI, SEBI, or MCA issues new directions.
- Continuous monitoring of global best practices.

ANNEXURES

ANNEXURE I – DEFINITIONS

- **Probability of Default (PD):** Likelihood that a borrower will default within a given time horizon.
- **Loss Given Default (LGD):** Proportion of exposure lost if default occurs.
- **Exposure at Default (EAD):** Outstanding exposure at the time of default.
- **12-Month ECL:** Expected losses from defaults possible within 12 months.
- **Lifetime ECL:** Expected losses from defaults over the entire life of the asset.

ANNEXURE II – SAMPLE DISCLOSURE FORMAT (SEBI LODR & IND AS 109)

- **Table A: Movement in ECL Provisions**

Particulars	Stage 1 (12M ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Credit-Impaired)	Total
Opening Balance	X	Y	Z	Total
Additions	X	Y	Z	Total
Write-offs	X	Y	Z	Total
Closing Balance	X	Y	Z	Total

- **Table B: Sensitivity Analysis**

Scenario	PD (%)	LGD (%)	ECL Impact (₹ Cr)
Base Case	2.5	40	50
Adverse	5.0	50	120
Severe Stress	7.5	60	200

ANNEXURE III – ROLES & RESPONSIBILITIES MATRIX

Function	Responsibility
Board of Directors	Approve policy, Monitor implementation
Audit Committee	Review adequacy of provisions
Compliance Officer	Ensure SEBI/RBI compliance
Internal Audit	Validate ECL calculations
Finance Team	Maintain records, prepare disclosures