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May 4th, 2013

To,

Technical Director,
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PO Box 5116, Norwalk, CT 06856-5116
Email : director @fasb.org

CC: Technical Director, The Institute of Chartered Accountants of India New Delhi, India *Email:avinash@icai.org,asb@icai.org*	CC: The Chairman **International Accounting Standards Board (IASB), London, UK** *Email :* iasb@ifrs.org, pk@ifrs.org, slloyd@ifrs.org,

Dear Sir,

Sub: Exposure Draft : Financial Instruments: Credit Losses (Subtopic 825-15)
File Reference #2012/260

We would like to thank FASB for giving an opportunity to comment on the above mentioned exposure draft. We note that FASB has worked with the IASB, global accounting standard setter, and both the Boards have strived hard to achieve convergence on key aspects of accounting for financial instruments. However, we are hugely disappointed in two respects viz.

a) FASB and IASB have not been successful to achieve convergence on a critical aspect of accounting for financial instruments, which was main focus area of attention following the global financial crisis. The divergent views appear to be so strong that even the starting terminologies used are different e.g. FASB uses the term global *economic* crisis and *credit* loss as compared to the IASB's terminology of global *financial* crisis and *impairment* loss. We would have, at least, desired to have convergence on these primary terminologies. We are aware that IASB has issued separate exposure draft on this subject and we will be commenting on that separately.
b) Inordinate delay in completing the impairment related amendments to existing standards. Impairment loss was a problem area at the epicenter of recent global financial crisis.

As a result of the above situation, the advise of G20 and other international bodies to create a single set of high quality global financial reporting standards remains unattended. Secondly, credibility and competency of the two main standard setting bodies of this era has come into in question and has got severely adversely affected.

However, we are pleased to note that the FASB is moving towards 'Expected Loss' Model from the currently applied 'Incurred Loss' Model. Before we comment on specific areas, we advise FASB to have certain primary guiding principles for the standard which are listed below:

(i) Accounting concepts for recognition and measurement of credit losses or impairment should be proportionate to the nature, complexity and size of credit risk undertaken by the reporting entity. Accordingly, prescriptions and application guidance of the standard could be different

for financial services entity say a bank and a manufacturing and trading company. *'One size fits all'* approach may not work in all scenarios.

(ii) Accounting concepts should enable recognition of the sophistication and expertise of the entities e.g. complex and giant banks should be able to, rather mandated to, utilize the advanced risk measurement approaches employed by them for their regulatory purposes say Internal Ratings Based approaches of Basel II/III.

(iii) Two main components of credit loss quantification i.e. Credit loss (impairment) recognition (*one can call it likelihood or probability of occurrence of credit loss and the credit risk world calls it 'Probability of Default (PD))* and measurement of credit loss *(one can call it amount/severity of credit loss in the event of actual occurrence of credit loss and the credit risk world calls it 'Loss given Default (LGD))* ***is/has been/will be*** subjective and judgmental, at least in banking industry. So, let us recognize this inherent dilemma/weakness and live with it. It is not prudent to reduce everything to formulae of Maths, Physics and Stats to achieve high degree of precision, because that path has dangers of straying away from realities of real economy as was learned (definitely at a very high cost) during the recent global financial crisis.

Our specific comments are summarized below and the detailed comments to certain specific questions asked by the Board are given in the attachment to this letter.

I) Scope of the proposed update

In our view, the scope should include financial assets classified at fair value through net income *which would otherwise be measured at Amortized Cost*. Recent global financial crisis has shown us that fair value measurement does not adequately or always on timely basis, capture the credit risk element. If we ignore this weakness, we are not achieving the objective of remedying the issue of delayed recognition of credit losses, a weakness of existing accounting standards noticed during the recent global financial crisis.

II) Recognition and Measurement of Expected Credit Loss

While we note (& concur with the Board) that the Board has finally reconciled to the principle/concept that credit loss recognition and measurement should be based on *'expected loss'* approach, however, the manner in which principles are stated and structured is not very clear and unambiguous. In this regard, we suggest the following:

A) A 'Two Step' approach

It is highly advisable that prescriptions and implementation guidance should be segregated into two steps viz. identification of credit loss (impaired) accounts* and measurement of credit (impairment) loss. This approach has benefits of effective and robust measurement of credit loss. We also strongly recommend prescription of the meaning of and definition of 'credit loss (impaired)' accounts, which should not be a problem at all.

**However, this doesn't mean we are proposing credit loss recognition for only impaired account. This approach is intended for better and more accurate measurement of credit loss amount for both impaired accounts and non impaired (good) accounts.*

B) Measurement approaches and concepts

(i) Expected loss recognition and measurement: It is critical to understand and describe clearly the much talked about debate of recognition of expected credit loss over 12 months or life time credit loss. The time bucket has relevance in two areas viz

(a) when identifying/recognizing occurrence of loss events and

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(b) whether to recognize/account for estimated credit loss immediately (or during next 12 months) or spread it over full life of the financial asset. Debated time bucket (12 month v/s life time) has no (or lesser) relevance in estimating or measuring the amount or severity of the loss amount.

In our view:

- Credit loss recognition/identification should be for loss events (actual, probable or expected) likely over next 12 months or similar foreseeable horizon. However, the historical data used for estimating occurrence of loss events (e.g. Probability of Default (PD)) should always be based on 'long run average' of risk factors. Use of long run averages will lend to reliability and robustness of the estimation process.
- But, the credit loss amount recognized in the financial statement should be full amount of the estimated credit loss and no spreading or amortization of the estimated loss amount over life time of the financial assets.
- All the credit loss determinants, whether simple factors like 'loss rates' or sophisticated measures like 'Probability of Default (PD), Loss given Default (LGD)' etc, should be based on long run historical averages. The only exception to this principle should be new entities which do not have reliable and comparable data, either internal or external, data.

(ii) Entities can use advanced techniques or simple measurement techniques or a combination of the two, as appropriate to the financial asset or portfolio of financial assets.

(iii) Expected loss estimation using discounted cash flow model. There should be flexibility in choosing discount rate used to compute present values of cash flows/recoveries rather than mandatory application of effective interest rate (EIR). The entities can choose between EIR, Cost of Fund, Risk Free Return Rate and this flexibility will enable many banking entities to leverage on their internal rating models developed for capital adequacy purposes (Basel II).

(iv) Interest income recognition: The standard correctly prescribes interest income recognition on cash basis in certain situations (paragraph 825-15-25-10). However, the prescriptions go on to mandate the order of application of subsequent recoveries to principal and interest due. This order of application may come in conflict with the contractual arrangements between the entity and borrower and therefore, we suggest it to be left to the entity's policy decision/discretion which can disclosed in the accounts.

(v) We have made certain suggestions to improve the description of illustrative examples for better clarity and implementation of the standard. We have also depicted computation of Expected Credit Loss using sophisticated risk factors (PD, LGD) with an example as an attachment to this letter.

We hope the FASB appreciates the above comments and amends the final standards as considered necessary. Please feel free to contact us for any clarification in this regard.

Yours faithfully,

Vidhyadhar Kulkarni

Leader, DFK India

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Attachment

Comments to FASB Financial Instruments: Credit Losses (Subtopic 825-15)
File Reference #2012/260

Question 1

Do you agree with the scope of financial assets that are included in this proposed Update? If not, which other financial assets do you believe should be included or excluded? Why?

Response :

We do not fully agree with the scope of the financial assets. In our view, proposed update (i.e. credit loss recognition) should include certain types of financial assets classified at fair value through net income. The financial assets covered by this requirement should be those financial assets classified at fair value through net income *that would otherwise be measured at amortized cost*. Examples of such items could be unquoted customer loans, traded synthetic instruments such as Collateralized Debt Obligations (CDOs) or other bonds collateralized/backed/secured by underlying financial assets carrying, predominantly, having the credit risk. Recent global financial crisis has shown the world how the *credit risk* in bonds backed by sub-prime mortgages can cause havoc in the economy and the measurement concepts like fair value or value at risk do not always adequately consider the credit risk element. As a result, there is high potential for delayed identification and recognition of credit losses. This potential deficiency is recognized, to some extent, by another global standard setter viz. IASB and we quote below the relevant paragraphs of Basis for Conclusion of IFRS 7 in the context of disclosure about maximum exposure to credit risk of financial instruments.

BC 49: Paragraph 36(a) requires disclosure of an entity's maximum exposure to credit risk at the reporting date……..However, the Board disagreed because it believes that that such information:
(a)providers users of financial statements with a consistent measure of entity's exposure to credit risk: and
(b)takes into account the possibility that the maximum exposure to loss may differ from the amount recognized in the balance sheet.
BC 50: Some respondents to ED 7questioned whether the maximum exposure credit risk for a derivative contract is its carrying amount because fair value does not always reflect potential future exposure to credit risk (see paragraph B10(b).However the board that the paragraph 36(a) requires disclosure of the amount that best represents the maximum exposure to credit risk *at the reporting date*, which is the carrying amount.

If we have to rectify the issue of delayed recognition of credit losses, a weakness identified in the existing standards during global financial crisis, we will have to enhance the scope of the financial assets covered by this proposed update.

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Question 4

The Board has twice considered credit loss models that would permit an entity not to recognize certain expected credit losses. In the January 2011 Supplementary Document, the Board considered a model that would permit an entity not to recognize some credit losses expected to occur beyond the foreseeable future. In the recent discussions on the three-bucket impairment model, the Board considered a model that would permit an entity only to recognize lifetime credit losses for loss events expected to occur within a 12-month horizon. Instead, the proposed amendments would require that at each reporting date an entity recognize an allowance for *all* expected credit losses. Do you believe that recognizing *all* expected credit losses provides more decision-useful information than recognizing only *some* of the expected credit losses? If not, how would you determine which expected credit losses should not be recognized (for example, 12 months or similar foreseeable future horizon, initial recognition threshold, and so forth)?

Response :

Refer response to Question #5.

Question 5

The proposed amendments would require that an estimate of expected credit losses be based on relevant information about past events, including historical loss experience with similar assets, current conditions, and reasonable and supportable forecasts that affect the expected collectability of the financial assets' remaining contractual cash flows. Do you believe that expected credit losses based on this information provide decision-useful information?

Response :

While there is consensus and finality about the primary principle for recognition of credit losses i.e. it should be based on **Expected Loss Model**, there seems to be a confusion about the ways/means of measuring the expected credit losses. It is understandable because identification and measurement of credit risk is not always a simple straight forward process. It can be highly complex and judgmental. This fact is recognized by FASB in the implementation guidance and we quote

" 825-15-55-2 The estimation of expected credit losses is highly judgmental."

As currently drafted the standard is unclear and confusing. Therefore, the fundamental principle and the approach to implement those should be clearly articulated and unambiguously pronounced. To achieve this objective, we recommend the following specific aspects.

A) Expected loss recognition and measurement should be prescribed as a two step approach i.e.

Step 1 : Segregation of financial assets into two categories viz. impaired and good accounts. One may argue that this approach is moving away from expected loss

model and going back to incurred loss approach. However, in our view, this kind of segregated two step approach is more effective and robust in measuring the credit loss, whether incurred or expected and both for impaired accounts and good accounts. Further, Credit risk experts will no doubt be able to demonstrate that even in case of accounts identified as impaired, credit loss to some degree is 'expected loss' only and not necessarily an incurred loss.

Step 2 : Measurement and recognition of credit loss amount

B) **Step 1 : Segregation of financial assets into 'Impaired ' category.**

This segregation should be based on clear and robust principle for defining the term 'Impaired'. For this purpose, we strongly recommend you to consider the following definition.

A financial asset is considered to be impaired when either or both of the following events have taken place.
(i)The obligor is past due more than 90 days on any material obligations to the entity.
(ii)The entity considers that the obligor is unlikely to pay in full its credit obligations to the entity.

Above definition is based on concept of 'Default' enshrined in the regulations prescribed by a global authority on the subject viz. Basel Committee on Banking Supervision (BCBS), which are reproduced below :
(Paragraph 452 of BCBS document titled "Basel II International Convergence of Capital Measurement and Capital Standards' June 2006" .
A default is considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place.
• *The bank considers that the obligor is unlikely to pay its credit obligations to the banking group in full, without recourse by the bank to actions such as realizing security (if held).*
• *The obligor is past due more than 90 days on any material credit obligation to the banking group. Overdrafts will be considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than current*

C) Step 2 : Measurement and recognition of credit loss amount

The pronouncements here can be divided into two areas as follows:

(a) **The fundamental principles**

(i) Expected loss recognition should be for foreseeable period i.e. 12 months. However, the estimation of this 12 month loss probability (Probability of Default (PD)) and the quantification of the loss (Loss given Default (LGD) or historical loss rates) should be based on long run averages. This long run average period should be decided by the entities based on their business model and products/services profile. e.g. banks may consider one economic cycle and non-banking entity may consider one operating cycle.

It is critical to understand and describe clearly the much talked about debate of

recognition of expected credit loss over 12 months or life time credit loss. The time bucket has relevance in two areas viz. (a) when identifying/recognizing occurrence of loss events and (b) whether to recognize/account for estimated credit loss immediately (or during next 12 months) or spread it over full life of the financial asset. Debated time bucket (12 month v/s life time) has no (or lesser) relevance in estimating or measuring the amount of or severity of the loss amount. In our view:

- Credit loss recognition/identification should be based for loss events (actual or expected) expected over next 12 months or similar foreseeable horizon. However, the historical data used for estimating occurrence of loss events (e.g. Probability of Default (PD)) should always be based on 'long run average' of risk factors. Use of long run averages will lend to reliability and robustness to the estimation process. Estimating likelihood of loss event over the entire life of the financial asset is very difficult and judgmental e.g. imagine doing this estimation for mortgage loan of 20 year tenor. Sometime it can be meaningless and will keep varying over time. That is why banking sector regulator do not mandate that criteria but follow a different approach i.e. restrict themselves to 12 months but that is based on data of long run averages.
- The credit loss amount recognized in the financial statement should be the full amount of the estimated credit loss and no spreading or amortization of the estimated loss amount over life time of the financial assets.

All expected loss measurement bases (e.g. PD/LGD or historical loss rates) should reflect long run historical averages. Loss estimates must be grounded on historical and empirical evidence and not purely on subjective and judgmental considerations. Nevertheless, historical data should be adjusted if more recent data or current conditions have persuasive evidence of a better predictor of loss rates. Such circumstances could be change in the product/customer profiles, underwriting/credit granting standards, recovery policies and legal environments and so on. As mentioned earlier, credit loss identification and measurement is inherently subjective, let us NOT add more complexity by imposing impractical/theoretical conditions such as expected credit loss should be for entire life of the financial assets.

(ii) The entities can base their loss measurements on a combination of data sources such as internal loss data, external sources like loss data consortiums, regulatory data bases or credit rating agencies. However, it should be ensured that use of external data sources is appropriate and relevant to the credit risk characteristics of the entities financial assets.

(iii) The data sources used to estimate expected loss should be updated/refreshed on a regular basis and at least annually

(iv) The expected loss measurement should consider time value of money.

(b) Implementation approaches

(i) The approaches here can be broadly two types viz. advanced measurement approaches and simple measurement approaches. The rationale for this

prescription is to ensure that measurement approaches are proportionate to the nature, complexity and size of credit risk exposures of the entity. We believe these factors are relevant to provide decision useful information to the users of the about the cash flows arising from the financial assets.
Accordingly, some of complex and large banking/financial institutions can utilize their sophisticated risk measurement techniques (e.g. Probability of default (PD), Loss given Default (LGD) etc.) of credit risk in measuring expected credit loss while other entities including smaller banks can measure expected credit loss using simple practical expedients such as historical loss rates. *The latter approach can be relevant to non financial institutions as well.* Entities can also use a combination of the two approaches depending upon the characteristics of the financial assets and availability of suitable data bases. We also recommend that standard should mandate measurement of credit loss based on advanced measurement techniques if the entity uses such techniques for its regulatory reporting purposes.

In order to ensure comparability of financial information across entities, the standard should require relevant and adequate disclosures about the measurement approaches used by the entities.

In respect of the advanced risk measurement approaches, we strongly advise you to refer to the prescriptions in paragraph 440 to 505 of *BCBS document titled "Basel II International Convergence of Capital Measurement and Capital Standards' June 2006".*

(vi) Estimation of Expected Credit Losses – Mandatory use of Effective Interest Rate

Paragraph 825-15-25-4 states that if an entity estimates expected credit losses using a discounted cash flow model, the discount rate utilized in that model shall be the financial asset's effective interest rate (EIR). However, this requirement would make the application of entity's sophisticated credit risk measurement tool viz. LGD, almost less practical or will result in significant operational work. The reason being many of the banking entities' while deriving LGD based on discounted cash flow model, do not always use financial asset's effective interest rate (EIR) but other rates such as cost of funds, risk free return rate. Accordingly, entities should be given flexibility to select a suitable basis for discount rate say EIR, Cost of Fund, Risk Free Return etc. and disclose the same. Since the FASB has decided to decouple interest income from credit loss recognition, use of a discount rate different from financial asset's EIR should not be in conflict with conceptual approach.

Question 7

As a practical expedient, the proposed amendments would allow an entity not to recognize expected credit losses for financial assets measured at fair value with qualifying changes in

fair value recognized in other comprehensive income when both (a) the fair value of the individual financial asset is greater than (or equal to) the amortized cost amount of the financial asset and (b) the expected credit losses on the individual financial asset are insignificant. The proposed amendments would require an entity to disclose the amortized cost basis of assets that apply this practical expedient each period. Do you believe that the practical expedient for some financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income is reasonable? Why or why not?

Response :

We do not agree with the measurement approach that credit loss on financial assets measured at fair value through other comprehensive income should be reclassified to the profit and loss account. This approach adds complexity (mixed measurement approach to a single financial instrument) which is against the intended objective of reconsideration of accounting aspects of financial instruments. The side effects are high potential for errors and thereby, less reliable financial information. We have seen examples of errors in application of the accounting standards by two of the biggest financial institutions having sound accounting experts in the recent past. Therefore, we urge FASB to reduce avenues for complexities and excessive use of mathematical and statistical theories in the financial reporting standards.

Question 8

The proposed amendments would require that an entity place a financial asset on nonaccrual status when it is not probable that the entity will receive substantially all of the principal or substantially all of the interest. In such circumstances, the entity would be required to apply either the cost-recovery method or the cash-basis method, as described in paragraph 825-15-25-10. Do you believe that this approach provides decision-useful information?

Response :

We agree with the above proposal and it is in line with the general perception and intuition that accounts should be placed on nonaccrual basis when there is indication of credit loss. In this, we recommend the following:

(a) All impaired accounts should be placed on 'non-accrual' basis. Refer our response to Question #5 for definition of impaired accounts.
(b) Sub paragraphs (a) and (b) of 825-15-25-10 are too prescriptive and mandate how cash receipts and recoveries should be applied towards reduction of principal/debt. These mandates may be contrary to legal norms in some jurisdictions or bilateral contractual agreements between the creditor and borrower. Therefore, actual application of cash receipts/recoveries on impaired accounts towards principal or interest due should be left to the entity's accounting policy which will be based on legal aspects and prudent risk management practices of individual entities.

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Question 9-11

Response :

Please refer to our response to Question # 5.

Question 12

The proposed amendments would require that an estimate of expected credit losses reflect the time value of money either explicitly or implicitly. Methods implicitly reflect the time value of money by developing loss statistics on the basis of the ratio of the amortized cost amount written off because of credit loss and the amortized cost basis of the asset and by applying the loss statistic to the amortized cost balance as of the reporting date to estimate the portion of the recorded amortized cost basis that is not expected to be recovered because of credit loss. Such methods may include loss-rate methods, roll-rate methods, probability-of-default methods, and a provision matrix method using loss factors. Do you foresee any significant operability or auditing concerns or constraints with the proposal that an estimate of expected credit losses reflect the time value of money either explicitly or implicitly? If time value of money should not be contemplated, how would such an approach reconcile with the objective of the amortized cost framework?

Response :

We are not sure whether methods based on historical loss rates (loss-rate methods, roll-rate methods, probability-of-default methods, and a provision matrix method) implicitly reflect time value of money in all situations. If there is time lag between the date of identification of an account as impaired and its actual write off, then time value of money is not reflected unless the loss rate is adjusted upwards for the period between impairment and write off/recovery.
We believe credit loss measurement should reflect time value of money and only option to achieve this principle is that it should be explicitly recognized.

Question 19

Do you believe that the implementation guidance and illustrative examples included in this proposed Update are sufficient? If not, what additional guidance or examples are needed?

Response :

We recommend certain specific aspects highlighted below may be clarified.
Example 1: Estimation of Expected Credit Losses Based on a Loss-Rate Approach
825-15-55-20 : Are the loss rates (0.5% for pass category 2 and 3.0% for pass category 4 etc) based on amounts written off in each year as compared to opening balance of outstanding or cumulative write offs against cumulative loans granted over a certain number of years. This will help in clarifying whether loss estimates are for loss events over next 12 months period or longer period.
825-15-55-23 : It would be useful to illustrate application of this with an example***. I suggest including an example on the lines given in the attachment to this letter.***

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825-15-55-24 : The wording of this paragraph effectively prohibits use of expected loss over next 12 months. Ideally, this estimating the credit loss over 12 month period but based on long run average (i.e. historical data for more than one year) is the most pragmatic and practical approach. This is the approach prescribed by the BCBS, an authority of the subject of credit risk, under advanced credit risk measurement approaches,.

Example 5: Estimation of Expected Credit Losses for Trade Receivables Using a Provision Matrix

825-15-55-37 : The same clarification is required as for paragraph 825-15-55-20

Example 4: Use of a Collective Estimation Method and an Individual Asset Estimation Method

The implementation guidance can be enhanced by including the following additional approaches prevalent in the industry:

1)Accounting policy based on outstanding balance sheet amount or credit limits e.g. credit exposures above CU xxx million are assessed on individual basis and below on collective basis

2)Based on type of borrower's category e.g. corporate and large commercial exposure on Individual basis and retail or consumer credit exposures on collective basis.

3)Use of weighted average effective interest rate of the portfolio (say large number of residential mortgage loans) to assess the discounted cash flows for collective assessment.

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Illustrative Example: Computation of expected credit loss (ECL) by a Bank called 'Dynamic'

a) The bank is an international bank operating in over 75 countries. It has sophisticated credit risk management systems and process and has implemented sophisticated techniques/tools to measure credit risk and credit loss. Its techniques and tools have received necessary regulatory approval under advanced internal rating approach (AIRB) under Basel II Accord.
b) The bank, accordingly, has developed risk models to produce key credit risk parameters viz. Risk Grades, Probability of Default (PD), Loss given Default (LGD), Exposure at Default (EAD).
c) The bank has evaluated accounting standard principles for estimating expected credit losses and considers that its Risk Grades/Credit Scores, PD and LGD models would meet those accounting standard principles and enable estimation of expected credit loss. But, EAD models do not meet accounting principles because those models can produce exposure amounts higher than the amortised cost (current carrying amounts) of the financial asset (s) and may lead to recognition of excess expected credit loss.
d) Illustration does not explain the mechanics of the computing or estimating the risk parameters or controls/process over those models. Also, expected credit loss computation requirements for regulatory capital purposes may be different from the approach shown below.
e) The following table depicts the details of the banks' portfolio of financial assets measured at amortized cost as of reporting date and the computation of the expected and incurred credit loss thereof.

Borrower name	Nature of exposure	O/s exposure (CU)	Risk grade	PD (%)	LGD (%)	Collateral & value (CU)	Net exposure (CU)	Credit loss (CU)
1	*2*	*3*	*4*	*5*	*6*	*7*	*8 = 3-7*	*9 = 5x6x8*
Commercial banking division -On balance sheet exposures								
A	Term loan	1000	AAA	0.02%	60.00%	0	1000	0.12
B	Overdraft	500	AA	0.03%	60.00%	0	500	0.09
C	Import Loan	700	A	0.10%	45.00%	0	700	0.32
D	Export Loan	500	BBB	0.40%	20.00%	Cash – 100	400	0.32
E	Bills discounted	1000	BB	2.25%	40.00%	0	1000	9.00
F	Term loan	1000	B	10.00%	30.00%	Building - 300(2)	1000	30.00
G	Bonds	200	C	30.00%	60.00%	0	200	36.00
H	Term loan	2000	D	100.00%	50.00%	0	2000	1000.00
Total ECL for 'Impaired' or 'Non-Performing' book								1036.00
Total ECL for 'Non-Impaired' and 'Performing' book								39.85
Commercial banking division -Off balance sheet exposures								
B	Loan commitment (3.1)	200	AA	0.03%	60.00%	0	0	0.00
C	Letter of credit issued (3.3 below)	1000	A	0.10%	45.00%	0	200	0.09
G	Financial guarantee	1000	C	30.00%	60.00%	Cash – 200	800	144.00

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							Total ECL for 'Impaired' or 'Non-Performing' book	144.00
							Total ECL for 'Non-Impaired' and 'Performing' book	0.09
							Total ECL for commercial banking division	1219.94
Retail banking division -On balance sheet exposures								
Borrower name	Nature of exposure	O/s exposure (CU)	Credit Score range	PD (%)	LGD (%)	Collateral & value (CU)	Net exposure (CU)	Credit loss (CU)
1	*2*	*3*	*4*	*5*	*6*	*7*	*8 = 3-7*	*9 = 5x6x8*
a	Residential mortgage	500	800-1000	0.10%	25.00%	House-525 (2)	500	0.13
b	Personal loan	100	600-799	1.15%	45.00%	0	100	0.52
c	Car loan	100	500-599	3.00%	40.00%	Car - 100(2)	100	1.20
d	Student loan	50	400-499	5.00%	70.00%	0	50	1.75
e	Residential mortgage	200	300-399	6.00%	25.00%	House-225 (2)	200	3.00
f	Overdraft	100	200-399	20.00%	60.00%	0	100	12.00
g	Sub-prime mortgage	150	100-199	40.00%	50.00%	House-125 (2)	150	30.00
h	Credit card	100	Below 100	100.00%	80.00%	0	100	80.00
							Total ECL for 'Impaired' or 'Non-Performing' book	110.00
							Total ECL for 'Non-Impaired' and 'Performing' book	18.59
							Total ECL for Retail banking division	128.59
							Total ECL for the bank	1,348.53
							Total ECL for 'Impaired' or 'Non-Performing' book	1,290.00
							Total ECL for 'Non-Impaired' and 'Performing' book	58.53
							Total ECL for on balance sheet exposures	1204.44
							Total ECL for off balance sheet exposures	144.09
Notes								
1) Accounts in Risk grades 'AAA to B' of Commercial banking division and credit scores up to 200 of Retail banking division are segregated as 'Non-impaired' or 'Performing' book. Others are treated as 'Impaired' or 'Non performing' book.								
2)Recoveries on account of non-cash collaterals such as building, plant etc are factored in computing 'LGD', therefore, not reduced while computing net exposures to avoid double counting of collateral effect.								
3)Off balance sheet exposures are converted into credit equivalents using percentage called ' credit conversion factor' as follows:								
3.1) Loan commitments cancellable at bank's sole discretion or in the event of deterioration of credit quality of the borrower								0%

3.2)Loan commitments other than those in 3.1 above	100%
3.3) Import letters of credit secured by underlying shipments/goods	20%
3.4) Import letters of credit other than those in 3.3 above	100%
3.5) Financial guarantees and other direct substitutes	100%