



Avanti Microfinance Private Limited

Policy on Compromise Settlement & Technical Write-Off

This Policy was:

Version	Drafted by	Reviewed by	Board approval date
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Document Classification: **Public**

POLICY ON COMPROMISE SETTLEMENT & TECHNICAL WRITE-OFF

1. INTRODUCTION & OBJECTIVE

- 1.1. Avanti Microfinance Private Limited (hereinafter referred to as "**Company**") is a registered non-banking financial company ("**NBFC**") and it is engaged in the business of, *inter alia*, providing credit facilities to eligible Borrowers.
- 1.2. This policy (hereinafter referred to as "**Policy**") lays down the framework for undertaking compromise settlements and technical write-offs, in accordance with Framework for Compromise Settlements and Technical Write-offs, issued by Reserve Bank of India ("**RBI**") vide notification RBI/2023-24/40 DOR.STR.REC.20/21.04.048/2023-24 dated 08 June 2023 ("**RBI Directions**") and Reserve Bank of India (Treatment of Wilful Defaulters and Large Defaulters) Directions, 2024 issued vide notification RBI/DoR/2024-25/122 DoR.FIN.REC.No.31/20.16.003/2024-25 dated 30 July 2024.
- 1.3. The objective of this Policy is to establish a process for Compromise Settlement and Technical Write-off, including guidelines on staff accountability examination, reporting of the compromise/ settlement to the board, higher upfront payment, if any etc.

2. DEFINITIONS

- 2.1. In this Policy, the following expressions shall have the following meanings:

"Board" or **"Board of Director"** shall mean board of directors of Company;

"Compromise settlement" refers to a negotiated arrangement with the borrower to fully settle the claims of the Company (hereinafter referred as the 'Company') against the borrower in cash. It may entail some sacrifice of the amount due from the borrower on the part of Company with corresponding waiver of claims of the Company against the borrower to that extent, however any arrangement involving part settlement with the borrower shall fall under the definition of restructuring, as defined in the Prudential Framework issued by RBI and shall be governed by the provisions applicable thereto; and

"Technical write-off" refers to cases where the non-performing assets remain outstanding at borrowers' loan account level, but are written-off (fully or partially) by the Company only for accounting purposes, without involving any waiver of claims against the borrower, and without prejudice to the recovery of the same.

"Waiver" refers to cases where the Company decides to waive off due claims from a borrower where the cost of recovery is higher than the value recovered.

- 2.2. Unless otherwise defined in this Policy, all the capitalised terms used in this Policy shall have meaning as ascribed to it under RBI Directions, the Reserve Bank of India Act, 1934, or other applicable regulations.

3. ELIGIBILITY CRITERIA

3.1. Any Compromise settlement and/or Technical write-off and/or Waiver to be considered by the Company in the event following necessary conditions precedent are met:

- (i) Compromise settlement –
 - (a) Any loan classified as a stressed loan under the Prudential Framework for Resolution of Stressed Assets or
 - (b) Minimum ageing will be determined based on point b above or
 - (c) accounts where suits have been filed but chances of recovery are remote
- (ii) Technical write-off –
 - (a) accounts where deterioration in collateral value warrant a Technical write-off or
 - (b) there is adequate loss guarantee available to be invoked against the loans which are between 90 and 180 DPD or
 - (c) Minimum ageing will be the date on which the account turns NPA or
 - (d) accounts where suits have been filed but chances of recovery are remote
- (iii) Waiver - Any outstanding loan amount upto INR 50.

4. PROCEDURE FOR COMPROMISE SETTLEMENT, TECHNICAL WRITE-OFF AND WAIVER

4.1. Any Compromise settlement and/or Technical write-off shall be a negotiated settlement under which Company shall endeavour to recover its dues to the maximum extent possible, with minimum sacrifice.

4.2. The permissible sacrifice for various categories of exposures while arriving at the settlement amount will be as follows:

Loan Type / Status of Loan	Permissible sacrifice
Retail Loans	
SMA 1	Interest Outstanding + Upto 20% of the Principal Outstanding
SMA 2	Interest Outstanding + Upto 30% of the Principal Outstanding
NPA	Interest Outstanding + Upto 50% of the Principal Outstanding
Writeoff	Interest Outstanding + Upto 70% of the Principal Outstanding

Restructured	Interest Outstanding + Upto 50% of the Principal Outstanding
Institutional Loans	On a case by case basis with approval from the Credit Committee

Credit Committee of Executives (“CCE/Credit Committee”), administered and complied at the consolidated group level by Avanti Finance Private Limited, the holding company.

The permissible sacrifice limit mentioned above have been derived considering the expected credit loss and the potential cost of collections/recovery that would have occurred, in case the Company did not provide for compromise settlement or technical write off.

- 4.3. Compromise settlement and Technical write-offs shall be without prejudice to any mutually agreed contractual provisions between Company and the borrower relating to future contingent realizations or recovery by Company, subject to such claims not being recognized in any manner on the balance sheet of Company at the time of the settlement or subsequently till actual realization of such receivables.
- 4.4. 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.
- 4.5. Company may undertake Compromise settlement and/or Technical write-offs in respect of accounts categorized as wilful defaulters or fraud without prejudice to the criminal proceeding underway against such customers.
- 4.6. In the case of Waiver, the outstanding amount will be written off at the end of every month and the said loan will be marked as closed.

5. FRAMEWORK FOR EXAMINATION OF STAFF ACCOUNTABILITY

For all cases of Compromise settlement of institutional loans, the internal audit 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 by any of the employees. If any lapses or ethical violations are found, the case report will be submitted to the Credit Committee of Executives for taking relevant action within 60 days of report submission.

The check/investigation will not be conducted for retail loans on account of the underwriting and disbursement process being completely automated and managed through the technology platform of the Company.

6. METHODOLOGY OF ARRIVING AT REALIZABLE VALUE

6.1. For all secured institutional loans undergoing Technical write-off or Compromise settlement, a valuation of the available security will be undertaken by the Company to arrive at a realizable value of the security. The valuation will be carried out through an valuer, one who is different from the valuer who did the valuation, if any, at the time of sanction.

7. DELEGATION OF POWER FOR APPROVAL OF COMPROMISE SETTLEMENTS AND TECHNICAL WRITE-OFF

Loan Type / Status of Loan	Sanctioning Authority	Compromise settlement/ Technical write-off authority
Retail Loans		
SMA 1	CRO	Credit Committee of Executives
SMA 2	CRO	Credit Committee of Executives
NPA	CRO	Credit Committee of Executives
Writeoff	CRO	Credit Committee of Executives
Restructured	CRO + COO	CEO
Institutional Loans	CRO + COO	CEO
Fraud/wilful defaulters	-	Board of Directors

8. REPORTING MECHANISM AND OVERSIGHT BY THE BOARD

8.1. There shall be a reporting mechanism to the Board, at least on a quarterly basis, with respect to Compromise settlements and Technical write offs. The report will ensure adequate coverage of the following aspects of this Policy:

- (i) trend in number of accounts and amounts subjected to Compromise settlement and/or Technical write-off (q-o-q and y-o-y);
- (ii) out of (i) above, separate breakup of accounts classified as fraud, red-Flagged, willful default and quick mortality accounts;
- (iii) amount-wise, sanctioning authority wise, and business segment / asset-class wise grouping of

such accounts;
(iv) extent of recovery in Technically written-off accounts.

9. COOLING PERIOD

9.1. In respect of borrowers subject to Compromise settlements, there shall be a cooling period of 12 months before the Company can assume fresh exposures to such borrowers.

10. PRUDENTIAL TREATMENT

10.1. Compromise settlement where the time for payment of the agreed settlement amount exceeds three months shall be treated as restructuring as defined in terms of the Prudential framework on Resolution of Stressed Assets dated June 7, 2019.

11. POLICY REVIEW AND UPDATES

11.1. The implementation of this Policy shall be monitored and reviewed periodically by the Board of the Company.

This Policy comes into effect from date of Board approval.