

Annex 2

Simplified Approach for ECL calculation

A bank having a portfolio of trade/Lease receivables, categorised by common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms, may use simplified approach for ECL calculation. The loss allowance for such trade/Lease receivables shall always be measured at an amount equal to lifetime time ECL.

To determine the ECL for the portfolio, a bank may use a provision matrix. The provision matrix is based on its historical observed loss rates over the expected life of the trade receivables and is adjusted for forward-looking estimates. At every reporting date the historical observed loss rates are updated and changes in the forward-looking estimates are analysed.

A bank may estimate a provision matrix based on historical data: (An example is provided below)

	Current	1-30 days past due	31-60 days past due	61-90 days past due	More than 90 days past due
Loss Rate	0.3%	1.6%	3.6%	6.6%	10.6%

The ECL, prior to adjustment for forward-looking estimates, for trade receivables from the large number of small customers of a particular bank with total exposure of ₹3 crores is illustrated below:

	Gross carrying amount	Lifetime expected credit loss allowance (Gross carrying amount x lifetime expected credit loss rate)
Current	₹15,000,000	₹45,000
1-30 days past due	₹7,500,000	₹120,000
31-60 days past due	₹4,000,000	₹144,000
61-90 days past due	₹2,500,000	₹165,000
More than 90 days past due	₹1,000,000	₹106,000
	₹30,000,000	₹580,000