Edel Finance Company Limited

Risk Management Policy

Preamble

The objective of this Risk Management Policy is to put in place a Risk Management framework for **Edel Finance Company Limited (the Company)**. The risks can broadly be classified into following broad categories:

1. Credit Risk
2. Operational Risk
3. Market Risk.

This document provides the basic framework on how each of the above mentioned risks will be managed and monitored.

The Group Risk Management Committee (GRMC) to meet on quarterly basis to review and monitor the risks. The position of all perceived risks is periodically put up to the GRMC which critically evaluates the same and provides operational and policy guidance which paves the way for an effective risk management so as to safe guard the interest of the Company.

Terms of Reference

The terms of reference of the Committee shall be as may be provided by the Board from time to time.

Roles and responsibilities of GRMC

GRMC is responsible to ensure that all the risks associated with the functioning of the Company are identified, controlled and mitigated and shall also be responsible for laying down procedures regarding managing and mitigating the risk through Integrated Risk Management Systems, Strategies and Mechanisms.

The GRMC will deal with issues relating to credit policies and procedures and manage the credit risk, operational risk, management of policies and process. The GRMC will also be responsible for identifying, measuring and monitoring various risks faced by the Company, assist in developing the Policies and verifying the Models that are used for risk measurement from time to time.

Credit Risk

Credit Risk is the potential that borrower/counterparty within Group fails to meet the obligations on agreed terms. Credit risk involves inability or unwillingness of a customer to meet their commitments. Credit risk is managed using set of credit norms and policies. There are defined roles and responsibilities for originators and approvers. All credit exposure limits are approved within a defined credit approval authority. Credit risk is inherent to the business of lending funds the objective of credit risk management is to minimize the risk and maximize organization's risk adjusted rate of return by assuming and maintaining credit exposure within the acceptable parameters.

Credit risk consists of primarily two components, viz individual transaction risk which is the Probability of Default of a particular Obligor and Portfolio Risk which is the risk to due portfolio due to concentration and external factors like real estate prices etc.

The credit policies would be comprehensive in nature and should detail the underwriting criterion based on various Group customers keeping in mind the organisational risk appetite as well as the prevailing regulatory framework. The portfolio performance and revision of policies shall be periodically reviewed.

Any deviation to the credit risk policy will be reviewed and monitored from time to time as part of the portfolio review.

The Credit Risk Policy also lay down the guidelines for managing the Collateral Risk.

Operational Risk

Operational Risk is defined as the risk of loss arising from inadequacy or omission of laid down internal processes and procedures.

Managing operational risk is given highest importance and at the core of all its process and operations. All processes, systems and policies are integrated with risk management procedures.

With a strong positive bias towards having strong risk management, the risks are carefully evaluated and divided as below with mitigating control aspects. These risks are managed by allocating to various functional units supported by workflow model and robust self- assessment and review mechanism.

Risk Type	Risk Control Framework
Financial Risk - Account reconciliations - Errors and omissions	• Daily proofing of accounts • Bank Reconciliation • Oversight by Group Financial control • Internal and statutory audits • Frequent financial reviews by Seniors
System failures	• Regular data back ups • Strong and robust IT infrastructure
Fraud Risk	• Strong MIS and review mechanism • Maker checker based banking transactions • Dual signatory based cheque issuance • Signing limits on cheques
Vendor Risk	• Legally vetted individual contracts with each vendor • Multiple vendors for mitigating dependency risk • Independent and in-house payment computation with approvals • Regular performance monitoring and vendor evaluation • Yearly renewal based on performance

CFO/CRO would be actively involved and participate in the risk evaluation and understanding of root cause analysis to mitigate risk and prevent errors.

Market Risk

The risk of decrease value of portfolio (stock prices/interest rates/foreign exchange rate/real estate etc.) due to change in the value of market risk factors. The Company faces the usual market risks on the liabilities as well as assets side. The risk framework ensures that the risks are monitored and necessary timely action is taken.

Additionally, the asset liability mismatch and collateral margins are regularly assessed, where required. Liquidity requirements are closely monitored and necessary care is taken to maintain sufficient liquidity cushion for maturing liabilities and for any unforeseen requirements. The Company to ensure diversification in source of borrowing to reduce dependence on a single source; also to pro-actively modify its liabilities profile in sync with the changing assets profile to ensure that it does not carry any material asset liability mismatch.

The Asset Liability Management Policy encompasses the strategic management of the balance sheet aimed at achieving sustained growth, profitability and solvency. It involves a multiplicity of management activities and responsibilities, including the formulation of long- term strategic goals and objectives and the management of various risks including liquidity risk, interest rate risk and market risk.

The assets and liabilities shall be managed in a way to reduce the mismatch between the two arising as a result of the differences in the borrowing & lending tenors. The purpose also would be to protect the institution from any negative financial consequences arising from changes in interest rates. These objectives shall be pursued within the framework of written credit, capital, and investment policies.

Review by Board of Directors

The Policy shall be reviewed by the Board as and when necessary or at least once in two years.
