



## **Edel Finance Company Limited**

### **Credit Risk Policy**

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## 1. INTRODUCTION

### 1.1 BACKGROUND

This Policy outlines a set of procedures governing credit risk for Edel Finance Company Limited (“EFCL/the Company”). It also formalizes the Company’s credit risk management process, the goal of which is to protect against any unwarranted customer or counterparty credit exposures; maintain credit risk at a manageable level; and identify and avoid a material credit failure (of a significant value).

### 1.2 PURPOSE

The purpose of this Policy is to communicate the tolerance of the Company for credit exposure and sets forth the acceptable techniques for avoiding, mitigating, or effectively managing credit exposure. It also contains guiding principles to provide a framework for decision making consistent with the Company’s overall risk management objectives.

- Ensuring that there is clear accountability and responsibility for credit risk management.
- Developing a common understanding of Credit risk within the Company and take appropriate actions to mitigate the same.
- Minimizing financial losses.

### 1.3 OBJECTIVE

The Credit Risk Policy is the governing document. for credit risk monitoring and enforcement.

The purpose of the Policy is to ensure that EFCL’s portfolio remains of sound quality and that credit risk is managed in a manner that minimizes creation of Non- Performing Assets (NPAs).

### 1.4 SCOPE

The Policy defines Credit risk, outlines the framework and pillars of credit risk, establishes the structure, responsibilities, and governance of credit risk in the Company and is aligned with the objectives of the management and business aspirations.

## 2. DEFINING CREDIT RISK

### 2.1 DEFINITION

The Credit risk is defined as the risk of possibility of a loss resulting from a borrower's failure to repay a loan or meet contractual obligations and arises principally from loans disbursed by the Company and investments in debt securities. The Company is involved in corporate credit lending to its group companies.

## 2.2 ATTRIBUTES OF CREDIT RISK

Credit risk management aims at preserving the high credit quality of the Company's portfolio and thereby protecting the short term and long term viability.

The Company's credit risk management builds on the principles of:

- (1) thorough risk assessment at the credit appraisal stage.
- (2) avoidance of undesirable risks to the extent possible.

## 3 RISK MANAGEMENT

### 3.1 RISK EVALUATION

Credit Risk is so inherent in lending business that it cannot be avoided completely. However, credit Risk Evaluation becomes the foundation of the portfolio quality and profitability of any Credit business; it is imperative that risk needs to be identified, evaluated, acknowledged, and mitigated to have minimal impact.

The Company adopts an in-depth Credit Appraisal Process to verify the credit worthiness of the borrowers.

The Company being a CIC, provides loan(s) to its subsidiary and group companies. The sanctioning authority determines the rate of interest chargeable on the loans and the periodicity of payment of interest i.e. at monthly, quarterly or yearly rests. Prior to approving the loans to group companies, sanctioning authority shall undertake credit appraisal of subsidiary to whom loan is provided. Any deviation to the above granting process will be placed before the Board with sufficient justifications for approval by the Board.

### 3.2 RISK CONTROL & MITIGATION

The Company aims to control and mitigate credit risk at the point of origination itself. Credit quality of Group Companies is assessed based on its credit worthiness and historical dealings with the Company and market intelligence. Outstanding loan receivables are regularly monitored. The credit quality review process aims to allow the Company to assess the potential loss as a result of the risks to which it is exposed and take corrective actions.

Each loan granted will be supported by a request letter from the borrower and

agreement/Memorandum of Understanding (MoU) which should *inter alia* contain the repayment schedule (Interest and principal), purpose of the loan, interest rate. The agreement/MoU shall be duly signed by the borrowing entity.

Staging of the loan will be as follows:

Upto Days Past Due (DPD) - 30 – Stage 1

From DPD 31 to 90 – Stage 2

Above 90 DPD – Stage 3

All the transactions will be monitored on an ongoing basis and presented to the Audit committee periodically. The Expected Credit Loss (ECL) provision on the loans shall be governed as per the ECL policy of the Company.

### 3.3 RISK MONITORING & REPORTING

Credit Risk monitoring is the critical aspect of Risk Management. Continuous risk monitoring at account level is done to ensure asset quality, delinquencies, and defaults.

Periodic reporting and review ensure timely identification and resolution of any Risk if materializes.

Stressed accounts shall be monitored very closely and periodic reviews shall be done with business risk for updates / resolutions.

### 4. ROLES & RESPONSIBILITIES

Finance Team is key in managing risks. They own and manage the credit risk and are responsible for day-to-day implementation of credit risk management framework.

With respect to Credit risk, the Finance Team has the responsibility of:

- Account / Client level Risk Monitoring
- Collateral Monitoring
- DPD Monitoring
- Asset / Project Monitoring
- Covenant Monitoring (Financial / Operational/ Security Related etc.)
- Quarterly / Annual financial Analysis of borrower and security company (if any)
- Highlight any Credit risk matter to Chief Financial Officer (CFO)/Finance Head for consultation / escalation

The Finance Team has following roles and responsibilities:

- Approve each loan underwritten by Finance Team before issuance of sanction letter
- Review and resolve any escalations or consultations sought by CFO/Finance Head with respect to credit risk
- Provide assistance, guidance, review, challenge and suggest credit risk mitigants in the Group Risk Management Committee (GRMC) to ensure Credit risk is effectively managed.

GRMC is responsible for defining the risk framework to ensure effective risk aggregation, monitoring, oversight, and governance. The roles and responsibilities of GRMC shall be specified by the Board of Directors of the Company from time to time.

## 5. CREDIT RISK GOVERNANCE

### 5.1 APPROVAL REVIEW AND MONITORING

- This Policy is approved by the Board.
  - The Policy shall be reviewed by the Board as and when necessary or at least once in two years.
  - In case of new business/ product development, the Policy should be amended as per the new requirements.
  - GRMC shall periodically monitor adherence to the laid down risk policies and processes.
  - Any exceptions to this Policy will require approval and sign-off from CFO/Finance Head.
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