



# **EDC LIMITED**

**A Government of Goa Undertaking**

## **OTHER POLICIES**

**(Approved in 400th Board Meeting dt.10.07.24)**

**A.Liquidity Risk Management Policy**

**B.Expected Credit Loss Policy**

**C.Policy for Sales Out of Amortised  
Cost Business Model Portfolios**

## **A. Liquidity Risk Management Policy**

### **1. Introduction**

This policy outlines the framework for managing liquidity risk. The objective is to ensure that the company can meet its financial obligations as they become due without incurring unacceptable losses.

### **2. Scope**

This policy applies to all departments and units within the company and covers all aspects of liquidity risk management, including identification, measurement, monitoring, and control of liquidity risks.

### **3. Governance and Oversight**

- **Board of Directors:** Responsible for overseeing the liquidity risk management framework and ensuring its effectiveness.
- **Asset-Liability Committee (ALCO):** Charged with implementing the liquidity risk management strategy and policies approved by the Board. The ALCO reviews liquidity risk exposure regularly and reports to the Board.

### **4. Liquidity Risk Management Framework**

- **Identification of Liquidity Risks:** Regular identification and assessment of liquidity risks arising from the company's business activities, including funding and market risks.
- **Cummulative negative mismatch limit shall be NIL for all time buckets.**
- **Measurement and Monitoring:** Use of liquidity ratios, cash flow analysis and other quantitative tools to measure and monitor liquidity risk.
  - **Liquidity Coverage Ratio (LCR):** Ensure sufficient high-quality liquid assets to meet short-term obligations.
  - **Cash Flow Analysis using time brackets**

### **5. Funding Strategy**

- **Diverse Funding Sources:** Ensure access to a diversified mix of funding sources to reduce reliance on any single source.

- **Liquidity Buffer:** Maintain an adequate liquidity buffer of unencumbered, high-quality liquid assets including unutilized Cash Credit limits.

## 6. Reporting and Disclosure

- **Internal Reporting:** Regular internal reports to ALCO and the Board on the liquidity position, risk exposures, and compliance with risk limits.
- **Regulatory Reporting:** Timely and accurate reporting to regulators as per applicable guidelines.
- **Public Disclosure:** Disclose information on liquidity risk management practices and liquidity position in the company's financial statements and other public disclosures as required by regulations.

## 7. Review and Audit

- **Regular Reviews:** Periodically review the liquidity risk management policy to ensure its continued relevance and effectiveness.
- **Internal Audit:** The internal audit function will review the implementation and effectiveness of the liquidity risk management framework and report findings to the Board.

## 8. Training and Awareness

- Provide ongoing training to relevant staff to ensure they understand the importance of liquidity risk management and are equipped to implement the policy effectively.

## 9. Changes

Any changes in this policy to be done after obtaining due approval of Audit Committee as well as the Board, documenting the reasons for such change.

## **B.Expected Credit Loss Policy**

### **Preface**

#### **Expected Credit Loss (ECL) Policy**

The Expected Credit Loss (ECL) Policy is intended to provide a framework for managing and mitigating credit risk. This policy ensures our financial reporting accurately reflects credit risks by recognizing potential losses early, thereby protecting our financial health and stakeholder interests.

#### **Purpose and Scope:**

- **Compliance:** Align with Ind AS and regulatory standards.
- **Risk Management:** Enhance credit risk management practices.
- **Transparency:** Ensure clear and consistent ECL estimation.
- **Stakeholder Confidence:** Maintain trust through proactive risk assessment.

#### **Guiding Principles:**

1. **Prudence:** Recognize potential losses promptly.
2. **Consistency:** Apply uniform methodologies.
3. **Proactivity:** Continuously update risk assessments.
4. **Collaboration:** Foster inter-departmental cooperation.

#### **Applicability:**

This policy shall be applicable to:

**A. All loans disbursed by EDC Limited using own funds**

**B. Investments made by EDC Limited.**

#### **A. All loans where credit risk is borne by EDC Ltd**

EDC Limited also advances loans to its borrowers using the funds provided by Government of Goa [for eg. GTEGP (Goa Tribal Employment Generation Programme), DITC (Department of Industries, Trade and Commerce) component of Loans]. No credit risk is borne by EDC Limited in such loans. As such, no provisioning under ECL shall be made on such loans.

The Expected Credit Loss on Loans disbursed by EDC Limited shall be calculated using the following Methodology. This Methodology is based on the CRISIL Ratings default and rating transition study FY-2021. The same has been consistently followed since the past few years and has resulted in fair provision for Expected Credit Loss.

### **Step 1: Ascertaining Probability of Default (PD)**

#### **A: For Stage 1 Assets**

PD shall be 2.14%. (simple average of 1 year loans from AAA to B Category) based on CRISIL-Ratings-default-and-rating-transition-study-FY-2021)

However, for Loans to Government Companies / Government Departments/ Government, the PD shall be 0.06% (simple average of 1 year loans from AAA to A category) as the likelihood of default is practically NIL.

#### **B: For Stage 2 Assets**

PD shall be 33.65% (simple average of 1. 2 and 3 year loans of C rated Category)

#### **C: For Stage 3 Assets**

Most possible conservative approach to be adopted for Stage 3 assets, and therefore PD to be considered as 100%.

### **Step 2: Ascertaining Loss Given Default (LGD)**

LGD for unsecured portion of all Loans shall be considered as 65% and for secured portion the same shall be 60%. For loans under Chief Minister's Rojgar Yojana wherein it is difficult to ascertain the security value due to large number of cases with small individual values, secured portion shall be considered at 70% of the loan outstanding amount. However, for all loans to Government Companies / Government Departments/ Government, LGD shall be 60% irrespective of security value.

### **Step 3: Calculation**

ECL provision shall be calculated for each loan account as follows:

Loan outstanding x PD x LGD

This methodology shall be reviewed by the Audit Committee as well as the Board during approval of Annual Accounts for the respective year. In case of a change in the ECL policy or the calculation, the rationale and justification should be documented and approval of the Audit Committee as well as the Board to be obtained.

## **B. Investments made by EDC Limited**

EDC Limited has invested in several shares of various Companies. As per the extant accounting norms (Ind AS), marking to market of shares is required to be done in the books of accounts. Such marking of market has resulted in high amount of notional revaluation gains/losses being booked.

In case the market price of any share appreciates above the cost resulting in revaluation gains, due consideration should be given to the volume traded of the stock and other factors to assess whether such price increase is sustainable or not. If the average monthly volume does not substantially exceed our shareholding, then on a conservative basis, a provision commensurate to the notional appreciation in the share value be made.

## **C.Policy for Sales Out of Amortised Cost Business Model Portfolios**

Sales out of amortised cost business model portfolios refer to the process of disposing of financial assets that were initially classified and managed under a business model, whose objective is to hold these assets to collect contractual cash flows.

### **1. Objective**

To establish guidelines for the sale of financial assets held within amortised cost business model portfolios, ensuring compliance with Ind AS 109 and regulatory requirements.

### **2. Scope**

This policy applies to all financial assets classified under the amortised cost business model as per Ind AS 109.

### **3. Definitions**

- **Amortised Cost Business Model:** A business model in which financial assets are managed with the objective of collecting contractual cash flows consisting solely of payments of principal and interest.
- **Sales Out of Portfolio:** The process of disposing of financial assets before their contractual maturity.

### **4. Regulatory Framework**

- **Ind AS 109:** Financial Instruments.
- **Local Regulatory Requirements:** Compliance with regulations issued by bodies such as the Reserve Bank of India (RBI).

### **5. Criteria for Sales**

Sales out of the amortised cost portfolio are not permitted without the specific approval of the Board.

### **6. Review of Policy**

**Periodic Review:** Conduct a periodic review of this policy to ensure its continued relevance and effectiveness.