CREDIT RISK MANAGEMENT POLICY

(For Base Layer NBFC – Investment and Credit Company)

1. Preamble

This Credit Risk Management Policy ("Policy") is framed in accordance with the Master Direction – *Reserve Bank of India (Non-Banking Financial Company - Scale Based Regulation) Directions, 2023*, the provisions of the RBI Act, 1934, *Section 134(3)(n) of the Companies Act, 2013 (pertaining to the development and implementation of a risk management policy)*, and other applicable circulars and guidelines issued from time to time.
This Policy applies to the Company as a Non-Banking Financial Company – Investment and Credit Company (NBFC-ICC) categorized under the Base Layer (NBFC-BL) under the SBR framework.

2. Objectives

The objectives of this Policy are to:
1. Establish a structured framework for *the* identification, measurement, monitoring, and control of credit risk.
2. Ensure independent and objective credit appraisal *to optimize the risk-return trade off*.
3. Prevent excessive risk concentration *across sectors, geographies, and borrower groups*.
4. Safeguard asset quality and *maintain robust* capital adequacy.
5. Ensure *strict* regulatory compliance *with RBI and statutory mandates*.
6. Protect stakeholder interests *by minimizing the probability of default and loss given default*.

3. Scope

This Policy covers:
- All lending activities (secured and unsecured).
- Investments in debt instruments *(e.g., bonds, debentures, commercial papers)*.
- Inter-corporate loans *(subject to Section 186 of the Companies Act, 2013)*.
- Project finance (if undertaken).
- Credit exposures including guarantees and other contingent liabilities.

4. Credit risk governance framework

4.1 Role of the Board of Directors

In alignment with corporate governance standards under the Companies Act, 2013, the Board shall:
- Approve this Policy and any amendments thereto.
- Define *the* overall risk appetite *and risk tolerance limits of the Company*.
- Approve *sectoral and borrower-level* exposure limits.
- Review asset quality, NPAs, provisioning, and concentration risks *on a quarterly basis*.
- Ensure capital adequacy is maintained *above the regulatory minimum*.
- Oversee compliance with RBI norms.

4.2 Role of Senior Management

Senior Management *(and the Risk Management Committee, if constituted)* shall:
- Implement Board-approved policies *and strategies*.
- Establish *Standard Operating Procedures (SOPs) for* credit processes and internal controls.
- Monitor portfolio quality *and track Early Warning Signals (EWS)*.
- Escalate material risks *and breaches* to the Board.
- Ensure regulatory reporting accuracy *and timeliness*.

4.3 Credit Approval Authority

- Credit approval powers shall be defined through *a Board-approved* Delegation of Authority (DoA) *matrix*.
- Larger exposures shall require *Credit* Committee or Board approval.
- Loans to directors and related parties shall be governed by *a* separate Board-approved policy *(in strict compliance with Section 185 of the Companies Act, 2013 and RBI SBR guidelines)*.

5. Credit risk appraisal framework

5.1 Independent Credit Evaluation

The Company shall:

- Conduct independent and objective credit appraisal.
- Not rely solely on credit reports prepared by borrower-appointed consultants.
- Perform its own financial, technical, and legal evaluation *to assess the true creditworthiness of the borrower*.

5.2 Credit Appraisal Components

Each credit proposal shall include:

1. Borrower profile and *management* background.
2. Industry and sector analysis *(macroeconomic factors)*.
3. Financial analysis (past 3 years audited statements where applicable, *compliant with Section 137 of the Companies Act, 2013*).
4. Cash flow projections *and viability assessment*.
5. Debt servicing capacity (DSCR *and Interest Coverage Ratios*).
6. Sensitivity and scenario analysis (especially for project loans).
7. Credit bureau reports *(from RBI-authorized Credit Information Companies)*.
8. Regulatory and statutory compliance verification *(e.g., GST, EPFO)*.
9. KYC/AML compliance *(in strict adherence to the Prevention of Money Laundering Act, 2002, and RBI Master Direction on KYC)*.

5.3 Infrastructure / Project Lending (If Undertaken)

For project finance exposures, the Company shall conduct:

- Sensitivity tests for project delays.
- Cost overrun analysis.
- Revenue volatility scenarios.
- Break-even analysis.

  This assists in assessing project viability and *formulating preemptive* corrective action planning.

6. Promoter equity & leveraging check

The Company shall:

- Ascertain *the* source and quality of promoter contribution.
- Ensure equity is not funded through debt of parent/group entities *(preventing double leveraging)*.
- Examine layered leverage structures *across group companies*.
- Validate *the* true Debt-Equity ratio post-adjustments.

Multiple leveraging and *the* infusion of borrowed funds as equity shall be treated as high risk and subject to enhanced scrutiny *and Board-level approval*.

7. Director & management due diligence

Prior to sanctioning any credit:

- Verify directors' identification via DIN, PAN, or equivalent *(cross-referencing the MCA portal)*.
- Check defaulter lists *(RBI caution lists, CEIB, ECGC)* and credit bureau records.
- Use independent sources for identity confirmation in case of doubt.
- Obtain *a formal* declaration regarding related party connections *pursuant to Section 184 of the Companies Act, 2013*.

8. End-Use Monitoring

To prevent diversion or siphoning of funds:

- End-use verification mechanisms shall be implemented *post-disbursement*.
- Periodic monitoring statements shall be obtained.
- Independent audit certification may be required *for* large exposures.

- Monitoring shall not substitute internal due diligence *at the time of sanction*.

9. Exposure limits & concentration risk

The Company shall define *internal limits to mitigate concentration risk*:

- Single borrower exposure limits.
- Group exposure limits.
- Sectoral exposure limits.
- Geographic exposure limits.
- Product-wise exposure limits.

Even though Base Layer NBFCs enjoy operational flexibility, internal limits shall remain within *the maximum* regulatory ceilings prescribed by RBI *to ensure systemic stability*.

10. Loans to directors & related parties

In compliance with RBI SBR directions *and the Companies Act, 2013*:

- The Company shall have a Board-approved policy governing such loans.
- Thresholds for reporting to the Board shall be defined.
- Conflict of interest disclosures shall be mandatory.
- Interested directors shall recuse themselves *from the credit sanctioning process*.
- Aggregate exposure shall be disclosed in *the Notes to Accounts within the* Annual Financial Statements.

The Company shall **not**:

- Lend against its own shares *(as per Section 67 of the Companies Act, 2013)*.
- Lend against its own debentures (except where specifically permitted).

11. Legal Entity Identifier (Lei) Compliance

The Company shall ensure that non-individual borrowers with *an* aggregate exposure of ₹5 crore and above obtain *a* Legal Entity Identifier (LEI) as required under RBI directions.
In India, LEI is issued by Legal Entity Identifier India Limited, a subsidiary of *the* Clearing Corporation of India Limited. Borrowers failing to obtain LEI shall not be granted new exposure or renewal *of existing facilities*.

12. Collateral management

The Company shall:

- Ensure proper valuation of collateral *(utilizing Registered Valuers under Section 247 of the Companies Act, 2013, for specified asset classes)*.
- Periodically review collateral coverage *and mark-to-market margins*.
- Maintain legally enforceable security documentation.
- Register security interest with *the* Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI), where applicable.

All creation, modification, and satisfaction of charge shall be filed in compliance with *the* SARFAESI Act provisions *and Chapter VI of the Companies Act, 2013 (Filing of CHG-1/CHG-4 forms with the ROC)*.

13. Credit risk mitigation – CDS (If Applicable)

The Company may participate in *the* Credit Default Swap (CDS) market only as a user to hedge corporate bond exposures, *strictly in accordance with the RBI (Credit Derivatives) Directions, 2022*.
It shall:

- Not sell protection.
- Recognize protection only if operational conditions prescribed by RBI are met.
- Adjust capital for maturity mismatch.
- Compute counterparty exposure appropriately.

- Maintain general provisions for positive MTM exposures.

14. Asset classification & provisioning

The Company shall:

- Classify assets as Standard, Sub-standard, Doubtful, and Loss as per RBI *Income Recognition and Asset Classification (IRAC) norms (specifically adhering to the 90-day NPA classification norm applicable to NBFC-BL under the SBR framework).*
- Make provisions as prescribed *(including standard asset provisioning).*
- Monitor Special Mention Accounts (SMA-0, SMA-1, SMA-2).
- Initiate early warning mechanisms *to prevent slippages*.

15. Stress testing & portfolio review

Periodic stress testing shall be undertaken to assess *vulnerabilities related to*:

- Interest rate risk impact.
- Sector downturn impact.
- Default rate scenarios.
- Liquidity shocks.

Portfolio review shall be conducted at least quarterly *and findings presented to the Board*.

16. Internal controls & audit

The Company shall ensure:

- Pre-sanction audit (where required *by DoA*).
- Post-disbursement monitoring.
- Periodic credit audit.
- Concurrent audit for large exposures.
- Independent internal audit review *(mandated under Section 138 of the Companies Act, 2013).*

17. reporting

The Company shall:

- Submit *statutory and* regulatory returns to RBI *(via the XBRL portal).*
- Disclose related party exposures *in the statutory audit report.*
- Report breaches of internal limits to the Board.
- Maintain *a comprehensive* documentation trail *for regulatory inspections*.

18. Review of policy

This Policy shall be:

- Reviewed annually, or
- Earlier, if required due to *material business shifts or* regulatory changes.
  Amendments shall require *formal* Board approval.

19. Effective date and approval

This **CREDIT RISK MANAGEMENT POLICY** has been approved by the Board of Directors of **THIRUKOCHI FINCAP LIMITED** at its meeting held on **12/03/2026**.

Effective Date: 12/03/2026.

Version:1