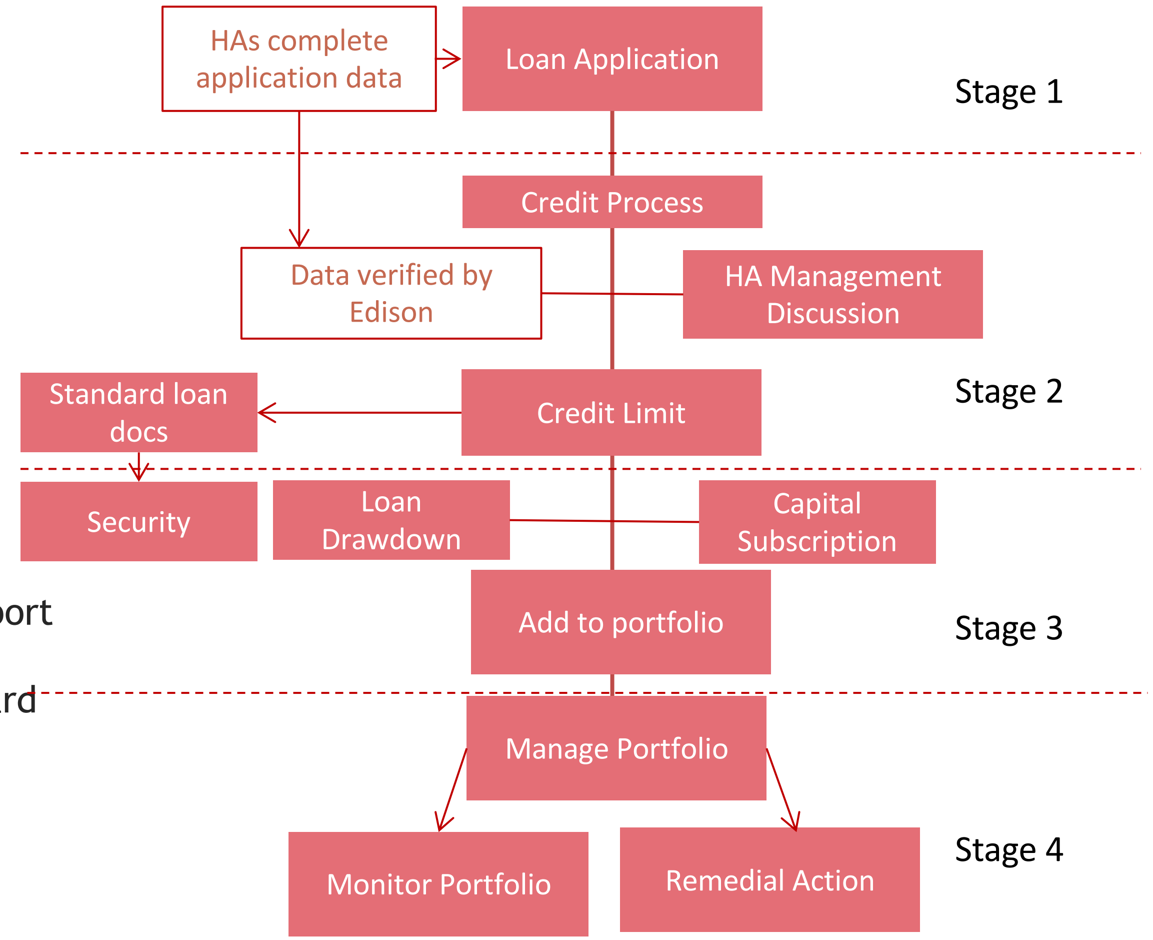
A strong and transparent credit policy

MOR

A credit scoring model supported by a transparent process investigation and oversight - disclosed to investors

A unified process covering credit approval and portfolio management

- **Benefiting from access to both public and non public information**
  - last 5 years of audited accounts
  - next 5 years approved regulatory business plan (FFR)
  - quarterly management accounts with performance matched to budget
  - credit review/downgrade on significant deviation
- **Using Rating Agency metrics**
  - 8 key financial ratios
  - grading borrowers into 5 categories, including "fail"
  - supported by independent verification and a detailed credit report from Edison
  - overseen by a specialist credit committee, approved by the board
- **Holistic portfolio management**
  - feeds into a publically disclosed portfolio management policy
  - borrower diversification, single name exposure limits
  - lending limits on each category/bias to better credits
  - mechanism to adjust for credit deterioration



With dynamic credit management

- Each borrower allocated an initial Lending Level
  - Determines individual loan limits, and
  - Feeds into the portfolio loan limits
- Portfolio loan limits control borrowings at each level
  L1 - unlimited, L2 - 60%, L3 - 30%, L4 - 20%
  (The board has limited discretion to merge Levels)
- Loan Limits are continuously monitored
  - Quarterly against budget
  - Annually (or more often) against the business plan
- Material changes in performance affect the Lending Level
  - Raised/lowered as appropriate
- Changes to the Lending Level
  - Affects the loan portfolio, restricting future borrowing
  - Alters the borrowers individual loan limit
- If the borrower exceeds its new lending limit
  - It must pledge cash against the loan
- Means effective action is taken to protect loan credit quality