TAMILNADU URBAN FINANCE AND INFRASTRUCTURE DEVELOPMENT CORPORATION LIMITED

ASSET LIABILITY MANAGEMENT POLICY

REGISTERED OFFICE: TUFIDCO-POWERFIN TOWER, NO.490/1-2, ANNA SALAI, NANDANAM, CHENNAI 600 035.

1. Preamble

Tamil Nadu Urban Finance and Infrastructure Development Corporation Limited (the “Company”), being a deposit taking non-banking financial company with asset size of 100 crore and above and a Government company as defined under clause (45) of Section 2 of the Companies Act. 2013 (Act 18 of 2013) is accordingly required to put ALM guidelines as a Policy in place.

2. Background

Asset Liability Management (ALM) can be termed as a risk management technique designed to earn an adequate return while maintaining a comfortable surplus of assets over liabilities. It takes into consideration interest rates, earning power and degree of willingness to take on debt and hence is also known as Surplus Management. ALM, among other functions, is also concerned with risk management and provides a comprehensive as well as dynamic framework for measuring, monitoring and managing liquidity and interest rate risks of major operators in the financial system, that need to be closely integrated with business strategy.

3. Scope

ALM is an integral part of the financial management process of TUFIDCO. It is concerned with strategic balance sheet management, involving risks caused by changes in the interest rates, exchange rates and the liquidity position of TUFIDCO. It involves assessment of various types of risks and altering the asset-liability portfolio in a dynamic way in order to manage risks.

The ALM Policy of TUFIDCO has been framed in line with the extant Risk Management and ALM practices prevailing at TUFIDCO and the guidelines issued by RBI, from time to time for NBFC.

All relevant employees must be thoroughly familiar or made familiar with it and make use of the material contained in this Policy.

4. Objective

The Policy is an exposition of the TUFIDCO’s approach to funding, deployment and pricing of various resources and aims to create Systems and procedures to monitor, regulate and manage Liquidity and market risks. The management must necessarily operate within the Framework of the TUFIDCO’s Vision and Mission along with Capital gearing, prudential Controls as per the regulatory compliance laid down from time to time by RBI. The Corporation’s ALM policy will pave the way for balance sheet positioning based on perception of Risk and Returns.

5. Definitions

(a) "Act" means the Companies Act, 2013;

(b) "ALCO" means the Asset Liability Management Committee

(c) ''Bank" means the Reserve Bank of India constituted under section 3 of the Reserve Bank of India Act, 1934

(d) "Board" means Board of Directors of the Company for the time in force;

(e) "Company" or "TUFIDCO" means "Tamil Nadu Urban Finance and Infrastructure Development Corporation Limited";

(f) "Policy" means ALM Policy

6. Asset Liability Management Committee (ALCO)

ALCO is responsible for implementing ALM policies and for managing the liquidity risk as well as interest-rate risks. Committee shall review the cash flows as well as the prevailing interest rate scenario, its likely impact on the profitability and the steps to be initiated for effectively meeting the liabilities on the due dates.

Members of Asset -Liability Management Committee

1. Managing Director,TUFIDCO
2. Finance Director- Finance Department
3. Independent Director ,TUFIDCO

ALCO would also be responsible for ensuring adherence of limits set by the Board as well as deciding business strategies of TUFIDCO in line with the overall budget and risk management policy and shall review/decide the following:

- Review of Liquidity mismatches
- Review of Interest-Rate Sensitivity position
- Stress testing of loan portfolio
- Decision on capital/fund raising and deployment vis-a-vis Cost of borrowings/ Yields on advances
- Review of the product mix and product pricing
- Strategies for deployment of surplus funds
- Liquidity risk management
- Interest risk management
- Capital and funding planning

Responsibility / Role of the Committee:

The ALCO is a decision-making unit responsible for balancing risk-return including the strategic planning of interest rate and liquidity risks.

- Oversee Liquidity through maturity matching.
- To review' balance sheet management issues that arc leading to under-performance and suggest corrective action.
- To oversee various components of assets and liabilities.
- To oversee credit risk, interest rate risk, liquidity risk, market risk and other operational risks.
- Advising to the Board, on Funding and capital.
- Overseeing Profit planning and growth projection.
- Recommendation of contingency plans based on forecasts and analysing
- Satisfy itself that the less fundamental risks are being actively managed, with the appropriate controls in place and working effectively.
- Articulate the current interest rate review and recommend future business strategy on this view and
- Any other issues referred by the Board relating to ALMs, from time to time.

7. Asset Liability Management Framework

It primarily lays down guidelines in respect of interest rate and liquidity risk management system in TUFIDCO.

The ALM process would rest on three pillars:

7.1. ALM Information system:

A sound information system is the key to the ALM process. ALM has to be supported by the management clearly specifying the risk policies and tolerance limit. This framework needs to be built on a sound methodology with necessary information systems as back up. Thus, collecting information/ data in a timely manner is the key to the ALM Process. The status of assets & Liabilities on a given date would continue to be obtained from the accounting software. The other information with regard to future cash outflows including proposed disbursements, proposed recovery from NPAs, repayment schedule of borrowings and other cash flows would be obtained from concerned operational divisions of TUFIDCO which would be analyzed on the basis of residual maturity and re-pricing of various assets and liabilities.

7.2. ALM Organization:

Successful implementation of the risk management process requires strong commitment on the part of the senior management to integrate basic operations and strategic decision making with risk management. The Board of Directors of TUFIDCO will have the overall supervision on management of risk and shall decide the risk management policy of the organization and set limits for capital management, interest rates and liquidity through the ALM Process.

7.3. ALM Process:

The scope of ALM function would include the following:

Out of the above-mentioned functions, the most important functions of ALM are management of liquidity and interest rate risks. Considering the volatility of such risks, certain limit/parameters as per RBI norms are required to be fixed for preparation/submission of ALM statement to RBI.

7. 3. 1. Liquidity Risk Management

Measuring and managing liquidity needs are vital for effective business operation of TUFIDCO. By ensuring TUFIDCOs ability to meet its liabilities as they become due, liquidity management can reduce the probability of developing an adverse situation. Liquidity management involves measuring liquidity position on an ongoing basis. For measuring and managing net funding requirements, the use of a maturity ladder (tool to compare future cash inflows to future cash outflows over a series of specified time periods) and calculation of cumulative surplus or deficit of funds at selected maturity bucket will be adopted as a standard tool, in line with RBI stipulations.

In line with RBI guidelines, the following maturity profile shall be used for measuring the future cash flows of TUFIDCO in different time buckets:

i. 1 to 7 days
ii. 8 to 14 days
iii. 15 to 30/31 days
iv. Over one month and upto 2 months
v. Over 2 months and upto 3 months.
vi. Over 3 months and upto 6 months
vii. Over 6 months and upto 1 year
viii. Over I year and upto 3 years
ix. Over 3 years and upto 5 years
x. Over 5 years

Within each time bucket, there could be mismatches depending on cash inflows and outflows. While the mismatches up to 1 year would be relevant since these provide early warning signals of an impending liquidity problem, the main focus has to be short term mismatches i.c. 1-day to 30/31 days (one month). TUFIDCO shall monitor their cumulative mismatches across all time buckets and establish/ fix internal prudential limits for the time buckets. The mismatches occurring in 1-30/31 days buckets in normal course may not exceed 15% of the cash outflows in each time Bucket & the cumulative gap upto 1 year may not exceed 15% of the outflows.

The Statement of Structural Liquidity (as per the format prescribed by RBI) shall be prepared on quarterly basis by placing all cash inflows and outflows in the maturity ladder according to the expected timing of cash flows. A maturing liability will be treated as a cash outflow while a maturing asset will be a cash inflow. Likely cash inflows *I* outflows would be estimated based on TUFIDCOs asset - liability profile. The quarterly Structural Liquidity Statement shall be filed with RBI within the specified timelines.

In order to monitor its short-term liquidity on a dynamic basis over a time horizon spanning from 1 day to 6 months, TUFIDCO would estimate its short-term liquidity profile on the basis of business projections and other commitments for planning purposes.

After studying the behavioral pattern of cash flows of TUFIDCO, short term mismatches can be managed by investment and redemption through appropriate short term financial instruments With reference to the longer time buckets, TUFIDCO needs to plan raising long term resources to reduce the negative gaps prevailing at the higher end of the time buckets.

7. 3. 2. Interest Rate Risk (IRR)

Interest rate risk is the risk where changes in market interest rates might adversely affect TUFIDCO's financial condition and the changes in interest rates affect TUFIDCO in a larger way.

The Gap or Mismatch risk can be measured by calculating Gaps over different time intervals as at a given date. Gap analysis measures mismatches between rate sensitive liabilities and rate sensitive assets (including off-balance sheet positions). An asset or liability is normally classified as rate sensitive if :

i) within the time interval under consideration, there is a cash flow;
ii) the interest rate resets/re-prices contractually during the interval;
iii) dependent on RBI changes in the interest ratcs/Bank Rate;
iv) it is contractually pre-payable or withdrawal before the stated maturities.

The Gap Report would be generated by grouping rate sensitive liabilities, assets and off balance sheet positions into time buckets according to residual maturity or next re-pricing period, whichever is earlier. All investments, advances, borrowings, purchased funds, etc. that mature/re-price within a specified timeframe are interest rate sensitive.

Certain assets and liabilities receive/pay rates that vary with a reference rate. These assets and liabilities are re-priced at pre-determined intervals and are rate sensitive at the time of re-pricing. The Gaps would be identified in the following time buckets:

i. 1 day to 7 days
ii. 8 days to 14 days
iii. 15 days to 30/31 days (one month)
iv. Over one month and up to 2 months
v. Over 2 months and upto 3 months.

vi. Over 3 months and up to 6 months
vii. Over 6 months and up to 1 year
viii. Over 1 year and up to 3 years
ix. Over 3 years and up to 5 years
x. Over 5 years
xi. Non-sensitive

The various items of rate sensitive assets and liabilities and off-balance sheet items would be classified as per the RBI guidelines and reported as per the format provided by RBI. The quarterly Interest Rate Sensitivity Statement shall be filed with RBI within the specified timelines.

The Gap is the difference between Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL) for each time bucket. The positive Gap indicates that TUF1DCO has more RSAs than RSLs whereas the negative Gap indicates that it has more RSLs than RLAs. The Gap reports indicate whether the institution is in a position to benefit from rising interest rates by having a positive Gap (RSA>RSL) or whether it is in a position to benefit from declining interest rates by a negative Gap (RSL>RSA). The Gap is, therefore, used as a measure of interest rate sensitivity.

TUFIDCO shall set prudential limits on individual Gaps with the approval of the Board/Management Committee. The prudential limits shall have a relationship w ith the Total Assets, Earning Assets or Equity. The objective of the interest rate sensitive analysis will mainly be focused on interest rate gap for more than one year period. It is proposed to set the prudential limit to be approved by the Board viz. such positive/negative gap should not exceed 90% of Risk Sensitive Assets (RSA).

7. 3. 3. Capital and Funding planning:

Maintaining adequate Capital: TUFIDCO may leverage its capital ensuring its capital adequacy ratio is always above the minimum level prescribed by RBI. The optimum mix of own capital to borrowed funds would increase the total assets under management and will also improve the overall profitability. However, the optimum CRAR shall be based on the review of asset quality on a continuous basis.

8. Review

The Policy would be reviewed as and when required or when there are changes in RBI guidelines, whichever is earlier.