TAMILNADU URBAN FINANCE AND INFRASTRUCTURE DEVELOPMENT CORPORATION LIMITED

CREDIT RISK POLICY

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

l. 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 Credit Risk Policy in place.

1. Background

Lending involves a number of risks. In addition to the risks related to creditworthiness of the borrower, the company is also exposed to credit risk. Credit risk involves inability or unwillingness of a borrower to meet commitments in relation to lending, trading, hedging, settlement and other financial transactions.

The credit risk of the company depends on both external and internal factors. The external factors are the state of the economy, wide swings in commodity/equity prices, foreign exchange rates and interest rates, trade restrictions, economic sanctions, Government policies, etc. The internal factors are deficiencies in loan policies/administration, absence of prudential credit concentration limits, deficiencies in appraisal of borrowers' financial position, excessive dependence on collaterals and inadequate risk pricing, absence of loan review and post sanction surveillance, etc.

2. Scope

TUFIDCO recognizes that Credit Risk management is one of the key principles of effective financial Management.

This policy is aimed at establishing internal systems, processes and controls to managed the assets and liabilities of the Company judiciously and prudently so as to proactively identify measure, manage and mitigate the credit risks by monitoring the same at regular intervals.

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

3. Objective

The objective of the Policy is to minimise unfavourable impact on its business and enhance stakeholder value.

The objectives of this Policy are:

- To continuously thrive for available risks in the Organisation which directly or indirectly effect the credit profile of the Company.
- To ensure the protection of rights and values of Shareholders by establishing a well organized Credit Risk Management Framework.
- Selecting, maintaining and enhancing the risk management tools used by the

Program to provide analyses that inform and support the investment actions of the entire Organisation.

4. Definitions

(a) “Act” means the Companies Act, 2013;

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

(c) “Board” means Board of Directors of the Company for the time in force;

(d) "Credit Risk' means a risk of loss due to failure of a borrower/counterparty to meet the contractual obligation of repaying their debt as per the agreed terms would affect the Company’s credit profile.

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

(f) “Policy” means the Credit Risk Policy

(g) "RMC" means Risk Management Committee.

6. Risk Management Committee

The Board of Directors approves the constitution of the Risk Management Committee (RMC) for the effective supervision, evaluation, monitoring and review of various aspects and types of risks, including liquidity risk, faced by the Company. The RMC is responsible for evaluating the overall risks faced by the Company including liquidity risk. The RMC, inter alia, monitors and measures the risk profile of the Company and oversees the integrated risk management system of the Company.

The RMCis responsible for framing, implementing and monitoring the Liquidity Risk Management Policy of the Company. The responsibility of the RMC is to operationalize a risk management program and ensure that formal procedures are in place to identify and define risk with input from representatives across the Company. Measurement of risk is to be done considering both quantitative and qualitative means using criteria as developed and shall be reviewed by the Board, from time-to-time. The RMC shall continuously strive to reduce available risks in the Company which directly or indirectly affect its functioning. The RMC shall ensure the protection of rights and values of shareholders by selecting, maintaining and enhancing the risk management mechanisms to provide analysis that inform and support the investment actions of the Company.

7. Credit Risk Management Framework

7.1. The management of credit risk should receive the top management’s attention and the process should encompass:

- Measurement of risk through credit rating/scoring;
- Quantifying the risk through estimating expected loan losses and unexpected loan losses i.e. the amount by which actual losses exceed the expected loss
- Risk pricing on a scientific basis
- Controlling the risk through effective Loan Review and portfolio management.

7.2. Instruments of Credit Risk Management

Credit Risk Management encompasses a host of management techniques, which help the company in mitigating the adverse impacts of credit risk.

The Company may consider maturity profile of the loan book, keeping in view the market risks inherent in the balance sheet, risk evaluation capability, liquidity, etc.

7.2.1 Risk Assessment:

The Company should have a comprehensive risk assessment system that serves as a single point indicator of diverse risk factors of counterparty and for taking credit decisions in a consistent manner. To facilitate this, a substantial degree of standardization is required in assessing risk across borrowers. The risk assessment system is to be designed to reveal the overall risk of lending, critical input for setting pricing and non-price terms of loans as also present meaningful information for review and management of loan portfolio. The risk assessment in short, should reflect the underlying credit risk of the loan book. The assessment exercise should also facilitate the credit granting authorities some comfort in its knowledge of loan quality at any moment of time.

The risk assessment system should be drawn up in a structured manner, incorporating, inter alia, financial analysis, projections and sensitivity, industrial and management risks. The company may use any number of financial ratios and operational parameters and collaterals as also qualitative aspects of management and industry characteristics that have bearings on the creditworthiness of borrowers.

7.2.2. Portfolio Management:

The existing framework of tracking the Non-Performing Loans around the balance sheet date does not signal the quality of the entire Loan Book. The Company should evolve proper systems for identification of credit weaknesses well in advance.

Undertake rapid portfolio reviews, stress tests and scenario analysis when external environment undergoes rapid changes (e.g. economic sanctions, changes in the fiscal/monetary policies, general slowdown of the economy, market risk events, extreme liquidity conditions, etc.). The stress tests would reveal undetected areas of potential credit risk

exposure and linkages between different categories of risk. In adverse circumstances, there may be substantial correlation of various risks, especially credit and market risks. Stress testing can range from relatively simple alterations in assumptions about one or more financial, structural or economic variables to the use of highly sophisticated models. Stress tests could also include contingency plans, detailing management responses to stressful situations.

7.2.3. Loan Review Process and Monitoring:

The Company has in place comprehensive post sanction processes aimed at enabling efficient and effective credit management. Review of Advances is an effective tool for constantly evaluating the quality of loan book and to bring about qualitative improvements in credit administration. Each and every sanction is reported for control to the next higher authority/ designated authority. Quarterly review of High value advances by the designated authority is in place.

The main objectives of Loan Review Process could be:

- To identify promptly loans which develop credit weaknesses and initiate timely corrective action.
- To evaluate portfolio quality and isolate potential problem areas.
- To provide information for determining adequacy of loan loss provision.
- To assess the adequacy of and adherence to, Ioan policies and procedures, and to monitor compliance with relevant laws and regulations.
- To provide top management with information on credit administration, including credit sanction process, risk evaluation and post-sanction follow-up.
- Comparing the account outstanding to the assets level on a continuing basis.
- Compliance with all internal and external reporting requirements for credit discipline

8. Review

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