TAMILNADU URBAN FINANCE AND INFRASTRUCTURE DEVELOPMENT CORPORATION LIMITED

RISK MANAGEMENT POLICY

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

CONTENT

I. INTRODUCTION

Tamil Nadu Urban Finance and Infrastructure Development Corporation Limited (TUFIDCO) was incorporated under the Companies Act 1956 on 21st March 1990. The Main Object of the Corporation is providing financial assistance and guidance to Local Bodies, Corporations, Boards, Authorities and Parastatal Agencies for the infrastructure developments schemes. TUFIDCO is the nodal agency for implementation of government schemes in the state.

II. BACKGROUND

The Risk Management Policy of the Corporation is framed as per following :-

1. As per Section 134 (3) (n) of the Companies Act 2013, The Board of Directors Report must include a statement indicating development and implementation of a risk management policy for the company including identification of elements of risk, if any, which in the opinion of the Board may threaten the existence of the company.
2. As per Section 177 (4) of the Companies Act 2013, the Audit Committee shall act in accordance with the terms of reference specified in writing by the Board which shall, inter alia, include evaluation of internal financial controls and risk management systems.
3. As per Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016, formation of Risk Management Committee to manage the integrated risk.

4. As per Schedule IV [Part II-(4)] of Companies Act 2013, the independent directors should satisfy themselves on the integrity of financial information and that financial control and the systems of risk management are robust and defensible.

III. KEY DEFINITIONS

1. **BOARD OF DIRECTORS**
   As per Section 2 (10) of the Companies Act 2013, Board of Directors or Board, in relation to a company, means the collective body of the directors of the company.

2. **AUDIT COMMITTEE**
   Audit Committee means Committee of the Board of Directors of the company constituted under the provisions of the Companies Act, 2013.

3. **RISK MANAGEMENT COMMITTEE**

   Risk Management Committee means Committee constituted by the Board of Directors of the company comprising of Directors.

4. **POLICY**
   Policy means Risk Management Policy.

5. **RISK:-**
   The term Risk can be defined as a probability or threat of damage, injury, liability, loss, or any other negative occurrence that is caused by external or internal vulnerabilities and that may be avoided through pre-emptive action.

6. **RISK ASSESSMENT :-**
   The systematic process of identifying and analyzing risks. Risk Assessment consists of a detailed study of threats and vulnerability and resultant exposure to various risks.

7. **RISK MANAGEMENT:-**

The systematic way of protecting business resources and income against losses so that the objectives of the Company can be achieved without unnecessary interruption.

8. **RISK MANAGEMENT PROCESS:-**

The systematic application of management policies, procedures and practices to the tasks of establishing the context, identifying, analyzing, evaluating, treating, monitoring and communicating risk.

IV. OBJECTIVES

The main objective of this policy is to ensure sustainable business growth with stability and to promote a pro-active approach in reporting, evaluating and resolving risks associated with the business. The specific objectives of the Risk Management Policy are :-

1. To ensure that all the current and future material risk exposures of the company are identified, assessed, quantified, appropriately mitigated, minimized and managed i.e. to ensure adequate systems for risk management.
2. To establish a framework for the company's risk management process and to ensure its implementation.
3. To enable compliance with appropriate regulations, wherever applicable, through the adoption of best practices.
4. To assure business growth and financial stability.

V. SCOPE & APPLICABILITY

The Risk Management Policy applies to all areas of the Company's Operations and the Risk Management Framework has been developed to include the following key categories:

- Financial
- Human Resource
- Projects & Schemes
- Information Security
- Business Processes and Systems
- Corporate Governance and Compliance

VI. ROLE OF BOARD OF DIRECTORS

1 The Board shall approve the Risk Management Policy and associated frameworks, processes and practices of the Company and shall ensure that risk management is integrated into Board reporting.

2. The Board shall constitute Risk Management Committee of the company comprising Directors of the company.

3. The independent directors shall help in bringing an independent judgment to bear on the Board's deliberations on issues of risk management and satisfy themselves that the systems of risk management are robust and defensible; Participate in major decisions affecting the organization's risk profile

VII. ROLE OF RISK MANAGEMENT COMMITTEE

1. The Risk Management Committee shall oversee the establishment, implementation and monitoring of the Company's risk management system, in accordance with the policy.
2. The Risk Management Committee shall evaluate significant risk exposures of the Company and assess management's action to mitigate the exposures in a timely manner and shall ensure that the appropriate systems and controls for risk management are in place.
3. The Risk Management Committee shall ensure that an appropriate accountability framework is working whereby any delegation of risk is documented and performance can be monitored accordingly.
4. The Risk Management Committee shall regularly monitor and evaluate the performance of management pertaining to this policy.
5. The Risk Management Committee shall report to the Board about any risk which is affecting the operations and business of the company or any other matter as may be deemed prudent by the Risk Management Committee.

VIII. ROLE OF CHIEF RISK OFFICER

1. The Chief Risk Officer shall be appointed by the Chairman and Managing Director, TUFIDCO. The Chief Risk Officer shall assist the Risk Management Committee to discharge its function and shall work under the direction and supervision of Risk Management Committee.

2. The Chief Risk Officer shall review and update the current list of risks and report to the Risk Management Committee on the status of risks

3. The Chief Risk Officer shall ensure timely compliance with regulatory requirements and best practices with respect to risk management are in place. The Chief Risk Officer shall also ensure that risk profile of the Company is updated to reflect any material change.

IX. ROLE OF EMPLOYEES

1 The Heads of Sections shall be responsible for implementation of the risk management system as may be applicable to their respective areas of functioning and report to the Chief Risk Officer.

2. In General, every official and staff member of the Corporation is responsible for the effective management of risk including the identification of potential risks, implementation of risk mitigation plans and risk reduction strategies.

X. TYPES OF RISK

NBFCs are exposed to several major risks in the course of their business. Some of the major risks are detailed below.

- Financial Risk
- Operational Risk
- Strategic Business Risk
- Technological Risk
- System Risk
- Disaster Risk
- Legal/Regulatory Risk
- Reputational Risk

RISK TREATMENT

Risk Treatment includes risk control/mitigation and extends to risk avoidance, risk transfer (Insurance), risk financing, risk absorption etc., for effective and efficient operations, effective controls and compliance with laws and regulations. Risk Treatment shall be applied at all levels through carefully selected validations at each stage to ensure smooth achievement of the objective.

XI. RISK MANAGEMENT

A. Financial Risk comprises of Liquidity Risk and Credit Risk

   i. Liquidity Risk includes financial solvency and cash management risk which shall be mitigated by a proper financial planning at appropriate levels within the organization, Preparation of Cash Flow Statement and Budget with variance analysis at regular intervals and monitoring of fund requirements and ensuring effective utilization of funds.

   ii. Credit Risk includes risk in settlement of dues by the Customers which shall be mitigated by putting in place appropriate systems for financial appraisal of the projects and recovery management and follow up with the Government for State Finance Commission (SFC) adjustment and remittance of dues.

B. Operational risk is the prospect of loss resulting from inadequate or failed procedures, systems or policies which shall be mitigated by an effective internal control system and continuous monitoring of control system in place and its adequacy to meet out the risks.

C. Strategic risk is the risk of Realization of business plans and strategies – introduction of new business lines, expansion of the existing services and strengthening of infrastructure. Management shall devise strategic planning for mitigating strategic risk.

D. Technological obsolescence is a practical reality which shall be mitigated by evaluation of obsolescence on a continual basis and by investing in the best prevailing technology.

E. System Risk includes system capability, system reliability and data integrity risks and the same shall be mitigated by following measures-

    i. Data Security shall be ensured by having access control/restrictions.
    ii. Regular data back up shall be taken in a methodical way.
    iii. Installation of anti-virus software to create firewalls.
    iv. Up gradation of systems on continuous basis.

F. Disaster Risk refers to Natural risks like Fire, Earthquakes, Floods etc., and the following measures shall be put in place:-

    i. The properties of the company are insured against natural risks, like fire, earthquakes, etc., with periodical review of adequacy, rates and risks covered.
    ii. Fire extinguishers shall be placed at fire sensitive locations and First aid training shall be given to all the officials and staff.

G. Legal/Regulatory Risk is the risk of losses arising from the uncertainty regarding consistent implementation of laws, appropriate regulatory framework, and contract clauses which shall be mitigated by establishing an effective compliance management system in the Corporation.

H. Reputational risk is a risk of loss resulting from damages to a company's reputation, in lost revenue; increased cost of operations, capital or regulatory compliance; or destruction of shareholder value, consequent to an adverse or potentially criminal event even if the company is not found guilty.

XII. AMENDMENT

Subject to the provisions of the Companies Act, 2013, direction of Reserve Bank of India and other laws as applicable in this regard from time to time, the Board reserves the right to amend or modify this Policy in whole or in part, at any time without assigning any reason whatsoever. The Risk outlined above is not exhaustive and the same may be reviewed and amended by the Board from time to time.

XIII. REVIEW

This policy shall be reviewed at regular intervals by the Board.