TAMIL NADU TRANSPORT DEVELOPMENT FINANCE CORPORATION LIMITED, CHENNAI - 600 002.

RISK MANAGEMENT POLICY

Introduction

Tamil Nadu Transport Development Finance Corporation (TDFC) Ltd. commenced functioning on 25.03.1975 with the purpose of mopping up the funds from general public for capital & Working Capital requirement of the STUs by way of mobilizing deposits without depending upon the budgetary support from Government. TDFC Ltd. has been registered has Non-banking Finance Company (Deposit taking) with the Reserve Bank of India

TDFC was formed with an object of establishing an independent special purpose vehicle to meet the financial requirement (capital and working capital) of all the nationalized Transport Corporations situated and operated in Tamil Nadu without depending upon the budgetary support from the Government of Tamil Nadu. TDFC after examining various alternative for mobilizing scheme which in longer run will be of beneficial to the organization, unlike the issue of bonds, debentures, etc., where the repayment of loan and the payment of interest will be bulk and also on one particular day. Whereas in the case of deposits, the committee is spread over the time and it will be easier for the finance company to plan to meet its commitment without any difficulty.

Successful implementation of the risk management shall require strong commitment on the part of the senior management in the NBFC, to integrate basic operation and strategic decision making wit risk management. The Board shall have overall responsibility for management of risks and shall decide risk management policy of the NBFC and set limits for liquidity, interest rate and equity price risk.

Risk Management Committee :-

This committee is the board for evaluating the overall risk faced by the NBFC including liquidity risk. The risk management committee shall ensure that the risk associated with the business / functioning of the company are identified, controlled and mitigated and shall also lay down procedure regarding managing and mitigating the risk through integrated risk management system, strategies and mechanisam.

This committee consists of the members of the Board and Senior Executive / heads of various risk verticals. The majority of members of this committee are from the Board of Directors.

Meetings and Quorums:-

The committee shall meet as and when required, but shall, meet at least twice in a year.

The quorum shall be two-third of the total members of the committee (nearest rounted to one).

Terms of Reference

- To assist the Board in setting risk strategy policies in liason with management and discharge of its duty relating to corporate accountability and associated risk in terms of management assurance and reporting.

- To identify, monitor and measure of the risk profile of the TDFC Ltd., including market risk policies and strategies are effectively managed.
- To review process and procedures to ensure the effectiveness of internal system of control so that decision making capability and accuracy of reporting and financial risks are always maintained at an optimum level.
- To monitor external development relating to the practice of corporate accountability and reporting of specifically associated risk, including emerging and prospective impacts.
- To provide an independent and objective oversight and view of the information presented by management on corporate accountability and specifically associated risk, also taking account of reports by the Audit Committee to the board on all categories of identified risk facing TDFC Ltd., and review minutes of meeting of the ALCO.
- To review the risk bearing capacity of TDFC Ltd. In lights of its reserves, insurance coverage, guarantee funds or other financial structures.
- To perform such other act, including the acts and functions stipulated by the Act, the Reserve Bank of India and any other regulatory, as prescribed from time to time

The Chairman of the Risk Committee shall report to the Board regularly on the deliberation of the committee.

In this situation, Board nominate the following members for the Risk Management Committee.

1) Finance Director, Finance Department - Chairman of the Committee

2) Joint Managing Director - Member of the Committee

3) Independent Director - Member of the committee

Risk Assessment and Control

(i) Currency Risk
The TDFC does not have any barrowing on instrument in foreign currency and hence not suffered by currency risk.

(ii) Interest Rate Risk ('IRR')
IRR management and reporting helps potential help to earnings and capital resulting from adverse fluctuation in market interest rates. It also identifies asset/funding balance and repricing mismatches. Proper identification of potential risk and mismatch assists management in devising asset/liability strategies to minimize these potential risks. The TDFC's exposure to change its interest rates relates to its investments on Government Securities. All the Government securities of the company is in local currency and on fixed rate basis and have not subject to interest rate risk.

(**iii) Credit Risk**
Credit risk is the risk of financial loss to the company fails to meet his contractual obligations, and arise principally from the company's loan receivables, the company's exposure is only to government departments retail loans against deposits. Loans against deposit are disbursed after retaining adequate margin and risk of default by the government departments is also minimal. Hence, the company is subjected

to limited risk. The company applies the existing prudential norms and set out by Reserve Bank of India for NBFCs.

(iv) Maintenance of liquid assets

Non- banking financial companies holding public deposits are required to invest up to 15 % of their public deposits in approved securities (mandatory securities) in terms of liquid assets requirement Section of 45-IB of RBI Act, 1934.

(v) Liquidity Costs, Benefits and Risks in the internal pricing

TDFC has to quantify liquidity costs and benefits so that the same may incorporated in the internal product pricing, performance measurement and new product approval process for all material business lines, products and activities.

(vi) Off-balance Sheet Exposure and contingent Liabilities

TDFC has to identifying, measuring, monitoring and controlling liquidity risk should include a robust framework for comprehensively projecting cash flows arising from the assets, liabilities and off-balance sheets over an appropriate set of time horizons. The management of liquidity risks to certain off-balance sheet exposure on account of special purpose vehicles, financial derivatives, and, guarantees and commitments may be given particular importance due to the difficulties that many NBFCs have in assessing the related liquidity risks that could materialise in times of stress**.**

(vii) Funding Strategy – Diversified Funding

TDFC has to effective diversification in the sources and tenor or funding. There should not be over-reliance on a single source of funding. Funding strategy should also take into account the qualitative dimension of the concentrated behavior of the deposit withdrawal in typical market conditions and over-reliance on other funding sources arising out of unique business model.

(viii) Collateral Position Management

TDFC has to manage its collateral positions, differentiating between encumbered and unencumbered assets. It should monitor the legal entity and physical location where collateral is held and how it may be mobilized in a timely manner

(ix) Stress Testing

TDFC should conduct stress test on regular basis on a variety of short-term and market wide stress scenarios. The scenarios incorporate the major funding and market liquidity risk

(x) Contingency Funding

TDFC may consider the following option to sail through any unforeseen contingency of stressed liquidity.

- Reserve undrawn line of 10% of the limits, having sufficient drawing power, with the lenders and churning of undrawn lines frequently
- Raise debentures and tier II capital.
- Maintain liquid funds in the form of investment in government securities treasury bills
- Sale of portfolios through securitization or direct assignment.
- Enter into arrangements with banks for co-origination of priority sector loans.

ALCO shall have the powers to exercise any of the options as deems fit according to the circumstances.

(xi) Internal Controls

Effective internal controls are an integral part of managing financial risk. Pursuant to the guidelines set forth in this policy, adequate controls must be established to ensure proper management of financial risk and to provide safeguards against mismanagement of TTDFC funds and capital resources.

(V.Venkatarajan)
Joint Managing Director