4. Asset Liability Management Policy and System (ALM):

Table of Contents

4.1 Objectives:

The objective of Asset Liability Management policy is to manage liquidity and Market risks. The Policy is an exposition of TIDCO’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 Asset Liability Management Committee (ALCO) will oversee the implementation of ALM policy and review its functioning periodically and provide direction on interest rate for deposits and loans

4.2 ALM Information System

The central element for the entire ALM exercise is the availability of adequate and accurate information with expedience. Collecting accurate data in a timely manner will be the purpose of Management Information System.

4.3 ALM Organization

The Board has overall responsibility for management of risks and decides the risk management policy of the company. TIDCO is strongly committed to integrate basic operations and strategic decision making with risk management.

4.4 Asset - Liability Committee

- **Members of the Committee**– Chairperson & Managing Director / Executive Director, 1 Director and 1 Independent Director.
- **Convener**– Assistant Company Secretary
- **Periodicity of Convening**– Once in a year.
- **Responsibility/Role of the Committee**:
    1. The ALCO is a decision-making unit responsible for balance sheet planning from risk-return perspective including the strategic management of interest rate and liquidity risks.
    2. The role of the ALCO with respect to liquidity risk includes decision on desired maturity profile and mix of incremental assets and liabilities, sale of assets as a source of funding, the structure, responsibilities and controls for managing liquidity risk, and overseeing the liquidity positions.
    3. To design, oversee and manage the Asset Liability Management System.
    4. To decide the business and risk management strategy within the limit / parameters, if any, set by the Board.
    5. To estimate and manage various components of assets and liabilities.

6. To manage credit risk, interest rate risk, liquidity risk, market risk and other operational risks.
7. Funding and capital planning.
8. Profit planning and growth projection.
9. Forecasting, analysing and preparation of contingency plans and
10. Any other issues referred by the Board relating to ALMs, from time to time

4.5 Asset Liability Management (ALM) Support Group

The ALM Support Group consists of the operating staff responsible for analysing, monitoring and reporting the liquidity risk profile to the ALCO.

4.6 ALM Process

The scope of ALM function can be described as follows:

I. Liquidity risk management
II. Management of market risks
III. Funding and capital planning
IV. Profit planning and growth projection.
V. Forecasting and analysing 'What if scenario' and preparation of contingency plans.

4.7 Liquidity Risk Management

ALCO measures not only the liquidity positions of the company on an ongoing basis but also examines how liquidity requirements are likely to evolve underdifferent assumptions. Therefore, liquidity is tracked through maturity or cash flow mismatches.

The role of the ALCO with respect to liquidity risk includes decision on desired maturity profile and mix of incremental assets and liabilities, sale of assets as a source of funding, the structure, responsibilities and controls for managing liquidity risk, and overseeing the liquidity positions.

4.8 Statement of Structural Liquidity

The Statement of Structural Liquidity is prepared by placingall cash inflows and outflows in the maturity ladder according to the expected timing of cashflows. A maturing liability will be a cash outflow while a maturing asset will be a cash inflow.

ALCO will deliberate on the ability of the company to meet its maturing liabilities as they become due and ensure against any adverse situation from developing. ALCO will review on an ongoing basis how the situation is likely to develop under different assumptions.

For measuring and managing net funding requirements, ALCO will use as a standard tool the maturity ladder and calculation of cumulative surplus at selected maturity dates. For this purpose, the templatesgiven in RBI guidelineswill be made use of.

1) ALCO will use the same time buckets suggested by RBI for measuring the net funding needs.
2) 1 day to 14 days
3) 14 days to 1 month
4) Over 1 month to 2 months
5) Over 2 months to 3 months
6) Over 3 months to 6 months
7) Over 6 months to 1 year
8) Over 1 year to 3 years
9) Over 3 to 5 years
10) Over 5 years

4.9 Mandatory and Non-mandatory Securities:

As TIDCO stopped accepting public deposits, the requirement ofSection 45-IB ofthe RBI Act, 1934 which requires an NBFC holding public deposits to invest up to a prescribed percentage (15%as on date)of their public deposits in approved securities in terms of liquid asset needs no further compliance at this point of time. When TIDCO begins accepting public deposits, the relevant clause of the RBI act will be complied with.

4.10 Reporting to Regional Officer:

The policyrecorded by the company on treatment of the investment portfolio for thepurpose of ALM and approved by their Board/ALCO is forwarded to the RegionalOffice of theDepartment of Non-Banking Supervision of RBI under whose jurisdiction theregistered office of thecompany is located at the time of adoption and every subsequent change.

4.11 Mismatch and Tolerance limit:

TIDCO monitors the cumulativemismatches (running total) across all time buckets by establishing internal prudential limits withthe approval of the Board / Management Committee. The mismatches (negative gap) during 1 - 30/31 days in normal course may not exceed 15% of the cash outflows in this time bucket. The mismatches up to one year would be considered a risk since these provide early warning signals of impending liquidity problems. If the company, in view of its current asset -liability profile and the consequential structural mismatches, needs higher tolerance level, it could operate with higher limit sanctioned by its Board /Management Committee giving specific reasons on the need for such higher limit.

Any deviation in the prudential limits prescribed in the ALM policy can be approved by the Risk Management Committee as long as the deviation is within the limits permitted by the RBI.

4.12 Currency Risk Management

As TIDCO does not operate in any currency other than INR, there is no currency risk exposure.

4.13 Interest Rate Risk (IRR)

Interest rate risk is the risk where changes in market interest rates might adversely affect the company's financial condition owing to varying impact on interest bearing assets and liabilities by changing Net Interest Income. As TIDCO does not have interest bearing deposits, there is no risk of higher interest payments on deposits. However, in case loans are taken from the government or other financial institutions, TIDCO will manage the risk of higher interest payments through multiple strategies including but not limited to taking loans at fixed interest rate, investing in securities that offset such risks etc.

(The policy will be reviewed every three years or as and when there are changes in RBI guidelines, whichever is earlier.)