THE SIRSI URBAN SAHAKARI BANK LIMITED, SIRSI – 581 401

ASSET LIABILITY MANAGEMENT POLICY

(Approved under Board Resolution No.16(i) dated May 28, 2022)

1.0 Need

1.1 The deregulation of interest rates has provided freedom to Urban Co-operative Banks (UCBs) to determine the rates of interest both on deposits and advances. Interest rates on investments i.e., government securities, other securities like bonds, debentures etc., and such other permissible modes are also market driven. Thus, like any other banks, UCBs are also exposed to credit and market risks on account of the asset-liability transformation as stated here above.

1.2 With liberalization in the Indian financial markets over the past two decades, growing integration of domestic markets with external markets and the entry by multi-national banks from outside the country to cater to the credit needs of the both corporate and retail sector.

1.3 Competition of the business both on liabilities and assets has exerted pressure on the management to maintain optimum balance to sustain growth, profitability, long term viability. Imprudent liquidity management can put both earnings and reputation at risk.

1.4 These pressures call for structured and comprehensive measures to help the management to base their business decisions on dynamic and integrated risk management system and processes.

1.5 UCBs are exposed to major risks in the course of the business such as capital management, credit risk, liquidity risk and interest rate risk. Whereas, management credit risk is covered by the Loans Policy and Investment Policy of the bank, this policy aims to address the capital management, liquidity and interest rate risk of the bank.

2.0 Objects

The objects of this policy are as enumerated here under:

2.1 To establish the guidelines to ensure prudent management of the assets and liabilities of the bank

2.2 To address the management of capital, liquidity and interest rate risk.

2.3 To comply with the requirements of guidelines issued by the reserve Bank of India on Asset Liability Management (ALM) system for non-scheduled Tier II UCBs as amended from time to time.

2.4 To explain the approach to liquidity management and to outline the key aspects of the risk management process and to identify reporting procedures pertaining to ALM

2.5 To form part of the bank's internal control and governance arrangement and to describe the process which Asset Liability Committee (ALCO) uses to evaluate internal control procedures.

3.0 ALM Organization

3.1 Board of Directors of the bank will have the overall responsibility to manage the risk and to implement the policy and specify the limits for capital management, interest rate and liquidity risk by acting through the Asset Liability Committee (ALCO). The successful implementation of the risk management process requires strong commitment on the part of the senior management to integrate the basic operations and strategic decision making with the risk management. The adherence would also ensure that the statutory compliances set by Reserve Bank of India are complied with. The Board will review, update and approve this policy at least annually.

3.2 ALCO will be constituted comprising of senior management of the bank. The committee would comprise of the following members:

1. Chief Executive Officer – to head the ALCO
2. Head of Credit
3. Head of Investments
4. Head of Administration
5. Head of IT
6. Head of Accounts
7. Any other member recommended by the Chief Executive Officer

3.3 The role of ALCO in management of ALM risk is as enumerated here under:

1. To set tone and influence the culture of ALM risk management in the bank.
2. To determine the appropriate ALM risk appetite or level of exposure for the bank.
3. To deliberate on product pricing followed by the bank for deposits liabilities accepted and advances made by it.
4. To approve major decisions affecting ALM risk like pricing for deposits, maturity profile and mix of incremental assets and liabilities, prevailing interest rates offered by other banks for similar products, services etc.,
5. To identify the ALM risks, measure their impact and monitor the management of risks to reduce the likelihood of unexpected/ unwelcome surprises.
6. To satisfy that the fundamental risks are actively managed, with the appropriate controls in place and working effectively.
7. To review the results and progress in implementation of the decisions in the meetings.
8. To articulate the current interest rate view and to formulate future business strategy.

3.4 ALM support staff will support ALCO in the following.

1. To implement policies on ALM risk management and internal control.
2. To analyze and monitor the risk profiles and identify and evaluate the fundamental risks faced by the bank for consideration.
3. To provide adequate information in a timely manner to ALCO on the status of risks and controls and system associated with it and to provide reports as required by ALCO in a timely manner.

4.0 ALM process

The scope of ALM function is described as here under:

4.1.1 **Capital Management**: The guidelines ensure the maintenance and management of prudent capital levels for the bank to preserve safety and soundness of the bank, to support desired balance sheet growth and to serve as a cushion against unexpected losses.

4.1.2 The following regulatory ratios are monitored and reported by the designated staff to the ALCO on a quarterly basis. The limits described below are calculated according to the guidelines prescribed by the RBI.

Regulatory Ratio	**Current RBI prescription**	**Bank's policy limit**
Capital Adequacy Ratio (CRAR)	9.0 %	12.0 %

4.2.1 **Liquidity Risk Management**: The measuring and managing the liquidity requirements are vital for effective operation. The liquidity management can reduce the profitability on an adverse situation developing. The management of liquidity measures not only the liquidity positions on an ongoing basis but also examines how the liquidity requirements are likely to evolve under various scenarios. The experience has revealed that assets commonly considered as liquid, like government securities, commercial papers and other money market instruments could also become illiquid when the market and the players are unidirectional. Thus, the liquidity has to be tracked through maturity or cash flow mismatches.

4.2.2 Liquidity management ensures that funds are available for anticipated loan growth, investment and cash management transactions and general operational expenses without causing an undue rise in cost and without causing a disruption in normal operating conditions. The bank is currently dependent on various sources of liquidity which are listed in the order of priority here below:

1. Operating cash on hand and balances with banks in Current Accounts
2. Funds held in call / notice money
3. Funds held in permitted short term investments
4. Finance limits availed from other banks including availing loans against term deposits placed with other banks

5. Sale of securities in excess of statutory requirements

4.2.3 ALCO is responsible for determining the appropriate mix of available funding resources ensure that the liquidity is managed prudently and appropriately. In this process, the current market and economic environment, near time loan growth projections and long-term business decisions need to be considered. In order to measure and manage the net funding requirements, the use of maturity ladder and calculation of cumulative surplus or deficit of funds at selected maturity dates will be adopted as a standard tool along with relevant ratios.

4.2.4 The maturity profile as given here below should be used for measuring the future cash flows in different time buckets. The classification of various items of liabilities and assets into various time buckets for preparation of Gap reports shall be as per the **Annexure I** enclosed herewith

1. 1 to 14 days
2. 15 to 28 days
3. 29 days and upto 3 months
4. Over 3 months and upto 6 months
5. Over 6 months and upto 1 year
6. Over 1 year and upto 3 years
7. Over 3 years and upto 5 years
8. Over 5 years

4.2.5 The short-term deployment of funds in highly liquid debt instruments shall be in accordance with investment policy of the bank and in compliance with the RBI guidelines issues in this regard. The short-term investments and excess cash shall be managed in a manner consistent with the liquidity needs, asset-liability requirements, safety and soundness of the concerns for the benefit of the bank.

4.2.6 The investments shall be based on capital protection, liquidity and then the return. No equity exposure shall be taken.

4.2.7 Within each time bucket, there could be mis-matches depending on the cash inflows and outflows. While the mismatches upto one year would be relevant since these provide early warning signals of impending liquidity problem. The bank will monitor cumulative mis-matches across all the time buckets by establishing internal prudential limits, with the prior approval of the board. **Tolerance limit is fixed at 20 % for each bucket up to one year.**

4.3.1 **Interest Rate Risk Management:** The various items of rate sensitive assets and liabilities and off balance sheet items may be classified as discussed in **Annexure II** and the reporting format for Interest Rate Sensitivity **prescribed by RBI in their circular.**

4.3.2 The Gap is the difference between Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL) for each time bucket. The positive Gap indicates that it has more

RSAs than RSLs whereas the negative gap indicates that it has more RSLs than RSAs. The gap reports indicates whether the bank is a position to benefit from rising interest rate scenario by having positive gap or whether it is in a position to benefit from declining interest rate scenario. Thus the gaps would be used as a measure of the interest rate sensitivity.

Approved under Resolution No.16 in the Board Meeting held on May 28, 2022

Arathi S. Shettar	Jaydev U Nilekani
Chief Executive Officer	President

Annexure I
Maturity Profile - Liquidity

Sl. No	Head of Accounts	Time bucket category
A.	**OUTFLOWS**	
1.	**Share Capital, Reserves and Surplus**	Over 5 years' time bucket
2.	**Reserves and Surplus**	Over 5 years' time bucket
3.	**Deposits**	
a.	Current Deposits	10 % to be shown under 1 to 14 days' time bucket and balance to be shown in above 1 to 3 years' time bucket
b.	Savings Deposits	5 % to be shown under 1 to 14 days' time bucket and balance to be shown in above 1 to 3 years' time bucket
c.	Term Deposits	Taking into account the behavioural pattern of renewals, premature withdrawal it could be estimated that maximum amount up to 5 % of retail deposits, i.e., single deposit less than Rs.15.00 Lakh would be classified under respective residual time buckets up to 1 year and balance amount be spread over 1 to 3 years, 3 to 5 years and above 5 years' time bucket. The single deposit of Rs.15 Lakh and above would be classified under respective time bands.
d.	Matured Deposits	10 % to be shown under 1 to 14 days' time bucket and balance to be shown in above 1 to 3 years' time bucket.
4.	**Borrowings**	Respective residual (remaining period to maturity) time bucket
5	**Other Liabilities & provisions**	
a.	Bills Payable	1 to 14 days' time bucket
b.	Interest payable	Respective time buckets based on due date of payment
b.	Branch adjustments	Net credit balance to be shown in 1 to 14 days' time bucket
c.	Provisions other than for loan loss and depreciation on investments	Respective time buckets as per the purpose / nature of underlying transactions
d.	Others	Respective residual time buckets

B.	**INFLOWS**	
1.	**Cash on Hand**	1 to 14 days' time bucket
2.	**Balance with banks in Current Accounts with RBI/**	Excess over CRR requirement to be shown under 1 to 14 days bucket

	Notified Banks/ SCB/ DCC banks	Amount representing CRR requirement to be shown under over 1 to 3 years' time bucket
3.	**Balances in other banks**	
a.	In current accounts	1 to 14 days' time bucket
b.	Money at Call and Short Notice	1 to 14 days' time bucket
c.	Term Deposits with other banks	Respective residual time buckets
4.	**Investments**	
a.	Government and approved Securities	Respective residual time buckets
b.	PSU Bonds, CDs and CPs, Units of eligible category close ended Mutual Funds	Respective residual time buckets
		Sub-standard NPIs to be shown in over 3 to 5 years' time bucket
		Doubtful NPIs to be shown in over 5 years' time bucket
c.	Open ended eligible category Mutual Funds	1 to 14 days' and 15 to 28 days' time bucket
e.	Shares of AIFIs	Over 5 years' time bucket
f.	Shares of Co-operative Institutions	over 5 years' time bucket
5.	**Loans and Advances**	
a.	Performing	
i.	Bills Purchased and Discounted	Respective residual time buckets
ii.	Term Loans	Instalments of interest and principal should be shown under respective maturity time buckets
		Instalments of interest and principal overdue for less than one month – to be placed in over 3 to 6 months' time bucket
		Instalments of interest and principal overdue for over one month but less than 90 days (before classification as NPAs) – to be placed in over 6 to 12 months' time bucket
iii.	Cash Credit and Overdrafts	Up to 5 % of outstanding portion – to be placed in 1 to 14 days' time bucket.
		Up to 5 % of outstanding portion – to be placed in 15 to 28 days' time bucket.
		Up to 10 % of outstanding portion – to be placed in 29 to 90 days
		Balance amount may be placed under 180 days to 1 year or 1 to 3 years' time bucket.
b.	Non-performing	
i.	Sub-standard	To be shown in over 3 to 5 years' time bucket
ii.	Doubtful and Loss	To be shown in over 5 years' time bucket
6.	**Fixed Assets**	over 5 years' time bucket
7.	**Other Assets**	
a.	Branch adjustments	Net debit balance to be shown in 1 to 14 days' time bucket

b.	Leased Assets	Interim cash flows to be shown under respective residual maturity time buckets
c.	Interest Receivable on Standard Investments	Respective residual maturity time buckets
d.	Others	To be shown in over 5 years' time bucket

C.	**Contingent Liabilities/ Lines of Credit committed/ available and other inflows/ outflows**	
1.	Unavailed portion of Cash Credit/ Overdraft/ Demand Loan component of Working Capital limits (outflow)	Based on behavioral and seasonal pattern of potential availments in the accounts and the amounts so arrived at may be shown under relevant residual maturity time buckets within 12 months
2.	Letters of credit/ Guarantees devolvement (outflows)	Based on the past history, these should be distributed across time buckets
3.	Repos/ Bills discounted (DUPN)/ Swaps INR/ USD, maturing forex forward contracts etc., (outflow/ inflow)	Respective residual time buckets
4.	Interest payable/ receivable (outflow/ Inflow) – Accrued interest which are appearing in the books on the reporting day	Respective time buckets

D.	Financing of Gap	In the case of negative gap exceeds the prudential limit of 20 % of outflow. (1 to 14 and 15 to 28 days' time buckets), the bank may show by way of a foot note as to how it proposes to finance the gap to bring the mismatch within the prescribed. The gap can be financed from the market borrowings (call/ term), Bills rediscounting, Repos or such other modes.

Annexure II
Interest Rate Sensitivity

Sl. No	Head of Accounts	Rate sensitivity and time bank
A.	**Liabilities**	
1.	**Share Capital, Reserves and Surplus**	Non Sensitive
2.	**Current Deposits**	Non Sensitive
3.	**Savings Bank Deposits**	Since the entire amount is sensitive since interest is paid on daily product basis, the entire amount be shown under 3 to 6 months' time band.
4.	**Term Deposits, Long Term Deposits (Tier II) and Certificate of Deposits**	The total amount is sensitive and repricing or reset of interest rates takes place on maturity. The amount be classified and distributed to different time bands on the basis of residual maturity.
5.	**Borrowing**	Sensitive – Reprices on maturity. The amounts be classified and distributed to different time banks on the basis of residual maturity.
6.	**Borrowing from RBI**	**Upto 3 months' time band**
7	**Refinance from other agencies**	**a. Fixed Rate: As per respective maturity band** **b. Floating Rate: Repricing when interest rates are reset.**
8.	**Other Liabilities and Provisions – Bills Payable, Branch Adjustments, Provisions and others**	**Non Sensitive**
9.	**Repos/ Bills Re-discounted**	**Sensitive – Repricing on maturity and to be shown in respective maturity bands**

	Assets	
1.	**Cash**	Non Sensitive
2.	**Balance with RBI**	Interest earning portion to be shown in 3 to 6 months' time band Balance amount non-sensitive
3.	**Balance with other banks**	
a.	**In Current Account**	Non Sensitive
b.	**Money at Call and Short Notice, Term Deposits, Long Term Deposits and other placements**	Sensitive on Maturity. To be shown in respective maturity bands
4.	**Investment**	
a.	**Fixed Rate/ Zero Coupon**	Sensitive on Maturity. To be shown in respective maturity bands
b.	**Floating Rate**	Sensitive on next repricing date
5.	**Shares of AIFIs and other co-operatives/ eligible categories of mutual funds**	Sensitive – to be shown under up to 3 months' time band

6.	**Advances (Performing)**	
i.	**Bills Purchased and Discounted**	Sensitive on Maturity – to be shown under respective maturity bands
Ii	**Cash Credit / Overdrafts/ Loans repayable on Demand and Term Loans**	Sensitive – to be shown under over 3 to 6 months' time band
7.	**Advances and Investments (Non Performing)**	
a.	**Sub Standard**	Over 3 to 5 year time band
b.	**Doubtful**	Over 5 year time band
8.	**Fixed Assets**	Non Sensitive
9.	**Other Assets**	Non Sensitive