Asset Liability Management Committee (ALCO) – Policy Guidelines.

Composition of ALCO Committee :

- Managing Director
- Any 2 Directors
- Member : Vice President – F&A
- Convener : Vice President – F&A
- Quorum : Min : 3 Members

Scope :

The scope of ALCO Committee is as under.

- Liquidity Risk Management
- Pricing of assets and liabilities.
- Management of Market Risks
- Funding and Capital Planning
- Profit Planning
- Forecasting and analyzing 'what if scenario' and preparation of contingency plans.

The ALCO is a decision making unit responsible for integrated balance sheet management from risk-return perspective including the strategic management of interest rate and liquidity risks and reports to the Board of Directors. The business issues that an ALCO Committee would consider will, inter alia, include product pricing of deposits, if any, and advances, desired maturity profile and mix of the incremental assets and liabilities. The Committee would also articulate the current interest rate view of the company and base its decisions for future business strategy on this.

The meetings of ALCO shall be conducted once in a month and placed to the ensuing Board.

A system of half yearly reporting that should be put in place and the ALM return, half yearly as on September 30th and March 31st shall be submitted to NHB within 20 days of the close of the relevant half year i.e. Oct 20th and continue thereafter in similar manner. The quarterly short term dynamic liquidity statement shall be submitted to NHB within 10 days of the close of the quarter to which it relates.

The reporting format in the Statement of Structural Liquidity may be prepared by placing all cash inflows and outflows in the maturity ladder according to the expected timing of cash flows as per the prescribed format, to be placed before ALCO. The Statement of Interest Rate sensitive Assets and Liabilities as per the prescribed format should be placed before ALCO. Also Statement of short term dynamic liquidity shall be placed before ALCO.

In terms of NHB guidelines vide NHB(ND)/HFC/(DRS-REG)/ALM/35/2010 dated October 11, 2010, the prudential liquidity gap limits for negative gaps in the first two time buckets (viz 1-14 days and over 14 days to 1 month) have been fixed at 15% of the cash flows of each time bucket and the cumulative gap upto 1 year period should not exceed 15% of the cumulative cash outflows upto 1 year period. While the mismatches upto one year would be relevant since these provide early warning signals of impending liquidity problems, the focus should be on the short term mismatches of 1-14 days / over 14 days to 1 month. The company to monitor its cumulative mismatches across all time buckets by establishing internal prudential limits within 40% with the approval of the Board Management Committee.