ASSET LIABILITY MANAGEMENT POLICY AND SYSTEM

Prepared by Legal & Compliance Team

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Asset Liability Management Policy and System (ALM)

4.1 Objectives:

The objective of Asset Liability Management policy is to manage liquidity and Market risks. The Policy is an exposition of SSL'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

2 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. SSL is strongly committed to integrate basic operations and strategic decision making with risk management.

4.4 Asset - Liability Committee -

Members of the Committee:

1 Independent Director

1 Executive / Non - Executive Director

Periodicity of Convening – The Committee shall convene meetings at regular intervals during the Financial 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 on-going basis but also examines how liquidity requirements are likely to evolve under different 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 placing all cash inflows and outflows in the maturity ladder according to the expected timing of cash flows. 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 on going 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 templates given in RBI guidelines will 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 SSL is not accepting public deposits.

5. Capital and Funding planning:

a) Maintaining adequate Capital:

SSL has ample scope for further leveraging of its capital to meet its business requirements. SSL may leverage its capital ensuring its capital adequacy ratio is always above the minimum level prescribed by RBI. The optimum mix of own capital to borrowed funds would increase the total assets under management and will also improve the overall profitability. However, the optimum CRAR shall be based on the review of asset quality on a continuous basis.

The special reserves, which are not part of net worth as per RBI regulations, shall be utilized for any contingency on account of sudden increase in non-performing assets or major bad debts write-off .

b) Funding planning:

SSL would ensure that both short and long term funds requirements for its business are made available by way of bank borrowings in the form of term loans, cash credit, FCNR(B) loans, and market borrowings by raising funds through commercial papers, bonds, debentures and/or any other financial instrument. SSL shall endeavour to prepare a Contingency Funding Plan (CFP) to fund the normal operating requirements of the corporation in case of any stressed situation or asset-liability mismatch.

POLICY REVIEW :

The Policy would ideally be reviewed on an annual basis. However, the policy can be reviewed at short notice depending on the exigencies/extraordinary situations, which may emanate during the course of SSL business. Such extraordinary situations may include significant changes in Government/Reserve Bank of India policies, global/national macro- economic conditions, financial performance, etc. This Policy shall remain in force till the next revision is carried out and disseminated.

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