

**ASSET LIABILITY MANAGEMENT POLICY IN  
CENTRAL COOPERATIVE BANKS**

1. Asset Liability Management System has been introduced in the State/ Central Cooperative Banks based on the guidelines of Reserve Bank of India / NABARD.

The policy aims to attain effective Asset Liability Management with a view to manage liquidity risks and interest rate risks in course of operation of banking business.

Under the system, the structural liquidity statement, which measures the liquidity of banking operations and interest rate sensitivity statement, which measures the gap between the rate sensitive assets and rate sensitive liabilities shall be compiled and analysed on a monthly basis as on the last day of the month.

2. **Asset Liability Management (ALM) Desk:**

ALM Desk is constituted comprising of the Deputy Secretary/ Assistant Secretary/ Additional Secretary, Manager (Accounts) and Officer in-charge of Funds Management in the Bank :

- a) To initiate all steps for effective implementation of the ALM Policy.
- b) To collect monthly ALM data from all concerned, make analysis of the data and submit the same to Asset Liability Management Committee (ALCO) through the Managing Director of the Bank.
- c) To facilitate convening of the ALCO Meeting on a monthly basis and ensure its success by providing all the necessary information required by ALCO.
- d) Ensure implementation of decisions of the ALCO from time to time.
- e) Ensure reporting of data to Reserve Bank of India / NABARD/ Orissa State Cooperative Bank and all appropriate quarters within the stipulated time frame fixed for the purpose.

### 3. Organisational set up :

The organizational setup of Asset Liability Management System is through ALCO (Asset-Liability Management Committee) as constituted by the Managing Committee of the Bank with the following members.

i.	Secretary of the CCB	.....	Chairman
ii.	Additional Secretary/ Deputy Secretary/ Assistant Secretary	.....	Member
iii.	Manager (Accounts)	.....	Member Convenor
iv.	Manager (Loans)	.....	Member
v.	Manager (Computer)	.....	Member
vi.	Branch Manager (Gadar Branch)	.....	Member
vii.	Officer in-charge of Funds Management	.....	Member

### 4. Role and Responsibility of ALCO :

- (a) Ensure adherence to the exposure limits set by Managing Committee, suggest strategies for both Asset and Liability broadly in conformity with Bank's business targets and risk management objectives.
- (b) To consider / monitor risk levels of pricing of products both under deposits and advances, quantum of investments, borrowings and their maturity / periodicity in line with Banks ALM policy.
- (c) To review the results and progress of implementation.
- (d) To review monthly Structural Liquidity Statement (SLS), Interest Rate Sensitivity Statements (IRS) and other ALM related Statements. Based on the gaps viewed in the Statements, ALCO shall decide on the mix of various assets and liabilities keeping in view the market conditions and bank's business plans.
- (e) ALCO shall discuss implementation, risks involved of any new assets or liability products, having bearing on liquidity or interest income.
- (f) To monitor the quality of MIS especially with regard to ALM data collection and use of the same for business decisions.

To monitor liquidity mismatch in short, medium and long term, the structural liquidity statement compiled on the basis of the following scenario is adopted by the Managing Committee.

Roll over of Term Deposits	Behavioural Pattern		Remarks
	SB Deposits volatility	Current / Demand Deposits Volatility	
75%	10%	1 5%	Based on Bank's historical ALM Data

Considering the Reserve Bank of India/ NABARD/ Orissa State Cooperative Bank guidelines in respect of distribution of liabilities (outflows) and assets (inflows) and also as in the above table, the format of structural liquidity statement shall be followed.

#### 5.1. Tolerance Limits:

Keeping in view the mismatches on cash inflows and outflows, in order to get early warning signals of impending liquidity problems, as per the guidelines of the Reserve Bank of India/ NABARD/ Orissa State Cooperative Bank, negative tolerance limits are fixed as under.

Buckets	1-14 days	15-28 days	29 days up to 3 months	Over 3 months up to 6 months	Over 6 months up to 1 year	Over 1 year up to 3 year	Over 3 years up to 5 year	Over 5 years
Tolerance limits in %	-20	-20	-25	-15	-15	-10	-10	-30

These tolerance limits shall be reviewed / re-fixed at yearly intervals.

#### 5.2. Stress Tests:

ALCO shall review the stress on Banks liquidity profile by assuming role over of Term deposits at 25% and at 50% unlike as suggested above of 75% and suggest corrective steps if any to the Bank with the concurrence of the Managing Committee.

The Computer Department shall evolve suitable software and incorporate the same in the proposed Core Banking Solution (CBS) capable of conducting such stress / variance tests / analysis. Embedded options risk

The tolerance limits are fixed for various time buckets as under.

TIME BUCKETS	TARGET GAP AS % OF TOTAL ASSETS under normal scenario
1 – 28 Days	4.00
29 Days – 3 Months	4.00
> 3 Months – 6 Months	4.00
> 6 Months – 1 year	4.00

In the event of rate sensitive gaps go beyond the limits fixed above due to unforeseen circumstances, the Bank shall embark upon changing Asset and Liability sensitivity by adopting the following strategies.

- i) When interest rate is expected to increase (to reduce liability sensitivity).
  - Create more floating rate assets and fixed rate liability.
  - Create short-term assets to take advantage of re-pricing rates also reduced investment portfolio maturities.
- ii) When interest rate is expected to decrease (to reduce Asset sensitivity)
  - Create more fixed rate assets and floating rate liability and also extend investment portfolio maturities.
  - Create short term liability such as short term borrowings and floating rate deposits to take advantage of the decreasing re-pricing rates.

#### 7. Pricing of Deposits and Advances Products:

ALCO shall decide pricing of deposits and advances products based on recommendations of the Accounts Department (FAD) and Credit (Loans and Advances) Department and Funds Management Department.

The following important factors shall be taken into consideration by ALCO before clearing proposals of product pricing.

- a) Cost of funds to the Bank.
- b) Yield on advances and investments of SLR and Non SLR funds.
- c) Bank's current and past 2 years growth in deposits and advances.
- d) Pricing strategy of other Banks.
- e) The impact of the suggested rate change on Net Interest Income (NII).
- f) Interest rate perception on the future rate movements and the associated risks involved shall have a bearing on the pricing of deposit and loan products.
- g) The gaps in interest rate sensitivity statement.

#### 8. Reports:

The ALM Desk shall prepare the following reports and present the same before the ALCO on a monthly basis with recommendations of specific strategy if required.

- Statement of structured liquidity (SLS)
- Statement of Interest Rate sensitivity (IRS)
- Statement of Dynamic Liquidity
- Exceptional statement on exceeding tolerance limits.

ALM Desk also shall prepare and submit such reports / statements to the Managing Committee / regulatory authorities as would be required from time to time.

9. The ALCO shall review the following aspects of Asset Liability Management from time to time and place the same before the Managing Committee for decision as and when required.

- Acquisition and modification of software to gather large volume of qualitative ALM Data on a monthly basis or more frequently as would be required by the

Reserve Bank of India/ NABARD / Orissa State Cooperative Bank from time to time.

- Fixation of responsibility on the officers in each of the Branches and in the Head Office for generation of accurate data for the purpose of ALM.
- To develop and train branch staff / ALM people professionally in order to enable them to keep abreast with latest tools and techniques in these areas.
- To train the Concurrent Auditors to undertake the audit of ALM system in the Bank once in a year.
- To review and re-fix tolerance limits, on yearly basis and aim at maximizing gains to the Bank by adopting ALM system analysis and report to the Managing Committee.
- To review the ALM policy at regular intervals to adopt changes in guidelines those may be advised by Reserve Bank of India / NABARD/ Orissa State Cooperative from time to time and report to the Managing Committee.