

Asset Liability Management Policy (ALM Policy)
Version 1.0

Approved by
Board of Directors in their meeting held on May 06, 2019

Effective Date
May 06, 2019
Last Updated on February 05, 2024

Index

S. No.	Particulars	Page No.
1.	Preamble	3 - 4
2.	Background	4 - 5
3.	Glossary	5
4.	ALM Organisation And Responsibility	6
5.	ALM Process	6 - 7
6.	Capital Management	7
7.	Liquidity Risk Management	7 - 9
8.	Interest Rate Risk Management	9-11
9.	Profit Planning	11
10.	Stress Testing and Contingency Planning	11
11.	General	11 - 12
12.	Meeting of ALCO	12
13.	Monitoring and Reporting	12
14.	Reporting to the RBI	12
15.	Internal Control	13

1. PREAMBLE

a) Introduction

Bharti Telecom Limited ('BTL' or 'the Company') is an investment holding company. The Company is classified as a Core-Investment Company – Non-Deposit Taking Systemically Important (CIC-ND-SI) by RBI vide its certificate No. N-14.03465 dated January 15, 2019.

BTL is a promoter and an investment holding company of Bharti Airtel Limited ("Airtel"), a leading global telecommunications company with operations in 18 countries across Asia and Africa. Airtel ranks amongst the top 3 mobile service providers globally in terms of subscribers. The shares of Airtel are listed on the stock exchanges viz. NSE and BSE and forms part of both SENSEX and NIFTY index. The market capitalization¹ of Airtel is approx. Rs. 135,000 Crores. Accordingly, the market value of BTL's investment in Airtel on same date is approx. Rs. 67,510 Crores.

Bharti Group and Singtel Group are the major shareholders of BTL holding 98.97% of paid-up of its share capital. Bharti Group is one of India's leading conglomerates with diversified interests in telecom, insurance, real estate, agri and food, in addition to other ventures. Singtel Group, headquartered in Singapore has 140 years of operating experience and is one of the largest listed Singapore companies. The majority stake in Singtel is held by the Government of Singapore.

The sole business of BTL is to hold equity investment in Airtel which is strategic and long term in nature. At present, BTL does not have any NBFC operations also does not have any intent to carry out such activities/operations in future. BTL has obtained the registration as Non-Deposit taking Systemically Important Core Investment Company (CIC ND- SI) because of the requirements set out under the Master Direction - Core Investment Companies (Reserve Bank) Directions, 2016 (CIC Directions), where a Non-Banking Financial Company which is a Core Investment Company, having total assets of not less than ₹100 crore and which has "raised or holds public funds" is required to obtain registration from RBI. Once borrowings were raised by BTL, it was technically covered under the above directions and thus had to apply for the registration as CIC ND-SI.

Since, the Company, during the currency of its borrowings, shall be governed by the CIC Directions and other applicable regulations/guidelines/circulars issued by RBI, it is technically required to have this policy for asset liability management in place. This policy should be read in such limited context only, as there is no NBFC activities involved.

¹ As on May, 06, 2019.

b) Policy Objective

The purpose of this Asset Liability Management Policy ('ALM Policy') is to establish guidelines to ensure prudent management of assets and liabilities of the Company. These policy guidelines address management and reporting of capital, liquidity and interest rate risk.

This Policy has been framed in accordance with the "Master Direction - Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016" issued by the Reserve Bank of India (RBI).

Broadly this Policy:

- i. Forms part of the Company's internal control and governance arrangements;
- ii. Explains the Company's underlying approach to liquidity management. It also outlines key aspects of the risk management process related to ALM process and identifies the main reporting procedures;
- iii. In addition, it describes the policy framework which the Assets Liability Committee ("ALCO") and the Management will use to evaluate the effectiveness of the Company's internal control procedures.

This Policy shall be effective from May 06, 2019

c) Responsibility & Policy Review

The Assets Liability Committee (ALCO) constituted by the Board will monitor and supervise implementation of the Policy. The Policy and any significant changes therein shall be approved by the Board of Directors of the Company on the recommendation of the ALCO.

The Policy shall be reviewed as and when required by the applicable rules and regulations.

2. BACKGROUND

In the normal course, the NBFCs are exposed to Credit and Market Risks in view of the asset-liability transformation. With liberalization in Indian financial markets over the last few years, growing integration of domestic markets with external markets and entry of various types of players for meeting the credit needs of not only the corporate but also the retail segments, the risks associated with NBFCs operations have become complex and large, requiring strategic management. Competition for business and efficiency involving both the assets and liabilities has brought pressure on the management to maintain a good balance among spreads, profitability and long term viability. Imprudent liquidity management can put

earnings and reputation at risk. These pressures call for structured and comprehensive measures and not just ad hoc action.

Presently, the Company is classified as a Core-Investment Company – Non-Deposit Taking Systemically Important (CIC-ND-SI) and operates as an investment holding company of Bharti Airtel Limited (“Airtel”), a Telecom Service Provider. The investment made by the Company is solely into the equity shares of Airtel and is of long term in nature. However, for investable surplus which may occur from time to time the Company may be exposed to several risks such as Capital Management, Credit Risk, Liquidity Risk and Interest Rate Risk / operational risk. While management of Credit Risk of the Company shall be covered by its Credit Policy; Capital Management, Liquidity and Interest Rate Risk (ALM risks) shall be within domain of the ALCO, which has been addressed in the current policy.

The Company needs to address these risks in a structured manner, adopting comprehensive ALM practices. ALM Policy provides a comprehensive and dynamic framework for assessment, measuring, monitoring and managing ALM risks. It also involves altering the asset-liability portfolio in a dynamic way in order to manage ALM risks.

3. GLOSSARY

- a) **“Assets Liability Committee” (ALCO)** means a committee constituted by the Board of Directors. Such committee may comprise of one or more Board members, the Chief Executive and other senior executives of the Company for supervision of overall ALM framework of the Company and guidance thereto.
- b) **“Current investment”** means an investment which is by its nature readily realizable and is intended to be held for not more than one year from the date on which such investment is made.
- c) **“Long term investment”** means an investment other than a current investment.
- d) **“NPA”** means Non-Performing Asset/ Loans as defined by the RBI.

If at any point a conflict of interpretation / information between this Policy and any Regulations, Rules, Guidelines, Notifications, Clarifications, Circulars, Master Circulars/ Directions by the Reserve Bank of India (“RBI”) arise then, interpretation of such Regulations, Rules, Guidelines, Notification, Clarifications, Circulars, Master Directions issued by RBI shall prevail.

4. ALM ORGANISATION AND RESPONSIBILITY

Successful implementation of the risk management process would require strong commitment on the part of the management to integrate basic operations and strategic decision-making with proper risk management. The Board of Directors shall have overall responsibility of ensuring overall risk management framework at the enterprise level.

The Board of Directors will constitute the Assets Liability Committee ('ALCO') as per the applicable provisions. The ALCO will have responsibility to implement this ALM Policy and may specify limits for capital management, interest rates and liquidity risk. The ALCO will be responsible for ensuring adherence to the prudential limits set by the ALM Policy as well as for deciding the business strategy of the Company with respect to the assets and liabilities management in line with its budget and risk management objectives. The ALCO will also ensure compliance with requirements prescribed by the RBI.

ALCO will have fundamental role to supervise and guide the management of ALM risk within the Company. The ALCO will work under overall supervision of the Board of Directors.

ALCO will also have responsibility of complying with the guidance and risk limits set forth in this ALM Policy, administration and implementation of this ALM Policy on day to day basis. ALCO will also review and approve various ALM returns and related statements/ forms etc. required to be filed periodically with the RBI.

Role of ALCO shall, inter-alia, include:

- a. To implement the policies on ALM risk management within the Company.
- b. To codify processes on ALM risk management within the Company and ensure implementation.
- c. To analyse and monitor ALM risk profile of the Company and take corrective actions, wherever required.
- d. To provide adequate information in timely manner to ALCO on the status of risks and controls and system associate with it and provides reports to ALCO.
- e. ALCO will also provide forecasts on the balance sheets of the possible changes in the market conditions and recommend action for adherence to the limits set out by the ALCO.

5. ALM PROCESS

I. The ALM Process will rest on the following three pillars:

- a. ALM Information Systems
 - i) Management Information Systems

- ii) Information availability, accuracy, adequacy and expediency
 - b. ALM Organisation
 - i) Structure and responsibilities
 - ii) Level of top management involvement
 - c. ALM Process
 - i) Risk parameters
 - ii) Risk identification
 - iii) Risk measurement
 - iv) Risk management
 - v) Risk policies and tolerance levels.
- II. The Scope of ALM Function will be as under:
- a) Capital Management
 - b) Liquidity Risk Management
 - c) Market Risk Management
 - d) Interest Rate Risk Management
 - e) Funding and Capital Planning
 - f) Profit planning and growth projection
 - g) Forecasting and analyzing 'What If Scenario' and Preparation of Contingency Plans

The Policy address Capital Management, Liquidity Risk, Market Risk, Interest Rate risk management, Profit Planning and Contingency Planning.

6. Capital Management

ALCO will ensure maintenance and management of prudent capital levels for the Company to preserve its safety and soundness, to support desired balance sheet growth and realization of new business; and to provide a cushion against unexpected losses.

Various prudential capital ratios will be monitored and reported by the management to the ALCO on a quarterly basis.

7. Liquidity Risk Management

Measuring and managing liquidity needs are vital for effective operation of the Company. By ensuring timely satisfaction of its liabilities as they become due, liquidity management can reduce the probability of an adverse situation developing.

The Company's management will measure not only the liquidity positions on an ongoing basis but also examine how liquidity requirements are likely to evolve under different assumptions. Past experience of the market shows that assets commonly considered as

liquid, like Government securities and other money market instruments, could also become illiquid when the market and players are unidirectional. Therefore, liquidity should be tracked through maturity or cash flow mismatches.

Besides liquidity, management will ensure that funds are available for anticipated 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.

As a non-deposit taking NBFC-CIC, the Company currently depends on the following sources of liquidity:

- a) Operating cash on hand
- b) Funds held in permitted short-term investments
- c) Capital infusion by the Shareholders

The ALCO will be responsible for determining appropriate mix of available funding sources utilized to ensure company liquidity is managed prudently and appropriately. In this process, the ALCO will consider current economic and market environment, near-term loan growth projections and long-term strategic business decisions.

For measuring and managing net funding requirements, the use of a maturity ladder and calculation of cumulative surplus or deficit of funds at selected maturity dates is adopted as a standard tool.

Structural liquidity reporting: Structural liquidity reporting shall focus on assessing balance sheet mismatches (i.e. structural mismatches) between assets and liabilities. For this purpose, assets and liabilities are required to be classified under defined time buckets. A positive gap between assets and liabilities represents a cash inflow and a negative gap represents a cash outflow. Structural liquidity reporting is expected to cover 100% of the assets and liabilities including inflows and outflows corresponding to off-balance sheet items like derivative positions and contingent liabilities. The objective of structural liquidity reporting is to assess and minimize negative gaps in nearer time buckets which represent immediate liquidity requirements. The format of 'Statement of Structural Liquidity' prescribed by the RBI will be used for this purpose.

The Maturity Profile as prescribed should be used for measuring the future cash flows of the Company in different and time buckets. The time buckets, shall be distributed as under:

- a) 1 day to 7 days
- b) 8 day to 14 days
- c) 15days to 30/31 days (One month)
- d) Over one month and upto 2 months

- e) Over two months and upto 3 months
- f) Over 3 months and upto 6 months
- g) Over 6 months and upto 1 year
- h) Over 1 year and upto 3 years
- i) Over 3 years to 5 years
- j) 5 years+

Dynamic liquidity reporting: Dynamic liquidity reporting shall be based on forecasts provided by business units across different time buckets. Dynamic liquidity reporting is required to be undertaken over the next 6 month horizon based on the following time buckets:

- a) 1 – 14 days
- b) 15 – 30/31 days
- c) 1 Month – 2 Months
- d) 2 Months – 3 Months
- e) 3 Months – 6 months

Funding of negative gaps for dynamic liquidity reporting should be undertaken in line with the contingency plan. As a part of contingency plan, the Company would ensure that both short and long term funds requirement for its business are made available by way of bank borrowings, commercial papers, bonds, debentures, equity/preference shares and any other financial instrument.

Short Term deployment of funds in highly liquid debt instruments, as a part of Liquidity management, will be done in accordance with the extant Investment Policy of the Company. Short-term investments and excess cash will be managed in a manner that is consistent with liquidity needs, asset / liability strategies and safety and soundness concerns for the benefit of the Company and within the framework of relevant RBI & FDI guidelines.

The Company is an investment holding company. Due to nature of the Company's business and non-acceptance of deposits by it, its investment policy is based on capital protection, liquidity and then return. No equity exposure will be taken by the Company for trading purposes other than its own investee company.

Within each time bucket, there could be mismatches depending on cash inflows and outflows. The mismatches (negative gap) in 1 day to 1 year time buckets, i.e. the first seven time buckets defined earlier in this section, in the normal course should be Nil. As per the RBI guidelines, the mismatches (negative gap) during 1-7 days, 8-14 days, and 15-30 days shall not exceed 10%, 10% and 20% of the cumulative cash outflows in the respective time buckets.. While the mismatches upto one year would be relevant since these provide early warning signals of impending liquidity problems, the Company will monitor cumulative mismatches (running total) across all time buckets by establishing internal prudential limits

with the approval of the Board/ the ALCO. For the time being, the Company will strive to achieve following internal tolerance/prudential limits for structural liquidity under different time buckets as follows:

S. No.	Time Bucket	Structural Liquidity	
		Negative Gap as % of Cash outflow	Cumulative Negative Gap as % of cumulative cash outflow)
1	1 to 7 days	10%	10%
2	8 to 14 days	10%	10%
3	15 to 30/31 days	20%	20%
4	1 to 2 months	20%	20%
5	2 month to 1 year	20%	20%
6	1 year to 5 years	30%	30%
7	5 years onwards	40%	40%

Liquidity risk monitoring tools: The CFO/Treasury head shall monitor following on monthly basis and present the same to the ALCO on a quarterly basis:

- concentration of funding by counterparty/ instrument/ currency
- availability of unencumbered assets that can be used as collateral for raising funds
- Debt Equity ratio
- Debt Service coverage ratio
- Encumbered assets to unencumbered assets ratio
- Interest rates on the borrowings made by the Company
- breaches and regulatory penalties for breaches in regulatory liquidity requirements, if any

Stock approach to Liquidity: The Company shall also use stock approach in evaluating the liquidity risk. The CFO/Treasury head will monitor the relevant ratios on regular basis.

8. INTEREST RATE RISK MANAGEMENT

The operational flexibility available to the Company in pricing most of the assets and liabilities implies the need for hedging the Interest Rate Risk. Interest rate risk is the risk where changes in market interest rates might adversely affect the Company's financial condition. The changes in interest rates affect an NBFC in a larger way.

The immediate impact of changes in interest rates would be on the Company's earnings (i.e. reported profits) by changing its Net Interest Income (NII). A long-term impact of changing

interest rates would be on the Company's Market Value of Equity (MVE) or Net Worth as the economic value of the Company's assets, liabilities and off-balance sheet positions may get affected due to variation in market interest rates. The interest rate risk when viewed from these two perspectives is known as 'earnings perspective' and 'economic value perspective', respectively. The risk from the earnings perspective can be measured as changes in the Net Interest Income (NII) or Net Interest Margin (NIM).

There are many analytical techniques for measurement and management of Interest Rate Risk. To begin with, the traditional Gap analysis is considered as a suitable method to measure the Interest Rate Risk in the first place. Over the period of time when the Company would acquire sufficient expertise and sophistication in generating and managing MIS or as and when the regulatory requirement would arise, the Company would move over to the modern techniques of Interest Rate Risk measurement like Duration Gap Analysis, Simulation and Value at Risk etc.

The various items of Rate Sensitive Assets and Liabilities and off-balance sheet items may be classified and the reporting format for Interest Rate Sensitive Assets and Liabilities will be as per the format prescribed by the RBI.

The GAP is 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 RLAs. The gap reports will indicate whether the Company is in a position to benefit from rising interest rates by having a positive Gap ($RSA > RSL$) or whether it is in a position to benefit from declining interest rates by a negative Gap ($RSL > RSA$). The gap can, therefore, be used as a measure of interest rate sensitivity.

Time buckets for interest rate sensitivity reporting

- a) 1 day to 14 days
- b) 15 days – 30/31 days
- a) Over 1 month and upto 2 month
- b) Over 2 months and upto 3 months
- c) Over 3 months and upto 6 months
- d) Over 6 months and upto 1 year
- e) Over 1 year and upto 3 years
- f) Over 3 years and upto 5 years
- g) Over 5 years

The Company shall for purpose of reporting cover 100% of the assets and liabilities for interest rate sensitivity report. Non-rate sensitive assets and liabilities shall not be considered for this report. Off-balance sheet items that are rate sensitive shall also be fully covered for the purpose of interest rate sensitivity reporting.

The Company will set prudential limits on individual Gaps with the approval of the ALCO. The prudential limits shall have a relationship with the Total Assets, Earning Assets or Equity. The ALCO may also work out Earnings at Risk (EaR) or Net Interest Margin (NIM) based on its views on interest rate movements and fix a prudent level.

Mismatches between rate sensitive assets and liabilities are required to be managed by Treasury. In an ideal scenario, Treasury is required to compute modified duration of assets and liabilities and manage mismatches at a balance sheet level. However, in the absence of modified duration computations, the Treasury will report to ALCO who will instruct business units to attempt to match mismatches by revising re-pricing periods.

The agenda of each regularly scheduled ALCO meeting will include a review of the Statement of Interest Rate Sensitivity and a discussion of Interest Rate risk management practices applicable to the Company.

9. PROFIT PLANNING

As per RBI guidelines, the scope of the ALM function includes profit planning. The management / business units, if any along with Treasury will determine the acceptable spread based on prevailing market rates and credit risk associated with the specific advance. The objective of the ALM function will also be to determine the transfer price to facilitate market based pricing.

ALCO shall review the NIMs and shall also supervise the performance of the Company's investment portfolio. Additionally, it will also ensure that the impact on profitability is reported for scenarios of changes in interest rates up to 250 bps once ALM system is implemented.

10. STRESS TESTING AND CONTINGENCY PLANNING

STRESS TESTING

The CFO/Treasury head shall conduct the stress testing on quarterly basis after taking following in to account:

1. Business risk
2. Funding sources risk
3. Interest rate risk
4. off-balance sheet exposures on account of
 - a. special purpose vehicles,
 - b. financial derivatives and

- c. guarantees and commitments

On quarterly basis, apart from actual cash flow projections and liquidity positions, the management will also present cash flow projections and liquidity position based on “*What if scenario*” after taking into account of results of stress testing.

CONTINGENCY PLANNING

Contingencies should be assessed by the Company from the following perspectives:

- Inability to fund negative dynamic gaps
- Structural liquidity gaps exceeding defined values
- Impact on NIM as a result of interest rate risk
- Breach of internal prudence limits of ratios used in stock base approach to liquidity

ALCO shall look for various sources/avenues of funds in case of contingent situations, including but not limited to following:

- Rollover of existing facilities
- Drawing fresh credit lines using unencumbered assets
- Commitment from Promoters and major shareholders
- Monetization of investments

The action plan and escalation trigger for each contingency level should be enforced based on the following matrix :

Contingency Levels	Funding Source	Estimated Amount which can be funded	Lead time needed to tap these funds	Escalation Matrix	Procedure to tap these funds
I – Negative Gap as % of Cash outflow in 1-30/31 days time bucket exceeds 20% but	Short Term Funds/Roll over of existing facilities	Amount equivalent to liabilities becoming due in 1 to 3 months	15 days	Management ↓ CFO	The Management shall immediately look funds from Market/Group Companies

does not exceed 50%					
II - Negative Gap as % of Cash outflow in 1-30/31 days time bucket exceeds 50% but does not exceed 75%	Commitment from Promoters and major shareholders	Amount equivalent to liabilities becoming due in 1 to 3 months	30 days	CFO ↓ ALCO ↓ Board	1. ALCO based on recommendation of management, will hold a meeting and recommend to the Board of Directors 2. Board of Directors will request to Promoters and Shareholders
III - Negative Gap as % of Cash outflow in 1-30/31 days time bucket exceeds 75%	Monetization of long term investments	Amount equivalent to liabilities becoming due in 1 to 1 year	45 days	CFO ↓ ALCO ↓ Board ↓ Promoters/ Shareholders	1. ALCO based on recommendation of management, will recommend to the Board of Directors 2. Board of Directors will hold the Board Meeting and will recommend to Shareholders for approval

Cash Buffer

In case the management finds it difficult to raise long term and short term funds from banks as well as the capital markets due to the negative sentiment in the market for any reason whatsoever, ALCO on a conservative basis may keep 3 months of liabilities and expenses available in cash i.e. liquid funds or fixed deposits or sanctioned and other immediately drawable limits to cover from any kind of ALM mismatch.

11. GENERAL

The classification of various components of assets and liabilities into different time bucket for preparation of Gap reports (Liquidity and Interest Rate Sensitivity) is based on the benchmark prescribed by the RBI. The Company when better equipped to reasonably estimate the behavioral pattern of various components of assets and liabilities on the basis of past data / empirical studies and will classify them in the appropriate time buckets, subject to approval from the ALCO or the Board.

The present framework does not capture the impact of prepayment of loans and advances on the liquidity and interest rate risks profile of the Company. The Company, over the period of time, may evolve suitable mechanism, supported by empirical studies and behavioral analysis to estimate the future behavior of assets, liabilities and off-balance sheet items to changes in market variables and estimate the probabilities of options.

A scientifically evolved internal transfer pricing model by assigning values on the basis of current market rates to funds provided and funds used is an important component for effective implementation of ALM system. The transfer price mechanism can enhance the management of margin i.e. lending or credit spread, the funding or liability spread or mismatch spread. It also helps centralizing interest rate risk at one place which facilitates effective control and management of interest rate risk. A well-defined transfer pricing system also provides a rational framework for pricing of assets and liabilities.

12. MEETING OF ALCO

Meeting of ALCO will be conducted at least once in a quarter or as and when required or as may be decided by the Board from time to time.

13. MONITORING AND REPORTING

The following reports will be placed before the ALCO depicting status of compliance with established guidelines outlined in this ALM Policy and in accordance with guidelines by the RBI:

- a) Capital Adequacy Statement – Quarterly

- b) Statement of Structural Liquidity – Half Yearly
- c) Statement of Dynamic (short-term) Liquidity – Quarterly
- d) Statement of Interest Rate Sensitivity – Half Yearly
- e) Disclosure in Balance Sheet, Exp. to Real Estate etc. - Annual

Any exceptions to this policy will be reported to the ALCO in the very next meeting of the Committee after such policy exception is identified.

14. REPORTING TO THE RBI

The statements and the returns will be furnished to the RBI as per the regulatory requirements, within the stipulated time-period.

15. INTERNAL CONTROL

Effective internal controls are integral part of managing risk. Pursuant to the guidelines set forth in this ALM Policy, adequate controls will have to establish to ensure proper management of ALM risk.

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