

# **Asset Liability Management Policy**



## **Asset-Liability Management policy**

## Asset Liability Management Policy

### Summary of Policy

<b>Policy Name</b>	Asset Liability Management Policy
<b>Issue and Effective date</b>	April 19, 2011
<b>Date of last review</b>	September 15, 2020
<b>Date of current review</b>	June 21, 2021
<b>Date of next review</b>	On or before June 2022
<b>Periodicity of review</b>	Annual
<b>Owner / Contact</b>	Compliance
<b>Approver</b>	Board of Directors
<b>Annexures</b>	Appendix A: Maturity Profile Appendix B: Interest Rate Sensitivity

## Asset Liability Management Policy

### 1. Preamble

The Board of Directors (“**Board**”) of DMI Finance Private Limited (“**Company**” or “**DMI**”), has adopted the following policy to establish guidelines to ensure prudent management of assets and liabilities. These guidelines address management and reporting of capital, liquidity, and interest rate risk.

### 2. Purpose

This Policy has been framed in accordance with the ALM framework as issued by Reserve Bank of India (“**RBI**”) vide Master Direction DNBR. PD. 008/03.10.119/2016-17 dated September 01, 2016 (“**RBI Circular**”) and amendments thereon.

This policy intends to establish the importance of ALM systems that need to be put in place since intense competition for business involving both the assets and liabilities requires the Company to maintain a good balance among spreads, profitability, and long-term viability. Imprudent liquidity management can put DMI’s earnings and reputation at great risk. The Company’s management needs to base their business decisions on a dynamic and integrated risk management system and process, driven by corporate strategy. DMI is exposed to several major risks during its business i.e.

- Credit risk,
- Interest rate risk,
- Equity / commodity price risk,
- Liquidity risk and
- Operational risk.

It is, therefore, important that DMI introduces effective risk management systems that address the issues relating to interest rate and liquidity risks. This policy also defines the process that Asset-Liability Committee (“**ALCO**”) will use to evaluate the effectiveness of the DMI’s internal control procedures.

### 3. Definitions

- “**ALCO**” means Asset Liability Committee
- “**ALM**” means Asset Liability Management
- “**Board**” means Board of Directors of the Company.
- “**Company**” means DMI Finance Pvt. Ltd.
- “**CP**” means Commercial Paper
- “**Directors**” mean individual Director or Directors on the Board of the Company.
- “**DMI**” means DMI Finance Pvt. Ltd.
- “**NCD**” means Non-Convertible Debentures

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- “Policy” means Asset Liability Management Policy
- “RBI” means Reserve Bank of India

### 4. Policy

#### *4.1 Role and Responsibilities of ALCO*

The ALCO constituted by the Board of Directors shall be responsible for ensuring adherence to various operational limits set by the Board of Directors as well as deciding the business strategy of DMI (assets and liabilities) in line with overall business objectives. The adherence would also ensure that the statutory compliances set out by the Reserve Bank of India (‘RBI’) are complied with.

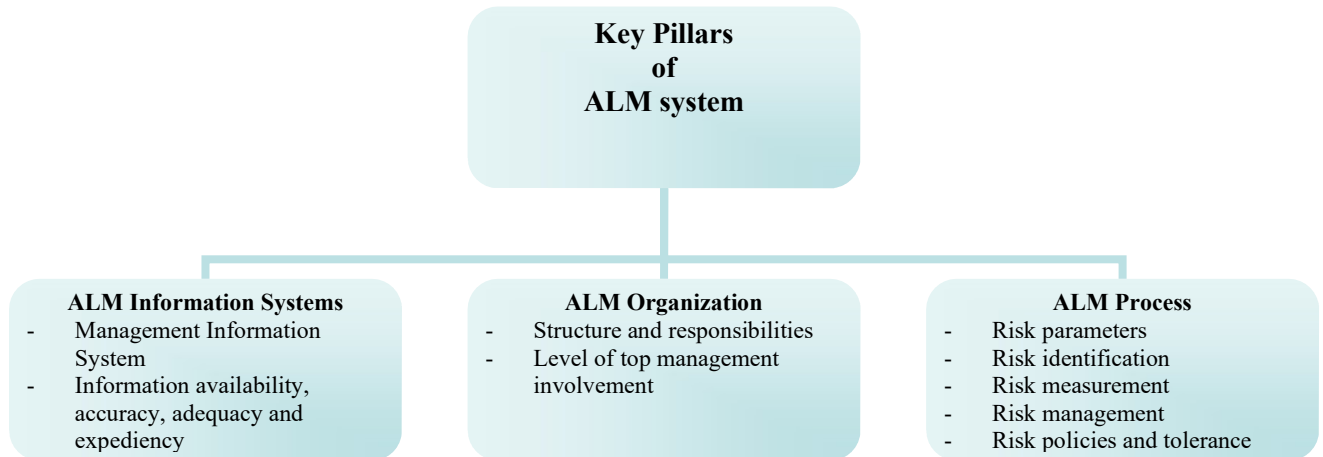
The ALCO shall perform the following roles and responsibilities:

- a) Understanding business requirement and devising appropriate pricing strategies
- b) Management of profitability by maintain relevant Net interest margins(NIM)
- c) Ensuring Liquidity through maturity matching.
- d) Management of balance sheet in accordance with internal policies and applicable regulatory requirements.
- e) Ensure the efficient implementation of balance sheet management policies as directed by ALCO.
- f) Review reports on liquidity, market risk and capital management.
- g) To identify balance sheet management issues that are leading to under-performance and ensure corrective action.
- h) Ensuring appropriate mix of different forms of debt i.e. Bank Loans, Commercial Paper, Non-Convertible Debentures, etc.
- i) Giving directions to the ALM team on the interest rate risk.
- j) ALCO delegates the daily management of liquidity risk and interest rate risk to ALM.
- k) Approving major decisions affecting DMI’s risk profile or exposure (product pricing for advances, desired maturity profile and mix of the incremental assets and liabilities, prevailing interest rates offered by peer NBFCs for the similar services/product, etc).
- l) Satisfy itself that the less fundamental risks are being actively managed, with the appropriate controls in place and working effectively.
- m) Articulate the current interest rate review and formulate future business strategy on this view.

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### 4.2 Key Pillars of ALM

ALM system of the Company is based on the following key pillars:



#### I. ALM Information systems

- **MIS**

ALM needs be supported by a management philosophy which clearly specifies the risk policies and tolerance limits. This framework needs to be built on sound methodology with necessary information system as back up. Thus, information is the key to the ALM process. There are various methods prevalent world-wide for measuring risks. These range from the simple Gap Statement to extremely sophisticated and data intensive Risk Adjusted Profitability Measurement methods.

- **Information availability, accuracy, adequacy and expediency**

However, though the central element for the entire ALM exercise is the availability of adequate and accurate information with expedience; and the systems existing. Adequate measures are to be taken to collect accurate data in a timely manner through computerization.

#### II. ALM Organization

- **Structure and responsibilities**

Successful implementation of the risk management process shall require strong commitment on the part of the senior management in the NBFC, to integrate basic operations and strategic decision making with risk management. The Board shall have overall responsibility for management of risks and shall decide the risk management policy of the NBFC and set limits for liquidity, interest rate and equity price risks.

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### **- Level of top management involvement**

#### **Asset - Liability Committee (ALCO)**

The Asset - Liability Committee (ALCO) consisting of the DMI's senior management including Joint Managing Directors shall be responsible for ensuring adherence to the limits set by the Board as well as for deciding the business strategy of DMI (on the assets and liabilities sides) in line with the DMI's budget and decided risk management objectives.

The ALM Support Groups consisting of operating staff shall be responsible for analyzing, monitoring, and reporting the risk profiles to the ALCO. The staff shall also prepare forecasts (simulations) showing the effects of various possible changes in market conditions related to the balance sheet and recommend the action needed to adhere to Company's internal limits.

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. The business and risk management strategy of the Company shall ensure that it operates within the limits / parameters set by the Board. The business issues that an ALCO shall consider, inter alia, shall include product pricing for both deposits and advances, desired maturity profile and mix of the incremental assets and liabilities, prevailing interest rates offered by other peer NBFCs for the similar services/product, etc. In addition to monitoring the risk levels of the NBFC, the ALCO shall review the results of and progress in implementation of the decisions made in the previous meetings. The ALCO shall also articulate the current interest rate view of the NBFC and base its decisions for future business strategy on this view. In respect of the funding policy, for instance, its responsibility shall be to decide on source and mix of liabilities or sale of assets. Towards this end, it will have to develop a view on future direction of interest rate movements and decide on funding mixes between fixed vs floating rate funds, wholesale vs retail deposits, money market vs capital market funding, domestic vs foreign currency funding, etc. Individual NBFCs shall have to decide the frequency of holding their ALCO meetings.

#### ***Board of Directors Meeting and Reviews***

The Board of directors in their Board meetings will oversee the implementation of the system and review its functioning periodically.

### **III. 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

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- (iv) Profit planning and growth projection
- (v) Forecasting and analyzing 'What if scenario' and preparation of contingency plans

### (i) Liquidity Risks Management

Measuring and managing liquidity needs are vital for effective operation. Liquidity management can reduce the probability of an adverse situation developing. DMI management shall measure not only the liquidity positions on an ongoing basis but also examine how liquidity requirements are likely to evolve under different assumptions. Experience 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 has to be tracked through maturity or cash flow mismatches.

In addition to the above the Board had approved the avenues for deployment of temporary liquidity.

ALCO is responsible for determining the appropriate mix of available funding sources utilized to ensure Company liquidity is managed prudently and appropriately. With regard to the process of liquidity management, ALCO shall consider the 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 to be adopted as a standard tool. The format of the Statement of Structural Liquidity should be as given on <https://xbrl.rbi.org.in/orfsxbrl/>.

The Maturity Profile as given in *Appendix A* would be used for measuring the future cash flows of DMI in different time buckets as under:

- (i) 0 days to 7 days
- (ii) 8 days to 14 days
- (iii) 15 days to 30/31 days
- (iv) Over one month and upto 2 months
- (v) Over two months and upto 3 months
- (vi) Over 3 months and upto 6 months
- (vii) Over 6 months and upto 1 year
- (viii) Over 1 year and upto 3 years
- (ix) Over 3 years and upto 5 years
- (x) Over 5 years

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### **Granular Maturity Buckets and Tolerance Limits**

The 1-30 days' time bucket in the Statement of Structural Liquidity is segregated into granular buckets of 1-7 days, 8-14 days, and 15-30 days. The net cumulative negative mismatches in the maturity buckets of 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.

However, in reference with RBI circular dated November 04, 2019, the company will monitor cumulative mismatches (running total) across all other time buckets upto 1 year and the cumulative negative mismatch in the maturity buckets upto 1 year shall not go beyond 15%.

### **Investments as a part of liquidity management (see the DMI Investment Policy for details)**

Short-term investments and excess cash shall be managed in a manner that is consistent with liquidity needs, asset/liability strategies and safety and soundness concerns for the benefit of DMI and within the framework of guidelines stated by RBI. Please refer to the investment policy for details.

DMI's all investment securities may be placed in any of the time buckets depending upon the residual maturity period proposed by DMI. The unlisted securities (e.g.; equity shares, securities without a fixed term of maturity etc.) may be placed in the "Over 5 years" buckets, whereas unlisted securities having a fixed term of maturity may be placed in the relevant time bucket as per residual maturity. DMI's current investments may be shown under appropriate time bucket below one year and long-term investments may be shown under "over 5 years" time bucket based on the estimation by the management of DMI. However, if DMI acquired the shares of the assisted units as part of the initial financing package may be slotted in the relative time bucket keeping in view the pace of project implementation/time-overrun, etc., and the resultant likely timeframe for divesting such shares.

The Statement of Structural Liquidity should be 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.

While determining the likely cash inflows / outflows, DMI have to make a number of assumptions according to its asset - liability profiles. While determining the tolerance levels, DMI may take into account all relevant factors based on their asset-liability base, nature of business, future strategy, etc. The RBI is interested in ensuring that the tolerance levels are determined keeping all necessary factors in view and further refined experience gained in Liquidity Management.

In order to monitor short-term liquidity on a dynamic basis over a time horizon spanning from 0 day to 6 months, DMI may estimate its short-term liquidity profiles on the basis of



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business projections and other commitments for planning purposes. The format) for estimating dynamic Liquidity can be referred on <https://xbrl.rbi.org.in/orfsxbrl/>.

The guidelines given in this note mainly address management of risks associated with capital management, liquidity, and interest rate fluctuations. Risk identification is not an annual process and hence employees are encouraged to dynamically assess changes that may occur throughout the year.

### **Cash Buffer**

Due to liquidity crunch witnessed by the financial sector over the past decade due to various economic and governance factors within the sector amongst some companies due to which Non-Banking Financial Company (“NBFCs”) and Housing Finance Companies (“HFCs”) found it difficult to raise long term and short term funds from banks as well as the capital markets due to the negative sentiment towards the NBFC and HFC sector. Due to such liquidity crunch in the market, the cost of borrowing also increased significantly due to which the Company on a conservative basis may keep 6 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.

It was also decided that an update to the senior management on the present market situation and its impact on the business of the Company be provided on a weekly basis.

### **Resource Allocation**

Considering the Assets of the Corporate and the Consumer Business, ALCO has decided to have the following short term and long-term resources for the company depending on the business plans for FY 2019-20:

- Short term- Cash Credit Limits/Commercial Paper- 25%
- Long Term- Bank Borrowing/NCD's/ECB/ Other Long-term borrowings- 75%

These limits have been allocated based on past borrowing trends and also depending on the requirements of each business line and operations. Such % of resources can vary depending upon availability of the funds from the market and the same will be decided/changed by ALCO accordingly.

### **(ii) Currency Risk**

Floating exchange rate arrangement has brought in its wake pronounced volatility adding a new dimension to the risk profile of the NBFC's balance sheets having foreign assets or liabilities. The increased capital flows across free economies following deregulation have contributed to increase in the volume of transactions. Large cross border flows together with the volatility has rendered the DMI's balance sheets vulnerable to exchange rate movements.

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The Joint Managing Director's are authorized to negotiate the forex conversion rates with the Authorized dealers/banks as and when any foreign investment is received by the Company or any foreign remittance in the form of interest payments/ any other payment is made by the Company.

### (iii) Interest Rate Risk ('IRR')

IRR management and reporting helps identify potential risks to earnings and capital resulting from adverse fluctuations in market interest rates. It also identifies asset/funding balance and re-pricing mismatches. Proper identification of potential risks and mismatches assists management in devising asset/liability strategies to minimize these potential risks.

The Gap or Mismatch risk can be measured by calculating Gaps over different time intervals as at a given date. Gap analysis measures mismatches between rate sensitive liabilities and rate sensitive assets (including off-balance sheet positions). An asset or liability is normally classified as rate sensitive if:

- (i) Within the time interval under consideration, there is a cash flow;
- (ii) The interest rate resets/re-prices contractually during the interval;
- (iii) Dependent on RBI changes in the interest rates/Bank Rate;
- (iv) It is contractually pre-payable or withdrawal before the stated maturities.

The Gap Report should be generated by grouping rate sensitive liabilities (NIL in DMI's case), assets and off-balance sheet positions into time buckets according to residual maturity or next re-pricing period, whichever is earlier. The difficult task in Gap analysis is determining rate sensitivity. All investments, advances, deposits, borrowings, purchased funds, etc. that mature/re-price within a specified timeframe are interest rate sensitive. Similarly, any principal repayment of loan is also rate sensitive if DMI expects to receive it within the time horizon. This includes final principal payment and interim installments. Certain assets and liabilities to receive/pay rates that vary with a reference rate. These assets and liabilities are re-priced at pre-determined intervals and are rate sensitive at the time of re-pricing. While the interest rates on term deposits are fixed during their currency, the tranches of advances portfolio are basically floating. The interest rates on advances received could be re-priced any number of occasions, corresponding to the changes in PLR.

The Gaps may be identified in the following time buckets:

- (i) 1-7 days
- (ii) 8-14 days
- (iii) 15-30/31 days (One month)
- (iv) Over one month to 2 months
- (v) Over two months to 3 months
- (vi) Over 3 months to 6 months
- (vii) Over 6 months to 1 year
- (viii) Over 1 year to 3 years

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- (ix) Over 3 years to 5 years
- (x) Over 5 years

The various items of rate sensitive assets and liabilities and off-balance sheet items may be classified as explained in **Appendix B** and the Reporting Format for interest rate sensitive assets and liabilities is given on <https://xbrl.rbi.org.in/orfsxbrl/>.

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 RLAs. The Gap reports indicate whether DMI 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.

The Company shall set prudential limits on individual gaps with the approval of the Board Committees. The prudential limits shall have a relationship with the total assets, earning assets or Equity. The Company may work out Earnings at Risk (EaR) or Net Interest Margin (NIM) based on their views on interest rate movements and fix a prudent level with the approval of the Board Committees. For working out EaR or NIM any of the current models may be used.

### General

***The classification of various components of assets and liabilities into different time buckets for preparation of Gap reports (Liquidity and Interest Rate Sensitivity) as indicated in Appendices A & B is the benchmark. DMI when better equipped to reasonably estimate the behavioral pattern of various components of assets and liabilities on the basis of past data / empirical studies will classify them in the appropriate time buckets, subject to approval from the ALCO / Board.***

The present framework does not capture the impact of premature closure of deposits and prepayment of loans and advances on the liquidity and interest rate risks profile. The magnitude of premature withdrawal of deposits at times of volatility in market interest rates is quite substantial. DMI, therefore, should 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. Detailed clauses pertaining to premature exit or prepayment would be clearly stated in the loan agreement.

### 4.3 Meeting of ALCO

The meetings of the ALCO shall be meet frequently but no later than half yearly and at least 2 meetings will be held in each year. Apart from the members, CFO and persons involved in fund raising activities can also be a part of the meeting but would not form part of quorum.

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### *4.4 ALM Reporting*

Comprehensive reporting is designed to monitor key risks and their controls as per the NBFC regulations as enacted from time to time by RBI. Decisions relating to any corrective action are made as and when they seem necessary.

The following reports will be provided to ALCO showing compliance with established guidelines outlined in this policy and in accordance with guidelines established by RBI.

- Quarterly, DNBS 3 XBRL return in place of NBS-7
- Quarterly Return on important financial parameters
- Quarterly DNBS 4A XBRL return in place of NBS-ALM1
- Monthly DNBS4 B XBRL return in place of NBS-ALM2 and NBS-ALM3

Exceptions to guidelines outlined in this policy will be reported to ALCO no later than the next regularly scheduled meeting after a policy exception is identified.

### *4.5 Policy Review and Approval*

The policy governing financial risk management activities and guidelines described herein shall be submitted to the ALCO of DMI at least **Annually** for review and approval.

### *4.6 Internal Controls*

Effective internal controls are an integral part of managing financial risk. Pursuant to the guidelines set forth in this policy, adequate controls must be established to ensure proper management of financial risks and to provide safeguards against mismanagement of DMI funds and capital resources.

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### GLOSSARY

1. **Current Investments** – In accordance with the RBI Directions referred above and Accounting Standard 13 ('AS-13') issued by the Institute of Chartered Accountants of India ('ICAI'), investments that, by their nature are readily realizable and are intended to be held for not more than a year from the date on which such investments are made, are to be classified as current investments.
2. **Long Term Investments** – As per the RBI Directions and ICAI's AS-13, a long-term investment is defined as on that which is other than a current investment.
3. **Non-performing asset/Loans ("NPA")** means:
  - an asset will be declared as NPA, in respect of which following are overdue:
    - a. Interest
    - b. term loan installment inclusive of unpaid interest
    - c. demand or call loan
    - d. bill
    - e. the interest in respect of a debt or the income on receivables under the head 'other current assets' in the nature of short term loans/advances
    - f. any dues on account of sale of assets or services rendered or reimbursement of expenses incurred:
      - Over 3 months from April 01, 2017 onwards

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### Appendix-A

#### Maturity Profile –Liquidity

<u>Heads of Accounts</u>	<u>Time-bucket category</u>
<b>A. Outflows</b>	
<b>1. Capital funds</b>	
a) Equity capital, Non-redeemable or perpetual preference capital, Reserves, Funds and Surplus	In the 'over 5 years' time-bucket.
b) Preference capital - redeemable/nonperpetual	As per the residual maturity of the shares.
<b>2. Grants, donations and benefactions</b>	The 'over 5 years' time-bucket. However, if such gifts, grants, etc. are tied to specific end-use, then these may be slotted in the time-bucket as per purpose/end-use specified.
<b>3. Notes and Bonds</b>	
a) Plain vanilla bonds	As per the residual maturity of the instruments
b) Bonds/debentures with embedded call/put options (including zero-coupon/deep discount bonds)	As per the residual period for the earliest exercise date for the embedded option.
c) Fixed rate notes	As per the residual maturity
<b>4. Deposits</b>	
a) Term deposits from public	As per the residual maturity.
b) Others	As per the residual maturity.
<b>5. Borrowings</b>	
a) Term money borrowings	As per the residual maturity
b) From RBI, Govt. & others	-do-
c) Bank borrowings in the nature of WCDL, CC etc	Over six months and up to one year
<b>6. Current liabilities and provisions</b>	
a) Sundry creditors	As per the due date or likely timing of cash outflows. A behavioral analysis could also be made to assess the trend of out flows and the amounts slotted accordingly.
b) Expenses payable (other than interest)	As per the likely time of cash outflow
c) Advance income received, receipts from borrowers pending adjustment	In the 'over 5 years' time-bucket as these do not involve any cash outflow
d) Interest payable on deposits and borrowings	In respective time buckets as per the due date of payment.
e) Provisions for NPAs	The amount of provision may be netted out from the gross amount of the NPA portfolio and the net amount of NPAs be shown as an item under inflows in stipulated time buckets.

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f) Provision for Investments portfolio	The amount may be netted from the gross value of investments portfolio and the net investments be shown as inflow in the prescribed time-slots. In case provisions are not held security-wise, the provision may be shown on "over 5 years" time bucket.
g) Other provisions	To be bucketed as per the purpose/nature of the underlying transaction.
<b>7. Statutory Dues</b>	As per residual maturity.
<b>8. Unclaimed Deposits</b>	As per residual maturity.
<b>9. Any Other Unclaimed Amount</b>	As per residual maturity.
<b>10. Debt Service Realisation Account</b>	As per residual maturity.
<b>11. Outflows On Account of Off Balance Sheet Exposure</b>	
<b>B. Inflows</b>	
<b>1. Cash</b>	In 0-7-day time-bucket
<b>2. Remittance in transit</b>	---do---
<b>3. Balances with banks (in India only)</b>	
a) Current account	The stipulated minimum balance be shown in 6 months to 1-year bucket. The balance in excess of the minimum balance be shown in 0 to 7 and 8-14 day time bucket.
b) Deposit accounts/short term deposits	As per residual maturity.
<b>4. Investments (net of provisions)</b>	
a) Mandatory investments	As suitable to the NBFC
b) Non- Mandatory Listed	"1 day to 30/31 days (One month)" Over one month and upto 2 months" and "Over two months and upto 3 months" buckets depending upon the defeasance period proposed by the NBFCs
c) Non- Mandatory unlisted securities (e.g. shares, etc)	"Over 5 years"
d) Venture capital units	In the 'over 5 year' time bucket.
<b>5. Advances (performing)</b>	
a) Bill of Exchange and promissory notes discounted and rediscounted	As per the residual usance of the underlying bills.
b) Term loans (rupee loans only)	The cash inflows on account of the interest and principal of the loan may be slotted in respective time buckets as per the timing of the cash flows as stipulated in the original/revised repayment schedule.
c) Interest to be serviced through regular schedule	As per the residual maturity

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d) Interest to be serviced to be in bullet payment	As per the residual maturity
<b>6. Non-performing loans (May be shown net of the provisions, interest suspense held)</b>	
<b>a) Sub-standard</b>	
i) All overdues and instalments of principal falling due during the next three years	In the 3 to 5-year time-bucket.
ii) Entire principal amount due beyond the next three years	In the over 5 years' time-bucket
<b>b) Doubtful and loss</b>	
i) All instalments of principal falling due during the next five years as also all overdues	In the over 5-year time-bucket
ii) Entire principal amount due beyond the next five years	In the over 5-year time-bucket
<b>8. Assets on lease</b>	Cash flows from the lease transaction may be slotted in respective time buckets as per the timing of the cash flow.
<b>9. Fixed assets (excluding leased assets)</b>	In the 'over 5 year' time-bucket
<b>10. Other assets</b>	
(a) Intangible assets and items not representing cash inflows.	In the 'over 5 year' time-bucket.
(b) Other items (such as accrued income, other receivables, staff loans, etc.)	In respective maturity buckets as per the timing of the cashflows
c) Others	
<b>10. Security Finance Transactions</b>	
a) Repo	As per the residual maturity
b) Reverse Repo	As per the residual maturity
c) CBLO	As per the residual maturity
d) Others	
<b>C. Contingent liabilities</b>	
(a) Bills discounted/rediscouted	As per the residual maturity
(b) Loan commitments pending disbursal (inflow)	In the respective time buckets as per the sanctioned disbursement schedule.
(c) Lines of credit committed to/by other Institutions (outflow/inflow)	As per usance of the bills to be received under the lines of credit.

**Note:**

- a) Any event-specific cash flows (e.g. outflow due to wage settlement arrears, capital expenses, income tax refunds, etc.) should be shown in a time bucket corresponding to timing of such cash flows.



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- b) All overdue liabilities be shown in the 1 to 30/31 days time bucket.
- c) Overdue receivables on account of interest and installments of standard loans / hire purchase assets / leased rentals should be slotted as below:

(i) Overdue for less than one month.	In the 3 to 6 months bucket
5. Interest overdue for more than one month but less than seven months (i.e. before the relative amount becomes past due for six months)	In the 6 to 12 months bucket without reckoning the grace period of one month.
6. Principal instalments overdue for 7 months but less than one year	In 1 to 3 years bucket.

### d) Financing of gaps:

The negative gap (i.e. where outflows exceed inflows) in the 1 to 30/31 days time-bucket should not exceed the prudential limit of 15 % of outflows of each time-bucket and the cumulative gap upto the one-year period should not exceed 15% of the cumulative cash outflows upto one-year period. In case these limits are exceeded, the measures proposed for bringing the gaps within the limit, should be shown by a footnote in the relative statement.

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### Appendix-B

#### Interest Rate Sensitivity

<u>Heads of Accounts</u>	<u>Rate sensitivity of time bucket</u>
<b><u>LIABILITIES</u></b>	
<b>1. Capital, Reserves &amp; Surplus</b>	Non-sensitive
<b>2. Gifts, grants &amp; benefactions</b>	-do-
<b>3. Notes, bonds &amp; debentures</b>	
a) Floating rate	Sensitive; reprice on the roll- over/repricing date, shall be slotted in respective time buckets as per the repricing dates
b) Fixed rate (plain vanilla) including zero coupons	Sensitive; reprice on maturity. To be placed in respective time buckets as per the residual maturity of such instruments.
c) Instruments with embedded options	Sensitive; could reprice on the exercise date of the option particularly in rising interest rate scenario. To be placed in respective time buckets as per the next exercise date.
<b>4. Deposits</b>	
<b>a) Deposits/Borrowings</b>	
i) Fixed rate	Sensitive; could reprice on maturity or in case of premature withdrawal being permitted, after the lock-in period, if any, stipulated for such withdrawal. To be slotted in respective time buckets as per residual maturity or as per residual lock-in period, as the case may be. The prematurely withdrawable deposits with no lock-in period or past such lock-in period, shall be slotted in the earliest /shortest time bucket.
ii) Floating rate	Sensitive; reprice on the contractual roll-over date. To be slotted in the respective time buckets as per the next repricing date.
<b>b) ICDs</b>	Sensitive; reprice on maturity. To be slotted as per the residual maturity in the respective time buckets.
<b>5. Borrowings</b>	
<b>a) Term-money borrowing</b>	Sensitive; reprices on maturity. To be placed as per residual maturity in the relative time bucket.
<b>b) Borrowings from others</b>	
i) Fixed rate	Sensitive; reprice on maturity. To be placed as per residual maturity in the relative time

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	bucket.
ii) Floating rate	Sensitive; reprice on the roll-over/ repricing date. To be placed as per residual period to the repricing date in the relative time bucket.
<b>6. Current liabilities &amp; provisions</b>	
<ul style="list-style-type: none"> <li>a. Sundry creditors</li> <li>b. Expenses payable</li> <li>c. Advance income received/receipts from borrowers pending adjustment</li> <li>d. Interest payable on deposits and borrowings</li> <li>e. Provisions</li> </ul>	Non-Sensitive
<b>7. Repos/ bills rediscounted/forex swaps (Sell / Buy)</b>	Sensitive; reprices on maturity. To be placed as per the residual maturity in respective buckets.
<b>8. Statutory Dues</b>	
<b><u>ASSETS:</u></b>	
<b>1. Cash</b>	Non-sensitive
<b>2. Remittance in transit</b>	Non-sensitive
<b>3. Balances with banks in India</b>	
a) In current a/c.	Non-sensitive
b) In deposit accounts, Money at call and short notice and other placements	Sensitive; reprices on maturity. To be placed as per residual maturity in respective time-buckets.
<b>4. Investments</b>	
a) Fixed income securities (e.g. govt. securities, zero coupon bonds, bonds, debentures, cumulative, non-cumulative, redeemable preference shares, etc.)	<p>Sensitive on maturity. To be slotted as per residual maturity.</p> <p>However, the bonds/debentures valued by applying NPA norms due to non-servicing of interest, shall be shown, net of provisions made, in:</p> <ul style="list-style-type: none"> <li>i. 3-5 years bucket - if sub-std. norms applied.</li> <li>ii. Over 5 years bucket - if doubtful norms applied.</li> </ul>
b) Floating rate securities	Sensitive; reprice on the next repricing date. To be slotted as per residual time to the repricing date.
c) Equity shares, convertible preference shares, shares of subsidiaries/joint ventures, venture capital units	Non-sensitive.
<b>5. Advances (performing)</b>	
a) Bills of exchange, promissory notes	Sensitive on maturity. To be slotted as per the

## Asset Liability Management Policy

discounted & rediscounted	residual usance of the underlying bills
b) Term loans/corporate loans / Short Term Loans (rupee loans only)	
i) Fixed Rate	Sensitive on cash flow/ maturity.
ii) Floating Rate	Sensitive only when PLR or risk premium is changed by the NBFCs.  The amount of term loans shall be slotted in time buckets which correspond to the time taken by NBFCs to effect changes in their PLR in response to market interest rates.
6. Non-performing loans: (net of provisions, interest suspense and claims received from ECGC)	
a. Sub-standard b. Doubtful and loss	To be slotted as indicated at item B.7 of Appendix -A
<b>7. Assets on lease</b>	The cash flows on lease assets are sensitive to changes in interest rates. The leased asset cash flows be slotted in the time-buckets as per timing of the cash flows.
<b>8. Fixed assets (excluding assets on lease)</b>	Non-sensitive
<b>9. Other assets</b>	
a) Intangible assets and items not representing cash flows.	Non-sensitive
b) Other items (e.g. accrued income, other receivables, staff loans, etc.)	Non-sensitive
10. Statutory Dues	
<b>11. Unclaimed Deposits</b>	
<b>12. Any Other Unclaimed Amount</b>	
<b>13. Debt Service Realisation Amount</b>	