ASSET LIABILITY MANAGEMENT POLICY

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VERSION CONTROL

Revision Number	Author	Date published	Date effective	Version Description
1.1	R Prabhu/ Vivek K	3rd Dec 2013	3rd Dec 2013	Change in Liquidity Risk Management
1.2	R Prabhu / Vivek K	3rd December 2014	3rd December 2014	Extension of positive mismatch upto 1 year time bucket.
1.3	Jayant Gunjal	13th May 2016	13th May 2016	Reduction in Minimum CRAR
1.4	Jayant Gunjal	11th November 2016	10th November 2016	Setting Prudential Limits on mismatches for Liquidity Risk Management and Interest Rate Risk

Policy Revision History:

Version	Effective Date	Revision Date	Author	Approved By	Date Approved	Revision History	Review History (Legal, Compliance, other parties)
1.0				ICF – (ALCO)		Original version	Asset Liability Committee
1.1	3rd Dec 2013	3rd Dec 2013		MC	3rd Dec 2013	Change in Liquidity Risk Management	
1.2	3rd Dec 2014	3rd Dec 2014		ALCO	3rd Dec 2014	Extension of positive mismatch upto 1 year time bucket.	
1.3	13th May 2016	13th May 2016		ALCO	13th May 2016	Reduction in Minimum CRAR	
1.4	10th November 2016	11th November 2016		ALCO	10th November 2016	Setting Prudential Limits on mismatches for Liquidity Risk Management and Interest Rate Risk	Asset Liability Management Committee

Summary of Policy

Policy Name	**Asset Liability Management Policy (ALCO Policy)**
Policy Type	**M – Management** **B** – Board **M** – Management **D** – Department
Related policies and regulations	RBI Guidelines on Asset Liability Management
Review cycle	**AN – OT** **AN** – Annually **QT** – Quarterly **MO** – Monthly **OT** – Other, i.e. upon regulatory change, new products/business, etc.
Date of last review	13 May 2016
Owner / Contact	Name: Pankaj Thapar Designation: Chief Financial Officer
Approver	Asset Liability Management Committee
Annexures	**Annexure I:** Statement of Structural Liquidity **Annexure II:** Statement of Short Term Dynamic Liquidity **Annexure III:** Statement of Interest Rate Sensitivity
Appendices	**Appendix A:** Maturity Profile **Appendix B:** Interest Rate Sensitivity

GLOSSARY

"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.

"Long term investment" means an investment other than a current investment;

"Non-performing asset/Loans ("NPA") means:

a) an asset, in respect of which, interest has remained overdue for a period of six months or more;
b) a term loan inclusive of unpaid interest, when the installment is overdue for a period of six months or more or on which interest amount remained overdue for a period of six months or more;
c) a demand or call loan, which remained overdue for a period of six months or more from the date of demand or call or on which interest amount remained overdue for a period of six months or more;
d) a bill which remains overdue for a period of six months or more;
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, which facility remained overdue for a period of six months or more;
f) any dues on account of sale of assets or services rendered or reimbursement of expenses incurred, which remained overdue for a period of six months or more;

Provided that the period of 'six months or more' stipulated in sub-clauses (a) to (f) shall be 'five months or more' for the financial year ending March 31, 2016; 'four months or more' for the financial year ending March 31, 2017 and 'three months or more', for the financial year ending March 31, 2018 and thereafter.

g) the lease rental and hire purchase installment, which has become overdue for a period of twelve months or more;

   Provided that the period of 'twelve months or more' stipulated in this sub clause shall be 'nine months or more' for the financial year ending March 31, 2016; 'six months or more' for the financial year ending March 31, 2017; and 'three months or more' for the financial year ending March 31, 2018 and thereafter.

h) in respect of loans, advances and other credit facilities (including bills purchased and discounted), the balance outstanding under the credit facilities (including accrued interest) made available to the same borrower/beneficiary when any of the above credit facilities becomes non-performing asset:

   Provided that in the case of lease and hire purchase transactions, a non-banking financial company may classify each such account on the basis of its record of recovery.

"Operational Group" means a group comprising of any one of Mr. Dhanpal Jhaveri, Mr. Vimal Bhandari, Mr. Shailesh Shirali and Mr. Pankaj Thapar for the purpose of reviewing and approving various ALM returns and other returns, intimations and forms required to be filed periodically with the RBI.

PREAMBLE

The purpose of this Asset Liability Management policy (ALCO Policy) is to establish guidelines to ensure prudent management of assets and liabilities for Indostar Capital Finance Limited ("**ICF**") ("the company'). These guidelines address management and reporting of capital, liquidity and interest rate risk.

The ALCO Policy also complies with the requirement of RBI circular DNBS (PD).CC.No.15/ 02.01/ 2000-2001 dated 27 June 2001, as amended from time to time.

Broadly this Policy:

a) Forms part of the ICF internal control and governance arrangements.

b) Explains the ICF'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.

In addition, it describes the process, the Asset Liability Committee ("ALCO") will use to evaluate the effectiveness of the ICF's internal control procedures.

Background

NBFCs are exposed to credit and market risks in view of the asset-liability transformation or transactions. With liberalization in Indian financial markets over the last few years, growing integration of domestic markets with external markets and entry of MNCs 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. Competition for business; 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.

The managements have to base their business decisions on a dynamic and integrated risk management system and process, driven by corporate strategy. NBFCs are exposed to several major risks in the course of their business such as capital management, credit risk, liquidity risk and interest rate risk. Management of credit risk shall be covered by the Credit policy of ICF, whereas capital management, liquidity and interest rate risk (ALM risks) shall be the domain of the ALCO, which has been addressed in the current policy.

ICF needs to address these risks in a structured manner, adopting comprehensive ALM practices. ALCO 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.

ALM ORGANISATION AND RESPONSIBILITY

Successful implementation of the risk management process would require strong commitment on the part of the senior management to integrate basic operations and strategic decision making with risk management. The Board should have overall responsibility for management of above risks.

The Board of Directors of ICF will have the overall responsibility to implement this policy and may specify limits for capital management, interest rates and liquidity risk, acting through the ALCO.

The Asset/Liability Committee ("ALCO") will be constituted and comprise of senior management of ICF (including the Chief Executive Officer) and will be responsible for ensuring adherence to the limits set by the Board of Directors of ICF as well as for deciding the business strategy of ICF (on the assets and liabilities sides) in line with its budget and risk management objectives. The adherence would also ensure that the statutory compliances set by the RBI are complied with. The Board / ALCO will review, update, and approve the Asset Liability Management policy at least annually.

ALCO has a fundamental role to play in the management of ALM risk. Its role is to:

a) Set the tone and influence the culture of ALM risk management within ICF.

b) Determine the appropriate ALM risk appetite or level of exposure for the ICF.

c) Deliberate on product pricing methods / strategies adopted / followed by the Company for advances made by it.

d) Approve major decisions affecting ALM risk (product pricing for deposits, 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).

e) Identify ALM risks, measure their impact and monitor the management of fundamental risks to reduce the likelihood of unwelcome surprises.

f) Satisfy it that the less fundamental risks are being actively managed, with the appropriate controls in place and working effectively.

g) Review the results of and progress in implementation of the decisions in its meetings.

h) Articulate the current interest rate review and formulate future business strategy on this view.

i) Its responsibility would be to decide, with inputs from Origination & Credit teams on source and mix of liabilities or sale of assets for giving out loans. 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, bank funding vs. capital market funding, etc.

The Key operating staff is in place which acts as a support group for ALCO. The ALCO will designate and authorize personnel to carry out transactions on behalf of ICF. ALCO has assigned ICF management with the responsibility of complying with the guidance and risk limits set forth in this policy and for the day-to-day administration and implementation of this policy.

Role of key staff:

- **a)** To Implement policies on ALM risk management and internal control
- **b)** To analyze and monitor the risk profiles and identify and evaluate the fundamental risks faced by ICF for consideration by ALCO.
- **c)** Provide adequate information in a timely manner to ALCO on the status of risks and controls and systems associated with it and provide reports to ALCO.
- **d)** The operating staff will also provide forecasts on the balance sheets of the possible changes in market conditions and recommend action for adherence to the limits set out by the ALCO.

The ALM key team will comprise of:

1. **CEO**
2. **CFO**
3. **Head – Corporate Lending & Markets**
4. **Head – SME & Retail Lending**
5. **Head – Resources**
6. **Head – Finance**
7. **Risk Head**

Currently the position 7 is vacant, and this role is being discharged by the CFO.

ALM PROCESS

The scope of ALM function can be described as follows:

(i) Capital Management

(ii) Liquidity risk management

(iii) Interest Rate risk management

(iv) Forecasting and analyzing 'What if scenario' and preparation of contingency plans

The guidelines given in this note mainly address Capital Management, Liquidity Risk and Interest Rate risk management.

1. OVERVIEW

a) Capital Management

Capital guidelines ensure the maintenance and independent management of prudent capital levels for ICF to preserve the safety and soundness of the company, to support desired balance sheet growth and the realization of new business; and to provide a cushion against unexpected losses.

The following regulatory ratios are monitored and reported by the designated staff to the ALCO on a quarterly basis. The limits described below are calculated according to guidelines prescribed by the RBI.

Regulatory Ratios	Current Regulatory Standard	ICF Policy Limit
Total Risked-Based Capital (minimum)	15.00%	20.00%

b) Liquidity Risk Management

Measuring and managing liquidity needs are vital for effective operation. Liquidity management can reduce the probability of an adverse situation developing. ICF management should 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.

Besides, liquidity management ensures that funds are available for anticipated loan 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, ICF currently depends on the following sources of liquidity (listed in order of priority):

(i) Operating cash on hand.
(ii) Funds held in permitted short-term investments
(iii) Inter-company loans.
(iv) Financing obtained from banks and capital markets.
(v) Sell Down of credit exposures.

ALCO is responsible for determining the appropriate mix of available funding sources utilized to ensure company liquidity is managed prudently and appropriately. In this process, ALCO considers 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 adopted as a standard tool. The format of the Statement of Structural Liquidity is given in ***Annexure I***.

The Maturity Profile as given in ***Appendix A*** should be used for measuring the future cash flows of ICF in different time buckets. The time buckets, may be distributed as under:

(i) 1 day to 30/31 days (One month)
(ii) Over one month and upto 2 months
(iii) Over two months and upto 3 months
(iv) Over 3 months and upto 6 months
(v) Over 6 months and upto 1 year
(vi) Over 1 year and upto 3 years
(vii) Over 3 years and upto 5 years
(viii) Over 5 years

Short Term deployment of funds in highly liquid debt instruments, as a part of Liquidity management, in accordance with the Treasury Policy of the Company as may be amended from time to time.

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 ICF and within the framework of relevant RBI & FDI guidelines

ICF is primarily engaged in providing financing to India based companies. The nature of the ICF's lending business and the exclusion from taking deposits dictates that its investment policy is based on capital protection, liquidity and then return.

Sell down of loan assets also form an important component of liquidity and risk management for the Company. Loan assets in form of loans or in form of debentures would be sold down to potential informed investors, in compliance with applicable Directions of the Reserve Bank of India for the time being in force. Loan assets shall be sold down in accordance with the Sell Down Mandate of the Company, as may be adopted from time to time.

Within each time bucket, there could be mismatches depending on cash inflows and outflows. While the mismatches upto one year would be relevant since these provide early warning signals of impending liquidity problems. ICF shall monitor cumulative mismatches (running total) across all time buckets by establishing internal prudential limits with the approval of the Board / Management Committee or such other Committee as may be authorized by the Board in this regard.

(i) The cumulative mismatches (negative gap) during 1 day – 1 year time bucket, i.e. the first five time buckets defined earlier in this section, in the normal course should not exceed the prudential limit of 10% of cumulative outflows and the mismatch (negative gap) in 1 - 30/31 days time bucket i.e. the first bucket defined earlier in this section, in the normal course shall not exceed the prudential limit of 15% of outflows;

(ii) The cumulative mismatches (negative gap) across all other time buckets i.e. sixth, seventh and eighth time bucket defined earlier in this section, in the normal course should not exceed 10% of cumulative outflows of these buckets.

The Management Committee or such other Committee as may be authorized by the Board in this regard shall approve any deviation from the Prudential Limits on mismatches stated above, up to the limits permitted by the RBI.

The Statement of Structural Liquidity (ALM-***Annexure I)*** 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, ICF have to make a number of assumptions according to its asset - liability profiles. While determining the tolerance levels, ICF 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 1 day to 6 months, ICF may estimate its short-term liquidity profiles on the basis of business projections and other commitments for planning purposes. An indicative format (ALM-***Annexure II)*** for estimating Short-term Dynamic Liquidity is enclosed.

c) Interest Rate Risk (IRR)

Interest rate risk is the risk where changes in market interest rates might adversely affect ICF financial condition.

Interest rate risk 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 immediate impact of changes in interest rates is on ICF's earnings (i.e. reported profits) by changing its Net Interest Income (NII). A long-term impact of changing interest rates is on ICF's Market Value of Equity (MVE) or Net Worth as the economic value of ICF's assets, liabilities and off-balance sheet positions 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.

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, 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 ICF 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 varies 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 may be 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) 1-30/31 days (One month)
(ii) Over one month to 2 months
(iii) Over two months to 3 months
(iv) Over 3 months to 6 months
(v) Over 6 months to 1 year
(vi) Over 1 year to 3 years
(vii) Over 3 years to 5 years
(viii) Over 5 years
(ix) Non-sensitive

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 in ALM-***Annexure III.***

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 ICF 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 Management Committee or such other Committee as may be authorized by the Board in this regard, shall set Prudential Limits on Individual Gaps within each time bucket, as defined earlier in this section, considering Total Assets, Earning Assets, Equity or Interest Rate Movements, etc.

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 ICF.

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 I & II is the benchmark. ICF 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 / 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 detailed clauses pertaining to premature exit or prepayment would be clearly stated in the loan agreement.

2. MEETINGS OF THE ALCO

At least 1 meeting every quarter, or as and when required or as may be decided by the Board from time to time.

3. MONITORING AND REPORTING

The following reports will be provided to ALCO showing compliance with established guidelines outlined in this policy and in accordance with guidelines established by the Reserve Bank of India ("RBI").

(i) Capital Adequacy Statement – Quarterly.
(ii) Statement of Structural Liquidity – Half Yearly
(iii) Statement of Dynamic (short-term) Liquidity - Quarterly
(iv) Statement of Interest Rate Sensitivity – Half Yearly.

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

4. REPORTING TO RBI

In view of the possibilities of leveraged investments, and asset liability mismatches resulting from use of short term sources to fund ICF activities, a system of reporting will be followed. The return will comprise of:

(i) Statement of short term dynamic liquidity [NBS-ALM1],
(ii) Statement of structural liquidity [NBS-ALM2] and
(iii) Statement of Interest Rate Sensitivity [NBS-ALM3].

The periodicity of the Statement of short term dynamic liquidity [NBS-ALM1] shall be quarterly and that of Statement of structural liquidity [NBS-ALM2] and Interest Rate Sensitivity [NBS-ALM3] shall be half-yearly. Quarterly Statement(s) shall be submitted within 15 days of the close of the quarter to which it relates and half yearly statement(s) within 30 days of the close of the half year to which it relates, to the Regional Office of the Department in whose jurisdiction, ICF is registered.

Operational Group will review and approve the same for submission to RBI.

5. POLICY REVIEW AND APPROVAL

The policy governing financial risk management activities and guidelines described herein shall be submitted to the ALCO, at least annually, for review and approval.

6. INTERNAL CONTROLS

Effective internal controls are an integral part of managing risk. Pursuant to the guidelines set forth in this policy, adequate controls have to be established to ensure proper management of ALM risk.

Appendix A:

Maturity Profile - Liquidity

Heads of Accounts | **Time-bucket category**

A. Outflows

1. Capital funds a) Equity capital, Non-redeemable or perpetual preference capital, Reserves, Funds and Surplus	In the 'over 5 years' time-bucket.
b) Preference capital - redeemable/non-perpetual	As per the residual maturity of the shares.
2. Gifts, grants, donations and benefactions	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.
3. Notes, Bonds and debentures a) Plain vanilla bonds/debentures	 As per the residual maturity of the instruments
b) Bonds/debentures with embedded call/put options (including zero-coupon / deep discount bond	As per the residual period for the earliest exercise date for the embedded option
c) Fixed rate notes	As per the residual maturity
4. Deposits: a) Term deposits from public	 As per the residual maturity.
b) Inter Corporate Deposits	These, being institutional/wholesale deposits, should be slotted as per their residual maturity
c) Certificates of Deposit	As per the residual maturity.
5. Borrowings a) Term money borrowings	 As per the residual maturity
b) From RBI, Govt. & others	Bank borrowings in the nature of WCDL, CC etc Over six months and up to one year
6. Current liabilities and provisions: 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 outflows 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 bonds/deposits	In respective time buckets as per the due date of payment.

e) Provisions for NPAs	The amount of provision be shown as an item under outflows in stipulated time-buckets.
f) Provision for Investments portfolio	The amount of provision be shown as outlows in the stipulated time buckets as per the nature of the investment.
g) Other provisions	To be bucketed as per the purpose/nature of the underlying transaction.
B. Inflows **1. Cash**	 In 1 to 30 /31 day time-bucket.
2. Remittance in transit	---do---
3. Balances with banks (in India only) a) Current account	 The stipulated minimum balance be shown in 6months to 1 year bucket. The balance in excess of the minimum balance be shown in 1 to 30 day time bucket.
b) Deposit accounts/short term deposits	As per residual maturity.
4. Investments (net of provisions) 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) Non-mandatory unlisted securities having a fixed term maturity	As per residual maturity
e) Venture capital units	In the 'over 5 year' time bucket.
5. In case Trading book is followed Equity shares, convertible preference shares, non redeemable/ perpetual preference shares, shares of subsidiaries/joint ventures and units in open ended mutual funds and other investments.	(i) Shares classified as "current" investments adding book of the NBFC may be shown in time buckets of “1 day to 30 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. However, the shares of the assisted units/companies acquired 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. (ii) Shares classified as "long term" investments

	may be kept in over "5 years time" bucket or as per the investment plan
6. Advances (performing) 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) Corporate loans/short term loans	As per the residual maturity
7. Non-performing loans (May be shown net of the provisions, interest suspense held) **a) Sub-standard** i) All overdues and installments 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) Doubtful and loss i) All installments 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
8. Assets on lease	Cash flows from the lease transaction may be slotted in respective time buckets as per the timing of the cash flow.
9. Fixed assets (excluding leased assets)	In the 'over 5 year' time-bucket or as per fixed asset policy
10. Other assets (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. Contingent liabilities (a) Letters of credit/guarantees (outflow through devolvement)	Based on the past trend analysis of the devolvements vis-à-vis the outstanding amount of guarantees (net of margins held), the likely devolvements should be estimated and this amount could be distributed in various time buckets on judgmental basis. The assets created out of devolvements may be shown under

	respective maturity buckets on the basis of probable recovery dates.
(b) Loan commitments pending disbursal (outflow)	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.

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 month bucket.
(ii) 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 month bucket without reckoning the grace period of one month.
(iii) Principal instalments overdue for 7 months but less than one year	In 1 to 3 year bucket.

D. Financing of gaps:

The cumulative mismatches (negative gap) during 1 day – 1 year time bucket, i.e. the first five time buckets defined earlier in this Policy, in the normal course should not exceed the prudential limit of 10% of cumulative outflows and the mismatch (negative gap) in 1 - 30/31 days time bucket i.e. the first bucket defined earlier in this Policy, in the normal course shall not exceed the prudential limit of 15% of outflows.

The Management Committee or such other Committee as may be authorized by the Board in this regard shall approve any deviation from the Prudential Limits on mismatches stated above, up to the limits permitted by the RBI.

Appendix B:

Interest Rate Sensitivity

Heads of accounts	**Rate sensitivity of time bucket**
LIABILITIES	
1. Capital, Reserves & Surplus	Non-sensitive
2. Gifts, grants & benefactions	-do-
3. Notes, bonds & debentures :	
a) Floating rate Sensitive;	reprice on the roll- over/repricing date, should 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.
4. Deposits	
a) Deposits/Borrowing's	
i) Fixed rate	Insensitive; 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, should 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) ICDs	Sensitive; reprice on maturity. To be slotted as per the residual maturity in the respective time buckets.
5. Borrowings:	
a) Term-money borrowing	Sensitive; reprices on maturity. To be placed as per residual maturity in the relative time bucket.
b) Borrowings from others	
i) Fixed rate	Insensitive; reprice on maturity. To be placed as per residual maturity in the relative time 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.
6. Current liabilities & provisions	
a) Sundry creditors	Non Sensitive
b) Expenses payable	-do-
c) Swap adjustment a/c.	-do-
d) Advance income received/receipts from	-do-
borrowers pending adjustment	-do-
e) Interest payable on bonds/deposits	-do-
f) Provisions	-do-
7. Repos/ bills rediscounted/forex swaps (Sell/Buy)	Sensitive; reprices on maturity. To be placed as per the residual maturity in respective buckets.

ASSETS:

1. Cash	Non-sensitive.
2. Remittance in transit	Non-sensitive.
3. Balances with banks in India	
a) In current a/c.	Non-sensitive.
b) In deposit accounts, Money at call and short notice and other placements	Sensitive (Except for fixed coupon instruments) reprices on maturity. To be placed as per residual maturity in respective time-buckets.
4. Investments	
a) Fixed income securities (e.g. govt. securities, zero coupon bonds, bonds, debentures, cumulative, non-cumulative, redeemable preference shares, etc.)	Sensitive on maturity (Except for fixed coupon instruments). To be slotted as per residual maturity. However, the bonds/debentures valued by applying NPA norms due to non-servicing of interest, should be shown, net of provisions made, in: (i) 3-5 year bucket - if sub-std. norms applied. (ii) Over 5 year bucket - if doubtful norms applied.
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.
5. Advances (performing)	
a) Bills of exchange, promissory notes discounted & rediscounted	Sensitive on maturity. To be slotted as per the 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 should 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.
7. Assets on lease	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.
8. Fixed assets (excluding assets on lease)	Non-sensitive.
9. Other assets	
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. Reverse Repos/Swaps (Buy /Sell) and Bills rediscounted (DUPN)	Sensitive on maturity. To be slotted as per residual maturity.
11. Other (interest rate) products	
a) Interest rate swaps	Sensitive; to be slotted as per residual maturity in respective time buckets.
b) Other derivatives	To be classified suitably as and when introduced.