INDIA HOME LOANS LIMITED

ASSET LIABILITY MANAGEMENT AND RISK MANAGEMENT SYSTEM

The Chairman placed before the Board the revised guidelines on the Asset Liability Management and Risk Management (ALM&RM) System issued by the National Housing Bank (NHB) for introduction of the system in all Housing Finance Companies (HFCs). On the lines of NHB's guidelines, a comprehensive ALM&RM Policy has been prepared by India Home Loans Ltd. (IHLL) and the policy so prepared, has been placed before the Board of Directors of IHLL (the Board) for approval. A proposal for constitution of an Asset Liability Committee (ALCO) was also placed before the Board for approval. After discussion, the Board approved the comprehensive ALM&RM Policy for introduction.

The Board has also approved the proposal for constituting an ALCO comprising of the following members:

1. Mr. Maheshbhai Pujara – Chairman & Managing Director
2. Mr. Rishabh Siroya - Director
3. Mr. R. Ganesh _- Director
4. Mr. Rushabh Yagnik - General Manager

Asset Liability Management and Risk Management (ALM&RM) Policy of India Home Loans Ltd. (IHLL)

The guidelines for introduction of ALM system by housing finance companies (HFCs) was issued by the National Housing Bank (NHB) vide circular NHB (ND)/HFC (DRS-REG)/ALM/1407 /2002 dated June 28, 2002. Since the operations of HFCs also give rise to Asset Liability mismatches and interest rate risk exposures, it was decided to introduce an ALM system for HFCs, as part of their overall system for effective risk management in their various portfolios. Considering the recent international developments and the corresponding concerns regarding the enhanced systemic risk associated with the activities of the HFCs, NHB has revised the guidelines.

2. Applicability

NHB has directed that the above mentioned guidelines for asset liability management system in HFCs would be applicable to all HFCs irrespective of whether they are accepting / holding public deposits or not. All HFCs are required to put in place the ALM system. India Home Loans Ltd. (IHLL) has therefore, framed its own ALM&RM policy on the lines of the guidelines issued by NHB in this regard.

3. Reporting

The periodicity of the Statement of short term dynamic liquidity shall be quarterly and that of Statement of structural liquidity and Interest rate sensitivity, half-yearly. The quarterly statement shall be submitted within 10 days of the close of the quarter to which it relates and half yearly statements within 20 days of the close of the half year to which they relate to NHB by IHLL once it meets the criteria of asset base of Rs. 100 crore (whether accepting / holding public deposits or not) as per the audited balance sheet as of March 31, 2010.

4. Additional Disclosures in balance Sheet

Further, IHLL shall disclose the following particulars in its Balance Sheet from the year ending March 31, 2011 relating to:

i. Capital to Risk Assets Ratio (CRAR),
ii. Exposure to real estate sector, both direct and indirect; and
iii. Maturity pattern of assets and liabilities.

5. HFCs are exposed to credit and market risks in the normal course. With liberalization in Indian financial markets over the last few years and growing integration of the domestic markets with external markets, the risks associated with the operations of an HFC have become complex and large, requiring strategic management. HFCs are operating in a fairly deregulated environment and are required to determine on their own, interest rates on advances and

deposits, subject to the ceiling on maximum rate of interest they can offer on deposits, on a dynamic basis. The interest rates on investments of HFCs in government and other securities are also market related. Intense competition for business involving both the assets and liabilities has brought pressure on the managements of HFCs to maintain a good balance amongst spreads, profitability and long-term viability. These pressures call for structured and comprehensive measures and not just *ad hoc* action. The managements of HFCs have to base their business decisions on a dynamic and integrated risk management system and process driven by corporate strategy. HFCs are exposed to several major risks in the course of their business - credit risk, interest rate risk, liquidity risk, operational risk etc. It is, therefore, IHLL has introduced effective risk management systems to address the issues relating to interest rate and liquidity risks.

6. The ALM&RM policy of IHLL has been framed to address these risks in a structured manner by upgrading its risk management and adopting more comprehensive Asset-Liability Management (ALM) practices than has been done hitherto. ALM, among other functions, is also concerned with management of risks and provides a comprehensive and dynamic framework for measuring, monitoring and managing liquidity and interest rate risks of an HFC that need to be closely integrated with the HFC's business strategy. It involves assessment of various types of risks and altering the asset-liability portfolio in a dynamic way in order to manage risks.

7. This ALM&RM policy of IHLL lays down broad guidelines for the company in respect of systems for management of liquidity and interest rate risks which forms part of the ALM function. The initial focus of the ALM function would be to enforce the discipline of market risk management viz. managing business after assessing the market risks involved. The objective of ALM&RM policy of IHLL should be to evolve into a strategic tool for effective management of the company.

8. The ALM process rests on three pillars:

- ALM Information System
    - Management Information Systems
    - Information availability, accuracy, adequacy and expediency
- ALM Organization
    - Structure and responsibilities
    - Level of top management involvement
- ALM Process
    - Risk parameters
    - Risk identification
    - Risk measurement
    - Risk management
    - Risk policies and tolerance levels

9. ALM Information Systems

9.1 As the pre-requisite for putting in place the ALM System is a strong Management Information System (MIS), for a quick analysis and consolidation of the data, IHLL would computerize the MIS and make use of specialized software for managing the assets and liabilities with respect to the maturity mismatches and the various risks associated with such mismatches.

9.2 ALM of IHLL would be supported by its management philosophy that clearly specifies the risk policies and tolerance limits. This framework would be built on sound methodology with necessary supporting information system as the central element of the entire ALM exercise is the availability of adequate and accurate information with expedience. In the ALM&RM policy of IHLL, information is the key to the ALM process. There are various methods prevalent world-wide for measuring risks. IHLL would adopt a suitable method of these.

10. ALM Organization

10.1 a) For successful implementation of the risk management process IHLL would require strong commitment on the part of the senior management in IHLL, to integrate basic operations and strategic decision making with risk management. The Board of Directors of IHLL (the Board) will have overall responsibility for management of risks and will decide the risk management policy of IHLL and set limits for liquidity, interest rate, exchange rate and equity price risks.

b) The Asset-Liability Committee (ALCO) will consist of its senior management including the Chief Executive Officer (CEO). ALCO will be responsible for ensuring adherence to the limits set by the Board as well as for deciding the business strategy of IHLL (on the assets and liabilities sides) in line with the budget of IHLL and decided risk management objectives.

c) The ALM Support Groups of IHLL will be consisting of operating staff and they will be responsible for analyzing, monitoring and reporting the risk profiles to the ALCO. The staff should also prepare forecasts (simulations) reflecting the impact of various possible changes in market conditions on the balance sheet and recommend the action needed to adhere to HFC's internal limits.

10.2 The ALCO of IHLL is a decision-making unit responsible for integrated balance sheet management from risk-return perspective including the strategic management of interest rate and liquidity risks. The business and the risk management strategy of IHLL will ensure that it operates within the limits/parameters set by the Board. The business issues that the ALCO of IHLL would consider will, *inter alia,* 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 HFCs for similar services/product, etc. In addition to monitoring the risk levels of IHLL, the ALCO should review the results of and progress in implementation of

the decisions made in the previous meetings. The ALCO would also articulate the current interest rate view of IHLL and base its decisions for future business strategy on this. In respect of the funding policy, for instance, its responsibility would be to decide on the source and mix of liabilities or sale of assets. Towards this end, ALCO of IHLL 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 funds, money market vs. capital market funding , domestic vs. foreign currency funding, etc. ALCO of IHLL will hold meetings at least once in three months.

10.3 Composition of ALCO

The ALCO of IHLL will comprise of four members including the Managing Director of IHLL. To ensure commitment of the Top Management and timely response to market dynamics, the CMD of IHLL will head the Committee. Three members of ALCO will be selected from out of the Chiefs of Investment, Credit, Resources Management or Planning, Funds Management/ Treasury, International Business and Economic Research Departments. In addition, the Head of the Technology Division will be an invitee for building up of MIS and related computerization.

10.4 **Committee of Directors**

The Management Committee of the Board or any other Specific Committee constituted by the Board should oversee the implementation of the ALM system and review its functioning periodically.

10.5 ALM Process

The scope of ALM function can be described as under:

- Liquidity risk management
- Management of market risks
- Funding and capital planning
- Profit planning and growth projection
- Forecasting and analyzing 'what if scenario' and preparation of contingency plans

This policy is intended mainly to address the Liquidity and Interest Rate risks of IHLL.

11. Liquidity Risk Management

11.1 Measuring and managing liquidity needs are vital for effective operation of HFCs. By assuring an HFC's ability to meet its liabilities as they become due, liquidity management can reduce the probability of an adverse situation developing. The importance of liquidity

transcends individual institutions, as liquidity shortfall in one institution can have repercussions on the entire system. The management of IHLL will measure not only its 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 to be liquid, such as 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. 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 Annex I.

11.2 The Maturity Profile, as detailed in Appendix I, could be used for measuring the future cash flows of IHLL in different time buckets. The time buckets may be distributed as under:

1. 1 day to 14 days
2. Over 14 days to one month
3. Over one month and upto 2 months
4. Over 2 months and upto 3 months
5. Over 3 months and upto 6 months
6. Over 6 months and upto 1 year
7. Over 1 year and upto 3 years
8. Over 3 years and upto 5 years
9. Over 5 years and upto 7 years
10. Over 7 years and upto 10 years
11. Over 10 years

11.3 Alternatively, IHLL may also follow the concept of Trading Book which is as under:

1. The composition and volume are clearly defined;
2. Maximum maturity/duration of the trading portfolio is restricted;
3. The holding period does not exceed 90 days;
4. Cut-loss limit(s) are prescribed;
5. Product-wise defeasance periods (i.e. the time taken to liquidate the position on the basis of liquidity in the secondary market) are prescribed;

IHLL may maintain such 'Trading Books' consisting of securities that comply with the above standards may show the trading securities under “1 day to 14 days”, “Over 14 days to one month”,"over one month and upto 2 months" and "over 2 months and upto 3 months" buckets on the basis of the defeasance periods. The Board/ALCO of IHLL will approve the volume, composition, maximum maturity/duration, holding/defeasance period, cut loss limits, etc., of the 'Trading Book’. The remaining investments should also be classified as short term and long term investments as required under Prudential Norms.

11.4 A copy of the policy of IHLL on treatment of the investment portfolio for the purpose of ALM and approved by their Board/ ALCO will be forwarded to NHB.

11.5 Within each time bucket there could be mismatches depending on cash inflows and outflows. While the mismatches up to one year would be relevant since these provide early warning signals of impending liquidity problems, the main focus should be on the short-term mismatches viz., "1 day to 14 days" and "Over 14 days to one month". IHLL will monitor cumulative mismatches (running total) across all time buckets by establishing internal prudential limits with the approval of the Board/ Management Committee. The mismatches (negative gap) during "1 day to 14 days" and "Over 14 days to one month", in normal course, should not exceed 15 per cent of the cash outflows in each time bucket.

11.6 The Statement of Structural Liquidity (Annex I) will 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 inflow/ outflows, IHLL will be required to make a number of assumptions according to its asset-liability profiles. While determining the tolerance levels, IHLL will take into account all relevant factors based on its asset-liability base, nature of business, future strategies, etc. IHLL has noted that the NHB is interested in ensuring that the tolerance levels are determined keeping all necessary factors in view and further refined with experience gained in Liquidity Management.

11.7 With a view to monitor its short-term liquidity on a dynamic basis over a time horizon spanning from 1 day to 6 months, IHLL will estimate its short-term liquidity profiles on the basis of business projections and other commitments for planning purposes. An indicative format (Annex II) for estimating Short-term Dynamic liquidity is enclosed.

12. Currency Risk

Floating exchange rate arrangement has brought in its wake pronounced volatility adding a new dimension to the risk profile of HFCs' 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 may render the HFCs' balance sheets vulnerable to exchange rate movements.

13. Interest Rate Risk

13.1 The operational flexibility given to HFCs in pricing most of the assets and liabilities imply the need for the financial system to hedge the interest rate risk. Interest rate risk is the risk where changes in market interest rates might adversely affect an HFC's financial condition. The immediate impact of changes in interest rates is on HFC's earnings (i.e. reported profits) by changing its Net Interest Income (NII). A long-term impact of changing interest rates is on HFC's Market Value of Equity (MVE) or Net Worth as the economic value of the 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 to be a suitable method to measure the interest rate risk in the initial phase of the ALM system. It is the intention of NHB to move over to the modern techniques of interest rate risk measurement like Duration Gap Analysis, Simulation and Value at Risk over time when HFCs acquire sufficient expertise and sophistication in acquiring and handling MIS. IHLL has accepted the intention of NHB in this regard.

13.2 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:

1. within the time interval under consideration, there is a cash flow;
2. the interest rate resets/re-prices contractually during the interval;
3. it is contractually pre-payable or withdrawable before the stated maturities;
4. It is dependent on the changes in the Bank Rate by RBI.

13.3 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. All investments, advances, deposits, borrowings, purchased funds, etc. that mature/re-price within a specified time-frame are interest rate sensitive. Similarly, any principal repayment of loan is also rate sensitive if the company expects to receive it within the time horizon. This includes final principal repayment and interim installments. Certain assets and liabilities carry floating rates of interest that vary with a reference rate and hence, these items get re-priced at pre-determined intervals. Such assets and liabilities are rate sensitive at the time of re-pricing. While the interest rates on term deposits are generally fixed during their currency, the tranches of advances are basically floating. The interest rates on advances could be re-priced any number of occasions, corresponding to the changes in PLR.

The interest rate gaps may be identified in the following time buckets:

1. 1 day to 14 days
2. Over 14 days to one month
3. Over one month to 2 months
4. Over 2 months to 3 months
5. Over 3 months to 6 months
6. Over 6 months to 1 year
7. Over 1 year to 3 years

8. Over 3 years to 5 years
9. Over 5 years to 7 years
10. Over 7 years to 10 years
11. Over 10 years
12. Non-sensitive

The various items of rate sensitive assets and liabilities and off-balance sheet items may be classified into various time-buckets, as explained in Appendix II and the Reporting Formats for short term dynamic liquidity and interest rate sensitivity are given in Annex II and Annex III, respectively.

13.4 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. The Gap reports indicate whether the institution 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.

13.5 IHLL will set prudential limits on individual Gaps in various time buckets with the approval of the Board/Management Committee. Such prudential limits should have a relationship with the Total Assets, Earning Assets or Equity. In addition to the interest rate gap limits, IHLL will set the prudential limits in terms of Earnings at Risk (EaR) or Net Interest Margin (NIM) based on their views on interest rate movements with the approval of the Board/ALCO.

14. <u>General</u>

14.1 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. IHLL will endeavor 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 by the ALCO/Board. A copy of the note approved by the ALCO/Board will be sent to the NHB.

14.2 The present framework does not capture the impact of premature closure of deposits and pre-payment of loans and advances on the liquidity and interest rate risks profile of HFCs. The magnitude of premature withdrawal of deposits during the periods of volatility in market interest rates is quite substantial. IHLL will therefore 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.

14.3 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 and mismatch spread. It also helps centralizing interest rate risk at one place which facilitates effective control and management of interest rate risk. IHLL will follow a well defined transfer pricing system also provide a rational framework for pricing of assets and liabilities.

Appendix I

Maturity Profile for Liquidity Statement

A. OUTFLOWS

Heads of Account	Time-bucket category
1. Capital funds :	
a) Equity capital, non-redeemable or perpetual preference capital, Reserves, Funds and Surplus	The ' Over 10 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 10 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 bonds)	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	As per the residual maturity
c) Bank borrowings in the nature of WCDL, CC, etc.	As per the residual maturity
5. 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 timing of the cash outflow.
c) Advance income received, receipts from borrowers pending adjustment	In the 'over 10 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 may be netted out from the gross amount of the loan portfolio and the net amount

	of NPAs be shown as an item under inflows in stipulated time-buckets.
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 in 'over 10 years' bucket.
g) Other provisions	To be bucketed as per the purpose/nature of the underlying transaction.

B. INFLOWS

Heads of Account	**Time-bucket category**
1. Cash	In 1 to 14 days time-bucket.
2. Remittance in transit	In 1 to 14 days time-bucket
3. Balances with banks :	
a) Current account	The stipulated minimum balance be shown in 6 months to one year bucket. The balance in excess of the minimum balance be shown in 1 to 14 days time-bucket.
b) Deposit accounts/short term deposits	As per residual maturity.
4. Investments (net of provisions) :	
a) Mandatory investments	As suitable to the HFC
b) Non-mandatory listed	In '1 to 14 days', 'Over 14 days to one month', 'Over one month and upto 2 months' and 'over 2 months and upto 3 months' buckets depending upon the defeasance period proposed by the HFC.
c) Non-mandatory unlisted securities (e.g. shares, etc)	Over 10 years
d) Non-mandatory unlisted securities having a fixed term maturity	As per the residual maturity
e) Venture capital units	In the 'over 10 years' 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" representing trading book of the HFC may be shown in time buckets of "1 day to 14 days" , "Over 14 days to one month", 'Over one month and upto 2 months' and 'over 2 months and upto 3 months' depending upon the defeasance period proposed by the HFC.
	(ii) Shares classified as "long term investments" may be kept in 'over 10 years' time bucket. 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 over-run, etc., and the resultant

	likely time-frame for divesting such shares.
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 and interest suspense held)	
a) Sub-standard i) All over-dues and installments of principal falling due during the next three years ii) Entire principal amount due beyond the next three years	In the 3 to 5 year time-bucket. In the time-bucket arrived at after adding 3 years to the respective due dates of various installments of principal.
b) Doubtful and loss i) All installments of principal falling due during the next five years as also all over-dues ii) Entire principal amount due beyond the next five years	In the 5 to 7 year bucket. In the time-bucket arrived at after adding five years to the respective due dates of various installments of principal.
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 10 years' time-bucket
10. Other assets	
(a) Intangible assets and items not representing cash inflows	In the ' Over 10 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 cash flows.

C. CONTINGENT LIABILITIES

a) Letters of credit/guarantees (outflow through Devolvement)	Based on the past trend analysis of the developments vis-à-vis the outstanding amount of guarantees (net of margins held), the likely developments should be estimated and this amount could be distributed in various time buckets on judgmental basis. The assets created out of developments may be shown under respective maturity buckets on the basis of probable recovery dates.
b) Loan commitments pending disbursal	In the respective time buckets as per the sanctioned

(outflow)	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 will be shown in the 1 to 14 days time bucket.
c) Overdue receivables on account of interest and installments of standard loans/hire purchase assets/lease 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 installments overdue for 7 months but less than one year	In 1 to 3 year bucket

FINANCING OF GAPS

The negative gap (i.e. where outflows exceed inflows) in the first two time buckets, viz., '1-14 days' and 'over 14 days to one month' should not exceed the prudential limit of 15 per cent of the cash outflows of each time-bucket and the cumulative gap upto the one year period should not exceed 15% of the cumulative cash outflows up-to 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.

Appendix-II

Interest Rate Sensitivity Profile

Heads of accounts	**Time bucket for rate sensitivity**
A. LIABILITIES	
1. Capital, Reserves & Surplus	Non-sensitive
2. Gifts, grants & benefactions	Non-sensitive
3. Notes, bonds & debentures :	
a) Floating rate	Sensitive; re-price on the roll- over/re-pricing date, should be slotted in respective time buckets as per the re-pricing dates.
b) Fixed rate (plain vanilla) including zero coupons	Sensitive; re-price on maturity. To be placed in respective time buckets as per the residual maturity of such instruments.
c) Instruments with embedded options	Sensitive; could re-price on the exercise date of the option, particularly in rising interest rate scenario. To be placed in respective time buckets as per the residual period till the immediately ensuing exercise date.
4. Deposits : a) Deposits/Borrowings i) Fixed rate	Sensitive; could re-price 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; re-price on the contractual roll-over date. To be slotted in the respective time-buckets as per the residual period till the earliest ensuing re-pricing date.
b) ICDs	Sensitive; re-price on maturity. To be slotted as per the residual maturity in the respective time buckets.
5. Borrowings:	
a) Term-money borrowing	Sensitive; re-prices on maturity. To be placed as per residual maturity in the relative time bucket.
b) Borrowings from others	

i) Fixed rate	Sensitive; re-price on maturity. To be placed as per residual maturity in the relative time bucket.
ii) Floating rate	Sensitive; re-price on the roll-over/ re-pricing date. To be placed as per residual period to the re-pricing date in the relative time bucket.
6. Current liabilities and provisions : a) Sundry creditors b) Expenses payable c) Swap adjustment a/c. d) Advance income received/ receipts from borrowers pending adjustment e) Provisions f) Interest payable on bonds/ deposits	Non-sensitive.
7. Repos/bills rediscounted/forex-rupee swaps (sell/buy)	Sensitive; re-price on maturity. To be placed as per the residual maturity of the underlying transaction in respective buckets.

B. ASSETS:

1. Cash	Non-sensitive
2. Remittance in transit	Non-sensitive
3. Balances with banks in India a) In current account b) In deposit accounts, money at call and short notice and other placements	 Non-sensitive. Sensitive; re-prices 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. 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 the time buckets prescribed at items B.7(a) and B.7(b) in Appendix I.
b) Floating rate securities	Sensitive; re-price on the next re-pricing date. To be slotted as per residual time to the re-pricing 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 ii) Floating Rate	 Sensitive on cash flow/maturity. Sensitive only when the risk premium is changed by the HFCs. The amount of term loans should be slotted in time buckets which correspond to the time taken by HFCs to effect changes in their PLR in response to market interest rates.
6. <u>Non-performing loans</u>: (net of provisions, interest suspense and claims received from ECGC) 1. Sub-standard 2. Doubtful and loss	 To be slotted as indicated at items B.7 (a) & B.7(b) of Appendix I.
7. Assets on lease	The cash flows on lease assets are sensitive to changes in interest rates. The entire cash flows on leased assets should be slotted in respective time-buckets as per the timing of the cash flows.
8. Fixed assets (excluding assets on lease)	Non-sensitive
9. <u>Other assets</u> 1. Intangible assets and items not representing cash flows. 2. Other items (e.g. accrued income, other receivables, staff loans, etc.)	 Non-sensitive. Non-sensitive
10. Reverse Repos/Swaps (buy/sell)/Bills rediscounted (Derivative Usance Promissory Notes)	Sensitive on maturity. To be slotted as per residual maturity of the underlying transaction.
11. <u>Other (interest rate) products</u>	
a) Interest rate swaps/FRAs b) Other derivatives	Sensitive; to be slotted as per residual maturity in respective time buckets. To be classified suitably as and when introduced.

Annex I

Statement of Structural Liquidity (as on :)

Name of the HFC :

(Amount in crore of rupees)

A. OUTFLOWS

Items/time buckets	1 to 14 days	Over 14 days to one month	Over one month to 2 months	Over 2 months to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 year to 3 years	Over 3 to 5 years	Over 5 to 7 years	Over 7 to 10 years	Over 10 years	Total
1. Capital a) Equity and perpetual preference shares												
b) Non-perpetual preference shares												
2. Reserves & Surplus												
3. Gifts, grants, donations & benefactions												
4. Notes, bonds & debentures a) Plain vanilla bonds/debentures												
b)Bonds/debentures with embedded options												
c) Fixed rate notes												
5. Deposits a) Term deposits from public												
b) ICDs												
c) CDs												
6. Borrowings a) Term money borrowings												
b) From RBI, Govt, & Others												
7. Current Liabilities & Provisions: a) Sundry Creditors												
b) Expenses Payable												
c) Advance income received												
d) Interest payable on bonds/ deposits												

e) Provisions (other than for NPAs)												
8. Contingent liabilities												
a) Letters of credit/ guarantees												
b) Loan commit-ments pending disbursal (outflows)												
c) Lines of credit committed to other institutions (outflows)												
d) Outflows on account of forward exchange contracts, rupee/dollar swaps & bills rediscounted												
9. Others (specify)												
A. TOTAL OUTFLOWS (A)												
B. Cumulative Outflows(B)												

B. INFLOWS

Items/Time buckets	1 to 14 days	Over 14 days to one month	Over one month to 2 months	Over 2 months to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 year to 3 years	Over 3 to 5 years	Over 5 to 7 years	Over 7 to 10 years	Over 10 years
1. Cash											
2. Remittance in transit											
3. Balances with banks a) Current account b) Deposit /short-term deposits c) Money at call & short notice											
4. Investments (net of provisions) under various categories as enumerated in Appendix I											
5. Advances (performing) a) Bills of exchange and promissory notes discounted & rediscounted b) Term loans (only rupee loans) c) Corporate loans/short term											

loans												
6. Non-performing loans (net of provisions and ECGC claims received) under various categories enumerated in Appendix I												
7. Inflows from assets on lease												
8. Fixed assets (excluding assets on lease)												
9. Other assets a) Intangible assets & other non-cash flow items b) Interest and other income receivable c) Others												
10.Lines of credit committed by other institutions (inflows)												
11.Bills rediscounted												
12. Inflows on account of forward exchange contracts, dollar /rupee swaps (sell/buy)												
13.Others												
C. TOTAL INFLOWS (C)												
D. Mismatch (C - A)												
E. Mismatch as % to outflows (D as % to A)												
F. Cumulative Mismatch												
G. Cumulative Mismatch as % to Cumulative Outflows (F as % to B)												

Annex II

Statement of short-term dynamic liquidity (as on :)

Name of the HFC :

(Amount in crore of rupees)

	1-14 days	15-28 days	29 days to 3 months	3-6 months
A. OUTFLOWS				
1.Increase in loans and advances				
2. Net increase in investments				
i. Government/approved securities				
ii. Bonds/debentures/shares				
iii. Others				
3. Net decrease in public deposits, ICDs				
4. Net decrease in borrowing from various sources/net increase in market lending				
5. Outflow on account of off-balance sheet items				
6. Other outflows				
TOTAL OUTFLOWS (A)				
B. INFLOWS				
1. Net cash position				
2. Net increase in deposits, ICDs				
3. Interest inflow on investments				
4. Interest inflow on performing advances				
5. Net increase in borrowing from various sources				
6. Inflow on account of off-balance sheet items				
7. Other inflows				
TOTAL INFLOWS (B)				
C. Mismatch (B-A)				
D. Cumulative mismatch				
E. C as percentage to total outflows				

Annex III

Statement of Interest Rate Sensitivity **(as on :)**

Name of the HFC :

(Amount in crore of rupees)

A. OUTFLOWS

Items/Time buckets	**1 to 14 days**	**Over 14 days to one month**	**Over 1 month to 2 months**	**Over 2 months to 3 months**	**Over 3 months to 6 months**	**Over 6 months to 1 year**	**Over 1 year to 3 years**	**Over 3 to 5 years**	**Over 5 to 7 years**	**Over 7 to 10 years**	**Over 10 years**
1. Capital a) Equity and perpetual preference shares											
b) Non-perpetual preference shares											
2.Reserves & Surplus											
3. Gifts, grants, donations & benefactions											
4. Notes, bonds & debentures a) Plain vanilla bonds/debentures											
b) Bonds/ debentures with embedded options											
c) Fixed rate Notes											
5. Deposits a) Term deposits from public											
b) ICDs											
c) CDs											
6. Borrowings a) Term money Borrowings											
b) From RBI, Govt, & others											
7. Current Liabilities & provisions a) Sundry Creditors											
b) Expenses Payable											
c) Advance income received											
d) Interest payable on Bonds/Deposits											
e) Provisions (other than for NPA)											
9. Others (specify)											

A. TOTAL OUTFLOWS (A)													
B. Cumulative Outflows													

B. INFLOWS

Items/Time buckets	**1 to 14 days**	**Over 14 days to one month**	**Over 1 month to 2 months**	**Over 2 months to 3 months**	**Over 3 months to 6 months**	**Over 6 months to 1 year**	**Over 1 year to 3 years**	**Over 3 to 5 years**	**Over 5 to 7 years**	**Over 7 to 10 years**	**Over 10 years**
1. Cash											
2. Remittance in transit											
3. Balances with banks a) Current account b) Deposit /short-term deposits c) Money at call & short notice											
4.Investments (net of provisions) under various categories as enumerated in Appendix I											
5. Advances (performing) a) Bills of exchange and promissory notes discounted & rediscounted b) Term loans (only rupee loans) c) Corporate loans/short term loans											
6. Non-performing loans (net of provisions and ECGC claims received) under various categories enumerated in Appendix I											
7. Inflows from assets on lease											
8. fixed assets (excluding assets on lease)											
9. Other assets a) Intangible assets & other non-cash flow items b) Interest and other income receivable c) Others											
10. Lines of credit committed by other institutions (inflows)											

11. Bills rediscounted (inflow)													
12. Inflows on account of forward exchange contracts, dollar-rupee swaps (sell/buy)													
Others													
C. TOTAL INFLOWS (C)													
D. Mismatch (C - A)													
E. Mismatch as % to outflows (D as % to A)													
F. Cumulative Mismatch													
G. Cumulative Mismatch as % to Cumulative Outflows (F as % to B)													

Annex IV

Disclosure in the Balance Sheet (as on :)

1. **Capital to Risk Assets Ratio (CRAR)**

	Items	Current Year	Previous Year
i)	CRAR (%)		
ii)	CRAR - Tier I capital (%)		
iii)	CRAR - Tier II Capital (%)		

1. **Exposure to Real Estate Sector**

Category				Current Year	Previous Year
a)	**Direct exposure**				
	(i)	Residential Mortgages –			
		Lending fully secured by mortgages on residential property that is or will be occupied by the borrower or that is rented; (Individual housing loans up to Rs.15 lakh may be shown separately)			
	(ii)	Commercial Real Estate –			
		Lending secured by mortgages on commercial real estates (office buildings, retail space, multipurpose commercial premises, multi-family residential buildings, multi-tenanted commercial premises, industrial or warehouse space, hotels, land acquisition, development and construction, etc.). Exposure would also include non-fund based (NFB) limits;			
	(iii)	Investments in Mortgage Backed Securities (MBS) and other securitised exposures –			
		a.	Residential		
		b.	Commercial Real Estate		
b)	**Indirect Exposure**				
	Fund based and non-fund based exposures on National Housing Bank (NHB) and Housing Finance Companies (HFCs)				

111. Asset Liability Management

Maturity pattern of certain items of assets and liabilities

(Rs in crore)										
	1day to 30-31 days (one month)	Over one month to 2 months	Over 2 months upto 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 3 years	Over 3 to 5 years	Over 5 to 7 years	Over 7 to 10 years	Over 10 years
Liabilities										
Borrowings from banks										
Market Borrowings										
Assets										
Advances										
Investments										

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