

### Guidelines on Liquidity Risk<sup>3</sup> Management Framework

Non-deposit taking NBFCs with asset size of Rs.1 billion and above, systemically important Core Investment Companies and all deposit taking NBFCs (except Type 1 NBFC-ND<sup>4</sup>, Non-Operating Financial Holding Company and Standalone Primary Dealer) shall adhere to the guidelines as mentioned herein below. It will be the responsibility of the Board to ensure that the guidelines are adhered to. The internal controls required to be put in place by NBFCs as per these guidelines shall be subject to supervisory review. Further, as a matter of prudence, all other NBFCs are also encouraged to adopt these guidelines on liquidity risk management on voluntary basis. The guidelines deal with following aspects of Liquidity Risk Management framework.

- A. Liquidity Risk Management Policy, Strategies and Practices
- B. Management Information System (MIS)
- C. Internal Controls
- D. Maturity profiling
- E. Liquidity Risk Measurement – Stock Approach
- F. Currency Risk
- G. Managing Interest Rate Risk
- H. Liquidity Risk Monitoring Tools

#### **A. Liquidity Risk Management Policy, Strategies and Practices**

In order to ensure a sound and robust liquidity risk management system, the Board of the NBFC shall frame a liquidity risk management framework which ensures that it maintains sufficient liquidity<sup>5</sup>, including a cushion of unencumbered, high quality liquid assets to withstand a range of stress events, including those involving the loss or impairment of both unsecured and secured funding sources. It shall spell out the entity-level liquidity risk tolerance; funding strategies; prudential limits; system for measuring, assessing and reporting/ reviewing liquidity; framework for stress testing; liquidity planning under alternative scenarios/formal contingent funding plan; nature and frequency of management reporting; periodical review of assumptions used in liquidity projection; etc.

Key elements of the liquidity risk management framework are as under:

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<sup>3</sup>“Liquidity Risk” means inability of an NBFC to meet such obligations as they become due without adversely affecting the NBFC’s financial condition. Effective liquidity risk management helps ensure an NBFC’s ability to meet its obligations as and when they fall due and reduces the probability of an adverse situation developing.

<sup>4</sup> Type 1 NBFC-ND as defined in RBI press release dated June 17, 2016.

<sup>5</sup>“Liquidity” means NBFC’s capacity to fund the increase in assets and meet both expected and unexpected cash and collateral obligations at reasonable cost and without incurring unacceptable losses.

**i) Governance of Liquidity Risk Management**

Successful implementation of any risk management process has to emanate from the top management in the NBFC with the demonstration of its strong commitment to integrate basic operations and strategic decision-making with risk management. The Chief Risk Officer appointed by the NBFC in terms of our circular DNBR (PD) CC. No.099/03.10.001/2018-19 dated May 16, 2019 shall be involved in the process of identification, measurement and mitigation of liquidity risks. A desirable organisational set up for liquidity risk management should be as under:

**a) Board of Directors**

The Board shall have the overall responsibility for management of liquidity risk. The Board shall decide the strategy, policies and procedures of the NBFC to manage liquidity risk in accordance with the liquidity risk tolerance/limits decided by it.

**b) Risk Management Committee**

The Risk Management Committee, which reports to the Board and consisting of Chief Executive Officer (CEO)/ Managing Director and heads of various risk verticals shall be responsible for evaluating the overall risks faced by the NBFC including liquidity risk.

**c) Asset-Liability Management Committee (ALCO)**

The ALCO consisting of the NBFC's top management shall be responsible for ensuring adherence to the risk tolerance/limits set by the Board as well as implementing the liquidity risk management strategy of the NBFC. The CEO/MD or the Executive Director (ED) should head the Committee. The Chiefs of Investment, Credit, Resource Management or Planning, Funds Management/ Treasury (forex and domestic), Economic Research may be members of the Committee. The role of the ALCO with respect to liquidity risk should include, inter alia, decision on desired maturity profile and mix of incremental assets and liabilities, sale of assets as a source of funding, the structure, responsibilities and controls for managing liquidity risk, and overseeing the liquidity positions of all branches.

**d) Asset Liability Management (ALM) Support Group**

The ALM Support Group consisting of the operating staff shall be responsible for analysing, monitoring and reporting the liquidity risk profile to the ALCO. Such support groups will be constituted depending on the size and complexity of liquidity risk management in an NBFC.

**ii) Liquidity risk Tolerance**

An NBFC shall have a sound process for identifying, measuring, monitoring and controlling liquidity risk. It should clearly articulate a liquidity risk tolerance that is appropriate for its business strategy and its role in the financial system. Senior management should develop the strategy to manage liquidity risk in accordance with such risk tolerance and ensure that the NBFC maintains sufficient liquidity.

**iii) Liquidity Costs, Benefits and Risks in the Internal Pricing**

NBFCs should endeavour to develop a process to quantify liquidity costs and benefits so that the same may be incorporated in the internal product pricing, performance measurement and new product approval process for all material business lines, products and activities.

**iv) Off-balance Sheet Exposures and Contingent Liabilities**

The process of identifying, measuring, monitoring and controlling liquidity risk should include a robust framework for comprehensively projecting cash flows arising from assets, liabilities and off-balance sheet items over an appropriate set of time horizons. The management of liquidity risks relating to certain off-balance sheet exposures on account of special purpose vehicles, financial derivatives, and, guarantees and commitments may be given particular importance due to the difficulties that many NBFCs have in assessing the related liquidity risks that could materialise in times of stress.

**v) Funding Strategy - Diversified Funding**

An NBFC shall establish a funding strategy that provides effective diversification in the sources and tenor of funding. It should maintain an ongoing presence in its chosen funding markets and strong relationships with fund providers to promote effective diversification of funding sources. An NBFC should regularly gauge its capacity to raise funds quickly from each source. There should not be over-reliance on a single source of funding. Funding strategy should also take into account the qualitative dimension of the concentrated behaviour of deposit withdrawal (for deposit taking NBFCs) in typical market conditions and over-reliance on other funding sources arising out of unique business model.

**vi) Collateral Position Management**

An NBFC shall actively manage its collateral positions, differentiating between encumbered and unencumbered assets. It should monitor the legal entity and physical location where collateral is held and how it may be mobilised in a timely manner. Further, an NBFC should have sufficient collateral to meet expected and unexpected borrowing needs and potential increases in margin requirements over different timeframes.

**vii) Stress Testing**

Stress testing shall form an integral part of the overall governance and liquidity risk management culture in NBFCs. An NBFC should conduct stress tests on a regular basis for a variety of short-term and protracted NBFC-specific and market-wide stress scenarios (individually and in combination). In designing liquidity stress scenarios, the nature of the NBFC's business, activities and vulnerabilities should be taken into consideration so that the scenarios incorporate the major funding and market liquidity risks to which the NBFC is exposed.

#### **viii) Contingency Funding Plan**

An NBFC shall formulate a contingency funding plan (CFP) for responding to severe disruptions which might affect the NBFC's ability to fund some or all of its activities in a timely manner and at a reasonable cost. Contingency plans should contain details of available/ potential contingency funding sources and the amount/ estimated amount which can be drawn from these sources, clear escalation/ prioritisation procedures detailing when and how each of the actions can and should be activated, and the lead time needed to tap additional funds from each of the contingency sources.

#### **ix) Public disclosure**

An NBFC shall publicly disclose information ([Appendix I](#)) on a quarterly basis on the official website of the company and in the annual financial statement as notes to account that enables market participants to make an informed judgment about the soundness of its liquidity risk management framework and liquidity position.

#### **x) Intra Group transfers**

With a view to recognizing the likely increased risk arising due to Intra-Group transactions and exposures (ITEs), the Group Chief Financial officer (CFO) is expected to develop and maintain liquidity management processes and funding programmes that are consistent with the complexity, risk profile, and scope of operations of the companies in the Group<sup>6</sup>. The Group liquidity risk management processes and funding programmes are expected to take into account lending, investment, and other activities, and ensure that adequate liquidity is maintained at the head and each constituent entity within the group. Processes and programmes should fully incorporate real and potential constraints, including legal and regulatory restrictions, on the transfer of funds among these entities and between these entities and the principal.

#### **B. Management Information System (MIS)**

An NBFC shall have a reliable MIS designed to provide timely and forward-looking information on the liquidity position of the NBFC and the Group to the Board and ALCO, both under normal and stress situations. It should capture all sources of liquidity risk, including contingent risks and those arising from new activities, and have the ability to furnish more granular and time-sensitive information during stress events.

#### **C. Internal Controls**

An NBFC shall have appropriate internal controls, systems and procedures to ensure adherence to liquidity risk management policies and procedure. Management should ensure that an independent party regularly reviews and evaluates the various components of the NBFC's liquidity risk management process.

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<sup>6</sup>As defined in the Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016

#### **D. Maturity Profiling**

- a) 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 Maturity Profile should be used for measuring the future cash flows of NBFCs in different time buckets. The Maturity Profile as given in [Appendix I](#) could be used for measuring the future cash flows of NBFCs in different time buckets. The time buckets shall be distributed as under:
- (i) 1 day to 7 days
  - (ii) 8 days to 14 days
  - (iii) 15 days to 30/31 days (one month)
  - (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
- b) NBFCs would be holding in their investment portfolio, securities which could be broadly classifiable as 'mandatory securities' (under obligation of law) and other 'non-mandatory securities'. In case of NBFCs not holding public deposits, all investments in securities, and in case of NBFCs holding public deposits, the surplus securities (held over and above the requirement), shall fall in the category of 'non-mandatory securities'. Alternatively, the NBFCs may also follow the concept of Trading Book as per the extant prescriptions for NBFCs.
- c) The NBFCs holding public deposits may be given freedom to place the mandatory securities in any time buckets as suitable for them. The listed non-mandatory securities may be placed in any of the "1 day to 7 days, 8 days to 14 days, 15 days 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 NBFCs. The unlisted non-mandatory securities (eg; equity shares, securities without a fixed term of maturity etc.) may be placed in the "Over 5 years" buckets, whereas unlisted non-mandatory securities having a fixed term of maturity may be placed in the relevant time bucket as per residual maturity. The mandatory securities and listed securities may be marked to market for the purpose of the ALM system. Unlisted securities may be valued as per Prudential Norms Directions.
- d) Alternatively, the NBFCs may also follow the concept of Trading Book which is as follows:

- i. The composition and volume are clearly defined;
- ii. Maximum maturity/duration of the portfolio is restricted;
- iii. The holding period not to exceed 90 days;
- iv. Cut-loss limit prescribed;
- v. Defeasance periods (product-wise) i.e. time taken to liquidate the position on the basis of liquidity in the secondary market are prescribed;

NBFCs which maintain such 'Trading Books' and complying with the above standards shall show the trading securities under "1 day to 30/31 days (One month)", "Over one month and upto 2 months" and "Over two months and upto 3 months" buckets on the basis of the defeasance periods. The Board/ALCO of the NBFCs shall approve the volume, composition, holding/defeasance period, cut loss, etc. of the 'Trading Book'. The remaining investments shall also be classified as short term and long term investments as required under Prudential Norms.

- e) The policy note recorded by the NBFCs on treatment of the investment portfolio for the purpose of ALM and approved by their Board/ALCO shall be forwarded to the Regional Office of the Department of Supervision of RBI under whose jurisdiction the registered office of the company is located.
- f) 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 shall be on the short-term mismatches, viz., 1-30/31 days. The net cumulative negative mismatches in the Statement of Structural Liquidity in the maturity buckets 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. NBFCs, however, are expected to monitor their cumulative mismatches (running total) across all other time buckets upto 1 year by establishing internal prudential limits with the approval of the Board. NBFCs shall also adopt the above cumulative mismatch limits for their structural liquidity statement for consolidated operations.
- g) The Statement of Structural Liquidity may be prepared by placing all cash inflows and outflows in the maturity ladder according to the expected timing of cash flows. A maturing liability shall be a cash outflow while a maturing asset shall be a cash inflow.
- h) In order to enable the NBFCs to monitor their short-term liquidity on a dynamic basis over a time horizon spanning from 1 day to 6 months, NBFCs shall estimate their short-term liquidity profiles on the basis of business projections and other commitments for planning purposes.

#### **E. Liquidity Risk Measurement – Stock Approach**

NBFCs shall adopt a “stock” approach to liquidity risk measurement and monitor certain critical ratios in this regard by putting in place internally defined limits as approved by their Board. The ratios and the internal limits shall be based on an NBFC’s liquidity risk management capabilities, experience and profile. An indicative list of certain critical ratios to monitor re short-term<sup>7</sup> liability to total assets; short-term liability to long term assets; commercial papers to total assets; non-convertible debentures (NCDs)(original maturity of less than one year) to total assets; short-term liabilities to total liabilities; long-term assets to total assets; etc.

#### **F. Currency Risk**

Exchange rate volatility imparts a new dimension to the risk profile of an NBFC’s balance sheets having foreign assets or liabilities. The Board of NBFCs should recognise the liquidity risk arising out of such exposures and develop suitable preparedness for managing the risk.

#### **G. Managing Interest Rate Risk (IRR)**

- a) The operational flexibility given to NBFCs 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 NBFC's financial condition. The changes in interest rates affect NBFCs in a larger way. The immediate impact of changes in interest rates is on NBFC's earnings (i.e. reported profits) by changing its Net Interest Income (NII). A long-term impact of changing interest rates is on NBFC's Market Value of Equity (MVE) or Net Worth as the economic value of NBFC'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. It is the intention of RBI to move over to the modern techniques of Interest Rate Risk measurement like Duration Gap Analysis, Simulation and Value at Risk over time when NBFCs acquire sufficient expertise and sophistication in acquiring and handling MIS.

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<sup>7</sup> Less than one year

b) 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/reprices 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.

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

d) The Gaps may be identified in the following time buckets:

- i) 1 day to 7 days
- ii) 8 days to 14 days
- iii) 15 days -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
- ix) Over 3 years to 5 years



- x) Over 5 years
- xi) Non-sensitive

The various items of rate sensitive assets and liabilities and off-balance sheet items shall be classified as explained in [Appendix - III](#).

- e) 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 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.
- f) Each NBFC shall set prudential limits on individual Gaps with the approval of the Board/Management Committee. The prudential limits shall have a relationship with the Total Assets, Earning Assets or Equity. The NBFCs 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/Management Committee. For working out EaR or NIM any of the current models may be used.
- g) 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. NBFCs which are better equipped to reasonably estimate the behavioral pattern of various components of assets and liabilities on the basis of past data / empirical studies could classify them in the appropriate time buckets, subject to approval from the ALCO / Board. A copy of the note approved by the ALCO / Board shall be sent to the Regional Office of the Department of Non-Banking Supervision of RBI under whose jurisdiction the registered office of the company is located. These notes may contain 'what if scenario' analysis under various assumed conditions and the contingency plans to face various adverse developments.
- h) 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 of NBFCs. The magnitude of premature withdrawal of deposits at times of volatility in market interest rates is quite substantial. NBFCs shall, 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.
- i) 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 centralising interest rate risk at one place which facilitates effective control and management of interest rate risk. A well defined transfer pricing system also provides a rational framework for pricing of assets and liabilities.

## Appendix I

### Public disclosure on liquidity risk

(i) Funding Concentration based on significant counterparty (both deposits and borrowings)

Sr No.	Number of Significant Counterparties	Amount (Rs. crore)	% of Total deposits	% of Total Liabilities

(ii) Top 20 large deposits (amount in Rs. crore and % of total deposits)

(iii) Top 10 borrowings (amount in Rs. crore and % of total borrowings)

(iv) Funding Concentration based on significant instrument/product

Sr No.	Name of the instrument/product	Amount (Rs.crore)	% of Total Liabilities

(v) Stock Ratios:

(a) Commercial papers as a % of total public funds, total liabilities and total assets

(b) Non-convertible debentures (original maturity of less than one year) as a % of total public funds, total liabilities and total assets

(c) Other short-term liabilities, if any as a % of total public funds, total liabilities and total assets

(vi) Institutional set-up for liquidity risk management

## Appendix - II

### Maturity Profile - Liquidity

<u>Heads of Accounts</u>	<u>Time-bucket category</u>
<b><u>A. Outflows</u></b>	
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 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) Public deposits	As per the residual maturity.
b) Inter Corporate Deposits	These, being institutional/wholesale deposits, shall be slotted as per their residual maturity
c) Commercial Papers	As per the residual maturity
5. Borrowings	
a) Term money borrowings	As per the residual maturity
c) 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 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.
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><u>B. Inflows</u></b>	
1. Cash	In 1 to 7 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 6 months to 1 year bucket. The balance in

	excess of the minimum balance be shown under Day 1-7 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 representing trading book of the NBFC may be shown in time buckets of "1 day 7 days, 8 days to 14 days , 15 days 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.
	(ii) Shares classified as "long term" investments may be kept in over "5 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-overrun, etc., and the resultant likely timeframe 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, interest suspense held )	
a) <u>Sub-standard</u>	
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) <u>Doubtful and loss</u>	
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
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.
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.
<b><u>C. Contingent liabilities</u></b>	
(a) Letters of credit/guarantees (outflow through devolvment)	Based on the past trend analysis of the devolvments vis-à-vis the outstanding amount of guarantees (net of margins held), the likely devolvments shall be estimated and this amount could be distributed in various time buckets on judgmental basis. The assets created out of devolvments 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:

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

- a. All overdue liabilities be shown in the 1 to 7 days and 8-14 days days time buckets based on behavioural estimates
- b. Overdue receivables on account of interest and instalments of standard loans / hire purchase assets / leased rentals shall 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.

**Interest Rate Sensitivity**

<u>Heads of accounts</u>	<u>Rate sensitivity of time bucket</u>
<b><u>LIABILITIES</u></b>	
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, 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.
4. <u>Deposits</u>	
a) Deposits/Borrowings	
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) ICDs	Sensitive; reprice on maturity. To be slotted as per the residual maturity in the respective time buckets.
5. <u>Borrowings:</u>	
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	Sensitive; 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.
<b>6. Current liabilities &amp; provisions</b>	
a. Sundry creditors ) b. Expenses payable ) c. Swap adjustment a/c. ) d. Advance income received/receipts ) Non-sensitive from borrowers pending ) adjustment ) e. Interest payable on bonds/deposits ) f. Provisions )	
<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><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. <u>Investments</u></b>	
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, shall 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.
<b>5. <u>Advances</u> (performing)</b>	
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 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. <u>Non-performing loans:</u>  (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 I.
7. <u>Assets on lease</u>	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. <u>Fixed assets</u> (excluding assets on lease)	Non-sensitive.
9. <u>Other assets</u>	
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. <u>Other (interest rate) products</u>	
a) Interest rate swaps	Sensitive; to be slotted as per residual maturity in respective time buckets.
b) Other Derivatives	To be classified suitably as per the residual maturity in respective time buckets