Asset Liability Management (ALM) System for NBFCs - Guidelines

Ref. DNBS (PD).CC.No.15 /02.01 / 2000-2001

June 27, 2001

All NBFCs
(Including the residuary non-banking companies)

Dear Sir,

<u>Asset Liability Management (ALM) System for NBFCs - Guidelines</u>

As you are aware, the guidelines for introduction of ALM system by banks and all India financial institutions have already been issued by Reserve Bank of India and the system has become operational. Since the operations of financial companies also give rise to Asset Liability mismatches and interest rate risk exposures, it has been decided to introduce an ALM System for the Non-Banking Financial Companies (NBFCs) as well, as part of their overall system for effective risk management in their various portfolios. A copy of the guidelines for Asset Liability Management (ALM) system in NBFCs is enclosed.

2. The abovementioned guidelines would be applicable to all the NBFCs irrespective of whether they are accepting / holding public deposits or not. However to begin with, NBFCs (engaged in and classified as equipment leasing, hire purchase finance, loan, investment and residuary non-banking companies) meeting the criteria of asset base of Rs.100 crore (whether accepting / holding public deposits or not) or holding public deposits of Rs. 20 crore or more (irrespective of their asset size) as per their audited balance sheet as of 31 March 2001 would be required to put in place the ALM System. The Chit Fund Companies i.e: Miscellaneous Non-Banking Companies (MNBCs), and Nidhi Companies i.e., Mutual Benefit Finance Companies (MBFCs) have been kept out of the purview of these guidelines.

3. NBFCs may commence the trial run during the period ending 30 September 2001, which may continue during the half year beginning 1 October 2001. The guidelines should however, be fully operational by the year ending 31 March 2002. A system of half yearly reporting is being put in place in this regard and the first Asset Liability Management return as on 30 September 2002 may be submitted to RBI by only those NBFCs which are holding public deposits within a month of close of the relevant half year i.e., before 31 October 2002 and continue thereafter in similar manner. The half yearly returns would comprise of three parts :

(i) Statement of structural liquidity in format ALM - Annexure - I;
(ii) Statement of short term dynamic liquidity in format ALM - Annexure - II; and
(iii) Statement of Interest Rate Sensitivity in format ALM - Annexure - III.

In the case of companies not holding public deposits, separate supervisory arrangements would be made and advised in due course of time.

4. It would be desirable to constitute a small Group under the charge of the Chief Executive Officer or a senior executive responsible for treasury function of the institution, with members drawn from resources, investments, foreign exchange, credit and MIS areas. The Group should be entrusted with the task of carrying out necessary spade work for formalising the ALM System in the institution. A certificate regarding constitution of the Asset Liability Management Committee i.e., ALCO should be sent to the Bank before 31 October 2001.

5. A 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, it may be necessary to computerise the MIS and make use of specialised software for managing the assets and liabilities with respect to the maturity mismatches and the various risks associated with such mismatches. The NBFCs would do well to install such systems at the earliest, if not already done.

6. In the meanwhile, in the course of the trial runs during the period ending 30 September 2001 and beginning 1 October 2001; if the companies face any operational difficulties in implementing the guidelines or if they have any suggestions to make for improvement of the guidelines, they may communicate the same to the Regional Office of RBI under whose jurisdiction the registered office of the company is situated.

7. Other NBFCs which do not meet the criteria mentioned in para 2, are also recommended to put in place the system of ALM as it is the endeavour of the Bank to gradually introduce it for all the NBFCs, for safeguarding interests of depositors and preventing systemic risks.

8. Please acknowledge receipt.

Yours faithfully,

(R. Sadanandam)
Chief General Manager-in-Charge

Encl: As above

GUIDELINES FOR ASSET - LIABILITY MANAGEMENT (ALM) SYSTEM IN NON-BANKING FINANCIAL COMPANIES (NBFCs)

In the normal course, NBFCs are exposed to credit and market risks in view of the asset-liability transformation. With liberalisation in Indian financial markets over the last few years and growing integration of domestic markets with external markets and entry of MNCs for meeting the credit needs of not only the corporates but also the retail segments, the risks associated with NBFCs' operations have become complex and large, requiring strategic management. NBFCs are now operating in a fairly deregulated environment and are required to determine on their own, interest rates on deposits, subject to the ceiling of maximum rate of interest on deposits they can offer on deposits prescribed by the Bank; and advances on a dynamic basis. The interest rates on investments of NBFCs in government and other securities are also now market related. Intense competition for business involving both the assets and liabilities has brought pressure on the management of NBFCs to maintain a good balance among spreads, profitability and long-term viability. Imprudent liquidity management can put NBFCs' earnings and reputation at great risk. These pressures call for structured and comprehensive measures and not just ***ad hoc*** action. The managements of NBFCs 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 - credit risk, interest rate risk, , equity / commodity price risk , liquidity risk and operational risk. It is, therefore, important that NBFCs introduce effective risk management systems that address the issues relating to interest rate and liquidity risks.

2. NBFCS need to address these risks in a structured manner by upgrading their risk management and adopting more comprehensive Asset-Liability Management (ALM) practices than has been done hitherto. ALM, among other functions, is also concerned with risk management and provides a comprehensive and dynamic framework for measuring, monitoring and managing liquidity and interest rate equity and commodity price risks of major operators in the financial system that needs to be closely integrated with the NBFCs' 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.

3. This note lays down broad guidelines in respect of interest rate and liquidity risks management systems in NBFCs, which form part of the Asset-Liability Management (ALM) function. The initial focus of the ALM function would be to enforce the risk management

discipline i.e. managing business after assessing the risks involved. The objective of good risk management systems should be that these systems will evolve into a strategic tool for NBFCs management.

4. The ALM process rests on three pillars:

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

5. <u>ALM Information Systems</u>

5.1 ALM has to be supported by a management philosophy which clearly specifies the risk policies and tolerance limits. This framework needs to be built on sound methodology with necessary information system as back up. Thus, information is the key to the ALM process. It is, however, recognised that varied business profiles of NBFCs in the public and private sector do not make the adoption of a **uniform ALM System** for all NBFCs feasible. There are various methods prevalent world-wide for measuring risks. These range from the simple Gap Statement to extremely sophisticated and data intensive Risk Adjusted Profitability Measurement methods. However, though the central element for the entire ALM exercise is the availability of adequate and accurate information with expedience; and the systems existing, if any, in some of the major NBFCs do not generate information in the manner required for ALM. Collecting accurate data in a timely manner will be the biggest challenge before the NBFCs , particularly those lacking

full scale computerisation. However, the introduction of base information system for risk measurement and monitoring has to be addressed urgently.

5.2 NBFCs have heterogeneous organisational structures, capital base, asset sizes, management profile, business activities and geographical spread. Some of them have large number of branches and agents/brokers whereas some have unitary offices. Considering the large network of branches and the lack of (an adequate) support system to collect information required for ALM which analyses information on the basis of residual maturity and repricing pattern of liabilities and assets, it will take time for NBFCs in the present state to get the requisite information. In respect of investment portfolio and funds managemnet, in view of the centralised nature of the functions, it would be much easier to collect reliable information. The data and assumptions can then be refined over time as the NBFC management gain experience of conducting business within an ALM framework. The spread of computerisation will also help NBFCs in accessing data.

6. **ALM Organisation**

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

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

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

6.2 The ALCO is a decision making unit responsible for balance sheet planning from risk-return perspective including the strategic management of interest rate and liquidity risks. Each NBFC will have to decide on the role of its ALCO, its responsibility as also the decisions to be taken by it. The business and risk management strategy of the NBFC should ensure that the NBFC operates within the limits / parameters set by the Board. The business issues that an ALCO would consider, inter alia, will include product pricing for both deposits and advances, desired maturity profile and mix of the incremental assets and liabilities, prevailing interest rates offered by other peer NBFCs for the similar services/product, etc. In addition to monitoring the risk levels of the NBFC, the ALCO 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 the NBFC and base its decisions for future business strategy on this view. In respect of the funding policy, for instance, its responsibility would be to decide on source and mix of liabilities or sale of assets. Towards this end, it will have to develop a view on future direction of interest rate movements and decide on funding mixes between fixed ***vs*** floating rate funds, wholesale ***vs*** retail deposits, money market ***vs*** capital market funding, domestic ***vs*** foreign currency funding, etc. Individual NBFCs will have to decide the frequency of holding their ALCO meetings.

6.3 **Composition of ALCO**

The size (number of members) of ALCO would depend on the size of each institution, business mix and organisational complexity. To ensure commitment of the Top Management and timely response to market dynamics, the CEO/CMD/President or the Director should head the Committee. The Chiefs of Investment, Credit, Resources Management or Planning, Funds Management / Treasury, International Business and Economic Research can be members of the Committee. In addition, the Head of the Technology Division should also be an invitee for building up of MIS and related computerisation. Large NBFCs may even have Sub-committees and Support Groups.

6.4 **Committee of Directors**

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

6.5 **ALM Process:**

The scope of ALM function can be described as follows:

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

The guidelines given in this note mainly address Liquidity and Interest Rate risks.

7. Liquidity Risk Management

7.1 Measuring and managing liquidity needs are vital for effective operation of NBFCs . By ensuring an NBFC'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. NBFCs management should measure not only the liquidity positions of NBFCs 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. 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.

7.2 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, 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

7.3 NBFCs holding public deposits are required to invest up to a prescribed percentage (15% as on date) of their public deposits in approved securities in terms of liquid asset requirement of Scetion 45-IB of the RBI Act, 1934. Residuary Non-Banking Companies (RNBCs) are required to invest up to 80% of their deposits in a manner as prescribed in the Directions issued under the Act ibid. There is no such requirement for NBFCs which are not holding public deposits. Thus various NBFCs including RNBCs 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 the investment securities and in case of NBFCs holding public deposits, the surplus securities (held over and above the requirement) would fall in the category of 'non-mandatory securities'. 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 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.

7.4 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 may 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 should approve the volume, composition, holding/defeasance period, cut loss, etc. of the ‘Trading Book'. The remaining investments should also be classified as short term and long term investments as required under Prudential Norms.

7.5 The policy note recorded by the NBFCs on treatment of the investment portfolio for the purpose of ALM and approved by their Board/ALCO should be forwarded to the Regional Office of the Department of Non-Banking Supervision of RBI under whose jurisdiction the registered office of the company is located.

7.6 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, the main focus should be on the short-term mismatches viz., 1-30/31 days. NBFCs, however, are expected to monitor their 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 1-30/31 days in normal course may not exceed 15% of the cash outflows in this time bucket. If an NBFC, in view of its current asset -liability profile and the consequential structural mismatches, needs higher tolerance level, it could operate with higher limit sanctioned by its Board / Management Committee giving specific reasons on the need for such higher limit. The discretion to allow a higher tolerance level is intended for a temporary period, i.e. till **March 31, 2002.**

7.7 The **Statement of Structural Liquidity** (ALM-Annexure I) 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 will be a cash outflow while a maturing asset will be a cash inflow. While determining the likely cash inflows / outflows, NBFCs have to make a number of assumptions according to their asset - liability profiles. While determining the tolerance levels, the NBFCs 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 with experience gained in Liquidity Management.

7.8 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 may estimate their 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.

8. Currency Risk

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

9. Interest Rate Risk (IRR)

9.1 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.

9.2 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:

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.

9.3 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 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.

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 - II and the Reporting Format for interest rate sensitive assets and liabilities is given in ALM-Annexure III.

9.4 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 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.

9.5 Each NBFC should set prudential limits on individual Gaps with the approval of the Board/Management Committee. The prudential limits should 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.

9.6 RBI intends to introduce capital adequacy for market risks in due course.

10. **General**

10.1 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. 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 may 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.

10.2 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 should, 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.

10.3 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 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

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 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	-do-
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. 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 6 months 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 representing trading 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 . (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.
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.

<u>Note:</u>

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

Appendix II

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/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, 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	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.
6. Current liabilities & provisions	
a) Sundry creditors	)
b) Expenses payable	)
c) Swap adjustment a/c.	)
d) Advance income received/receipts from borrowers pending adjustment	) Non-sensitive
e) Interest payable on bonds/deposits	)
f) Provisions	)
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; reprices on maturity. To be placed as per residual maturity in respective time-buckets.
4. <u>Investments</u>	
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: (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. <u>Advances</u> (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)	To be slotted as indicated at item B.7 of Appendix I.
b) Doubtful and loss)	
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.

ALM - Annexure- I

(To be submitted by each NBFC having asset size of Rs. 100 crore and above and/or public deposit of Rs. 20 crore and above to the Regional Office of RBI under whose jurisdiction the registered office of the company is situated at half-yearly periodicity)

Name of NBFC

Statement of Structural Liquidity as on :

(Amount in crore of Rupees)

A. Outflows	1 to 30/31 day (one month)	Over one month to 2 months	Over 2 months to 3 months	Over 3 months to 6 months	Over 6 months to one year	Over one year to 3 years	Over 3 to 5 years	Over 5 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/deben-tures									
b)Bonds/debe-ntures with embedded options									
c) Fixed rate notes									
5. Deposits a) Term deposits from public									
b) ICDs									
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 commitments pending disbursal (outflows)									
c) Lines of credit committed to other institutions (outflows)									
d) Outflows on account of forward exchange contracts, rupee/dollar swap & bills rediscounted									
9. Others (specify)									
A. TOTAL OUTFLOWS (A)									
B. Inflows									
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)									
13. Others									
B. TOTAL INFLOWS (B)									
C. Mismatch (B - A)									
D. Cumulative mismatch									
E. C as percentage Of A									

Annexure II

Name of the NBFC

Statement of short-term Dynamic Liquidity as on

Outflows (Rs. in crore)

	1 - 14 days	15 days to 28 days	29 days to 3 months	3 - 6 months
1. Increase in loans & Advances				
2. Net increase in investments				
i) Govt./approved securities				
ii) Bonds/debentures/shares				
iii) Others				
3. Net decrease in public deposits, ICDs				
4. Net decrease in borrowings from various sources/net increase in market lending				
5. Outflow on account of off-balance sheet items				
6. Other outflows				
TOTAL OUTFLOWS (A)				
A. Inflows				
1. Net cash position				
2. Net increase in deposits				
3. Interest inflow on investments				
4. Interest inflow on performing Advances				
5. Net increase in borrowings 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				

ALM-Annexure III

(To be submitted by each NBFC having asset size of Rs. 100 crore and above and/or public deposit of Rs. 20 crore and above to the Regional Office of RBI under whose jurisdiction the registered office of the company is situated at half-yearly periodicity)

Name of the NBFC :

Statement of Interest Rate Sensitivity as on :

(Amt. in crore of rupees)

A. Outflows	1 day to 30/31 days (one month)	Over one month to 2 months	Over 2 months upto 3 months	Over 6 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 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/deben-tures								
b) Bonds/debe-ntures 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 commitments pending disbursal (outflows)								
c) Lines of credit committed to other institutions (outflows)								
d) Outflows on account of forward exchange contracts, rupee/dollar swap & bills rediscounted								
9. Others (specify)								
A. TOTAL OUTFLOWS (A)								
B. Inflows								
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)								
13. Others								
B. TOTAL INFLOWS (B)								
C. Mismatch (B - A)								
D. Cumulative mismatch								
E. C as percentage Of A								