Annex VI: Guidance on Bucketing

Guidelines on Bucketing of various items of Assets and Liabilities in the Interest Rate Sensitivity Statement, along with the coupons and yields to be used

Sr.	Liabilities		Framework for Bucketing of Assets/ Liabilities/ Off Balance Sheet Items and Computation of Modified Duration	
1.	**Capital - Equity shares**			Non-sensitive for TGA.
				Not to be bucketed for DGA.
2.	**Reserves and Surplus**			Non-sensitive for TGA.
				Not to be bucketed for DGA.
3.	(i)	Innovative Perpetual Debt Instruments (IPDI) eligible for Tier I status		Sensitive.
	(ii)	Debt capital Instruments qualifying as Upper Tier II Capital and Tier II bonds		Bucketing as per residual maturity/ re-pricing.
	(iii)	Preference shares eligible for Tier I and Tier II Capital		Coupon rate: Contract rate.
				Yield: Govt. of India yield for corresponding period with appropriate mark up for rated bonds (corresponding to rating of the instrument) published by FBIL.
4.	(i)	**Current Deposits**		Sensitive.
				A bank better equipped to estimate the behavioral pattern of current deposits should classify them in the appropriate buckets based on behavioral maturity as per the behavioural study. In such cases to compute the Modified Duration, a bank must use its relevant term deposit rates as the discount rate, coupon rate being zero.
				However, a bank which have not conducted the above behavioral study may classify 15 per cent of the current deposits as volatile and place it in the first time bucket (viz. 1-28 days) and 85 per cent may be placed in the 1-3 years time bucket.
				Coupon Rate: Zero.

Sr.	Liabilities		Framework for Bucketing of Assets/ Liabilities/ Off Balance Sheet Items and Computation of Modified Duration		
				Yield:	
				(i)	As the mid-point of the 1-28 days time bucket is 14 days, a bank could take its 14 days term deposit rate as the yield to compute the MD of the volatile portion.
				(ii)	As the mid-point of the 1-3 years time bucket is 2 years, a bank could take its 2-year term deposit rate as the discount rate to compute the Modified Duration of the core portion.
	(ii)	**Savings Bank Deposits**		Sensitive.	
				A bank may estimate the future behaviour/ sensitivity of savings bank deposits to changes in market variables, the sensitivity so estimated could be shown under appropriate time buckets. The existing savings bank rate may be used as coupon and the bank's own relevant term deposit rates must be used as the yield to compute the MD.	
				However, where a bank has not undertaken any behavioral study it may include core portion (say 90 per cent) as rate sensitive and include the same in 1-3 years time bucket. The volatile portion (10 per cent) may be placed in 1-28 days bucket.	
				Coupon Rate: Existing Savings Bank interest rate, i.e. 3.5 per cent.	
				Yield:	
				(i)	As the mid-point of the 1-28 days time bucket is 14 days, a bank could take its 14 days term deposit rate as the yield to compute the MD of the volatile portion.
				(ii)	As the mid-point of the 1-3 years time bucket is 2 years, a bank could take its 2-year term deposit rate as the discount rate to compute the Modified Duration of the core portion.
	(iii)	**Term deposits**		Sensitive.	
				A bank may study the behavioural pattern of large value fixed rate term deposits to arrive at the percentage of deposits encashed/ foreclosed and renewed before maturity, i.e the quantum on which the option is exercised. The	

Sr.	Liabilities		Framework for Bucketing of Assets/ Liabilities/ Off Balance Sheet Items and Computation of Modified Duration	
				amount of deposits which are estimated to be prone to pre-mature withdrawal as per such studies may be placed in the corresponding maturity buckets.
				The other fixed rate term deposits may be distributed in various time buckets on the basis of remaining term to maturity.
				In the case of floating rate term deposits, the amounts may be shown under the time bucket when the deposits contractually become due for re-pricing.
				Coupon rate: A bank may compute the average coupon on the term deposits by comparing the interest paid/ accrued during the relevant accounting period on term deposits to the monthly average outstanding term deposits.
				Yield: A bank's card interest rate for deposits for the relevant term may be used.
	(iv)	**Certificates of Deposit**		Sensitive and re-prices on maturity.
				The amounts should be distributed to different buckets on the basis of remaining term to maturity. However, in case of floating rate CDs, the amounts may be shown under the time bucket when CDs contractually become due for re-pricing.
				Coupon rate: Calculated in a similar manner as term deposits.
				Yield: Govt. of India yield for corresponding period with mark up for rated bonds (corresponding to CD ratings of the bank) published by FIMMDA may be taken as yield.
5.	**Borrowings**			
	(i)	**Money at Call and Short Notice**		The amounts should be distributed to different buckets on the basis of remaining maturity/ re-pricing date.
				Overnight call money rate may be taken as both the coupon and yield.
	(ii)	**Inter-bank (Term)**		The amounts should be distributed to different buckets on the basis of remaining maturity/ re-pricing date.
				The coupon will be as per actual rate for each inter-bank term loan and yield may be based on the FBIL-NSE MIBOR curve, with appropriate mark up as per rating of the Tier II bonds of the bank.

Sr.	Liabilities		Framework for Bucketing of Assets/ Liabilities/ Off Balance Sheet Items and Computation of Modified Duration	
	(iii)	**Refinances**		The amounts should be distributed to different buckets on the basis of remaining maturity in the case of fixed rate refinances and re-pricing date for floating rate refinances.
				The appropriate refinance rate of RBI, NHB, NABARD, etc. may be used as the coupon and yield may be based on the GOI securities of corresponding tenors.
	(iv)	**Others (specify)**	-	
6.	**Other Liabilities and Provisions**			
	i)	**Bills Payable**		Non-sensitive.
	ii)	**Inter-office adjustment**		Non-sensitive.
	iii)	**Provisions**		Non-sensitive.
	iv)	**Others**		Non-sensitive.
7.	**Repos (Funds borrowed)**			Sensitive.
				The amounts should be distributed to different buckets on the basis of remaining maturity.
				The coupon will be as per actual rate for each repo and yield may be based on FBIL-NSE MIBOR curve.
8.	**Bills Re-discounted (DUPN)**			Sensitive.
				The amounts should be distributed to different buckets on the basis of remaining maturity.
				Coupon rate: Appropriate discount rate.
				Yield: FBIL-NSE MIBOR curve may be used as the yield, with appropriate mark up as per rating of the Tier II bonds of the bank.
9.	**Forex Swaps (Buy/ Sell)**			Sensitive.
				Actual MD for each contract may be computed using the INR implied rate through forward premium / discount as both coupon and discount rate.
10.	**Others**			

Sr.	Liabilities	Framework for Bucketing of Assets/ Liabilities/ Off Balance Sheet Items and Computation of Modified Duration
A.	Total Liabilities	

Sr.	Assets		Framework for Bucketing of Assets / Liabilities / Off Balance Sheet Items and Computation of Modified Duration
1.	**Cash**		Non-sensitive.
2.	**Balances with RBI**		Non-sensitive.
3.	**Balances with other banks**		
	i)	**Current account**	Non-sensitive.
	ii)	**Money at Call and Short Notice**	Sensitive on maturity.
			The amount should be plotted in the 1-28 days bucket.
			The overnight call money rate may be used as both coupon and yield.
	iii)	**Term deposits and other placements**	Sensitive.
			The amounts should be distributed to different time buckets on the basis of residual maturity or residual period to repricing, as relevant.
			Coupon rate: Relevant rate of term deposit / placement.
			Yield: Term deposit rates of the corresponding tenors of the banks with whom deposits are placed.
4.	**Investments (Performing) (including those under reverse repos but excluding repos)**		Sensitive
			For the purpose of bucketing and calculation of Modified Duration, investments may be classified into SLR and non-SLR investments as indicated below :
	i)	**SLR investments**	Sensitive.
			Actual Modified Duration of each SLR security should be used.

			Yield : G-Sec yield curve.
	ii)	**Non-SLR investments**	Sensitive (except equity which may be put in the non-sensitive bucket).
			Actual Modified Duration of each Non-SLR security should be used.
			Yield : FIMMDA benchmark curve.
	iii)	**Re-capitalisation bonds**	Sensitive.
			Actual Modified Duration of each recapitalization bond may be computed.
	iv)	**Investments in SRs issued by ARCs**	Non-sensitive.
5.	**Advances (Performing)**		Sensitive.
			The amounts should be distributed to different time buckets on the basis of residual maturity or residual period to re-pricing, as relevant.
			Banks may compute the average coupon for the advances portfolio by comparing the interest income during the relevant accounting period from 'standard' advances to the monthly average outstanding 'standard' advances.
			The average rating of the advances portfolio may be estimated by each bank to arrive at the applicable yield. One of the methods for estimating the average rating may be as follows :
			Multiply the outstanding advances in each bucket with the internal rating scores to arrive at the weighted average rating of the advances in that bucket. Thereafter, this rating may be mapped to an external rating. In case a major portion of the bank's advances in a particular time bucket happens to be unrated, the bank may use the rating scores of large advances

			/ rated advances in each bucket (mapped with the rating of external agency) for arriving at weighted average rating for the bucket. On the basis of the average rating of each bucket, the yield may be arrived at using the FBIL yield curve for GoI securities with appropriate mark-up.
	i)	**Bills Purchased and Discounted (incl. Bills under DUPN)**	Sensitive on maturity.
			The average coupon and yield for the advances portfolio, as computed above, may be used.
	ii)	**Cash credit / Overdrafts (incl. TODs / Loans repayable on demand)**	Sensitive on re-pricing / date of next renewal, whichever is earlier. In the case of BPLR / Base Rate-linked advances, a bank may estimate the re-pricing date based on the past experience and future forecast for the changes in their BPLR / Base Rate.
			The average coupon and yield for the advances portfolio, as computed above, may be used.
	iii)	**Term Loans**	Sensitive on re-pricing / maturity, whichever is earlier. In the case of BPLR / Base Rate linked advances, a bank may estimate the re-pricing date based on the past experience and future forecast for the changes in their BPLR / Base Rate.
			The average coupon and yield for the advances portfolio, as computed above, may be used.
6.	**NPAs (Advances and Investments) ***		Sensitive.
			Sub-standard NPAs should be slotted in the 1-3 years time bucket.
			Doubtful and Loss Assets - should be slotted in the 3-5 years time bucket.
			Coupon: The coupon rate will be taken as zero.

			The yield curve prescribed by FIMMDA for unrated exposures/ default category may be used as yield.
7.	**Fixed Assets**		Non-sensitive.
8.			
	i)	**Inter-office adjustment**	Non-sensitive.
	ii)	**Leased Assets**	Sensitive on cash flows.
			The amounts should be distributed to respective maturity buckets corresponding to the cash flow dates.
			Yield curve prescribed by FIMMDA for valuation of corporate bonds as per the average rating estimated for leased assets to be used for arriving at the yields.
			The average coupon for the leased assets portfolio, as computed for advances, may be used.
	iii)	**Others**	Non-sensitive.
9.	**Reverse Repos (Funds Lent)**		Sensitive. The amounts should be distributed to different buckets on the basis of remaining maturity.
			The coupon will be as per actual rate for each repo and yield may be based on FBIL-NSE MIBOR curve.
10.	**Forex Swaps (Sell / Buy)**		Sensitive.
			Actual MD for each contract may be computed using the INR implied rate through forward premium / discount may be used as both coupon and discount rate.
11.	**Bills Rediscounted (DUPN)**		Overnight call money rate may be used as both the yield and coupon rates.

12.	**Others (specify)**		
B.			
13.	**Other Products (Interest Rate Derivatives)**		Derivatives to be converted into positions in the relevant underlying. The amounts considered would be the principal amount of the underlying or of the notional underlying. Options (where permitted) shall be considered according to the delta equivalent amount of the underlying or of the notional underlying. Actual modified duration for each contract may be computed using the contracted rate as coupon and the relevant yield curve for discounting factor. Alternatively all interest rate derivatives can also be dealt with in the following manner:
	i)	**FRAs**	Forward Rate Agreements (FRAs) could also be considered as a combination of a short position and a long position. For instance, a long position in a September three month FRA (taken on June 1), can be bucketed as a short position in a bond with a maturity of 6 months and a long position in a bond with a maturity of 3 months. Accordingly a liability in the 3-6 months bucket and an asset in the 28 days to 3 months bucket may be shown. The amount to be reckoned for computing interest rate sensitivity is the notional value of the FRA.
	ii)	**Swaps**	Interest Rate Swaps could be considered as a combination of a short position and a long position. The notional of the fixed and floating leg of an Interest Rate Swap could be shown in the respective maturity bucket based on the maturity date for the fixed leg and the reset date for the floating leg. Suppose a bank receives 5-year fixed and pays floating MIBOR, then the fixed leg of the swap could be shown as an asset in the '5-7 year' bucket and the floating leg would be shown as a liability in '1-28days' bucket. Similarly, a currency swap

			may be considered as a combination of a short position in one currency and long position in another currency. The two positions will be sensitive to the changes in the respective interest rates. The notionals of the two currencies will be bucketed as a short/ long positions in the respective currency with relevant maturity.
	iii)	**Futures**	Interest Rate Futures (IRFs) could also be considered as a combination of a short position and long position. For instance, a long position in a September three month IRF (taken on June 1), can be bucketed as a long position in Government bond, with a maturity of six months and a short position in Government bond with maturity of three months. The amount to be reckoned for computing interest rate sensitivity is the notional value of the IRF.

* Net of provisions, interest suspense and claims received from ECGC / DICGC.

Note :

1. Wherever FIMMDA spreads are proposed to be used, the FIMMDA Corporate Bond Spreads table may be used. The same can be downloaded from the FIMMDA website (www.fimmda.org) or more from the exact link at http://www.fimmda.org/Products_and_Services/asp/spread_gilt.asp
2. Equity holding whether strategic or for investment purposes may be treated as Non-sensitive and bucketed accordingly.