

STAR Housing Finance Ltd.
(SHFL)

*Liquidity Risk Management and Asset Liability
Management (ALM) Policy*

LIQUIDITY RISK MANAGEMENT AND ASSET LIABILITY MANAGEMENT (ALM)
(The Policy is amended following the Master Directions of RBI as applicable to
HFCs & supervisory Circulars of NHB)

I. INTRODUCTION

The purpose of this document is to define the Asset Liability Management & Liquidity Risk Management for the company in accordance with the RBI Master Directions for Housing Finance companies effective from Feb.17.2021 and also NHB's supervisory circular as issued from time to time. Any regulatory /supervisory changes that would impact the aspects of the company would be reflected hereto. .

In the present market scenario every Housing Finance Company is vastly exposed to credit and market risk in view of the Asset – Liability transformation. With liberalization in Indian financial markets over the last few years and growing integration of the domestic markets with external markets, the risk associated with operations of a Company have become complex and large, requiring strategic management. Company is operating in a fairly deregulated environment and are required to determine their own, interest rates on advances and borrowings from banks.

It is therefore important that Company introduce effective risk management system integrated into effective ALM monitoring and control System that addresses the issues not limited to rate of interest rate and liquidity risks, but also the overall balance sheet management. The company has a separate Credit and Investment Policy taking into account all aspects of risk relating to credit and investment operations of the company.

II. COMPANY'S PHILOSOPHY

Star Housing Finance Limited (SHFL) ("the company") believes in and complies with the best practices that are in line with the Directions provided by RBI/NHB to housing finance companies. Considering the importance, management will be directly involved in the various aspects of ALM and Integrated Risk Management issues.

III. OBJECTIVES

Intense competition for business involving both the assets and liabilities has brought pressure on the managements of HFCs to maintain a good balance amongst spreads, profitability and long-term viability. These pressures call for structured and comprehensive measures and not just *ad hoc* action. The managements of HFCs have to base their business decisions on a dynamic and integrated risk management system and process driven by corporate strategy. HFCs are exposed to several major risks in the course of their business - credit risk, interest rate risk, liquidity risk, operational risk etc. It is, therefore, important that HFCs introduce effective risk

management systems that address the issues relating to interest rate and liquidity risks.

HFCs 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.

IV. ASSET LIABILITY MANAGEMENT (ALM):

Asset-liability management basically refers to the process by which a company manages its balance sheet in order to allow for alternative interest rate and liquidity scenarios. Housing finance companies provide services which expose them to various kinds of risks like credit risk, interest risk, and liquidity risk.

Asset liability management is an approach that provides company with protection that makes such risks acceptable. Asset-liability management models enable the company to measure and monitor risk, and provide suitable strategies for their management.

ALM, among other functions, is also concerned with management of risks and provides a comprehensive and dynamic framework for measuring, monitoring and managing liquidity and interest rate risks of an HFC that need to be closely integrated with the HFC's business strategy. It involves assessment of various types of risks and altering the asset-liability portfolio in a dynamic way in order to manage risks.

It is therefore appropriate for the company to focus on asset-liability management when it faces financial risks of different types. Asset-liability management includes not only a formalization of this understanding, but also a way to quantify and manage these risks.

V. KEY ELEMENTS:

As Per RBI Regulatory Directions /NHB Supervisory Circulars:

1. Applicability

Directions/guidelines for asset liability management system in housing finance companies are applicable to all HFCs irrespective of whether they are accepting / holding public deposits or not.

2. Reporting

The periodicity of the Statement of short term dynamic liquidity and the Statement of structural liquidity and Interest rate sensitivity shall be submitted within the prescribed time at stipulated intervals.

3. Additional Disclosures in balance Sheet

Further, the company shall disclose the following particulars in its Annual Balance Sheet, relating to:

- i. Capital to Risk Assets Ratio (CRAR)
 - ii. Exposure to real estate sector, both direct and indirect; and
 - iii. Maturity pattern of assets and liabilities
- (Disclosure pattern is appended at Appendix-II)

4. ALM Function

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

The ALM process rests on three pillars:

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

a. ALM Information Systems

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 is necessary to computerize the MIS and make use of specialized software for managing the assets and liabilities with respect to the maturity mismatches and the various risks associated with such mismatches.

ALM has to be supported by a management philosophy that clearly specifies the risk policies and tolerance limits. This framework needs to be built on sound methodology with necessary supporting information system as the central element of the entire ALM exercise is the availability of adequate and accurate information with expedience. Thus, information is the key to the ALM process. 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.

b. ALM Organisation

- i. Successful implementation of the risk management process would require strong commitment on the part of the senior management, to integrate basic operations and strategic decision making with risk management. The Board shall have overall responsibility for management of risks and will decide the risk management policy of the Company and set limits for liquidity, interest rate, exchange rate and equity price risks.
- ii. The ALM Support Groups consisting of operating staff will be responsible for analysing, monitoring and reporting the risk profiles to the Management. The staff will also prepare forecasts (simulations) reflecting the impact of various possible stress scenarios in market conditions on the balance sheet and recommend the action needed to adhere to the Company's internal limits.

The Management is a decision-making unit responsible for integrated balance sheet management from risk-return perspective including the strategic management of interest rate and liquidity risks. The business and the risk management strategy of the Company will ensure that it operates within the limits/parameters set by the Board. The business issues that management would consider will, *inter alia*, include product pricing for advances, desired maturity profile and mix of the incremental assets and liabilities, prevailing interest rates offered by other peer HFCs for similar services/product, etc. In addition to monitoring the risk levels, the Management will review the results of and progress in implementation of the decisions made in the previous meetings. The Management would also articulate the current interest rate view of the Company and base its decisions for future business strategy on this. In respect of the funding policy, for instance, its responsibility would be to decide on the source and mix of liabilities or sale of assets.

Committee of Directors

The Audit Committee of the Board through Asset Liability Management Committee (ALCO) constituted by the Board will oversee the implementation of the ALM system and review its functioning periodically. The constitution of ALCO, its role and responsibilities in detail have been enumerated in the following paragraphs under Liquidity Management Framework.

c. ALM Process

The scope of ALM function can be described as under:

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

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

5. Liquidity Risk Management Framework

It will be the responsibility of the Board through the ALCO to ensure that the guidelines are adhered to. The internal controls/measures required to be put in place by the company shall be subject to supervisory review. 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 management shall adhere to the liquidity risk management framework which ensures that it maintains sufficient liquidity, 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:

i) Governance of Liquidity Risk Management

Successful implementation of any risk management process has to emanate from the top management with the demonstration of its strong commitment to integrate basic operations and strategic decision-making with risk management. The Chief Risk Officer, shall be involved in the process of identification, measurement and mitigation

of liquidity risks. The organisational set up for liquidity risk management shall be as follows:

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 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 Company including liquidity risk.

c) Asset-Liability Management Committee (ALCO)

The ALCO consisting of the 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 Company. 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) shall 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.

Responsibilities

The Asset-Liability Management Committee (ALCO) is responsible for ensuring adherence to the limits set by the Board as well as for deciding the business strategy of the Company in line with the Company's budget and decided risk management objectives. The ALCO is a decision-making unit responsible for balance sheet planning from risk-return perspective including strategic management of interest rate and liquidity risks.

Role

The business issues that ALCO would consider, besides the ALM function detailed hereinabove, includes product pricing for both borrowings and advances, desired maturity profile and mix of the incremental assets and liabilities, prevailing interest rates offered by other peer HFCs for the similar services/product, etc. In addition to monitoring the risk levels of the Company, 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 Company and base its decisions for future business strategy on this view and such other function(s)/role(s) as may be directed by the board of directors from time to time.

Composition

Mr. Ashish Jain	- Managing Director & CEO
Mr. Kaplesh Dave	- Strategic Head
Mr. Natesh Narayanan	- Chief Financial Officer
Mr. B. S. Kachhawaha	- Chief Risk Officer
Mr. Sudhir Menon	- Credit Head

The ALM Support Groups consisting of operating staff are responsible for analysing, monitoring and reporting the risk profiles to the ALCO. The Risk management group prepares forecasts showing the effects of various possible changes in market conditions related to the balance sheet and recommend the action needed to adhere to Company's internal limits, etc.

Quorum

The quorum of the ALCO meetings shall be one third of the total strength or at least two Members.

Frequency of meetings

The meeting of the Committee shall be held at least once in each quarter and at such intervals as may be required.

ALCO Limits

The Company have very limited volume of the business and the company does not have any deposit. Nonetheless, in keeping the long term perspective of the issue the company will ensure implementation of the "Guidelines of asset liability Management" which is the responsibility of the entire organization.

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 and /or reconstituted by the ALCO from time to time depending on the size and complexity of liquidity risk management.

ii) Liquidity risk Tolerance

The Company shall have a sound process for identifying, measuring, monitoring and controlling liquidity risk. The ALCO 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 Company maintains sufficient liquidity.

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

The ALCO 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 commitments may be given particular importance due to the difficulties that the company may have in assessing the related liquidity risks that could materialise in times of stress.

v) Funding Strategy - Diversified Funding

The company 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. The Company should regularly gauge its capacity to raise funds quickly from each source. There should not be over-reliance on a single source of funding.

vi) Collateral Position Management

The company 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, the company 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. The company should conduct stress tests on a regular basis for a variety of short-term and protracted Company-specific and market-wide stress scenarios (individually and in combination). In designing liquidity stress scenarios, the

nature of the business, activities and vulnerabilities should be taken into consideration so that the scenarios incorporate the major funding and market liquidity risks to which the Company is exposed.

viii) Contingency Funding Plan

The Company shall formulate a contingency funding plan (CFP) for responding to severe disruptions which might affect the Company'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

The Company 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 accounts 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 management should refrain from entering into any such transaction without prior approval of the Board. The Intra-Group transactions include account lending, investment, other advances. 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)

The Company shall have a reliable MIS designed to provide timely and forward-looking information on the liquidity position of the Company 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

The Company 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 liquidity risk management process.

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 the company in different time buckets. The time buckets shall be distributed as under:

1. 1 day to 7 days
2. 7 days to 14 days
3. 15 days to 30/31 days
4. Over one month and upto 2 months
5. Over 2 months and upto 3 months
6. Over 3 months and upto 6 months
7. Over 6 months and upto 1 year
8. Over 1 year and upto 3 years
9. Over 3 years and upto 5 years
10. Over 5 years and upto 7 years
11. Over 7 years and upto 10 years
12. Over 10 years

b) HFCs holding public deposits are required to invest a prescribed percentage of their deposits in approved securities in terms of liquid asset requirement under Section 29B of the NHB Act, 1987. Since the company is non deposit taking HFC this provision is not applicable. There is no such requirement for HFCs which are not holding deposits. Thus the company's holding in its investment portfolio securities would be classified as 'non mandatory securities' and be placed in the time buckets as per respective residual maturity period.

c) 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% as per RBI directives for regulatory purpose and company shall also follow cumulative negative mismatch as applicable into respective time buckets as prescribed by the NHB for supervisory reporting purpose. The ALCO however, would be monitoring the cumulative

mismatches (running total) across all other time buckets upto 1 year by establishing internal prudential limits with the approval of the Board.

The Company shall follow the cumulative mismatch limits as prescribed by NHB for reporting of all ALM and related statements to NHB, as per the last updated Master Circular dated April 13, 2021 of NHB on “Returns to be submitted by HFCs” having taken note of the reporting formats and schedules for submission of statements/returns. A copy of the formats of the ALM Statements is enclosed for the reference.

d) The Statement of Structural Liquidity would be prepared by placing all cash inflows and outflows in the maturity ladder according to the expected timing of cash flows. A maturing liability will be a cash outflow while a maturing asset will be a cash inflow. While determining the likely cash inflow/ outflows, the company have to make a number of assumptions according to their asset-liability profiles. While determining the tolerance levels, the company would take into account all relevant factors based on its asset-liability base, nature of business, future strategies, etc. The company would ensure that the tolerance levels are determined keeping all necessary factors in view and further refined with experience gained in Liquidity Management but within the outer limits mentioned hereinabove and revised by the Regulator from time to time.

e) In order to enable the Company to monitor its short-term liquidity on a dynamic basis over a time horizon spanning from 1 day to 6 months, the company would estimate its short-term liquidity profiles on the basis of business projections and other commitments for planning purposes.

f) The company shall follow the guidelines as given in the Appendix (Maturity Profile for Liquidity Statement) for bucketing of inflows and outflows arising various from asset class and borrowing /capital profile including off-balance sheet exposure for preparation of ALM statements. (Appendix)

E. Liquidity Risk Measurement – Stock Approach

The Company shall adopt a “stock” approach to liquidity risk measurement and monitor certain critical ratios in this regard by putting in place internally defined limits by ALCO and approved by the Board. The ratios and the internal limits shall be based on the liquidity risk management capabilities, experience and profile of the Company. An indicative list of certain critical ratios to monitor is short-term 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 the Company’s balance sheets having foreign assets or liabilities. Floating exchange rate arrangement has brought in its wake pronounced volatility adding a new dimension to

the risk profile of the HFC's balance sheets, if having foreign assets or liabilities. The increased capital flows across free economies following deregulation have contributed to increase in the volume of transactions. Large cross border flows together with the volatility may render the HFCs' balance sheets vulnerable to exchange rate movements. At present the company does not have any foreign asset or liability but as and when it arises suitable measures would be taken by the ALCO to mitigate the risk arising out of such transactions.

G. Managing Interest Rate Risk (IRR)

- a. The operational flexibility given to HFCs in pricing most of the assets and liabilities imply the need for the financial system to hedge the interest rate risk. Interest rate risk is the risk where changes in market interest rates might adversely affect an HFC's financial condition.

The immediate impact of changes in interest rates is on HFC's earnings (i.e. reported profits) by changing its Net Interest Income (NII). A long-term impact of changing interest rates is on HFC's Market Value of Equity (MVE) or Net Worth as the economic value of the assets, liabilities and off-balance sheet positions get affected due to variation in market interest rates. The interest rate risk when viewed from these two perspectives is known as 'earnings perspective' and 'economic value perspective', respectively. The risk from the earnings perspective can be measured as changes in the Net Interest Income (NII) or Net Interest Margin (NIM). There are many analytical techniques for measurement and management of interest rate risk. To begin with, the traditional Gap analysis is considered to be a suitable method to measure the interest rate risk in the initial phase of the ALM system. It is the intention of the company to move over to the modern techniques of interest rate risk measurement like Duration Gap Analysis, Simulation and Value at Risk over time when the company acquire sufficient expertise and sophistication in acquiring and handling MIS.

- 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:
 - within the time interval under consideration, there is a cash flow;
 - the interest rate resets/reprices contractually during the interval;
 - it is contractually pre-payable or withdrawable before the stated maturities;
 - It is dependent on the changes in the Bank Rate by RBI.
- c. The Gap Report should be generated by grouping rate sensitive liabilities, assets and off balance sheet positions into time buckets according to residual maturity or next re-pricing period, whichever is earlier. All investments, advances, deposits, borrowings, purchased funds, etc. that mature/re-price within a specified time-frame are interest rate sensitive.

Similarly, any principal repayment of loan is also rate sensitive if the Company expects to receive it within the time horizon. This includes final principal repayment and interim instalments. Certain assets and liabilities carry floating rates of interest that vary with a reference rate and hence, these items get re-priced at pre-determined intervals. Such assets and liabilities are rate sensitive at the time of re-pricing. The tranches of liabilities are basically floating. The interest rates on advances could be re-priced any number of occasions, corresponding to the changes in PLR.

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

1. 1 day to 7 days
 2. 7 days to 14 days
 3. 15 days to 30/31 days
 4. Over one month and upto 2 months
 5. Over 2 months and upto 3 months
 6. Over 3 months and upto 6 months
 7. Over 6 months and upto 1 year
 8. Over 1 year and upto 3 years
 9. Over 3 years and upto 5 years
 10. Over 5 years and upto 7 years
 11. Over 7 years and upto 10 years
 12. Over 10 years.
 13. Non-sensitive
- d. The Gap is the difference between Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL) for each time bucket. The positive Gap indicates that it has more RSAs than RSLs whereas the negative Gap indicates that it has more RSLs.

The Gap reports indicate whether the institution is in a position to benefit from rising interest rates by having a positive Gap ($RSA > RSL$) or whether it is in a position to benefit from declining interest rates by a negative Gap ($RSL > RSA$). The Gap can, therefore, be used as a measure of interest rate sensitivity.

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

H. Liquidity Risk Monitoring Tools

The Statement of Structural Liquidity is currently one of the prescribed monitoring tools. In addition to this, the following tools shall be adopted by the Company for internal monitoring of liquidity requirements:

a) Concentration of Funding

This metric is meant to identify those significant sources of funding, withdrawal of which could trigger liquidity problems. The metric thus encourages diversification of funding sources and monitoring of each of the significant counterparty, significant product / instrument and significant currency.

b) Available Unencumbered Assets

This metric provides significant information on available unencumbered assets, which have the potential to be used as collateral to raise additional secured funding in secondary markets. It shall capture the details of the amount, type and location of available unencumbered assets that could serve as collateral for secured borrowing in secondary markets.

c) Market-related Monitoring Tools

i This includes high frequency market data that can serve as early warning indicators in monitoring potential liquidity difficulties at the HFCs.

ii The Board / committee set up for the purpose shall monitor on a monthly basis, the movements in their book-to-equity ratio and the coupon at which long-term and short-term debts are raised. This also includes information on breach/penalty in respect of regulatory liquidity requirements, if any.

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 (₹ crore)	% of Total deposits	% of Total Liabilities
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NA

- (ii) Top 20 large deposits (amount in ₹ crore and % of total deposits)

NA

- (iii) Top 10 borrowings (amount in ₹ crore and % of total borrowings)

- (iv) Funding Concentration based on significant instrument/product

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

Maturity Profile for Liquidity Statement

A. OUTFLOWS

Heads of Account	Time-bucket category
1. Capital funds : a) Equity capital, non-redeemable or perpetual preference capital, Reserves, Funds and Surplus	The 'Over 10 years' time-bucket.
b) Preference capital - redeemable/non-perpetual	As per the residual maturity of the shares.
2. Gifts, grants, donations and benefactions	The 'Over 10 years' time-bucket. However, if such gifts, grants, etc., are tied to specific end-use, then these may be slotted in the time- bucket as per purpose/end-use specified.
3. Notes, Bonds and debentures :	
a) Plain vanilla bonds/debentures	As per the residual maturity of the instruments
b) Bonds/debentures with embedded call / put options (including zero-coupon/deep discount bonds)	As per the residual period for the earliest exercise date for the embedded option.
c) Fixed rate notes	As per the residual maturity
4. Deposits :	
a) Term deposits from public	As per the residual maturity
b) Inter corporate deposits	These, being institutional/wholesale deposits, should be slotted as per their residual maturity
c) Certificates of deposit	As per the residual maturity
5. Borrowings	
a) Term money borrowings	As per the residual maturity
b) From RBI, Govt., & others	As per the residual maturity
c) Bank borrowings in the nature of WCDL, CC, etc.	As per the residual maturity
5. Current liabilities and provisions:	
a) Sundry creditors	As per the due date or likely timing of cash outflows. A behavioral analysis could also be made to assess the trend of outflows and the amounts slotted accordingly.
b) Expenses payable (other than interest)	As per the likely timing of the cash outflow.
c) Advance income received, receipts from borrowers pending adjustment	In the 'over 10 years' time-bucket as these do not involve any cash outflow.
d) Interest payable on bonds/deposits	In respective time buckets as per the due date of payment
e) Provisions for NPAs	The amount of provision may be netted out from the gross amount of the loan portfolio and the net amount of NPAs be shown as an item under inflows in stipulated time-buckets.

f) Provision for investments portfolio	The amount may be netted from the gross value of investments portfolio and the net investments be shown as inflow in the prescribed time-slots. In case provisions are not held security-wise, the provision may be shown in 'over 10 years' bucket.
g) Other provisions	To be bucketed as per the purpose/nature of the underlying transaction.

B. INFLOWS

<i>Heads of Account</i>	<i>Time-bucket category</i>
1. Cash	In 1 to 14 days time-bucket.
2. Remittance in transit	In 1 to 14 days time-bucket
3. Balances with banks :	
a) Current account	The stipulated minimum balance be shown in 6 months to one year bucket. The balance in excess of the minimum balance be shown in 1 to 14 days time-bucket.
b) Deposit accounts/short term deposits	As per residual maturity.
4. Investments (net of provisions) :	
a) Mandatory investments	As suitable to the HFC
b) Non-mandatory listed	In '1 to 14 days', 'Over 14 days to one month', 'Over one month and upto 2 months' and 'over 2 months and upto 3 months' buckets depending upon the defeasance period proposed by the HFC.
c) Non-mandatory unlisted securities (e.g. shares, etc)	Over 10 years
d) Non-mandatory unlisted securities having a fixed term maturity	As per the residual maturity
e) Venture capital units	In the 'over 10 years' time bucket
5. In case trading book is followed	
Equity shares, convertible preference shares, non-redeemable perpetual preference shares; shares of subsidiaries/joint ventures and units in open ended mutual funds and other investments	(i) Shares classified as "current investments" representing trading book of the HFC may be shown in time buckets of "1 day to 14 days", "Over 14 days to one month", 'Over one month and upto 2 months' and 'over 2 months and upto 3 months' depending upon the defeasance period proposed by the HFC.

	(ii) Shares classified as “long term investments” may be kept in ‘over 10 years’ time bucket. However, the shares of the assisted units/companies acquired as part of the initial financing package, may be slotted in the relative time bucket keeping in view the pace of project implementation/time over-run, etc., and the resultant likely time-frame for divesting such shares.
6. Advances (performing) :	
a) Bill of Exchange and promissory notes discounted and rediscounted	As per the residual usance of the underlying bills.
b) Term loans (rupee loans only)	The cash inflows on account of the interest and principal of the loan may be slotted in respective time buckets as per the timing of the cash flows as stipulated in the original/revised repayment schedule.
c) Corporate loans/short term loans	As per the residual maturity
7. Non-performing loans : (May be shown net of the provisions and interest suspense held)	
a) <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 time-bucket arrived at after adding 3 years to the respective due dates of various instalments of principal.
b) <u>Doubtful and loss</u>	
i) All installments of principal falling due during the next five years as also all overdues	In the 5 to 7 year bucket.
ii) Entire principal amount due beyond the next five years	In the time-bucket arrived at after adding five years to the respective due dates of various instalments of principal.
8. Assets on lease	Cash flows from the lease transaction may be slotted in respective time buckets as per the timing of the cash flow.
9. Fixed assets (excluding leased assets)	In the 'Over 10 years' time-bucket
10. Other assets	
(a) Intangible assets and items not representing cash inflows	In the 'Over 10 year' time-bucket
(b) Other items (such as accrued income, other receivables, staff loans, etc.)	In respective maturity buckets as per the timing of the cash flows.

C. CONTINGENT LIABILITIES

a) Letters of credit/guarantees (outflow through Devolvement)	Based on the past trend analysis of the devolvments vis-à-vis the outstanding amount of guarantees (net of margins held), the likely devolvments should 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

- 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 14 days time bucket.
- c) Overdue receivables on account of interest and instalments of standard loans/hire purchase assets/lease rentals should be slotted as below:

(i) Overdue for less than one month.	In the 3 to 6 month bucket.
(ii) Interest overdue for more than one month but less than seven months (i.e. before the relative amount becomes past due for six months)	In the 6 to 12 month bucket without reckoning the grace period of one month.
(iii) Principal instalments overdue for 7 months but less than one year	In 1 to 3 year bucket

FINANCING OF GAPS

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

Interest Rate Sensitivity Profile

Heads of accounts	Time bucket for rate sensitivity
<u>A. LIABILITIES</u>	
1. Capital, Reserves & Surplus	Non-sensitive
2. Gifts, grants & benefactions	Non-sensitive
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 residual period till the immediately ensuing 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 residual period till the earliest ensuing re-pricing 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 and provisions : a) Sundry creditors b) Expenses payable c) Swap adjustment a/c. d) Advance income received/ receipts from borrowers pending adjustment e) Provisions f) Interest payable on bonds/ deposits)))))) Non-sensitive.)))
7. Repos/bills rediscounted/forex-rupee swaps (sell/buy)	Sensitive; re-price on maturity. To be placed as per the residual maturity of the underlying transaction in respective buckets.

B. ASSETS:

1. Cash	Non-sensitive
2. Remittance in transit	Non-sensitive
3. Balances with banks in India a) In current account b) In deposit accounts, money at call and short notice and other placements	Non-sensitive.

	Sensitive; reprices on maturity. To be placed as per residual maturity in respective time-buckets.
4. Investments	
a) Fixed income securities (e.g. govt. securities, zero coupon bonds, bonds, debentures, cumulative/non-cumulative redeemable preference shares, etc.)	<p>Sensitive on maturity. To be slotted as per residual maturity.</p> <p>However, the bonds/debentures valued by applying NPA norms due to non-servicing of interest, should be shown, net of provisions made, in the time buckets prescribed at items B.7(a) and B.7(b) in Appendix I.</p>
b) Floating rate securities	Sensitive; re-price on the next re-pricing date. To be slotted as per residual time to the re-pricing date.
c) Equity shares, convertible preference shares, shares of subsidiaries/joint ventures, venture capital units	Non-sensitive.
5. Advances (performing)	
a) Bills of exchange, promissory notes discounted & rediscounted	Sensitive on maturity. To be slotted as per the residual usance of the underlying bills.
b) Term loans/corporate loans/Short Term Loans (rupee loans only) i) Fixed Rate ii) Floating Rate	<p>Sensitive on cash flow/maturity.</p> <p>Sensitive only when the risk premium is changed by the HFCs. The amount of term loans should be slotted in time buckets which correspond to the time taken by HFCs to effect changes in their PLR in response to market interest rates.</p>
6. Non-performing loans: (net of provisions, interest suspense and claims received from ECGC)	
a) Sub-standard b) Doubtful and loss	To be slotted as indicated at items B.7 (a) & B.7(b) of Appendix I.
7. Assets on lease	The cash flows on lease assets are sensitive to changes in interest rates. The entire cash flows on leased assets should be slotted in respective time-buckets as per the timing of the cash flows.

8. Fixed assets (excluding assets on lease)	Non-sensitive
9. <u>Other assets</u> a) Intangible assets and items not representing cash flows. b) Other items (e.g. accrued income, other receivables, staff loans, etc.)	Non-sensitive. Non-sensitive
10. Reverse Repos/Swaps (buy/sell)/Bills rediscounted (Derivative Usance Promissory Notes)	Sensitive on maturity. To be slotted as per residual maturity of the underlying transaction.
11. <u>Other (interest rate) products</u> a) Interest rate swaps/FRA's b) Other derivatives	Sensitive; to be slotted as per residual maturity in respective time buckets. To be classified suitably as and when introduced.

Annex I

Statement of Structural Liquidity

(as on :)

Name of the HFC :

(Amount in crore of rupees)

A. OUTFLOWS

[illegible]

[illegible]

B. INFLOWS

[illegible]

[illegible]

[illegible]

Statement of short-term dynamic liquidity

(as on :)

Name of the HFC :**(Amount in crore of rupees)**

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

Statement of Interest Rate Sensitivity
(as on :)

Name of the HFC :

(Amount in crore of rupees)

A. OUTFLOWS

[illegible]

[illegible]

B. INFLOWS

[illegible]

[illegible]

