ASSET LIABILITY MANAGEMENT POLICY
OF
NAVI FINSERV LIMITED

Version No	ALM/4.1/2024-25
Date of amendment	November 11, 2022 May 26, 2023 August 9, 2024 September 20, 2024
Originally adopted Date of Policy	May 28, 2021
Policy owner	Head of Risk
Approved by	Board of Directors
Signature	Sd/-

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1. Introduction

The Asset Liability Management ('ALM') Policy (the 'Policy') covers the broad ALM framework for Navi Finserv Limited ("NFS" or the "Company") in accordance with the extant Reserve Bank of India ('RBI') guidelines and internal policies.

1.1 Objective of the Policy

The Policy has been prepared in line with applicable RBI requirements, specifically, the Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023.

The ALM Policy is designed to strategically manage the elements of the balance sheet to foster continuous growth and profitability, ensuring that risks remain within tolerable limits. The purpose of this Policy is to establish an ALM framework for NFS, which will include the following components:

- Identification, measurement, monitoring, and management of liquidity and Interest rate risks.
- Prudential regulatory and internal limits to manage liquidity and Interest rate risks.
- Stress testing framework and Contingency Funding Plan (as defined in the Company's Contingency Funding Plan (CFP) Policy).
- Relevant governance structure to establish the ALM framework of the Company.
- Regulatory and MIS Reporting and assumptions related to ALM reports requirements.
- Guidance for the Company's borrowing strategy: The borrowing strategy shall be achieved by adhering to the metrics and thresholds as defined and tracked within this Policy, ensuring a balanced and sustainable approach to managing the organization's financial position

The Policy has been framed with the following key objectives:

- to ensure that the Company maintains sufficient liquidity to meet expected and unexpected cash and collateral obligations.
- to spell out 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
- to introduce effective risk management systems that address the issues relating to interest rate and liquidity risks.

1.2 Policy Administration

The Policy will take effect on the date it receives approval from the Board . Compliance with the Policy is mandatory, and it shall be interpreted in alignment with the guidelines and circulars periodically issued by the RBI.

The Policy is subject to an annual review, or more often, if necessary, to reflect major shifts in (a) business needs, (b) capital market trends, and (c) regulatory directives. Any revisions to the Policy, as well as periodic updates, must receive the Asset Liability Management Committee's (ALCO) endorsement before being presented to the Board for final approval, following consultation with the Risk Management Committee (RMC).

Per this Policy, the Company shall ensure that an independent party regularly reviews and evaluates components of its liquidity risk management process, per RBI requirements. These independent reviews (either internally or externally) will be performed at least once every two years, or when there are key regulatory or business changes.

2. Asset Liability Management framework

The three pillars of the ALM framework shall be:

1. ALM Information Systems
2. ALM Governance
3. ALM Process

2.1 ALM Governance

This section outlines the different Committees and teams / functions that participate in the ALM process. The roles and responsibilities of concerned committees / teams have been outlined in the sections below.

2.1.1 Board of Directors

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

The Board of Directors is responsible for overseeing and managing the overall liquidity profile of the Company, including the following:

- To approve the ALM policy, risk limit framework and risk management strategies for liquidity and interest rate risk of NFS, as proposed by the Chief Risk Officer ('CRO'), after approval from ALCO.
- Reviewing liquidity measures that describe the nature of the Company's Liquidity Risk and Interest Rate Risk.
- Establishing additional risk guidelines related to liquidity management, if appropriate
- Receiving information describing material interactions with the Company's regulators on liquidity management, and
- Review and ratify all material breaches, as outlined in this Policy.

2.1.2 Risk Management Committee

The Risk Management Committee's objective is to support the Board in overseeing its duties in line with relevant laws and regulations, focusing on the efficacy of NFS's risk management and control structure. This includes evaluating the sufficiency of policies, procedures, and systems within the risk management division and ensuring adherence to compliance standards.

While the ALCO is tasked with supervising risks associated with liquidity and interest rate fluctuations, the Risk Management Committee (RMC) is charged with the broader responsibility of managing risks across the entire Company. The proceedings and decisions of the ALCO shall be documented in minutes, which are to be presented to the RMC for acknowledgment and review.

2.1.3 Asset-Liability Management Committee (ALCO):

The ALCO shall consist of:

- Managing Director – Head of the ALCO
- Chief Financial Officer
- Head of Lending
- Head of Treasury
- Head of Risk

The responsibilities of ALCO are as follows:

- Review and approve ALM Policy of NFS prior to submitting the same to the Board for approval, after notifying the RMC
- Review the liquidity risk and Interest Rate Risk from the ALM perspective and take strategic decisions.
- Establishing the structure, responsibilities, and controls for managing liquidity risk, and overseeing the liquidity position.
- Reporting to the Board of Directors on the Company's overall liquidity risk profile, and ensuring adherence to the risk tolerance / limits set by the Board
- Review the proposed ALM limits and recommend the same to the Board for approval.
- Reviewing and approving liquidity measures used to support the management of liquidity on a quarterly basis; taking decisions related to desired maturity profile and mix of incremental assets and liabilities, sale of assets as a source of funding
- Approving and reviewing stress testing assumptions and methodologies on a quarterly basis as well as the results of the stress tests and review CFP periodically
- Review all limit breaches, both internal and external, and notify these to RMC
- Informing the Board of any material interactions with the Company's regulator on liquidity management issues
- Review and approve the methodology for computing the benchmark lending rate
- Review the revision in the rate of interest applicable to loan products of the Company, and the impact of such revisions on future cashflows and maturity profiles
- Review and approve the methodology and bucketing assumptions, including changes, if any, used for the preparation of ALM reports
- Review and approve the methodology for conducting behavioural studies.

The ALCO is required to convene a minimum of four times annually. However, the Chairman of the ALCO holds the authority to call additional meetings as deemed necessary. Should any contingencies arise, the frequency of these meetings will be determined in accordance with the stipulations outlined in the Contingency Funding Plan (CFP) policy.

2.1.4 Liquidity Management Team

The Liquidity Management Team (LMT) shall be responsible for analysis, monitoring and reporting the liquidity and interest rate risk profile of the Company to the ALCO. The Liquidity Management Team will consist of:

- Head of Treasury / Investments
- Head of Borrowings
- Head of Risk

2.1.5 Treasury Team

- Monitoring liquidity risk measures and limits
- Ensuring that the liquidity measurement systems adequately identify and quantify exposure and produce timely reports

2.1.6 Risk Team

- Developing, implementing, reviewing, and maintaining the Policy and supporting procedures and methodology documentation
- Monitoring the various liquidity risk measures and reporting them to the ALCO
- To conduct stress testing scenarios and present it to the ALCO
- Development and maintenance of the contingency funding plan
- Any other reporting to be notified to the ALCO

3. ALM Process

The ALM process shall encompass the following:

1. Liquidity Monitoring tools
2. Liquidity Risk monitoring limits
3. Borrowing Strategy
4. Liquidity Stress Testing
5. Preparation of contingency plans
6. Management of market risks, interest rate

3.1. Liquidity Monitoring Tools

Monitoring liquidity risk involves assessing the disparity in maturities or the discrepancies in cash flows.

3.1.1. Structural Liquidity Statement (SLS report)

The Structural Liquidity Gap report will serve as a tool for assessing and controlling liquidity risk. Liquidity monitoring will be conducted by identifying mismatches in maturity or cash flows, with all anticipated cash inflows and outflows being allocated to maturity buckets based on when the cash flows are expected to occur.

To measure and manage 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 creation of the Structural Liquidity Gap Report hinges on critical assumptions about how outflows, inflows, and potential cash flows are categorized within various time buckets. The segmentation of these time buckets and the specific account categories utilized in compiling the report adhere to the guidelines recommended by the RBI.

The detailed report format and method/classification for bucketing is covered in the Annexure.

On a quarterly basis, the statement of structural liquidity and the statement of dynamic liquidity shall be placed before the ALCO.

For the purposes of the structural liquidity statement (specifically for the Static ALM), behavioural view of future cash flows shall be considered. The approach and methodology for this are detailed in the Annexure.

The Static ALM thus prepared shall be subject to backtesting requirements every month. Outcome of this exercise shall be considered for any updates to the underlying methodology. Results of the backtesting exercise are to be reported quarterly to the ALCO, with this update also shared with the RMC for reference.

The SLS is filed in the RBI return named “DNBS04B – Structural Liquidity & Interest rate Sensitivity – Monthly”.

3.1.2. Stock Liquidity Ratios

The Stock Approach entails the regular monitoring of specific ratios at set intervals to keep track of the liquidity reserves within NFS's balance sheet. In line with RBI's requirements, the following ratios shall be tracked and monitored on a quarterly basis:

- Short-term liabilities[1] to total assets
- Short-term liabilities to long-term assets
- Short-term liabilities to total liabilities
- CPs to total assets
- NCD/MLDs (with original maturity < 1 year) to total assets
- Long-term assets to total assets
- Commercial papers as a % of total public funds[2] and total liabilities
- Non-convertible debentures (original maturity of less than one year) as a % of total public funds and total liabilities
- Other short-term liabilities, if any as a % of total public funds

The results of the above analysis shall be assessed and presented to ALCO on a quarterly basis. The methodology for computing the balance sheet stock liquidity ratios is to be documented.

3.1.3. Dynamic Liquidity Statement (DLS):

To actively manage short-term liquidity, NFS shall prepare the Short-Term Dynamic Liquidity Report. This report will provide a forecast of the expected fund allocations and collections over various short-term periods: 0-7 days, 8-14 days, 15-30 days, 1 month to 3 months, and over 3 months to 6 months. The purpose of this report is to help NFS accurately estimate its short-term liquidity needs.

The report is formulated with an awareness of the observed shortfalls in various time buckets and calculates the necessary funding to address these shortfalls. The structuring of time buckets and the categorization of accounts for the report's preparation shall be in accordance with the RBI guidelines.

DLS is filed in the RBI return named "DNBS04A – Short Term Dynamic Liquidity (STDL) – Quarterly".

3.1.4. Funding Concentration measurement

Funding concentration metrics are designed to pinpoint critical funding sources, the cessation of which could lead to liquidity issues. Its objective is to manage NFS's funding concentration by keeping track of the funds obtained from each major counterparty, each key product or instrument. Additionally, the metric is intended to highlight significant sources of wholesale funding, where the withdrawal of these funds could potentially trigger liquidity

[1] Total borrowings with original maturity <12 months excluding intra-group borrowings

[2] As per RBI's guidance, Public funds include public deposits, inter-corporate deposits, bank finance and all funds received whether directly or indirectly from outside sources such as funds raised by issue of Commercial Papers, debentures etc.

challenges.

To avoid over-reliance from a single source of external funding (lender), lending from a single lender will be monitored as a percentage of external liabilities. This must be assessed on a quarterly basis and presented to the ALCO.

This shall be additionally measured by the below ratios as required by the RBI:

1. Borrowing/Deposit from significant counterparty as a % of total deposits and total liabilities
2. Significant instrument as a % total liabilities

3.1.5. Collateral Position

The Company shall keep at least 10% of its Total Assets as unencumbered assets to meet expected and unexpected borrowing needs and potential increases in margin requirements over different timeframes.

3.1.6. Liquidity Coverage Ratio

As per RBI's Scale Based Regulations, NFS shall monitor the Liquidity Coverage Ratio (LCR) to evaluate NFS's resilience to short term liquidity disruptions.
The LCR assesses short-term resilience of the Company to potential liquidity disruptions by ensuring that it has sufficient stock of high-quality liquid assets to survive a stress scenario lasting for 30 days.
The ratio is as prescribed below:

$$\text{Liquidity Coverage Ratio (LCR)} = \frac{\textit{Stock of High-Quality Liquid Assets}}{\textit{Total Net cash outflow over 30 calendar days}}$$

The methodology of preparing the LCR report shall be documented.

3.2. Liquidity Risk monitoring limits

The Policy is established to guarantee continuous monitoring and fulfilment of liquidity needs. Consequently, limits have been set to facilitate effective liquidity oversight as follows. Should there be any breaches of these internal thresholds, the ALCO will be responsible for validation and will endorse a corrective strategy to be implemented within a designated timeframe. Any transgression of these internal limits will be presented to and ratified by the Board.

3.2.1. Limits on Structural Liquidity and the Statement of Dynamic Liquidity

The management of this aspect will be directed by the discrepancies identified in the Structural Liquidity Statement report. The RBI[7] has established limits for the maturity buckets of 1-7 Days, 8-14 Days, and 15-30 Days.

Beyond these regulatory limits, any cumulative negative gaps in the time buckets beyond the 15-30 days period should be internally monitored. The findings should then be presented to the ALCO for their examination and ratification, as necessary.

In case of limit breaches, the same shall be reviewed by the appropriate authority and action shall be advised by the authority, as identified below. Broadly NFS shall follow the below principles:

- Any breach in regulatory limits shall be ratified by ALCO, and subsequently reported to the Board.
- Any breach in internal ALCO limits shall be ratified by the ALCO

The below table details the bucket wise limits for the maturity gaps.

Time Bucket	NFS Limit	Regulatory Limit
0-7 days	-5%	-10%
8-14 days	-5%	-10%
15-30 days	-10%	-20%
31 days – 3 months	-10%	NA
3-6 months	-10%	NA
6 months – 1 year	-10%	NA
1-3 year	-10%	NA
3-5 year	-10%	NA
Over 5 year	-10%	NA

3.2.2. Liquidity Coverage Ratio (LCR) Limits

S No	Ratio	NFS Limit
1	Liquidity Coverage Ratio	150%

3.2.3. Stock Liquidity Ratio Limits

The limits on stock ratios are presented in the following table. Any significant movements of these ratios shall be intimated to ALCO on a timely basis, and these ratios will be presented to the ALCO on a quarterly basis.

No.	Ratio	NFS Limit
1	Short-term liability to total assets	70%
2	Short-term liability to long-term assets	150%
3	Short-term liability to total liability	75%
4	Commercial Papers to Total Assets	10%
5	Non-Convertible Debentures (NCDs) (original maturity less than one year) to Total Assets	5%
6	Long-term assets to total assets	50%
7	Commercial papers as a % of total public funds	100%
8	Commercial papers as a % of total liabilities	20%
9	Other short-term liabilities, if any as a % of total liabilities	75%
10	Other short-term liabilities, if any as a % of total assets	50%

3.3. Liquidity Stress Testing

Stress testing shall be undertaken to evaluate whether the Company has sufficient liquidity, based on the behavior of cash flows under different conditions. Stress testing will help to evaluate the liquidity under different scenarios. The list of scenarios should include both Company specific and macro environment related stress events.

Some of the indicative stress cases (not exhaustive) are as follows:

- Delay in collections due to increase in delinquencies leading to non-timely receipt of dues affecting liquidity [*idiosyncratic stress*]
- Difficulty in raising funds from either capital markets/banks/financial institutions leading to stress on the liquidity position [*idiosyncratic stress*]
- Higher haircuts on assets, sale of unencumbered assets at higher discounts [*market stress*]
- Prepayment option is exercised on few of the liabilities [*idiosyncratic stress*]

These stress scenarios are applied in tandem to assess the *combined stress* impact on the Company's liquidity position.

Results of stress testing shall be presented along with assumptions to the ALCO every quarter. The methodology and the assumptions for the stress testing shall be documented as required.

3.3.1. 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. The CFP Policy of the Company establishes guidance and relevant principles to be followed.

CFP shall 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.

At the beginning of every financial year, the CFP shall be presented to the ALCO for review and approval.

3.4. Interest Rate Risk Management

Fluctuations in interest rates can impact the immediate net interest income and the long-term economic value. The practice of Interest Rate Risk (IRR) management and reporting is crucial to identify potential threats to earnings and capital that may arise from unfavorable shifts in market interest rates.

This process also highlights any imbalances in assets and funding, as well as timing discrepancies in repricing. By accurately identifying these potential risks and mismatches, management can formulate strategies for assets and liabilities that aim to mitigate such risks.

An asset or liability is normally classified as a Rate Sensitive Asset (RSA) or a Rate Sensitive Liability (RSL) if any of the below criteria are met:

- there is a cash flow within the time interval under consideration[3]
- the interest rate resets/ reprices contractually during the interval
- linked or sensitive to market changes in the interest rates eg: repo rates
- it is contractually pre-payable or withdrawal on or before the stated maturities

All other assets, liabilities and off-balance sheet exposures shall be considered as 'non rate sensitive'

[3] Refers to a specific period that is examined or analyzed, during which the asset or liability generates or requires a cash flow that is sensitive to changes in interest rates.

3.4.1. Traditional Gap Approach ('IRS-TGA')

The RBI recommends using the traditional Gap analysis as a suitable method to measure Interest Rate Risk. IRS-TGA focuses on evaluating earnings risk exposure by monitoring re-pricing mismatches within the portfolio.

For this analysis, NFS is required to categorize its assets and liabilities into two distinct groups: those that are sensitive to interest rate changes (rate sensitive) and those that are not (non-rate sensitive), which includes off-balance sheet items.

Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL) are to be organized into time buckets according to the remaining duration until maturity or the next scheduled interest rate adjustment, whichever comes first. Alternatively, they can be classified based on expected behavioral cash flows.
The potential for Gap or Mismatch risk is assessed by calculating the differences between RSAs and RSLs across various time periods as of a specific date. This gap analysis aims to identify and quantify temporal discrepancies between the cash flows from rate sensitive liabilities and the income from rate sensitive assets, taking into account off-balance sheet exposures.

A positive gap in the time bucket indicates that the Company shall have a positive impact on the earnings in case of rising interest rates scenario and vice-versa. Negative gap in the time bucket indicates that the Company shall have a positive impact on earnings in case of falling interest rate scenario and vice-versa. NFS shall monitor the mismatches in defined time buckets for different currencies separately, if and when applicable.

Interest rate risk is also evaluated by calculating the Earnings at Risk (EaR) (across different currencies when applicable). EaR indicates how sensitive the NII (Net Interest Income) is to unfavourable shifts in interest rates. Expressing the potential impact as a percentage of the NII is a reliable indicator of the earnings risk. The primary goal of determining EaR is to estimate the effect that a given percentage change in interest rates would have on the Company's NII. This method is designed to gauge the influence of interest rate fluctuations on the Company's earnings over the course of a year.

The time buckets and the heads of accounts to be used for preparing the TGA report are to be as suggested by the RBI. The detailed method/classification for bucketing is covered in Annexure 6.2.

Interest Rate Sensitivity (IRS) is filed in the RBI return named "DNBS04B – Structural Liquidity & Interest rate Sensitivity – Monthly".

3.4.2. Interest Rate Risk Monitoring Limits

The established gap limits will be subject to ongoing surveillance, and any deviations will be promptly reported to the ALCO. Addressing these breaches will be a joint responsibility of the business units and the Treasury through appropriate modification in sourcing of assets and raising of liabilities. These limits will be re-evaluated annually and adjusted if required.

Should a breach of the limits occur, it will be assessed by the relevant authority, as mentioned below, which will then provide guidance on the necessary corrective measures. Broadly, NFS shall follow the below principles:

- Any breach in regulatory limits shall be ratified by ALCO and subsequently reported to the Board.
- Any breach in internal ALCO limits shall be ratified by the ALCO

Interest Rate Gap Limits:

Time Bucket	NFS Limit
1 day to 7 days	10%
8-14 days	10%
15-30 days	10%
Over one month to 2 months	10%
Over two months to 3 months	10%
Over 3 months to 6 months	10%
Over 6 months to 1 year	10%

3.4.3. Interest Rate Stress Testing

Interest rate risk stress testing is to be performed using the approaches identified below:

- Economic Value of Equity: The negative impact on the Company's economic value of equity, as a result of movements in interest rates across scenarios
- Earnings at Risk (EAR): The negative impact on the Earnings of the Company due to changes in interest rates across scenarios for either parallel shock up or parallel shock down.

The results of the above analysis shall be presented along with assumptions to the ALCO every quarter.
The interest rate risk sensitivity for EAR will be assessed based for the following 6 scenarios mentioned below:

- Parallel Shock up : Over 3 interest rate levels specified as mild, moderate and severe
- Parallel Shock down: Over 3 interest rate levels specified as mild, moderate and severe

The interest rate risk sensitivity for Economic Value of Equity (EVE) will be done based on the following 3 scenarios: 100 bps up, 200 bps up, 300 bps up.

3.4.4. Earnings at Risk (EaR) limit:

The maximum change in EAR for mild (200 bps), moderate (300 bps) and severe (400 bps) changes in interest rates shall not exceed 5% of forecasted NII, and shall be monitored on a quarterly basis

Earnings at Risk	NFS Limit
EaR impact (for parallel up & down rate changes)	5% of forecasted NII

4. ALM Information System

A prerequisite for putting in place the ALM framework is a strong Management Information System (MIS).

For quick analysis and consolidation of the data, information should be readily available with the Liquidity Management Team (LMT) to monitor the Company's liquidity. NFS will have the MIS report framework designed to provide timely and forward-looking information on the liquidity and interest rate risk position to the Board and ALCO, both under normal and stress situations.

The information should capture borrowing data, data pertaining to loan assets and investments. The MIS will capture all sources of liquidity risk, including contingent risks and those arising from new activities, and shall have the ability to furnish more granular and time sensitive information during stress events.

5. Foreign Currency Risk

All foreign currency loans availed by the Company shall be fully hedged for the currency risk as permitted under the RBI guidelines.

6. Annexures

6.1. SLS Report – Classification and Bucketing methodologies

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 behavioural 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) Sub-standard	

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) Doubtful and loss	
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.

Notes:

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.

6.2. Interest Rate Sensitivity Report - RSA & RSL distribution methodology

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.

Heads of accounts	Rate sensitivity of time bucket
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 e. Interest payable on bonds/deposits f. Provisions	Non-sensitive
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. Investments	
a) Fixed income securities (e.g. govt. securities, zero coupon bonds, bonds, debentures, cumulative,	Sensitive on maturity. To be slotted as per residual maturity.

Heads of accounts	Rate sensitivity of time bucket
non-cumulative, redeemable preference shares, etc.)	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. 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	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) b. Doubtful and loss)	To be slotted as indicated at item B.7 of Appendix I.
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	

Heads of accounts	**Rate sensitivity of time bucket**
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.

6.3. Detailed calculation for LCR

Assets to be included as HQLA without any haircut:

- Cash
- Government securities
- Marketable securities issued or guaranteed by foreign sovereigns satisfying all the following conditions:
  - Assigned a 0% risk weight by banks under standardized approach for credit risk;
  - Traded in large, deep and active repo or cash markets characterised by a low level of concentration; and proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions.
  - Not issued by a bank / financial institution / NBFC or any of its affiliated entities.

Assets to be considered for HQLA with a minimum haircut of 15%

- Marketable securities representing claims on or claims guaranteed by sovereigns, Public Sector Entities (PSEs) or multilateral development banks that are assigned a 20% risk weight by banks under the Standardised Approach for credit risk and provided that they are not issued by a bank / financial institution / NBFC or any of its affiliated entities
- Corporate bonds, not issued by a bank / financial institution / NBFC or any of its affiliated entities, which have been rated AA- or above by an eligible credit rating agency
- Commercial Papers not issued by a bank / PD / financial institution or any of its affiliated entities, which have a short-term rating equivalent to the long-term rating of AA- or above by an eligible credit rating agency

Assets to be considered for HQLA with a minimum haircut of 50%

- Marketable securities representing claims on or claims guaranteed by sovereigns having risk weights higher than 20% but not higher than 50%, i.e., they should have a credit rating not lower than BBB- as prescribed for banks in India
- Common Equity Shares which satisfy all of the following conditions:
  - not issued by a bank/financial institution/NBFC or any of its affiliated entities;
  - included in NSE CNX Nifty index and/or S&P BSE Sensex index.
- Corporate debt securities (including commercial paper) and the securities having usual fundamental and market related characteristics for HQLAs and meeting the following conditions:
  - not issued by a bank, financial institution, PD, NBFC or any of its affiliated entities;
  - have a long-term credit rating from an eligible credit rating agency between A+ and BBB- or in the absence of a long-term rating, a short-term rating equivalent in quality to the long-term rating;
  - traded in large, deep and active repo or cash markets characterised by a low level of concentration; and
  - have a proven record as a reliable source of liquidity in the markets (repo or sale) even during

stressed market conditions, i.e. a maximum decline of price not exceeding 20% or increase in haircut over a 30-day period not exceeding 20 percentage points during a relevant period of significant liquidity stress.

Total net cash outflows

Total net cash outflows is defined as the total expected cash outflows minus total expected cash inflows for the subsequent 30 calendar days.

Considering the unique nature of the balance sheet of the NBFCs, stressed cash flows is computed by assigning a predefined stress percentage to the overall cash inflows and cash outflows. Total expected cash outflows (stressed outflows) are calculated by multiplying the outstanding balances of various categories or types of liabilities and off-balance sheet commitments by 115% (15% being the rate at which they are expected to run off further or be drawn down). Total expected cash inflows (stressed inflows) are calculated by multiplying the outstanding balances of various categories of contractual receivables by 75% (25% being the rate at which they are expected to under-flow).

However, total cash inflows will be subjected to an aggregate cap of 75% of total expected cash outflows. In other words, total net cash outflows over the next 30 days = Stressed Outflows - Min (stressed inflows; 75% of stressed outflows).

Items of Cashflows

Items of Cash Inflows	Items of Cash Outflows
• Maturing secured lending transactions backed by HQLA • Margin Lending backed by all other collateral • All other assets • Lines of credit – Credit or liquidity facilities or other contingent funding facilities that the NBFC holds at other institutions for its own purpose • Other inflows by counterparty • Net derivatives cash inflows • Other contractual cash inflows (please specify as footnotes)	• Deposits • Unsecured wholesale Funding • Secured Funding • Additional requirements [(i)+(ii)+(iii)+(iv)+(v) +(vi)+(vii)+(viii)]: (i) Net derivative cash outflows (ii) Liquidity needs (e.g. collateral calls) related to financing transactions, derivatives and other contracts where 'downgrade triggers' up to and including a 3-notch downgrade (iii) Market valuation changes on derivatives transactions (largest absolute net 30-day collateral flows realised during the preceding 24 months) based on look back approach (iv) Increased liquidity needs related to the potential for valuation changes in collateral securing derivatives (v) Increased liquidity needs related to excess non-segregated collateral held that could contractually be called at any time by the counterparty (vi) Increased liquidity needs related to contractually required collateral on transactions for which the counterparty has not yet demanded the collateral be posted (vii) Increased liquidity needs related to derivative transactions that allow collateral substitution to non-HQLA assets (viii) Currently undrawn committed credit and liquidity facilities • Other contingent funding liabilities •

Items of Cash Inflows	Items of Cash Outflows
	Any other contractual outflows not captured elsewhere in the template

LCR computation rules:

Guidance from RBI is to report LCR every quarter. Further, for presentation of LCR with effect from the financial year ending March 31, 2022, the simple average shall be calculated on daily observations

For reporting of LCR, two approaches can be used for disclosure -

- Average of components for the past 90 days used to calculate LCR

Daily HQLA and Net outflows are averaged for the past 90 days. The ratio of these averages are used to calculate LCR. This approach is based on the LCR disclosure format below and should be used for reporting.

- Average of daily LCR for the past 90 days

Daily LCR is calculated for the past 90 days and the average of these values are used for reporting. This average of daily LCR is provided as additional information along with the disclosure template provided below.

LCR disclosure template:

(Rs. in Crore)

LCR Disclosure Template (Appendix I)

Particulars		Total Unweighed Value (Average)	Total Weighed Value (Average)
High Quality Liquid Assets			
1	HQLA		
Cash Outflows			
2	Deposits(for deposit taking companies)		
3	Unsecured wholesale funding		
4	Secured whole sale funding		
5	Additional requirements, of which		
(i)	Outflows related to derivative exposures and other collateral requirements		

(Rs. in Crore)

LCR Disclosure Template (Appendix I)

Particulars		Total Unweighed Value (Average)	Total Weighed Value (Average)
(ii)	Outflows related to loss of funding on Debt products		
(iii)	Credit and liquidity facilities		
6	Other contractual funding obligations		

7	Other contingent funding obligations		
8	TOTAL CASH OUTFLOWS		
Cash Inflows			
9 Secured lending			
10	Inflows from fully performing exposures		
11	Other cash inflows		
12	TOTAL CASH INFLOWS		
			Total Adjusted Value
	3 TOTAL HQLA	-	
	4 TOTAL NET CASH OUTFLOWS	-	
	5 LIQUIDITY COVERAGE RATIO (%)	-	

6.4. Stress Testing Scenarios for Liquidity Analysis

- Delay in collections due to increase in delinquencies: Decrease the collections in the shorter maturity buckets by 15%; the same are expected to be received in the longer maturity buckets. To be performed on both Statement of Structural Liquidity(SLS) and Dynamic ALM
- Difficulty in raising funds from either capital markets/banks/financial institutions: No new borrowing for the next 1 month. To be performed on dynamic ALM.
- Higher haircut on assets: A 20% reduction in the value of investments over the next 6 months. To be performed on SLS Statement of Structural Liquidity (SLS)
- Prepayment option is exercised on few of the liabilities: Prepayment of liabilities by 15% in the 1-3 months bucket. To be performed on both Statement of Structural Liquidity (SLS) and Dynamic ALM

6.5. Approach & methodology for Behavioural View of Structural Liquidity Statement

Behaviouralisation of receivables:

- Contractual schedule for Personal loan (PL) receivables after the date of preparing the static ALM, is grouped by months spent on book (MOB)
- Normal repayments are converted into a percentages of the opening POS for the different MOB segments (factors referred to as NC %)
- Average advance payment (part payments done by the borrowers one month before the due month) is computed based on data from January 2021 to the most recent month. This is converted into a percentage of the opening POS for the different MOB segments (factors referred to as PP %).
- Average pre-closure is computed based on data from January 2021 to the most recent month. These averages are converted into a percentage of the opening POS for the different MOB segments (factors referred to as PC %).
- Haircuts of 20% are applied on the Part Payment % and the Pre Closure % to ensure conservatism in the calculations.
- Total payment factor (NC % + PP % + PC %) is calculated and applied to get the principal rundown across the different MOB segments to get the behavioralised receivable schedule. 7. Behavioralised schedule is grouped into the maturity buckets required for static ALM.

Behaviouralisation of PTC repayments:

- Behaviouralisation of receivables is done only for the borrowers tagged to different PTC transactions.
- Difference between the contractual and behavioral receivables for the PTC tagged borrowers is computed. This percentage change between contractual and behavioral receivables is applied to the contractual schedule for PTC repayments to investors.

Note: IndAS adjustments are done to the behavioralised receivables before using it for preparing the static ALM for the month.

Back-testing methodology and governance

- Behavioral receivables are to be computed every month.
- For each month's behavioral receivables, value of actual collections is sourced for the same set of borrowers. These monthly actual collections (A) are compared against the behavioral (B) and contractual collections expected (C).
- The difference between the actual collections and expected behavioral collections are to be monitored. Based on this review, any signal for a potential need to change the amount of conservatism in the model would be identified.