ASSET LIABILITY MANAGEMENT (ALM) POLICY

Introduction:

The National Housing Bank (NHB) vide circular **NHB /ND/DRS/POL-No. 35/2010-11 dated October 11, 2010 has advised all Housing Finance Companies to comply with the circular issued w.r.t "Asset Liability Management (ALM) System for HFCs".**

The Management of the company being fully committed to establish policies and procedures and ensuring effective compliance with all the relevant legal and regulatory requirements and has adopted the guidelines.

Objective:

The policy will provide operational guidelines for all concerned to enable the Company to manage its ALM with prudent measures. It will provide a comprehensive framework for measuring, monitoring and managing the market risk of the Company.

Asset Liability Committee (ALCO):

The Board as and when required will constitute an Asset Liability Committee (hereinafter referred to as **'ALCO or Committee'**). The Chairman and Managing Director of the Company will head the Committee and the Chiefs of Investment, Credit, Resources Management or Planning, Funds Management/ Treasury, International Business and Economic Research shall be members of the Committee. The Committee will perform the following functions:

1. To put in place the Asset and Liability Management ("ALM") system by making use of specialized software for managing assets and liabilities with respect to maturity mismatch. It shall put in place a comprehensive and dynamic frame work to measure, monitor and managing the liquidity and interest rate risk taking into account the rates of major operators in the financial system by closely integrating it with the business strategy of the company.
2. To involve suitable strategy through risk policies and tolerance levels to manage the risks.
3. Ensuring the adherence to the limits set by the board and in the line with the budget and decides risk management objectives.
4. To decide the product pricing for the loans, maturity profile and mix of the Incremental assets and liabilities.
5. To anticipate the current interest rate view of the company and base its decision for future business strategy on this view .In regard to funding policy it shall decide the source, mix of liabilities or sale of assets.
6. To review the ALM returns and take suitable remedial measures.
7. To review the progress and implementation of decision made in the previous meetings.
8. To assess the funding and capital planning for the company.
9. To prepare road maps for profit planning and growth projections.
10. To prepare plans by forecasting and analyzing "what if scenario."

Process:

The ALM process would be as follows:

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CIN: U74899DL2000PLC104956
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1. Collection of data – The data on both assets and liabilities of the company outstanding as on a particular date will be collected by the Treasury Team. In addition, information on the proposed disbursements / recovery for the month, quarter and half year will be provided by the business teams in the prescribed format. It will be the responsibility of each business unit that the data for preparation of the ALM report is sent by the 5th of succeeding month of each related quarter.

2. Preparation of ALM report – Treasury team will prepare the ALM reports in formats prescribed by NHB as specified in Annexure I. All assets and liabilities will be allocated to various maturity buckets as per their maturity profile and in case of Rate sensitive assets/liabilities as per the residual maturity/next re-pricing period, whichever is earlier.

3. Review by ALCO – The ALM reports will be presented to ALCO in the quarterly ALCO meeting for their review and monitoring of ALM position of the Company.

4. Liquidity and Match Funding Plan for the quarter – Based on the outstanding Asset and Liability position of the Company and proposed business disbursements for the quarter, steps will be laid out for ensuring liquidity and match funding.

Monitoring & Review of ALM:

The ALM of the Company would be prepared to monitor and review the following market risks:

1. Liquidity Risk
2. Interest Rate Risk
3. Currency Risk

Each of the above will be measured and monitored as below.

1. Liquidity Risk:

The Liquidity position of the Company shall be monitored on ongoing basis. To measure the Liquidity Risk all assets and liabilities will be distributed across the following time buckets based on cash flow approach. Cash flows will be placed in different time buckets based on the behavior of assets, liabilities and off balance sheet items

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

The mismatch (negative gap) during '1-14days' and 'over 14 days' to one month time bucket in normal course should be controlled within 15% of the cash outflow in the above time buckets. In case of higher tolerance levels than 15% is required, necessary approvals shall be taken.

The above liquidity situations can be managed by preparing Statement of Structural Liquidity in the format as prescribed by the NHB. All cash inflows and outflows to be placed in the maturity ladder as per expected timing of cash flows. Such assumptions, to be used for placing the assets and liabilities in various time buckets, are provided under section Classification of Assets and Liabilities.

In addition, the Company will also prepare a Dynamic Liquidity Statement in the format as prescribed by NHB. This report will be used to assess the liquidity situation for the Company over the next 6 months. Thus this report along with the maturity profile of the various assets and liabilities will also have the unavailed credit limits, investment obligations, statutory obligations, potential business disbursements, loan facilities in pipeline, proposed debt raising, etc.

Classification of Assets and Liabilities:

The assets and liabilities will be classified under various maturity buckets depending on their maturity and characteristics. Given below are the assumptions to be used for various asset and liability classes. For any new asset or liability type, suitable assumptions will be made which will need to be validated by the ALCO.

A. Liabilities :

Borrowings made by the Company: - As per the residual maturity/ amortization schedule of the instrument / Loan facility. In case of instruments / Loan facility with Put / Call options, such option date to be considered as maturity date.(Borrowings Include Commercial Papers, Debentures, Loans from Banks and others, OD/CC facility)

Equity Shares: – Over 10 years

Preference Shares: - As per redemption date or In case of instruments with Put / Call options, put/call option date to be considered as maturity

Reserves & Surplus: – Over 10 years

Any Other Non cash Liability (Eg: DTL / Provisions)* -To be bucketed as per the purpose / nature of the underlying transaction

*Provisions for NPAs should be netted out from the gross amount of the loan portfolio

Advance income received, receipts from borrowers pending adjustment: - In the 'over 10 years' time-bucket as these do not involve any cash outflow.

Other Current Liabilities and provisions:- As per the due date or likely timing of cash outflow.

B. Assets :

Housing Loans: – As per the Principal run off profile.

Other Loans: – As per the Principal run off profile

Corporate Loans (Secured and Unsecured): – The outstanding amount of Corporate Loan (Secured and Unsecured) book will be distributed along the various buckets as follows:

Bucket		%age of the outstanding amount
1-30/31 (one month)	-	10%
Over one month and upto 2 months	-	10%
Over two months and upto 3 months	-	15%
Over 3 months and upto 6 months	-	15%
Over 6 months and upto 1 year	-	50%

Investments in Mutual Funds:– '1-14 days' and 'Over14 days to one month' bucket. In case of any lock-in period, than as per the immediate release date from that lock-in period

Term Investments:– Investments with term maturity like Fixed Deposits as per the residual maturity

Other Investments:– As per the due date or likely timing of cash inflow or over 10 years depending upon the nature of investments

Asset Acquired in satisfaction of claim: – Based on marketability / realization in line with NHB directions if any.

Fixed Assets: – Over 10 years (CWIP if any will be considered in 1-30 days bucket)

Any Other Non Cash Items (Ex: DTA / Advance Tax):- Over 10 Years

Other Current Assets and Advances:- As per the due date or likely timing of cash inflow.

Note:

1. In case of Overdue Liabilities: will be shown under 1-14 days time bucket
2. In case of overdue receivables of standard loans/Leased rentals/hire purchase assets:
(i) Less than one month : in 3 to 6 months time bucket
(ii) More than one month but less than seven months: in 6 to12 months time bucket
(iii) More than 7 months but less than one year: in 1 to 3 year time bucket.
3. In case of Loan commitments pending disbursal (outflow): in the time bucket as per the sanctioned disbursement schedule

2. Interest Rate Risk (IRR):

Interest Rate Risk is the risk where changes in the market interest rates might adversely affect the financial condition. There will be two impacts of interest rate risk, these are

(a) Immediate Impact or Earnings Perspective – In which HFCs earnings are affected by change in its Net Interest Income.

(b) Long-term impact or Economic Value perspective – In which HFCs market value or Net worth is affected.

An asset or liability is termed as rate sensitive when:-

(a) Within the time interval under consideration, there is a cash flow;

(b) The interest rate resets/reprices contractually during the interval;

(c) RBI / NHB changes interest rates where rates are administered; and

(d) It is contractually pre-payable or withdrawal before the stated maturities.

Gap Analysis: Gap analysis is considered a suitable method to measure the interest rate risk. 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. The various items of rate sensitive assets and liabilities and off-balance sheet items are classified into time buckets such as

1. 1 day to 14 days
2. Over 14 days to one month
3. Over one month and upto 2 months
4. Over two months and upto 3 months
5. Over 3 months and upto 6 months
6. Over 6 months and upto 1 year
7. Over 1 year and upto 3 years
8. Over 3 years and upto 5 years
9. Over 5 years and upto 7 years
10. Over 7 years and upto 10 years
11. Over 10 years
12. Non Sensitive

The rate sensitive assets and liabilities and off-balance sheet items will be put in the above time buckets according to residual maturity or next re-pricing period, whichever is earlier.

The gap is the difference between Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL) in various time buckets. 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 a position to benefit from declining interest rate by a negative Gap (RSL > RSA).

A. Liabilities:

Fixed rate instruments: As per residual maturity

Floating rate instruments: As per re-pricing date

Instruments with Embedded options: As per next option exercise date or repricing date whichever is earlier.

Bank/Other Loans: (a) Fixed Rate: as per the residual maturity/ amortization schedule of the Loan.

(b) Floating Rate: As per residual period to the repricing date. In case of instruments with Put / Call options, put/call option date to be considered as maturity

Equity Shares: Non-Sensitive

Preference Shares: Non-Sensitive

Reserves & Surplus: Non-Sensitive

Any Other Non cash Liability (Ex: DTL / Provisions): Non-Sensitive

Other Current Liabilities and Provisions: Non Sensitive

B. Assets:

Housing Loans: (a) Fixed rate Loans: as per the residual maturity/ amortization schedule of the Loan

(b) Floating rate Loans – As per residual period to the repricing date.

Investments in Mutual Funds: '1-14 days' and 'Over14 days to one month' bucket. In case of any lock-in period, than as per the immediate release date from that lock-in period

Other Investments: (a) Fixed rate instruments: as per residual maturity

(b) Floating rate instruments – as per re-pricing date. Investments with term maturity like Fixed Deposits as per the maturity

Corporate Loans (Secured and Unsecured): The outstanding amount of Corporate Loan (Secured and Unsecured) book will be distributed along the various buckets as follows:

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Over two months and upto 3 months-		15%
Over 3 months and upto 6 months	-	15%
Over 6 months and upto 1 year -		50%

Fixed Assets: Non-Sensitive

Any Other Non Cash Items (Ex: DTA / Advance Tax/Intangible Assets): Non-sensitive

Other Current Assets and Advances: Non-sensitive.

The Interest Rate Sensitivity Report will be prepared in the NHB format and will be reviewed by the ALCO in its meetings.

ALM Policy Review: The Policy will be reviewed annually by the ALCO.

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