RBI/2008-09/175

UBD. PCB. Cir. No 13 /12.05.001/2008-09

September 17, 2008

The Chief Executive Officers,
All Primary (Urban) Co-operative Banks

Dear Sir/Madam,

Guidelines on Asset- Liability Management (ALM) System in Tier II UCBs (other than scheduled UCBs) -

As you are aware, Urban Co-operative Banks (UCBs) are now operating in a fairly deregulated environment and are required to determine their own interest rates on deposits (other than saving account) and interest rates on their advances. The interest rates on banks' investments in government and other permissible securities are also market related. Intense competition for business, involving both the assets and liabilities, together with increasing volatility in the domestic interest rates as well as foreign exchange rates, has brought pressure on the management of banks to maintain an optimal balance between spreads, profitability and long-term viability. The unscientific and ad-hoc pricing of deposits in the context of competition, and alternative avenues for the borrowers, results in inefficient deployment of resources. At the same time, imprudent liquidity management can put banks' earnings and reputation at great risk. These pressures call for a comprehensive approach towards management of banks' balance sheets and not just ad hoc action. The managements of UCBs have to base their business decisions on sound risk management systems with the ultimate objective of protecting the interest of depositors and stakeholders. It is, therefore, important that UCBs introduce effective Asset-Liability Management (ALM) systems to address the issues related to liquidity, interest rate and currency risks.

2. In the normal course, UCBs are exposed to credit, market, operational and reputational risks in view of their asset-liability composition. With liberalisation in Indian financial markets over the last few years and growing integration of domestic markets with external markets, the risks associated with banks' operations have become complex and large, requiring strategic management. Since the urban co-operative banking sector is an integral part of the financial system and many of the larger urban co-operative banks are undertaking business as varied as in the case of commercial banks, there is an imperative need for the bigger UCBs in particular, and UCBs in general, to put in place appropriate internal control and risk management systems.

3. The Reserve Bank of India had constituted a Working Group, comprising senior executives of urban co-operative banks and the Reserve Bank, to frame guidelines on Asset Liability Management (ALM) for urban banks. The ALM guidelines devised by the Group were accordingly prescribed for scheduled UCBs, who were required to put in place an effective ALM System, by 30 June 2002. The scheduled UCBs are now required to furnish reports on their structural liquidity position and interest rate sensitivity to the Reserve Bank as part of the Off Site Surveillance (OSS) data. The banks are required *inter alia* to set up an internal Asset-Liability Committee (ALCO), headed by the CEO. The Board should also oversee the implementation of the system and review its functioning periodically.

4. Keeping in view the level of computerisation and the current MIS in UCBs, **it has been decided that in addition to scheduled UCBs, for which guidelines are already in place, all other Tier II UCBs may also adopt ALM as per the enclosed guidelines.** The enclosed Guidelines have been formulated to serve as a benchmark for those banks which lack a formal ALM System. Banks which have already adopted more sophisticated systems may continue their existing systems, but should ensure to fine-tune their current system to ensure compliance with the requirements of the ALM System suggested in the enclosed Guidelines. Other banks should examine their existing MIS and arrange to have an information system to meet the prescriptions of the ALM Guidelines. To begin with, banks should ensure coverage of at least 60% of their liabilities and assets. As for the remaining 40% of their assets and liabilities, banks may include the position based on their estimates. **It is necessary that banks set interim targets so as to cover 100 per cent of their business by April 1, 2010.** Once the ALM System stabilizes and banks gain more experience, they should prepare to switch over to more sophisticated techniques like Duration Gap Analysis, Simulation and Value at Risk for interest rate risk management.

5. In order to capture the maturity structure of the cash inflows and outflows, the Statement of Structural Liquidity (Annex-I to the Guidelines) should be prepared, to start with, as on the last reporting Friday of March / June / September / December and put up to ALCO / Top Management within a month from the close of the last reporting Friday. It is the intention to put the reporting system on a fortnightly basis with effect from December 2008. The Statement of Structural Liquidity should be placed before the bank's Board in its subsequent meeting. Tolerance levels for various maturities may be fixed by the bank's Top Management depending on the bank's asset-liability profile, extent of stable deposit base, the nature of cash flows, etc. In respect of mismatches in cash flows for the 1-14 days bucket and 15-28 days bucket, it should be the endeavour of the bank's management to keep the cash flow mismatches at the minimum levels. To start with, the mismatches (negative gap) during 1-14 days and 15-28 days, in the normal course, may not exceed 20% each of the cash outflows during these time buckets. If a bank, in view of its structural mismatches, needs a higher limit, it could operate with higher limit with the approval of its Board / Management Committee, giving specific reasons on the need for such higher limit. The objective of RBI is to enforce the tolerance levels strictly with effect from April 1, 2010.

6. We advise that in the Statement of Interest Rate Sensitivity (Annex-II to the Guidelines), only rupee assets, liabilities and off-balance sheet positions should be reported. The statement should be prepared as on the last reporting Friday of March / June / September / December and submitted to the ALCO / Top Management within a month from the last reporting Friday. It should also be placed before the bank's Board in its next meeting. The banks are expected to move over to monthly reporting system with effect from April 1, 2010. The information collected in the statement would provide useful feedback on the interest rate risk faced by the bank and the Top Management / Board would have to formulate corrective measures and devise suitable strategies wherever needed.

7. In order to enable the banks to monitor their liquidity on a dynamic basis over a time horizon spanning 1-90 days, an indicative format (Annex III) to the guidelines) has been prescribed. This statement of Short-term Dynamic Liquidity should be prepared as on each reporting Friday and put up to the ALCO / Top Management within 2 / 3 days from the close of the reporting Friday.

8. As regards submission of returns to RBI under OSS , separate communication will follow in due course.

9. It may be noted that RBI attaches utmost importance to Risk Management in banks and expects banks to submit the ALM returns correctly and within the prescribed time to their ALCO / Top Management. To this end, banks may designate and authorize one or two senior official/s who would be responsible for the correct compilation and timely submission of these returns and who would be fully responsible for the information furnished therein.

10. As stated above, the ALM statements (Annex I, II and III) are to be prepared as on the last reporting Friday of March / June / September / December and submitted to the ALCO / Top Management within a month from the last reporting Friday. **The first such ALM returns may be put to the ALCO/Top Management as on the last reporting Friday of December 2008.**

11. Please acknowledge receipt of this circular, to the Regional Office concerned and also place it before your Board of Directors in its next meeting

Yours faithfully,

(A.K Khound)
Chief General Manager-in-Charge

Enclosure to circular UBD.PCB.cir.No.13/12.05.001/2008-09
dated September 17 ,2008

Asset - Liability Management (ALM) System in Urban Co-operative Banks (Other than Scheduled UCBs) - Guidelines

1. ALM in UCBs

1.1 Considering the structure, balance sheet profile and skill levels of personnel of UCBs, RBI found it necessary to provide technical support for putting in place an effective ALM framework. These Guidelines lay down broad framework for measuring liquidity, interest rates and forex risks. The initial focus of the ALM function would be to enforce the risk management discipline viz. managing business after assessing the risks involved. The objective of good bank management is to provide strategic tools for effective risk management systems.

1.2 UCBs need to address the market risk in a systematic manner by adopting necessary sector-specific ALM practices than has been done *hitherto*. ALM, among other functions, also provides a dynamic framework for measuring, monitoring and managing liquidity, interest rate and foreign exchange (forex) risks. It involves assessment of various types of risks and altering balance sheet (assets and liabilities) items in a dynamic manner to manage risks.

1.3 The ALM process rests on three pillars.

* ALM Information Systems
    - => Management Information Systems (MIS)
    - => Information availability, accuracy, adequacy and expediency
* ALM Organisation
    - => Structure and responsibilities
    - => Level of top management involvement
* ALM Process
    - => Risk parameters
    - => Risk identification
    - => Risk measurement
    - => Risk management
    - => Risk policies and procedures, prudential limits and auditing, reporting and review.

2. ALM Information Systems

2.1 ALM has to be supported by a management philosophy which clearly specifies the risk policies and procedures and prudential limits. This framework needs to be built on sound methodology with necessary information system as back-up. Thus, information is the key to the ALM process. It is, however, recognised that varied business and customer profiles of UCBs do not make adoption of a **uniform ALM System** for all banks feasible. There are various methods prevalent world-wide for measuring risks. These range from easy-to-comprehend and simple 'Gap analysis' to extremely sophisticated and data intensive 'Simulation' methods. However, the central element for the entire ALM exercise is the availability of timely, adequate and accurate information. The existing systems in many UCBs do not generate information in the manner required for ALM. Collecting accurate data in a timely manner will be the biggest challenge before the UCBs taking full scale computerisation. However, the introduction of the essential information system for ALM has to be addressed urgently.

2.2 Considering the customer profile and inadequate support system for collecting information required for ALM which analyses various components of assets and liabilities on the basis of residual maturity (remaining term to maturity) and behavioural pattern, it will take some time for UCBs to get the requisite information. The problem of ALM data needs to be addressed by following an ABC approach i.e. analysing the behaviour of asset and liability products in the sample branches accounting for significant business (at least 60-70% of the total business) and then making rational assumptions about the way in which assets and liabilities would behave in other branches. Unlike in the case of commercial banks who have large network of branches, UCBs are better placed in view of their compact area of operation and two-tier hierarchical structure to have greater access to the data. Further, in respect of foreign exchange, investment portfolio and money market operations, in view of the centralised nature of functions, it would be much easier to collect reliable data. The data and assumptions can then be refined over time as UCBs gain experience of conducting business within an ALM environment. The spread of computerisation will also help UCBs in accessing data at a faster pace.

3. ALM Organisation

3.1 Successful implementation of the risk management process would require strong commitment on the part of their boards and senior management. The board should have overall responsibility for management of risks and should decide the risk management policy and procedures, set prudential limits, auditing, reporting and review mechanism in respect of liquidity, interest rate and forex risks.

3.2 The Asset - Liability Committee (ALCO) consisting of the bank's senior management including CEO should be responsible for ensuring adherence to the policies and limits set by the Board as well as for deciding the business strategy (<u>on the assets and liabilities sides</u>) in line with the bank's business and risk management objectives.

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

3.4 The ALCO is a decision making unit responsible for balance sheet planning from risk-return perspective including the strategic management of liquidity, interest rate and forex risks. The business and risk management strategy of the bank should ensure that the bank operates within the limits / parameters set by the Board. The business issues that an ALCO considers*, inter alia,* includes pricing of both deposits and advances, desired maturity profile and mix of the incremental assets and liabilities, etc. In addition to monitoring the risk levels of the bank, the ALCO should review the results of and progress in implementation of the decisions made in the previous meetings. The ALCO's future business strategy decisions should be based on the banks views on current interest rates. In respect of the funding policy, for instance, its responsibility would be to decide on source and mix of liabilities or sale of assets. Towards this end, it will have to develop a view on future direction of interest rate movements and decide on funding mixes between fixed vs. floating rate funds, wholesale vs. retail deposits, short term vs. long term deposits etc. Individual UCBs will have to decide the frequency for holding their ALCO meetings.

4. Composition of ALCO

The size (number of members) of ALCO would depend on the size of each UCB, level of business and organisational structure. To ensure commitment of the Top Management and timely response to market dynamics, the CEO or the Secretary should head the Committee. The Chiefs of Investment / Treasury including Forex, Credit, Planning, etc can be members of the Committee. In addition, the Head of the Information Technology Division, if a separate division exists should also be an invitee for building up of Management Information System (MIS) and related IT network. UCBs may at their discretion even have Sub-committees and Support Groups.

5. ALM Process

The scope of ALM function can be described as follows:

* Liquidity risk management
* Interest rate risk management
* Trading (Price) risk management
* Funding and capital planning
* Profit planning and business projection

The guidelines given in this note mainly address Liquidity and Interest Rate risks, as most UCBs are not exposed to forex risk.

6. Liquidity Risk Management

6.1 Measuring and managing liquidity needs are vital for effective operation of UCBs. By assuring an UCB's ability to meet its liabilities as they become due, liquidity management can reduce the probability of an adverse situation developing. The importance of liquidity problem of an UCB need not necessarily confine to itself but its impact may be felt on other UCBs / banks as well. UCBs should measure not only the liquidity positions on an ongoing basis but also examine how liquidity requirements are likely to evolve under different assumptions / scenarios. Liquidity measurement is quite a difficult task and can be measured through stock or cash flow approaches. The stock approach uses certain liquidity ratios viz. credit deposit ratio, loans to total assets, loans to core deposits, etc. While the liquidity ratios are the ideal indicators of liquidity of banks operating in developed financial markets, the ratios do not reveal the real liquidity profile of Indian banks including UCBs, which are operating generally in an illiquid market. Experience shows that assets commonly considered as liquid like Government securities, other money market instruments, etc. have limited liquidity when the market and players move in one direction. Thus, analysis of liquidity involves tracking of cash flow mismatches (flow approach). The maturity ladder is generally used as a standard tool for measuring the liquidity profile under the flow approach, at selected maturity bands. The format of the Statement of Structural Liquidity under static scenario without reckoning future business growth is given in Annex I.

6.2 The Maturity Profile as given in Appendix I could be used for measuring the future cash flows of UCBs in different time bands. The time bands, given the Statutory Reserve cycle of 14 days may be distributed as under:

i) 1 to 14 days
ii) 15 to 28 days
iii) 29 days and upto 3 months
iv) Over 3 months and upto 6 months
v) Over 6 months and upto 1 year
vi) Over 1 year and upto 3 years
vii) Over 3 years and upto 5 years
viii) Over 5 years

6.3 The investments in SLR securities and other investments are generally assumed as illiquid due to lack of depth in the secondary market and are therefore required to be shown under respective residual maturity bands corresponding to the residual maturity. However, some of the UCBs may be maintaining few securities in the trading book, which are kept distinct from other investments made for complying with the Statutory Reserve requirements and for retaining relationship with customers.

Securities held in the trading book are subject to certain preconditions such as :

i) The composition and volume are clearly defined;

ii) Maximum maturity / duration of the portfolio is restricted;

iii) The holding period not exceeding 90 days;

iv) Cut-loss limit prescribed; (The level up to which loss could be ascribed by liquidating an asset. Illustratingly, if a security bought at Rs. 100 is quoted in the market on a given day at Rs. 98 and the board of management fixed the maximum loss which may be incurred on this particular transaction at not more than Rs.2.00, the cut loss limit is placed at Rs.2.00 for this particular security. The cut loss limit varies from security to security based on bank's loss / risk bearing capacity).

v) Defeasance periods (product-wise) i.e. time taken to liquidate the position on the basis of liquidity in the secondary market are prescribed. The defeasance period is dynamic and in volatile environments, such period also undergo changes on account of product-specific or general market conditions;

vi) Marking to market on a weekly basis and the revaluation gain / loss absorbed in the profit and loss account; etc.

UCBs which maintain such **trading books** and complying with the above requirements are permitted to show the trading securities under 1-14 days, 15-28 days and 29-90 days time bands on the basis of the defeasance periods. The ALCO of the UCBs should approve the volume, composition, holding / defeasance period, cut loss, etc. of the **trading book**.

6.4 Within each time band 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 should be on the short-term mismatches viz., 1-14 and 15-28 days time bands. UCBs, however, are expected to monitor their cumulative mismatches (running total) across all time bands by establishing internal prudential limits with the approval of the Board. The mismatches (**negative gap** between cash Inflows and outflows) during 1-14 and 15-28 days time bands in normal course should not exceed 20% of the cash outflows in each time band. **If an UCB in view of its current asset-liability profile and the consequential structural mismatches needs higher tolerance level, it could operate with higher limit sanctioned by RBI for a limited period.**

6.5 The Statement of Structural Liquidity (Annex I) may be prepared by placing all cash inflows and outflows in the maturity ladder according to the expected timing of cash flows. A maturing liability will be a cash outflow while a maturing asset will be a cash inflow. It would also be necessary for UCBs with AD licences to take into account the rupee inflows and outflows on account of their forex operations. While determining the probable cash inflows / outflows, UCBs have to make a number of assumptions according to their asset-liability profiles. While determining the tolerance levels, the UCBs may take into account all relevant factors based on their asset-liability base, nature of business, future strategy, etc.

6.6 In order to enable the banks to monitor their short-term liquidity on a dynamic basis over a time horizon spanning from 1-90 days, UCBs may estimate their short-term liquidity profiles on the basis of business projections and other commitments for planning purposes. An indicative format (Annex III) for estimating Short-term Dynamic Liquidity is enclosed.

7. Currency Risk

7.1 Floating exchange rate arrangement has brought in its wake pronounced volatility adding a new dimension to the risk profile of banks' balance sheets. The increased capital flows across free economies following deregulation have contributed to increase in the volume of transactions. Large cross border flows together with the volatility has rendered the banks' balance sheets vulnerable to exchange rate movements. Although UCBs predominantly confined to domestic operations, in view of UCBs being ADs I and II category licenced banks it is necessary to address forex risk also.

7.2 Managing currency risk is one more dimension of ALM Mismatched currency position besides exposing the balance sheet to movements in exchange rate also exposes it to country risk and settlement risk. Ever since RBI introduced the concept of end of the day near square position in 1978, ADs have been setting up overnight limits and selectively undertaking active day time trading. Following the introduction of "Guidelines for Internal Control over Foreign Exchange Business" in 1981, maturity mismatches (gaps) are also subject to control. Following the recommendations of Expert Group on Foreign Exchange Markets in India (Sodhani Committee), the calculation of exchange position has been redefined and banks have been given the discretion to set up overnight limits linked to maintenance or capital to Risk-Weighted Assets Ratio of 9% of open position limit.

7.3 Presently, the ADs are also free to set gap limits with RBI's approval but are required to adopt Value at Risk (VaR) approach to measure the risk associated with forward exposures. Thus, the open position limits together with the gap limits form the risk management approach to forex operations. For monitoring such risks, banks should follow the instructions contained in Circular A.D (M. A. Series) No.52 dated December 27, 1997 issued by the erstwhile Exchange Control Department of RBI.

8. Interest Rate Risk (IRR)

8.1 The phased deregulation of interest rates and the operational flexibility given to banks in pricing most of the assets and liabilities imply the need for the banking system to hedge the Interest Rate Risk. Interest rate risk is the risk where changes in market interest rates might adversely affect a bank's financial condition. The changes in interest rates affect banks in a larger way. The immediate impact of changes in interest rates is on bank's profits by changing its spread [Net Interest Income (NII)]. A long-term impact of changing interest rates is on bank's Market Value of Equity (MVE) or Net Worth as the marked to market value of bank's assets, liabilities and off-balance sheet positions get affected due to variation in market 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 NII or Net Interest Margin (NIM). There are many analytical tools for measurement and management of Interest Rate Risk. In the context of poor MIS, slow pace of computerisation and the absence of total deregulation, the traditional 'Gap Analysis' is considered as a suitable method to measure the Interest Rate Risk for UCBs in the first place.

8.2 The Gap or Mismatch risk can be measured by calculating Gaps over different time intervals as at a given date. Gap analysis measures mismatches between rate sensitive liabilities and rate sensitive assets (including off-balance sheet positions). An asset or liability is normally classified as rate sensitive if:

i) within the time interval under consideration there is a cash flow; for instance, repayment of installments of term loans etc.

ii) the interest rate resets / reprices contractually during the interval. For instance, charges made in the interest on CC accounts, term loan accounts before maturity.

iii) RBI changes the interest rates (i.e. interest rates on Savings Bank Deposits, Refinance, CRR balance, etc.) in cases where interest rates are administered; and

8.3 The Gap Report should be generated by grouping rate sensitive liabilities, assets and off-balance sheet positions into time bands according to residual maturity or next repricing period, whichever is earlier. The difficult task in Gap analysis is determining rate sensitivity. All investments, advances, deposits, borrowings, etc. that mature / reprice within a specified timeframe are interest rate sensitive. Similarly, any repayment of loan instalment is also rate sensitive if the bank expects to receive it within the time horizon. This includes final principal payment and periodical instalments. Certain assets and liabilities receive / pay rates that vary with a reference rate. These assets and liabilities are repriced at pre-determined intervals and are rate sensitive at the time of repricing. While the interest rates on term deposits are fixed during their currency, the advance portfolio of the banking system is basically floating. The interest rates on advances could be repriced any number of occasions.

The Gaps may be identified in the following 7 time bands:

i) Upto 3 months
ii) Over 3 months and upto 6 months
iii) Over 6 months and upto 1 year
iv) Over 1 year and upto 3 years
v) Over 3 years and upto 5 years
vi) Over 5 years
vii) Non-sensitive

The various items of rate sensitive assets and liabilities and off-balance sheet items may be classified as explained in Appendix-II and the Reporting Format for interest rate sensitive assets and liabilities is given in Annex II.

8.4 The Gap is the difference between Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL) for each time band. 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.

8.5 Each bank should set prudential limits on individual Gaps with the approval of the Board. The prudential limits should have a bearing on the **Total Assets, Earning Assets or Equity**. The banks may also work out Earnings at Risk (EaR) i.e. 20-30% of the last years NII or Net Interest Margin (NIM) based on their views on interest rate movements.

8.6 When the UCBs gain sufficient experience in operating ALM system, RBI may introduce capital adequacy for market risk in due course.

9. **Behavioural Patterns**

The classification of various components of assets and liabilities into different time bands for preparation of Gap reports (Liquidity and Interest Rate Sensitivity) as indicated in Appendices I & II is the **benchmark**. Banks which are better equipped to reasonably estimate the behavioural pattern of various components of assets and liabilities on the basis of past data / empirical studies could classify them in the appropriate time bands, subject to approval from the ALCO

Annex – I

to circular UBD.PCB.cir.No.13 /12.05.001/2008-09 dated September 17, 2008

Name of the bank : ____________________

Statement of Structural Liquidity as on : ______

(Amounts in Crores of Rupees)

	Residual Maturity								
Outflows	**1 to 14 days**	**15 to 28 days**	**29 days and upto 3 months**	**Over 3 months and upto 6 months**	**Over 6 Months and upto 1 year**	**Over 1 year and upto 3 years**	**Over 3 years and upto 5 years**	**Over 5 years**	**Total**
1. Capital									
2. Reserves & Surplus									
3. Deposits	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
i) Current Deposits									
ii) Savings Bank Deposits									
iii) Term Deposits, Long Term Deposits (Tier II).									
iv) Certificates of Deposit									
4. Borrowings	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
i) Call and Short Notice									
ii) Inter-Bank (Term)									
iii) Refinances									
iv) Others (specify)									
5. Other Liabilities & Provisions	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
i) Bills Payable									
ii) Branch Adjustments									
iii) Provisions									
iv) Others									
6. Unavailed portion of Cash Credit / Overdraft / Demand Loan component of Working Capital									

7. Letters of Credit / Guarantees									
8. Repos									
9. Bills Rediscounted (DUPN)									
10. Swaps (Sell / Buy / maturing forwards									
11. Interest payable									
12. Others (specify)									
A. Total Outflows									
Inflows									
1. Cash									
2. Balances with RBI									
3. Balances with other Banks	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
i) Current Account									
ii) Money at Call and Short Notice, Term Deposits . Long Term Deposits (Tier II) and other placements and balances with other banks including DCCBs and SCBs									
4. Investments (including those under Repos but excluding Reverse Repos)									
5. Advances (Performing)	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
i) Bills Purchased and Discounted (including bills under DUPN)									
ii) Cash Credits, Over-drafts and Loans repayable on demand									
iii) Term Loans									
6. NPAs (Advances and Investments)*									
7. Fixed Assets									
8. Other Assets	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
i) Branch Adjustments									
ii) Leased Assets									
iii) Others									

9. Reverse Repos									
10. Swaps (Buy / Sell) / maturing forwards									
11. Bills Rediscounted (DUPN)									
12. Interest receivable									
13. Export Refinance from RBI									
14. Others (specify)									
B. Total Inflows									
C. Mismatch (B-A)									
D. Cumulative Mismatch									
E. C as % to A									
* Net of provisions, interest suspense and claims received from ECGC / DICGC.									

Annex – II

<u>to circular UBD.PCB.cir.No. 13 /12.05.001/2007-08 dated September 17 , 2008</u>

Name of the bank : ___________________________

Statement of Interest Rate Sensitivity as on : _________

(Amounts in Crores of Rupees)

	Interest Rate Sensitivity								
Liabilities		**Upto 3 months**	**Over 3 months and upto 6 months**	**Over 6 Months and upto 1 year**	**Over 1 year and upto 3 years**	**Over 3 years and upto 5 years**	**Over 5 years**	**Non-sensitive**	**Total**
1. Capital									
2. Reserves & Surplus									
3. Deposits	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
i) Current Deposits									
ii) Savings Bank Deposits									
iii) Term Deposits, Long Term Deposits (Tier II)									
iv) Certificates of Deposit									
4. Borrowings	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
i) Call and Short Notice									
ii) Inter-Bank (Term)									
iii) Refinances									
iv) Others (specify)									
5. Other Liabilities & Provisions	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
i) Bills Payable									
ii) Branch Adjustments									
iii) Provisions*									
iv) Others									
6. Repos									

7. Bills Rediscounted (DUPN)									
8. Swaps (Sell / Buy)									
9. Others (specify)									
A. Total Liabilities									
* Excluding provisions for NPAs and investments.									
Assets									
1. Cash									
2. Balances with RBI									
3. Balances with other Banks	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
i) Current Account									
ii) Money at Call and Short Notice, Term Deposits, Long Term Deposits (Tier II) and other placements and balances with other banks including DCCBs and SCBs									
4. Investments (including those under Repos but excluding Reverse Repos)									
5. Advances (Performing)	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
i) Bills Purchased and Discounted (including bills under DUPN)									
ii) Cash Credits, Overdrafts and Loans repayable on demand									
iii) Term Loans									
6. NPAs (Advances and Investments)*									
7. Fixed Assets									
8. Other Assets	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
i) Branch									

Adjustments									
ii) Leased Assets									
iii) Others									
9. Reverse Repos									
10. Swaps (Buy / Sell)									
11. Bills Rediscounted (DUPN)									
12. Others (specify)									
B. Total Assets									
C. GAP (B-A)									
Other Products (Interest Rate)**	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
i) FRAs									
ii) Swaps									
iii) Futures									
iv) Options									
v) Others									
D. Total Other Products									
E. Net Gap (C-D)									
F. Cumulative Gap									
G. E As % to B									

*   Amounts to be shown net of provisions, interest suspense and claims received form ECGC / DICGC.

** As and when UCBs are permitted to transact in these products.

Annex - III

to circular UBD.PCB.cir.No. 13 /12.05.001/2007-08 dated September 17 ,2008

Name of the Bank : ______________________________

Statement of Short-term Dynamic Liquidity as on ________

(Amounts in Crores of Rupees)

		1-14 days	15.28 days	29-90 days
A.	**Outflows**			
1.	Net increase in loans and advances			
2.	Net increase in investments :			
	i) Approved securities			
	ii) Money market instruments (other than Treasury bills)			
	iii) Bonds / Debentures / Shares			
	iv) Others			
3.	Inter-bank commitments			
4.	Off-balance sheet items (Repos, Swaps, Bills Discounted, etc.)			
5.	Others			
	Total Outflows			
B.	**Inflows**			
1.	Net cash position			
2.	Net increase in deposits (less CRR obligations)			
3.	Interest on investments			
4.	Inter-bank claims			
5.	Refinance eligibility (Export credit)			
6.	Off-balance sheet items (Reverse Repos, Swaps, Bills discounted, etc.)			
7.	Others			
	Total Inflows			
C.	Mismatch (B-A)			
D.	Cumulative mismatch			
E.	C as a % to total outflow			

Appendix – I

to circular UBD.PCB.cir.No.13 /12.05.001/2008-09 dated September 17, 2008

Maturity Profile - Liquidity

Heads of Accounts			**Classification into time bands**
A.	**Outflows**		
1.	Capital, Reserves and Surplus		Over 5 years band.
2.	Demand Deposits (Current and Savings Bank Deposits		Savings Bank and Current Deposits may be classified into volatile and core portions. Generally 10 % of Savings Bank and 15 % of Current Deposits are withdrawable on demand. This portion may therefore be treated as volatile. While volatile portion can be placed in the first time band i.e., 1-14 days, the core portion may be placed in over 1-3 years time band.
			The above classification of Savings Bank and Current Deposits is only a benchmark. Banks which are better equipped to estimate the behavioural pattern on renewals, premature closures; etc. on the basis of past data / empirical studies could classify them in the appropriate time bands, i.e. behavioural maturity instead of contractual maturity, subject to the approval of the Board / ALCO.
3.	Term Deposits, Long Term Deposits (Tier II)		Respective residual (remaining period to maturity) time bands. Banks which are better equipped to estimate the behavioural pattern on renewals, premature closures, etc. on the basis of past data / empirical studies could classify the retail deposits in the appropriate time bands on the basis of behavioural maturity rather than residual maturity. However, the wholesale deposits (deposits over Rs.15 lakhs and inter-bank deposits) should be shown under respective residual time bands.
4.	Certificates of Deposit, Borrowings and Bonds (including Sub-ordinated Debt)		Respective residual time bands.
5.	**Other Liabilities and Provisions**		

	i.	Bills Payable			1-14 days time band.
	ii.	Branch Adjustments			The net credit balance may be shown in 1-14 days time band.
	iii.	Provisions other than for loan loss and depreciation in investments			Respective time bands depending on the purpose.
	iv	Other Liabilities			Respective time bands. Items not representing cash payables (i.e. guarantee fee received in advance, etc.) may be placed in over 5 years time bands.
6.	Export Refinance - Availed				Respective time bands of underlying assets i.e. depending upon the residual maturity of export credit.
B.	**Inflows**				
1.	Cash				1-14 days time bands.
2.	Balances with RBI / Public Sector Banks and SCBs and DCCBs for CRR / SLR purpose.				While the excess balance over the required CRR / SLR may be shown under 1-14 days time bands, the Statutory Balances may be distributed amongst various time bands corresponding to the maturity profile of DTL with a time-lag of 28 days.
3.	**Balances with other Banks**				
	(i)	Current Account		(i)	Non-withdrawable portion on account of stipulations of minimum balances may be shown under over 1-3 years time band and the remaining balances may be shown under 1-14 days time band.
	(ii)	Money at Call and Short Notice, Term Deposits , Long Term Deposits (Tier II) and other placements		(ii)	Respective residual maturity time bands.
4.	**Investments (Net of provisions)**				
	(i)	Approved securities		(i)	Respective residual maturity time bands excluding the amount required to be reinvested to maintain SLR corresponding to the DTL profile in various time bands.
	(ii)	PSU bonds, CDs and CPs. Units of eligible categories of mutual funds (close ended), etc.		(ii)	Respective residual time bands. Investments classified as NPIs should be shown under over 3-5 years time bands (sub-standard) or over 5 years time band (doubtful).
	(iii)	Equity of All India FIs and co-operatives. Units of		(iii)	Listed shares in 1-14 days bucket, with a haircut of 50%. Other shares in 'Over 5

		eligible categories of mutual funds (open ended)			years' bucket.. Units of eligible categories of mutual funds (open ended) may be kept under 1-14 days bucket.
	(iv)	Securities in the Trading Book		(v)	1-14, 15-28 and 29-90 time bands corresponding to defeasance periods.
5.	**Advances (Performing)**				
	i)	Bills Purchased and Discounted (including bills under DUPN)		(i)	Respective residual maturity time bands.
	ii)	Cash Credit / Overdraft (including TOD) and Demand Loan component of Working Capital.		(ii)	Banks should undertake a study of behavioural and seasonal pattern of availments based on outstandings and the core and volatile portion should be identified. While the volatile portion could be shown in the near-term maturity time bands, the core portion may be shown under over 1-3 year time band.
	iii)	Term Loans		(iii)	Interim cash flows (instalments) should be shown under respective maturity time bands.
6.	**NPAs (Net of provisions, Overdue Interest Reserves and claims received from ECGC / DICGC**				
	i)	Sub-standard		i)	Over 3-5 years time band.
	ii)	Doubtful and Loss		ii)	Over 5 years time band.
7.	Fixed Assets			Over 5 years time bands.	
8.	**Other Assets**				
	i)	Branch Adjustments		The net debit balance may be shown in 1-14 days time band. Intangible assets and assets not representing cash receivables may be shown in over 5 years time band.	
	ii)	Leased Assets		Interim cash flows may be shown under respective residual maturity time bands.	
C.	**Contingent Liabilities / Lines of Credit committed / available and other inflows / Outflows**				
1.	(i)	Unavailed portion of Cash Credit / Overdraft / Demand loan component of Working Capital limits (outflow)		(i)	Banks should undertake a study of the behavioural and seasonal pattern of potential availments in the accounts and the amounts so arrived at may be shown under relevant residual maturity-time bands within 12 months.

	(ii) Export Refinance - Unavailed (inflow)		(ii)	1-14 days time band.
2.	Letters of Credit / Guarantees devolvement (outflow)			Based on past history, these should be distributed across time bands.
3.	Repos / Bills Rediscounted (DUPN) / Swaps INR / USD, maturing forex forward contracts etc. (outflow / inflow)			Respective residual maturity time bands.
4.	Interest payable / receivable (outflow / inflow) - Accrued interest which are appearing in the books on the reporting day			Respective time bands.
	Note :			
	(i) Liability on account of event cash flows i.e. short fall in CRR / SLR balance on reporting Fridays, wage settlement, capital expenditure, etc. which are known to the banks and any other contingency may be shown under respective maturity bands.			
	(ii) All overdue liabilities should be placed in the 1-14 days time band.			
	(iii) Interest and instalments from advances and investments, which are overdue for less than one month may be placed in over 3-6 months, time band. Further, interest and instalments due (before classification as NPAs) may be placed in over 6-12 months time band if the earlier receivables remain uncollected.			
D.	**Financing of Gap**			In case the negative gap exceeds the prudential limit of 20% of outflows. (1-14 and 15-28 days time bands) the bank may show by way of a foot note as to how it proposes to finance the gap to bring the mismatch within the prescribed limits. The gap can be financed from market borrowings (call / term), Bills Rediscounting, Repos and deployment of foreign currency resources after conversion into rupees (unswapped foreign currency funds), etc.

Appendix – II

to circular UBD.PCB.cir.No.13/12.05.001/2008-09 dated September 17, 2008

Interest Rate Sensitivity

Heads of Accounts			**Rate sensitivity and time band**
Liabilities			
1.	Capital, Reserves and Surplus		Non-sensitive.
2.	Current Deposits		Non-sensitive.
3.	Savings Bank Deposits		Sensitive to the extent of Interest paying (core) portion. This should be included in over 3-6 months time band. The non-interest-paying portion may be shown in non-sensitive band.
4.	Term Deposits, Long Term Deposits (Tier II) and Certificates of Deposit		Sensitive: reprices or resetting of interest rates on maturity. The amounts should be distributed to different time bands on the basis of remaining term to maturity.
5.	Borrowings - Fixed		Sensitive: reprices on maturity. The amounts should be distributed to different time bands on the basis of remaining maturity.
6.	Borrowings - Floating		Sensitive: reprices when interest rate is reset. The amounts should be distributed to the appropriate time band that refers to the resetting date.
7.	Borrowings - Zero Coupon		Sensitive: reprices on maturity. The amounts should be distributed to the respective maturity time band.
8.	Borrowings from RBI		Upto 3 months time band.
9.	Refinances from other Agencies		(a) Fixed rate : As per respective Maturity.
			(b) Floating rate : Reprices when Interest rate is Reset.
10.	**Other Liabilities and Provisions**		
	i) Bills Payable		i) Non-sensitive.
	ii) Branch Adjustments		ii) Non-sensitive.
	iii) Provisions		iii) Non-sensitive.

	iv)	Others		iv) Non-sensitive.
11.	Repos / Bills Re-discounted (DUPN). Swaps (Sell / Buy) etc.			Sensitive reprices only on maturity and should be distributed to the respective maturity bands.
Assets				
1.	Cash			Non-sensitive.
2.	Balances with RBI			Interest earning portion may be shown in over 3-6 months time band. The balance amount non-sensitive.
3.	**Balances with other Banks**			
	i)	Current Account		i) Non-sensitive.
	ii)	Money at Call and Short Notice, Term Deposits , Long Term Deposits (Tier II) and other placements		ii) Sensitive on maturity. The amounts should be distributed to the respective maturity bands.
4.	**Investments (Performing)**			
	i)	Fixed Rate / Zero Coupon		i) Sensitive on maturity.
	ii)	Floating Rate		ii) Sensitive at the next repricing date
5.	Shares of All India FIs and other co-operatives / eligible categories of mutual funds.			Sensitive, may be shown under 3 months category.
6.	**Advances (Performing)**			
	(i)	Bills Purchased and Discounted (including bills Under DUPN)		(i) Sensitive on maturity.
	(ii)	Cash Credits / Overdrafts (including TODs) / Loans repayable on demand and Term Loans		(ii) Sensitive; may be shown under over 3-6 months time band.
7.	**NPAs (Advances and Investments)***			
	(i)	Sub-Standard		(i) Over 3-5 years time band.
	(ii)	Doubtful and Loss		(ii) Over 5 years time band.
8.	Fixed Assets			Non-sensitive.
9.	**Other Assets**			
	(i)	Inter-office Adjustment		(i) Non-sensitive.
	(ii)	Leased Assets		(ii) Sensitive on cash flows. The amounts should be distributed to the respective maturity bands corresponding to the cash flow dates.

	(iii)	Others		(iii) Non-sensitive.
10.	Reverse Repos, Swaps (Sell / Buy) and Bills Rediscounted (DUPN)			Sensitive on maturity.
11.	**Other products (Interest Rate)**			
	(i)	Swaps		(i) Sensitive and should be distributed under different bands with reference to maturity.
	(ii)	Other		(ii) Should be suitably classified as and when introduced.
	*	Amounts to be shown net of provisions, Overdue interest Reserve and claims received from ECGC		