C - IV

BANK AUDIT - ASSET-LIABILITY MANAGEMENT 1

Guidelines on disclosure in the annual accounts for the year 2007-08

Besides additional disclosures relating to movements in NPAs and lending to sensitive sectors. The Reserve Bank of India has prescribed the following additional disclosures to be made in the annual financial statements of the banks:

1. **Maturity Pattern of:**
   a) Deposits
   b) Loans and Advances
   c) Investment Securities
   d) Borrowings
2. **Foreign Currency Assets and Liabilities**

   The RBI directives coincide with the introduction of **Asset-liability Management System (ALM)** in Banks during the year 2000-2001. Since the disclosure requirements are mandatory in nature, the banks would already have devised appropriate forms and returns to ensure that the required data is expeditiously available from the branches for consolidation and incorporation thereof in the annual audited accounts.

   The disclosures on the items mentioned above are required to be attested by the Auditors, since these form a part of the audited information. To the extent relevant, the branch auditors need to certify the information at the branch level; and to the extent they are not satisfied on the basis of the computation at the branch, they may qualify their report.

1. MATURITY PATTERN OF DEPOSITS

The deposits of a Bank can broadly be categorised as under:

A. Demand Liabilities

These do not have specific maturity patterns,and comprise:

- Deposits in current accounts
- Savings Bank Deposits
- Credit Balances in Cash Credit/Loan accounts
- Overdue/ matured deposits

By definition these being repayable "On Demand", it is difficult to predict the likely pattern of the repayment of such deposits, and would, therefore, necessitate sophisticated statistical techniques or other methods and procedures to determine the likelihood of outflows/maturity patterns.

This exercise may necessarily have to be carried out at the centralised level by the Banks.

B. **Time Liabilities**

These have relatively predictable maturity patterns, and generally such liabilities fall into the following categories:

- Fixed Term Deposits (with interest payment plans during the tenure/period of the deposits),
- Term Deposits in Re-investment schemes

- Cumulative Time Deposits(where interest is compounded)

These include inland and foreign deposits and inter-bank term deposits, in respect of which relevant data would be required to be prepared by the branches.

Time Liabilities are required to be classified according to actual residual maturity of the relevant deposits as at the year-end..

Residual maturity means the balance time that remains for the deposit to mature, calculated from the year-end.

The data so prepared on individual deposits (refer RBI Circular DBOD No. BPBC-38/ 21.4.98/07-08 dated 24/10/07) is required to be aggregated to fall into specific period tranches, called **TIME BUCKETS.**

Based on there are as many as 8 time buckets for the purpose of reporting as under:

a) 1 day

b) 2-7 days

c) 8-14 days

d) 15-28 days

e) 29 days – 3 months

f) over 3 months upto 6 months

g) over 6 months upto 1 year

h) over 1 year upto 3 years

i) over 3 years upto 5 years

j) over 5 years.

The banks may, for the sake of convenience, segregate the branches as under for obtaining data on residual maturity:

a) **audited branches**

- computerised branches, which would normally be audited
- non-computerised branches selected for audit

b) **unaudited branches** Data, if prepared, in the format as per Annexures, would be relevant. This needs to be signed by the authorised branch personnel in all cases, and in case of audited branches, should be examined and attested by the auditor.

2. MATURITY PATTERN OF LOANS AND ADVANCES

Maturity Pattern of only advances categorized and identified as STANDARD is required to be compiled by the Branches, for the reason that as per the RBI guidelines, all NON PERFORMING ADVANCES are required to be considered in maturity buckets as under:

Category of NPA	**Time Bucket**
Sub-standard	3-5 Years
Doubtful/Loss	Over 5 years

The Advances portfolio of a bank would generally be comprised of the following; and since the advances are controlled at the branches, the relevant information would be obtained from them - such information usually arising from:

a) **Bills transactions(bills purchased and discounted) -** Inland Bills Purchased

- Inland Usance Bills Purchased

- Inland Usance Bills Discounted
- Advance against Inland Bills for Collection (Supply Bills)
- Foreign Bills Purchased
- Foreign usance Bills Purchased
- Advance against Foreign Bills or Collection

Usance Bills Purchased and Inland Usance Bills Discounted

Details of Inland Usance Bills Purchased/Discounted need to be prepared by the branches in the recommended format

Advances against Inland Bills for Collection-ABC(Supply Bills) are made in rare cases, and the banks treat these as akin to the usance bills, as the realisability is according to the terms of the underlying contract of supply. Details regarding maturity of ABC(supply bills) would therefore, be furnished in their maturity buckets; and if against demand bills, the outstandings fall in the 1-14 days' bucket.

Foreign Usance Bills Purchased Advance against Foreign Bills for Collection

Foreign Usance Bill means any Foreign Bill purchased or discounted whether or not under L/C, which has a due date on which it is expected to realise. As in the case of ABC (Inland), if advance is made against foreign bills, the same treatment is given as above and could be against sight bills (Demand Bills) which could not be purchased or negotiated. Details regarding maturity of Advance against Foreign Bills for Collection would be furnished in (Refer CV 7).

Bills which are falling due:	**Maturity Bucket**
- on or before 14/4/2008	1 to 14 days
- between 15/4/2008 and 28/4/2008	15 to 28 days
- between 29/4/2008 and 30/6/2008	29 days 3 months
- between 1.7.2008 and 30.9.2008	3 - 6 months
- between 1.10.2008 and 31.3.2009	6 months- 1 year
- between 1.4.2009 to 31.3 2011	1 - 3 years
- between 1.4.2011 to 31.3.2013	3 - 5 years
- on or after 1.4.2013	Over 5 years

(Refer recommended reporting format)

b) Term Loans

The Maturity pattern of Term Loans is to be computed on the basis of the interim cash flows i.e. according to the stipulated repayment schedule.

(Refer recommended reporting format)

c) **Loans re-payable on demand**

- Cash Credits
- Overdrafts (including temporary overdrafts and adverse balances in deposit accounts)
- Demand Loans
- Packing Credits

3. MATURITY PATTERN OF INVESTMENT SECURITIES

The investment portfolio of banks is generally controlled on a centralized basis and the maturity patterns can be worked out at that level. Branches may not, therefore be expected to submit any information on this item, even if they hold investments on behalf of the Head office.

4. MATURITY PATTERN OF FOREIGN CURRENCY ASSETS AND LIABILITIES

Foreign currency assets and liabilities are not expected to be held/ incurred at other than certain branches, usually designated as 'A' category branches. The statement with regard to these would be prepared and forwarded by only such Branches for consolidation at Head Office.

5. MATURITY PATTERN OF BORROWINGS

Borrowings include re-finance and in the normal course such activities take place at selected few branches. The information relating to Maturity pattern of these Refinance/Rediscount is also available at Head Office. Certification of Maturity pattern of Borrowings in the stipulated Buckets can be done at such branches, and counter-checked at Head Office.

RESIDUAL MATURITY-CONCEPT

Deposits repayable after a specified term usually have a stipulated date when the deposits mature. The date refers to a contractual maturity date on which the depositor may ask for repayment/ renewal. The time period that remains to elapse between the year-end and the contractual maturity date is referred to as the "Residual Maturity" Period and can be illustrated by the following, if there are 10 Term Deposits in a branch as under:

Date of Deposit	Amount Rate of (Rs.)	Interest Rate %	Due date	Time Bucket
01.04.2003	50000	5%	01.04.2007	
01.05.2004	200000	5.5	01.08.2007	
01.08.2005	150000	5.5	01.08.2007	
30.12.2005	50000	6	30.01.2007	
01.01.2006	100000	6	01.01.2007	
01.01.2006	100000	6	01.01.2007	
01.01.2006	100000	6	01.01.2007	
01.01.2006	100000	6	01.04.2008	
01.02.2006	100000	5	01.05.2008	
01.03.2006	100000	6	01.03.2010	

While contractual maturity for the first deposit is for 4 years i.e 48 months, the deposit has already completed more than 3 years. The balance period for which it will run till the next date of maturity is 1.4.2008 MINUS the year-end date i.e. in this case the remaining period is 1.4.2008 MINUS 31.3.2008 i.e. one day. This is the residual Maturity of the deposit. Therefore, for the ALM returns, the amount of this deposit will be shown as deposits maturing within 1-14 days.

Similarly, in respect of the next deposit, the remaining period is 1.8.2008 MINUS 31.3.2008 i.e. 4 full months. Therefore, this amount will be shown as maturing within 3-6 months time bucket.

Matured/Overdue deposits even if continuing in Term Deposit Ledgers, would be reckoned as demand Liabilities. Attention is drawn to the manner of preparing the relevant statements (Refer CV 5-6).

Disclosure Requirements in the Balance Sheet

Maturity pattern of certain items of assets and liabilities

(Rs. in crore)

	1 day	2 to 7 day	8 to 14 days	15 to 28 days	29 days to 3 months	Over 3 months & up to 6 months	Over 6 months & up to 1 year	Over 1 year & up to 3 years	Over 3 years & up to 5 years	Over 5 years	Total
Deposits											
Advances											
Investments											
Borrowings											
Foreign Currency assets											
Foreign Currency liabilities											