GMR GROUP – FX Risk Policy 2012-13

v.1

(Valid till date)

GMR Airports Limited

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Preamble:

The group FX and Interest Rate risk management policy will govern all the domestic as well as overseas project entities and it will provide guidance to hedge their existing and prospective currency and interest rate liabilities. GMR group FX and Interest policy is based on the principle of "De-Risking" the balance sheet as soon as the risk is identified.

GMR FX and Interest hedge desk (Treasury) will run on the principle of "Cost Center" and not "Profit Center".

Risk Philosophy:

- De-risk the project balance-sheet as soon as the risk is identified.
- Hedge only against the underlying exposure. Pre-exposure hedging is not permitted.
- Hedge to match the currency and schedule of the exposure.
- No speculative trades should be undertaken, unless explicitly permitted in writing by a competent authority.

Policy Applicability:

The group policy will govern all the domestic and overseas project entities. Entities having individual FX policy duly approved by their respective boards cannot fall out of the parameters defined in the group FX & IR policy.

Exclusions: The equity and loan infusion by the parent into any entity (like GMR Infra infusing equity in overseas entity). Such exposures can be hedged post specific BCM/GCM approvals.

Policy Review:

The FX & IR policy with/without changes must be ratified by the GHB every financial year. It is the responsibility of Treasury department to work on the proposed changes/initiate discussion and prepare the policy. Upon ERM Department's concurrence on the changes, the changes will be submitted to BCM office for onward submission to GHB for final approval.

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Types of Exposures

There may be three types of exposures that an entity can face. Respective entities are expected to identify these risks and make the management aware of the impact involved for suitable decision.

a) Translation exposure

It arises from the need, for purposes of reporting and consolidation, to convert the results of foreign operations from the local currency to the home currency.

Ex. An appreciation in the rupee would lead to a fall in the value of investments in the balance sheet of an Indian company, which has equity holdings in USA. This would represent Translation Exposure.

b) Transaction Exposure

It stems from the possibility of incurring exchange gains or losses on transactions already entered into and denominated in a foreign currency. The economic effects of an exchange rate change will impact the cash flow directly and are, therefore, included in the net income.

c) Economic Exposure

It is defined as the extent to which the value of the firm, as measured by the present value of all expected future cash-flows will change when exchange rates change. The currency movement of the competitor in another country impacts the sales of our products.

Risk Identification/Recognition:

A transaction exposure arises every time a group entity enters into a contractual obligation where the payment or receipt is denominated in a currency other than its balance sheet currency or when it raises borrowing in a currency other than its balance sheet currency.

Netting of Exposure

For the contracted exposures the group entities should adopt the concept of netting wherever the currency of the exposure matches. Time gap between the payable and receivable should not Exceed 15 working days. If any natural hedge is identified, the entity must get it validated by the treasury.

Businesses should explore options to reduce the risk before the exposure risk gets generated. This can be effectively done by integrating various strategies including treasury, procurement, funding, etc. at Project / Sector level thereby enhancing value at the enterprise level.

Examples of natural hedges:

- ✓ Following a portfolio approach in selection of equipment supplier with a mix of domestic / overseas suppliers (considering the risks in each appropriately) thus limiting exposure on foreign currency and dependency on individual supplier.
- ✓ Availing foreign currency loans to act as a natural hedge against Forex fluctuations when significant portion of revenue is in foreign currency.
- ✓ Ownership of mining assets provides a natural hedge to any volatility in cost of input / raw material
- ✓ A power company which uses vertical integration by which losses in generation due to higher fuel costs can be partially retrieved through higher revenues in merchant sale.
- ✓ Opening a subsidiary in another country and borrowing in the foreign currency to finance its operations, even though the foreign interest rate may be more expensive than in the home country.

Treatment to Natural Hedge:

- ➢ Transactions, payables as well as receivables, can be kept open until one of the transaction is executed.
- ➢ Once one of the transactions is executed, the second transaction for its respective maturity date should be simultaneously hedged to avoid volatility in the spot USD/INR.
- ➢ Natural hedge transaction should be done with prior approval of the BCFO.
- ➢ Net exposure, will be hedged as per the policy guidelines defined in this policy.

Risk Measurement:

FX risk should be measured through sensitivity analysis of the net open positions entity wise.

Role of Treasury in Project Bidding Model Rate:

Project entities should ensure that for the FX rate/cost to be used while bidding for a project, which involves FX exposure either for payables or FX loan, must be taken from Treasury.

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Treasury will use the Bloomberg "FXFC" or a suitable composite forecast page from a terminal of repute for the purpose of giving forecasted FX rate. Treasury will use the mean forecasted Spot rate for the said purpose. Treasury must also ensure that the rate given to the project team should include the hedge cost for the entire schedule of the payables, to be considered in the project model.

For foreign currency loans also treasury should give the full cross currency swap (including the cost to hedge the spread over Libor) rate to the project teams to take decision for availing foreign currency or INR term loan.

The FX rates being finalized by the businesses while bidding as well as for transactions which creates FX exposure should have the concurrence of treasury.

Exposure Reviews:

Event Risk:

Treasury will inform and recommend a review call in cases of an event risk, which can lead to significant market movement and impact group FX or Interest Rate Exposure.

Periodic Review:

Daily: BCFO's or person designated by him can attend daily market review call with Treasury after-market hours to discuss market sentiments and initiate any action if deemed fit.

Monthly: Treasury will circulate monthly currency view to facilitate discussion and decision making at the group level. CCM/GCFO/BCFO/CFO-Treasury/Corporate-Finance will attend the call to discuss market sentiments and initiate any action if deemed fit. Stop Loss or Hedge target rate will be discussed and decided on this call so that treasury can act in the market until next monthly review meeting. Such decisions, if they are in deviation from the policy should be ratified by GCM/CCM/BCM or any such competent authority.

Risk Benchmark- Currency:

- Treasury will consider day 1 full hedging cost as per the exact schedule/model rate shared by the individual entity/SPV, for any hedging or risk/impact/stress analysis. Day 1 being the day when the confirmed exposure is recognized by the individual entity/SPV in its balance sheet.

- Model FX rate which the BU's have taken into consideration for costing purposes will be communicated by the individual entity/SPV to treasury for any risk analysis.
- BU's will also communicate the buffer, either in terms of number or percentage, kept in the model for costing/budget purposes.
- Any hedge cost breach, of the day 1 hedge cost/model rate, should be immediately brought to the notice of the BCFO for appropriate discussion/action.
- A more then 2% advantage, from the day 1 hedge cost/model rate, should be immediately brought to the notice of the BCFO for appropriate discussion/action.

Risk Mitigation – Currency:

- Hedge 100% net currency risk for the entire tenure of the exposure, once the net exposure with specific hedging schedule has been recognized by the project entity. This can be done by treasury within 10 trading days of having received such schedule from the BU.
- Currency hedging can be undertaken only against actual underlying exposure.
- Currency hedge on ECB drawls (Principle + Coupon + Spread) should be on the same day of drawl with no risk on the spot rate.
- No currency speculative trades are permitted.
- Contingent exposure to be hedged post BCM/GCM approval.
- No speculative trades should be undertaken, unless explicitly permitted in writing by GCM/GHB.

Deviation from the Risk Mitigation – Currency:

- If the currency hedging cannot be completed by treasury within 10 trading days of having received the schedule of payments as communicated by the sector/BU:

  A) Due to non-availability of requisite hedging limits.

  B) Due to incomplete documentation with the hedging bank.

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C) Due to any other unforeseen circumstances.

Treasury should communicate the same to BCFO. BCFO may seek an extension of time for the hedging from BCM/CCM/GCM or any such competent authority.

- If the BCFO feels that the currency should be kept unhedged for a certain period to take advantage of the market movement, explicit written approval must be sought from BCM/CCM/GCM or any such competent authority. This is applicable for exposure related to ECB drawls also.
- Currency risk can be kept unhedged if there are explicit written instructions from BCM/CCM/GCM or any such competent authority, to do so.
- These unhedged positions must be closely monitored and discussed during periodic group exposure reviews.

Risk Benchmark: Interest Rate:

- Individual entity/SPV will consider foreign currency loans only if there is a cost advantage on a fully hedged basis for the entire tenure of the exposure vis-à-vis the most comparable loan in the balance sheet currency.
- Treasury will consider day 1 full hedging cost as per the exact schedule shared by the individual entity/SPV, for any hedging or risk/impact/stress analysis. Day 1 being the day when the confirmed exposure is recognized by the individual entity/SPV in its balance sheet.
- Such model rate will be communicated by the individual entity/SPV to treasury for any risk analysis.
- Entities should refrain from accepting clauses of compulsory hedging of floating rate (Libor or in INR) interest liability in the loan facility agreement.
- BCFO should be immediately informed, if the total hedge cost becomes 2 % higher than the RTL rate prevailing at the time of taking the FX loan, for appropriate discussion/action.

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Risk Mitigation – Interest Rate:

- Keep the 100% foreign currency interest rate risk unhedged.
- Interest hedging can be undertaken only against actual underlying exposure.
- Interest rate speculative trades are not permitted.
- Contingent interest exposure, if any, to be hedged post BCM/GCM approval.
- No speculative trades should be undertaken, unless explicitly permitted in writing by a competent authority.

Deviation from the Risk Mitigation – Interest Rate:

- If it is mandatory as per the lenders condition precedent in the facility agreement to hedge the floating interest rate liability. Such hedging can be undertaken, with a prior approval from the BCFO to BCM/CCM/GCM or any such competent authority.
- GCM or any such competent authority has granted the approval to hedge the risk in writing.
- If the total hedge cost of an ECB (Full CCS), is lower than the comparable tenure RTL rate, and the BU/Sector CFO considers a LIBOR hedge also, a prior approval BCM/GCM is required.

Risk Control:

- Hedge permitted only against valid underlying. Cost reduction strategies ate permitted but contingent liability hedges can be undertaken with the due approval from the BCM / GCM.
- Periodic reporting of open exposure to the management.
- MTM reports and stress impacts are shared with the management once a month or as required.
- Individual deal size limits have been laid down, while providing the authority for undertaking derivative transactions.

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- Submission of summary report to the Board, on a quarterly basis.
- Internal audit as per the group practice.

Pre-Post Deal Checks:

- Treasury front desk must ensure that deals are executed upon confirmation of the underlying document.
- Treasury front office must ensure that the hedges taken match the currency and tenure of the underlying.
- Post deal execution treasury front office must inform accurate deal details to respective entities as well as to the back office for documentation.
- Back office must match all deal details sent by the bank with the deal details sent by the front office before executing deal contracts sent by the banks.
- Back office will facilitate respective entities in executing the deal contracts sent by banks

RASCI:

Activity	Responsible	Approve	Support	Consult (prior to approval)	Inform (after approval)
FX Policy Updation and Review	Treasury Head	GHB	CFO's	GCFO/CCM & Head ERM	BU/Sector CEO& CFO
FX and IR Exposure (Updation/Changes)	Finance Team of the BU/Sector	CFO – BU/Sector or Personnel Authorized by BCFO	-	-	Treasury
Seeking Approval for Interest Rate Hedging	CFO – BU/Sector or Personnel Authorized by BCFO	GCM Or Personnel Authorized by GCM	BU/Sector Finance and Treasury Team	Treasury Head/CEO/GCFO/BCM	CCM
Deal Execution for Hedging FX/IR Risk	Personnel Authorized by the Treasury Head	BCFO	Personnel Authorized by the Treasury Head	Treasury Head	CCM/BCM/ GCFO & CEO

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Deviation Request	CFO – BU/Sector or Personnel Authorized by BCFO	GCM Or Personnel Authorized by GCM	BU/Sector Finance and Treasury Team	Treasury Head/CEO/GCFO/BCM	CCM
MIS/Reporting	Personnel Authorized by Treasury Head	Treasury Head	BU/Sector Finance Teams	-	GCM/CCM/ GCFO/CFO & CEO

Risk Reporting:

A report will be prepared by the Back Office which will include MTM of the Interest Rate and currency transactions on a monthly basis or as required by the management.

Deviation & Escalation:

- Any Policy deviation needs a prior BCM/GCM approval. BCFO needs to obtain such approval.
- Any escalation or reporting by front/Mid/Back office should be done to BCFO and BCM within 48 hours of the action.

Early Termination:

- Early termination of hedging transaction will be done by the Treasury in consultation with Business / Sector CFO only if there is a change in the underlying contract.
- Early termination for any other reason must be with a prior approval from the BCFO.

Roll-Over of the contracts:

- Treasury cannot automatically roll-over the hedges, in case of roll-over of the underlying contract.
- Treasury must seek the BCFO's approval before rolling-over the hedge.

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Responsibility of Treasury Front, Mid & Back Office:

Front Office

- Treasury's role for any hedging related decision will only be recommendatory in nature. The execution will be initiated only after BCFO provides due approvals for such decisions.
- Hedge 100% Net Forex and approved Interest Rate risk for the entire tenure of the exposure, once the net exposure with specific hedging schedule has been shared with the treasury by the BU in line with the group FX policy.
- The exposure should be hedged within a period of 10 trading days from:
    1. The time hedging limits are made available to treasury.
    2. The exact hedging schedule is shared by the business/SPV with treasury.
- Report hedges to the respective entity/BU, Mid Office and Back Office within 1 working day.
- Organize daily/weekly market review calls.
- Provide FX rates to be considered for AOP and for Bidding of the project. Such rate should be in line with the group policy.
- To set up forward/derivative limits with various banks. BU finance teams will be responsible for providing all legal and documentary support to treasury.
- Provide accurate deal details to back office and respective entities post the deal execution with the bank.

Mid Office

- Submission of MIS Daily/Weekly/Monthly reports to top management.
- One point Contact for group entities for periodic / timely audit by internal / statutory auditors.

Back Office

- Settlement of trades post execution, accounting and reconciliation.

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- Verify all the deal contracts as per the details provided by front office post deal execution with the banks.
- Execution of documentation relating to treasury activities.
- To obtain quarterly statement from banks of the hedges taken & cancelled during a quarter and outstanding at the end of the quarter to be given to respective BU's.
- Co-ordinate with respective BU's to obtain valid underlying and send to banks.
- Co-ordinate with respective BU's to obtain signatures on bank contracts and send to banks.
- Co-Ordinate with respective BU's to obtain quarterly statutory auditor certificate to be submitted to banks for regulatory compliance.

Treasury Views & Market Info:

- Treasury will analyze market events/data/sentiments and associated risks and will update key decision makers.
- Treasury analysis/views and recommendations for hedges to BU will be recommendatory in nature.
- Treasury will do currency or interest rate hedging as per policy and due approvals.

Authority for Undertaking Derivative Transactions:

- The authority for undertaking Forex/Derivative transactions subject to individual deal size limits is as follows:

AGM	GM to AVP	VP & Above
USD 100 Mio per day or at par with the actual underlying whichever is lower.	**USD 300 Mio per day or at par with the actual underlying whichever is lower.**	**At par with the actual underlying.**

A breach of the above limit will have to be intimated to the BCFO within one working day of the transaction.

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Responsibility of Individual Group entity / BU's:

- All individual group entities will report their Forex and Interest exposures to Group Treasury. Treasury will initiate hedging only after the exact payment/receipt schedule is made available.
- It is the responsibility of the individual group entity/SPV to share exact exposure schedule with treasury for hedging and inform the changes if any within 3 working days.
- It is the responsibility of the individual group entity/SPV to make hedging limits available to treasury. The hedging will be initiated only when the limits are made available.
- If the lending bank hedging limits are not available, it is the responsibility of the individual group entity/BU's to make available collateral to be given to outside consortium banks to grant limits.
- It is the responsibility of the individual group entity to provide the documentation support to the treasury back office. Valid underlying duly signed and stamped has to be provided to treasury back office immediately after the hedging has been under-taken.
- It is the responsibility of the individual group entity/BU's to provide duly signed contract copies to the treasury back office. Authorized signatory from treasury can only be a joint signatory.
- It is the responsibility of the entity/BU to provide buffer cost either in terms of number or percentage to treasury for risk analysis and breach information.
- It is the responsibility of the BCFO to seek guidance/approval from BCM/CCM/GCM for any hedging related discussion. Treasury's role will be only recommendatory in nature.
- ISDA documentation will be carried by the BU's and related legal teams. Treasury will provide inputs if required.

Reporting Requirements to the Board:

At least quarterly the BCFO shall submit to the Board a summary report on all foreign currency and inter rate hedging arrangements. This report will include:

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- A statement about the status of all open Forex hedges during the period of the report, which shall include known foreign currency assets, known foreign currency liabilities, existing Forex hedge positions, and the resulting net foreign currency exposure;
- A summary statement comparing the actual results of using the Forex hedges;
- A statement by the BCFO as to whether or not, in his or her opinion, all of the Forex hedges entered during the period of the report are consistent with the Corporation's Forex Hedging Policy;
- A statement by the BCFO as to whether or not, in his or her opinion, all of the Forex hedges entered during the period of the report are consistent with any regulatory or statutory policies, if applicable; and
- Such other information that the Board may require or that, in the opinion of the BCFO, should be included.

Approved Currency and IR Risk Management Products:

Cash/Tom/Spot & Forward Currency Deals

Currency Options – Variants as permissible under RBI guidelines from time to time.

Interest Rate Swaps (CCS/COS/POS/OIS/MIFOR/NIBMK)

Forward Rate Agreements

Caps/Floors/Collars &

Products, which are expressly approved by the management

All products should be in compliance with respective and governing regulatory frameworks.

Sources of Mark to Market:

All hedged currency and IR positions

All net unhedged currency and IR exposure

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Instrument Level Limits:

All cumulative currency and interest rate hedges cannot exceed at any point of time actual contractual obligations (underlying exposure).

Audit:

Audit will be conducted by MAG every month and the report will be submitted as per group policy guidelines.

Accounting & Disclosure:

- According to the extant regulations, the Group would adopt prudent accounting treatment and disclosure standards.
- While dealing with the Contract, the company would specify the rationale for the hedge, linking the hedge to the underlying exposure, classify the type of hedge, valuation and periodically assess the effectiveness of the hedge. For all type of hedges, accounting will be in line with Accounting Standards.
- Forex hedges aim to manage foreign currency exposure, but not all are designated for special accounting treatment. For those that are designated, accounting standards enable hedge accounting for three different designated Forex hedges:
- For all type of hedges, accounting will be in line with group accounting standards.
- Purpose of using derivatives and the MTM valuation is disclosed as an accounting note along with the accounting methodology to be explained in the annual audited accounts.

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Appendix:

1) NOTE FOR APPROVAL

NOTE FOR APPROVAL	
To	Dept.: :
From	Date :
Reviewed by	
Confirmed by	

Subject:

Ref. (if any):

Important points for this payment are as follows:

1)

Particulars of the Transaction	Previous Decision	New Decision	Target Rate for Hedging	Stop-Loss Rate of Hedging	Review of the Decision (If any)

This approval is required since the current position / transaction is in contradiction of the Approved Forex Policy Clause No. -------

If we decide to retain status quo then:

Upsides:

Downsides:

If we decide to take action then:

Upsides:

Downsides:

Request your approval for the transaction proposed.

Proposed By Reviewed By Authorized By

*If authorization/approval is through Email, kindly attached the email.