Pillar III Disclosures as at 31st December 2020

2020

[Ujjivan Small Finance Bank (hereinafter called "the Bank") has prepared this disclosure document in compliance with the directions of Reserve Bank of India (hereinafter referred to as "the Regulator" or "RBI") vide its circular RBI/2015-16/58; DBR.No.BP.BC.1/21.06.201/2015-16 dated 1st July 2015. The document provides a review of key observations pertaining to the Bank's capital adequacy, credit quality, key business highlights and a review of its key risks as at 31st December 2020.]

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1. List of key abbreviations

Abbreviation	Full form
AFS	Available For Sale
ALCO	Asset Liability Committee
ANBC	Adjusted Net Bank Credit
ATM	Automated Teller Machine
BC	Business Correspondent
BIA	Basic Indicator Approach
CET1	Common Equity Tier 1 Capital
CFO	Chief Financial Officer
CIC	Core Investment Company
CRAR	Capital to Risk-weighted Assets Ratio
CRMC	Credit Risk Management Committee
CRO	Chief Risk Officer
DPD	Days Past Due
DSCB	Domestic Scheduled Commercial Bank
ECL	Expected Credit Loss
ECRA	External Credit Rating Agency
EWS	Early Warning System
FIG	Financial Institutions Group
GLC	General Ledger Code
GNPA	Gross Non-Performing Asset
HQLA	High Quality Liquid Assets
ICAAP	Internal Capital Adequacy Assessment Process
IFSC	Indian Financial System Code
IGAAP	Indian Generally Accepted Accounting Principles
IMPS	Immediate Payment Service
IRAC	Income Recognition and Asset Classification
IRRBB	Interest Rate Risk in Banking Book
KRI	Key Risk Indicator
LCR	Liquidity Coverage Ratio
LMS	Loan Management System
LR	Leverage Ratio
LWE	Left Wing Extremism
LAP-SENP-SEP	Loan Against Property- Self Employed Nonprofessional- Self Employed Professional
MCA	Ministry of Corporate Affairs
MD	Modified Duration
MD & CEO	Managing Director and Chief Executive Officer
MDG	Modified Duration Gap
MSE	Micro and Small Enterprises

NBFC-ND-SI-CIC	Non-Banking Financial Company-Non Deposit-taking-Systemically Important- Core Investment Company
NE	North Eastern
NEFT	National Electronic Funds Transfer
NNPA	Net Non-Performing Asset
NPI	Non Performing Investment
NSFR	Net Stable Funding Ratio
NURC	Non Unbanked Rural Centre
ORMC	Operational Risk Management Committee
OSP	Outstanding Principal
PAT	Profit After Tax
PNCPS	Perpetual Non-Cumulative Preference Shares
PSL	Priority Sector Lending
QR Code	Quick Response Code
RBI	Reserve Bank of India
RCA	Root Cause Analysis
RCSA	Risk Control and Self-Assessment
ROA	Return on Asset
RSA	Risk Sensitive Assets
RSL	Risk Sensitive Liabilities
RWA	Risk Weighted Assets
SA	Standardized Approach
SDA	Standardized Duration Approach
SFB	Small Finance Bank
SLR	Statutory Liquidity Ratio
SMA	Special Mention Accounts
TVR	Tele verification report
UAT	User Acceptance Testing
UFSL	Ujjivan Financial Services Limited
UPI	Unified Payments Interface
URC	Unbanked Rural Centre
VaR	Value at Risk
YTD	Year Till Date

2. Introduction

Ujjivan Small Finance Bank (hereinafter called “the Bank”) hasprepared this disclosure document in compliance with the directions of Reserve Bank of India (hereinafter referred to as “the Regulator” or “RBI”) vide its circular RBI/2015-16/58; DBR.No.BP.BC.1/21.06.201/2015-16 dated 1st July 2015. The documentprovides a review of key observations pertaining to the Bank’s capital adequacy, credit quality, key business highlights and a review of its key risks as at 31st December 2020.

3. Key performance highlights of the Bank:

3.1. Branch network and distribution reach

The branch position of the Bank as at 31st December 2020 was as follows:

Particulars	Count
Total Banking outlets, of which	575
Banking outlets[1] (Non URC[2])	431
Banking outlets (URC)[3], *of which*	144
i) Qualifying URC Branches (Branches situated in tier 3-6 locations in NE[4] states and LWE[5] districts)	33
ii) Business Correspondents (BC)	7

The Bank is fully compliant with the RBI guidelines on having 25% (25.04% as at 31st December 2020) of its Banking Outlets in the URCs.

The Bank had seven individual BCs as at 31st December 2020.These individual BCs perform essential banking services such as acceptance/withdrawal of small value deposits, balance enquiry, mini statement of accounts and undertake activities pertaining to updating Know Your Customer (KYC) requirements. The Bank also has an arrangement with two Corporate BCs and has on-boarded 188 'Money-Mitra agents', by the end of December 2020,primarily aimed at facilitating field collection for its microfinance business.Anyengagement, where the Corporate BC will be engaged in loan sourcing, will cover primarily personal loans, agricultural loans and loans to the micro and small enterprises.The agents of the Corporate BCs on the other hand are used primarily to provide alternate options to the Bank's customers to make loan repayments. IIBF certification of agents will be completed within timelines as per IBA latest circular[6]. To increase reach and to provide more convenience to customers, the Bank will further strengthen this channel with all the required controls in

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[1]A 'Banking Outlet' for a Domestic Scheduled Commercial Bank (DSCB), a Small Finance Bank (SFB) and a Payments Bank (PB) is a fixed point service delivery unit, manned by either bank's staff or its Business Correspondent where services of acceptance of deposits, encashment of cheques/cash withdrawal or lending of money are provided for a minimum of 4 hours per day for at least five days a week. It carries uniform signage with name of the bank and authorisation from it, contact details of the controlling authorities and complaint escalation mechanism. The bank should have a regular off-site and on-site monitoring of the 'Banking Outlet' to ensure proper supervision, 'uninterrupted service' except temporary interruptions due to telecom connectivity, etc. and timely addressing of customer grievances. The working hours/days need to be displayed prominently.

[2] Unbanked Rural Centre (URC)

[3]An unbanked rural centre (URC) is defined as a rural (Tier 5 and 6) centre that does not have a CBS-enabled 'Banking Outlet' of a Scheduled Commercial Bank, a Payment Banks or a SFB or a Regional Rural Bank nor a branch of a Local Area Bank or licensed Co-operative Bank for carrying out customer based banking transactions.

[4] North eastern states

[5] Districts with active Left Wing Extremism (LWE)

[6] Refer IBA circular on BC Certification -Graded Certification Process issued vide SB/CIR/FI-BC/2019-20/7482 dated 18th June 2019.

place. The Bank evaluates the performance of BCs at regular intervals. For its URC requirement, the Bank's strategy will continue to focus on brick and mortar branches in providing a wide array of banking services as this has proven to be a profitable and effective model.

The Bank operated a network of 486 Automated Teller Machines (ATMs) and 53 Automated Cash Recyclers (ACR) as at 31st December2020.

3.2. COVID 19 Environment and summary of measures taken by the Bank (Update as at 2nd February2021)

The month of March 2020 saw a disruption in the normal course of business on account of the nation-wide lockdown due to the COVID-19 pandemic. Except for some essential services and activities, the rest of India's $2.9 trillion economy remained shuttered during the lockdown period.In June 2020, the country's economy—which was counted among the fastest-growing not long ago contracted 23.9%[7] on y-o-y basis.India had slipped into a technical recession during July-September 2020 when GDP fell for two successive quarters. In the July-September quarter, India's GDP contracted 7.5%[8]on year-on-year basis.After contracting for two straight quarters, Indian economy witnessed marginal growth in the October-December 2020 quarter with Gross Domestic Product (GDP) growing at 0.4% on year-on-year basis, as per official data released by the National Statistics Office. Nominal GDP has also seen similar improvement over the quarters of the FY with the growth rates of -22.2%, -4.2% and 5.3% for Q1, Q2 and Q3 respectively. In absolute terms, GDP at constant (2011-12) prices in Q3 of 2020-21 was estimated at Rs 36.22 lakh crore, as against Rs. 36.08 lakh crore in Q3 of 2019-20

A deeper dive into the GDP[9] data shows the following sectoral trends:

- Agriculture grew at 3.9% in Q3 compared to 3% in Q2.
- Mining contracted 5.9% in Q3 compared to a contraction of 7.6% in the last quarter.
- Manufacturing grew 1.6% in Q3 after a fall of 1.5% in the preceding quarter.
- Electricity and other public utilities grew 7.3% against a growth of 4.4% in Q2.
- Construction grew 6.2% in Q3 compared to a drop of 7.2% in Q2.
- Trade, hotel, transport, communication contraction stood at 7.7% compared to a contraction of 15.3% in the previous quarter.

[7]https://www.bloombergquint.com/business/india-gdp-contracts-a-record-239-in-april-june-quarter#:~:text=The%20Indian%20economy%20contracted%20by,the%20spread%20of%20the%20coronavirus

[8]https://www.livemint.com/politics/policy/india-q3-gdp-highlights-11614334282139.html

https://www.bloombergquint.com/business/india-gdp-contracts-a-record-239-in-april-june-quarter#:~:text=The%20Indian%20economy%20contracted%20by,the%20spread%20of%20the%20coronavirus

[9]https://www.livemint.com/politics/policy/india-q3-gdp-highlights-11614334282139.html

https://www.bloombergquint.com/business/india-gdp-contracts-a-record-239-in-april-june-quarter#:~:text=The%20Indian%20economy%20contracted%20by,the%20spread%20of%20the%20coronavirus

- The financial services sector grew 6.6% compared to a contraction of 9.5% in the last quarter.
- The public administration segment contracted 1.5% in Q3 after a contraction of 9.3% in Q2.

On the expenditure trends Private consumption, reflected in Private Final Consumption Expenditure (PFCE), contracted 2.3% in Q3 compared to a contraction of 11.3% in Q2. Investments, as reflected by Gross Fixed Capital Formation (GFCF), grew by 2.5% in Q3, after a contraction of 6.8% in Q2. Government Final Consumption Expenditure (GFCE) contracted by 1.1% in Q3, after a contraction of 24% in Q2.

The sharp pickup in the capital spending of the Government of India has spurred the growth in GFCF in Q3, even as state government capital spending contracted, and private sector participation remained uneven and subdued. Despite the pickup during the festive season, PFCE continued to contract in Q3 FY2021, and trailed the performance of investment and government spending.

Government expenditure as a percentage of GDP in nominal terms declined to 10.6% — the lowest in the three quarters of the on-going financial year. The share of private consumption was at 60.2%, while investments stood at 27.7% of the GDP. Overall, private consumption is expected to lead the recovery, aided by high levels of public CAPEX spending.

Some of the other developments during Q3 were as follows:

- Strong pick-up in exports due to overseas demand fuelled by economic stimulus packages in the US and Europe. Exports in the month of September 2020 were ~$25 billion, which was almost on par with pre-COVID levels and has increased to $27.15 billion for the month of December 2020. Overall imports in the month of December 2020 were $42.59 billion.
- While every segment of the auto sector felt the pressure due to the pandemic, the tractor segment was the first one to revive and it continues to be the fastest growing in the auto segment.Tractor Manufacturers Association[10] (TMA) data shows tractors sales in October 2020 stood at 123,883 units, including 8,728 exports, highest since 2018. However, sales dropped in November 2020 and December 2020 to 89,530 units and 71,740 units, respectively. In January 2021, sales picked up again with 87,579 units sold.
- Sale of passenger cars has registered a growth of 19.98%[11] in December 2020 (y-o-y basis). Total sale of passenger cars in December 2020 was 2, 79,082 units as against 2, 32,600 units in December 2019. On a monthly basis, the sales in passenger

[10] https://www.business-standard.com/article/automobile/tractor-sales-rise-48-in-january-demand-expected-to-remain-robust-121021100449_1.html

[11] https://www.team-bhp.com/forum/indian-car-scene/231841-december-2020-indian-car-sales-figures-analysis.html

vehicles were the highest in October 2020 (3, 33,660 units) largely on account of festival season. There was a reduction in sales in the months of November 2020 and December 2020 with sales figures however being above pre-pandemic levels.

- The composite Purchasing Managers' Index (PMI) for manufacturing and services, a popular reading released by London-based IHS Markit, hit a nine-year high of 58.6 in October 2020 after expanding for the first time in September 2020 post lockdown. The index fell from 56.3 in November 2020 to 54.9 in December 2020. Nevertheless, the PMI remained above the 50-threshold indicating an increase in business activity from the previous month. A PMI reading below 50 indicates contraction.
- These positive developments are also partially echoed by Nomura India Business Resumption Index (NIBRI) with the index recording 82.1 on 4th October 2020 as compared to 82.9 on 22ndMarch 2020. The NIBRI picked up to 94.5 for the week ending 3rd January 2021 from an average of 91.7 in December 2020. Since its trough in April 2020, economic normalisation has continued nearly uninterrupted, with NIBRI ending in CY 2020 just 5.5 below pre-pandemic activity levels. The index takes into account driving mobility from Apple, Google mobility data, labour force participation, and power demand.
- GST collections in December 2020 showed an unexpected year-on-year growth of 11.6 % to Rs. 1.15 lakh crore, the highest monthly GST collection so far.Monthly GST collections have been showing higher year-on-year numbers since September 2020, showing revival in the economy. Festive sales in November and restocking by retailers ahead of Diwali festivities could have also resulted in bumper collection during December 2020. It must be mentioned here that GST on November 2020 transactions are collected in December 2020. The government statement says that GST collections due to domestic transactions registered 8 % growth while GST from imports rose by 27 %. GST from imports in December 2020 was Rs 27,050 crores, almost Rs. 6,000 crores more than GST on imports (Rs. 21,295 crores) in December 2019.
- Indian railways recorded a total freight loading of 119.79 million tonnes (MT) in the month of January 2021 as compared to 118.13 million tonnes (MT) in December 2020. In December 2020, Indian Railways authorities earned Rs. 11,788.11 crores from the freight loading which is also Rs.757.74 crores, almost 6.87 % higher as compared to earnings in the same month of December 2019, which was reported at Rs. 11,030.37 crore.
- E-way bill[12]generation for February 2021 ended on a strong note reaching 6.4 croreswhich was 11.49% higher than in the month of September 2020 (5.74 crores).

[12]E-Way Bill is the short form of Electronic Way Bill. It is a unique document/bill, which is electronically generated for the specific consignment/movement of goods from one place to another, either inter-state or intra-state and of value more than Rs.50,000, required under the current GST regime

Key risks:

- The overall business activity and consumption mayslightly reduce in the coming months post festive season.
- Currently, manufacturing from the supply side and rural from the demand side could be doing better but it needs to be seen if this sustains once pent up and festive demands wane. While government support is important, the path of the pandemic post the festive season would also be crucial.
- Discretionary spending on non-essential goods may be expected to be subdued due to high unemployment levels (6.9% in February 2021)and worries about likely job losses in the future. In the absence of domestic demand, businesses may not undertake incremental investments, which in turn would curb employment and overall economic growth.
- With consumers trying to save more during a recession, it may lead to a 'paradox of thrift' which eventually ends up hurting the economy rather than helping it. This is because an increase in savings (precautionary) leads to a fall in consumption and therefore aggregate demand or income. This is evidenced by the sharp increase in the share of household savings from Rs. 13.73 lakh crore in FY 2018-19to Rs. 16.81 lakh crore in FY 2019-20[13]. The preliminary estimates for Q1 FY 2020-21[14] were Rs. 8.16 lakh crores. Globally, owing to the COVID-19 induced lockdown, there has been a tendency on the part of households to increase precautionary savings/ forced savings. The forced savings component was generated as the lockdown measures imposed to contain the virus prohibited households from consuming a large share of their normal expenditure basket. Furthermore, the uncertainty regarding future income, and in particular, the risk of future unemployment, caused by the sudden outbreak of the pandemic led to the rise in precautionary savings (Ercolani, 2020). The sudden increase in household savings got manifested in official data the world over. For instance, in the USA, the personal saving rate[15] rose by 20.7 % (to 33.6% of disposable income) in April 2020 from 12.9 % in March 2020[16], and in the UK, household savings ratio has increased to 29.1% of disposable income in Q2:2020 from 9.6 % in Q1:2020[17]. In the Indian context, it is reportedly observed that while forced

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[13]Preliminary Estimates of Household Financial Savings - Q1:2020-21 by Reserve Bank of India

[14]Taking into account the large statistical break in the key macroeconomic data resulting from the impact of COVID-19 during Q1:2020-21, which is already evident from the early official estimates of GDP and its key components, the RBI report aimed to provide preliminary estimates of household financial savings for Q1:2020-21

[15]"Income left over after people spend money and pay taxes is personal saving. The personal saving rate is the percentage of their disposable income that people save", Bureau of Economic Analysis, USA.

[16]Bureau of Economic Analysis, U.S. Department of Commerce (https://www.bea.gov/data/income-saving/personal-saving-rate)

[17]Office of National Statistics, United Kingdom (https://www.ons.gov.uk/economy/grossdomesticproductgdp/timeseries/dgd8/ukea)

savings could be going up in the formal sector on income continuity, a large chunk of labour employed in the informal sector could have increased precautionary savings despite stagnant/ reduced income by lowering consumption. The trend of higher than usual household financial savings can persist for some time till the pandemic recedes and consumption levels get normalised. The true assessment of the financial savings glut will only be known some years down the line. The unprecedented increase in household financial savings in Q1:2020-21 is expected to taper off in course of time, especially as the pandemic curve begins to flatten allowing households to spend and economic activities to revive in the coming quarters.

- While intensification of fuel prices is a downside risk, core inflation is expected to strengthen further as demand recovers to pre-pandemic levels. Core inflation at 5.5% remains elevated, displaying persistence on account of price pressures in health, petrol, diesel, motor vehicles, transportation fares and recreation services. Double-digit inflation continued in prices of personal care services. A buoyant Rabi harvest and crop arrivals may keep cereal and onion inflation rates in check while edible oil inflation movements may depend on moderation of global price pressures.The food inflation rate has now eased to around 2 % from a high of 11 % in October on an improvement in supply chains and arrival of fresh crops. There are however, concerns of rising prices of dairy and meat products[18]
- India's benchmark equity index, the BSE Sensex is scaling new heights. This is despite the fact that most institutional forecasts have predicted a double-digit contraction for the Indian economy in the current financial year. A look at one of the most basic indicators of stock market performance, the price to earnings or PE multiple, suggests that the current stock market rally is not backed by objective performance. This multiple has increased rapidly since April 2020, underlining the speculative nature of the current boom. This, when read with the fact that the rest of the economy does not have many investment opportunities to offer could also mean that it has been acting as "an investment of last resort" of sorts for people with a glut of savings. An economy where the relatively poor have lost incomes and jobs, are having to spend more on buying food, and where the rich are facing a savings glut because they cannot spend even if they want to are perhaps therefore investing in stocks presents a mixed picture. To conclude, the rise in benchmark indices is an incorrect barometer to assess the recovery from the pandemic.

The Bank is continuously monitoring the developments and implementing necessary steps to mitigate the same. Details of the various initiatives are provided under relevant sections of this disclosure. A summary of the initiatives taken by the Bank is produced below:

- A Quick Response Team (QRT) was constituted for monitoring and supervising banking operations, and though the frequency of the meetings of this team has

[18] https://www.business-standard.com/article/economy-policy/food-inflation-in-india-to-increase-as-chicken-milk-may-cost-more-121030200006_1.html

reduced, it nonetheless remains the core group to initiate action in a contingency and also to provide updates to Top Management regularly. A special committee of the Board - Business Continuity Monitoring (BCM) Committee has been formed to advise, monitor and assess the social, financial, business, credit and risk impact under the current economic scenario.

- Within the Bank, the number of positive cases among employees has been on a declining trend with the number of positive cases peaking in the month of September-October 2020. 98.9% of the positive cases had recovered as at 30th December 2020.
- The Bank had issued explicit instructions to its personnel to avoid reporting to work if their residential locations were within a containment zone. Initially, the Bank had adopted a Work from Home (WFH) policy for its Corporate and Regional Offices effective 24th March 2020 in view of the 21-day lockdown announced by the government. On review of the current situation, the Bank allows WFH and a roster system is to be implemented on a select basis after evaluation of seating capacity with effect from January 2021.
- To restrict the daily turn-out at the Bank's HO premises, the Bank had launched a simple survey application name 'Arogya Ujjivan'to facilitate self-declaration of employee COVID status for issue of digital pass for entry into office premises. This provided the supervisors, a complete view of the well-being of their subordinates through easy to use dashboards. Given the decreasing trend in positive cases, the Bank has discontinued this practice and will now allow personnel to enter premise who are deemed as safe as per Arogya Setu app.
- The Bank's doctor-on-call facilities are being actively utilized by the Bank's staff while the confidential counselling support sessions facilitated by a trained counsellor are helping in reducing stress and anxiety levels in these testing times.
- All Bank's branches and Regional offices were open during the quarter with fully functional ATMs.
- The Bank has modified its Business Continuity Management Policy with enhanced focus on BCP invocation frequency, strengthening of internal controls and updated its list of critical vendors to be covered under the same.
- During the quarter, the Bank implemented pay increments, effective October 2020. All employees who were on rolls as at 31st December 2019 and confirmed as at 31st March 2020 were eligible for such increment.
- The Bank had implemented all the directions provided by RBI vide its circular dated 27th March 2020[19] and 23rd May 2020[20]. The Bank had put in place a Board approved policy on providing moratorium on loan repayments to its customers. Initially, the

[19] Refer **COVID-19 – Regulatory Package issued vide** RBI/2019-20/186 DOR.No.BP.BC.47/21.04.048/2019-20 dated 27th March 2020

[20] Refer **COVID-19 – Regulatory Package issued vide** RBI/2019-20/244 DOR.No.BP.BC.71/21.04.048/2019-20 dated 23rd May 2020.

Bank had extended moratorium under all segments, deferring the repayments for ~99% of loan accounts. Subsequently, the Bank had extended the same (1st June 2020 to 31st August 2020) on a need basisonly post discussion with the borrower.

- On 6thAugust 2020, RBI had issued a directive on implementing a resolution framework for COVID-19 related stress[21]. The guidelines provide a window under the prudential framework to enable banks/lending institutions to implement a resolution plan in respect of eligible loans, while classifying such exposures as standard, subject to specified conditions. Further, the lending institutions were mandated to ensure that the resolution under this facility is extended only to borrowers having stress on account of COVID- 19. To this effect, the Bank had introduced an internal policy/process framework detailing the manner in which such evaluation may be done and the objective criteria that may be applied while considering the resolution plan in each case. The guideline mandated the lending institutions to identify/invoke resolution under this framework not later than 31st December 2020 and also prescribes timelines for implementing the resolution from the date of invocation. The Bank takes cognizance of the same and compliance to the above guidelines will be undertaken as per the timelines prescribed. In the Microbanking portfolio, the Bank had completed the restructuring exercise for 3, 73,318 accounts amounting to Rs. 85,200 lakhs. The restructuring facility was provided to the borrowers under two modes viz. 1) EMI and tenor change and 2) Provision of additional moratorium. A small portion of borrowers in SMA category (Rs. 1,000 lakh) were also provided additional loans as part of restructuring exercise.
- Further, on 26th October 2020, RBI/Ministry of Finance (MoF) had issued guidelines[22] on a scheme for grant of *ex-gratia* payment for difference between compound interest and simple interest for six months to borrowers in specified loan accounts (hereinafter referred to as 'the Scheme'). The Scheme mandates banks/financial institutions to reimburse the difference between compound interest and simple interest charged between 1st March 2020 and 31st August 2020. The Scheme has prescribed the eligibility criteria along with operational guidelines to implement the same. The exercise of crediting the amount as stated above to respective eligible borrowers had to be completed by 5th November 2020. The Bank has complied with these directions for eligible accounts.
- On 4th December 2020[23], RBI reiterated the need for Banks to continue to conserve capital to support the economy and absorb losses in view of the on-going stress and

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[21] Refer Resolution Framework for COVID-19-related Stress vide RBI/2020-21/16 DOR.No.BP.BC/3/21.04.048/2020-21 dated 6th August 2020

[22] Refer RBI guideline issued vide RBI/2020-21/61 DOR.No.BP.BC.26/21.04.048/2020-21 dated 26th October 2020. Also refer https://financialservices.gov.in/sites/default/files/Scheme%20Letter.pdf

[23] Refer RBI guideline on Declaration of dividends by banks issued vide RBI/2020-21/75 DOR.BP.BC.No.29/21.02.067/2020-21 dated 4th December 2020

heightened uncertainty on account of pandemic. Through this guideline, RBI has now prescribed a timeframe for dividend restrictions. Taking cognizance of the same, the Bank has not declared any dividend payment on equity shares from the profits pertaining to the financial year ended March 31, 2020.

- On 4th December 2020, RBI issued a directive on threshold increase for Additional Factor Authentication (AFA) from Rs. 2,000/- per transaction to Rs 5,000/- for card transactions in contactless mode. As at 31st December 2020, the Bank had not issued any debit cards with the contactless facility. The Bank, however, takes cognizance of the revised directive whichwill be incorporated as and when the Bank issues debit cards with contactless facility.
- The Bank has also frontloaded additional provisioning of Rs. 54,700 lakh during the quarter as a contingency measure against the pandemic impact. The total provisions held by the Bank on account of non-performing loans, current and likely, as at 31st December 2020 were Rs. 1, 02,894 lakh The details of additional provisioning made are furnished under section 7.2.8 of these disclosures.
- On the liquidity front, the Bank's deposit base was stable with no significant withdrawals. The measures announced by RBI with respect to enhanced Marginal Standing Facility, reduction in Cash Reserve Ratio etc. (daily minimum holding restored effective 26th September, 2020) have helped the Bank in maintaining sufficient liquidity. The Bank also took advantage of reduction in CRR requirement from 4% to 3% and reduced CRR requirement for incremental lending to specific sectors as allowed by RBI vide its circular dated February 10, 2020
- The Bank sees an opportunity amidst this crisis for increasing its digital footprint across all its business operations. The Bank has on-boarded necessary personnel and has appointed a specialized executive to spearhead all Digital Banking initiatives within the Bank.

3.3. Progress in IT and Digital banking

The Bank continues to focus on improving its backend efficiencies by digitizing the processes and automating routine operations.

Digital Marketing Campaigns across various products

On the Liabilitiesfront, the Bank continues to strive for achieving excellence in all the Digital Banking Initiatives taken up. The target set forth for opening of digital FDs and SAs has been over-achieved. Further, the integration of customer on-boarding journey with CRM Next and Phone Banking Dialer is expected to reduce TAT from T+2 to T. Aggregator Partnerships are in place with third parties andthe Bank has ensured smooth on-boarding of customers. The Bank is in the process of adding more partners for tapping additional business. In order to enhance funnel efficiency and to synchronize the updates between Phone Banking and Branch Banking Teams, the Bank monitors lead tracking on a weekly basis.

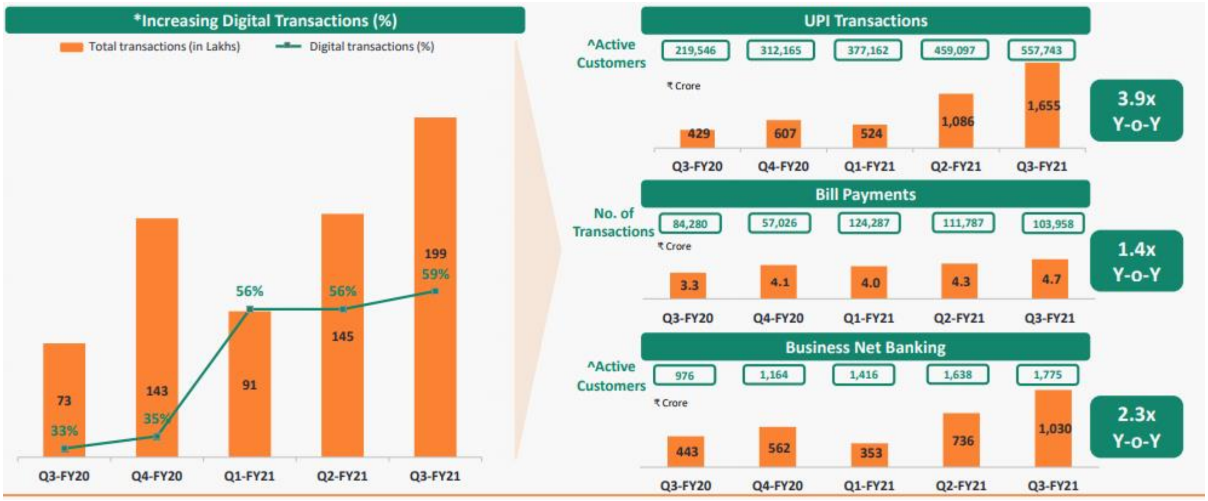
On the Asset side, higher conversion rates have led to lower customer acquisition costs and in generation of higher leads at the same cost. The Bank isalso in the process of on boardingvarious third party aggregatorsfor sourcing asset products. The media plan has been realigned to target employees of companies approved as part of the Bank's product policy for better targeting of customer segment.

Lead volumes have increased significantly. Lead Campaigns have been refined for MSE loans, such that leads are targetedtowards customers in the Rs. 5 – Rs. 20 Lakh ticket size segment of loans. Personal Loans Digital Marketing campaigns have been implemented, where the Bank has over achieved its lead generation target and completed application target. In order to reduce the number of rejects during Contact Point Verification stage, functionality to verify bureau checks on the Loan Originating System is under implementation to increase efficiency.

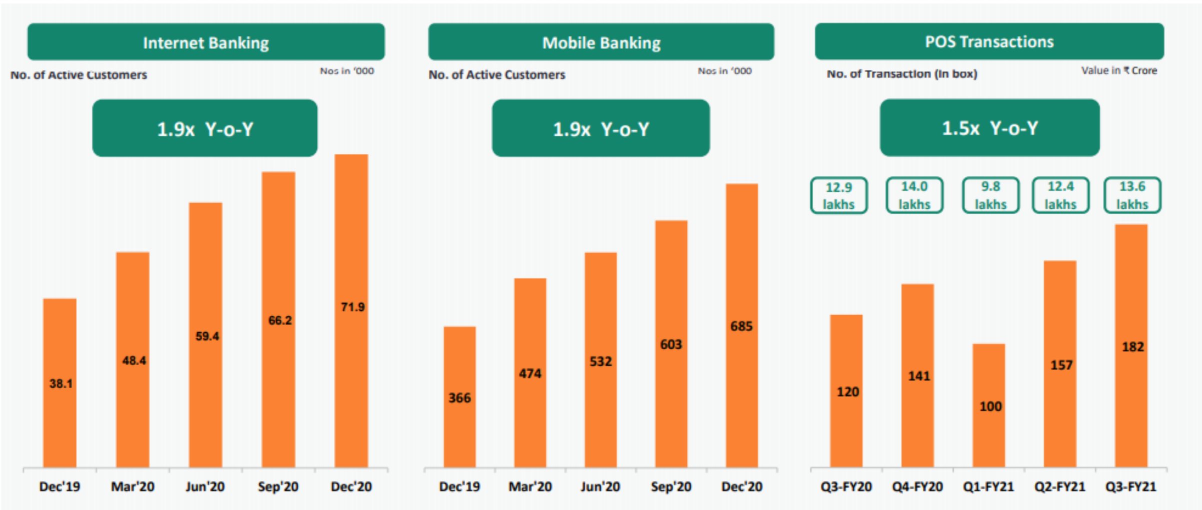
Digital Banking Initiatives

As part of the digital initiatives taken up by the Bank, the on-boarding process of customers has been considerably digitized. Internal processes like statement analysis, document verification, e-agreements and e-mandateshave been operationalized in digital mode. The multilingual Bot on the Bank's website is slated to be enhanced to an Intelligent Bot ensuring lead generation and smooth customer experience. Enhancement of Customer Lifetime Value has been corroborated through the launch of automated customer engagement tools which would help in the implementation of automated omni-channel marketing campaigns to reach out to the customers on their preferred channel at their preferred time and also facilitate cross selling and up-selling.

As an extension to enabling various channels for online repayment, the Bank now generates customized payment links for digital repayments and collections. The expanding reach of Money Mitra outlets and Airtel Payments Bank will enable customers to pay bills at their convenience. The Bank has partnered with PayNearby, enabling about 8 lakh proximity points for customers and our field staff to carry out loan repayment related transactions. The Bank went live with offering loan repayment facility for all businesses on Bharat Bill Payment system (BBPS), which has now been enabled for all asset products. Pilot Testing of FinTech tie-ups for institutionalized digital collection have also been successful.



The Bank had witnessed a steady increase in its transaction processing in the form of IMPS, UPI and NEFT etc. In Q3 of FY 2020-21 there was an increase of 33% in customers using digital services over Q2 FY21. During the same period transactions through UPI saw a jump of 74% in volumes whereas transactions undertaken using Internet and Mobile banking (IB/MB) applications increased by 46.57%. In December 2020, digital transactions constituted 59% of the total transactions, a strong improvement from 35% in March 2020.



The Bank received the ‘Jury Recognition Award for Excellence in Cognitive Automation’ at the UI Path Excellence Awards 2020 and was also adjudged the winner under the category- ‘Small Finance Bank for Achieving Financial Inclusion’ in the Inclusive Finance India Awards 2020.The Bank has also won the Special Jury Award from DSCI (2020), for the second consecutive year under "Best Security Practice in Medium or Small Financial Institutions" Category.

3.4. Financial highlights for Q2 of FY 2020-21

Some of the key achievements made for quarter ended 31stDecember 2020 were as follows:

Key Highlights	Description
Customer base	• Total outreach: 56.6 lakh (54.7 lakh in June 2020, 54.4 lakh in March 2020;52.2 lakh in December 2019)
Loan Portfolio	• Gross Advances atRs. 13,63,838 lakh (Rs. 14,36,584 lakh in June 2020; Rs. 14,15,330 lakh in March 2020; 13,61,700 lakh in December 2019) • Non-Microfinance book at: 26.83% (24.20% in September 2020, 23.30% in June 2020;22.74% in March 2020 ;23% in December 2019)
Deposit Balance	• Total Deposits (Retail plus Institutional):~Rs. 11,61,700 lakh (Rs. 10,742,77 lakh in September 2020;Rs. 11,05,748 lakh in June 2020; Rs. 10,78,048 lakhin March 2020; Rs. 10,65,600 lakh in December 2019) • CASA: 17.69% (16.47% in September 2020; 14.18% in June 2020; 13.54% in March 2020; 11.60% in December 2019) • Retail: ~48% (48.90% in September 2020; 44.58% in June 2020;43.82% in March 2020; 43% in December 2019)
Portfolio Quality	• Gross Non-Performing Assets (GNPA): 0.96% (0.97% in June 2020; 0.97% in March 2020; 1% in December 2019) • Net Non-Performing Assets (NNPA): 0.05% (0.18% in June 2020; 0.20% in March 2020; 0.4% in December 2019)
Employee strength	• 16,733 (17,370 in June 2020; 17,841 as at March 2020; 17,783 as at December 2019)
Profitability	• Profit after Tax (PAT) forQ3 FY 2020-21: (Rs.27,900) lakh;(Rs. 5,465 lakh in Q1 FY 2020-21, Rs.7,315 lakh in Q4 FY 2019-20, Rs. 9,000lakhs in Q3 FY 2019-20) • PAT on YTD basis: (Rs. 12,800 lakh); Rs. 27,700 lakh in December 2019

The key performance ratios of the Bank were as follows:

Particulars	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20[24]
Yield	20.10%	19.88%	19.70%	19.77%	18.60%
Cost of Funds	8.08%	7.88%	7.67%	7.37%	7.10%
Net Interest Margin	10.86%	11.16%	10.25%	10.23%	9.70%
Return on Assets	2.14%	1.64%	1.16%	2.01%	-5.80%
Return on Equity	14.05%	9.32%	6.79%	11.63%	-34.70%
Cost to Income ratio	71.27%	64.63%	55.89%	56.57%	62.00%
Other income/ Total Income	9.60%	8.91%	3.70%	7.87%	12.70%

The Cost of Funds has reduced over the quarters largely on account of increased availability of concessional refinance, rising share in retail deposits, fiscal stimulus measures by the government and policy rate cuts by RBI. The Bank had front loaded Rs. 54,700lakh as additionalprovisioning in anticipation of stress. The frontloading has resulted in reduced ROA on percentage basis owing to losses booked this quarter.This has also resulted in a negative ROE this quarter, as the net income has been affected negatively. The Bank has also recorded an increase in its Cost to Income ratio (as compared to September 2020)due to reduction in income in this quarter. However, the Bank has initiated severalausteritymeasures (optimization of personnel costs, operating costs and finance costs) and the decreased income has solely led to the overall increase in CI Ratio.

4. Table DF- 1: Scope of Application

4.1 Qualitative Disclosures

Parent Organization/Holding Company: Ujjivan Financial Services Limited (UFSL)

The disclosures in this document pertain to the Bankas a stand-alone and independent entity.The Bank does not have any subsidiary - the operating guidelines do not permit Small Finance Banks (SFBs) to have subsidiaries,nor does the Bank have any interest in any insurance entity.

4.1.1List of group entities considered for consolidation

Name of the entity / country of incorporation	Principal activity of the entity	Total balance sheet equity	Total balance sheet assets
NIL	NIL	NIL	NIL

4.1.2 Aggregate amount of capital deficiencies in all subsidiaries which are not included in the regulatory scope of consolidation

[24]Figures are rounded upto the nearest zero

Name of the subsidiaries/ country of incorporation	Principal activity of the entity	Total balance sheet equity	% of the Bank's holding in the total equity	Capital deficiencies
NIL	NIL	NIL	NIL	NIL

4.1.3 Aggregate amounts (e.g. current book value) of the Bank's total interests in insurance entities, which are risk-weighted

Name of the insurance entities/ country of incorporation	Principal activity of the entity	Total balance sheet equity	% of theBank's holding in the total equity / proportion of voting power	Quantitative impact of regulatory capital using risk weighting methods versus using the full deduction method
Nil	Nil	Nil	Nil	Nil

5. Table DF-2- Capital Structure

5.1 Qualitative Disclosures

5.1.1 Equity capital

The Bank has an authorized capital of Rs. 2, 50,000 lakh in the form of Common Equity qualifying as Tier 1 capital under the guidelines of RBI. The Bank has an issued, subscribed and paid up equity capital of Rs.1,72,825.22 lakh, having 172,82,52,238 shares of face value Rs.10 each as at 31st December, 2020.

The licensing guidelines for SFBs permit the aggregate foreign investment in a private sector bank from all sources up to a maximum of 74% of the paid-up capital (automatic up to 49% and approval route beyond 49% to 74%). By limiting foreign shareholding in the Bank to 5.47% (Foreign Portfolio investors (FPI), Non Residential Indians (NRI) and Foreign Nationals) as at 31st December 2020, the Bank was compliant with RBI guidelines on SFBs. Further, in compliance with the licensing guidelines, UFSL, the Holding Company, is registered as an NBFC-Non-Deposit-taking Systemically Important - Core Investment Company – (NBFC-ND-SI-CIC) with RBI and is the non-operating holding company.

5.1.1.2. Promoter contribution[25]:

Subsequent to the IPO in December 2019, the promoter contribution in the Bank had reduced to 83.32% from being a 100% subsidiary of the holding company. As per RBI guidelines, if the initial shareholding by promoter in the Bank is in excess of 40%, it should be brought down to 40% within a period of five years. Additionally, the promoter's minimum contribution of 40% of paid-up equity capital shall be locked in for a period of five years from the date of

[25] Refer RBI on Guidelines for Licensing of "Small Finance Banks" in the Private Sector dated November 27, 2014.

commencement of business of the bank. Further, the promoter's stake should be brought down to 30% of the paid-up equity capital of the bank within a period of ten years, and to 26% within twelve years from the date of commencement of business of the bank.

The Bank takes cognizance of the same and compliance to the above guidelines will be undertaken as per the timelines prescribed. The shareholding pattern of the Bank as at 31st December 2020 was as follows:

Category of the Shareholder	No. of shares held	%age of shareholding
Promoter	1,44,00,36,800[26]	83.32
Mutual Funds	75,80,861	0.44
AIFs	5,70,02,249	3.30
Foreign portfolio investors	8,69,40,217	5.03
Resident Individuals/HUF	11,10,27,123	6.42
Others	2,56,64,988	1.49
Total	1,72,82,52,238	100

The Capital Structure of the Bank under Basel II norms is provided as below:

Capital Structure- Summary of Tier I & Tier II Capital			
Sl. No.	**Instrument**	**Whether Tier I or II**	**Amount (Rs. in Lakh)**
1	Equity[27]	Tier 1	1,72,825.22
2	PNCPS[28]	Tier 1	20,000
	Total		**1,92,825**

5.1.2 Details of PNCPS instruments

Perpetual Non-cumulative preference shares (PNCPS) can be issued by Indian banks, subject to the legal provisions, in Indian rupees and in compliance with the terms and conditions issued by RBI for qualification. A key characteristic of PNCPS is that there can be no maturity date and no step ups or other incentives to redeem with an exception to call option exercisable by the Bank not earlier than the fifth anniversary of the deemed date of allotment. The rate of dividend payable to the investors may be either a fixed rate or a floating rate referenced to a market determined rupee interest benchmark rate.

[26] One Equity Share each is held by Mr. Samit Ghosh, Ms. Carol Furtado, Ms. Sudha Suresh, Mr. Rajat Kumar Singh, Mr. Ittira Davis and Mr. G Premkumar, as nominees on behalf of Ujjivan Financial Services Limited (Promoter), who is the beneficial owner of such Equity Shares. Further, they (except Ms. Sudha Suresh) also hold Equity Shares in their respective individual capacities, and accordingly, for the purpose of calculating the total number of shareholders, they (Except Ms. Sudha Suresh) have also been counted towards the number of under Resident Individuals.

[27] Issued and Paid up equity capital

[28] Perpetual Non-cumulative Preference Shares

The claims of the investors in the instruments are:

- Superior to the claims of investors in equity shares;
- Subordinated to the claims of Perpetual Debt Instruments (PDIs), all Tier 2 regulatory capital instruments, depositors and general creditors of the Bank; and
- Is neither secured nor covered by a guarantee of the issuer nor related entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis Bank creditors.

Tier II Series name	Issue Amount (Rs. in Lakhs)	Issue date	Date of Redemption	Basel III complaint (Y/N)	Contractual Dividend rate (% p.a.) (on a fixed rate basis)
PNCPS	20,000	9th Feb 2017	Perpetual	Yes	11% p.a.

5.1.3. Subordinated Debt Instrument

The Bank has fully repaid its subordinated debt obligations and has no immediate plans for any floatation to augment its Tier II capital.

5.1.4. Dividend policy

The Bank has formulated the Dividend Distribution Policy in compliance with the provisions of Banking Regulation Act, 1949 and Guidelines/circulars issued by Reserve Bank of India (“RBI”) and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“SEBI Listing Regulations”). The objective of the Policy is to appropriately reward shareholders through dividends for reposing their confidence in Bank while retaining the capital required for supporting future growth.

The payment of dividend to equity and PNCPS shareholders is also subject to conditions as prescribed by RBI issued vide RBI/2004-05/451 DBOD.NO.BP.BC. 88 / 21.02.067 / 2004-05 dated 4th May 2005.

On 17th April 2020, RBI had issued a special direction[29] to all commercial banks on declaration of dividends by banks. RBI had directed that all banks shall not make any further dividend pay-outs from the profits pertaining to the financial year ended 31st March 2020 until further instructions. This restriction shall be reassessed by the regulator based on the financial results of banks for the quarter ending 30th September 2020. Further to the above direction, RBI on

[29] Refer RBI guideline on ‘Declaration of dividend by banks’ issued vide RBI/2019-20/218 DOR.BP.BC.No.64/21.02.067/2019-20 dated April 17, 2020

December 04, 2020[30], has notified that, banks shall not make any dividend payment on equity shares from the profits pertaining to the financial year ended March 31, 2020.

6. Table DF- 3: Capital Adequacy

6.1 Qualitative Disclosures

The Bank has been well capitalized since inception and was further augmented after its IPO. As required by RBI in its operating guidelines to SFBs[31], the Bank is required to adopt the Standardized approach for Credit Risk and maintain a minimum Capital to Risk Weighted Assets Ratio (CRAR) of 15% segregated as under:

Requirement	Threshold
Minimum Capital Requirement	15%
Minimum Common Equity Tier 1	6%
Additional Tier I	1.5%
Minimum Tier I capital	7.5%
Tier II Capital	7.5%
Capital Conservation Buffer	Not applicable
Counter- cyclical capital buffer	Not Applicable
Pre-specified Trigger for conversion of AT I	CET1 at 7%

While SFBs are required to comply with Basel IInorms for Capital Adequacy, as would be noted from the table above, some elements of the capital structure, such as Common Equity and Additional Tier 1 requirement, are from Basel III guidelines. In essence therefore, in the case of SFBs, the regulator has adopted a hybrid model.

SFBs are not required to have a separate capital charge for Market Risk and Operational Risk for the time being in terms of an RBI communication dated 8th November 2017 (DBR. NBD. No. 4502/16.13.218/2017-18). However, as a good governance practice, and as directed by its Board, the Bank separately computes capital charge for all the Pillar 1 risks viz. Credit, Market and Operational Risk following the Standardized Approach (SA) for Credit Risk, Standardized Duration Approach(SDA) for Market Risk and the Basic Indicator Approach(BIA) for Operational Risk.

In addition to the hybrid model for complying with capital adequacy requirement, for its internal and regulatory reporting,the Bank also complies with certain aspects of Basel III

[30]Refer RBI guideline on 'Declaration of dividend by banks' issued videRBI/2020-21/75DOR.BP.BC.No.29/21.02.067/2020-21 dated December 04, 2020

[31] Refer RBI guidelines on Operating Guidelines for Small Finance Banks issued vide DBR.NBD.No.26/16.13.218/2016-17 dated October 6, 2016

requirement, such as computation and maintenance of RBI prescribed minimum Liquidity Coverage Ratio (LCR) at 90% (revised to 80% vide RBI guideline[32] up to 30th September 2020, subsequent to which 90% up to 31st March 2021 and 100% thereafter) and Leverage Ratio at 4.5%.

The RBI, on 27th March 2020, had decided to defer the implementation of Net Stable Funding Ratio (NSFR) from 1st April 2020 to 1st October 2020, an extension by six months as part of its COVID- 19 regulatory package. Further, the regulator has decided to defer the implementation of NSFR guidelines[33] by a further period of six months. These guidelines shall be envisaged to come into effect from April 1, 2021. However, the same has again been deferred by a further period of six months[34]. Accordingly, the NSFR Guidelines shall come into effect from October 1, 2021.

The disclosures pertaining to capital adequacy are as per the Generally Accepted Accounting Practices (GAAP). Financial statements under Ind-AS regime have been deferred by RBI until further notice and hence a comparison of capital adequacy under both the regimes will be presented after the same is made applicable for the Bank.

The Bank has a comprehensive Internal Capital Adequacy Assessment Process ('ICAAP'). The Bank's ICAAP covers the capital management policy of the Bank, sets the process for assessment of the adequacy of capital to support current and future activities / risks and a report on the capital projections for the ensuing financial year[35]. The Bank has a structured management framework in the internal capital adequacy assessment process for the identification and evaluation of the significance of all risks that the Bank faces, which may have a material adverse impact on its business and financial position. The Bank considers the following as material risks it is exposed to in the course of its business and therefore, factors these while assessing / planning capital:

Credit Risk	Underestimation of Credit Risk
Market Risk	Reputational Risk
Operational Risk	Strategic Risk
Interest Rate Risk in Banking Book (IRRBB)	Compliance Risk
Liquidity Risk	People Risk

[32] Refer RBI guideline on Basel III Framework on Liquidity Standards – Liquidity Coverage Ratio (LCR) issued vide RBI/2019-20/217 DOR.BP.BC.No.65/21.04.098/2019-20 dated 17th April 2020

[33] Refer RBI guideline on Basel III Framework on Liquidity Standards – Net Stable Funding Ratio (NSFR) issued vide RBI/2020-21/43 DOR.BP.BC.No.16/21.04.098/2020-21 dated 29th September 2020

[34] Basel III Framework on Liquidity Standards –Net Stable Funding Ratio (NSFR) issued vide RBI/2020-21/95 DOR.No.LRG.BC.40/21.04.098/2020-21 dated 5th February 2021

[35] Due to impact of COVID 19 pandemic, the Bank has deemed it necessary to undertake a detailed analysis for FY 2020-21. The Bank intends to analyse the business environment post completion of moratorium to project its three to five year plan.

Concentration Risk	Digital and Technology Risk
Outsourcing Risk	Group Risk

The Bank has implemented a Board approved Stress Testing Policy and Framework which forms an integral part of the Bank's ICAAP. Stress Testing involves the use of various techniques to assess the Bank's potential vulnerability to extreme but plausible stressed business conditions. The changes in the levels of credit risk, market risk, liquidity risk, IRRBB and operational risk are assessed under assumed "stress" scenarios and sensitivity factors. Typically, these relate, inter alia, to the impact on the Bank's profitability and capital adequacy. The stress test results are put up to the Risk Management Committee of the Board on a quarterly basis, for their review and guidance. The Bank periodically assesses and refines its stress tests in an effort to ensure that the stress scenarios capture material risks as well as reflect possible extreme market moves that could arise as a result of business environment conditions. The stress tests are used in conjunction with the Bank's business plans for the purpose of capital planning in the ICAAP.

6.2 Quantitative Disclosures

6.2.1. Basel II capital calculation

The break-up of Basel II capital funds as at 31st December 2020was as follows:

Rs. in lakh

	Description	Amount
	Core Equity Tier 1 Capital - Instruments and Reserves	
	Directly issued qualifying common share capital plus related stock surplus (share premium)	1,72,825
	Retained earnings	1,13,087
A	CET1 capital before regulatory adjustments	**2,85,912**
	Core Equity Tier 1 Capital - Regulatory Adjustments	
	Deferred tax assets arising from temporary differences	25,681
	Intangibles (Prepaid Expenses & Computer Software)	12,083
	Credit Enhancements	0
	Regulatory Adjustments applied to CET1 Capital due to insufficient funds in Tier 2 to cover deductions	0
B	Total regulatory adjustments to CET1 Capital	**37,764**
C	**CET1 capital (A-B)**	**2,48,148**
	Additional Tier 1 Capital - Instruments and Reserves	
	Preference Shares	20,000
E	AT1 capital before regulatory adjustments	20,000
	Additional Tier 1 Capital - Regulatory Adjustments	
F	Total regulatory adjustments to AT1 Capital	-

G	AT1 Capital	20,000
H	**Tier 1 Capital (C + G)**	**2,68,148**
	Tier 2 Capital - Instruments and Provisions	
	Sub - debt eligible as Tier 2 capital	0
	General Provisions on Std. Assets admissible as Tier 2	8,290
	Investment Fluctuation Reserve	2,051
I	Tier 2 Capital before regulatory adjustments	10,341
	Tier 2 Capital - Regulatory Adjustments	
J	Total Regulatory Adjustments to Tier 2 Capital	-
K	Tier 2 Capital (I - J)	**10,341**
L	**Total Regulatory Capital (H + K)**	**2,78,490**

Capital Requirements for Various Risks		
Sl.No	**Capital Requirements for various Risks**	**Amount(Rs. in Lakh)**
A	**Credit Risk**	**1,55,122**
A.1	For non-sec portfolio	1,55,122
A.2	For Securitized portfolio	NIL
B	**Market Risk**	**1,178**
B.1	For Interest Rate Risk	1,165
B.2	For Equity Risk	13
B.3	For Forex Risk (including gold)	NIL
B.4	For Commodities Risk	NIL
B.5	For Options risk	NIL
C	**Operational Risk**	**21,203**
D	**Total Capital Requirement**	1,77,503
E	**Total Risk Weighted Assets**	13,13,917
F	**Total capital funds of the bank**	2,78,490
G	**Capital Adequacy Ratio of the Bank (%)**	**21.20%**

6.2.2. Credit Risk RWA

The detailed break up of Credit RWA is as follows:

Rs. in lakh

Asset Description	**RWA**
Cash and Balances with Reserve Bank of India	0
Balances with Banks and Money at Call and Short Notice	8,903
Investments	17,103

Advances	9,65,027
Fixed Assets	18,694
Other Assets	21,975
Off Balance Sheet	2,448
Total Credit RWA	**10,34,149**

6.2.3. Operational Risk RWA

Although RBI has not mandated SFBs to maintain capital charge for Operational Risk, the Bank has adopted Basic Indicator Approach (BIA) for measuring the capital requirements for Operational risk as applicable to Scheduled Commercial Banks.The Bank has computed its Operational Risk Capital Charge at 15% of the average of gross income for the past three completed years of operation.

The Bank follows the BIA approach to compute its Operational Risk capital charge and RWA. The detailed computation is as follows:

Rs. in lakh

Particulars	Mar-18	Mar-19	Mar-20
Net Profit	686	19,922	34,992
Operating Expenses	65,287	1,00,335	1,31,858
Provisions and Contingencies	31,276	10,980	28,731
Gross Income	97,249	1,31,237	1,95,581
Average (3 years)	1,41,356		
Capital Charge	**21,203**		
RWA	**2,65,042**		

6.2.4. Market Risk RWA

As at 31st December 2020, the AFS[36] book consisted of treasury bills, Non-Convertible Debentures (NCDs), Commercial Papers (CPs) and Certificate of Deposits (CDs) and the HFT[37] book consisted of T-bills and Government of India securities. On the basis of SDA[38], the capital requirement for market risk reported to the Board from a governance perspective was as under:

Rs. in lakh

Capital Requirement for Market Risk	Amount
Interest Rate Risk	1,165
Equity Position Risk	13
Foreign Exchange Risk	--
Total	**1,178**
Total Market Risk RWA	**14,726**

[36] Available for Sale

[37] Held for Trading

[38] Standardized Duration Approach

6.2.5. Basel II CRAR (with only Credit RWA and Pillar I risks)

Rs. in lakh

Particulars	Amount/Ratio(Only Credit RWA)	Amount/ Ratio (all Pillar 1 risks)
Tier I Capital	2,68,148	2,68,148
Tier II Capital	10,341	10,341
Total Capital	**2,78,490**	**2,78,490**
Total RWA	**10,34,149**	**13,13,917**
CET Ratio	24.00%	18.89%
Tier I Ratio	25.93%	20.41%
Tier II Ratio	1.00%	0.79%
CRAR	**26.93%**	**21.20%**

The significant reduction of quarterly profitshas resulted in a decreased CRAR. As reiterated under section 3.4, the Bank has frontloaded additional credit provisions of Rs. 54,700 lakh upfront in anticipation of incipient stress over the next two quarters. This frontloading had resulted in the loss of Rs. 27,900 lakh (Rs. 12,800 lakh on YTD basis) for quarter ended December 2020. The loss, being factored in CRAR calculations has resulted in the reduction.

However, it is pertinent to note that the capital adequacy is transitory in nature and is expected to further optimizewith higher credit off -take during the last quarter of the financial year. The Bank is however comfortably placed in meeting its minimum capital requirements of 15% as per Operating Guidelines for Small Finance Banks.

7. Table DF- 4: Credit Risk: General Disclosures

7.1. Qualitative disclosures

7.1.1. Credit Risk Management

Credit risk is defined as the possibility of losses associated with diminution in the credit quality of borrowers or counterparties. In a bank's portfolio, losses stem from outright default due to inability or unwillingness of a customer or counterparty to meet commitments in relation to lending, trading, settlement and other financial transactions.

The Bank has implemented comprehensive credit risk management architecture. The Board of Directors of the Bank endorses the credit risk strategy and approves the credit risk policies of the Bank. This is done taking into consideration the Bank's risk appetite, derived from perceived risks in the business, balanced by the targeted profitability level for the risks taken up. The Board oversees the credit risk management functions of the Bank. The Risk Management Committee of the Board (RMCB) guides the development of policies, procedures and systems for managing credit risk, towards implementing the credit risk strategy of the Bank. The RMCB ensures that these are adequate and appropriate to changing business conditions, the structure and needs of the Bank and the risk appetite of the Bank. The RMCB periodically reviews the Bank's portfolio composition and the status of impaired assets.

The Bank's Risk Management department drives credit risk management centrally in the Bank. It is primarily responsible for implementing the risk strategy approved by the Board, developing procedures and systems for managing risk, carrying out an independent assessment of various risks, providing guidance in individual credit exposures for accepting deviations and monitoring portfolio composition and quality. With regard to the Institutional Lending business, the Bank's Risk Management functions are centralised. In respect to the Bank's Retail Assets business, while the various functions relating to policy, portfolio management and analytics are centralised, the underwriting function is distributed across various geographies within the country. The Risk Management function in the Bank is clearly demarcated and independent from the operations and business units of the Bank. The Risk Management department is not assigned any business targets.

The Bank's Credit Policy, Credit Risk Management Policy, Credit Manuals, Product Programs, NPA Management Policy and Interest Rate Policy, form the core in controlling credit risk in various activities and products. These articulate the credit risk strategy of the Bank and thereby the approach for credit origination, approval and maintenance. These policies define the Bank's overall credit granting criteria, including the general terms and conditions. The policies / programs typically address areas such as target markets / customer segmentation, qualitative and quantitative assessment parameters, portfolio mix, prudential exposure ceilings, concentration limits, price and non-price terms, structure of limits, approval authorities, exception reporting system, prudential accounting and provisioning norms. They take cognizance of prudent and prevalent banking practices, relevant regulatory requirements, nature and complexity of the Bank's activities, market dynamics etc.

Credit concentration risk arises mainly on account of concentration of exposures under various categories including industry, products, geography, underlying collateral nature and single / group borrower exposures. To ensure adequate diversification of risk, concentration ceilings have been set up by the Bank on different risk dimensions, in terms of borrower/ business group, geographic state, unsecured lending ratio and risk grading (for institutional lending). In the backdrop of the pandemic, the Bank is currently enhancing its occupation/industry wise exposure tracker and limits thereof. The enhanced framework is expected to go live by Q4 of this financial year.

The Board sets concentration ceilings which are monitored by the respective credit verticals and by the independent credit risk department. The Risk Management department reviews the exposure level under each dimension and ensures that the portfolio profile meets the approved concentration limits. These concentration ceilings and exposure levels are periodically reported to the Credit Risk Management Committee (CRMC) and the RMCB. The regulatory prudential norms with respect to ceilings on credit exposure to individual borrowers or group of borrowers also ensure that the Bank avoids concentration of exposure.

7.1.2. Definitions of past due and impaired loans

A Non-Performing Asset (NPA), as defined by the RBI, shall be a loan or an advance where-

- Interest and/or instalment remains overdue for a period of more than 90days in respect of a Term Loan;
- The account remains out of order for 90 days;
- The bill remains overdue for a period of more than 90days in the case of bills purchased and discounted. The Bank does not offer Bill Discounting as a product.
- In case of advances granted for Agricultural purposes
    - The instalment or interest thereon remains overdue for two crop seasons for short duration crops
    - The instalment or interest thereon remains overdue for one crop season for long duration crops
- The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitization transaction undertaken in terms of guidelines on securitization dated February 1, 2006.
- In respect of derivative transactions, the overdue receivables representing positive mark to- market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment. The Bank had no derivative transaction on its books.

The Bank has not recognised any NPAs since 31st August 2020, in line with the interim order of Hon. Supreme Court.

7.1.3. Provisioning norms of the Bank

The Board reviews the provisioning norms of the Bank at regular intervals to determine if any enhanced provisioning is required based on credit performance. Despite a history of low Portfolio at Risk (PAR) and delinquencies, the microfinance portfolio of the Bank is unsecured and events (such as demonetization and the current COVID 19 pandemic) have impacted/are expected to impact the portfolio quality at Bank wide level.Taking cognizance of thisand especially since the microfinance portfolio comprised 73.16% of the loan book as at 31stDecember 2020, the Bank has always deemed it appropriate to follow a conservative approach to its provisioning policy.

In accordance with the RBI guidelines relating to COVID-19 Regulatory Package guidelines dated 27th March 2020 and 17th April 2020, the Bank had granted a moratorium of three months on the payment of all instalments and / or interest, as applicable, due between 1st March 2020 to 31st May 2020 to all eligible borrowers classified as standard, even if overdue up to 1-89 DPD, as on 29th February 2020 (Opt-out basis). In line with the additional

Regulatory Package guidelines dated 23rd May 2020, the Bank granted a second three-month moratorium on instalments or interest, as applicable, due between 1st June 2020 and 31st August 2020 to borrowers who opted for this (Opt in basis). For all such accounts where the moratorium is granted, the asset classification remained standard during the moratorium period (i.e. the number of day's past-due shall exclude the moratorium period for the purposes of determining whether an asset is non-performing).

RBI had directed all banks to maintain 10% provision on standard overdue cases (1-89 DPD) split between two quarters. However, the Bank had deemed it appropriate to maintain over and above the RBI mandated norms keeping in mind the inherent risk in the portfolio. The details of additional provisions made by the Bank are furnished under section 7.2.8 of these disclosures. The Bank has also increased its provision rate in some NPA categories[39] to further strengthen the Provision Coverage Ratio (PCR %).

7.1.4. Rescheduled/ Restructured loans

RBI had issued two guidelines and one FAQ note post 23rd May 2020 for treatment of advances which are as follows:

- RBI has mandated all banks to adopt the Resolution Framework for COVID-19-related Stress[40]. Considering the impact of COVID-19 pandemic, with the intent to facilitate revival of real sector activities and mitigate the impact on the ultimate borrowers, RBI had decided to provide a window under the Prudential Framework to enable the lenders to implement a resolution plan in respect of eligible corporate exposures without change in ownership, and personal loans, while classifying such exposures as Standard, subject to specified conditions. The lending institutions shall ensure that the resolution under this facility is extended only to borrowers having stress on account of the pandemic. Further, the lending institutions will be required to assess the viability of the resolution plan, subject to the prudential boundaries laid out in these guidelines.
- Further, RBI had issued a separate guideline for 'Micro, Small and Medium Enterprises (MSME) sector – Restructuring of Advances dated 6th August 2020. In view of the continued need to support the viable MSME entities on account of the fallout of pandemic and to align these guidelines with the Resolution Framework for COVID 19 – related Stress[41] announced for other advances, RBI had directed to extend the scheme permitted in terms of the aforesaid circular. Accordingly, existing loans to MSMEs classified as 'standard' may be restructured without a downgrade in the asset classification, subject to certain conditions.
- On 13th October, 2020, RBI issued an FAQ on Resolution Framework for COVID-19

[39]One-time acceleration of NPA provision in DPD buckets of 121-150 (50% from 25%), 151-180 (75% from 50%) and 181-365 (100% from 75%) with 100% provision for 180+ DPD.

[40] Refer RBI guidelines on Resolution Framework for COVID-19-related Stress dated 6th August 2020

[41] Refer RBI guidelines on Resolution Framework for COVID-19-related Stress dated 6th August 2020

related stress. The document provided relevant clarifications such as inclusion of allied agriculture activities, definition of MSME, clarification on microfinance or JLG borrowers etc.

A summary of the requirements are as follows:

MSME Restructuring - COVID 19	**Personal Loan – Resolution COVID 19**	**Other Exposure – Resolution COVID 19**
Aggregate Exposure of banks and NBFC to a borrower is upto Rs. 2,500 lakh	Includes Consumer Credit, Housing Loan, LAP, Education loan, Home Improvement Loan	Applicable for any other exposure other than Personal Loan, MSME loan upto Rs. 2,500 lakh, Farm Credit, loan to credit societies, loan to FIs, loan to government, loan to HFCs.
Asset Classification shall be Standard as on 1st Mar-20 (1- 89 DPD)	Not applicable to Staff Loan	
Restructuring is to be completed by 31st March 2021.	Asset Classification shall be Standard but not in default for more than 30 days as on 1st March 2020	Asset Classification shall be Standard but not in default for more than 30 days as on 1st March 2020
GST Registration is required. (Not required for MSMEs exempted from GST Registration)	Resolution is initiated by 31st December 20 and is to be completed within 90 days from invocation	Resolution is initiated by 31st December 2020 and is to be completed within 180 days from invocation
	Moratorium may be maximum of 2 years	Moratorium may be maximum of 2 years
Loan facility remains standard. Borrower slipped to NPA during 2ndMarch 2020 to Implementation date may be upgraded.	Loan facility remains standard. Borrower slipped to NPA between invocation dates to Implementation date may be upgraded.	Loan facility remains standard. Borrower slipped to NPA between invocation dates to Implementation date may be upgraded.
Additional Provision @5% over and above the existing provision.	Provision @10%.	Provision @10%.

Additional considerations:

- In case of personal loans resolved under this facility, half of the above provisions may be written back upon the borrower paying at least 20% of the residual debt without slipping into NPA post implementation of the plan, and the remaining half may be written back upon the borrower paying another 10% of the residual debt without slipping into NPA subsequently.

- In case of resolution of other exposures, the provisions maintained by the ICA[42] signatories (if found applicable) may be reversed as prescribed in point 1. However, in respect of the non-ICA signatories (if found applicable) while half of the provisions may be reversed upon repayment of 20% of the carrying debt, the other half may be reversed upon repayment of another 10% of the carrying debt, subject to the required IRAC provisions being maintained.

To give effect to these guidelines, the Bank has in place a Board approved policyfor restructuring and resolution framework for COVID 19 related stressed assets. The policy includes aspects such as the eligibility criterion, asset classification and provisioning norms, conditions for reversal in provisions and asset classification, approach for restructuring at a vertical level, delegation of power/authority and disclosure requirements.

For the Microbanking portfolio, the Bank has completed the restructuring under this framework for 3, 73,318 accounts amounting to Rs. 85,200 lakh. A threefold approach was taken for the one-time restructuring which was as follows:

- Customers who needed a complete recast of the loan with reduction in EMI and tenor extension.
- Customers who were paying with a lag were provided moratorium to make them current.
- Providing loans to SMA customers which will help them recover from their current situation.

Out of the total 3.73 lakh accounts that have been restructured, the break up for the same is as below

- EMI Reduction and Tenor Extension – 2.19 lakh accounts with an OSP of Rs. 52,600 lakh
- Moratorium of 1-2 months – 1.51 lakh (OSP of Rs. 31,600 lakh) accounts given only to customers paying with a lag in 1-60 DPD bucket
- Loans to SMA customers were a very small number of 2,947 cases with OSP of Rs. 1,000lakh.

For the MSE, Housing and Personal loans segment, the Bank has completed the identification exercisethat would be subject to restructuring within stipulated timelines. The Bank will initiate and complete the necessary documentations, restructuring approvals and changes to systems in the ensuing quarter.

7.1.5. Credit Risk Monitoring:

[42] Inter Creditor Agreement

7.1.5.1. Micro finance portfolio

The Bank undertakes portfolio monitoring on a periodic basis with specific focus on key portfolio triggers. Decisions with respect to business continuity and new customer acquisition at branch level/state level are taken by the Credit Risk Management Committee (CRMC). The Bank has defined quantitative trigger limits with respect to early delinquency rates, OnTime Repayment Rates (OTRR) and spurt in business growth. Any exception to the internally defined thresholds is reviewed by the Head of Credit - Microbanking and Rural Banking. The Bank monitors the health of its Microbanking portfolio at branch level through its branch scorecards. These scorecards assess the performance on various parameters such as incremental over-dues, error rates, non-starter cases, collection performance etc. The Bank undertakes its portfolio monitoring separately for Group Loans (GL) and Individual Loans (IL) within the Microbanking segment.

The monitoring framework for Microbanking vertical has been enhanced further in light of the pandemic. The Bank monitors collection trends at a bucket level separately for the restructured and non-restructured book on a daily basis. The collection team strength has been increased for daily follow up with the customers towards repayment of loans.

The Bank has also chalked out a state wise recovery plan to identify problem states with respect to collections. Where collections are observed to be improved, incremental business is sourced from those states.

Considering that many a time the external environment or factors affect the portfolio performance of a branch or district or a state, the Bank has also incorporated external factors in addition to internal EWS parameters to have better early monitoring and to take proactive measures. Some of the external factors which are considered are area specific communal issues, protests, sub-lending/ring leader issues, snatching attempts and others. In addition to the above, industry level information is also collected from the credit bureau/s to rate the states or districts and align the growth strategy accordingly. This EWS framework will be deployed additionally to identify borrowers with incipient stress in the ensuing quarter.

The Bank has developed risk scorecards for objective based credit appraisal and monitoring. This application score card has been integrated with Business Rule Engine (BRE) where every application will have a score generated from BRE which shall be reviewed as part of credit appraisal. This score will be in addition to present BRE rules. Credit approvers at backend shall review the BRE results (as per the existing practice) along with application score card while processing the applications. The Bank intends to monitor the performance of these scorecards for further fine-tuning of parameters.

7.1.5.2. Housing and Micro and Small Enterprises (MSE) portfolios

Credit risk monitoring for MSE and Secured Housing loans is broadly done at two levels – account level and portfolio level. While regular portfolio reviews are undertaken to assess the health of the portfolio, the Bank also assesses inter-linkages of risks especially legal risk induced credit risk.Collateral related processes and procedures are reviewed to ascertain various gaps in the process. The Bank hasdesigned monitoring mechanisms at process level encompassing credit deviations, collateral management, documentation etc. Regular reports are placed to the CRMC for further direction and actionable.

The Bank hasalso introduced an Early Warning System (EWS) at an account level for enhanced monitoring. This framework enables the Bank to monitor a borrower's internal/external repayment record and signs of overleveraging efficiently on an on-going basis. Prior to the pandemic, the Bank had launched this framework on a pilot basis encompassing 1,000 accounts each in MSE and Housing. This framework has however been put on hold on account of the pandemic and the Bank had changes its EWS mechanism by solely relying on external bureau based triggers monitored on a real time basis.

Risk scorecards are developed and implemented for introducing objective based lending. These application scorecards have been integrated with Loan Operating Systems (LOS) where every application will have a score generated from LOS which shall be reviewed as part of credit appraisal. This score will be in addition to present appraisal norms. These scorecards are subject to statistical validation, subsequent to which, the same will be a part of credit decision making.

Audit department also undertakes post-mortem analysis to ensure adherence to various internal and regulatory guidelines and they in turn submit their findings along with recommendations at appropriate forums within the Bank. Based on the findings, the Bank undertakes the necessary changes to its product programs and credit policies.

7.1.5.3. Other Portfolio- FIG, Vehicle Loans, Personal Loans and Rural Banking

The Bank monitors the portfolio performance of other business verticals on a monthly basis. Business, Credit and Risk functions monitor these verticals on key indicators such as logins, turnaround time, ticket size, sanctioned versus disbursement, product performance, PAR and NPA trends etc. Risk department undertakes an independent assessment of the same and submits its findings to the CRMC for further action. Audit department undertakes post-mortem analysis to ensure adherence to various internal and regulatory guidelines and they in turn submit their findings along with recommendations at appropriate forums within the Bank. Based on the findings, the Bank undertakes the necessary changes to its product programs and credit policies.

The Bank has introduced an internal rating model for Institutional Lending and Kisan Suvidha Loans (KSL) under Rural Banking.

Development of rating scorecards for Vehicle Loans and Personal loan segments are at different stages of implementation. The Bank has availed of the services of a credit bureau agency for assisting in the development of scorecards for vehicle loans and is at an advanced stage to finalize a vendor for development of scorecards. For personal loans andother agriculture loans under Rural Banking (Kisan Pragati Loans and Vikas Loans), the Bank intends to develop internal scorecards.The Bank intends to move these scorecards into production by May 2021.

The Bank assesses Early Warnings for monitoring FIG loans on a regular basis. For Personal Loans and Vehicle loans, the Bank has subscribed to various bureau reports to provide daily data on changes in credit scores, changes in residential and communication details and increase/decrease in leverageas part of monitoring activities.

7.1.6. Audit

The Bank is subject to have an independent **Internal Audit** department (IAD) under Governance norms mandated by the Reserve Bank of India (RBI). An Internal Audit department has been setup in the Bank since the inception of Bank. The Bank's top Management and Board have taken additional steps to further strengthen the IAD in the Bank and act as Third Line of Defence. The internal audit function and its functionaries are responsible and:

- Accountable and report only to the Board through the Audit Committee of Board (ACB);
- Independent of auditable activities i.e., have no responsibilities related to the first line of defence, the second line of defence and the vigilance function;
- Audit all activities undertaken by the first line of defence, the second line of defence and the vigilance function;
- Having sufficient staff strength, skills, resources and authority within the bank to enable auditors to carry out their assignments effectively and objectively.

The IAD has its own Audit Policy and Manual approved by the Board. The Internal Audit process of the Bank complements the risk management and monitoring tool as the third line of defence. The IAD has following Audit verticals where in the Risk Based Internal Audit (RBIA) approach was adopted in FY 2019-20 and further strengthened in FY 2020-21 with extensive support from Board and the Management. The audit activities by Department are explained below:

- **Branch Audit:** The audit is performed at the operational branches, including Banking Correspondents. IAD now has internally developed Risk Control Matrices and assesses the residual risks at the branches. The Department follows a quantitative and qualitative risk assessment for each and every branch audit. This helps the operating and senior management to take appropriate mitigation on the identified risks.
- **Credit Audit:** The audit of lending activity covers all the assets, products, process and credit risk department, which enumerates the risks in aggregation. This approach assesses the root cause and focused mitigation plan. Apart from these, Loan Review Mechanism of all accounts beyond a threshold limit as approved by the ACB is also

part of Credit Audit. The risk identification, measurement and mitigation from sourcing to monitoring and collection of asset accounts results in continuous improvisation.

- **Central Function:** Largely focus on all HO functions/departments, second line of defence, vigilance function and all liability operations. The RBIA approach is in accordance with ICAI and IIA.US standards. This encompasses the Governance, Risk Management and Control (GRC) approach in each and every audit and internal review.
- **IS Audit:** Assessment of application level risks, IT infrastructure (Network, Operating systems, Database), IT processes / Operations and IT governance to assure information assets are protected and security risk is mitigated, are covered in this audit activity and / or Integrated audit activities wherein, the IT controls are reviewed, as part of an end-to-end coverage of business process along with General IS controls.
- **Concurrent Audit:** As per RBI guidelines on Concurrent Audit System in Commercial Banks, Concurrent audit at branches should cover at least 50% of the advances and 50% of deposits of a bank. In addition to these, there are specific branches/verticals which fall under the ambit of concurrent audit as per the RBI guidelines.

Accordingly, the Bank identified the branches that contributed more than 50% of advances and 50% of deposits of the Bank to be covered under concurrent audit. In FY 2020-21, 137 branches contributing 60% of Bank's business are covered in Concurrent Audit. Additionally, few critical processes like Payments and Treasury function are also covered under concurrent audit. The Bank has put in place a Board approved separate Concurrent Audit Policy. On September 18, 2019, RBI has revised guidelines on Concurrent Audit and has advised to follow the Risk based approach in Concurrent Audit also. IAD has revised its policy and process and approved from ACB in January 2020. Accordingly w.e.f. 1 April 2020, the branch identification and implementation of Concurrent Audit activity is now in accordance with RBIA as prescribed by RBI.

In accordance with the IAD policy, all the auditors adhere to the code of ethics of Institute of Internal Auditors (IIA) Inc. As professionals, members of IAD are additionally subject to the code of ethics of other professional bodies to which they belong like ICAI. IAD members apply and uphold the principles of Integrity, Objectivity, Competency and Confidentiality.

7.1. Quantitative Disclosures

The overall distribution of gross advances as at 31st December 2020 was as under:

Rs. in lakh

Vertical	OSP	Provisions	% Share
Micro banking (includes Rural Banking)	9,97,824	40,422	73.17%
Housing	1,79,763	2,421	13.19%
MSE	1,14,197	4,775	8.39%
Personal Loan	10,564	253	0.78%
Vehicle Loan	3,967	33	0.29%
Institutional Lending	50,781	254	3.72%

Staff Loans	1,448	10	0.11%
Loans against deposit	5,264	26	0.39%
Less adjustments	31	-	-0.03%
Total	13,63,838	**48,194**[43]	**100.00%**

For the quarter ended 31st December 2020, the Bank has front loaded Rs. 54,700 lakh of additional provisioning on account of incipient stress which may likely be caused on account of the pandemic. The total provisions held as at 31st December 2020 was Rs. 1, 02,894 lakh.

7.2.1. Exposure summary: Facility type

Exposure Type	**Domestic (Rs. in Lakh)**	**Overseas**
Fund- Based exposure	19,41,605	--
Non- Fund Based Exposure*	9,302	--
Total	**19,50,907**	**--**

*Non-fund based exposure includes undrawn limitsof Overdrafts, Secured Housing and MSE customers and Contingent liabilities.

7.2.2. Geographic Distribution of advances (State-wise)

Rs. in lakh

States	**Total Advances (in Lakh)**	**% Share**
Assam	39,354	2.89%
Bihar	79,129	5.80%
Chandigarh	2,172	0.16%
Chhattisgarh	7,734	0.57%
Delhi	34,197	2.51%
Goa	1,017	0.07%
Gujarat	1,09,039	8.00%
Haryana	62,576	4.59%
Himachal Pradesh	1,516	0.11%
Jharkhand	27,394	2.01%
Karnataka	1,96,926	14.44%
Kerala	24,228	1.78%
Madhya Pradesh	20,535	1.51%
Maharashtra	1,33,107	9.76%
Meghalaya	1,655	0.12%
Odisha	36,464	2.67%
Pondicherry	10,422	0.76%
Punjab	35,231	2.58%

[43] Without considering additional COVID provisioning made in Q3 of FY 2020-21

Rajasthan	53,714	3.94%
Tamil Nadu	2,23,127	16.36%
Tripura	15,335	1.12%
Uttar Pradesh	54,109	3.97%
Uttarakhand	5,725	0.42%
West Bengal	1,89,130	13.87%
Grand Total	**13,63,838**	**100.00%**

7.2.3. Advances distribution by activity

Rs. in lakh

Sl. No	Categories	Disbursements during the Quarter		Outstanding at the end of the Quarter		
		No. of A/cs	Amount disbursed	No. of A/cs	No. of beneficiaries	Balance O/s
1	**Priority Sector (I+II+III+IV+V+VI+VII+VIII+IX)**	**3,74,757**	**1,65,683**	**42,31,138**	**40,42,129**	**9,15,457**
I	Agriculture (IA+IB+IC+ID)	1,40,871	60,322	15,35,087	15,13,693	1,87,385
II	MSMEs (i)+(ii)+(iii)+(iv)+(v)	6	22	7,67,222	6,83,487	2,03,203
III	Export Credit	-	-	-	-	-
IV	Education	-	-	2	2	2
V	Housing	1,108	10,557	2,25,753	2,21,890	1,70,822
VI	Renewable Energy	-	-	-	-	-
VII	Social Infrastructure	-	-	-	-	-
VIII	'Others' category under Priority Sector	2,32,772	94,782	17,03,074	16,23,057	3,54,046
IX	Net PSLC					1,85,000
3	**Non-Priority Sector Loans (I+II+III+IV+V)**	**17,184**	**48,184**	**1,94,155**	**1,57,876**	**4,48,382**
I	Agriculture	-	-	-	-	1,65,000
	Out of Agriculture, Loans against Negotiable Warehouse Receipts (NWRs)					
II	Education Loans					
III	Housing Loans	5,360	14,797	17,442	17,174	80,770
IV	Personal Loans under Non-Priority Sector	2,477	3,636	13,893	12,702	12,008

V	Other Non-Priority Sector Loans	9,347	29,751	1,62,820	1,28,000	1,90,603
4	**Total Loans (1+3)**	**3,91,941**	**2,13,867**	**44,25,293**	**42,00,005**	**13,63,838**

7.2.4. Priority Sector Lending (PSL) Compliance

The licensing conditions for SFBs require that PSL composition of a bank's asset book is a minimum of 75% of the total portfolio. Further, the overall PSL achievement of 75% should be maintained as at end of the year and not mandatory at the end of every quarter. The Bank calculates surplus/deficit as provided in Annex IV of the circular RBI/FIDD/2020-21/72 Master Directions FIDD.CO.Plan.BC.5/04.09.01/2020-21 dated 04.09.2020.

While there is a quarterly monitoring of PSL in total and category-wise, the final compliance to PSL is reckoned on a yearly basis i.e. at the end of the financial year. For computing PSL, the Bank takes the ANBC[44] of corresponding quarter of the previous year.

The ANBC as on the corresponding date of the preceding year i.e. 31st December 2019 was Rs. 13, 61,723 lakh. The Priority Sector lending was maintained at 67.23% as a percentage of ANBC for quarter ended 31st December 2020.The summary of compliance to PSL norms is as follows:

Sl. No.	Sector wise achievements	Effective ANBC	Total Outstanding	% Achievement
1	Overall PSL	13,61,723.22	9,15,456.79	67.23
2	Agriculture	13,61,723.22	1,87,385.08	13.76
3	Small and Marginal Farmers	13,61,723.22	3,33,537.38	24.49
4	Non - Corporate Farmers	13,61,723.22	1,87,385.08	13.76
5	Micro Enterprises	13,61,723.22	1,97,541.59	14.51
6	Weaker Sections	13,61,723.22	7,22,466.68	53.06

For the purpose of calculating PSL lending percentage, the average net PSL maintained in Q1, Q2 and Q3 of FY 2020-21 was ~10,44,847 lakh as against the average ANBC of ~Rs. 12,61,955 lakh. The average PSL maintained on YTD basis was 82.80%. Alternatively, the average of quarterly achievements (in %) is 84.05%. The details of the calculations are as below:

Rs. in lakh

Particulars	Q1	Q2	Q3
Gross PSL	12,26,984	11,42,101	11,00,457
PSLC (as until quarter)	-	1,50,000	1,85,000
Net PSL - (x)	12,26,984	9,92,101	9,15,457

[44] Adjusted Net Bank Credit

ANBC	**11,39,416**	**12,84,727**	**13,61,723**
Target (75% of ANBC) - (y)	8,54,562	9,63,545	10,21,292
Achievement (Net PSL upon ANBC) for the quarter [QPSA]	**107.69%**	**77.22%**	**67.23%**
Surplus/Deficit (in lakhs) (x)-(y)	**3,72,422**	**28,556**	**(1,05,836)**
Average Surplus (in Lakhs year till date)	**3,72,422**	**2,00,489**	**98,381**

7.2.5. Maturity pattern of assets and liabilities

Rs. in lakh

Buckets	Loans and advances	Investments	Deposits	Borrowings
Day - 1	283	28,299	3,027	8,707
2-7 Days	21,831	14,991	27,405	0
8-14 Days	32,644	12,977	29,972	2,214
15-30 Days	47,755	2,494	52,006	2,500
31 Days and up to 2 months	81,211	9,969	53,032	25,861
Over 2 months and up to 3 months	81,173	7,452	94,034	32,547
Over 3 Months and up to 6 months	2,18,417	3,996	2,03,010	1,29,808
Over 6 Months and up to 1 year	3,36,767	55,638	3,72,134	48,130
Over 1 Year and up to 3 years	2,86,903	13,249	3,24,390	76,794
Over 3 Year and up to 5 years	63,200	10,142	2,227	10,000
Over 5 years	1,81,236	1,89,193	444.8558	0
Total	13,51,420	3,48,402	11,61,683	3,36,560

The Assets to liabilities are in a comfortable and positive position in all maturities cumulatively.

Non-performing assets (NPA) (Rs. inLakh)

Category of Gross NPA	December 2019	March 2020	June 2020	September 2020	December 2020
Sub-standard	11,149	12,491	11,144	7,671	3,799
Doubtful	1,432	1,056	2,651	4,972	8,089
Loss	363	167	188	966	1,171
Total	**12,944**	**13,714**	**13,983**	**13,609**	**13,058**

	December 2019	March 2020	June 2020	September 2020	December 2020
Net NPA	5, 149	2,749	2,510	1,908	640

NPA Ratios	December 2019	March 2020	June 2020	September 2020	December 2020
Gross NPA to Gross Advances	0.95%	0.97%	0.97%	0.98%	0.96%
Net NPA to Net Advances	0.38%	0.20%	0.18%	0.14%	0.05%

7.2.6. Movement of Gross NPAs

Particulars (On YTD Basis)	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Opening Balance	9,785	9,785	13,714	13,714	13,714
Additions during the period	10, 661	14,519	526	1,638	1,644
Reductions during the period	7,502	10,590	257	1,743	2,300
Closing Balance	**12,945**	**13,714**	**13,983**	**13,609**	**13,058**

Due to the Honourable Supreme Court order on freezing of NPA classification, the Bank had not witnessed any significant movement in its NPA levels during the financial year. For the existing NPA borrowers, the Bank has chalked out a detailed collection strategy for resolution after factoring the impact of the pandemic.

7.2.7. Key Risk factors affecting the credit portfolio and strategy

7.2.7.1. Microfinance and Rural banking

The Microfinance and rural banking, although affected by the pandemic adversely, has now recovered considerably. This is evidenced from the collection rates reaching to almost pre-pandemic levels. The composite collection rates recorded during the quarter were as below:

Vertical	October 2020	November 2020	December 2020
MB & RB	88%	89%	94%

Collection efficiency improved to 94% in December 2020, an increase by6% from October 2020. By including pre-closure and advance collection, the collection efficiency stood at 104%. 13% of collections came through digital channels of collection. South andNorth regions had 96%and 94% collectionsefficiency while East and West regions exhibitedcollection efficiency at 92%and 88% respectively.All the states had shown improvement in collection efficiency when compared to September 2020.Incremental overdue in December 2020 was at 79,867, reduced from 1.4 lakh in November 2020. Total overdue and PAR has reduced due to restructuring of accounts and improved collection during December 2020. Proforma GNPA as at December 2020 was Rs. 52,600lakh. (5.3%). Proforma GNPA would have been Rs. 74,400lakh (7.5%), had restructuring not been done. 22 out of 24 states had exhibited collection efficiency in excess of 85% in the month of December 2020.

There are two aspects which may result in downside risks, 1) the performance in states like Assam, Punjab and Maharashtra which comprises 31.6% of the total microfinance portfolioand 2) the collection performance of the restructured portfolio (Rs. 85,200 lakh comprising 8.5% of the total microfinance portfolio).

A summary of the key issues faced in these states along with measures adopted by the Bank are as below:

State	Current Status	Action Taken
Assam	✓ On ground situation post announcement of the MFIN Bill is unsatisfactory ✓ Though bill not directed towards banking institutions; the entire microfinance borrower segment is influenced in anticipation of loan waivers ✓ Customers who were making payments, now hesitant to repay from Jan'21 onwards	✓ Slow-down of business across Assam; ✓ Reaching out to major stakeholders in the state including local administrative bodies and creating awareness about Ujjivan being a bank; ✓ Mass media intervention to strengthen the brand, CSR activities; ✓ SMS communication to Bank's customers to make them understand the applicability of the bill better; ✓ Closely working with MFIN to resolve the current issues;

Punjab	✓ Protest for loan and interest waiver ✓ Large scale protest against Farm bill; huge business and collection disruption	✓ Door to door collection to convince customers to repay; Continued pre-calling before center meeting; ✓ Mentorship program for branches for better monitoring; ✓ Evangelization with the help of good customers to create awareness about importance of having a good credit history; ✓ Allocation of accounts to specific channels in order to focus on bucket wise collections;
Maharashtra	✓ Political interference by local politicians of leading parties across select districts ✓ Limited local train access impacting business and collection in Mumbai (Expected to start by 1st Feb'21) ✓ Economic activity resumption slowly taking off ✓ MIDC workers having pay cuts and job loss, impacting majority of portfolio	✓ Door to door collection to convince customers to repay; ✓ Mentorship program for branches for better monitoring; ✓ Continued pre-calling before center meeting; ✓ Allocation of accounts to specific channels in order to focus on bucket wise collections ✓ Restructured loans of genuinely impacted customers;

On the restructured portfolio, the Bank monitors the collection performance on a daily basis. Collection post restructuring is undertaken on a war footing to ensure the success of the exercise. While some levels of delinquencies are anticipated and are already factored in for the purpose of front loading Rs. 54,700 lakh of additional provisioning, it is imperative that the actual collections rates are aligned to what was envisaged. Any adverse deviation from the collections rates may lead to further slippage to PAR90 and subsequently warrant additional provisioning. The Bank intends to monitor the collection performance for such cases in the months of January 2021 and February 2021. Based on the performance observed, the Bank will undertake a review of the additional credit costs requirements, if any.

The Bank intends to continuously introduce/strengthen its collection practices to address the challenges in the financial year. Some of the actions which are already initiated/further enhanced are as follows:

1) **Strengthening Collection Capacity**: Hiring of additional man power to ensure sustained follow up with each customer.
2) **Bucket wise collection focus**: Clear bifurcation of default cases of the various SMA accounts and assignment between business and collection staff.
3) **Multiple Reminders through SMS and Calling**: Customized SMS and calling in vernacular language. Pre-calling to SMA customers before center meeting date by branch staff.
4) **Use of data and analytics**: Use of bureau data to identify customers who are paying to others and focus on them.
5) **Improve cashless collection**: Provide multiple options to customers to repay - cashless collections through digital payment apps and Airtel payment points.
6) **Simplified overdue tracker** for field functionaries.
7) **Enhanced focus on affected geographies**: Prioritization of hiring off role staff in these affected states, Mentorship and Supervisory ownership of least collection branches, Co-ordinate with MFIN to balance political issues.

7.2.7.2. MSE[45]

As at 31st December 2020, there were 5,548 unsecured MSE borrowers with a total book of Rs. 6,529 lakh. PAR30 was Rs. 4,213 lakh, while PAR90 was Rs. 1,795lakh.The Bank has constituted a special task force with focused attention on the unsecured MSE portfolio to ensure that slippages are contained.

There were 6,934Loan Against Property (LAP-SENP-SEP[46]) borrowerswith a total book of Rs. 62,200 lakh.PAR30 was Rs. 10,548 lakh (16.96%) out of which PAR90 wasRs. 571 lakh(0.92%).

There were 1,330 Secured Enterprise Loan (SEL) borrowerswith a total book of Rs. 30,200 lakh.PAR30 was Rs. 3,403 lakh (11.28%) out of which PAR90 wasRs. 258 lakh (0.85%).
The overall bucket-wise collection efficiency in MSE borrowers for December 2020 was as follows:

Secured MSE	NDA	SMA 0	SMA 1	SMA 2	NPA (Avg. of all buckets)
December 2020	97%	77%	56%	30%	17%

Unsecured MSE	NDA	SMA 0	SMA 1	SMA 2	NPA (Avg. of all buckets)
December 2020	93%	63%	45%	17%	5%

[45] All figures are rounded to the nearest hundred wherever applicable

[46] Loan Against Property- Self Employed Non Professional- Self Employed Professional

PAR 90 trends across all MSE products were relatively stable during H1 due to moratorium and collection efforts. However, December 2020 had witnessed a spike. High roll forward rate to X bucket was observed in December 2020 across all categories. There has been significant increase in SMA0[47] bucket both in count and value for the month of December 2020. PAR30 has substantially increased in this quarter as compared to the previous one..

During the moratorium period, the Bank hadexpandedits product basket across businesses. MSE Navnirman Loans were launched and as at 31st December 2020, 43 cases amounting to Rs. 147 lakh had been disbursed.The Bank has also launched Loan against Rent Receivables (LARR) Product in September 2020.LARR was specifically targeted at the Bank's landlords, who can avail loans against the property rented to the Bank.The Bank has established the necessary systems and processes for the launch of new offerings such as loans under the CTGMSE credit guarantee scheme. The Bank is currently piloting hub based disbursements to expedite disbursements and reduce costs.

The key downside risks for the MSE book are 1) Performance of actual collections as against assumed collection rates and 2) completion of restructuring exercise for the identified borrowers by 31st March 2021. The Bank monitors the actual collection rates on a daily basis. For the months of November 2020 and December 2020, the variances between actuals versus assumed were minimal. However, these variances may be under stress in the ensuing quarter given the high flow of accounts to X bucket which may put additional pressure on collections.

On the restructuring front, the Bank had identified Rs. 9,700 lakh under Secured MSE and Rs. 550 lakh under Unsecured MSE for the purpose of restructuring. The success in completion of restructuring for these borrowers is crucial, any variances to which may result in additional credit costs requirements.

7.2.7.3. <u>Affordable Housing</u>

As at 31st December 2020, there were 16,358 Secured Housing Loan (SHL) borrowers with a total book of Rs.1, 32,000 lakh.PAR30 was Rs. 7,655 lakh(5.80%)out of which PAR90 wasRs. 807 lakh(0.61%).Under Home Equity loans, there were6,137 borrowers with a total book of Rs. 47,700 lakh.PAR30 was Rs. 3,278 lakh (6.87%) out of which PAR90was Rs. 168 lakh (0.35%).

The overall bucket-wise collection efficiency in Housing borrowers was as follows:

Housing	NDA	SMA 0	SMA 1	SMA 2	NPA (Avg. of all buckets)
December 2020	98%	81%	60%	33%	25%

PAR 90 trends were relatively stable (decreasing trend up till December 2020) during H1 due to moratorium and collection efforts.However,PAR 30 in December 2020 had witnessed a

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considerable spike post lifting of moratorium. There has been a high roll forward rate to X bucket in December 2020 in all categories.There hadalso been a sharp increase in the SMA 0 category both in count and value majorly accounting for the post moratorium effect where customers have slipped into bucket 1 in December 2020.

The key downside risks for the Housing book are 1) Performance of actual collections as against assumed collection rates and 2) completion of restructuring exercise for the identified borrowers by 31st March 2021. The Bank monitors the actual collection rates on a daily basis. For the months of November 2020 and December 2020, the variances between actuals versus assumed were minimal. However, these variances may be under stress in the ensuing quarter given the high flow of accounts to X bucket which may put additional pressure on collections.

On the restructuring front, the Bank had identified Rs. 3,000 lakh for the purpose of restructuring. The success in completion of restructuring for these borrowers is crucial, any variances to which may result in additional credit costs requirements.

7.2.7.4. Personal loans

There were 6,656 borrowers with a total book of Rs. 10,600 lakh.PAR30 was Rs. 927 lakh(8.78%)out of which PAR90 wasRs. 62lakh (0.59%).The overall bucket wise collection efficiency in Personal loan borrowers, as on 31st December was as follows:

Personal Loan	NDA	SMA 0	SMA 1	SMA 2	NPA (Avg. of all buckets)
December 2020	99%	67%	48%	19%	6%

There has been an overall increase in PAR in December 2020 especially in the SMA0 bucket. This was reflective of the low collection efficiency.However fresh slippages from SMA0 to higher buckets may ultimately lead to increased delinquency.

The key downside risks for the Personal Loans book are 1) Performance of actual collections as against assumed collection rates and 2) completion of restructuring exercise for the identified borrowers by 31st March 2021. The Bank monitors the actual collection rates on a daily basis. For the months of November 2020 and December 2020, the variances between actuals versus assumed were minimal. However, these variances may be under stress in the ensuing quarter given the high flow of accounts to X bucket which may put additional pressure on collections.

On the restructuring front, the Bank had identified loans aggregating Rs. 440 lakh for the purpose of restructuring. The success in completion of restructuring for these borrowers is crucial, any variances to which may result in additional credit costs requirements.

7.2.7.5. Institutional Lending

As at 31st December 2020, there were 36 borrowers amounting to Rs. 50,780 lakh.

The Institutional Lending portfolio was well balanced with individual peak exposure of Rs. 3,900 lakh and average exposure of Rs. 1,400 lakh and all loans were at regular status as of 31st December 2020.Given the continuing stress in the NBFC sector whichwas exacerbated by the COVID 19 pandemic, the Bank has reviewed its FIG policy and has introduced additional control measures in the areas of exposure caps, strengthening of covenants and has enhanced the EWS mechanism.

7.2.7.6. Vehicle Loans

There were 5,729 Vehicle Loan borrowers with a total book ofRs. 3,965 lakh.There were 89 overdue borrowers amounting to ~Rs. 67 lakh. The overall bucket wise collection efficiency in Vehicle loan borrowers was as follows:

Vehicle Loan	NDA	SMA 0	SMA 1	SMA 2	NPA (Avg. of all buckets)
December 2020	99%	73%	62%	29%	N/A

The Bank is cognizant of the initial signs of stress in the Electric Three wheeler segment, which had been launched on a pilot basis, but where several customers had slipped into the PAR 30 bucket even after availing moratorium. This segment, which mainly served customers travelling short distances, had been badly affected by the lockdown.After a careful evaluation of this portfolio, the three wheeler business has been suspended. On the two-wheeler portfolio, the Bank sees an opportunity to expand its reach giving the change in preference from shared mobility to individual mobility. The Bank has reworked its business strategy for further expansion and the necessary changes to the credit policy will be undertaken in the ensuing quarter.

The Bank also intends tap opportunities in theused cars segment, a credit policy to which will be finalized in the ensuing quarter. The Bank has also launched a product to provide loans for purchase of micro and mini commercial vehicles in this quarter.

7.2.8. Movement of Provisions for NPA's (excluding provisions on standard assets)

Particulars (On YTD basis)	December 2019	March 2020	June 2020	September 2020	December 2020
Opening Balance	7,030	7,030	10,965	10,965	10,965
Provisions made during the period	6,058	10,973	667	1,532	2,549
Write back of excess provisions	5, 292	7,039	159	795	1,096
Closing Balance	**7,796**	**10,965**	**11,473**[48]	**11,702**	**12,418**

[48] Without additional COVID provisioning

During the quarter, the Bank undertook a detailed exercise of understanding probable restructuringpost completion of the moratorium period which ended in August2020. The Bank has reviewed its performance trends at branch level for each credit vertical and has also incorporated qualitative inputs from its front-line staff. Using the inputs, the MonthlyRepayment Rates (MRR)for each vertical has been projected. The repayment projections have taken into account the current situation on ground in terms of the following:

- Pandemic impact on staff and customers;
- Economic impact on different customer segments and their lives and livelihoods;
- External intervention on account of local political interventions, protests against MFI collections,coercive collection practices;

Considering the above, the Bank has taken an additional credit cost of Rs. 54,700 lakh for future contingencies during the quarter ended 31st December 2020.

Rs. in lakh

Vertical	OSP	Prov. held	% coverage to portfolio	PCR%	Additional Provisioning in Qtr. Ended Dec 20	Total Provisioning	% coverage to portfolio (revised)
MB RB	9,97,824	40,422	4.05%	99.20%	52,700	93,122	9.33%
Housing	1,79,763	2,421	1.35%	68.40%	500	2,921	1.62%
MSE	1,14,197	4,775	4.18%	80.56%	1,500	6,275	5.48%
Personal Loan	10,564	253	2.39%	82.05%	-	253	2.39%
Vehicle Loan	3,967	33	0.83%	N/A	-	33	0.83%
Institutional Lending	50,781	254	0.50%	N/A	-	254	0.50%
Staff Loans	1,448	10	0.69%	86.60%	-	10	0.69%
Loans against deposit	5,264	26	0.49%	0.00%	-	26	0.49%
Less adjustments	31	-	N/A	N/A	N/A	N/A	N/A
Total	**13,63,838**	**48,194**	**3.53%**	**95.10%**	**54,700**	**1,02,894**	**7.54%**

7.2.9. Non-performing Investments (NPI) (Dec 2019 to Dec 2020)

Amount of Non-performing investments	NIL
Amount of provisions held for non-performing investments	NIL

7.2.10. **Movement of provisions for depreciation on investments (Dec 2019 to Dec 2020)**

Particulars	Amount
Opening Balance	--
Provisions made during the period	--
Write-off	--
Write- Back of excess provisions	--
Closing Balance	**--**

8. Table DF-5: Credit Risk: Disclosures for portfolios subject to the Standardised Approach

8.1.Qualitative Disclosures

a) The Bank has adopted Standardized Approach for computation of capital charge for Credit Risk as per RBI guidelines. These guidelines envisage different risk weights for different asset classes, which have been duly applied.

b) The loan book of the Bank predominantly comprises retail category loans. Therefore, the risk weights as applicable to Regulatory Retail, Claims under Residential Mortgage and staff loans are applied. For consumer loans within its microfinance portfolio, the applicable risk weight is applied.

c) Institutional lending isrisk-weighted as per ratings assigned by Eligible Credit Rating Agencies (ECRA) as prescribed by RBI.

d) As on 31st December 2020, the Bank had a residual outstanding of "grandfathered" loans which comprised 0.26% of its funding book. As per regulatory guidelines, there was an additional risk weight of 25% assigned to this portfolio.

e) In terms of circular No. DBR.BP.BC.No.72/08.12.015/2016-17 dated June 7, 2017; the capital charge for claims secured by residential property falling under the category of individual housing loans is assigned differential risk weights based on the size of the loan as well as the loan to value ratio (LTV). As a countercyclical measure, RBI has decided to rationalise the risk weights, irrespective of the amount vide a notification on 16th October 2020. The Bank takes cognizance of the same and these were incorporated for all loans sanctioned after the date of issuance of this circular.

f) On 12th October 2020[49], RBI issued directions for revision in limit for risk weight under the Regulatory Retail portfolio. RBI has now decided that the limit of Rs. 500 lakh for aggregated retail exposure to counterparty shall stand increased to Rs. 750 lakh from the date of this circular. The risk weight of 75 per cent will apply to all fresh exposures and also to existing exposures where incremental exposure may be taken by the banks upto the revised limit of Rs. 750 lakh. The Bank takes cognizance

[49] Refer RBI guidelines on **Regulatory Retail Portfolio – Revised Limit for Risk Weight issued vide** RBI/2020-21/53DOR.No.BP.BC.23/21.06.201/2020-21 dated 12th October 2020

of the same and these were incorporated for all loans sanctioned after the date of issuance of this circular.

8.2. Quantitative Disclosures

Details of Gross Credit Risk Exposure (Fund based and Non-fund based) based on Risk Weight – Position as on 31st December 2020		
Sl.No	**Risk Weight**	**Rs. in lakh**
1	Below 100% Risk Weight	17,34,005
2	100% Risk Weight	2,28,300
3	More than 100% Risk Weight	1,021
4	Deductions from CRM[50]	12,418
5	**Total**	**19,50,907**

9.Table DF-6: Credit Risk Mitigation: Disclosures for Standardised Approach

9.1. Qualitative Disclosure

- The Group Loan and Individual Loan portfolio, under microfinance is unsecured. Loans to the Affordable Housing segment are collateralized by a mortgage over the property financed. There is primarily a secured product variant under MSE loans and a residual book of unsecured loans which is being run down and is expected to be fully repaid in the ensuing financial year. Loans to Financial Institutions are secured by a charge over book debts which are registered with CERSAI. All Personal Loans are extended on a clean basis; Vehicle loans are collateralised by a charge over the vehicle financed. Gold Loans are secured with the maximum Loan to Value (LTV) being offered at 70% on the value of the ornaments/jewel proposed to be pledged.
- The Bank accepts EligibleFinancial Collateral[51]in a few instances for risk mitigation under secured Institutional lending and MSE loans. These financial collaterals are netted off for its collateralized transactions under comprehensive approach[52]while computing its Risk Weighted Assets (RWA).
- The Bank has a Portfolio Review/ Loan Review Mechanism (LRM) to review the health of the portfolio/ borrowers and work on mitigation of any risk associated with the portfolio or borrower in particular.
- The Bank has in place the following risk mitigation techniques for its loan portfolio which are as follows:

[50] Credit Risk Mitigants

[51] Refer section 7.3.5 of Master Circular - Prudential Guidelines on Capital Adequacy and Market Discipline New Capital Adequacy Framework (NCAF) dated July 1, 2015

[52] Refer section 7.3 of Master Circular - Prudential Guidelines on Capital Adequacy and Market Discipline New Capital Adequacy Framework (NCAF) dated July 1, 2015

- Life insurance cover is mandatory for all the borrowers availing of the Bank's microfinance loans. Housing, two wheeler, personal loans borrowers and gold loans are provided with an option to avail of life insurance, though this is not a bundled offering along with the loan products.
- The Bank works with 4 Credit Information Companies (CICs) and ensures 100% application screening through the bureaus using their comprehensive credit reports.
- The Bank also undertakes independent surveys and analysis to identify negative areas/No- go areas based on historical events. These surveys enable the Bank to discourage increasing business from these areas as identified above.

10. Table DF-7: Securitisation Exposures: Disclosure for Standardised Approach

10.1. Qualitative Disclosure

There were no securitization exposures in the banking book and trading book as at 31stDecember 2020.

11. Table DF- 8: Market Risk and Liquidity Risk

11.1. Qualitative Disclosures

11.1.1. Market Risk

The Bank defines Market Risk as the risk of loss in on-balance sheet and off-balance sheet positions arising from movements in market process, in particular, changes in interest rates, exchange rates and equity and commodity prices. The Bank has adopted the Standardized Duration Approach (SDA) for Market Risk capital charge computation. While this is not a regulatory requirement as per SFB guidelines, the Bank has considered it prudent to undertake capital adequacy assessment for all pillar I risks i.e. Credit, Market and Operational Risk.

The Bank has a well-defined Investment and Market Risk Management Policy. This policy covers all important areas of market risk identification, monitoring and measurement. The policies set various prudential exposure limits and risk limits for ensuring that the investment and trading operations are in line with the Bank's expectations of return and risk appetite.

The Treasury Department of the Bank comprises of 3 independent units i.e. Front Office, Middle Office and Back office. The Front Office is responsible for trading, investment and fund management activity. Front Office is headed by Head of Treasury and is guided by Board approved Investment Policy. Middle Office is responsible for limit monitoring, valuation, regulatory / internal reporting and risk evaluation. Middle Office reports to Chief Risk Officer. Back office is responsible for settlement and reconciliation activities which reports to Head of Operations.

Investments: The Bank has a Board approved policy to make investments in both SLR[53] and Non SLR securities. The Bank had investments in the following instruments: Government of India securities (G Sec), Treasury Bills (T Bills), State Development Loans (SDL), Certificates of Deposit (CD), Commercial Paper (CP), Mutual Fund, Non-Convertible Debenture (NCD) and one legacy investment in an unquoted equity. As on 7th January 2020, the investment holdings in various SLR and Non SLR instruments were as under:

Instrument	Book Value	Market Value	Appreciation / Depreciation
SLR			**(Rs. in lakhs)**
G Sec	1,39,087	1,41,996	2,909
SDL	77,993	79,473	1,479
T Bills	34,242	34,242	--
TOTAL	**2,51,322**	**2,55,711**	**4,388**
Non SLR			**(Rs. in lakhs)**
CD	16,577	16,577	--
CP	50,667	50,667	--
NCD	1,548	1,528	-21
Mutual Fund	28,298	28,302	3
Legacy investment (unquoted Equity)	10	17	7
TOTAL	**97,100**	**97,091**	**-11**

The investment into SLR securities is undertaken for the purpose of regulatory compliance i.e. SLR maintenance and for Asset Liability Management (ALM). Investment in SLR securities is held as both HTM and AFS, though holding in AFS comprises mainly investments in Treasury Bills only. The mandatory requirement for maintenance of SLR as stipulated by RBI was 18.25% of Net Demand and Time Liabilities (NDTL) till 10th April 2020 and 18% thereafter. The RBI had earlier announced a staggered reduction in SLR requirement to be held by banks, reducing every quarter till April 11, 2020. The Bank has complied with the regulatory SLR requirement and has maintained SLR much above the requirement. During the quarter, the average SLR requirement and maintenance was as below:

Rs. in lakh

Month (in Rs. lakhs)	Average SLR requirement	Average SLR maintenance	Percentage
Oct - 2020	1,89,922	2,82,224	148.66%

[53] Statutory Liquidity Ratio (SLR)

Nov - 2020	1,91,670	3,08,241	160.84%
Dec - 2020	1,93,288	3,32,094	171.81%

The maintenance of SLR was higher than the mandated requirement in line with its Board directive. In the first instance, this buffer is intended to provide the required cushion for a contingency and forms the basis for Level 1 contingency fund planning. The Bank has used the buffer to raise funds through Repo and Third-Party Repo (TREPS) in times of contingencies. Second, the excess SLR is also intended to provide the cushion to maintain a healthy Liquidity Coverage Ratio (LCR) at all times, and also to ensure that the regulatory thresholds for the Structural Liquidity Statement (SLS) limits are not breached. Further, the Bank had also complied with the HTM holding limit[54] for all the days for the period during the quarter.

The investment in non SLR securities is mainly for short term cash deployment and for investment income. During the period under review, the Bank had made Non SLR investments in Certificate of Deposits (CDs), Commercial Paper (CP), Non-Convertible Debentures (NCDs), Mutual Funds and also had a solitary exposure to an unquoted equity. This unquoted equity investment in the share of M/s Alpha Microfinance for Rs 10 lakh, is a legacy investment of the Bank and was acquired from the parent company as per a Business Transfer Agreement (BTA) entered into at the time of launch of the Bank. All the Non SLR investments were categorized as part of the Available for Sale (AFS) portfolio.

Trading: TheBank had commenced trading in Government of India security in Q3 FY 20, in a calibrated manner through its HFT portfolio. While the Bank had initially commenced trading on an intraday basis only, it has now graduated to keeping open positions on an overnight basis as well. Open positions taken by the Bank are progressively being stepped up with the required controls. Realized Capital gains on the trading portfolio were Rs. 169 lakh and interest income earned was Rs. 169 lakh as at 31st December 2020. The trading limits in the form of duration limits, PV01 limits, trading book limit, exposure limits and Value at Risk (VaR) are monitored regularly by the Middle Office. Any instances of breach in limits are brought to the notice of stakeholders and remedial measures taken.

11.1.2. Liquidity and Liquidity Risk Management:

Treasury Department is responsible for the day to day liquidity and fund management activity. The day to day fund excess or shortfall is arrived at based on a daily liquidity statement prepared by Front Office in co-ordination with Finance department. Based on the daily shortage or excess of funds, Front Office undertakes money market borrowing and lending activity. The source of borrowing and lending amongst Call money, Repo and TREPS is decided based on the most favourable rate. The Bank has interbank limits with all the major banks. The regulatory limit on Call/Notice money borrowing and lending is monitored on a daily basis by Middle office and

[54] In terms of RBI circular No. RBI/2017-18/70 dated 4th October 2017, the limit of HTM holding for the Bank, was 19.5% of NDTL till 1st Sep 2020 and 22% of NDTL thereafter.

reported to all stakeholders.

In line with the prudent risk management practice, the Bank has in place a Board approved Contingency Funding Plan (CFP) in place, which is tested by the Front Office at a quarterly frequency. In all the instances of CFP testing during the quarter, the Bank was successful in generating fund commitment, from various sources, much above the average monthly shortfall.

Liquidity Risk Management is governed as per the provisions of the ALM policy. The average tenor of a microfinance loan is 18 months. The Bank has grown its portfolio of Affordable Housing and MSE portfolio, which are of longer tenor. Personal loans are for short dated tenors and the average tenor for loans to Financial Institutions did not exceed 24 months.

The ALM position for the Bank was well managed and regulatory thresholds complied with during the quarter. The Bank has various avenues to leverage upon in mitigating any future liquidity shortfalls. Some of the measures include securitization, IBPC transactions, term loan facilities from Bank and utilizing lines of refinance from NABARD, NHB and SIDBI. The Bank had positive cash flows in the maturity buckets in the 1-30 days' maturity, over and above the regulatory minimum, as at 31st December 2020.

The Bank has deployed a suite of techniques as part of its Liquidity Risk Management. Some of the activities undertaken by the Bank are as follows:

<table>
<tr><th>Risk Measurement</th><th>Description</th><th>Position for Q3 FY 2020-21</th></tr>
<tr><td>Cash Flow measurement and gap limits</td><td>Technique involving a comprehensive tracking of mismatches between outflows and inflows for balance sheet as well as off balance sheet items across different time buckets. The Bank computes the cash flow mismatches using Structural Liquidity Statement ('SLS'). Under SLS, cash flows of assets, liabilities and off-balance sheet items are placed in different time bands based on the residual maturity or based on expected behaviour as per RBI / internal guidelines. The difference between cash inflows and outflows in any given time period measures the</td><td>As at 31st December 2020, the Bank maintained a positive cumulative mismatch indicating surplus liquidity. The cumulative mismatch limits were well within the RBI mandated limits and also within the conservative limits as set internally by the Bank. The position for the first four buckets for which the regulator has mandated minimum thresholds were as follows:
<table>
<tr><th>Bucket</th><th>RBI threshold</th><th>Cumulative Mismatch</th></tr>
<tr><td>Day 1</td><td>-5%</td><td>746.55%</td></tr>
<tr><td>2-7 days</td><td>-10%</td><td>358.90%</td></tr>
<tr><td>8-14 days</td><td>-15%</td><td>219.87%</td></tr>
<tr><td>15.30 days</td><td>-20%</td><td>136.56%</td></tr>
</table>
</td></tr>
</table>

	bank's liquidity surplus or deficit in that time period.	The bucketing of cash flows as per the maturity buckets are guided by regulatory guidelines and as per ALCO directives.
Behavioural analysis	Banks are required to analyse the behavioural maturity profile of various components of on / off-balance sheet items on the basis of assumptions and trend analysis supported by time series analysis.	During the quarter, the Bank has undertaken a behavioural study on CASA outflow and the same has been placed to ALCO for further directions. Given the relative short vintage of the Bank, it was deemed appropriate to further refine the assumptions and dataset before deploying these models for bucketing. Presently, the Bank follows the RBI guidelines on bucketing assumptions until significant historical data is available for conducting behavioural studies. After ensuring the availability of data, the Bank will conduct behavioural studies to appropriately bucket products with non-deterministic cash flows.
Limits on borrowing and lending/investment	Bank monitors limits prescribed by the regulator with respect to borrowing and lending in the interbank market.	During the quarter, the Bank was within the prescribed limits for interbank lending, call money borrowing/lending, SGL limits and HTM holding limit.
Liquidity ratios	Liquidity ratios under stock approach as prescribed by the regulator are monitored	The liquidity ratios under stock approach were computed and placed to ALCO for their noting.
Stress Testing	The Bank undertakes stress tests on their Liquidity Coverage Ratio (LCR) and Interest rate risks.	During the quarter, the LCR was above the minimum thresholds under all levels of stress. Further, the impact of interest rate risk and its impact on the market value of equity were also below the regulatory limit of 20%.
Funding gap analysis	The Bank estimates its short-term liquidity profiles on the basis of business projections and	On a monthly basis, the Bank undertakes a detailed analysis on the projected funding requirement for its

	other commitments for planning purposes	subsequent month on the basis of business projections and other commitments. This exercise essentially includes inputs on credit and deposit activities encompassing projected disbursements, collections and deposit mobilization. The Bank has ensured adequate liquidity to meet its commitments during the quarter.

The prevalent market conditions (relatively low credit take-off) and the measures taken by RBI (on tap availability of funds under TLTRO) have provided comfort over the liquidity position on an overall basis. The availability of excess liquidity in the system is further evidenced in RBI action on temporarily increasing the HTM holding limit to 22% up to 31st March 2022. The Bank has also maintained higher rates in retail and bulk deposits as compared to its peers to further bolster deposit mobilization.

The Bank adheres to RBI guidelines relating to the Liquidity Coverage Ratio (LCR), Liquidity Risk Monitoring Tools and the LCR Disclosure Standards pursuant to the Basel III Framework on Liquidity Standards that are applicable to Small Finance Banks in India.LCR aims to ensure that a bank maintains an adequate level of unencumbered High Quality Liquid Assets (HQLAs) to meet its liquidity needs, convertible into cash under significantly severe liquidity stress scenario lasting for 30 days' horizon period.

The Bank computes LCR in Indian rupees, the only currency it deals with. HQLA of the Bank consists of cash, unencumbered excess SLR eligible investments, a portion of statutory SLR as allowed under the guidelines, cash balance with RBI in excess of statutory CRR, and high rated corporate bonds issued by entities other than financial institutions.

Net Stable Funding Ratio (NSFR): The RBI, on 27th March 2020, had decided to defer the implementation of Net Stable Funding Ratio (NSFR) from 1st April 2020 to 1st October 2020, an extension by six months as part of its COVID- 19 regulatory package. Further, the regulator has decided to defer the implementation of NSFR guidelines[55] by a further period of six months. These guidelines shall be envisaged to come into effect from April 1, 2021. However, the same has again been deferred by a further period of six months[56]. Accordingly, the NSFR Guidelines shall come into effect from October 1, 2021.

[55] Refer RBI guideline on Basel III Framework on Liquidity Standards – Net Stable Funding Ratio (NSFR) issued vide RBI/2020-21/43 DOR.BP.BC.No.16/21.04.098/2020-21 dated 29th September 2020

[56] Basel III Framework on Liquidity Standards –Net Stable Funding Ratio (NSFR) issued vide RBI/2020-21/95 DOR.No.LRG.BC.40/21.04.098/2020-21 dated 5th February 2021

11.2. Quantitative Disclosures

11.2.1. Liquidity Coverage Ratio (LCR)

Liquidity Coverage Ratio (Rs. in lakh)				
A	**High Quality Liquid Assets**	**Adjusted Amount (FY 2020-21)**		
		Q1 Average	**Q2 Average**	**Q3 Average**
	Level 1 Assets	3,03,577	3,30,008	3,12,961.81
	Level 2 A Assets	-	-	-
	Level 2 B Assets	-	-	-
B	**Total Stock of HQLAs (Adjusted for Capital)**	**3,03,577**	**3,30,008**	**3,12,962**
C	Cash Outflows	1,26,080	2,92,842	2,71,895
D	Cash Inflows	59,073	1,06,140	96,640.80
E	**Net Cash flow**	**67,008**	**1,86,700**	**1,75,254**
F	25% of Total Cash Outflow	31,520	73,210	67,973.65
G	**Higher of E or F**	**67,008**	**1,86,700**	**1,75,254**
Liquidity Coverage Ratio		**453.05%**	**176.76%**	**178.58%**

12. Table DF- 9: Operational Risk

12.1. Qualitative Disclosures

12.1.1. Operational Risk Management Policy and Governance Structure

Operational Risk is *"the risk of loss resulting from inadequate or failed internal processes, people, systems or from external events. It excludes Strategic and Reputational Risks but includes Legal Risk".* Strategic or Reputational risks are second order effect of Operational Risk. Legal risk includes, however is not limited to, exposure to penalties, fines, punitive damages arising out of supervisory action, civil litigation damages, related legal costs and any private settlements. Operational Risk arises due to errors in processes, frauds and unforeseen natural calamities / events. Though the occurrence of such instances could be less, the impact in value terms could be significant.

For effective management of Operational Risk, the Bank has constituted an Operational Risk Management Committee (ORMC) chaired by MD & CEO with a quorum of Head of Operations, Chief Vigilance Officer, Chief Risk Officer, and Chief Technology Officer with Head of Internal Audit as an observer. This Committee which is convened by Chief Risk officer meets every quarter to provide an oversight on key Operational Risk issues, the summary of which is presented to the RMC of the Board. The ORMC supports the Risk Management Committee (RMC) of the Board and is responsible for implementing the best practices in managing Operational Risk. The Bank has in place a Board approved Operational Risk Management policy to mitigate and manage Operational Risk. The Operational Risk management process is a top-down approach and is driven by strong and sound operating procedures and internal control culture with well-defined reporting and contingency planning. This is a continuing process and the Bank is continuously striving to enhance its processes.

12.1.2. Risk identification, measurement, monitoring and reporting

Following are some of the key techniques applied to manage Operational Risk within the Bank. It involves both a qualitative and quantitative approach.

- **Product and Process reviews**: All new products and processes (including enhancements) are subject to a mandatory comprehensive review by the Operational Risk department. Post review, observations are raised to the respective functions for including additional controls for the risks identified during the assessment. Subsequent to closure, the new/enhancement to product/process are placed at the Product and Process Approval Committee (PPAC) for approval. The Bank continuously reviews and enhances its key processes to adapt to industry best practices. Few product programs reviewed in this quarter are introduction of Escrow account and collection account, MSE unsecured OD product, Loan appropriation logic, Digital deposits and corporate salary program, ACR process note etc.
- **UAT Testing** (including BRD and FSD): For any change management/ automation of products and processes, the department owners prepare the Business Requirement Document (BRD). The BRD is reviewed by key control and business functions for further improvements. Subsequently, the same is provided to the IT department within the Bank. The IT department then prepares the Functional Specification Document (FSD) detailing the scope of the project. Once the project is moved to testing stage, Operational Risk department performs the User Acceptance Testing (UAT) along with others to identify gaps in the actual deliverable versus that which was proposed in the BRD. These gaps are further addressed and closed before moving to production. During the quarter, the Bank had undertaken UAT for various activities such as Video KYC, Amendment to 194N, 15G/15H exemption etc. amongst others.
- **RCSA**: RCSA (Risk and Control Self-Assessment) is a forward looking tool to identify and assess the level of risk inherent in any activity / process, the causes responsible for that risk and the status of existing controls to minimize the risk. Its result provides insight about known as well as potential Operational Risk areas in various process / business lines. Business being the first line of defence is responsible for carrying out RCSA activity as per the plan. Operational Risk being second line of defence is responsible for providing necessary guidance, training and inputs to the first line of defence for carrying out the RCSA. The Bank intends on undertaking RCSA for few critical functions during the year. There is a time bound plan to close the open issues as observed during RCSA and an update is provided to ORMC and RMC-Board at regular intervals.
- **Key Risk Indicators**: During the quarter **18 KRIs** were monitored at an organization level as part of the Operational Risk Management Framework. The thresholds for the KRIs have been decided upon in consultation with the stakeholders. These KRIs will

be analysed on a monthly basis and a comprehensive report will be submitted to the ORMC and Board at quarterly intervals with action plan for closure of open issues. KRIs for the period September to November 2020, were presented in the ORMC held in January 2021 and will be presented to the Board in February 2021 for their noting and information. In addition to Organizational KRIs, Functional KRIs for Liabilities was monitored for the period September to November 2020. The Bank is also in the process of enhancing the existing risk monitoring framework by defining Functional KRIs for other key Functions for better monitoring. Red KRIs which breached thresholds were discussed with stakeholders and actionable was presented in ORMC.

- **Loss Data Management** is in place to record material incidents and learn from errors and strengthening existing controls. Incidents are recorded as operational loss and near miss events. This is followed by a Root Cause Analysis (RCA) for critical incidents. EGRC module in SAS is implemented to record all loss events across the Bank. Significantly, the efforts of the Operational Risk team have resulted in greater reporting of operational risk incidents from the branches. The Bank has created a separate General Ledger Code (GLC) to record losses (separate for fraud and non-fraud) on account of these incidents and these are reported to the Board at quarterly intervals. The Bank encourages its personnel to report incidents in an unbiased manner without fear for retribution. The incident reporting process enables creation of loss database as per Basel definitions. The activities broadly include the following:
  - Reconciliation of General Ledgers (GL) to operational loss as recorded in SAS
  - Root Cause Analysis (RCA) of critical events
  - Quarterly loss data submission to Board

  The Bank records instances along the Basel defined lines of Operational Risk events and process enhancements arising from these occurrences are tabled at the ORMC.

  Loss Dashboard (as on December 2020 - FY21):

	Count				Loss in Rs. lakh		
Basel Risk Event Type – I	**Loss**	**Near Miss**	**Total**		**Gross**	**Net**	**Ops Loss**
Business Disruption and Systems Failures	146	1	147		14.37	5.31	5.04
Clients, Products, and Business Practice	16	4	20		19.25	10.04	1.10
Damage to Physical Assets	69	1	70		18.80	18.80	
Employment Practices and Workplace Safety		16	16			0	
Execution, Delivery, and Process Management	144	16	230#		36.92	7.66	2.83
External Fraud	407	10	417		117.71	48.04	29.36

Internal Fraud	117	1	118		101.32	33.33	24.69
Total as on Dec FY21	**899**	**49**	**1018**		**308.37**	**122.18**	**63.03**
Total as on Dec FY20	**485**	**45**	**643**		**298.42**	**109.98**	**37.26**

 # Total includes 70 gain events amounting to ₹ 2.08

- **Thematic reviews:** While carrying out RCSA, KRIs, UAT testing, incident reporting etc., Operational Risk team identifies few risk indicators warranting a special thematic review of the entire process. This enables the Bank to identify issues and gaps at minute level which are then taken up for rectification. These thematic reviews do not follow standardized risk identification techniques and therefore provide wider scope for a deeper and customized study of issues and gaps. Such thematic studies have enabled the Bank to further refine its existing processes and plug gaps that had been identified.
- **RRU[57] Scorecard approach**: The Bank has developed an internal scoring mechanism to capture all risk parameters at a granular level within the Bank i.e. branch level. The scorecard includes all facets of branch operations: Liabilities, Microbanking, Housing and MSE loans and other branch related parameters. Branches are categorized as High, Medium or Low risk based on these assessments on monthly basis. Final RRU score includes vertical wise score, dashboard and region wise high risk branches under different business verticals. Once the RRU scoring is done, analysis of high risk Branches and major contributing parameters are shared with respective stakeholders in the regions, for the purpose of taking corrective action. Additionally, Operational Risk team during their visits to such high risk Branches, discusses the parameters that are impacting their performance. Key policy decisions emerge from these scoring and reviews. The scorecard is continuously enhanced to include relevant parameters for optimizing the Operational Risk score. Existing scorecard parameters were reviewed in the current financial year and new parameters were incorporated.

  The RRU Scorecard for Micro Banking (MB) has been discussed with MB team and is finalized. Similarly, scorecard with the revised parameters for Liabilities has been finalized. Key indicators emerging from these indicators are discussed with the respective business teams and in the case of the high risk branches, actionable for corrective action are prepared and tracked to closure.

  Also, the RRU Scorecard for MSE and Housing was discussed with the team for taking their inputs. Based on the discussions, few parameters were reviewed and further enhanced. Following modifications have been proposed in MSE score card;

  - Area level instead of current branch level score card.
      - Following enhancement have been proposed in Housing score card;
  - Criteria for branch selection: Branches that have minimum 20 live cases and at

[57] Risk Review Unit

least 5 cases booked in last 3 months will be considered.

- Credit score: Credit score for those branches which qualify above mentioned minimum criteria will be considered.
- Loan disbursed DD cancelled: Due to Business dynamics, all DDs ageing above 45 days to be considered instead of current 10 days.
- PDD tracker: To consider PDDs which are 45 days overdue from the recorded due date in the system.
- Additional parameter: Loss of original customer document will be a new parameter that was proposed to be included in the score card.

Total number of parameters that are being tracked presently has increased to 50 (Micro Banking-13, Liabilities – 19, MSE & Housing - 9 each) from 34 earlier. At present, entire scorecard is being computed manually. The Bank is in the process of automating the scorecard to make it a more effective tool.

- **User Access reviews** are conducted for critical applications to ensure that access and role matrix are well defined and that access is commensurate with the responsibility assigned. These reviews are undertaken at half-yearly intervals. The half yearly review for the current financial year has been initiated by the Operational Risk team. During the quarter, User access review has been completed for 19 applications as part of Phase 1 along with user access review of production servers. Key observations have been shared with respective teams for their review and responses. Few of the key observations are:
  - There are no signed-off documents available for application wise / role based access provided to users and approval matrix to follow at IT for providing access.
  - There is no defined frequency for internal review of access provided to employees / vendor due to which access is not de-activated for employees even after their exit or user has not accessed the application for more than 30days. (Dormancy Review)
  - Presently this activity is completely manual and it needs to be automated, which will then help in tracking the access provided to employees.
  - In the absence of monthly review, if the payment is done on user basis then the accuracy of the invoice will not be validated and may not be accurate.
  - 20 users are having access to production servers without any approval through Service Request and Role based accesses was not given for the users having accesses to production servers.
  - Operational Risk team has drafted a Policy on User access review covering all the critical aspects of User life cycle starting from activation to de-activation of ID’s, Review Frequency, Process to be followed for managing vendor ID’s, Process to be followed for user de-activation on exit from organisation. Draft note is under review by stake holders and on receipt of the suggestions and inputs, note will be enhanced further and circulated.
  - Operational Risk team has initiated a request with individual business teams who

manages the applications to have a comprehensive SOP for each of the applications managed by them with role based access given in system and approval matrix to be followed. Work is in progress with Micro banking team who is managing applications viz., SMELO, Glow, Trucell, Br.Net and it is proposed to initiate preparation of SOP for other verticals as well who are managing applications viz., RuPay power, CRM Next etc.

Review of other applications is work in progress and shall be completed in Phase 2. Final report will be shared with senior management of the Bank for their review and guidance.

- **Exceptions Handling Mechanism** is a new initiative, which started from July 2020 as guided by NIDM (National Inter Departmental Meeting). List of 27 exception reports were identified and tagged to Operational Risk for initiating the review. 17 exception reports have been extracted so far and reviewed / discussed with relevant stake holders for needful action. In case of 7 observations, confirmation received on corrective action taken from respective stake holders and for remaining 3 observations, this is work in progress. Extraction of remaining exception reports is in progress.
- **RCU process:** The Bank has established a monitoring mechanism for identifying and rectifying instances of suspicious customers doing banking business. On a monthly basis, Vigilance department undertakes RCU check from a sampling of liability customers. The outcome of the RCU check provides a commentary on the customer profile. For all cases identified as 'negative', the Operational Risk department undertakes a special review in consultation with branch personnel and recommends corrections. For customers who are found to be negative after the rectification measures, exit strategies from customers are explored. This mechanism has enabled the Bank to avoid undertaking business relationships with potential anti-social members of society. Since November 2020, RCU process has been further enhanced with revised sampling methodology to ensure that the liability accounts opened across various products are sampled as per the associated risks. 14152 accounts have been sampled by RCU till November 2020 out of which 964 accounts have been finally tagged as Negative till end of December 2020. Account Freeze process has been initiated for all the Final Negative cases as per the new RCU Process after serving adequate notices to the customers.
- **Digital Account Monitoring:** The Bank re-launched Digital SA (Savings Accounts) and TD (Term Deposits) in the month of May 2020 with enhanced monitoring measures around the product. 24298 Digital accounts have been opened till 31st January 2021 since the re-launch. Each account is being eyeballed by the Operational Risk team and observations with respect to demographic details have been shared with business for onwards corrective measures. As a process, Operational Risk team has also been monitoring the transactions done in all digital accounts every fortnight, basis certain pre-defined triggers around value, fraud and velocity. All accounts with

suspected transaction patterns are referred to Vigilance and Compliance team for onwards investigation and action. Additionally, review around common address, email id, match with accounts where regulatory notices are sent etc. is also performed on a regular basis and triggers if any, gets shared with Vigilance and business for onwards action.

- **Branch Assurance**: Branches across regions are reviewed against a checklist devised by the Operational Risk team to ensure adherence to branch processes. The checklist is reviewed and enhanced every quarter to strengthen monitoring. With onset of COVID-19 and lockdown, and physical branch visits curtailed for the time being, the check list has been restructured to ensure that monitoring and review is not eased and can be done on a remote basis, based on reports derived from systems and through remote access and verification of registers. Remote monitoring is the process of checking, verification and identification of process lapse and other operational errors without visiting the Branch, by working from remote locations. Critical and repeat observations are shared with the leadership team for remedial /corrective actions. Till December 2020 Operational Risk has reviewed 244 Branches. 12 branches will be covered in January 2021, which will result into 44 % coverage of the total branches. Operational Risk plans to review 280 branches by 31st March 2021.
- **Outsourcing Risk:'Outsourcing'** is defined as the Bank's use of a third party (either an affiliated entity within the corporate group or an entity that is external to the corporate group) to perform certain activities on a continuing basis that would normally be undertaken by the Bank itself, now or in the future. The Bank has in place an outsourcing policy which provides guidance on outsourcing certain functions to specialized agencies for increasing efficiency and lower costs. The outsourcing policy is framed in compliance to various RBI guidelines on outsourcing issued from time to time. Key activities undertaken during Outsourcing are as follows:

  Pre - on boarding risk assessment: All vendors, deemed as material, are subjected to a rigorous pre on boarding risk assessment which is done by both Operational Risk team and the Information Security team and this is repeated at annual intervals. Observations from these risk assessments are then shared with concerned functions for resolution. Post satisfactory responses to the observations raised, CRO approves on boarding of the vendor.

  Post – on boarding risk assessment: All material vendors are also subjected to a periodic post on boarding risk assessment as defined in the policy. This assessment is carried out by Information Security Risk team and Operational Risk team. Observations/gaps are shared with concerned function for rectification and response. These key observations along with department response are placed at ORMC and RMC-B on a quarterly basis.

  Master tracker maintenance: Operational Risk team maintains a master tracker of all the outsourcing agreements. Details of agreement renewals are tracked and followed up with the concerned functions for renewal within timelines. Any overdue arrangements / agreements are escalated to ORMC.

Annual review of material vendors: Operational Risk team along with CISO's team carries out annual risk review of material vendors. Annual Review has been completed for key vendors such as FSS and Finacus. Review of rest of the vendors will be carried out by Q4.

Outsourcing done by the Bank is subjected to an annual audit by the Internal Audit team who provide the required compliance certificate to RBI.

- **Business Continuity Planning (BCP):** Business Continuity Management Policy is a prerequisite for a Bank in minimizing the adverse effect of critical areas of Operational Risk with respect to High-Impact and Low-Probability Disruptions, through which Bank maintains confidence levels of its shareholders and satisfies relevant compliance requirements. The plans and procedures are in line with the guidelines issued by the RBI and these are reviewed at regular intervals.

  The Business Continuity Management Policy (BCMP) of the Bank provides guidance to ensure continuity of Business through implementation of contingency plans to restore normal business functioning of Branches if disrupted during any type of disaster / crisis situation to provide continuous and reliable services and delivery of key products to customers.

  Bank has established a Business Continuity Management Committee at apex level to monitor the business continuity preparedness of the Bank on an on-going basis. Further, the Bank's Business Critical Systems undergo periodical disaster recovery drills/tests in order to make sure that the recovery process becomes more robust and efficient to recover from any disaster / crisis situations. The observations of DR drills along with root cause and learning's' are recorded and the same are placed to the IT Strategy Committee of the Board on quarterly basis. The Bank also has a Board approved Cyber Crisis Management Plan for tackling cyber threat / attack.

  Bank reviews BCMP policy and plan documents annually and enhances the documents as per the changes made in the Bank's Business Critical processes and activities. Bank also conducts periodic BCP testing considering various Disruptive scenarios which helps to identify the gaps in recovering and resuming the Business Critical processes after the disruptive events. On an on-going basis, BCP testing for branches which are selected randomly is conducted to ensure that the recovery process becomes more robust and efficient to recover from any disaster / crisis situations. The BCP test results of branches, IT, CTS, and Payments along with their respective observations and recommendations are placed before the ORMC and Risk Management Committee of the Board at every quarter. These outcomes are documented in the respective Business Continuity Plan documents and the same are placed to RMCB.

Internal Financial Control (IFC) testing: This is an annual exercise and done by the Operational Risk team. The team along with concerned stakeholders prepare and enhance Risk and Control Matrixes (RCMs). The financial and operational controls in these RCMs are then put to test by collecting samples from across the review period and from different regions, which are then evaluated for success or failure of the control effectiveness. The critical gaps observed during such testing are discussed with concerned functions for upgrading controls which may include automation of the controls. The result of this evaluation is also presented to ORMC and RMC of Board to update them on effectiveness of the internal controls of the Bank, and take guidance. This result is also shared with the Bank's external auditor to provide insight on adequacy and effectiveness of the controls in the Bank. The IFC testing is also mandatory requirement as per Companies Act, 2013. IFC testing for the current financial year will be initiated from Q3.

12.1.3.<u>Information Technology and Security Risk</u>

On a regular basis, the Bank disseminates information for creating awareness among employees on the importance of data-security along with emphasis on the requirements to protect the customer's data. Awareness emails regarding the data loss prevention, smart phone security and how the assets given to employees are supposed to be safeguarded by them, are part of cyber security awareness creation.

The Bank takes cognizance of the increased importance of Data Security. With Business Continuity Management being a critical aspect, the Bank has adhered to intelligence and best practices suggested from the various regulators, organizations like CERT-IN, DSCI, NIST, etc. to ensure Data Security. During the year, that Bank has focused on:

- Increased awareness of all stakeholders
- Adoption of zero trust solutions
- Enhanced logging and monitoring
- Automation of threat intelligence
- Coordinated incident response

The Bank has also enhanced its Incident Management and Cyber Crisis Management Plan to deal with incidents and potential cyber crisis. There is also a policy governing the acceptable usage of information and system assets and policy to ensure continuity of business operations in the event of a disaster.

Given the dynamic nature of risks that the Bank faces, the Bank periodically assesses the risks and develops strategies to ensure that risks are mitigated to an acceptable level. Being technology-oriented, most of the risks are technological in nature and thus the Bank has invested heavily in security technologies. A 24x7 Cyber Security Operations Centre has been established to detect and contain security anomalies. This Cyber SOC is also responsible to actively monitor emerging threats based on intelligence gathering. The Bank has developed a comprehensive awareness program wherein employees are trained during on-boarding, periodic phishing simulations are carried out and awareness mailers are broadcasted to both employees and customers. Recent awareness emails pertaining to frauds based on Covid vaccination, spam Covid calls were circulated intending to spread awareness among the employees and keep them abreast of the pertinent Covid frauds.

Phishing simulation pertaining to Covid vaccination provision from the ministry of health was also conducted to check the employees' awareness about the contemporary frauds.

The Bank has enhanced the monitoring capacity by creating use cases to have better alerting on the SIEM (Security Information Event Management) system and further action taken by the Security Operations Centre (SOC). This is intended to avoid any potential delays in detection and response to the Cyber-Attacks.

13. Table DF- 10: Interest Rate Risk in Banking Book (IRRBB)

13.1. Qualitative Disclosures

Interest Rate Risk in Banking Book (IRRBB) refers to the risk of loss in earnings and economic value of abank's banking book as a consequence of movement in interest rates. The Bank has identified the risks associated with the changing interest rates on its exposures in the banking book from both a short-term and long-term perspective.

The interest rate risk is measured and monitored through two approaches:

1) Earnings at risk (Traditional Gap Analysis): The impact of change in interest rates on net interest income is analysed under this approach and calculated under yield curve approach. Under this approach a parallel shift of 200 basis points is assumed both in assets and liabilities.
2) Economic Value of Equity (Duration Gap Approach): Modified duration of assets and liabilities is computed separately to arrive at modified duration gap. A parallel shift in yield curve by 200 basis points is assumed for calculating the impact on economic value of equity.

13.2. Quantitative Disclosures

13.2.1. Earnings at Risk (Earnings Perspective) (Rs. inLakh)

Interest Rate Risk in the Banking Book (IRRBB)			
Sl.No	Country	Interest Rate Shock	
		+200 bps shock	-200 bps shock
1	India	(12,540)	12,540
2	Overseas	-	-
		(12,540)	12,540

13.2.2. Economic Value Perspective (MDG Approach) (Rs. in Lakh)

Category	Items	Amount

A	Equity	2,83,352.12
B	Computation of Aggregate RSA	18,17,486.68
C	Computation of Aggregate RSL	15,37,489.62
D	Weighted Avg. MD of RSL across all currencies	0.85
E	Weighted Avg. MD of RSA across all currencies	2.23
F	MDG	1.52
G	Change in MVE as % of equity for 200bps change in interest rate	-19.38%
H	**Change in MVE in absolute terms**	**(54913.64)**

14. Table DF-17: Summary Comparison of Accounting assets vs. Leverage ratio exposure measure

Rs. in lakh

Summary comparison of accounting assets versus leverage ratio exposure measure		
	Item	**Amount**
1	Total consolidated assets as per published financial statements	15,11,554
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	3,44,819
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
4	Adjustments for derivative financial instruments	-
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	85,200
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off- balance sheet exposures)	1,535
7	Other Adjustments	-37,764
8	**Leverage ratio exposure**	19,05,344

15. Table DF 18: Leverage ratio common disclosure template

Rs. in lakh

	Table DF-18: Leverage ratio common disclosure template	
	Item	**Amount**
	On-balance sheet exposures	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	18,56,373
	Domestic Sovereign	2,51,271
	Banks in India	42,714

	Corporates	50,781
	Exposure to default fund contribution of CCPs	54
	Other Exposure to CCPs	
	Others	15,11,554
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	-37,764
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	18,18,609
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	-
5	Add-on amounts for PFE associated with all derivatives transactions	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	**Total derivative exposures (sum of lines 4 to 10)**	-
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	85,200
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	CCR exposure for SFT assets	-
15	Agent transaction exposures	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	85,200
	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	9,302
18	(Adjustments for conversion to credit equivalent amounts)	7,767
19	**Off-balance sheet items (sum of lines 17 and 18)**	1,535
	Capital and total exposures	
20	**Tier 1 capital**	2,68,148
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	19,05,344
	Leverage ratio	
22	**Basel III leverage ratio**	**14.07%**

Presently the contribution of Tier I capital to Total Basel II capital is96.29%.The business model of the Bank is relatively simple with a significant portion as fund-based assets. Gross advances were primarily in the nature of term loans. Since the exposure to Securities

Financing Transactions(SFT) and Off Balance Items are presently low, the Leverage ratio is well above the benchmark of >4.5%.

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