Pillar III Disclosures as at 31st March 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 March 2020.]

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1. List of key abbreviations

Abbreviation	Full form
ADF	Automated Data Flow
AFI	Annual Financial Inspection
AFS	Available For Sale
ALCO	Asset Liability Committee
ANBC	Adjusted Net Bank Credit
ATM	Automated Teller Machine
BC	Business Correspondent
BCMP	Business Continuity Management Policy
BIA	Basic Indicator Approach
CA	Current Account
CAC	Credit Approval Committee
CAB	College of Agriculture Banking
CASA	Current Account Saving Account
CBO	Chief Business Officer
CBS	Core Banking Solution
CET1	Common Equity Tier 1 Capital
CFO	Chief Financial Officer
CGTMSE	Credit Guarantee Fund Trust For Micro And Small Enterprises
CIC	Core Investment Company
CRAR	Capital to Risk-weighted Assets Ratio
CRMC	Credit Risk Management Committee
CRL	Code for Responsible Lending
CRO	Chief Risk Officer
CRR	Cumulative Repayment Rate
CRR	Cash Reserve Ratio
CS	Company Secretary
DPD	Days Past Due
DSCB	Domestic Scheduled Commercial Bank
EAD	Exposure at Default
ECL	Expected Credit Loss
ECRA	External Credit Rating Agency
EDP	Enterprise Data Platform
ELC	Entity Level Controls
ESOP	Employee Stock Option Scheme
EWS	Early Warning System
FALLCR	Facility to Avail Liquidity for LCR

FIG	Financial Institutions Group
FIRB	Foundation Internal Rating Based Approach
GLC	General Ledger Code
GNPA	Gross Non-Performing Asset
GPTW	Great Place to Work
GST	Goods and Service Tax
HQLA	High Quality Liquid Assets
IAD	Internal Audit Department
IBA	Indian Banks' Association
IBPC	Inter Bank Participation Certification
ICAAP	Internal Capital Adequacy Assessment Process
IIBF	Indian Institute of Banking and Finance
IFC	International Finance Corporation
IGAAP	Indian Generally Accepted Accounting Principles
IMF	International Monetary Fund
Ind-AS	Indian Accounting Standards
IRAC	Income Recognition and Asset Classification
IRRBB	Interest Rate Risk in Banking Book
KRA	Key Responsibility Area
KRI	Key Risk Indicator
KYC	Know Your Customer
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LMS	Loan Management System
LTRO	Long Term Repo Operation
LR	Leverage Ratio
LWE	Left Wing Extremism
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
NIBM	National Institute of Bank Management
NI Act	Negotiable Instruments Act
NNPA	Net Non-Performing Asset
NPI	Non Performing Investment
NPV	Net Present Value
NRI	Non Resident India
NSFR	Net Stable Funding Ratio

NTB	New to Bank
NURC	Non Unbanked Rural Centre
ORMC	Operational Risk Management Committee
OSP	Outstanding Principal
OTRR	On Time Repayment Rate
OTS	One Time Settlement
PAC	Product Approval Committee
PAR	Portfolio at Risk
PAT	Profit After Tax
PB	Payments Bank
PD	Probability of Default
PMAY	Prime Minister Awas Yojana
PNCPS	Perpetual Non-Cumulative Preference Shares
PONV	Point of Non-Viability
PSL	Priority Sector Lending
PTP	Promise to Pay
QC	Quality Check
RBI	Reserve Bank of India
RCA	Root Cause Analysis
RCSA	Risk and Control Self-Assessment
ROA	Return on Asset
RPA	Robotic Process Automation
RSA	Risk Sensitive Assets
RSL	Risk Sensitive Liabilities
RWA	Risk Weighted Assets
SA	Standardized Approach
SDA	Standardized Duration Approach
SFB	Small Finance Bank
SLBC	State Level Bankers’ Committee
SLR	Statutory Liquidity Ratio
SLS	Structural Liquidity Statement
SMA	Special Mention Accounts
SPV	Special Purpose Vehicle
TAT	Turnaround Time
TLTRO	Targeted Long Term Repo Operation
UAT	User Acceptance Testing
UFSL	Ujjivan Financial Services Limited
UPI	Unified Payment Interface
URC	Unbanked Rural Centre
VaR	Value at Risk
YTD	Year Till Date

2. Introduction

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 March 2020.

3. About the Bank

3.1. Branch network and distribution reach

The branch position of the Bank as at 31st March 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 March 2020) of its Banking Outlets in the URCs. All erstwhile asset centres (centres which continued to do asset only business pending conversion into full service commercial bank branches) have now been converted into Banking Outlets (BO) within the mandated 3 years of commencement of banking operations.

[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)

The Bank had seven individual BCs as at 31st March 2020. However, it has increased the network through engagement of Corporate BCs to provide increased avenues to its customers, in light of the COVID 19 pandemic. The Bank is currently in the process of on-boarding a third corporate BC as partner. Eighty agents through the Corporate BC network are expected to go-live by end of June 2020. The Bank is also exploring to make repayment options available across all key UPI apps by partnering with multiple players by June 2020. The individual BCs enrolled are compliant with the requirements laid out by RBI. 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 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. Personnel managing each individual BC are duly certified by the Indian Institute of Banking and Finance (IIBF) as required by RBI. 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.

The Bank operated a network of 423 Automated Teller Machines (ATMs) and 52 Automated Cash Recyclers (ACR) as at 31st March 2020.

3.2. COVID-19: Summary of measures taken by the Bank (Update as at 18th May 2020)

The month of March 2020 saw a disruption in the normal course of business due to the on-going COVID-19 pandemic. While its impact on Q4 of FY 2019-20 was negligible, the impact was felt in the first quarter of the current financial year. 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 are produced as below:

- A Quick Response Team (QRT) was constituted for monitoring and supervising banking operations and 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. 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 as announced by the government and continues to provide this facility as an option for all back-end staff within the Bank.
- Most of the Bank's branches were open and operated with skeletal staff during the lockdown, adhering to the guidelines on branch timings issued by SLBCs, LDMs and local administration. The Bank ensured adequate cash in its ATMs and encouraged its customers to utilize alternative channels to banking namely ATMs, Mobile and Internet Banking for their transactions in view of the current situation. Customers and staff were also educated to maintain social distancing norms and take

preventive measures to contain the spread of the virus. The Bank is reaching out to its staff and customers on regular basis to ensure their wellbeing and to express solidarity in these trying times.

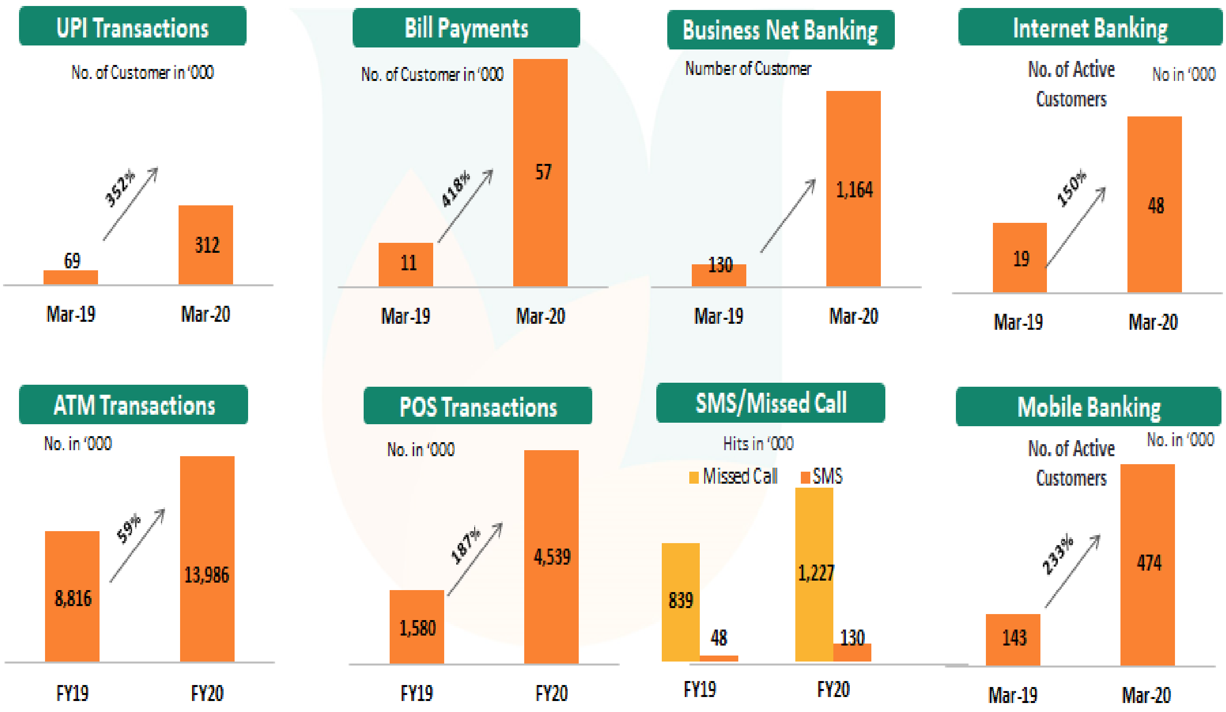
- The Bank has implemented all the directions made by RBI vide its circular dated 27th March 2020. Since the beginning of lockdown, the Bank focused on providing only the essential banking services to its customers through branches and alternate channels. The Bank has stopped the levy of minimum balance charges and ATM transaction charges up to 30th June, 2020 in adherence to the instructions from the Government.
- The Bank has put in place a Board approved policy on providing moratorium on loan repayments for its customers. The Bank has extended moratorium under all segments, deferring the repayments for ~99% of loan accounts. The communication regarding the moratorium was disclosed on the Bank's website and also communicated to customers through SMS and verbal communication. The Bank has temporarily discontinued collection of repayments through center meetings, which is an integral part of the microfinance business. As an outcome to the above actions, the Bank expects muted collections and business growth in the Q1 of FY 2020-21.
- 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. have helped the Bank in maintaining sufficient liquidity. 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 other banks and utilizing lines of refinance from NABARD, NHB and SIDBI, in case of need.
- 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. The Bank is also in the process of recruiting a Chief Technology Officer to support this initiative.

3.3. Progress in IT and Digital banking

During the quarter, process enhancements were undertaken to improve customer satisfaction and bring in efficiencies. An option for digital cash deposit receipt has been made available to the customers in addition to the physical cash deposit slips. NSDL system integration has been effected to authenticate PAN as identity proof for customers. The process of enabling Direct Benefit Transfer to customers has been simplified with a shorter turnaround time.

An AML query management system has been developed in order to maintain repository of AML queries and responses in one place which was earlier being maintained manually using spread sheets. This development will help in reducing mail box storage capacity, avoid data loss, effective follow up and reduce manual efforts. In compliance with regulatory guidelines of re-KYC, the Bank has implemented suitable processes and system capabilities for periodic updates on PAN verification, Aadhaar authentication, obtaining current address proof, providing acknowledgement to customers etc. The increased limit of deposit insurance coverage from Rs. 1 lakh to Rs. 5 lakh per depositor as mandated by DICGC was implemented during the quarter.

As at 31st March 2020, digital transactions constituted 25% of the total transactions, a strong improvement from 8% as at 31st March 2019. The Bank had also launched QR code program on a pilot basis which garnered in excess of 6,000 enrolments with over 190 lakh transactions on YTD basis. Digital channel adoption (Mobile banking and UPI) among customers had crossed the 2.5 lakh benchmark. A brief summary of the digital footprint is as follows:



3.4. Awards and recognitions

During the year, the Bank has been received the following awards and accolades under various categories:

1) Ranked 5th among "Asia's Best Companies to Work for- 2020" by Great Places to Work (GPTW).
2) Asia Money Best Bank Awards 2020 for "Best Microfinance Bank".
3) "ERM Strategy of the year" for implementing Enterprise Risk Management at ERM World Summit and Awards 2019.
4) "Risk Rising Star of the year" for ERM implementation at CRO Leadership Summit and Awards 2020.

5) IBA Banking technology innovation awards for "The Best IT Risk Management and Cyber Security Initiative".
6) IDEX Legal Awards, 2019 for the "Best in-house Legal Team" under medium-large category.
7) Finnoviti Awards 2019 for "Best Innovation in IT".

4. Key performance highlights of the Bank:

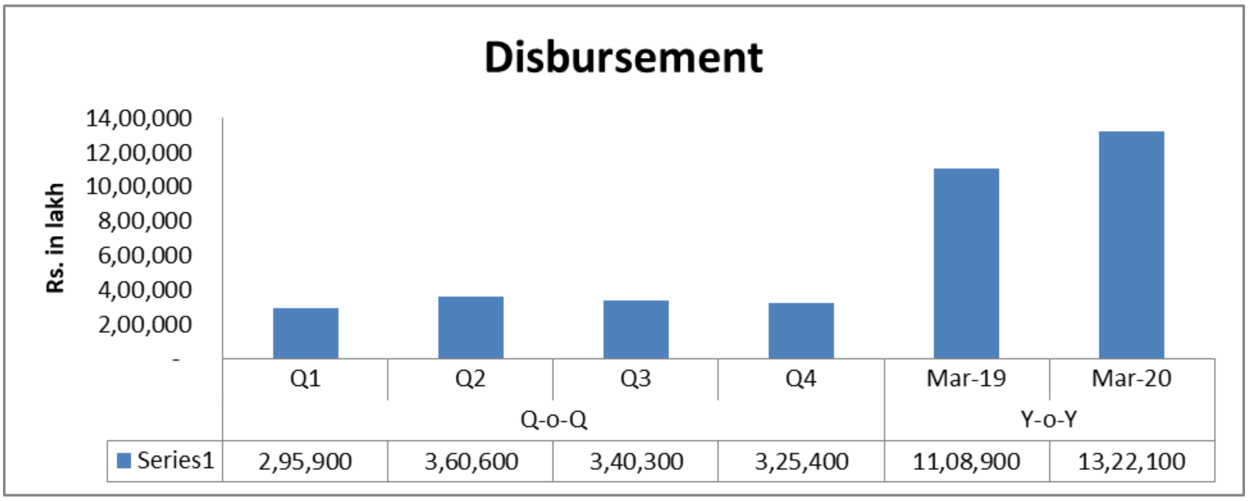
Some of the key achievements made for quarter ended 31st March 2020 were as follows:

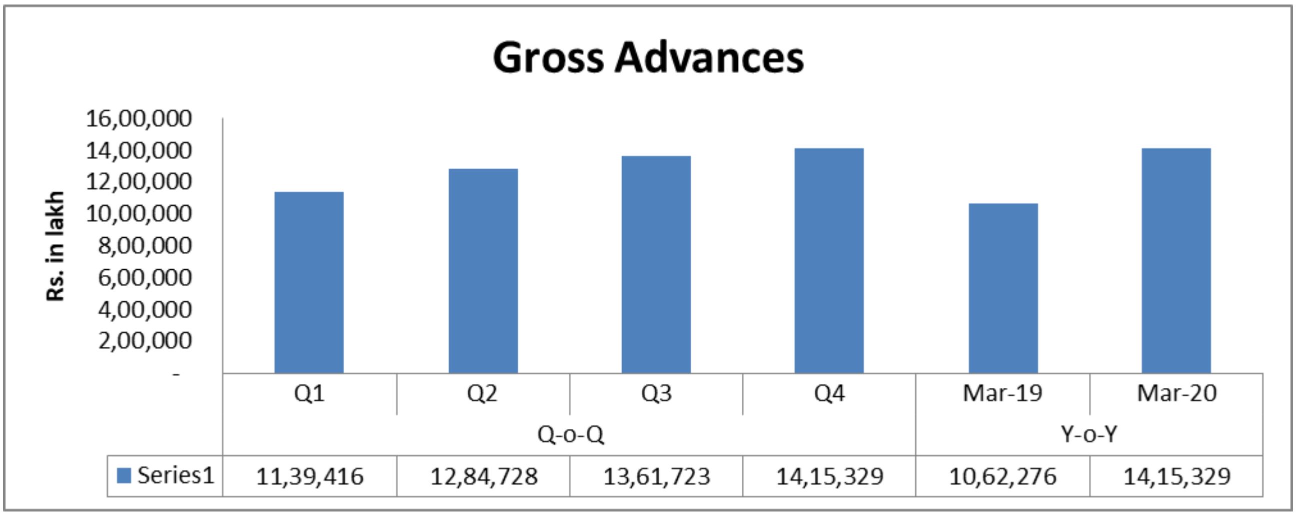
Key Highlights	Description
Customer base	• Total outreach: 52.50 lakh customers (51 lakh customers in December 2019; 46.1 lakh in March 2019)
Loan Portfolio	• Gross Advances at Rs. 14,15,330 lakh (Rs. 13,61,723 lakh in December 2019; Rs. 10,62,276 lakh in March 2019) • Non-Microfinance book at 23% (23% in December 2019; 15% in March 2019)
Deposit Balance	• Total Deposits (Retail plus Institutional): Rs. 10,78,048 lakh (Rs. 10,65,600 lakh in December 2019; Rs. 7,37,944 lakh in March 2019) • CASA: 14% (11.60% in December 2019; 11% in March 2019) • Retail: 44% (43% in December 2019; 37% in March 2019)
Portfolio Quality	• Gross Non-Performing Assets (GNPA): 0.97% (0.95% in December 2019; 0.92% in March 2019) • Net Non-Performing Assets (NNPA): 0.20% (0.38% in December 2019; 0.26% in March 2019) • Write offs during Q4: Rs. 1,960 lakh (Total Write off for FY 2019-20: Rs. 6,431 lakh)
Employee strength	• 17,841 (17,783 as at December 2019; 14,752 as at March 2019)
Profitability	• Profit after Tax (PAT) for Q4: Rs. 7,315 lakh (Rs. 8,966 lakh in Q3). PAT for FY 2019-20: Rs. 34,992 lakh) • Return on Assets (ROA): 2.21% (~2.10% in December 2019; 1.88% in March 2019)
Funding	• Cost of funds: 7.88% (8.08% in as at December 2019; 8.58% in March 2019)

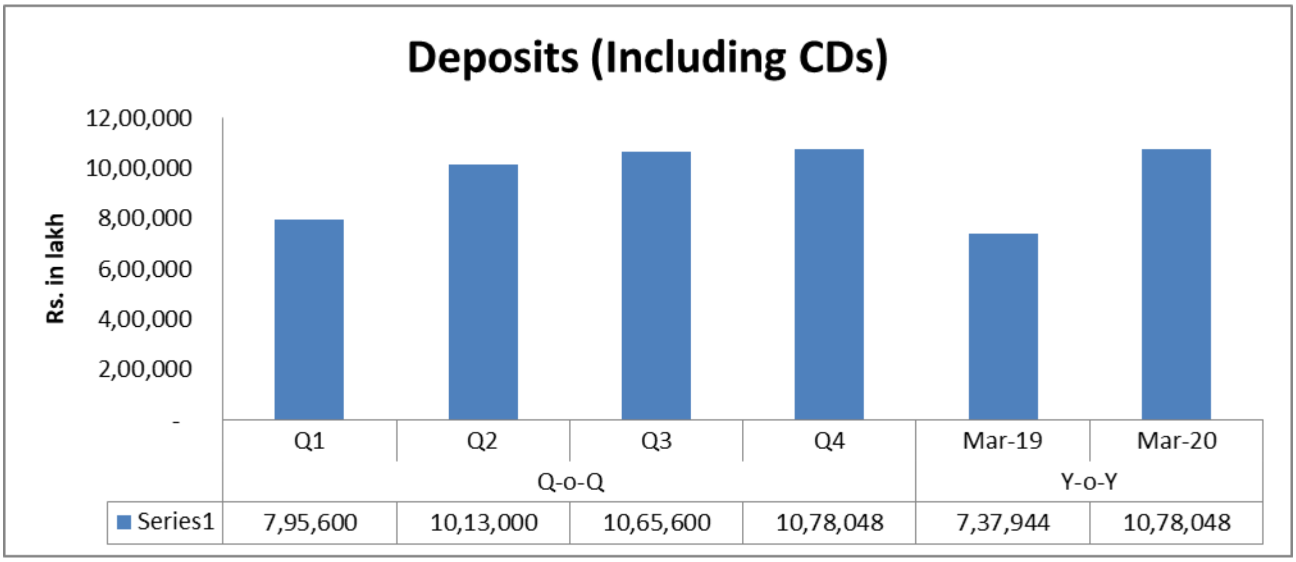
The key performance ratios of the Bank were as follows:

Particulars	March 2019	June 2019	Sept 2019	December 2019	March 2020
Yield	20.0%	20.1%	20.2%	20.1%	20%
Cost of Funds	8.4%	8.5%	8.4%	8.1%	7.9%
Net Interest Margin	10.8%	10.5%	10.8%	10.9%	11.2%
Return on Assets	2.1%	2.7%	2.4%	2.1%	2.2%
Return on Equity	14.2%	20.2%	18.9%	14%	9.3%
Cost to Income ratio	78%	64%	69%	71%	65%
Other income/ Total Income	11%	14.2%	10.3%	9.6%	8.9%

Return on Equity (RoE) has reduced from September 2020 onward largely due to the successful IPO launch in December 2019. The additional capital infusion has resulted in reduced of ROE on percentage basis.







5. Table DF- 1: Scope of Application

5.1 Qualitative Disclosures

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

The disclosures in this document pertain to the Bank as 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.

5.1.1 List 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

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

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

5.1.3 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 the Bank'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

6. Table DF-2- Capital Structure

6.1 Qualitative Disclosures

6.1.1 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 authorized capital was increased from Rs. 1, 70,000 lakh to Rs. 2, 50,000 lakh vide a shareholder's resolution dated 26th April 2019 to accommodate the Initial Public Offer (IPO). The Bank has an issued, subscribed and paid up equity capital of Rs.1, 72, 822 lakh, having 172, 82, 23, 169 shares of face value Rs.10 each as at 31st March 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 5.62% (Foreign Portfolio investors (FPI) and Non Residential Indians (NRI)) as at 31st March 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.

6.1.1.2. Promoter contribution[6]:

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 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 March 2020 was as follows:

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

Category of the Shareholder	No. of shares held	%age of shareholding
Promoter	1,44,00,36,800	83.32%
Mutual Funds	1,36,64,044	0.79%
AIFs	5,61,19,283	3.25%
Foreign portfolio investors	9,23,76,833	5.35%
Financial Institutions/Banks	4,58,639	0.03%
Resident Individuals/HUF	9,65,83,477	5.59%
NBFCs	7,70,298	0.04%
Others	2,82,13,795	1.63%
	1,72,82,23,169	**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[7]	Tier 1	1,72,822
2	PNCPS[8]	Tier 1	20,000
	Total		**1,92,822**

6.1.2 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.

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.

[7] Issued and Paid up equity capital
[8] Perpetual Non-cumulative Preference Shares

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.

6.1.3. 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.

6.1.4. Dividend policy

The Bank has formulated the Dividend Distribution Policy in compliance with the provisions of Companies Act, 2013 and Rules made thereunder, 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[9] 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. Accordingly, the Bank has passed an internal resolution in its Board meeting for restriction in payment of dividends for FY 2019-20.

7. Table DF- 3: Capital Adequacy

7.1 Qualitative Disclosures

[9] 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

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[10], 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 II norms 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 requirement, such as computation and maintenance of RBI prescribed minimum Liquidity Coverage Ratio (LCR) at 90% (revised to 80% vide RBI guideline[11] 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 extend 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.

The disclosures pertaining to capital adequacy are as per the Generally Accepted Accounting

[10] 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

[11] 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

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.

7.2 Quantitative Disclosures

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

Rs. in lakh

Capital Funds		
	Particulars	**Amount**
A	**Tier I Capital**	
A.1	Paid-up Share Capital	1,72,822
A.2	Reserves	1,24,427
A.3	Perpetual Non-Cumulative Preference Shares	20,000
A.4	Minority Interest	-
B	**Deductions**	
B.1	Investments in instruments eligible for regulatory capital of financial subsidiaries/associates	-
B.2	Securitisation exposures including credit enhancements	-
B.3	Deferred Tax Assets	4,005
B.4	Good will and Adjustments for less liquid position/intangibles	11,416
C	**Net Tier 1 Capital**	3,01,829
D	**Tier II Capital**	
D.1	General Provisions	7,135
D.2	Investment Fluctuation Reserve	1,523
D.3	Lower Tier 2 capital instruments	-
E	**Deductions**	
E.1	Investments in instruments eligible for regulatory capital of financial subsidiaries/associates	-
E.2	Securitisation exposures including credit enhancements	-
F	**Net Tier 2 Capital**	8,659
G	Total Eligible Capital	3,10,488

Capital Requirements for Various Risks		
Sl.No	**Capital Requirements for various Risks**	**Amount(in Lacs)**
A	**Credit Risk**	1,61,619
A.1	For non-sec portfolio	1,61,619
A.2	For Securitized portfolio	NIL
B	**Market Risk**	220
B.1	For Interest Rate Risk	220

B.2	For Equity Risk	NIL
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**	1,83,042
E	**Total Risk Weighted Assets**	13,45,254
F	**Total capital funds of the bank**	3,10,488
G	**Capital Adequacy Ratio of the Bank (%)**	**23.08%**

The detailed break up of Credit RWA is as follows:

Rs. in lakh

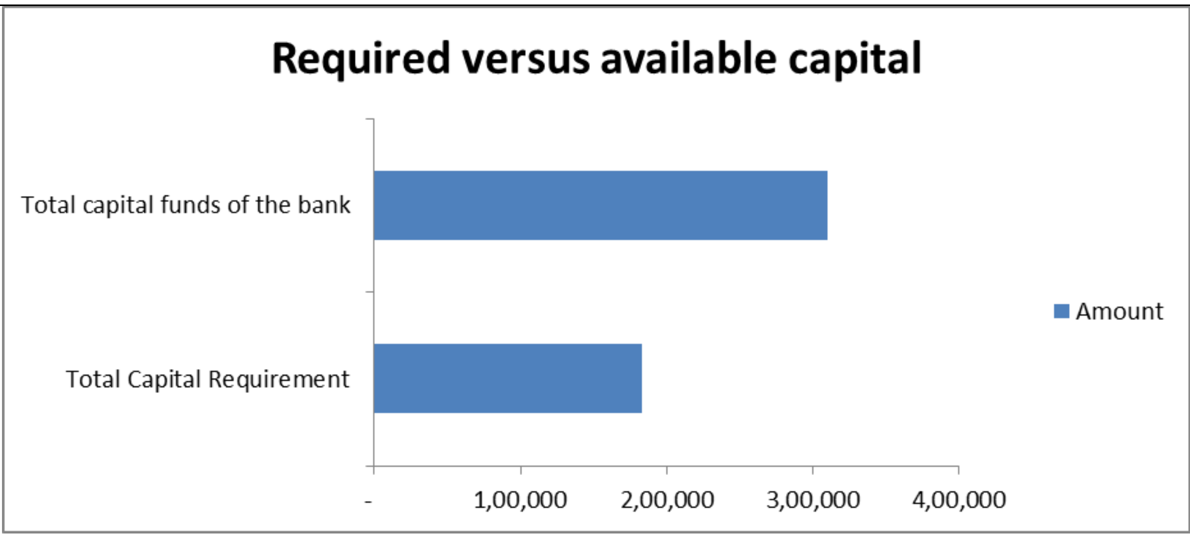
Asset Description	Risk weighted assets
Cash and Balances with Reserve Bank of India	0
Balances with Banks and Money at Call and Short Notice	2,728
Investments	13
Advances	10,24,688
Fixed Assets	20,697
Other Assets	26,689
Off Balance Sheet	2,642
Total	**10,77,457**

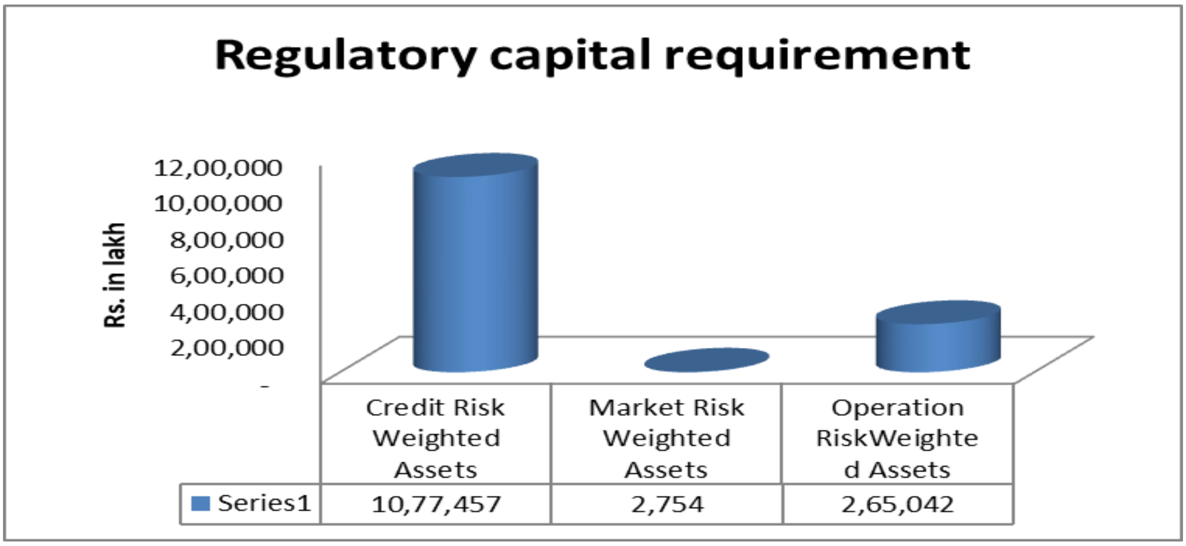
Basel II Ratios as at 31st March 2020 (Rs.in Lakh)

Particulars	Amount/Ratio(Only Credit RWA)	Amount/ Ratio (all Pillar 1 risks)
Tier I Capital	3,01,829	3,01,829
Tier II Capital	8,659	8,659
Total Capital	3,10,488	3,10,488
Total RWA	**10,77,457**	**13,45,254**
CET Ratio	26.16%	20.95%
Tier I Ratio	28.01%	22.44%
Tier II Ratio	0.80%	0.64%
CRAR	**28.82%**	**23.08%**

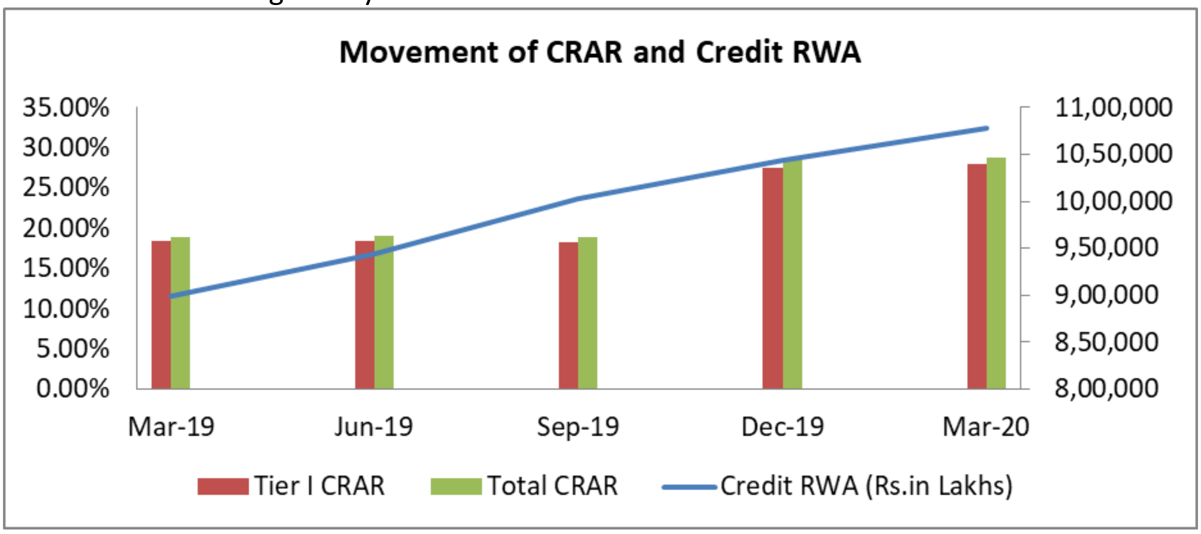
With the recent IPO, the CRAR of the Bank has witnessed a significant increase. The high capital adequacy is transitory in nature and is expected to stabilize with higher credit off - take in the ensuing financial year. This is also expected to cushion any potential adverse impact on account of COVID-19 pandemic in the ensuing year.

Graphical representation of capital position by reckoning *all three risks* is as below:





The movement of regulatory ratios on Credit RWA is shown as below:



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

8.1. Qualitative disclosures

8.1.1. 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 90 days 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 90 days 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.

8.1.2. Moratorium on loan repayments under COVID-19 regulatory package

On 27th March 2020, RBI issued fresh directions[12] to mitigate the burden of debt servicing brought about by disruptions on account of COVID-19 pandemic and to ensure the continuity of viable businesses. In respect of all term loans (including agricultural term loans, retail and crop loans), all commercial banks (including regional rural banks, small finance banks and local area banks), co-operative banks, all-India Financial Institutions, and NBFCs (including housing finance companies) were permitted to grant a moratorium of three months on payment of all instalments falling due between 1st March 2020 and 31st May 2020. The repayment schedule for such loans, as also the residual tenor would be shifted across the board by three months after the moratorium period. Interest shall continue to accrue on the outstanding portion of the term loans during the moratorium period. This was further extended up to 31st August 2020 by RBI on 22nd May 2020 to provide further relief. RBI had also issued detailed guidelines on treatment of asset classification and provisioning for such accounts on 17th April 2020.

In compliance to the above directions, the Bank has put in place a Board approved policy for providing moratorium on loan repayments for its customers. The Bank has extended

[12] Refer 'COVID-19 regulatory package' issued by RBI vide RBI/2019-20/186 DOR.No.BP.BC.47/21.04.048/2019-20 dated 27th March 2020.

moratorium under all segments, deferring the repayments for ~99% of loan accounts. The communication regarding the moratorium was disclosed on the Bank's website and also communicated to customers through SMS and verbal communication. The Bank has temporarily discontinued collection of repayments through center meetings. All microfinance customers have opted for moratorium and the following table provides details of moratorium availed by other verticals:

Rs. in lakh

Business vertical	Borrowers	% to total borrowers	Amount
MSE	10,497	48%	68,300
Housing	13,116	52%	97900
Personal Loans	2,668	44%	4,150
Vehicle Loans	1,480	81%	1,020
Institutional Lending	10	31%	11,662

The Bank has implemented tools for real time monitoring of these borrowers, the details of which are given under section 10 of this disclosure.

8.1.3. 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 this and especially since the microfinance portfolio comprised 77% of the loan book as at 31st March 2020, the Bank has always deemed it appropriate to follow a conservative approach in its provisioning policy.

Further, with the onset of COVID-19 pandemic, RBI has directed all banks to maintain 10% provision on standard overdue cases (1-89 DPD) split between two quarters. However, the Bank has deemed it appropriate to maintain over and above the RBI mandated norms keeping in mind the inherent risk in the portfolio. The Bank has also increased its provision rate in NPA category to further strengthen the Provision Coverage Ratio (PCR %) The details of additional provisions made were as follows:

Rs. in lakh

Particulars	Bank's Provisions	RBI req. (Min 5% in Mar'20)	RBI Req. (Min 10% by June'20)
Provision on Standard Overdue Cases (%)	38%	5%	10%
Additional Provision on Standard Overdue Cases	4,580	550	650

Additional Provision on NPA Cases	2,420	-	-
Total Additional Provision	7,000	550	650
Total Cumulative Provisions	23,000	16,500	17,100
Total Portfolio	14,15,330	14,15,330	14,15,330
% Coverage on Total Portfolio	1.64%	1.17%	1.21%

The provision particulars at the quarter end are provided below:

Rs. in lakh

Asset Class	Gross Advances	Provision	%Provision
Standard	14,01,615	12,033	0.86%
Sub-standard	12,491	9,793	78.40%
Doubtful	1,056	1,006	95.22%
Loss	166.55	166.55	100.00%
Total	**14,15,330**	**22,998**	**--**

Presently, the Bank provides 0.50% on its standard asset portfolio against the RBI mandated figure of 0.40%.

With the above enhancements, the Provision Coverage Ratio (PCR %) had increased to 80% (89% in microfinance) as at 31st March 2020 as against 72% (76% in microfinance) as at 31st March 2019. The vertical wise distribution of PCR % is provided as below:

Rs. in lakh

Region	GNPA	Provision	PCR%
Group loan (Incl. rural banking)	8,668	7,697	89%
Individual Loans (Incl. rural banking)	955	852	89%
MSE	2,812	1,765	63%
Housing	1,164	558	48%
Personal Loan	104	83	80%
Staff Loan	11	9	82%
Grand Total	**13,714**	**10,965**	**80%**

8.1.3.1. Provisions as per Expected Credit Loss (ECL) under Ind-AS

During FY 2018-19, RBI had issued a notification[13] that the legislative amendments recommended by the RBI were under consideration of the Government of India. Accordingly, it has been decided to defer the implementation of Ind AS till further notice.

[13] Refer RBI notification on Deferral of Implementation of Indian Accounting Standards (Ind AS) issued vide RBI/2018-2019/146 DBR.BP.BC.No.29/21.07.001/2018-19 dated 22nd March 2019.

However, this deferral was applicable only to Scheduled Commercial Banks (SCBs).

The Ind AS transition continues to be applicable to Non-Banking Financial Services Companies (NBFC). Inasmuch as the financial accounts of the Bank are consolidated with that of the Holding Company, an NBFC, the Bank has also recast its financials using the Ind AS standards, including the computation of Expected Credit Loss (ECL). This is in addition to financial statements under Generally Accepted Accounting Principles (GAAP). The Bank, however, continues to report its financial statements according to GAAP norms.

As the accounts of the Bank are consolidated with that of its Holding Company at the year end, the Bank was required to compute key risk factors under ECL i.e. Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). The consolidated accounts take into consideration the impact of ECL.

The Bank has incorporated additional management overlays in its PD and LGD computation models to reflect the potential stress which can be caused by COVID 19 pandemic.

8.1.4. Rescheduled/ Restructured loans

The Bank only selectively and in exceptional circumstance, where a comprehensive review by Credit and Collections warrants it, reschedules or restructures loans. All loans, where the repayment terms of existing advances have been revised in order to extend the repayment period and/or decrease the instalment amount as per the borrower's request are marked as rescheduled/ restructured loans. Loan rescheduling is done for genuine cases and not for technical reasons.

- ✓ Restructuring results in an immediate downgrading of the loan, i.e. a standard loan becomes sub-standard and immediately attracts provision as per the asset classification and subsequent provisioning norms.
- ✓ If the account continues to deteriorate post restructuring, it slips into further lower asset classification with reference to pre- restructuring repayment schedule and attracts provisioning as per the policy.
- ✓ If a non-performing asset is rescheduled, it continues to have the same classification as prior to rescheduling and slips into further lower asset classification upon non-performance as per asset classification norms with reference to the pre-rescheduling repayment schedule and attracts provisioning as per policy. If the account performs regularly, it is upgraded after one year of satisfactory performance of the loan.

- ✓ As required by RBI guidelines, in each case of rescheduled loans for its MSE and Housing vertical, the Bank makes an additional provision by computing comparable NPVs for the "before" and "after" restructuring scenarios[14]. For the microfinance book, this is provided for as a percentage of the overall restructured book. These

[14] Refer clause 17.4.2 of RBI guidelines on Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances dated July 1, 2015.

additional provisions are aimed to capture the loss due to diminution in the fair value of advances due to restructuring.

- ✓ The Bank however reschedules loans that are the recipient of grants under the Prime Ministers Avas Yojana scheme. The Bank follows the directives of the scheme and such loans when rescheduled are excluded from the purview of the provisioning directives of RBI.

- ✓ The Bank is currently in the process of enhancing its Restructuring policy in light of the COVID 19 pandemic. Post completion of the loan moratorium provided by RBI, the Bank will assess the need for restructuring after consultation with borrowers and on a selective basis.

8.1.5. Write-offs

The following table provides the criteria for writing off loans for the different category of loans. The Bank, however continues its efforts on recovery even after writing off:

Category of loans	Trigger point
Unsecured loans	a) Doubtful and Loss assets can be written off after 180 Days Past Due (DPD) which are fully provided for b) Loss assets identified earlier based on specific reasons or circumstances can be written off after 180 DPD with Credit Risk Management Committee (CRMC) approval
Secured Loans	Can be written off after 545 DPD
Loss Assets classified as Benami loan/Sub lending/Abscond cases	a) Unsecured loans after 180 DPD b) Secured loans after 365 DPD c) Benami/Sub-lending cases may be written off earlier basis the report from Risk and Fraud Management Committee.
Fraud Cases (As confirmed by the Risk and Fraud Management Committed and reviewed by the Risk Committee)	a) An unsecured loan after 180 DPD or immediately after the fraud has been established and full provision is made on the Bank's books. b) A secured loan after 365 DPD or immediately after the fraud has been identified and full provision made on the books. c) Any fraud account over and above Rs. 1 lakh can only be written off by the MD and CEO

For Q4 of FY 2019-20, the Risk Management Committee had approved write-offs to the tune of Rs. 1,936 lakh. These were advances which were provided for in full and where no recoveries had been made in the recent past. Further, the Bank is of the opinion that these advances have low probability of recovery. A summary of write off made in the current financial year is given as under:

Period	Amount (Rs. in Lakh)
Q1	1,570
Q2	1,685
Q3	1,216
Q4	1,936
FY 2019-20	**6,407**

8.1.6. Credit Risk Management

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

Rs. in lakh

Business vertical	OSP	% Share
Group Loans (MF)[15]	9,46,838	66.90%
Individual Loans (MF)[16]	1,46,840	10.37%
Housing	1,52,387	10.77%
MSE	98,026	6.93%
Loan against FD	6,312	0.45%
Personal Loan	7,858	0.56%
Vehicle Loan	1,288	0.09%
FIG	54,899	3.88%
Staff	1,094	0.08%
Less: Adjustments [17]	(211)	-0.01%
Total	**14,15,330**	**100.00%**

At Bank level, the Gross NPA (GNPA) had marginally increased to 0.97% in March 2020 from 0.95% in December 2019 and 0.92% in March 2019. The reasons for increase are explained in the respective portfolio review.

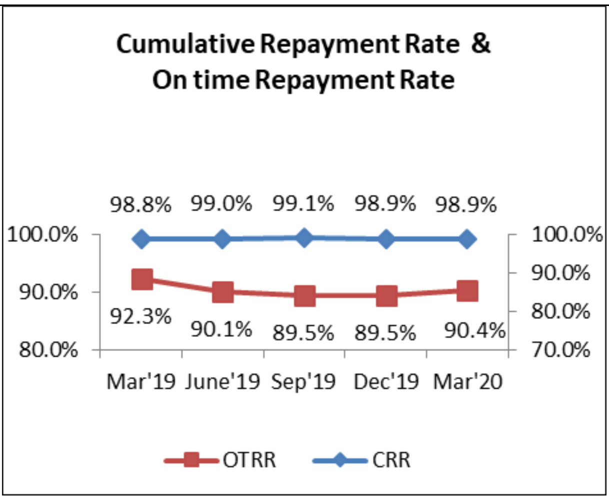
8.1.6.1. Microfinance loans

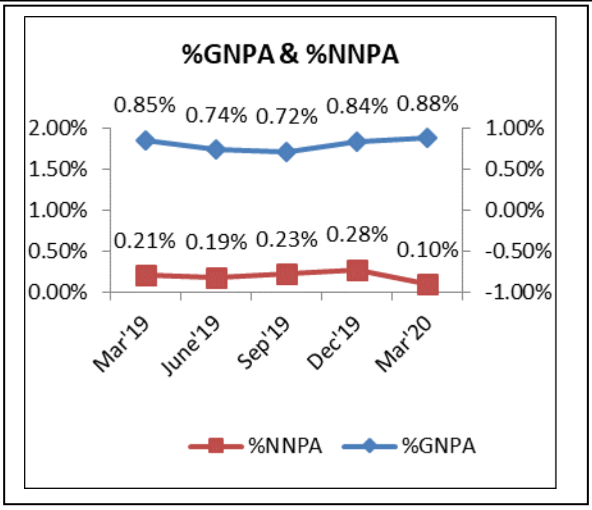
Key risk indicators such as Cumulative Repayment Rate (CRR) had shown stable trends affirming that the overall health of the credit portfolio was healthy in the microfinance portfolio.

[15] Includes Agriculture Group Loans (AGL)

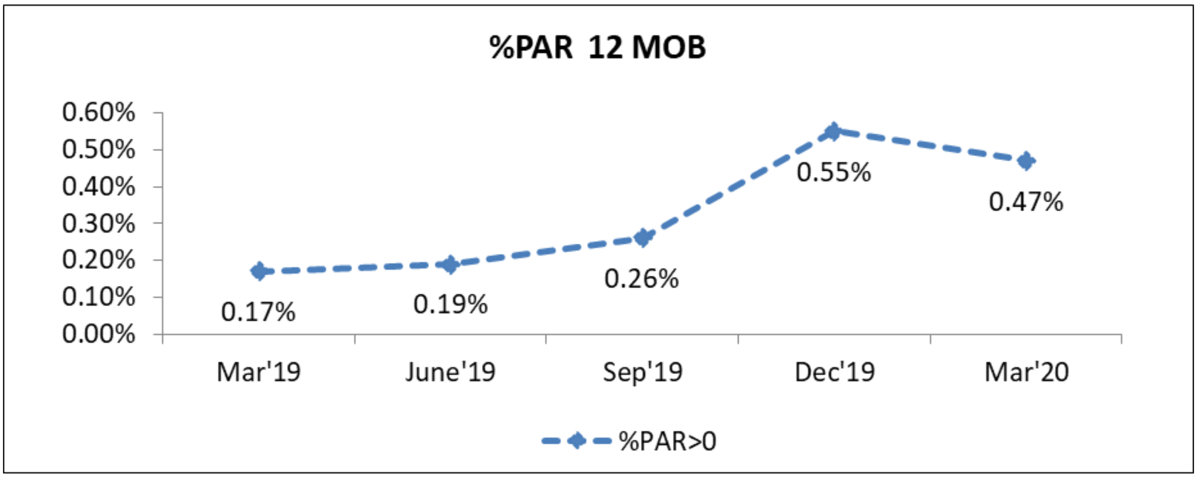
[16] Includes agriculture loans

[17] Adjustments on account of interest suspense accounts





On Time Repayment Rate (OTRR) has marginally increased to 90.4% as compared to previous quarter while Cumulative Repayment Rate (CRR) has been stable at 98.9%. The 12 Month on Books (MOB) advances showed a decreasing trend in PAR due to better recoveries from states which were affected by natural calamities.



PAR > 0 DPD in Microfinance loans sourced during the last 12 months was at 0.47%, an increase from March 2019. The increase in delinquency can be mainly attributed on account of PAR additions seen in micro finance on account of natural calamities and external events affecting Assam state. The movement in PAR in states affected by natural calamities was as follows:

State	PAR Movement & Progress in Affected Branches				
	June'19	Sept'19	Dec'19	Mar'20	Credit Cost[18]
Odisha	10.5%	2.8%	3.4%	3.2%	380
Karnataka	2.3%	9.7%	2.0%	1.5%	120
Maharashtra	1.1%	2.4%	7.3%	5.5%	180

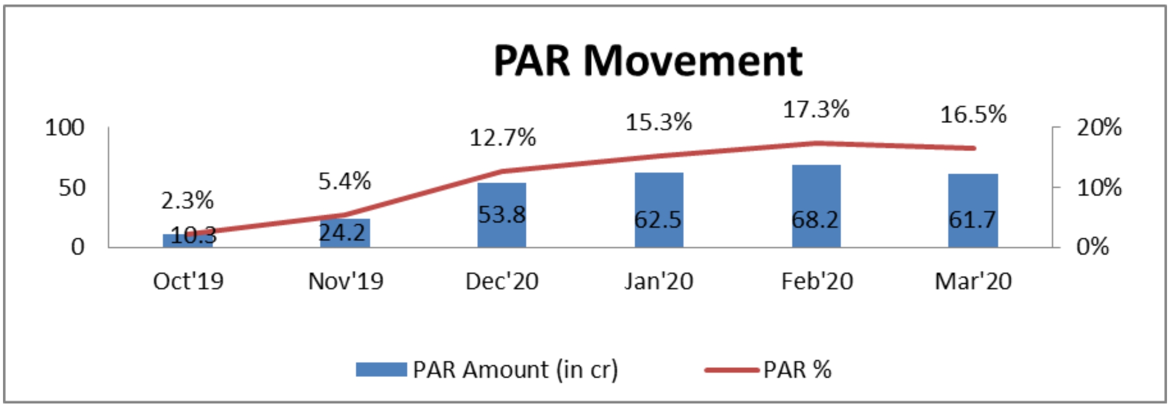
[18] Rounded off to the nearest 10

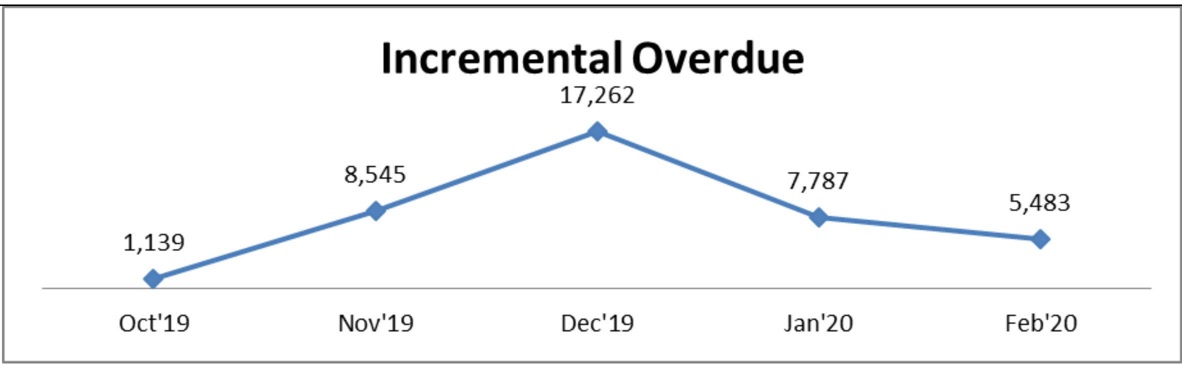
Bihar	0.2%	2.0%	0.4%	0.2%	10
Madhya Pradesh	1.1%	2.1%	2.5%	2.5%	230
Total	**4.3%**	**4.6%**	**3.0%**	**2.6%**	**920**

Among the affected geographies, Karnataka and Bihar continued to show excellent progress and the portfolio performance is back to near normal levels. Odisha, Madhya Pradesh (MP) and Maharashtra have shown gradual improvements with no incremental stress observed. There is slow recovery from Odisha observed across the industry and the Bank has leveraged bureau information for prioritizing collection efforts. In MP, agricultural activity was impacted due to crop damage and borrowers' income was affected for one Crop cycle. The Bank had initiated settlement programs in the months of March 2020 at specific locations. In Maharashtra, customers from Kolhapur & Sangli belts had started making payments in Q4 after taking three months to recover from the stress. However, collection practices adopted by the Bank have been soft due to political influence in the area.

The state of Assam was affected due to two external events, listed below, which had the combined effect of disrupting the entire state economy and credit lending. This had also adversely impacted the Bank's customers, like all other microfinance institution customers, which resulted in large scale portfolio stress.

- ✓ Student and labour unions protests against MFI's owing to high indebtedness of microfinance borrowers in Upper Assam
- ✓ The introduction of CAA and NRC led to extreme unrest in the entire state including customers from lower Assam, leading to violence for several days and section 144 being imposed during December 2019.





The Bank has undertaken various programs for customer outreach and communication, social development programs, changes in underwriting/credit policies and additional provisioning as risk mitigation measures to address this issue. The Bank had identified 68 officers in February 2020 to move to the role of collections for follow up on potential NPA accounts with a collection efficiency of 23%. This focus is expected to continue until the portfolio stabilizes. The Bank has also undertaken relief activities in Jorhat district. Relief activities are planned for customers in Titabor and Golaghat in the ensuing quarter. The Bank is also working on implementing the MFIN relief package across the entire portfolio.

8.1.6.1.1. COVID-19: Actions taken by the Bank (updated as at 18th May 2020)

Moratorium has been provided to all eligible customers (~99% microfinance borrowers) for the period between Mar'20 and May' 20. *Janta Connect* – a program to create awareness on moratorium and COVID-19 was undertaken by the Bank during March 2020 and April 2020 through which more than 42 lakh customers were contacted. During the lockdown period, the Bank focused on seeking inputs from borrowers through specific surveys to assess the impact on customer livelihoods and probable migration. The Bank surveyed in excess of 90,000 customers with a guided questionnaire during 14th to 18th April 2020. Some of the key results of the survey were as follows:

- **COVID-19 awareness**: 91%, with 97% in Metro region and 87% in rural
- **Moratorium**: 77.6% needed moratorium, 4.6% can pay 1 EMI, 17.8% - do not need moratorium
- **Income impact during lockdown**: Reduced to zero (62%), High Impact (22%), Moderate (7%), Low/No Impact (9%)
- **Worst income impact %:** Wage earners (82%), Self-employed (75%), Agriculture (62%), Salaried (39%)
- **Migration**: 96% - No migration, 2.5% migrated/returned to native places, 1% planning to migrate or go to native.

These inputs were critical to frame the business and risk management strategy for the future. The Bank has revised its Credit Policy accordingly. Training has been imparted to all the employees of business and credit teams on the Do's and Don'ts. The Bank intends to focus on serving good repeat customers in the immediate term with a guarded approach for new credit applications. On a priority basis, customers engaged in agriculture and essential services were approached for repeat loan requirements on priority while wage earners and migrant customers will be serviced post normalcy. Independent cross check on loan applications was undertaken through tele-calling. Branch supervisors were trained and re-certified to conduct credit assessment at branch level instead of the usual practice of regional hub and spoke model. Branch working areas were also dynamically updated for operations or otherwise based on ward level information available on containment zones and local guidelines.

The Bank intends to fully leverage and unlock the potential in digital loan processing and digital repayment methods. In this regard, the Bank has started repeat loan processing over phone on a pilot basis. Repeat loans shall be offered through this medium to sets of pre-screened customers. Trainings across regions have been completed with specific branch trainings which are currently underway. On the collections side, the Bank has tied up with Airtel payment bank to leverage their vast network. The Bank intends to on-board such agents across forty branches to begin with.

With the multiplicity in sources of credit to microfinance customers and without a uniform regulation, safeguarding the interests of low-income-customers, who are generally quite vulnerable, was becoming increasingly challenging. For this purpose, a meeting of all Providers of micro-credit was called to agree and adopt a uniform-common code for customer-conduct in micro-credit. This code was titled 'Code for Responsible Lending (CRL) in Micro-credit'. This document defined the elements of Code for Responsible Lending (CRL) which is sector specific and entity agnostic. This code was applicable to unsecured micro-credit loans[19] given to microfinance segment[20] by all Providers[21]. The CRL document dealt with guidelines encompassing areas of fair interaction with customers, suitability of products, education and transparency in offerings, information and privacy of credit information and grievance redressal mechanism. The Bank has obtained the necessary approval from its Board and has adopted the CRL document formally notified the CRL steering committee about its acceptance. The Bank also provides information (as per pre-

[19] For NBFC-MFIs, these loans come under 'qualifying asset' criterion. It may be noted individual loans i.e. loans without the group liability and where repayment capacity of the customer is thoroughly assessed by the Provider are outside the purview of CRL.

[20] As defined by the RBI.

[21] Provider is defined as a legal entity, which provides micro-credit in line with RBI norms under 'qualifying assets' criterion for NBFC-MFIs and provide their data to Credit Information Companies (CICs). Therefore, Provider includes entities such as NBFC-MFI, SFB, Bank, NBFC, Section 8 Company etc. It is clarified that all micro-credit loans delivered directly or indirectly (such as under partnership model or through securitization, direct assignment or co-origination) are covered.

specified format) on quarterly basis to the CRL steering committee.

The Committee was informed that the CRL document would be signed and submitted to the CRL Steering Committee on approval.

8.1.6.2. Non-Microfinance Portfolio

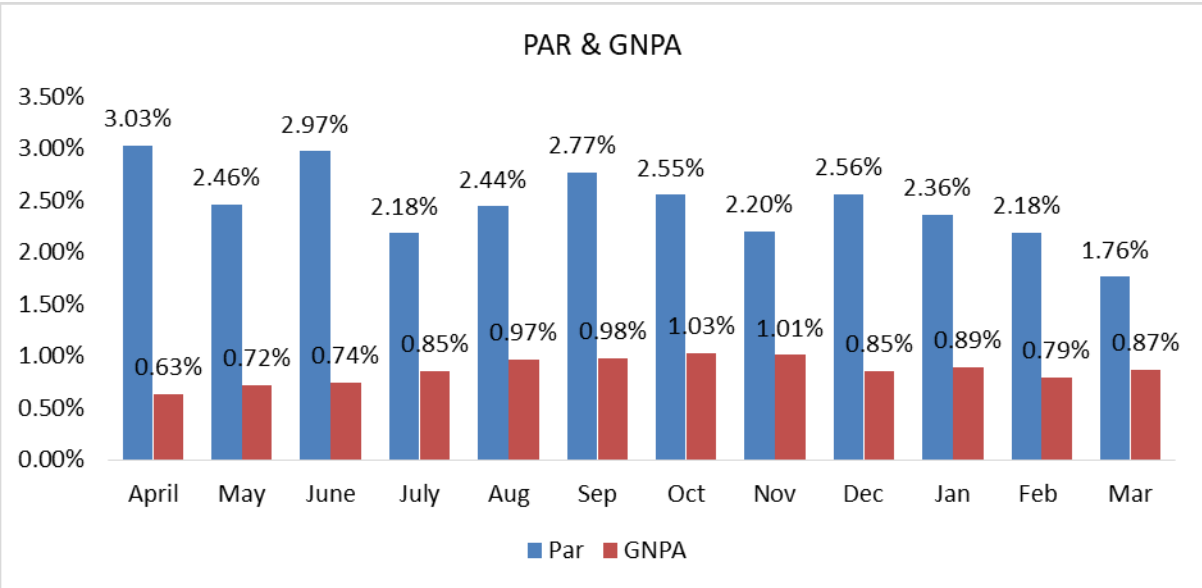
The non-microfinance portfolio includes advances for secured Housing, MSE loans, Agriculture Loans, Personal loans, Institutional Loans and a very small book for vehicle finance. The entire non-microfinance loans contributed 23% i.e. (Rs 3, 21,652 lakh) of the total advances. From a risk management perspective, the Bank has put in place various frameworks for risk identification, risk measurement, risk mitigation and risk monitoring. The intended purpose was to establish a robust governance, risk and compliance framework for the newer portfolios. These frameworks would help the Bank to identify incipient stress and provide early warning signals of stress.

A brief description of the performance in each category is furnished as below:

8.1.6.2.1. Secured Housing

Rs. in lakh

Housing Loans	Mar-19	Jun-19	Sep-19	Dec- 19	Mar-20	Y-o-Y Growth%
South	25,660	30,618	36,605	42,170	46,176	79.95%
North	15,509	16,892	18,526	19,748	20,570	32.63%
East	9,325	11,563	14,633	17,214	19,556	109.72%
West	32,505	41,534	51,406	58,921	66,015	103.09%
Grand Total	**82,998**	**1,00,607**	**1,21,169**	**1,38,053**	1,52,318	83.52%



As at 31st March 2020, the Bank had 19,127 plus borrowers under the housing portfolio. The year saw action in Affordable housing segment with lot of prime segment players entering the segment which was earlier dominated by few regional AHFCs and NBFCs due to higher yields, more demand and Government push on Affordable housing. The Bank registered an 84% y-o-y growth and disbursal grew by 44% during FY 2019-20. The Housing loans portfolio registered a robust growth up to February 2020 but growth was muted in the month of March 2020 on the account of COVID-19 pandemic and the subsequent national lockdown.

The Bank provides its Housing product offering through 344 branches. The product offering have been continuously aligned with the business strategy and with focused target on semi-urban customer segment. As at 31st March 2020, 64% of the total borrowers were salaried while 35% were self-employed (non-professional) and the rest being self-employed (professional segment). The Bank has leveraged the PMAY-CLSS subsidy scheme, a scheme which is attractive to the aspiring middle class buying their first house.

Striving to ensure a higher contribution of direct sourcing, the Bank has developed a structured sales process. Regional Business Managers (RBMs) have directly supervised loan officers for canvassing the various offerings through open market activities. Product team has driven monthly training via conference calls and leveraged the internal training mobile application. Variable pay program has also been structured to encourage direct business. Product handbook and assessment based training content has been designed and circulated to ensure that the Bank’s field force is equipped appropriately.

As part of risk mitigation efforts and to tap cross selling opportunities, the Bank has been successful in enrolling customers for life insurance schemes and general insurance scheme. During the year, the Bank earned an income of Rs. 85 lakh and Rs. 51 lakh through sale of life and general insurance schemes.

8.1.6.2.1.1. COVID-19: Actions taken by the Bank (updated as at 18th May 2020)

The Bank has engaged with 19,000+ customers to equip them with COVID-19 pandemic measures and taking moratorium requests. The Bank has undertaken various deep-dive portfolio analyses based on occupation, ticket size, product types and repayment trends. The Bank has also prepared a watch list of accounts for real time monitoring. To this regard, the Bank has subscribed to bureau data for obtaining real time updates on over-leverage, change in residential status and communication details. Regular reports are being disseminated to field functionaries for necessary action. During the lockdown, the Bank initiated various employee engagement activities in online training programs on products and policies, examinations for frontline teams. The Bank has prepared an initial draft of a State wise collateral policy and standardized the customer visit reports for residence, place of residence and collateral. The Bank also sought to close credit shield policy issuance pending cases and followed up on death claims settlement from insurance partners.

Collections will be the key focus area for the Bank post lockdown. The Bank is currently working upon on region wise and industry wise changes to credit policy basis COVID impact. More focus will be given on Green zone, Rural areas and priority for existing customers irrespective of district categorization.

During the year, the Bank had successfully launched its credit rating scorecards in its LOS. This was a mandate of RBI. The credit rating scorecards are not being used for decision making for the time being. But these are a first and an important step in enhancing the credit review mechanism for this line of business. With periodic recalibration based on data, it is expected that the credit scorecards as a decision making tool will be effective from the FY 2021.

8.1.6.2.2. Micro and Small Enterprises (MSE):

Rs. in lakh

Region	Mar-19	Jun-19	Sep-19	Dec- 19	Mar-20	Y-o-Y Growth%
South	17,695	19,985	23,827	26,785	28,234	59.56%
North	16,209	18,481	20,277	21,719	22,691	39.99%
East	16,874	20,218	26,577	29,995	31,357	85.83%
West	8,307	9,830	12,716	14,479	15,590	87.67%
Grand Total	**59,084**	**68,514**	**83,396**	**92,978**	**97,872**	**65.65%**

The MSE vertical disbursed ~Rs. 61,100 lakh during FY 2019-20 registering a 22% growth over FY 2018-19 (Rs. ~49,900 lakh) with an average ticket size of Rs. 14.60 lakh. The Bank offered MSE loans from 114 clusters[22], covering almost all the Bank branches. As at 31st March 2020, the share of secured loans within MSE had reached 91% of the total MSE loan book. During the quarter, the Bank availed SIDBI refinance of Rs. 4,000 lakh to reduce the cost of funds. The Bank has completely stopped its unsecured MSE product and the residual amount is being allowed to run off. Collection effort was stepped up in the clusters that are affected to contain further slippages up to 24th March 2020.

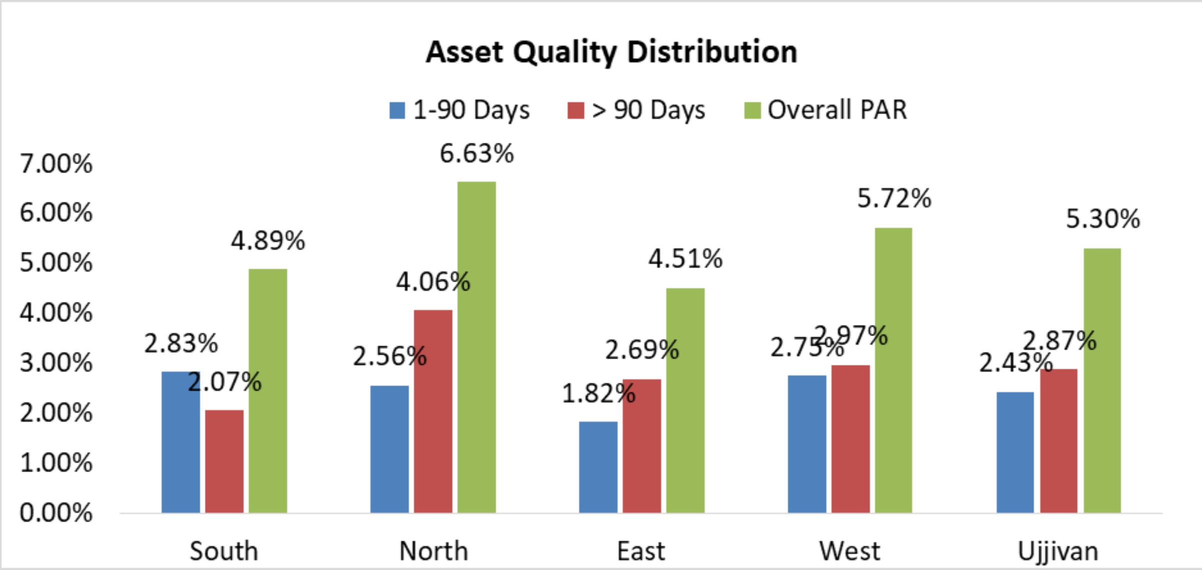
The Bank has taken cognizance of the underlying risks in this market and had internally defined triggers for active monitoring. To improve / monitor its asset quality, the Bank has implemented a “cluster improvement plan” with specific credit tightening in stressed sectors based on internally defined triggers at cluster level. Through this initiative, the Bank has tightened credit appraisal criterion, raised delegation of sanction to higher authorities and provided focused efforts on collections and recovery. These clusters are continuously monitored until such time that improvement is shown especially with respect to arresting

[22] For the purpose of operational efficiency, the Bank has grouped branches into clusters. On an average, there are 3-5 branches in every cluster. The definition of a cluster is flexible to cater to internal operational follow-up and credit monitoring.

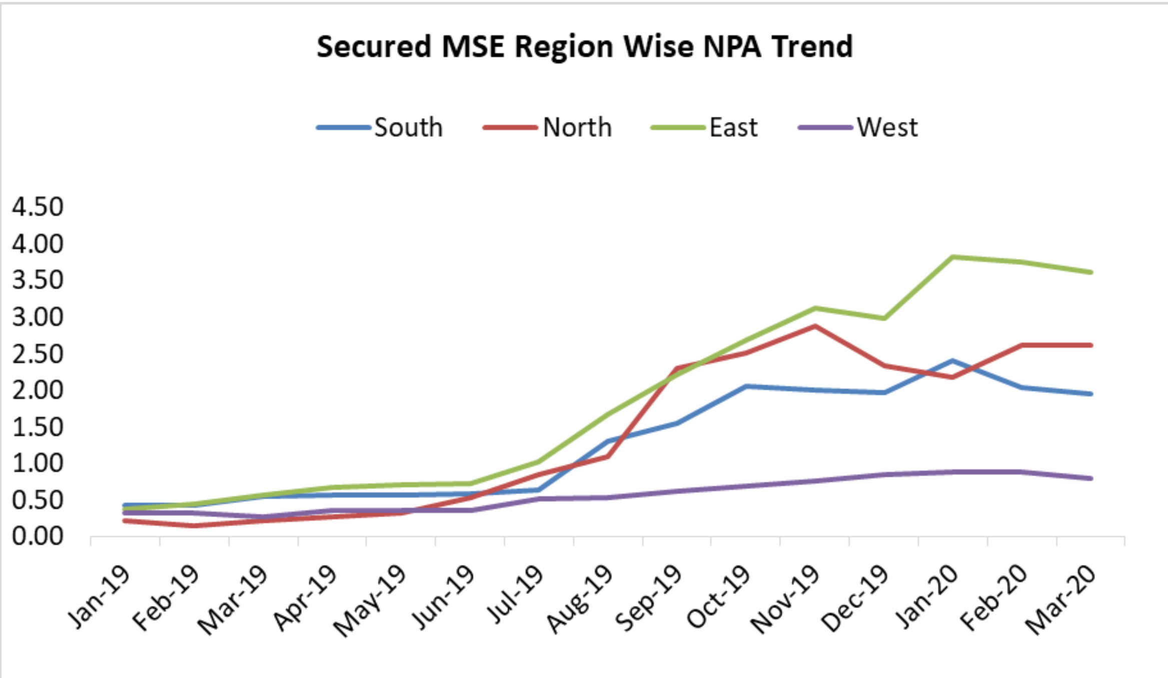
PAR.

On the technology front, the Bank is continuously looking at opportunities to improve its operational efficiency through regular patch updates, and introduction of new functionalities in its systems. These enhancements are aimed to improve TAT and officer productivity.

The distribution of PAR as at 31st March 2020 was as follows:



The trend in NPA for Secured MSE loans was as follows:



During the year, the Bank had successfully launched its credit rating scorecards in its LOS.

This was a mandate of RBI. The credit rating scorecards are not being used for decision making for the time being. But these are a first and important step in enhancing the credit review mechanism for this line of business. With periodic recalibration based on data, it is expected that the credit scorecards as a decision making tool will be effective from the FY 2021.

8.1.6.2.2.1. COVID-19: Actions taken by the Bank (updated as at 18th May 2020)

The Bank has engaged with 14,000+ customers to equip them with COVID-19 pandemic measures and taking moratorium requests. The Bank has undertaken various deep-dive portfolio analyses based on occupation, ticket size, product types and repayment trends. The Bank has also prepared a watch list of accounts for real time monitoring. To this regard, the Bank has subscribed to bureau data for obtaining real time updates on overleverage, change in residential status and communication details. Regular reports are being disseminated to field functionaries for necessary action. During the lockdown, the Bank initiated various employee engagement activities like online training programs on products and policies, examinations for frontline teams. The Bank leveraged its internal training platform for the same. The Bank has prepared an initial draft of a State wise collateral policy and standardized the customer visit reports for residence, place of residence and collateral. The Bank also sought to close credit shield policy issuance pending cases and followed up on death claims settlement from insurance partners.

8.1.6.2.3. Agriculture and Rural Business

The Agriculture and Rural Business had performed well and a summary of their key indicators is given below:

Rs. in lakh

Particulars	March 2019*	June 2019*	Sept 2019*	Dec-19	Mar-20
QTD Disbursement	10,400	11,540	16,440	18,537	17,942
YTD Disbursement	20,500	11,540	27,940	46,665	64,400
Outstanding Principal	18,500	28,740	39,460	50,575	58,520
Ticket Size	30,543 (GL) and 78,830 (IL)	28,832 (GL) and 90719 (IL)	30,459 (GL) and 95,639 (IL)	31,461(GL) 59,043(AGL) and 94,003(IL)	32044(GL) 59414(AGL) 105096(IL) 92864(KSL)

*rounded to nearest 100

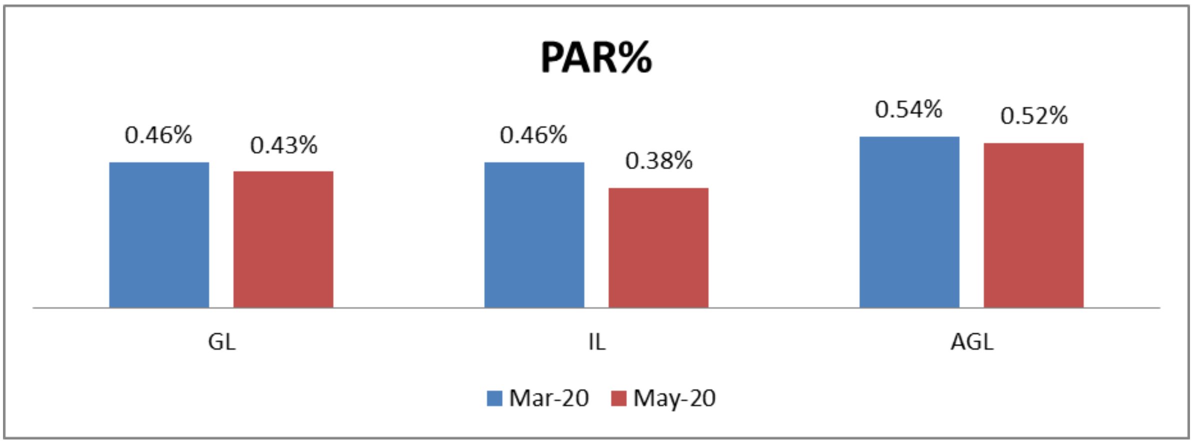
The trend in portfolio quality (Updated as at May 2020) is as follows:

Rs. in lakh

Particulars	March 2020	April 2020	May 2020

PAR >0 DPD	337	320	317
Overall OD accounts	1,543	1,390	1,385
PAR% > 0 DPD	0.59%	0.56%	0.54%
GNPA%	0.33%	0.22%	0.21%

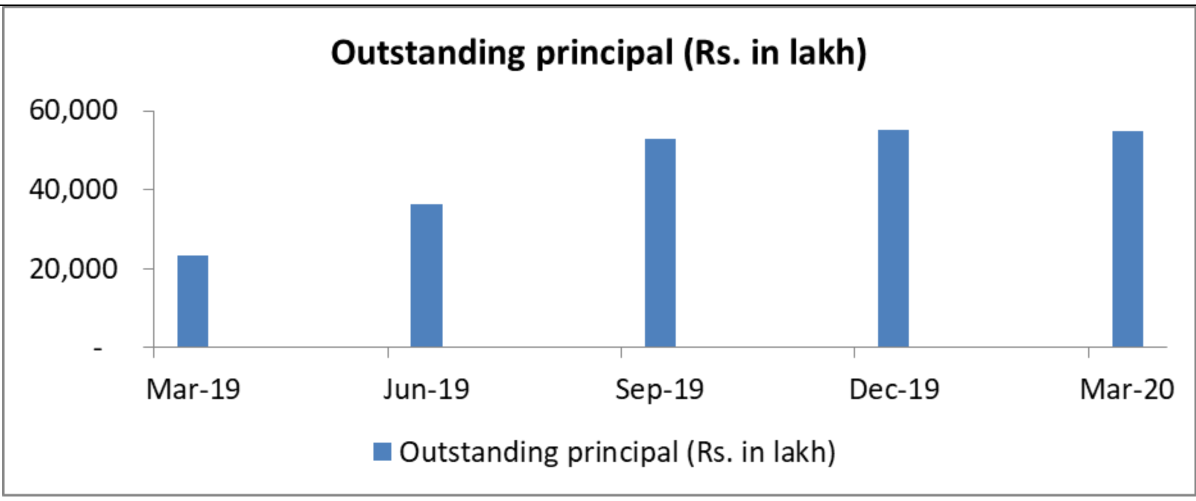
The product wise trend in PAR is as follows:



The impact of COVID-19 pandemic has had a relatively lower impact in agriculture sector as compared to other sectors. The Bank sees a potential to step up its agri business with state specific policies for the same. During the ensuing year, the Bank intends to re-launch its Vikas Loan program (Micro-LAP).

8.1.6.2.4. Loans to Financial Institutions

The Bank commenced building a book of loans to Non-Banking Financial Companies from October 2018, with an approval from the Board. It was considered opportunistic to delve into this segment not only to diversify the asset portfolio of the Bank, build on relationship that the Bank has several of these NBFCs as liability customers, but also to capitalise on its knowledge of the sector and the strength of the large capital base that the Bank has. As at 31st March 2020, the Bank had built a portfolio of loans to Financial Institutions of Rs. 54,899 lakh. The Bank has been selective in building this portfolio to establish meaningful relationships with financial institutions. In appraising the requirement, the Bank lays equal emphasis on governance and financial parameters of the borrowing company, with the portfolio heavily skewed towards NBFC- MFI, a segment where the Bank has considerable expertise and historical association. Due to the COVID-19 pandemic, the Bank has adopted a cautious approach in providing additional finance. The Bank will revisit its institutional lending strategy during September 2020. The Bank has currently extended moratorium to 10 borrowers as part of COVID-19 assistance. This was done after a careful assessment of cash flow projections and on a case to case basis. It is noteworthy to mention that the repayment track record of institutional borrowers has been excellent with zero PAR and NPA as at reporting date.

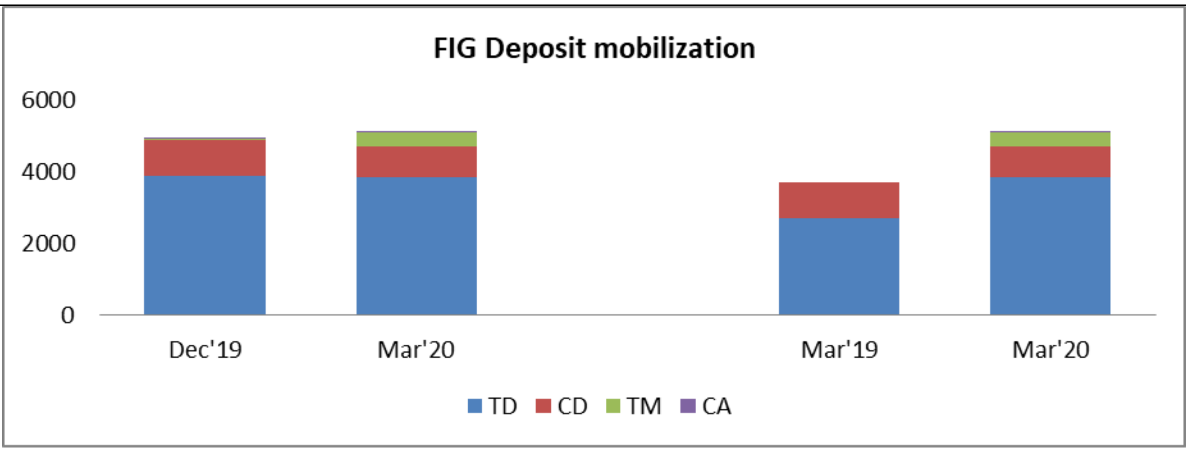


The rating wise distribution of FIG portfolio is as below:

Rs. in lakh

External Rating	Sum of Clear Balance	% Share
A	8,377	15.26%
A-	18,980	34.57%
A+	2,188	3.98%
AA-	714	1.30%
BBB	9,158	16.68%
BBB-	3,567	6.50%
BBB+	10,663	19.42%
Unrated	1,250	2.28%
Grand Total	**54,899**	**100.00%**

With this portfolio, the Bank also aims to explore various diversification benefits including sourcing of institutional deposits. During the year, 110 new liability relationships were added. The Bank had faced some challenges in sourcing deposits especially in states like West Bengal (directive for no deposits with SFBs), Madhya Pradesh (recent government directive to not to invest in SFBs) and Punjab (directive to maintain deposits with SFBs restricted to 50% of owned funds). To mitigate the challenges, the Bank intends to diversify and focus on other segments/ geographies within the capital markets and NBFC-MFI space.



8.1.6.2.5. <u>Personal Loans (PL)</u>

In its effort to diversify the composition of its asset book, the Bank has rolled out its Personal Loan product in select cities. During the year, the Bank had expanded its geographical footprint from 14 to 36 cities. The Bank uses multiple sourcing channels such as Direct Selling Agents, Internal Staff and digital platforms. There have been key learning's from the initial stage of operations and the Bank has initiated a slew of policy measures especially through clear demarcation in segmentation, targeting and positioning. However, there is a need to revisit the business strategy due to the COVID 19 pandemic. The Bank intends to revamp its product offerings with focus on non-impacted industries, push for super-prime and prime segment of customers and government employees. The Bank also intends to revamp its operations and replace its Loan Operating System with end to end digital acquisition. For risk monitoring purposes, the Bank has designed Early Warning Systems to maintain and monitor credit quality. The priorities for the ensuing financial year will be to launch in new markets, scale distribution across all channels and also explore partnerships with select Fintech companies for sourcing though the overlay will be the Bank's own credit policy parameters.

The trend in portfolio growth on a quarter of quarter basis is summarised below.

Rs. in lakh

Particular	June'19	Sept'19	Dec'19	Mar'20
# Customers	1,783	3,200	4,832	5,335
OSP (Rs. in lakh)	2,784	5,101	7,705	7,858
PAR > 30 Days	0.50%	1.31%	1.65%	3.92%

8.1.6.2.6. Vehicle Finance

As at 31st March 2020, the Vehicle Finance business had crossed the benchmark of Rs. 1,200 lakh and the product were made available from 43 branches. The Bank has partnered with various OEMs as part of its business strategy. The entire business model is cashless for disbursement and repayment. A brief summary of the portfolio is as follows:

Rs. in lakh

Vehicle Loans	Feb 2020	Mar 2020	Apr 2020
Count	1546	1834	1,835
OSP	1,061	1,254	1,259
Overdue	0	8(16 cases)	4 (7 cases)

The Bank is currently exploring other tie-up options and increasing its manpower requirements across regions. The Bank intends to provide its offerings in the MMCV (Micro and Mini Commercial Vehicle) segment in the ensuing financial year. Due to the COVID-19 pandemic, the Bank intends to adopt a cautious approach up to September 2020 with more focus on collections and follow up in post disbursement documents of existing cases. Sector wise analysis for impact of COVID-19 is being undertaken to identify potential areas for growth while desisting from high risk segments.

8.1.6.3. <u>Treasury</u>

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 and Non SLR securities. However as at 31st March 2020, the Bank's investment book consisted only of SLR investments except for one investment in a Non SLR security of Rs. 10 lakh which was passed on to the Bank from the Holding Company at the time of Business Transfer. 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 investment in non SLR securities is mainly for short term cash deployment and for investment income. The market value of SLR investments as at 31st March 2020 was Rs. 2, 39,600 lakh with an appreciation over book value by Rs. 2,339 lakh. As permitted by RBI guidelines, the Bank moved a part of its HTM portfolio in the first month of the current financial year and booked a token profit.

As a matter of policy, the Bank maintains SLR securities in excess of the mandated regulatory requirement. This also helps the Bank to maintain a comfortable position in SLS and helps in borrowing through Repo and TREPS. Since the SLR investment portfolio of the Bank is divided among HTM and AFS portfolios and only Treasury Bills are held in AFS portfolio the Bank was not required to maintain provision on investment portfolio on account of this classification.

The mandatory requirement for maintenance of SLR as stipulated by RBI, for the period under review was 18.75% of Net Demand and Time Liabilities (NDTL) till 11th Oct 2019, reduced to 18.50% of NDTL from 12th Oct 2019 to 3rd Jan 2020 and further to 18.25% thereafter, till the end of the review period. The RBI had 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. RBI, through its statement on developmental and regulatory policies dated 27th March 2020, announced a reduction in CRR requirement from 4% to 3% valid with effect from fortnight beginning 28th March 2020 for one year, ending on 26th March 2021. RBI also announced a reduction in minimum daily CRR balance maintenance from 90% to 80% effective from 1st day of the reporting fortnight beginning 28th March 2020 valid up till 26th June 2020.

This reduction in CRR from 4% to 3% freed up Rs. 6,900 lakh from CRR holding. The Bank has also recast its CRR requirement based on concessions permitted by RBI in terms of its circular number RBI/2019-20/159 DOR. No. Ret.BC.30/12.01.001/2019-20 dated 10th February 2020.

Trading: The Bank had resumed d trading in Government of India security in Q3, 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. The trading limits are monitored on a real time basis by the Middle Office. Any isolated instance of breach in limit is brought to the notice of stakeholders and remedial measures taken. The Bank was successful in generating a nominal trading profit through this activity during the period under review.

Fund 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 was successful in capitalising on low interest rates prevalent in market by borrowing funds at very low rates through different sources of money market. 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 reported to all stakeholders.

COVID-19 ignited large sell-offs in the domestic equity, bond and forex markets leading to an increase in redemption pressures. This led to a surge in liquidity premia on instruments such as corporate bonds, commercial paper and debentures and it became difficult for these instruments to access working capital through bank credit.

To counter the economic impact and subsequent pressure on cash flows, RBI decided to conduct auctions of Long Term Repos (LTRO) of up to three years tenor of appropriate sizes for a total amount of up to Rs. 100, 00,000 lakh at a floating rate linked to the policy repo rate. RBI introduced LTRO with a view to assuring banks about the availability of durable liquidity at reasonable cost relative to prevailing market conditions, and to further encourage banks to undertake maturity transformation smoothly and seamlessly so as to augment credit flows to productive sectors. It is a measure that market participants expect will bring down short-term rates and also boosts investment in corporate bonds. These new measures coupled with RBI's earlier introduced 'Operation Twist' are an attempt by the Central Bank to manage bond yields and push transmission of earlier rate cuts

The Bank had participated in LTRO operations, using its reserve of excess SLR securities as pledge, and raised a total of Rs. 28,200 lakh.

These fund raise have considerably bolstered the Bank’s medium term resource base and have provided the required cushion for the longer term SLS buckets.

While the RBI’s current windows of Liquidity Adjustment Facility (LAF) and Marginal Standing Facility (MSF) offers banks money for its immediate needs ranging from 1-28 days, the LTRO supplied the banks with liquidity for 1- to 3-year needs. LTRO operations are intended to prevent short-term interest rates in the market from drifting a long way away from the policy rate, which is the repo rate.

RBI subsequently announced a repeat of this exercise through TLTRO 2.0. The Bank has secured the approval of its Board to participate in the auction of TLTRO.2.0

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, the Bank was successful in generating fund commitment, from various sources, much above the average monthly shortfall.

8.1.7. Credit Risk Monitoring:

8.1.7.2. 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, On Time Repayment Rates 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 Overdues, 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.

Considering that many a times the external environment or factors affect the portfolio performance of a branch or district or a state, the Bank has 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 will now be considered are area specific communal issues, protests, sub-lending/ring leader issues, snatching attempts etc. In addition to the above, industry level information shall also be collected from the Bureau to rate the states or districts and align the growth strategy accordingly.

During the quarter, the Bank had launched an application score card for group loans, which was developed through statistical model. 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 on a semi-annual basis.

8.1.7.3. <u>Housing and Micro and Small Enterprises (MSE) portfolios</u>

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 has also assessed inter-linkages of risks especially legal risk induced *credit* risk. Collateral related processes and procedures were reviewed to ascertain various gaps in the process. The Bank seeks to address these gaps during the financial year which will help in reduction of errors and associated risks. The Bank has designed monitoring mechanisms at process level encompassing credit deviations, collateral management, documentation etc. Regular reports are placed to the CRMC for direction.

During the quarter, the Bank had revised its Early Warning System (EWS) at an account level for enhanced monitoring. The revised EWS frameworks will enable the Bank to monitor a borrower’s internal/external repayment record and signs of overleveraging efficiently.

8.1.7.4 Other Portfolio- FIG, Vehicle Loans and Personal Loans

The Bank monitors the portfolio performance of other business verticals on a monthly basis. Business, Credit, Risk, Audit and Compliance 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 undertakes an independent assessment of the same and submits its findings to the CRMC for further action. Audit and Compliance 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.

Developments of rating scorecards for these segments are under different stages of implementation. The Bank intends to launch scorecards for all these categories in the ensuing financial year.

Early Warning Systems for monitoring FIG loans has been approved by CRMC. The same will be used to extensively in the ensuing financial year. For Personal and Vehicle loans, the Bank has subscribed to various bureau reports to provide real time data on changes in credit scores, change in residential and communication details and leverage etc. as part of monitoring activities.

8.1.8. <u>Audit</u>

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 implemented in FY 2019-20 with extensive support from top management and second line of defence, briefly explained below:

a. **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.

b. **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.

c. **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.

d. **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.

e. **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 to 50% of advances and 50% of deposits of the bank to be covered under concurrent audit. Similarly, 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 & 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.

8.1. Quantitative Disclosures

8.2.1. Exposure summary: Facility type

Exposure Type	Domestic (Rs. in Lakh)	Overseas

Fund- Based exposure	18,41,123	--
Non- Fund Based Exposure*	7,846	--
Total	18,48,969	--

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

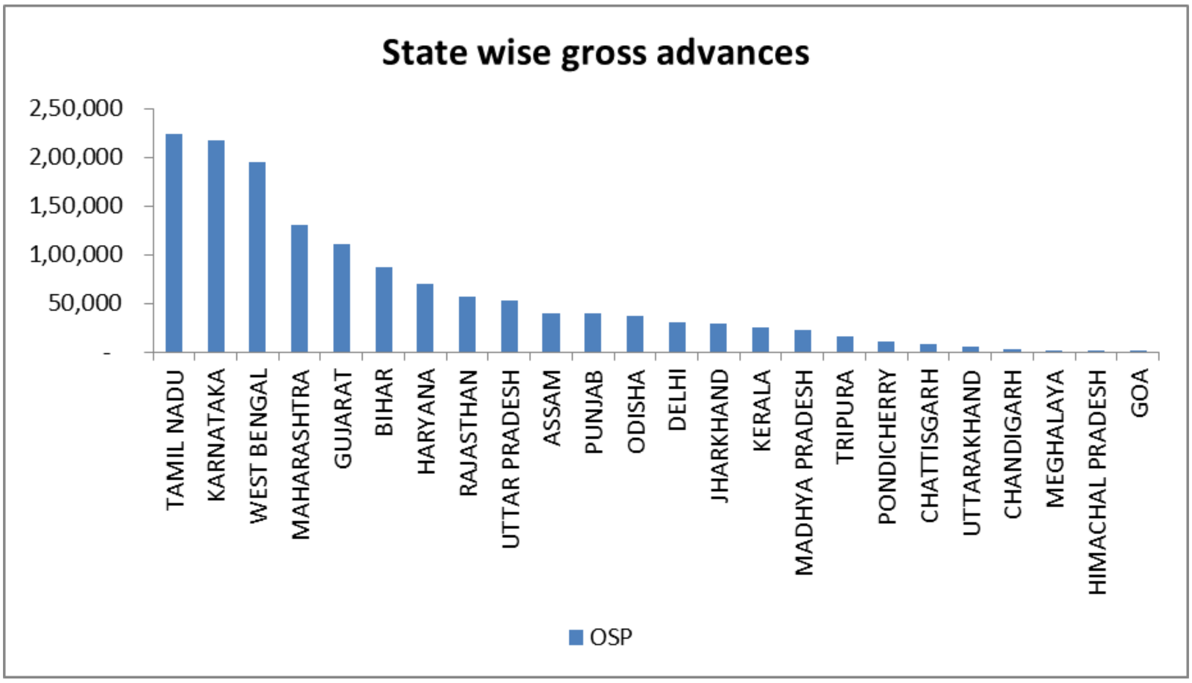
8.2.2. Geographic Distribution of advances (State-wise)

Rs. in lakh

States	OSP	% Share
Tamil Nadu	2,23,973	15.82%
Karnataka	2,16,785	15.32%
West Bengal	1,95,364	13.80%
Maharashtra	1,30,294	9.21%
Gujarat	1,10,477	7.81%
Bihar	87,600	6.19%
Haryana	69,802	4.93%
Rajasthan	56,929	4.02%
Uttar Pradesh	52,461	3.71%
Assam	39,875	2.82%
Punjab	39,239	2.77%
Odisha	36,472	2.58%
Delhi	29,986	2.12%
Jharkhand	29,566	2.09%
Kerala	25,184	1.78%
Madhya Pradesh	22,171	1.57%
Tripura	16,539	1.17%
Pondicherry	11,135	0.79%
Chhattisgarh	8,214	0.58%
Uttarakhand	6,019	0.43%
Chandigarh	2,476	0.17%
Meghalaya	2,010	0.14%
Himachal Pradesh	1,739	0.12%
Goa	1,019	0.07%
Total	**14,15,330**	**100.00%**

The share of microfinance advances (including agriculture loans) constituted 77.27% (i.e. Rs. 10, 93,678 lakhs) of gross advances, a significant share in the above distribution. In order to contain excess build-up of concentration risk, the Bank has designed and incorporated risk assessment framework under its Internal Capital Adequacy Assessment Process (ICAAP) to monitor the same. For states with excess concentration, Pillar II capital charge is provided after duly factoring in the expected defaults, expected tractions and expected provisions. It is pertinent to mention that when computing capital requirement and its compliance with capital adequacy, the Bank factors in additional capital charge on account of Pillar 2 risks and also that required for stress tests on its portfolio under normal circumstances.

For MSE and secured housing loans, the Bank monitors the excess build up in concentration through prudential internal limits on higher ticket size loans. These limits are approved by Credit Risk Management Committee (CRMC) and are monitored and reported for corrective action.



8.2.3. Advances distribution by activity

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)**	**7,00,676**	**2,90,945**	**45,71,020**	**42,92,167**	**7,96,953**
I	Agriculture (IA+IB+IC+ID)	**2,50,778**	**98,334**	**16,10,359**	**15,42,302**	**1,95,997**
II	MSMEs (i)+(ii)+(iii)+(iv)+(v)	**1,95,053**	**87,637**	**8,86,858**	**7,58,603**	**2,35,440**
III	Export Credit	**-**	**-**	**-**	**-**	**-**
IV	Education			**2**	**2**	**2**
V	Housing	**36,933**	**33,599**	**2,96,066**	**2,88,742**	**1,81,107**
VI	Renewable Energy	**-**	**-**	**-**	**-**	**-**
VII	Social Infrastructure	**-**	**-**	**-**	**-**	**-**
VIII	'Others' category under Priority Sector	**2,17,912**	**71,376**	**17,77,735**	**17,02,518**	**3,44,408**
IX	Net PSLC		**-**			**-1,60,000**
3	**Non-Priority Sector Loans (I+II+III+IV+V)**	**21,384**	**30,293**	**2,01,510**	**1,46,121**	**6,18,376**
I	Agriculture	**10**	**8**	**208**	**208**	**10**

	Out of Agriculture, Loans against Negotiable Warehouse Receipts (NWRs)	-	-	-	-	-
II	Education Loans	-	-	-	-	-
III	Housing Loans	**924**	**7,771**	**8,880**	**8,667**	**57,560**
IV	Personal Loans under Non-Priority Sector	**1,200**	**1,147**	**9,477**	**8,949**	**8,920**
V	Other Non-Priority Sector Loans	**19,250**	**21,367**	**1,82,945**	**1,28,297**	**1,25,437**
4	**Total Loans (1+3)**	**7,22,060**	**3,21,239**	**47,72,530**	**44,38,288**	**14,15,330**

8.2.4. 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. 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. 31st March 2020. For computing PSL, the Bank takes the ANBC of corresponding quarter of the previous year.

The ANBC as on the corresponding date of the preceding year i.e. 31st March 2019 was Rs. 10, 62,276 lakh. The Priority Sector lending was maintained at 75.02% as a percentage to ANBC. The Bank ended up having an overall surplus of Rs. 246 lakh and sufficient surplus in each sub-category except for the PSL Agri sub category. PSLC worth Rs. 20000 lakh crores was purchased to bridge an anticipated shortfall in PSL Agri category. The summary of compliance to PSL norms is as follows:

Rs. in lakh

Sl. No.	Sector wise achievements	Effective ANBC	Total Outstanding	% Achievement
1	Overall PSL	1,06,22,75.89	7,96,953.44	75.02%
2	Agriculture	1,06,22,75.89	1,95,996.60	18.45%
3	Small and Marginal Farmers	1,06,22,75.89	3,50,717.91	33.02%
4	Non - Corporate Farmers	1,06,22,75.89	1,75,996.60	16.56%
5	Micro Enterprises	1,06,22,75.89	2,28,277.31	21.49%
6	Weaker Sections	1,06,22,75.89	7,96,953.44	75.02%

The PSL portfolio which was sold as Priority Sector Lending Certificate (PSLC) is as follows:

Rs. in lakh

Particulars	31st March 2020
	PSLC Sold
1) PSLC Agriculture	-
2) PSLC Small Farmers / Marginal Farmers	2,00,500
3) PSLC Micro Enterprises	65,950

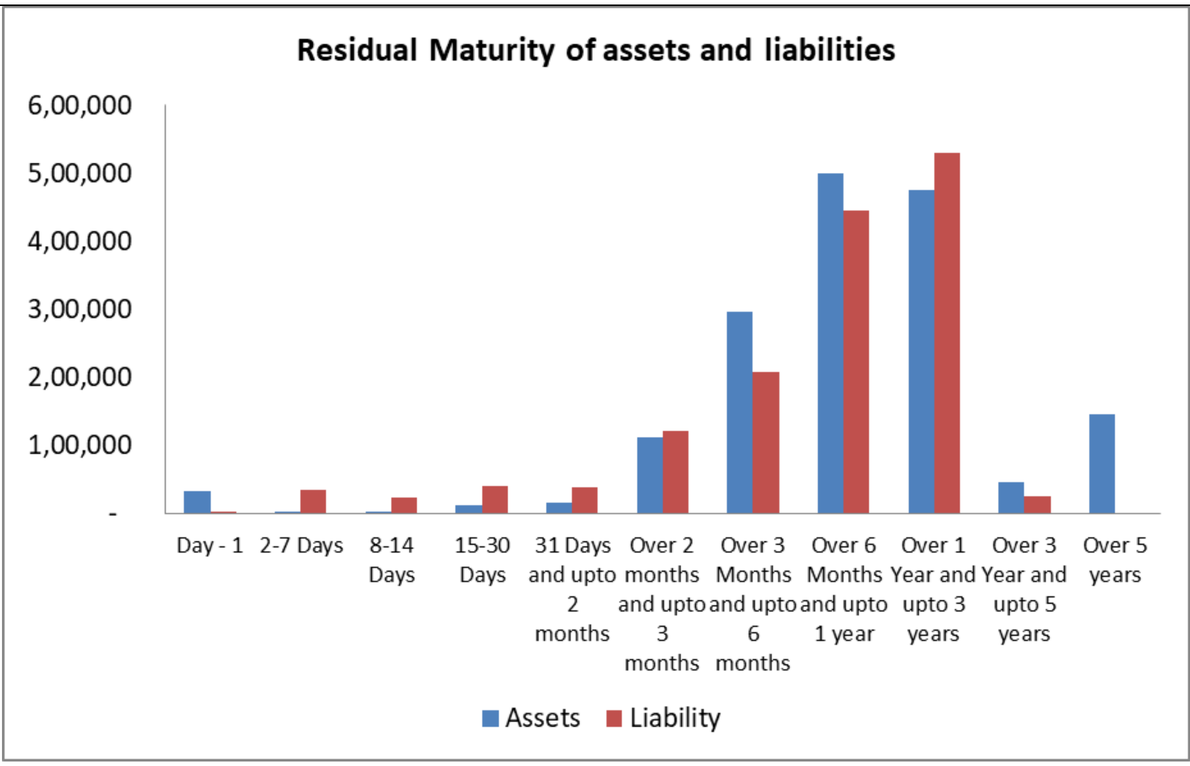
4)	PSLC General	1,60,000
		4,26,450

8.2.5. Maturity pattern of assets and liabilities

The Bank continued to remain highly liquid through the year with surplus on a day to day basis being invested in call market or other short dated liquid investments. It has managed its funding requirement through a mix of retail and institutional deposits, progressive build-up of CASA balances, with a small balance being met through Certificates of Deposits. The Bank managed it ALM position effectively ensuring that there was no mismatch and that the mandatory buckets were not breached. To ensure that any incipient stress on these first four buckets is countered, the Bank has built an excess reserve of SLR securities that provides the required cushion in times of stress on the first four buckets. Conversely, when the position is eased, the excess is used to tap the repo market to meet the Bank's short term funding requirement. In a declining interest scenario, accessing the repo market aids the Bank's effort to reduce the cost of funding.

Rs. in lakh

Buckets	Loans and advances	Investments	Deposits	Borrowings
Day - 1	117	33,893	2,273	-
2-7 Days	1,635	957	21,165	13,686
8-14 Days	1,506	2,454	14,145	9,714
15-30 Days	3,501	8,652	25,821	14,000
31 Days and up to 2 months	7,859	8,019	37,011	2,214
Over 2 months and up to 3 months	89,252	22,631	99,490	22,880
Over 3 Months and up to 6 months	2,58,304	38,015	1,70,449	38,605
Over 6 Months and up to 1 year	4,32,308	67,165	3,10,083	1,34,496
Over 1 Year and up to 3 years	4,17,561	57,361	3,95,498	1,34,982
Over 3 Year and up to 5 years	46,902	405	1,868	24,750
Over 5 years	1,45,419	63	245	-
Total	**14,04,364**	**2,39,614**	**10,78,048**	**3,95,327**



SLS Mismatch:

Rs. in lakh

SLS	1 Day	2-7 Days	8-14 Days	15-30 Days
Total Outflows	15,294	35,300	26,241	46,625
Cumulative Outflows	15,294	50,595	76,836	1,23,461
Total Inflows	60,653	95,926	6,171	29,134
Cumulative Inflows	60,653	1,56,579	1,62,750	1,91,884
Mismatch	45,359	60,626	-20,070	-17,491
Cumulative Mismatch	45,359	1,05,985	85,914	68,423
Mismatch %	**297%**	**172%**	**-76%**	**-38%**
Cumulative Mismatch%	**297%**	**209%**	**112%**	**55%**

As shown above, the Bank is positively matched (the cumulative inflow is greater than cumulative outflows). The Bank has commenced a behavioural analysis of cash flows, especially for its Current Accounts and Savings Account balances using Value at Risk (VaR) based approaches to identify potential mismatches. The analysis is done on the basis of two years data and is expected to be repeated at regular intervals so as to form a constructive basis when the Bank has three years data. Aside from providing critical input on the churn and the likely impact that such churn can have on the liquidity mismatch, the analysis is intended to be the basis for devising strategy to stave off any flight of short term deposits, as the Bank focuses on building its CASA volumes. In addition to behavioural analysis for crucial day 1 liabilities, like DD payable accounts, OD undrawn and other factors are being conducted.

8.2.6. Non-performing assets (NPA) (Rs. in Lakh)

Category of Gross NPA	March 2020
Sub-standard	12,491
Doubtful	1,056
Loss	167
Total	13,714

Net NPA	2,749

NPA Ratios	Percentage
Gross NPA to Gross Advances	0.97%
Net NPA to Net Advances	0.20%

8.2.7. Movement of Gross NPA's

Particulars	Amount (Rs. In lakh)
Opening Balance	9,785
Additions during the period	14,519
Reductions during the period	10,590
Closing Balance	**13,714**

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

Particulars	Amount (Rs. in lakh)
Opening Balance	7,030
Provisions made during the period	10,973
Write back of excess provisions	7,039
Closing Balance	**10,965**

The increase in delinquency and provisions can be mainly attributed to PAR additions seen in micro finance on account of Assam portfolio. The state of Assam was affected by external events in Q3 which had the combined effect of disrupting the entire state economy and credit lending. This had also adversely impacted the Bank's customers, like all other microfinance institution customers, which resulted in large scale portfolio stress.

Non-performing Investments (NPI)

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

8.2.9. Movement of provisions for depreciation on investments

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

The provision made is NIL as the entire investment book as at 31st March 2020 was classified as Held To Maturity (HTM) and therefore did not warrant Mark to Market (MTM).

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

9.1. 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 comprised retail category loans. Therefore, the risk weights as applicable to Regulatory Retail, Claims under Residential Mortgage and staff loans were applied. For consumer loans within its microfinance portfolio, the applicable risk weight is applied.

c) RBI has decided to reduce the risk weight for consumer credit including personal loans, but excluding credit card receivables, to 100%.[23] This has enabled the Bank to apply 100% risk weight on its Microbanking loans (consumption loans) and personal loans segment.

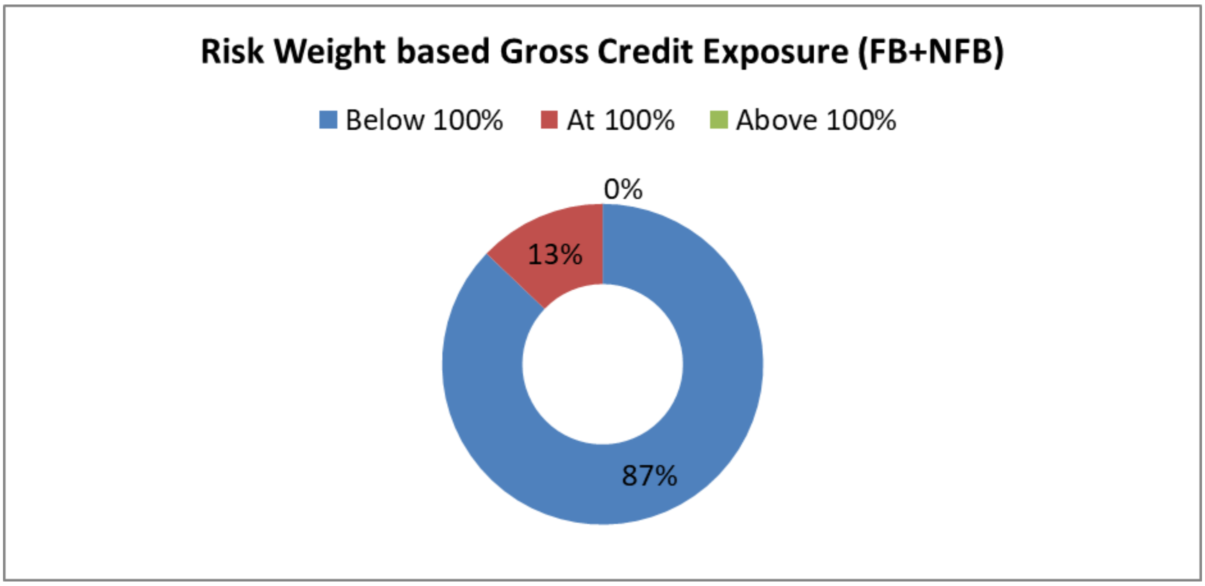
d) Institutional lending is risk-weighted as per ratings assigned by Eligible Credit Rating Agencies (ECRA) as prescribed by RBI.

e) As on 31st March 2020, the Bank had a residual outstanding of “grandfathered” loans which comprised 0.58% of its funding book. These loans will be fully repaid by next quarter. As per regulatory guidelines, there was an additional risk weight of 25% assigned to this portfolio.

[23] Refer RBI guidelines on **Risk Weight for Consumer Credit except credit card receivables** issued on 12th September 2019

9.2. Quantitative Disclosures

Details of Gross Credit Risk Exposure (Fund based and Non-fund based) based on Risk Weight – Position as on 31st March 2020		
Sl.No	**Risk Weight**	**Rs. in lakh**
1	Below 100% Risk Weight	16,12,193
2	100% Risk Weight	2,36,766
3	More than 100% Risk Weight	10
4	Deductions from CRM	--
5	**Total**	**18,48,969**



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

10.1. 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.
- The Bank accepts Eligible Financial Collateral[24] in a few instances for risk mitigation under secured Institutional lending and MSE loans. These financial collaterals are

[24] 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

netted off for its collateralized transactions under comprehensive approach[25] 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:
    - Life insurance cover is mandatory for all the borrowers availing of the Bank's microfinance, housing, two wheeler and personal loans.
    - The Bank works with 4 Credit Information Companies (CICs) and ensures 100% application screening through the bureaus using their comprehensive credit reports.
    - NPA Customers are identified and follow up is undertaken by the tele-calling team. The tele calling team updates the field recovery officer through revised Promise to Pay (PTP) dates from the borrower. Further, the Bank has implemented its Early Warning System (EWS) tool for Housing and MSE loans to enable the Bank to monitor the repayment behaviour and discipline of the borrower. This tool is now being further enhanced with real time updates from bureau to capture any movement in increase in excess leverage, change in contact details and change in residential status. This enhancement has been implemented in response to the on-going COVID 19 pandemic which has caused widespread business slowdown. This tool provides valuable insights which enable the Bank to focus more on customers deemed to be of higher risk
    - 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.

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

11.1. Qualitative Disclosure

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

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

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

12.1. Qualitative Disclosures

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 other policy which primarily deals with Liquidity Management is the Asset Liability Management (ALM) Policy. The policies set various prudential exposure limits and risk limits for ensuring that the operations are in line with the Bank's expectations of return through proper Market Risk Management and Asset Liability Management.

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.

During the year, the Bank shifted G Sec of Rs. 6,500 crores face value, from HTM to AFS during the financial year 2019-20. This shifting was done at the beginning of the year with the approval of the Board of Directors.

12.1.1. Liquidity Risk:

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. 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 share of legacy borrowings had reduced sharply to 0.75% as at 31st March 2020 as compared to 3.10% as at 31st March 2019. To effectively manage its ALM and also to diversify its funding sources, the Bank has also availed of refinance from SIDBI and NABARD which constituted 23.65% of the total funding mix. Other than it being cost effective and since there is no obligation to maintain Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) on these borrowings, these provide the necessary cushion for ALM.

The reliance on Certificate of Deposits (CDs) had also reduced as at 31st March 2020 constituting 6.51% of the funding mix as compared to 8.92% in the corresponding period in the previous year. The Bank has fully repaid its Non-Convertible Debentures (NCDs).

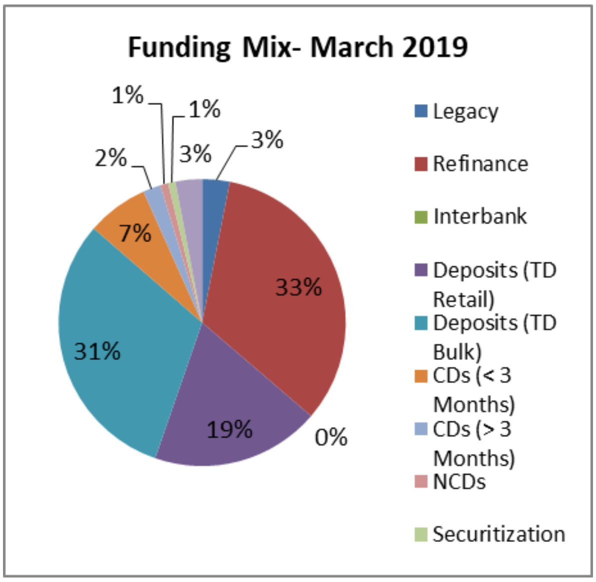
Deposits (Retail and Institutional) had registered a robust increase in its share of funding mix. The share of deposits has increased from 50% in March 2019 to 64% as at March 2020. As part of its Contingency Funding Plan and also to diversify its funding sources, the Bank has been sanctioned a committed line of credit from a large private sector bank to the tune of Rs. 5,000 lakhs. The accent on retail deposits will continue in the ensuing years with an objective to optimize cost of deposits.

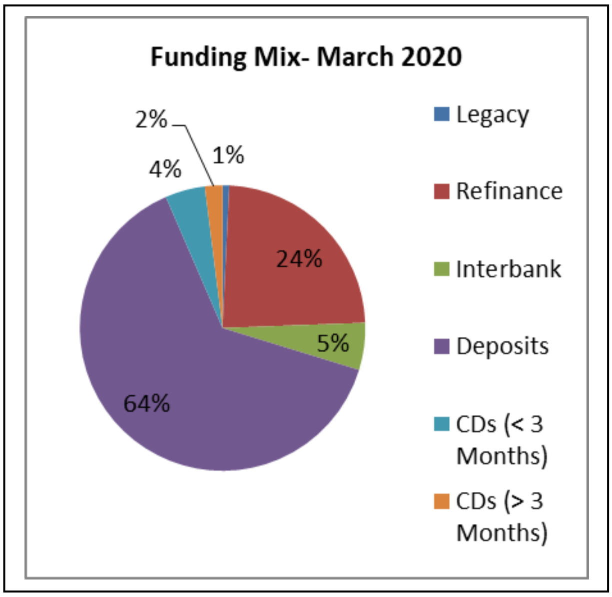
A comparative picture of the funding mix is given below:

Rs. in Lakh

Sl.No	Particulars	March 2019[26]	June 2019	September 2019	December 2019[20]	March 2020
1	Legacy	34,700	26,658	15,657	15,000	10,000
2	Refinance	3,72,000	3,53,950	3,01,360	2,89,900	3,14,441
3	Interbank	0	0	20,000	5,000	70,886
4	Deposits	5,61,300	6,88,268	8,16,458	8,41,700	8,47,454
5	CDs (< 3 Months)	77,500	22,500	23,500	30,000	60,000
6	CDs (> 3 Months)	22,500	2,500	17,500	0	26,500
7	NCDs	10,000	10,000	10,000	0	-
8	Securitization	9,100	5,378	1,638	0	-
9	IBPC	33,500	33,500	0	0	-
Outstanding		**11,20,600**	**11,42,754**	**12,06,113**	**11,81,600**	**13,29,281**

The distribution of funding mix is detailed as below:



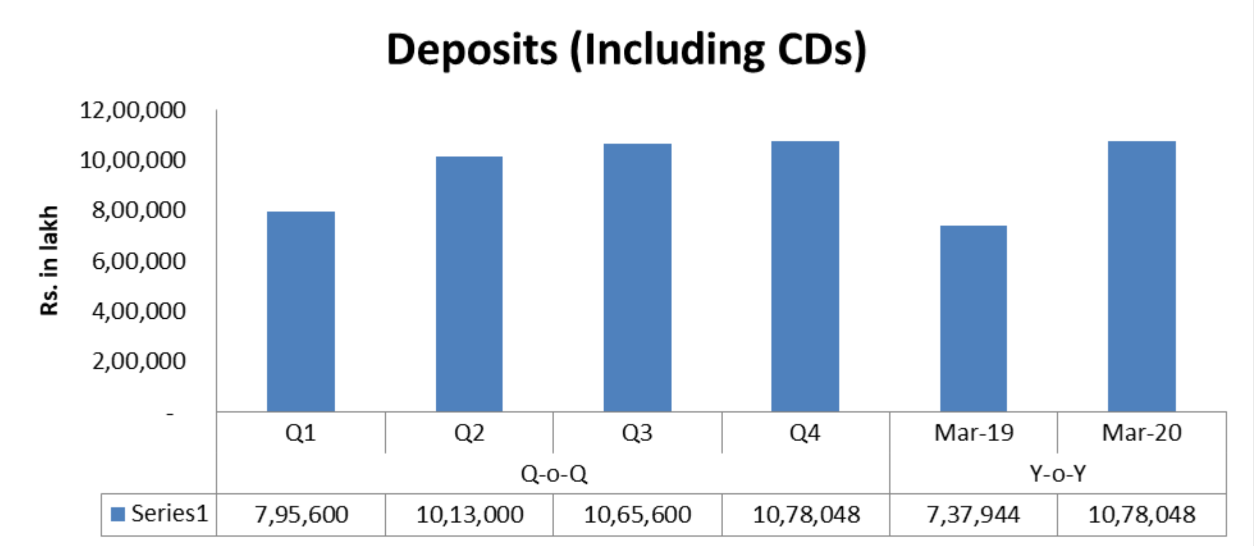


12.1.2. Deposit profile of the Bank

The Bank had registered a q-o-q growth of 1% while the y-o-y growth in deposits was a robust

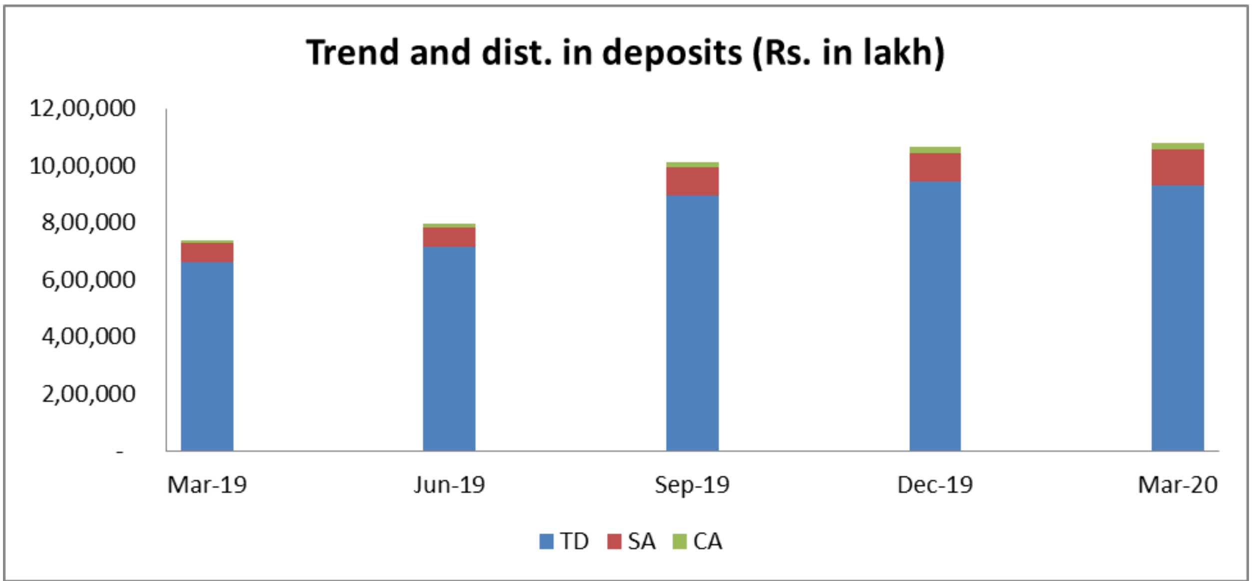
[26] Rounded to nearest hundred

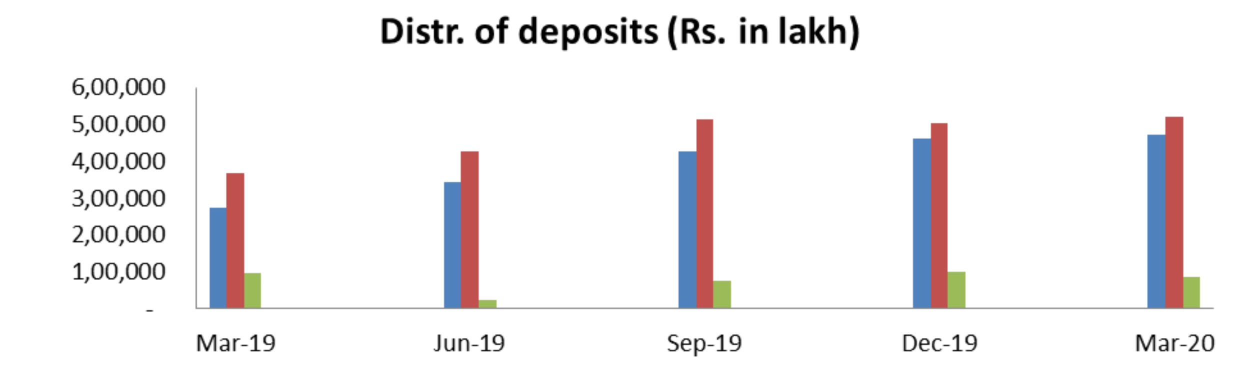
72%. The internal target for growth in deposits could not be met on account on national lockdown in the fourth week of March 2020, a critical time period for garnering fresh deposits. The comparative position of deposit profile is furnished below :



	Q1	Q2	Q3	Q4	Mar-19	Mar-20
	Q-o-Q				Y-o-Y	
Series1	7,95,600	10,13,000	10,65,600	10,78,048	7,37,944	10,78,048

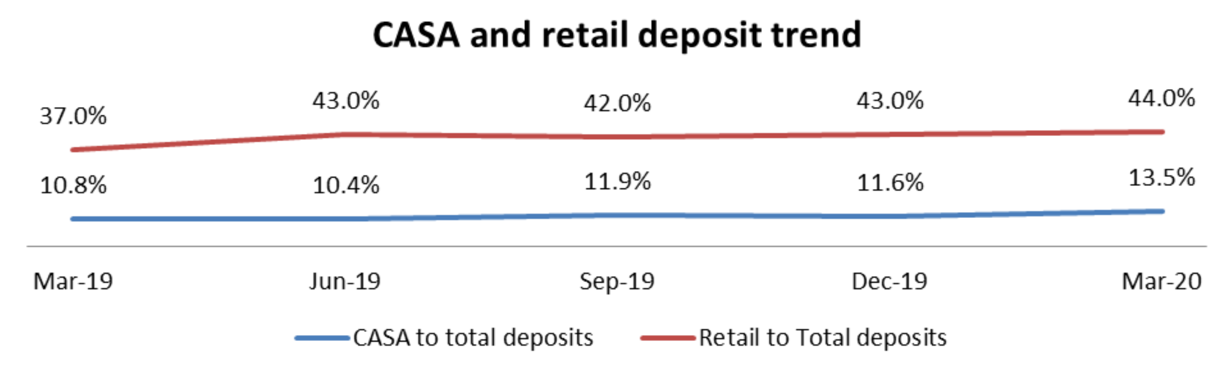
The distribution of deposits on the basis of type is furnished as below:





	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Retail	2,73,900	3,42,869	4,24,760	4,62,400	4,72,348
Institutional	3,65,800	4,28,061	5,12,000	5,03,200	5,21,000
CD	98,200	24,700	76,225	1,00,000	84,700

One of the strategic imperatives of the Bank is to grow the share of CASA in its total deposits base. The Bank has increased its share of Retail and Institutional deposits over the corresponding period in the previous year. The Bank has dedicated teams within the liabilities side focused on mobilization of deposits from each client type.



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.

The LCR position, computed on the basis of daily average of three months, was comfortable and significantly in excess of the mandatory minimum i.e. 90% as applicable w.e.f. 1st January 2020.

Liquidity Coverage Ratio (Rs. in lakh)		
A	**High Quality Liquid Assets**	**Adjusted Baseline Scenario**
	Level 1 Assets	2,32,904
	Level 2 A Assets	-
	Level 2 B Assets	-
B	**Total Stock of HQLAs**	**2,32,904**
C	Cash Outflows	1,45,854
D	Cash Inflows	54,130
E	Net Cash-flow	91,724
F	25% of Total Cash Outflow	36,464
G	**Higher of E or F**	**91,724**
	Liquidity Coverage Ratio	**253.92%**

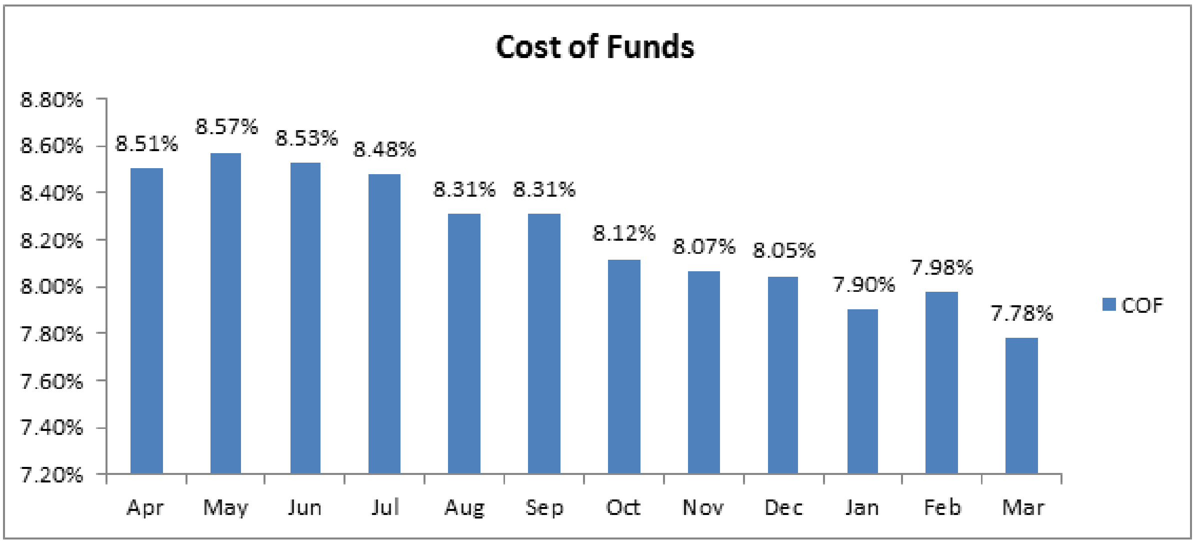
The high LCR was on account of high average cash position of Rs. 17,541 lakh and excess SLR securities. The excess SLR securities were acquired in order to facilitate the Bank in borrowing through Variable rate Repo (via CROMS) and TREPS and therefore in capitalising on falling interest rate scenario. Better cash and SLR management will optimize the LCR.

Net Stable Funding Ratio (NSFR): RBI had issued its final guidelines for NSFR[27] which will come into effect from April 1, 2020. However, the same has been extended to 1st October 2020 in the backdrop of the COVID-19 pandemic.

12.1.3 Cost of Funding

Cost of Funds of the Bank has shown a declining trend during the year. COF was 8.51% at the beginning month of the year and reduced to 7.78% at the end of the year. The details are as below:

[27] Refer RBI guidelines issued vide circular DBR.BP.BC.No.106/21.04.098/2017-18 dated May 17, 2018



12.2. Quantitative Disclosures

As at 31st March 2020, the AFS[28] book consisted only of treasury bills and there was no exposure in the HFT[29] book. On the basis of SDA[30], the capital requirement for market risk reported to the Board from a governance perspective was as under:

Rs. in lakh

ISIN of T-Bills	Market Value	Modified Duration	Weighted M duration
IN002019Y282	1,500	0.00	0.04
IN002019Z420	9,614	0.73	70.11
IN002019Z297	3,893	0.49	19.23
IN002019Y290	4,994	0.02	1.06
IN002019Z438	11,525	0.75	86.17
IN002019Y308	1,497	0.04	0.60
IN002019Y357	9,932	0.13	13.16
IN002019Y316	8,907	0.06	5.19
IN002019Z180	1,785	0.29	5.26
IN002019Z321	503	0.55	2.76
IN002019Y324	29	0.08	0.02
IN002019Z073	3,976	0.11	4.53
IN002019Z032	6,487	0.04	2.58
IN002019Z032	1,497	0.04	0.60
IN002019Z057	11,447	0.08	9.04
Capital Charge			**220**
RWA			**2,754**

[28] Available for Sale
[29] Held for Trading
[30] Standardized Duration Approach

Capital Requirement for Market Risk	Amount (Rs. in Lakh)
Interest Rate Risk	220
Equity Position Risk	--
Foreign Exchange Risk	--
Total	**220**
Total Market Risk RWA	**2,754**

13. Table DF- 9: Operational Risk

13.1. Qualitative Disclosures

13.1.1. Strategy and policy for Operational Risk Management

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.

13.1.2. Governance Structure

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, 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. Manuals, an important spin off to the various operational risk policies were documented for key activities such as Risk and Control Self-Assessment (RCSA), Risk and Control Matrix (RCM), Key Risk Indicators (KRI), and Loss Data Management.

13.1.3. 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 enhancement) are subject to a mandatory comprehensive review by the operational risk department. Post assessment, the Bank chalks out detailed plans for compliance and closure of the observations. 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. During the quarter, the Bank had undertaken various enhancements under consideration especially in the area of account opening process for liability products.
- **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 Direct Benefit Transfer (DBT) process, De-dupe process etc. The involvement of operational risk department in UAT has enabled the Bank to identify and mitigate critical gaps *ab. initio*.
- **RCSA**: The Bank had resumed RCSA during the year as a centralised process and had completed eight processes. This was a change from an earlier effort to implement RCSA at a granular level through its branches, though it is anticipated that this will be reintroduced in the next financial year. During the quarter, four processes, namely Clearing, Payments and Remittances and Loans/Overdrafts against Deposits had been completed and discussed with the key stakeholders. The Bank intends on undertaking RCSA for four more processes in the ensuing 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**: Presently, the Bank has defined **19 KRIs** at an organization level as part of the Operational Risk Management Framework. These KRIs are analysed on monthly basis and a comprehensive report is submitted to the ORMC and Board at quarterly intervals with action plan for closure of open issues. The thresholds for the KRIs have been decided upon in consultation with the stakeholders. The Bank is also in the process of enhancing the existing framework by defining functional KRIs for key functions such as HR, Operations, Micro anking etc., for better monitoring. This is expected to be completed in the ensuing quarter.

  With the results of RCSA exercise, the thresholds for these KRIs will be progressively revised.

- **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

  Barring one major incident of fraud at one of its branches in the East, the Bank otherwise had only minor instances of fraud and these related to cash activities in the field. The Bank records instances along the Basel defined lines of Operational Risk events and process enhancements arising from these occurrences are tabled at ORMC. During the year though, the Bank noted increasing instances of its microfinance customers being defrauded through card cloning or through their sharing of confidential information with fraudsters. The Bank is enhancing its customer awareness program to minimise the impact of such incidents.
- **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. During the quarter, the Bank had undertaken thematic reviews for Tax Deducted at Source (TDS) process, DBT process and Goods and Service Tax (GST) application process. Such thematic studies have enabled the Bank to further refine its existing processes and plug gaps that had been identified.
- **RRU[31] 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: Microbanking, Housing and MSE loans, liabilities and other branch related parameters. Branches are categorized as High, Medium or Low risk based on these assessments on monthly basis. The scores are reviewed at ORMC and actionable to address key risk factors, be they at a

[31] Risk Rating Unit

branch or in a particular region are evaluated and addressed. Key policy decisions emerge from these scoring and reviews. The scorecard is continuously enhanced to include relevant parameters for optimizing the Operational Risk score. 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.
- **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. This process is being further enhanced to include customers who are on boarded through various digital channels.
- **Evaluation of process adherence at branches**: Branches across regions are reviewed against a checklist devised by the Operational Risk team to ensure adherence to branch processes. The team had visited 70% of the live branches as at March 2020 to review them on the defined parameters. The checklist is reviewed and enhanced every quarter to strengthen monitoring. With onset of COVID-19 and lockdown, and branch visits curtailed for the time being, the check list is being 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. .
- **Outsourcing Risk:** Progressive risk assessment of most material outsourced vendors (including legacy vendors) was completed during the year to ensure that these vendors comply with the minimum requirements prescribed by RBI. Detailed notes were recorded on the risk assessment done for each vendor through visits and were placed to ORMC/Board at quarterly intervals. All observations made by RBI in this connection in its Annual Financial Inspection (AFI) are complied with. The Bank has in place an outsourcing policy which provides guidance on outsourcing certain functions to specialized agencies for increasing efficiency and lower costs. **'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 activities on a continuing basis that would normally be undertaken by the Bank itself, now or in the future. The outsourcing policy is framed in compliance to various RBI guidelines on outsourcing issued from time to time. All vendors, deemed as material, are subjected to a rigorous pre on boarding risk assessment, done both

by the Operational Risk team and the Information Security team and this is repeated at annual intervals. Renewal of outsourcing contracts are tracked by the Operational Risk Vertical. Intimation of due for renewal is sent to respective verticals at least 90 days prior to the date of renewal. Outsourcing done by the Bank is subjected to an annual audit by the Internal Audit team who provide the required compliance certificate to RBI.

- **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 & 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, and 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.

13.1.4. Human Resource Management

The Bank is continuously engaged in addressing people risk. The employee count at the year-end had reached 17,841. The Bank had on boarded 7,786 candidates during the year. The annualized attrition as at 31st March 2020 was 20.84%. Employees in the age band of 25 to 35 years were the highest in numbers.

Towards the end of the year, employees were reached out over phone in corporate and regions to enquire about their well-being and extend any support that they may require amidst the COVID-19 lockdown. This exercise will be undertaken at regular basis in the ensuing year using health declaration surveys on the Bank's internal learning platform.

During the quarter, the Bank completed group health insurance enrolments with 97% of its employees opting for the same. The Bank has also negotiated a special COVID-19 insurance for its grade B and C employees.

The Bank provides rigorous **training** to its employees in its pursuit to develop bank related skill sets. The Bank had invested Rs. 7,566 per employee trained during the year[32]. The Bank has in place a detailed process and guidelines for training programs on a calendar based approach. Newly inducted employees are required to complete assigned induction programs as applicable for their role within 30 days of joining. During the year, the Bank has undertaken various training programs such as branch roll out trainings, employee induction,

[32] Training costs/employees trained

refresher programs, selling skills, up skills and other specialized training programs. The Bank updates its training content on various topics and areas in its SWAYAM[33] app on a continuous basis. The Bank sponsors training programs for its employees working in critical areas/technically skilled jobs and to participate in programs conducted by renowned organizations such as College of Agriculture Banking (CAB), Indian Institute of Banking and Finance (IIBF), National Institute of Bank Management (NIBM) and others. During the quarter, the Bank had provided training to 17,775 employees in 1,441 batches.

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

The Bank, by virtue of its business, faces a plethora of information security risks. This was further exacerbated during the COVID-19 lockdown when the Bank implemented a Work from Home (WFH) policy and provided remote access to many of its employees. Provision of remote access, required enhanced monitoring to ensure that COVID themed attacks were thwarted. Data security is central to the Bank and forms the core. The Bank believes that good security risk management is good business and has thus formulated an enterprise-wide Information Security Policy and Cyber Security Policy to govern the protection of information assets. In addition, as per regulatory requirements, the Bank has put in place an up to date Incident Management and Cyber Crisis Management Plan to deal with incidents and cyber crises. 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 invests heavily in security technologies. The Bank carries out a range of security assessments throughout the year. 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.

During the year, the Bank won the coveted award from IBA as the "Best IT risk Management and Cyber Security Initiative" for the third year in succession.

13.1.6. <u>Business Continuity</u>

The Business Continuity Management Policy (BCMP) of the Bank provides guidance for handling emergency situations and to reasonably ensure continuous and reliable delivery of

[33] SWAYAM mobile application is a self-learning platform launched by the Bank in FY 2018-19. The mobile application provides self-certifications related to various products and processes followed in the Bank.

key products and services to customers in the event of a significant business disruption, while maintaining confidence levels of its shareholders and satisfy relevant compliance requirements. The plans and procedures are in line with the guidelines issued by the RBI in this regard and are subject to regular review. The branches across regions are equipped with call-tree chart and FAQ to provide continuous customer service in case of disruption like cyclone Fani, floods, riots bringing internet service down, etc.

The effectiveness of the Bank's Business Continuity process is realized in times of crisis as most recently during the Corona pandemic. With the onset of the pandemic, the Bank constituted a committee both at the Board and Management level. The Management team meets at frequent intervals to assess the emerging situation and decide on measures that have to be taken. This is disseminated at a granular level through its regional committees. It is significant to record that the Bank continued to offer banking services from all its branches through the pandemic, though footfall was low. Each branch has a mapped BCP branch and all employees have backups identified in the BCP branches. This has ensured that essential services have continued to be offered even if some staff members are affected. The Board Committee is kept advised at weekly intervals and provides the required direction both in terms of strategy and personnel management. The Bank had documented its Business Impact Assessment (BIA) for critical corporate office functions, but these are being enhanced taking into account the newer processes and products being offered and to also include an Impact Assessment of its IT Applications.

13.1.7. Procurement

The procurement activity in the Bank assumes significant importance as it involves procurement of assets for the purpose of building internal efficiencies and building better infrastructure for ensuring effective customer service. The Bank has in place a Board approved procurement policy which defines the guidelines, procedures and responsibilities for various purchases/ expenses related to procurement and provides a framework to ensure that the purchased products/services conform to specified requirements. The Bank is in the process of establishing a dedicated centralized procurement team for greater efficiency and stronger negotiation. The Bank has on boarded the required personnel for the same.

The Procurement policy is being revised and is being updated in accordance with the new Procurement department and roles. It has also been strengthened where the Bank deemed it to be necessary to ensure an apt guideline. The Procurement Standard Operating Procedure (SOP) stands updated and it has become more robust giving clear insight of the complete process and clear demarcation of roles and responsibilities allowing the process to be taken to the next level.

In this era of automation, there are a few projects which are being steered during HY 2020-21 and ones planned for the second half of this financial year. These projects are expected to improve the efficiency and efficacy of the purchase process at the Bank level and will also aid in better tracking of requirements, inculcate environment friendly practices and a shorter Turnaround Time (TAT).

The second phase of automation is expected to lead to better contract management. All contracts are vetted by the Legal department within the Bank before execution and all service agreements are accompanied by Non-Disclosure Agreements/ Clauses.

13.1.8. Capital charge assessment

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.

13.2. Quantitative Disclosure

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**		

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

14.1. Qualitative Disclosures

Interest Rate Risk in Banking Book (IRRBB) refers to the risk of loss in earnings and economic value of a bank'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 2% 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.

14.2. Quantitative Disclosures

14.2.1. Earnings at Risk (Earnings Perspective) (Rs. in Lakh)

Interest Rate Risk in the Banking Book (IRRBB)			
Sl.No	**Country**	**Interest Rate Shock**	
		+200 bps shock	**-200 bps shock**
1	India	(387)	387
2	Overseas	-	-
		(387)	387

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

Category	**Items**	**Amount**
A	Equity	2,81,829
B	Computation of Aggregate RSA	17,53,791
C	Computation of Aggregate RSL	15,10,274
D	Weighted Avg. MD of RSL across all currencies	1.02
E	Weighted Avg. MD of RSA across all currencies	1.53
F	MDG	2,43,517
G	Change in MVE as % of equity for 200bps change in interest rate	-8.10%
H	Change in MVE in absolute terms	(22,834)

15. Table DF-13: Main features of Regulatory capital Instruments

Equity shares

Disclosure template for main features of regulatory capital instruments		
		Equity Shares
1	Issuer	Ujjivan Small Finance Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	ISIN: INE551W01018
3	Governing law(s) of the instrument	Applicable Indian Statutes and regulatory requirements
	Regulatory treatment	
4	Transitional Basel III rules	Common equity Tier 1
5	Post-transitional Basel III rules	Common equity Tier 1
6	Eligible at solo/group/ group & solo	Solo

7	Instrument type	Common Shares
8	Amount recognised in regulatory capital (Rs. in million, as of most recent reporting date)	Rs. 17,282.23 million
9	Par value of instrument	Rs 10/-
10	Accounting classification	Capital
11	Original date of issuance	Rs 0.50 million – 4th July 2016 Rs 1099.868 Million – 30th July 2016 Rs 13,300 Million - 10th February 2017 Rs. 140.55 Million- 11th November 2019 Rs. 714.29 Million- 13th November 2019 Rs. 2,027.03 Million- 10th December 2019
12	Perpetual or dated	Perpetual
13	Original maturity date	No Maturity date
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable	NA
	Coupons / dividends	Dividend
17	Fixed or floating dividend/coupon	NA
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Non-Cumulative
23	Convertible or non-convertible	NA
24	If convertible, conversion trigger(s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	No
31	If write-down, write-down trigger(s)	NA
32	If write-down, full or partial	NA

34	If temporary write-down, description of write-up mechanism	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Secured Term Loan Borrowings , Creditors of the Bank and Depositors
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	NA

PNCPS

Disclosure template for main features of regulatory capital instruments		
		Preference Shares
1	Issuer	Ujjivan Small Finance Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	NA
3	Governing law(s) of the instrument	Applicable Indian Statutes & Regulatory requirements and RBI Basel III Guidelines dated July 1, 2015
	Regulatory treatment	
4	Transitional Basel III rules	Addition Tier 1 Capital (AT1)
5	Post-transitional Basel III rules	Addition Tier 1 Capital (AT1)
6	Eligible at solo/group/ group & solo	Solo
7	Instrument type	Perpetual Non-Cumulative Preference shares
8	Amount recognised in regulatory capital (Rs. in million, as of most recent reporting date)	Rs 2,000 Million
9	Par value of instrument	Rs 10/-
10	Accounting classification	Capital
11	Original date of issuance	10^{th} February 2017
12	Perpetual or dated	Perpetual
13	Original maturity date	No Maturity date
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption	NIL

	amount	
16	Subsequent call dates, if applicable	NIL
	Coupons / dividends	Dividend
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	11.0%
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	NIL
22	Noncumulative or cumulative	Non-Cumulative
23	Convertible or non-convertible	Non-Convertible
24	If convertible, conversion trigger(s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	Yes
31	If write-down, write-down trigger(s)	PONV trigger & CET1 trigger
32	If write-down, full or partial	Full and Partial
34	If temporary write-down, description of write-up mechanism	The Issuer shall: 1. Notify holders of preference Shares 2. Cancel any dividend accrued and un paid to as on write down date 3 Without the need for the consent of holders of the PNCPS, write down the face value of the PNCPS by such amount as the Issuer may in its absolute discretion decide. Provided that, in no event shall such amount of write down be less than the amount required to immediately return the Issuer's Common Equity Tier 1 Ratio (as defined below) to above the CET1 Trigger Event Threshold (as defined below), nor shall such amount of write down

		exceed the amount which would be required to be written down to ensure that the Common Equity Tier 1 Ratio is equal to the aggregate of the CET1 Trigger Event Threshold and 2.5%, or such other percentage as may be prescribed by the RBI (the "CET1 Write Down Amount").
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinate to the claims of all depositors and general creditors and all capital instruments qualifying Tier II Capital instruments and perpetual debt instruments. Only Superior to Equity Shares
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	NA

16. Table DF-14: Terms and conditions of Regulatory Capital Instruments

Equity Shares

Full Terms and Conditions of Equity Shares of the Bank		
SN	**Particulars**	**Full Terms and Conditions**
1	Voting shares	Equity Shares of the Bank are Voting Shares
2	Limits on Voting Shares	Limits on Voting rights are applicable as per provisions of the Banking Regulation Act, 1949. One share has one voting right
3	Position in Subordination hierarchy	Represent the most Subordinated claim on liquidation of the Bank. It is not secured or guaranteed by issuer or related entity nor subject to any other arrangement that legally or economically enhances the seniority of the claim
4	Perpetuity	Principal is perpetual and never repaid outside of liquidation (Except discretionary repurchases/buy backs or other means of effectively reducing capital in a discretionary manner that is allowable under relevant law as well as guidelines, if any issued by RBI in the matter)
5	Accounting Classification	The paid up amount is classified as Equity Capital in Banks Balance Sheet

6	Distributions	Distributions are paid out of Distributable items (retained earnings included). There are no circumstances under which distributions are obligatory. Non Payment is therefore not an event of default
7	Approval for Issuance	Paid up capital is only issued with approval given by Board of Directors

PNCPS

SN	Particulars	Full Terms and Conditions
1	Type of Instrument	Perpetual Non-Cumulative Preference Shares
2	Terms for Raising PNCPS	Issue of PNCPS for augmenting the overall capital of the Issuer to strengthen the Issuer's capital adequacy and enhance its long-term resources in compliance with the applicable law.
3	Seniority	The claims in respect of the PNCPS, subject to applicable law, will rank: 1. Superior to claims of holders of equity shares and 2. Subordinate to the claims of all depositors, term loan borrowings, all capital instruments qualifying as tier II capital and all perpetual debt instruments
4	Listing	Unlisted.
5	Tenor	The PNCPS shall be perpetual i.e. there is no maturity date and there are no step-ups or any other incentives to redeem the PNCPS.
6	Dividend Payment Frequency	Subject to Dividend Limitation and Loss Absorption, dividend will be payable as per the discretion of the Bank's Board. The Board is empowered to (i) Declare Interim Dividend during the financial year (ii) Declare for subsequent financial years (including interim dividends) or (iii) Declare dividend during the period between the end of the financial year and before conducting the AGM.
7	Dividend Rate	11% per annum or at a rate as specified in terms of RBI Master Circular on Basel III capital regulations
8	Dividend Stopper	In the event that the Preference shareholders are not paid dividend at the Dividend Rate, there shall be no payment of discretionary dividend on equity shares until the Dividend payments to the shareholders are made in accordance with terms

		hereof.
9	Put Option	Not Applicable.
10	Call Option	**Issuer call:** The Issuer may at its sole discretion, subject conditions for Call and Repurchase and exercise of such call option (with a notification to the holders of the PNCPS which shall specify the date fixed for exercise of the call option), exercise a call option on the PNCPS (“Issuer Call”). The Issuer Call may be exercised at the option of the Issuer no earlier than on the fifth anniversary of the Deemed Date of Allotment.
		Tax Call: If a Tax Event has occurred and is continuing, the Issuer may at its sole discretion, subject to Conditions for Call and Repurchase and notification to the holders of PNCPS of not less than 21calendar days prior to the date of exercise of such call option (which notification shall specify the date fixed for exercise of the call option), exercise a call option on the PNCPS (“Tax Call”).Provided further that, subject to conditions for Call and Repurchase the Issuer may substitute the PNCPS with capital instruments that are in accordance with the RBI Master Circular on Basel III capital regulations and any other applicable law
		Regulatory Call: If a Regulatory Event has occurred and is continuing, the Issuer may at its sole discretion, subject to Conditions for Call and Repurchase and notification to the holders of PNCPS of not less than 21 calendar days prior to the date of exercise of such call option (which notification shall specify the date fixed for exercise of the call option), exercise a call option on the outstanding PNCPS (“Regulatory Call”).Provided further that, subject to Condition 27 (Conditions for Call and Repurchase) the Issuer may substitute the PNCPS with capital instruments that are in accordance with the RBI Master Circular on Basel III capital regulations and any other applicable law.
11	Repurchase/ Redemption/ Buy-back	The Issuer may subject to Conditions for Call and Repurchase having been satisfied and such repayment being permitted by the RBI Master Circular on Basel III capital regulations, repay the PNCPS by way of repurchase, buy-back or redemption.
12	Loss Absorption	PNCPS should have principal loss absorption through a write-down mechanism which allocates losses to the instrument at a pre-specified trigger point. The write-down will have the following effects:

		1. Reduce the claim of the PNCPS in case of liquidation; 2. Reduce the amount re-paid when a call over the PNCPS is exercised by the Issuer; and 3. Partially or fully reduce dividend payments on the PNCPS. The specific criteria for such loss absorption through conversion/write-down/write-off on breach of pre-specified trigger and the Point of Non-Viability (PONV) will be in accordance with the applicable RBI guidelines The relevant terms of Annex 16 in Master Circular of Basel III capital regulations shall be deemed to be incorporated herein.
13	Permanent Principal Write-down on PONV Trigger Event	If a PONV Trigger Event occurs, the Issuer shall: 1.Notify the holders of the PNCPS; 2.cancel any dividend which is accrued and unpaid on the PNCPS as on the write-down date; and 3. Without the need for the consent of the holders of the PNCPS, write down the outstanding principal of the PNCPS by such amount as may be prescribed by RBI ("**PONV Write Down Amount**") and subject as is otherwise required by the RBI at the relevant time. The Issuer will affect a write-down within 30 (thirty) days (or such other time as may be prescribed by applicable law) of the PONV Write-Down Amount being determined by the RBI.A Permanent Principal Write-down on PONV Trigger Event may occur on more than one occasion. Unless specifically permitted by applicable law, once the face value of the PNCPS has been written down pursuant to PONV Trigger Event, the PONV Write-Down Amount will not be restored in any circumstances, including where the PONV Trigger Event has ceased to continue.
14	Temporary principal Write-down on CET1 Trigger Event	If a CET1 Trigger Event (as described below) occurs, the Issuer shall: 1.Notify the holders of the PNCPS; 2. Cancel any dividend which is accrued and unpaid to as on the write-down date; 3. Without the need for the consent of holders of the PNCPS, write down the face value of the PNCPS by such amount as the Issuer may in its absolute discretion decide. Provided that, in no event shall such amount of write down be less than the amount required to immediately return the Issuer's Common Equity Tier 1 Ratio to above the CET1 Trigger Event Threshold , nor shall such amount

		of write down exceed the amount which would be required to be written down to ensure that the Common Equity Tier 1 Ratio is equal to the aggregate of the CET1 Trigger Event Threshold and 2.5%, or such other percentage as may be prescribed by the RBI (the "CET1 Write Down Amount"). A write-down may occur on more than one occasion. Once the value of a PNCPS has been written down pursuant to this temporary Write down, the value of the PNCPS may only be restored in accordance with condition of reinstatement.

17. Table DF-15: Disclosure on Remuneration

18.1. Remuneration - Qualitative disclosures

a. ***Information relating to the bodies that oversee remuneration. Disclosure should include:***

• Name, composition and mandate of the main body overseeing remuneration.

Name: Composition of the Nomination and Remuneration Committee

Sr. No.	Name of director	Designation/Category
1.	Ms. Vandana Viswanathan	Chairperson -Independent Director
2.	Mr. Biswamohan Mahapatra	Member - Independent Director
3.	Mr. Prabal Kumar Sen	Member - Independent Director
4.	Jayanta Kumar Basu	Member-Non-Executive, Non-Independent Director

Following are the main terms of reference of the Committee:

1. Formulating the criteria for determining qualifications, positive attributes and independence of a director and recommend to the Board of directors a policy, relating to the remuneration of the directors, key managerial personnel and other employees.

The Nomination and Remuneration Committee, while formulating the above policy, ensures that:

(i) the level and composition of remuneration be reasonable and sufficient to attract, retain and motivate directors of the quality required to run our Bank successfully;

(ii) relationship of remuneration to performance is clear and meets appropriate performance benchmarks; and

(iii) Remuneration to directors, key managerial personnel and senior management involves a balance between fixed and incentive pay reflecting short and long term performance objectives appropriate to the working of the Bank and its goals.

2. Formulating criteria for evaluation of performance of independent directors and the Board of Directors;

3. To ensure 'fit and proper' status of proposed/ existing Directors;

4. Devising a policy on diversity of Board of Directors;

5. Ensure that level and composition of remuneration is reasonable and sufficient, relationship of remuneration to performance is clear and meets appropriate performance benchmarks,

6. Identifying persons who are qualified to become directors and who may be appointed in senior management in accordance with the criteria laid down, and recommend to the Board of directors their appointment and removal and shall specify the manner for effective evaluation of performance of the Board, its committees and individual directors to be carried out either by the Board, by the NRC or by an independent external agency and review its implementation and compliance. The Bank shall disclose the remuneration policy and the evaluation criteria in its annual report;

7. Analysing, monitoring and reviewing various human resource and compensation matters;

8. Determining the Bank's policy on specific remuneration packages for executive directors including pension rights and any compensation payment, and determining remuneration packages of such directors;

9. Determining compensation levels payable to the senior management personnel and other staff (as deemed necessary), which shall be market-related, usually consisting of a fixed and variable component;

10. Determining whether to extend or continue the term of appointment of the independent director, on the basis of the report of performance evaluation of independent directors;

11. Recommending to the Board, all remuneration, in whatever form, payable to senior management;

12. Administering, monitoring and formulating detailed terms and conditions of the Employees' Stock Option Scheme of the Bank, inter-alia, including the following:

    a) Determining the eligibility of employees;

    b) The quantum of option to be granted under the Employees' Stock Option

Scheme per Employee and in aggregate;

c) The exercise price of the option granted;

d) The conditions under which option may vest in employee and may lapse in case of termination of employment for misconduct;

e) The exercise period within which the employee should exercise the option and that option would lapse on failure to exercise the option within the exercise period;

f) The specified time period within which the employee shall exercise the vested option in the event of termination or resignation of an Employee;

g) The right of an employee to exercise all the options vested in him at one time or at various points of time within the exercise period;

h) Re-pricing of the options which are not exercised, whether or not they have been vested if stock option rendered unattractive due to fall in the Market Price of the Shares;

i) Formulating and implementing the procedure for making a fair and reasonable adjustment to the number of options and to the exercise price in case of corporate actions such as rights issues, bonus issues, merger, sale of division and others. In this regard following shall be taken into consideration by the Compensation Committee:

- The number and the price of stock option shall be adjusted in a manner such that total value of the Option to the Employee remains the same after the Corporate Action;
- For this purpose global best practices in this area including the procedures followed by the derivative markets in India and abroad may be considered;
- The Vesting Period and the life of the option shall be left unaltered as far as possible to protect the rights of the Employee who is granted such option;

j) The grant, vest and exercise of option in case of Employees who are on long leave;

k) Allow exercise of unvested options on such terms and conditions as it may deem fit;

l) The procedure for cashless exercise of options;

m) Forfeiture/ cancellation of options granted;

n) Framing of suitable policies and procedures to ensure that there is no violation of securities laws, as amended from time to time, by the ESOP trust, the Bank and its employees, as applicable;

o) All other issues incidental to the implementation of Employees' Stock Option Scheme; and

p) Construing and interpreting the Plan and any agreements defining the rights and obligations of the Bank and eligible employees under the Plan, and prescribing, amending and/or rescinding rules and regulations relating to the administration of the Plan.

13. Administering, monitoring and formulating detailed terms and conditions of the Employee Stock Purchase Scheme of the Bank;

14. Conducting due diligence as to the credentials of any director before his or her appointment/ re-appointment, and making appropriate recommendations to the Board, in consonance with the Dr. Ganguly Committee recommendations and the requirements of RBI;

15. To make recommendations to the Board concerning any matters relating to the continuation in office of any Director at any time including the suspension or termination of service of an Executive Director as an employee of the Bank subject to the provision of the law and their service contract;

16. Ensure that level and composition of remuneration is reasonable and sufficient, relationship of remuneration to performance is clear and meets appropriate performance benchmarks;

17. To develop a succession plan for the Board and to regularly review the plan;

18. To approve Job descriptions & KRA's of Senior Managers and Business Line Managers on an annual basis;

19. To review Performance of the senior/business line managers by NRC on an annual basis;

20. Overseeing the framing, review and implementation of the Bank's Compensation Policy for Whole Time Directors/ Chief Executive Officers / Risk Takers and Control function staff for ensuring effective alignment between remuneration and risks;

21. To recommend to the board, all remuneration, in whatever form, payable to senior management;

22. Framing suitable policies and systems to ensure that there is no violation, as amended from time to time, of any securities laws or any other applicable laws in India or overseas, including:

	1. The Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015; and 2. The Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulations, 2003. 23. Carrying out any other function as is mandated by the Board from time to time and / or enforced/mandated by any statutory notification, amendment or modification, as may be applicable; and 24. Performing such other functions as may be necessary or appropriate for the performance of its duties. ***External consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process.*** Not Applicable ***• A description of the scope of the Bank's remuneration policy (eg: by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches.*** The purpose of the Compensation Policy is to ensure statutory compliance as well as alignment with the Bank's business policies and practices. The Compensation & Benefits (C & B) Policy document is based upon the principle that a fair and competitive salary is paid for acceptable levels of performance on the job. The compensation policy document is designed to align long-term interest of the employee and the organization. The policy document covers all employees and Board of Directors of the Bank. This document provides guidance on: • Compensation Philosophy • Compensation Structure • Grades • Pay Review Process • Variable Pay Plans • Salary Pay-out
	A description of the type of employees covered and number of such employees. All employees of the Bank are governed by the Compensation Policy. The total number of permanent employees of the Bank at 31st March 2020 was 17,841.
b	***Information relating to the design and structure of remuneration processes. Disclosure should include:*** ***• An overview of the key features and objectives of remuneration policy.*** The Compensation Policy and Nomination & Remuneration Policy has been laid out keeping the following perspectives into considerations:

	(a) The Compensation principles should support the Bank in achieving its mission of providing a full range of financial services to the economically active poor of India who are not adequately served (unserved and underserved) by financial institutions. Therein, this policy should support the Bank to attract and retain talent and skills required to further the Bank's purpose and ideology. (b) The pay structure shall always conform to applicable Income Tax and other similar statutes. (c) All practices of the Bank shall comply with applicable labour laws. (d) The pay structure should be standardized for all levels of employees. (e) Elements eligible for tax exemption may be introduced at appropriate levels to enable employees take applicable tax breaks. Amounts related to benefits may undergo change with change in grade in the organization. (f) The compensation structure shall be easy to understand for all levels of employees. (g) The compensation policy is designed to promote meritocracy in the organization i.e. other things being equal, performers in a given role are expected to earn more than his/her peer group. (h) The directors are paid sitting fees as approved by the Board for attending the Board and Board Committee Meetings. ***Whether the remuneration committee reviewed the firm's remuneration policy during the past year, and if so, an overview of any changes that were made.*** There were no changes to the compensation policy of the Bank, last year. ***A discussion of how the Bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee.*** The Bank periodically benchmarks its remuneration practices against the market. Compensation ranges in alignment to market pay are derived and reviewed periodically. Remuneration payable for each function is independent of amounts payable to other function as is the market practice. Further, performance metrics for the Risk and Compliance function are completely unrelated to deliverables of any other business function. The deliverables of the risk function are periodically reviewed by the Risk Committee of the Board ensuring due independence. Thus, the remuneration payable (which is linked to performance) is differentiated as well.
c.	***Description of the ways in which current and future risks are taken into account in the remuneration processes.*** • Structurally, the control functions such as Risk, Audit and Vigilance are independent of the business functions and each other, thereby ensuring independent oversight from various aspects on the business functions.

d.	***Description of the ways in which the Bank seeks to link performance during a performance measurement period with levels of remuneration.*** ***• A discussion of how amounts of individual remuneration are linked to the Bank-wide and individual performance.*** • The compensation policy is designed to promote meritocracy within the Bank i.e. other things being equal, performers in a given role are expected to earn more than his/her peer group. • The Bank shall, from time to time benchmark its compensation practices against identified market participants to define its pay structure and pay levels. • The merit and increments are finalized and approved by the National Human Resources Committee (NHRC) at annual intervals, basis organization's budgets and accomplishments as well as market reality. • The Bank believes in paying its employees in an equitable and fair manner basis the incumbent's Role, Personal Profile (Education/Experience etc.) as well as Performance on the Job. • Employees rated "Below Expectations" shall not be provided any increments, unless statutorily required. ***• A discussion of the measures the Bank will in general implement to adjust remuneration in the event that performance metrics are weak. This should include the bank's criteria for determining 'weak' performance metrics*** The Bank reviews metrics of all business units on a periodic basis and makes necessary changes to metrics to ensure satisfaction with the defined metrics and performance business outcomes across the stakeholder spectrum including investors, customers, regulator and employees. The Bank, particularly at Corporate and senior levels takes a balanced approach to performance management. High performance of an individual/ department is dependant not only on delivery of business metrics but also achievements of control functions. For e.g.: Over-achievement of business targets would not translate into a high performance rating if there are significant issues with Portfolio quality. Cost of acquisition, both in short and long term are typically evaluated to ensure healthy bottom-line.
	• A discussion of the Bank's policy and criteria for adjusting deferred remuneration before vesting and (if permitted by national law) after (a) The performance bonus pay-out shall be Annual. Discretion is typically applied related to staggered pay-out in case large pay-outs, particularly for functions like Credit and Risk. Bonus is to be prorated for employees who have worked for part of the year at the Bank. (b) The Bank believes in the philosophy of collective ownership by its employees. Thus, Employee Stock Options of the Bank are distributed amongst employees basis their criticality and performance.

(c) Typically, all Stock option schemes at the Bank vest in a staggered manner. Besides the statutory requirement of grant and 1 year vesting, the total set of options vest in various tranches for up to a period of 5 years.

(d) **Malus / Claw back**: In the event of negative contributions of the individual towards the achievements of the Banks objectives in any year, the deferred compensation is subjected to Malus / Claw back arrangements. Similar provisions apply in case the individual is found guilty of any major non-compliance or misconduct issues.

Description of the different forms of variable remuneration that the bank utilizes and the rationale for using the same

Variable Compensation at the Bank has the following distinct forms:

1. Statutory Bonus
2. Performance Pay :
   a. Performance bonus
   b. Monthly Variable Pay
3. Rewards & Recognition

The policy has been laid out keeping the following perspectives into considerations:

- The Variable pay structure and amounts shall always conform to applicable Income Tax laws, Labour laws, Regulatory requirements, any other applicable statutes and prevalent market practice.
- It is designed to promote meritocracy in the organization i.e. other things being equal, performers in a given role are expected to earn more than his/her peer group.

Statutory Bonus: Statutory Bonus in India is paid as per Payment of Bonus Act, 1965.

Performance Bonus: All employees who are not a part of any Monthly Variable Pay but part of the year end performance review will be covered under the Performance Bonus Plan of the Bank. However, the actual pay-out of performance bonus shall be paid only to employees who have met its performance criteria.

Monthly Variable Pay: Employees in the Sales function, directly responsible for revenue generation are covered under the Monthly Variable Pay if meeting the criteria of the respective scheme. Typically, some of the entry level roles and up to two levels of supervision thereof shall be covered.

Rewards & Recognition: The Bank has designed schemes and practices from time to time to celebrate employee / departmental / organizational successes. These celebrations may include offering tokens of appreciation to employees as defined in specific schemes. Fairness of application and transparency of communication shall be the hallmark of all such schemes. These will be subject to income tax laws, as applicable. Examples of such schemes may include: Long Service Awards (currently at one, three, five, seven and ten yrs. of completion of service with the Bank), Portfolio Improvement Reward Scheme; Functional R&R Schemes; Organizational Rewards

	Schemes such as: Service Champion; Process Excellence; Customer Connect Awards; Above and Beyond; Recognition program for Liabilities Branches for Retail Deposits; Recognition program for Asset growth in Branches

17.2. Quantitative Disclosures		
Sl. no	**Quantitative Disclosures (Covers only Whole Time Directors/ CEO/Other Risk Takers[34])**	**Numbers**
1	Number of meetings held by the Remuneration Committee during the financial year and remuneration paid to its members.	**Total Meeting Held:** 9 **Total sitting fee paid:** Rs. 16.20 lakh
2	Number of employees having received a variable remuneration award during the year.	8 employees (Current MD&CEO/ Ex-MD&CEO/ CFO /CRO /CBO / Current Head of Treasury / Ex-Head of Treasury / CS)
3[35]	Number and total amount of sign-on awards made during the financial year.	Rs. 37.99 lakh
4	Details of guaranteed bonus, if any, paid as joining / sign on bonus.	NIL
5	Details of severance pay, in addition to accrued benefits, if any.	NIL
6[36]	Total amount of outstanding **deferred remuneration**, split into cash, shares and share-linked instruments and other forms.	> ** Cash : Rs. 52.68 lakh > *** ESPS shares : Rs. 28.85 lakh > **** ESOP grants : Rs. 4.38 lakh (Current MD&CEO/ Ex-MD&CEO/ CFO /CRO /CBO / Current Head of Treasury / Ex-Head of Treasury /

[34] Key material risk takers are internally defined as mentioned in row 2 of the above table.

[35] ESOPs basis RBI approval as sign-on grants to Current MD&CEO; vesting due over 2 years – 2020 and 2021

[36] ** For current-MD&CEO and Ex-MD&CEO, Target Variable Pay provisioned and notional amount has been provisioned. The actual amount will be decided post closure of Annual Performance reviews. It will be planned based on NRC guidance and paid basis RBI approval.

> For all 8 employees, amount is provisioned for variable pay for 50% of total target variable pay due for payment in FY 20-21. Actual payment will be subject to Bank and Individual performance.

*** Including 26,90,000 shares allotted to Ex-MD&CEO

**** Excluding ESOPs of current MD&CEO since it was granted as sign-on grant. ESOPs are granted but not exercised.

		CS)
7	Total amount of deferred remuneration paid out in the financial year.	Rs. 18.17 lakh (Current MD&CEO/ Ex-MD&CEO/ CFO /CRO /CBO / Current Head of Treasury / Ex-Head of Treasury / CS)
8	Breakdown of amount of remuneration awards for the financial year to show fixed and variable, deferred and non-deferred.	> Fixed gross : Rs. 815.20 lakh > Variable deferred : Rs. 18.17 lakh (Current MD&CEO/ Ex-MD&CEO/ CFO /CRO /CBO / Current Head of Treasury / Ex-Head of Treasury / CS)
9	Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and / or implicit adjustments.	NIL
10	Total amount of reductions during the financial year due to ex- post explicit adjustments.	NIL
11	Total amount of reductions during the financial year due to ex- post implicit adjustments.	NIL

18. 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	14,52,076
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	3,06,347
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)	82,700

6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off- balance sheet exposures)	1,155
7	Other Adjustments	-15,420
8	**Leverage ratio exposure**	**18,26,857**

19. Table DF 18: Leverage ratio common disclosure template

Rs. in lakh

	Item	**Amount**
	On-balance sheet exposures	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	17,58,423
	Domestic Sovereign	2,39,535
	Banks in India	11,842
	Corporates	54,899
	Exposure to default fund contribution of CCPs	72
	Other Exposure to CCPs	
	Others	14,52,076
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(15,420)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	17,43,003
	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	82,700
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)**	82,700
	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	7,846
18	(Adjustments for conversion to credit equivalent amounts)	6,692
19	**Off-balance sheet items (sum of lines 17 and 18)**	1,155
	Capital and total exposures	
20	**Tier 1 capital**	3,01,829
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	**18,26,857**
	Leverage ratio	
22	**Basel III leverage ratio**	**16.52%**

Presently the contribution of Tier I capital to Total Basel II capital is 97.21%. 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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