Pillar III Disclosures as at 31st December 2019

2019

[Ujjivan Small Finance Bank (hereinafter called “the Bank”) has prepared this disclosure document in compliance with the directions of Reserve Bank of India (hereinafter referred to as “the Regulator” or “RBI”) vide its circular RBI/2015-16/58; DBR.No.BP.BC.1/21.06.201/2015-16 dated 1st July 2015. The document provides a review of key observations pertaining to the Bank’s capital adequacy, credit quality, key business highlights and a review of its key risks as at 31st December 2019.]

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1. List of 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
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
IBA	Indian Banks' Association
IBPC	Inter Bank Participation Certification
ICAAP	Internal Capital Adequacy and 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
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	Payment 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
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 December 2019.

3. About the Bank

3.1. Initial Public Offer

As at 31st December 2019, the Bank had completed in excess of two years of operations, having commenced operations with five branches in Bangalore on 1st February 2017. The licensing guidelines for Small Finance Banks required the Bank to list its shares within three years of reaching a net worth of Rs 50,000 lakhs. While the net worth of the Bank, since its inception was in excess of this mandated figure, to comply with the licensing conditions, the Bank had begun the preparatory work for listing well in advance to meet the milestone. The process of listing commenced as early as June 2019. The Bank had appointed merchant bankers, a legal counsel and a legal counsel to the merchant bankers for the IPO in compliance with the Indian Law. The Bank had also appointed an international legal counsel, as the issue was also marketed to international investors.

The Bank had filed its Draft Red Herring Prospectus (DRHP) with Securities and Exchange Board of India (“SEBI”) on 16th August, 2019. Subsequently, the Bank obtained in principle approval for listing the equity shares to be issued under its IPO from NSE and BSE on 30th August 2019 and 12th September 2019 respectively.

The Bank conducted extensive road shows across India, United Arab Emirates (UAE), USA, Singapore and United Kingdom for marketing and book building in relation to the IPO and Pre-IPO.

The Bank was able to raise Rs. 25,000 lakh via the pre-IPO placement at a price of Rs. 35 per share. The issue to the public was open from 2nd December, 2019 to 4th December, 2019 with a price band of Rs. 36 to Rs. 37. The IPO comprised 20, 27, 02,702 Equity Shares aggregating Rs. 74,594 lakh. The shares of the Bank got listed in NSE[1] and BSE[2] on 12th December, 2019

The Bank’s shares opened at a premium of 58% to issue price on the date of listing. The shares of the Bank are traded with a closing market price of Rs 53.85 as at 31st December 2019.

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[1] National Stock Exchange

[2] Bombay Stock Exchange

3.2. Change in leadership

Mr. Nitin Chugh has taken over as Managing Director and Chief Executive Officer (MD & CEO) with effect from 1st December 2019. He brings in extensive experience in Retail and Digital Banking from a highly acclaimed bank. The synergy between his experience and the Bank's digital roadmap makes him the right choice to take the Bank to its goal of becoming a leading mass market bank.

3.3. Branch network and distribution reach

The branch position of the Bank as at 31st December 2019 was as follows:

Particulars	Position as on 31st December 2019
Total Banking outlets, of which	574
Banking outlets[3] (Non URC[4])	430
Banking outlets (URC)[5]	144
Qualifying URC Branches (Branches situated in tier 3-6 locations in NE[6] states and LWE[7] districts)	33
Business Correspondents (BC)	7

The Bank is fully compliant with the RBI guidelines on having 25% (25.08% as at 31st December 2019) of its Banking Outlets in the URCs. All erstwhile asset centres (branches which continued to do asset only business pending conversion into full service commercial bank branches) are now converted into Banking Outlets (BO) within the mandated 3 years of commencement of banking operations.

The Bank has not expanded beyond the seven BCs which it had enrolled in January 2018. For its URC requirement now, the Bank's strategy is to focus on brick and mortar branches providing a wide array of banking services. The BCs enrolled are compliant with the

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[3] A 'Banking Outlet' for a Domestic Scheduled Commercial Bank (DSCB), a Small Finance Bank (SFB) and a Payment 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.

[4] Unbanked Rural Centre (URC)

[5] 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 Bank 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.

[6] North eastern states

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

requirements laid out by RBI. These 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. Personnel managing each 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. The Bank intends on replacing the existing BC network with brick and mortar branches during the ensuing financial year.

The Bank operated a network of 434 Automated Teller Machines (ATMs) and 37 Automated Cash Recyclers (ACR) as at 31st December 2019.

3.4. New products and initiatives

The Bank provides retail banking services (which include para- banking activities, selling life insurance and general insurance products of third party service providers, with an approval from RBI) to economically active poor in urban and semi urban areas. Two wheeler loans and a new variant of Loan against Property (LAP) were launched during the quarter. The Bank is currently preparing itself to launch Kisan Pragati Card (KPC), targeted at small and marginal farmers. On the liabilities front, the Bank had launched 2 schemes namely 'Sampoorna Nidhi' and 'Sampoorna Lakshya'. Both these schemes are offered to the Bank's existing Savings Bank account holders.

'Sampoorna Nidhi' scheme is a term deposit with the features of monthly interest payout linked to savings accounts. During the quarter, the Bank had undertaken dipstick surveys on senior citizens. The survey showed that senior citizens look for high interest fixed deposits to park their deposits and are continuously looking for options to withdraw money on a monthly basis to cover day to day expenses. This was further validated with results of personal interviews with customers who also exhibited a strong appeal for Monthly Income Scheme products as offered by Post offices. The scheme is offered only on digital modes aimed at senior citizens and house wives who can avail with a minimum amount of Rs. 25,000 and thereafter in multiples of Rs. 1000.

'Sampoorna Lakshya' is a unique goal-based savings scheme offered to the Bank's existing savings bank customers. Based on extensive research, the Bank was able to identify the following aspirations among its customers:

1) Kids are the focal point of savings for the parents. They have a lot of hope riding on their future and they strive towards it.
2) Expenditure during festivals, on electronic items, gifts for wedding, etc., were a means of social fit in & to earn acceptance among their peers in society and customers want to save for it.
3) On an average, Rs. 2800 is saved monthly by all micro banking households.
4) Young customers have high aspirations and want to save for their first bike or other electronic gadgets.

5) The Bank's customers save in informal saving avenues as it helps them achieve small goals.

Based on these findings, the Bank has defined the following goal categories to enable savings:

Goal categories	Goal description
Education	The kids, being the priority for every parent – the goal will be focusing on Kids Education and expenses related to education. The Female and Male in the family to be the target segment
Home appliance	Consumer durables are one of the family requirements that have high demand usually around festival seasons. Young adults and Male Members to be the target segment.
Home Improvement	Since majority of the Bank's customers are already availing loans for this purpose, hence the product positioning can be easy. The target segment will be the Female and Male in the family.
My First	The category is built for goals related to young adults who have started earning recently and have goals to buy their first phone or a vehicle etc.
My Family	Kid's marriage and Small Festivals celebration will be goals and target segment for this are Male/ Female in the family.
Others	Free Text to be available for the customer to choose any goal they like and name them accordingly.

This scheme is expected to provide an impetus on the liabilities front and in mobilizing savings from informal channels to formal banking channels.

3.5. Progress in IT and Digital banking

On the technology front, NEFT facility was made available 24*7 on the Internet Banking and Mobile Banking platforms as per RBI directions. Aadhaar vault was also implemented to mask the display of Aadhaar numbers in the Bank's internal systems. During the quarter, key technological developments included go-live of E-mandate across all branches to facilitate paperless mandate registration, minimize rejections and reduce the turnaround time in registration. An integrated Recruitment Management System to act as a single comprehensive platform for all recruitment related processes has also been put in place. In order to increase the ease of banking for customers, four additional languages (Gujarati, Marathi, Punjabi and Odiya) were introduced on the mobile banking application.

On cyber security management, 'Endpoint detection and response' was implemented to monitor anomalies. An e-learning module was made live to create user awareness, and employee certification is in progress. Internal review of IT controls has commenced.

The Bank was able to open 6000+ Savings Bank (SB) accounts through digital platforms on YTD basis. As at 31st December 2019, 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.

4. Key performance highlights of the Bank:

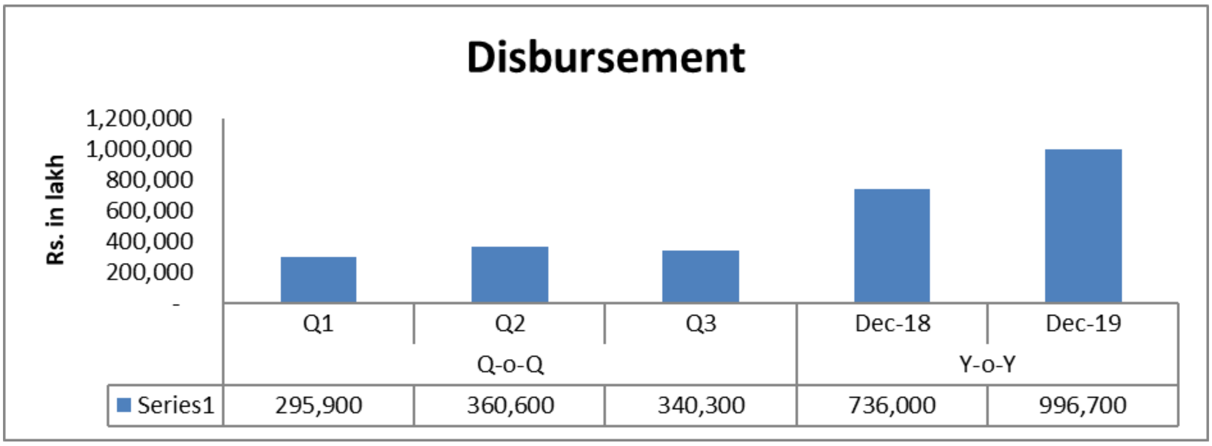
Some of the key achievements made for quarter ended 31st December 2019 were as follows:

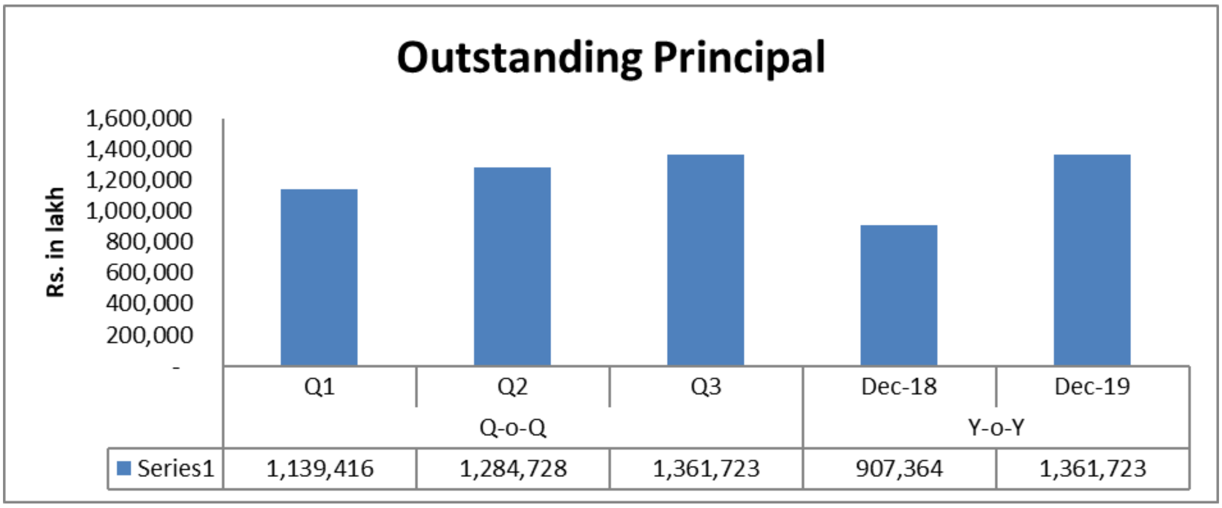
Key Highlights	Description
Customer base	• Total outreach: 51 lakh customers (49.40 lakh customers in September 2019)
Loan Portfolio	• Gross Advances at Rs. 13,61,723 lakh (Rs. 12,84,728 lakh (as at September 2019) • Non-Microfinance book at 23% (21% in September 2019)
Deposit Balance	• Total Deposits (Retail plus Institutional): Rs. 10, 65, 600 lakh (10,12,985 lakh in September 2019) • CASA: 11.60% (12% in September 2019) • Retail: 43% (42% in September 2019)
Portfolio Quality	• Gross Non-Performing Assets (GNPA): 0.95% (0.85% in September 2019) • Net Non-Performing Assets (NNPA): 0.38% (0.33% in September 2019) • Write offs during Q3: Rs. 1, 216lakh (Write off for HY 2019-20: Rs. 3,255 lakh. Total Write off: Rs. 4,471 lakh
Employee strength	• 17, 783 (16,776 as at September 2019)
Profitability	• Profit after Tax: Rs. 89.66 lakh (Rs. 18, 711 lakh HY September 2019). Cumulative PAT: Rs. 27,677 lakh) • Return on Assets (ROA): ~2.10% (2.50% in September 2019)
Funding	• Cost of funds: 8.12% (8.30% as at September 2019)

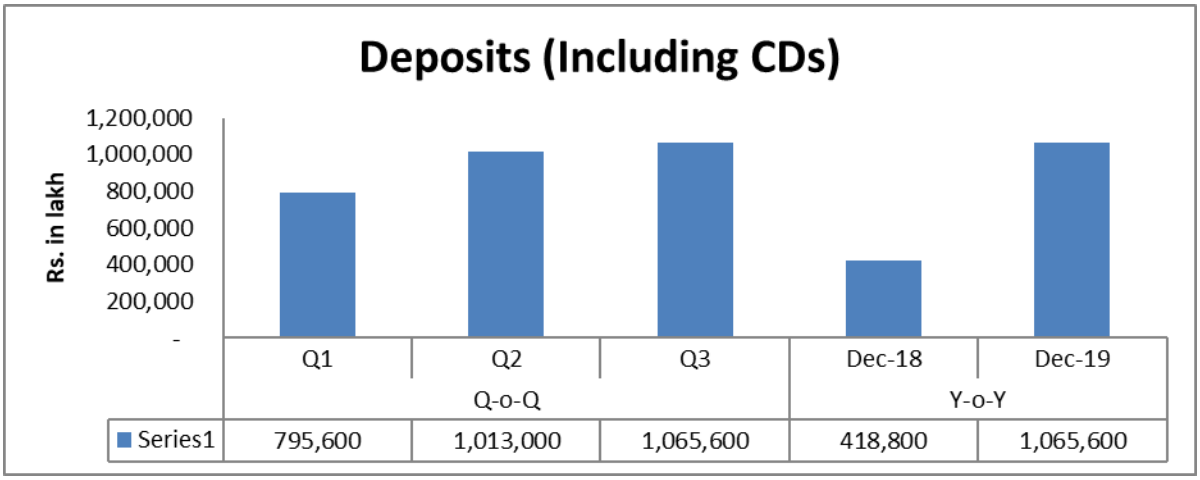
The performance ratios of the Bank were as follows:

Particulars	As at March 31, 2019	As at June 30, 2019	As at 30, September 2019	As at 31 December 2019
Yield	20.0%	20.1%	20.2%	20.1%

Cost of Funds	8.4%	8.5%	8.4%	8.1%
Net Interest Margin	10.8%	10.5%	10.8%	10.9%
Return on Assets	2.1%	2.7%	2.4%	2.1%
Return on Equity	14.2%	20.2%	18.9%	14%
Cost to Income ratio	78%	64%	69%	71%
Other income/ Total Income	11%	14.2%	10.3%	9.6%







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 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 December 2019.

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 4.93% (including NRI holdings) as at 31st December 2019, 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[8]:

Subsequent to the IPO, 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 December, 2019 was as follows:

Category of the Shareholder	No. of shares held	%age of shareholding
Promoter	1,44,00,36,800	83.32%
Mutual Funds	2,97,52,562	1.72%
AIFs	5,50,69,599	3.19%
Foreign portfolio investors	8,24,25,932	4.77%
Financial Institutions/Bank	1,20,052	0.01%
Resident Individuals	9,78,05,936	5.66%
NBFCs	10,46,504	0.06%
Others	2,19,65,784	1.27%
	1,72,82,23,169	

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

Capital Structure- Summary of Tier I & Tier II Capital

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

S. No.	Instrument	Whether Tier I or II	Amount (Rs. in Lakh)
1	Equity[9]	Tier 1	2,30,000
2	PNCPS[10]	Tier 1	20,000

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.

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

[9] Authorized capital

[10] Perpetual Non-cumulative Preference Shares

reposing their confidence in Bank while retaining the capital required for supporting future growth.

The payment of dividend to equity and PNCPS shareholders are 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.

7. Table DF- 3: Capital Adequacy

7.1 Qualitative Disclosures

The Bank has been well capitalized since inception and was further augmented after its IPO. As required by RBI in its operating guidelines to SFBs[11], 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 marked 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.

[11] 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

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) and Leverage Ratio (LR) at 90% and 4.5% respectively.

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

7.2 <u>Quantitative Disclosures</u>

The break-up of Basel II capital funds as at 31st December 2019 was as follows:

Rs. in lakh

Capital Funds		
	Position as on 31st December 2019	**Amount**
A	**Tier I Capital**	
A.1	Paid-up Share Capital	1,72,822
A.2	Reserves	1,09,822
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	4,993
B.4	Good will and Adjustments for less liquid position/intangibles	10,315
C	**Net Tier 1 Capital**	2,87,336
D	**Tier II Capital**	
D.1	General Provisions	7,484
D.2	Investment Fluctuation Reserve	1,481
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**	8,965
G	**Total Eligible Capital**	**2,96,301**

Capital Requirements for Various Risks

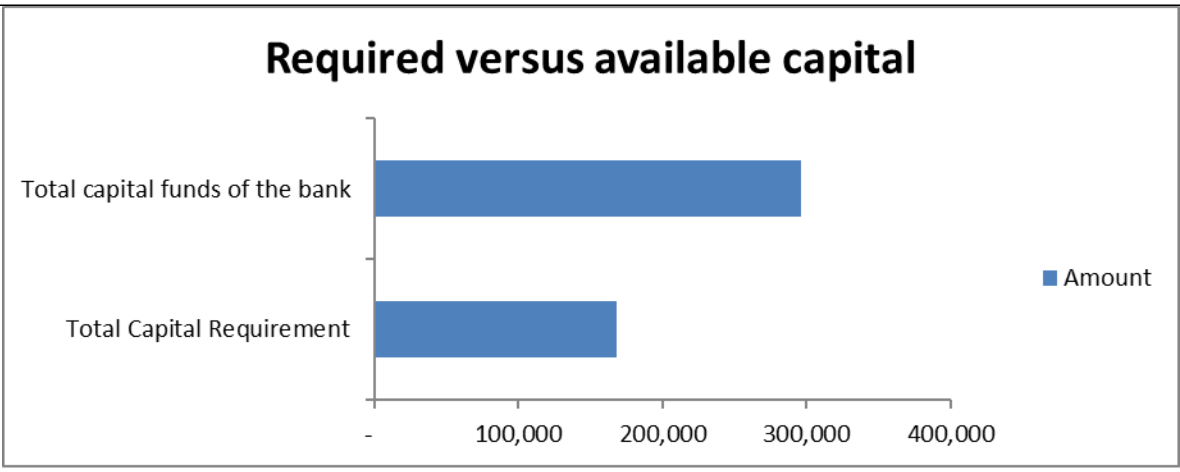
Sl.No	Capital Requirements for various Risks	Amount(Rs. in lakh)
A	**Credit Risk**	1,56,626
A.1	For non-sec portfolio	1,56,626
A.2	For Securitized portfolio	NIL
B	**Market Risk**	236
B.1	For Interest Rate Risk	236
B.2	For Equity Risk	NIL
B.3	For Forex Risk (including gold)	NIL
B.4	For Commodities Risk	NIL
B.5	For Options risk	NIL
C	**Operational Risk**	11,431
D	**Total Capital Requirement**	1,68,293
E	**Total Risk Weighted Assets**	11,90,016
F	**Total capital funds of the bank**	2,96,301
G	Capital Adequacy Ratio of the Bank (%)	24.90%

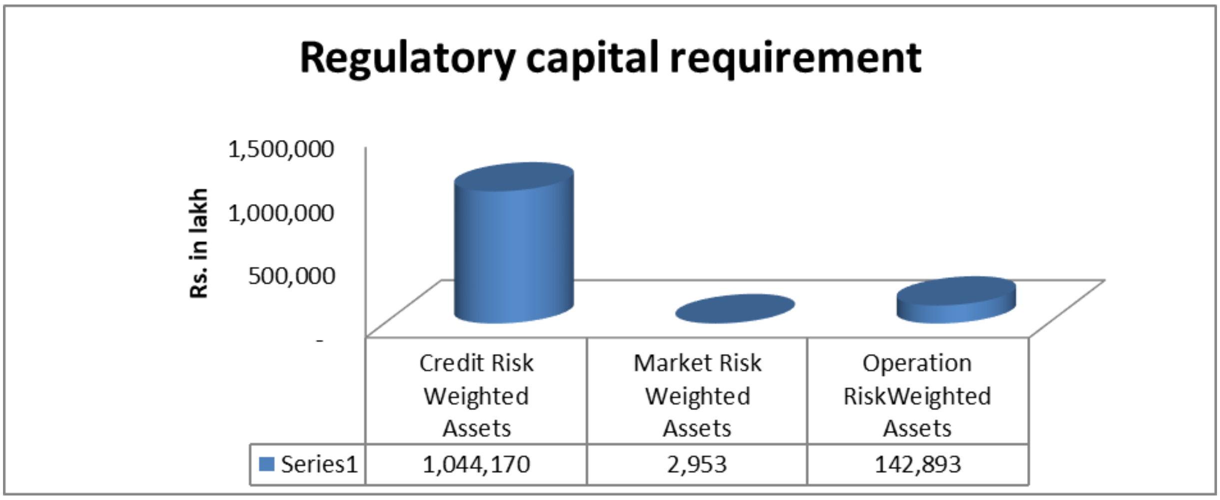
Basel II Ratios as at 31st December 2019 (Rs.in Lakh)

Particulars	Amount/Ratio(Only Credit RWA)	Amount/ Ratio (all Pillar 1 risks)
Tier I Capital	2,87,336	2,87,336
Tier II Capital	8,965	8,965
Total Capital	2,96,301	2,96,301
Total RWA	**10,44,170**	**11,90,016**
Tier I Ratio	27.52%	24.15%
Tier II Ratio	0.86%	0.75%
CRAR	28.38%	24.90%

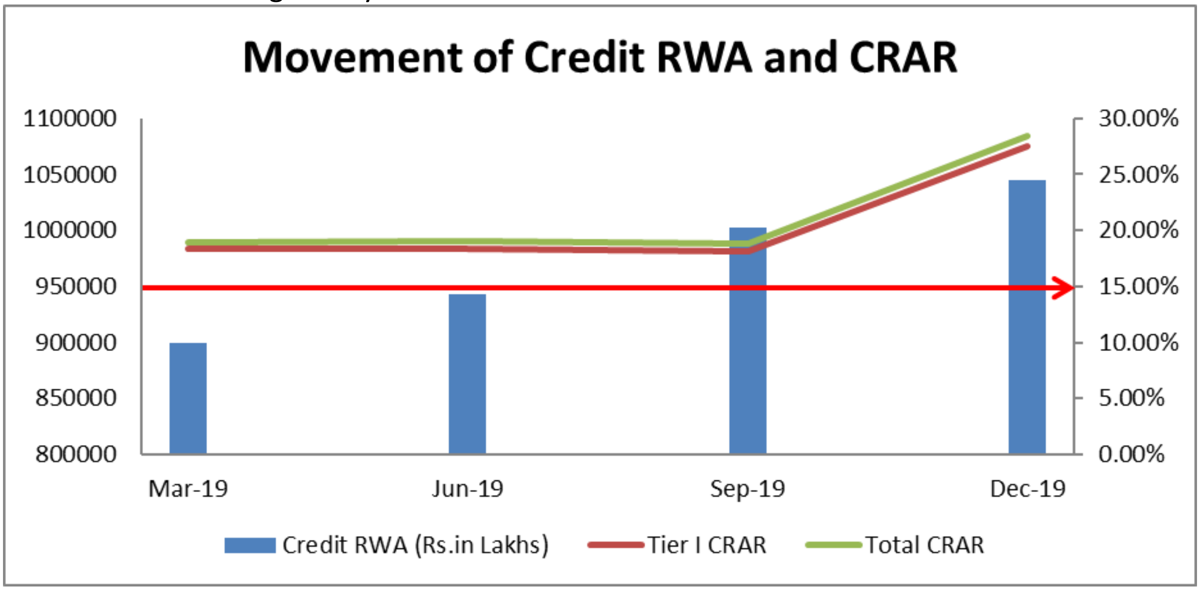
With the recent IPO, the CRAR of the Bank has witnessed a significant increase. The high capital adequacy is transitory in nature and is expected to stabilize with higher credit off - take in the ensuing financial year.

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:



*The red line indicates minimum CRAR requirements

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. 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, other than in 2016 as an after effect of the demonetization, the microfinance portfolio of the Bank is unsecured and at times of extraneous events, such as excessive borrowing and coercive practices adopted in Assam, it can have a debilitating impact on the portfolio. Taking cognizance of this and especially since the microfinance portfolio comprised 77% of the loan book as at 31st December 2019, the Bank has deemed it appropriate to follow a conservative approach in its provisioning policy. The provision particulars at the quarter end are provided below:

Rs. in lakh

Asset Class	Gross Advances	RBI mandated provisions[12]	Actual Provision made	%Provision
Standard	13,48,778	6,744	7,484	0.55%
Sub-standard	11,149	2,787	6,045	54.22%
Doubtful	1,432	1,432	1,387	96.89[13]

[12] Rough estimate. Standard assets are provided at 0.5%, sub-standard at 25% and Doubtful reckoned at 100%, (Secured loans with DPD 456-545 at 75% and 100% thereafter as per policy) and loss at 100%

Loss	363	363	363	100.00%
Total	13,61,723	11,327	15,280	--

Presently, the Bank provides 0.50% on its standard asset portfolio against the RBI mandated figure of 0.40%. The Bank has received the approval of its Board to increase the standard asset provisioning on its unsecured book to 0.6%, but this will be effective from next financial year.

8.1.2.1. 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. However, this deferral is 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.

8.1.3. 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

[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.

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 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.

8.1.4. 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) Unsecured loans after 180 DPD or immediately after the fraud have been established and full provision is made on the Bank's books. b) Secured loans after 365 DPD or immediately after the fraud have been identified and full provision made on the books.

[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.

	c) Any fraud account over and above Rs. 1 lakh can only be written off by the MD and CEO

For Q3 of FY 2019-20, the Risk Management Committee had approved write-offs to the tune of Rs. 1,216 Lakhs. 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
Year till Date (April 2019 to December 2019)	4,471

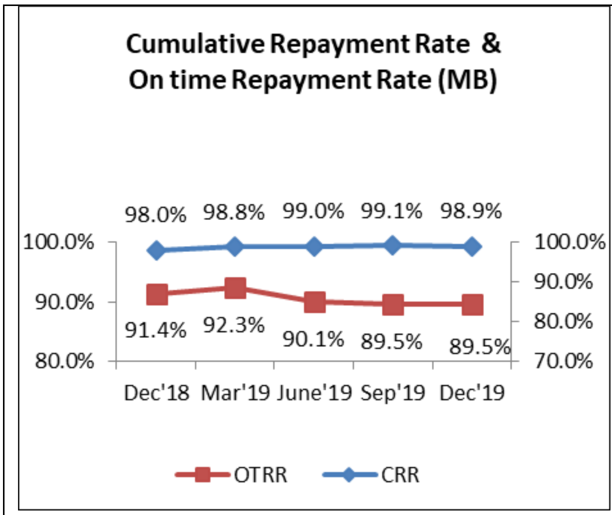
8.1.5. Credit Risk Management

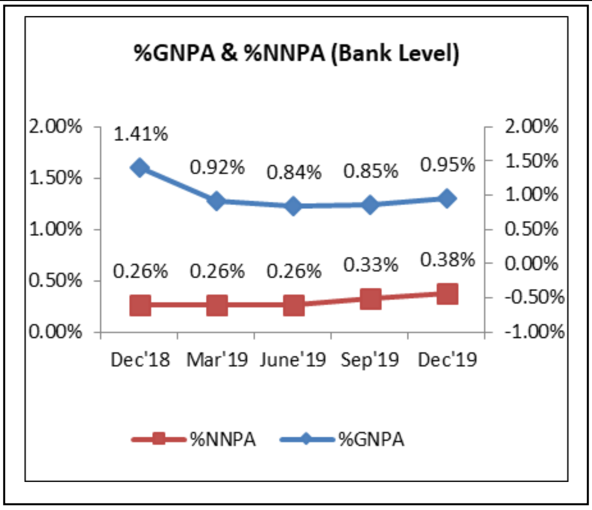
The overall distribution of gross advances as at 31st December 2019 was as under:

Rs. in lakh

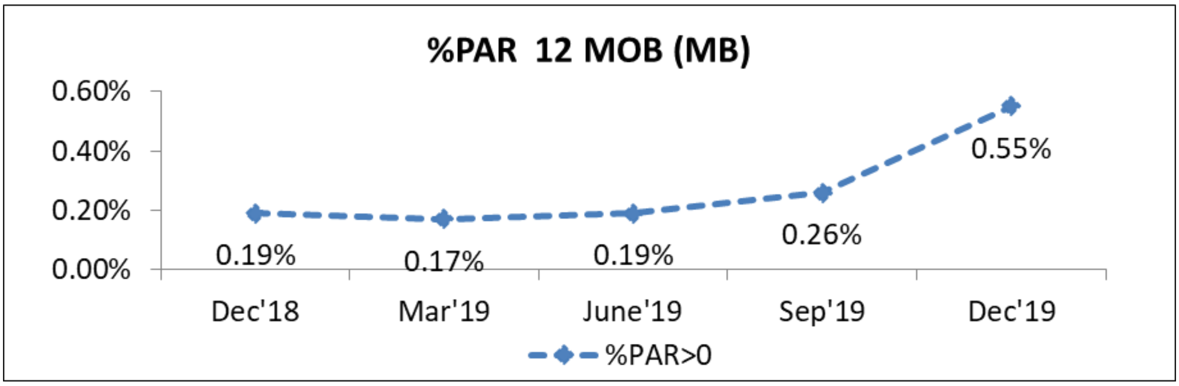
Gross Advances		
Particulars	**Amount**	**% Share**
Microfinance	10,47,851	76.95%
Housing	1,38,097	10.14%
MSE-Secured	82,319	6.05%
FIG	55,135	4.05%
Agri Loans	13,143	0.97%
MSE-Unsecured	10,732	0.79%
Personal Loans-Outside	7,708	0.57%
Advances against deposits	5,204	0.38%
Staff Loans	1,075	0.08%
Two Wheeler Loans	459	0.03%
Total	**13,61,723**	100.00%

The Gross NPA (GNPA) had marginally increased to 0.95% from 0.85% as at December 2019. Key risk indicators such as Cumulative Repayment Rate (CRR) had shown encouraging trends affirming that the overall health of the credit portfolio was very close to pre-demonetization levels and as seen otherwise consistently in the microfinance portfolio. On Time Repayment Rate (OTRR) for the microfinance book had dropped during the quarter primarily due to floods and rains in various states of India.





On Time Repayment Rate (OTRR) was steady at 89.5% as compared to previous quarter while Cumulative Repayment Rate (CRR) has marginally reduced to 98.9% from 99.1% in the previous quarter. The 12 Month on Books (MOB) advances showed an increasing trend in PAR due to floods, rains and holidays.



PAR > 0 DPD in Microfinance loans sourced during the last 12 months was at 0.55%, an increase from the corresponding quarter of the previous year (0.19%). The increase in delinquency can be mainly attributed on account of PAR additions seen in micro finance on account of Assam portfolio. The state of Assam was affected due to two external events, listed below, 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.

1) In October 2019, few student and labour unions started protesting against MFI's owing to high indebtedness of microfinance borrowers in Upper Assam
    i. This gradually led to coercive collection practices being adopted by a few institutions in Dibrugarh and gradually spread towards Tinsukia, Golaghat and Jorhat districts which form part of Upper Assam.
    ii. Peer pressure from groups increased and overdue customers were unable to handle this leading to multiple borrowings for paying old debt. This led to early signs of portfolio deterioration.

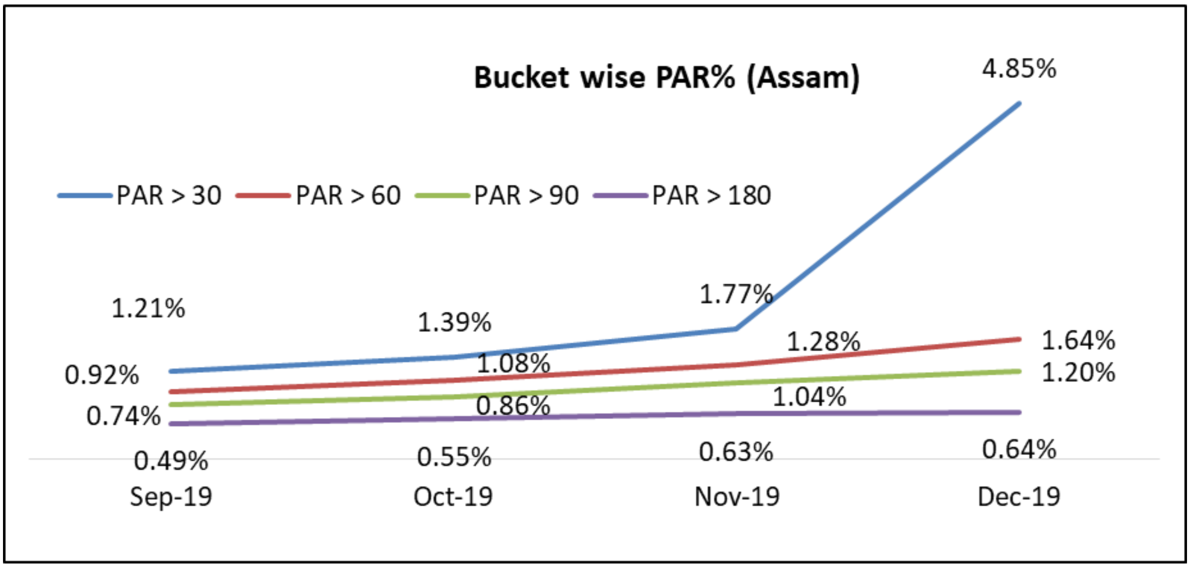
2) Citizen Amendment Act (CAA) and National Register of Citizens (NRC):

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. This resulted in:

i. The Bank was unable to carry out its regular operations effectively during this period and it also had an impact on the income generating capacity of existing clients.
ii. The Bank was also not able to reach customers in several places due to road blockages, impacting center meeting discipline and repayment rate.
iii. Eventually, the Bank's operations were fully halted after internet was shut down across the state.

The detailed impact on Assam as at 31st December 2019 is furnished as below:

Area	OSP (Rs. in lakh)[15]	Borrowers	PAR >0 DPD	Overdue Cases	% PAR
Upper Assam	15,260	83,140	45.1	25,872	29.6%
Lower Assam + Guwahati	27,090	1,40,069	9.0	5592	3.3%
Total	42,350	2,23,209	54.1	31,464	12.8%



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.

Without the impact of Assam, PAR 1+ was at 0.33% in microfinance loans, an increase from

[15] Rounded to nearest ten

the corresponding quarter in previous year (0.19%). The higher incremental default in Q3 was the spill over effect predominantly from geographies which were impacted due to heavy rains and floods in various parts of the country. The Bank had made higher provisions of Rs. 220 lakh on loan accounts impacted due to natural calamities across the states. On a positive note, the Bank was able to register a write off recovery of Rs. 750 lakh during the quarter which was higher than the budgeted target of Rs. 625 lakh.

8.1.5.2. Non-Microfinance Portfolio

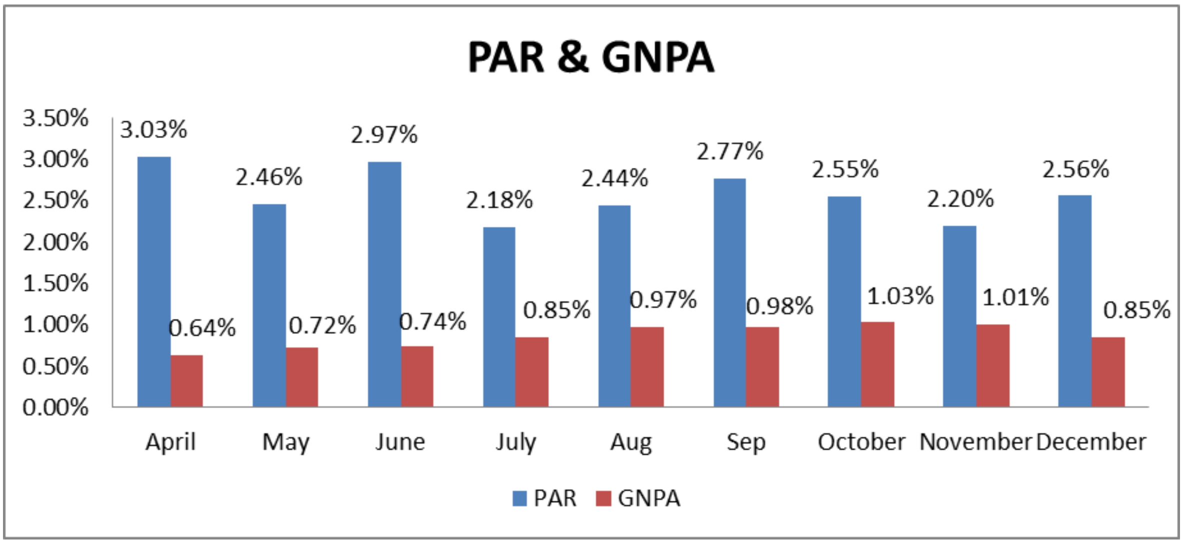
The non-microfinance portfolio includes advances for secured Housing, MSE loans, Agriculture Loans, Personal loans, a very small book for vehicle finance and Institutional lending. The entire non-microfinance loans contributed to 23% i.e. (Rs 3, 31, 872 lakh) of the total advances. From a risk management 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:

8.1.5.2.1. Secured Housing

Rs. in lakh

Housing Loans	Dec-18	Mar-19	Jun-19	Sep-19	Dec- 19	Y-o-Y Growth%
South	20,617	25,660	30,618	36,605	42,170	105%
North	13,959	15,509	16,892	18,526	19,748	41%
East	7,058	9,325	11,563	14,633	17,214	144%
West	25,132	32,505	41,534	51,406	58,921	134%
Grand Total	66,767	82,998	1,00,607	1,21,169	1,38,053	107%



As at 31st December 2019, the Bank had 18,000 plus borrowers under the housing portfolio. The performance of Secured housing loans has largely been satisfactory with an exception of a few states/clusters where there are early signs of stress. The Bank had received Rs. 3,689 lakh of subsidy under the Prime Minister Awas Yojana as at December 2019 to benefit t 1,700 customers. Digitalization of file sourcing (tab-based banking) is in advanced stages of completion and expected to be piloted during the ensuing quarter. The Bank has also explored ways to further optimize operational efficiency in the areas like document management, utilization checks and collateral valuation.

During the quarter, 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.

8.1.5.2.2. Micro and Small Enterprises (MSE):

Rs. in lakh

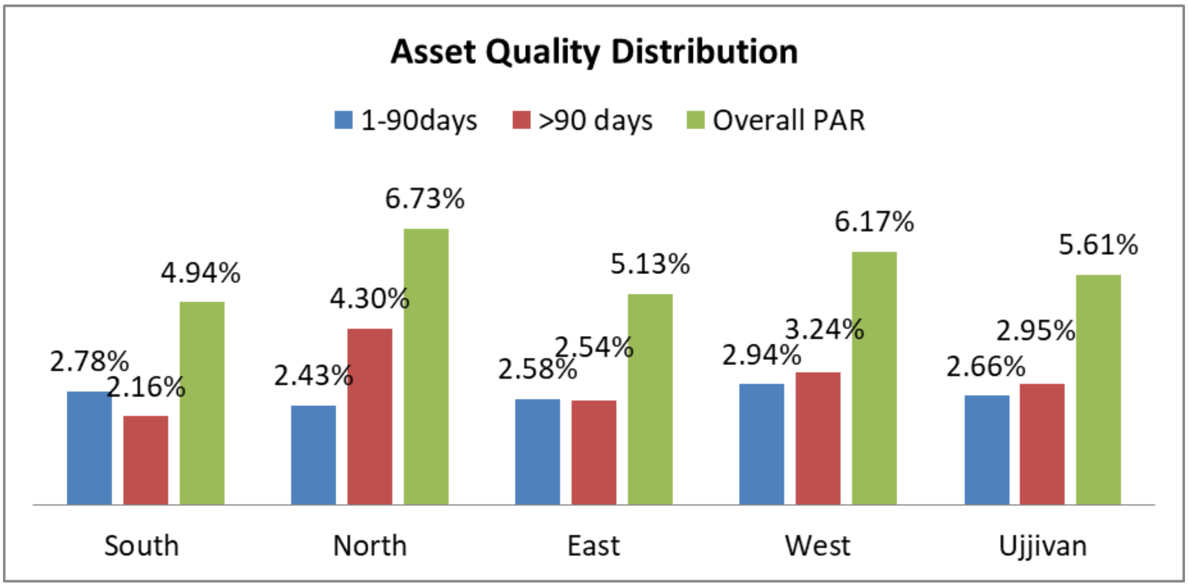
Region	Dec-18	Mar-19	Jun-19	Sep-19	Dec- 19	Y-o-Y Growth%
South	13,614	17,695	19,985	23,827	26,785	96.75%
North	12,931	16,209	18,481	20,277	21,719	67.96%
East	12,014	16,874	20,218	26,577	29,995	149.67%
West	6,478	8,307	9,830	12,716	14,479	123.51%
Grand Total	**45,037**	**59,084**	**68,514**	**83,396**	**92,978**	**106.45%**

The Bank has taken cognizance of the underlying risks in this market and had internally defined triggers for active monitoring. As at 31st December 2019, the share of secured loans within MSE had reached 88.49% of the total MSE loan book. To improve / monitor its asset quality, the Bank has implemented "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 improvement is shown especially with respect to arresting PAR.

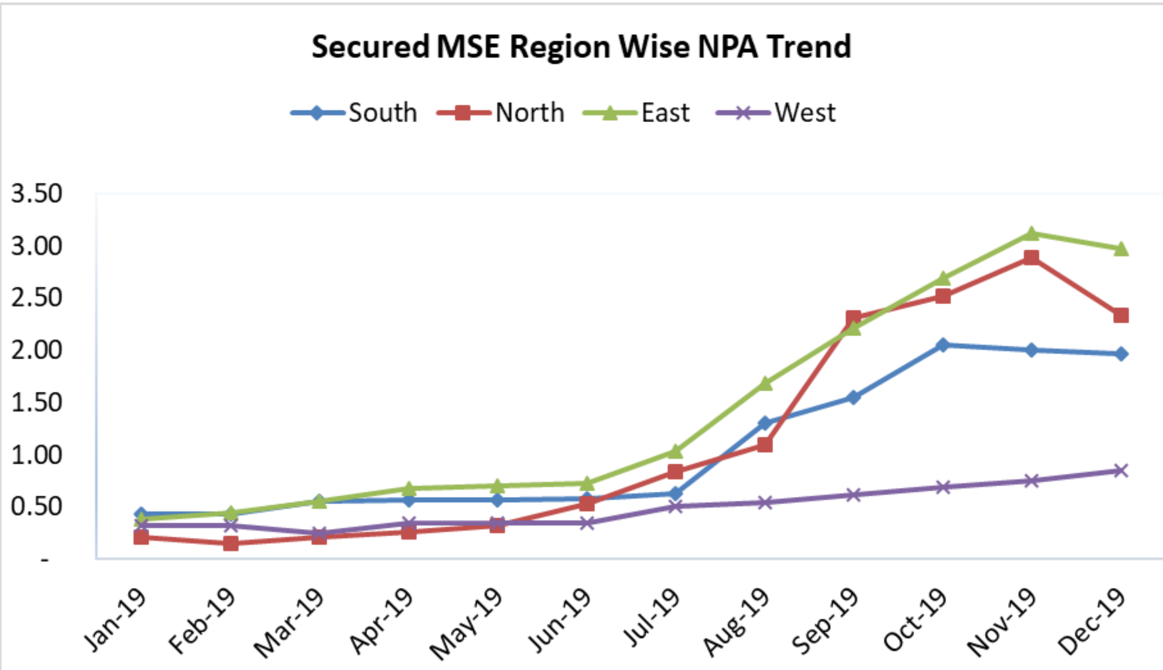
During the quarter, the Bank had launched a comprehensive training exercise for loan officers and credit officers at a Pan- India level. The aim of the training project was primarily focused on up skilling and reiterating the basic tenets of credit appraisal. The Bank has leveraged its online training platform for dissemination of training material. Much of the training program is expected to complete in the ensuing quarter.

On the technology front, the Bank is continuously looking at opportunities to improve its operational efficiency through regular patch updates, introduction of new functionalities in its systems. These enhancements are aimed to improve TAT and officer productivity. During the quarter, the Bank had successfully launched its credit rating scorecards in its LOS for this line of business as well.

The distribution of PAR as at 31st December 2019 is as follows:



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



The Bank has completely stopped its unsecured MSE product and the residual amount is being allowed to run off. Collection effort has been stepped up in the clusters that are affected to contain further slippages.

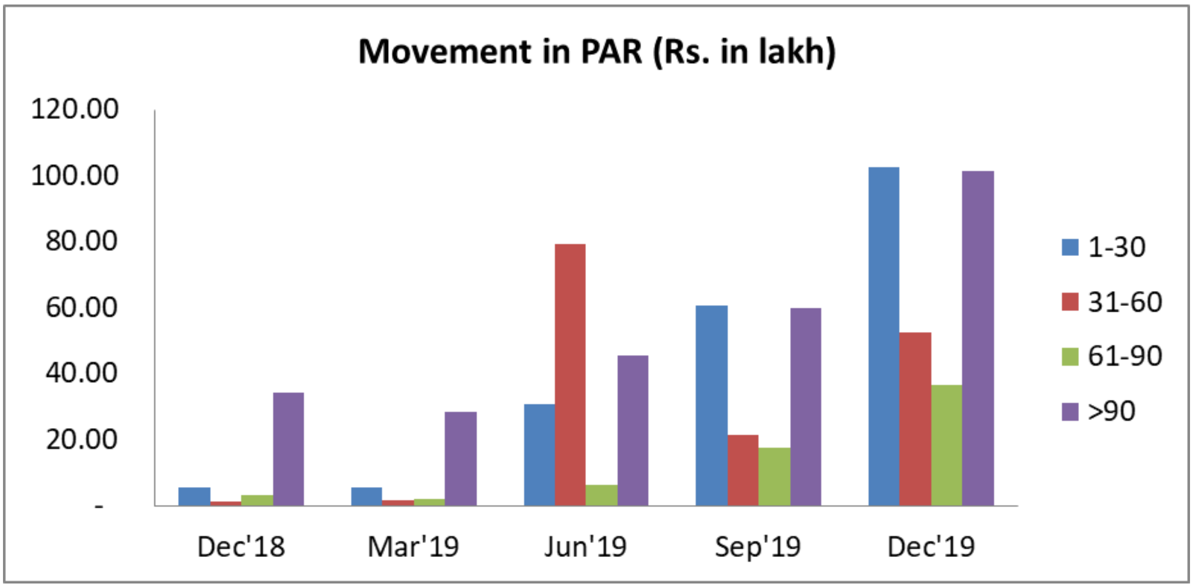
8.1.5.2.3. Agriculture and Rural Business

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

Rs. in lakh

Particulars	December 2018*	March 2019*	June 2019*	Sept 2019*	December 2019
QTD Disbursement	4,600	10,400	11,540	16,440	18,537
YTD Disbursement	9,800	20,500	11,540	27,940	46,665
Outstanding Principal[16]	9,900	18,500	28,740	39,460	50,575
Ticket Size	32,056 (GL) and 77,109 (IL)	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) 94,491(KSL)

*rounded to nearest 100



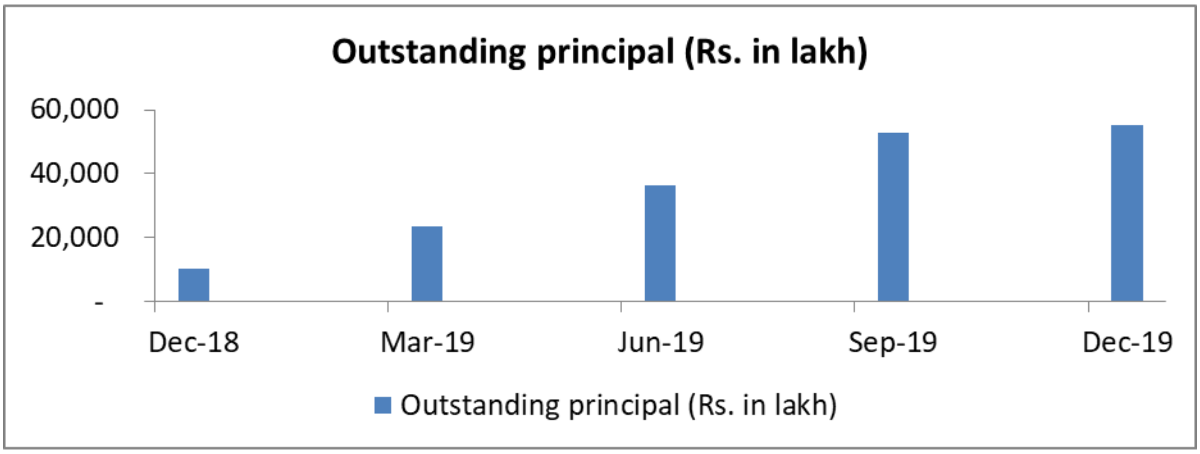
As at 31st December 2019 active borrower base for Rural Banking was 175,146. During the quarter new product variants were added to Agri Group Loan and Kisan Suvidha Loan. The Bank also launched new Agri Secured product Kisan Pragati Card credit facility for Small and Marginal Famers.

8.1.5.2.4. 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, but also to capitalise

[16] Including an FIG loan disbursed for the purpose of agriculture.

on its knowledge of the sector and the strength of the large capital base that the Bank has. As at 31st December 2019, the Bank had built a portfolio of loans to Financial Institutions of Rs. 53,485 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. The NBFC lending market is expected to become competitive with Public Sector Banks beginning to restart credit off take to this segment. For the ensuing quarter, the Bank has adopted a cautious approach in providing finance. The Bank will revisit its institutional lending strategy in the next financial year. It is noteworthy to mention that the repayment track record of institutional borrowers have been excellent with zero PAR and NPA as at reporting date.



With this portfolio, the Bank also aims to explore various diversification benefits including sourcing of institutional deposits. During the quarter, the Bank has sourced ~Rs. 20,000 lakh deposits with ~Rs. 1,500 lakh in Current Account. 19 new liabilities relationships were added during the quarter taking the total active relationship up to 184. 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.

8.1.5.2.5. <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 and has garnered tremendous interest across these locations. This is evidenced by the large influx of online applications and significant share of business from the online platform. The priorities for this financial year are to launch in new markets, scale distribution across all channels and also explore partnerships with select Fintech companies on a dynamic lending program. 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. Based on the STP analysis, the Bank has framed its pricing strategy for each segment and has also revamped its underwriting policy. The Bank has designed Early Warning Systems to maintain and monitor credit quality.

The portfolio summary is as follows:

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

8.1.5.2.6. Vehicle Finance

As at 31st December 2019, the Vehicle Finance business had crossed the benchmark of Rs. 400 lakh and the product were made available from 43 branches. The Bank has partnered with various OEMs as part of its business strategy. The Bank is currently exploring other tie-up options and increasing its manpower requirements across regions. The Bank is planning to launch vehicle finance from 30 new branches in the ensuing quarter.

8.1.5.3. Treasury

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 makes investments in both SLR and Non SLR securities. However as at 31st December 2019, the Bank's investment book consisted only of SLR investments. The investment into SLR securities is undertaken for the purpose of regulatory compliance i.e. SLR maintenance and for Asset Liability Management (ALM). The investment in non SLR securities is mainly for short term cash deployment and for investment income.

As a matter of policy, the Bank maintains SLR securities in excess of the SLR requirement. This also helps the Bank to maintain a comfortable position in SLS and helps in borrowing through Repo and TREPS. The SLR investment portfolio of the bank is divided among HTM and AFS portfolios with Government of India Securities (G-Secs) and State Development Loans (SDL) in HTM portfolio whereas Treasury Bills in AFS portfolio. As a result of this classification Bank was not required to maintain provision on investment portfolio.

Trading: The Bank had commenced trading in Government of India security in the Q3, in a calibrated manner through its HFT portfolio. Being in its nascent stage, G-Sec trading activity is undertaken on an intraday basis and on a conservative basis as allowed by Board of

Directors. 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 the 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.

The Bank has successfully implemented the 24*7 NEFT facility for its customer as per the direction of RBI issued via its circular dated 6th December 2019 and has maintained the CRR position at an optimum level.

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 on 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.

8.1.6. Credit Risk Monitoring

8.1.6.1. Micro finance portfolio

The Bank undertakes portfolio monitoring on a periodic basis with specific focus on key portfolio triggers. Decisions with respect to business continuity and new customer acquisition at branch level/state level are taken by the Credit Risk Management Committee. 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 and Collections- Micro banking. The Bank monitors the health of its micro banking 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 micro banking segment.

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

Credit risk monitoring for MSE and Secured Housing loans is broadly done at two levels – account level and portfolio level. While regular portfolio reviews are undertaken to assess the health of the portfolio, the Bank 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. Audit

The Bank is subject to **statutory audit** as per the provisions of section 29 of the Banking Regulation Act, 1949, accounting standards issued by ICAI[17], circulars and guidelines issued by RBI as applicable to banks and other matters which are required to be included in the audit report.

The **Internal Audit** process of the Bank complements the risk management function as the third line of defence. Traditionally, the focus was on audit of branch processes, with each microfinance branch as a separate audit. However, with its transformation into a Bank, there are newer audit processes that have been introduced with Risk Based Internal Audit having commenced. The Bank has built a strong team for various audit verticals at HO and ROs, the objective being to provide assurance to management and board about the adequacy and effectiveness of Governance, Risk Management and Controls.

The Internal Audit Department of Bank has five audit verticals covering all Branches, Central Functions, IS Audit, Credit Audit and Concurrent Audit of Branches. Annual audit plan encompassing all the audit areas is prepared on Risk Based Approach and submitted to Audit Committee of Board for approval and quarterly progress is also presented.

As per RBI guidelines on **Concurrent Audit** System in Commercial Banks[18], 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.

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[17] Institute of Chartered Accountants of India

[18] Refer RBI guidelines on Concurrent Audit System in Commercial Banks - Revision of RBI's Guidelines issued vide RBI/2015-16/133 DBS.CO. ARS.No. BC. 2/08.91.021/2015-16 dated 16th July 2015

Refer RBI guidelines on Concurrent Audit System in Commercial Banks - Revision of RBI's Guidelines issued vide RBI/2019-20/64 DBS.CO.ARS.No.BC.01/08.91.021/2019-20 dt 18 September 2019

Accordingly the Bank has identified 180 branches that contributed to 50% of advances and 50% of deposits of the Bank as per 31st March 2019 balance sheet figures to be covered under concurrent audit. Similarly, few critical processes / functions at Head Office are also covered under concurrent audit. The Bank has put in place a Board approved Concurrent Audit Policy. The audit reports along with gaps identified and are regularly placed to the Audit Committee of the Board for further action. On September 18, 2019, RBI has revised guidelines on Concurrent Audit and has advised to follow the Risk based approach in Concurrent Audit also. Internal Audit Department has revised its policy and process and this was approved from ACB in January 2020.

8.2. Quantitative Disclosures

8.2.1. Exposure summary: Facility type

Exposure Type	Domestic (Rs. in Lakh)	Overseas
Fund- Based exposure	17,36,041	--
Non- Fund Based Exposure*	8,561	--
Total	17,44,603	--

*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)

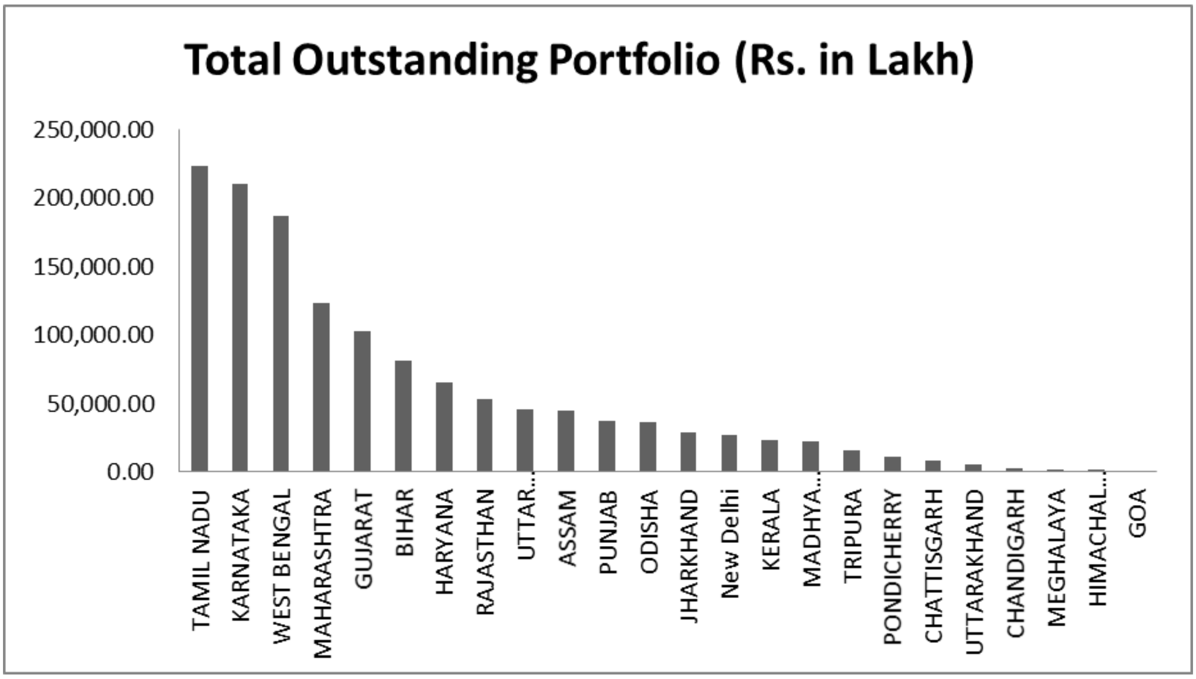
Rs. in lakh

State	Total Outstanding Portfolio (In Lakh)	%
TAMIL NADU	2,23,598	16.41%
KARNATAKA	2,10,393	15.44%
WEST BENGAL	1,86,870	13.72%
MAHARASHTRA	1,23,284	9.05%
GUJARAT	1,02,796	7.55%
BIHAR	81,147	5.96%
HARYANA	65,713	4.82%
RAJASTHAN	53,431	3.92%
UTTAR PRADESH	46,023	3.38%
ASSAM	44,575	3.27%
PUNJAB	37,386	2.74%
ODISHA	36,763	2.70%
JHARKHAND	29,048	2.13%
New Delhi	27,341	2.01%
KERALA	23,596	1.73%
MADHYA PRADESH	22,363	1.64%
TRIPURA	15,448	1.13%

PONDICHERRY	10,991	0.81%
CHATTISGARH	8,711	0.64%
UTTARAKHAND	5,780	0.42%
CHANDIGARH	2,460	0.18%
MEGHALAYA	2,085	0.15%
HIMACHAL PRADESH	1,659	0.12%
GOA	922	0.07%
Grand Total	13,61,723	100.00%

The share of microfinance advances constituted 76.95% (i.e. Rs. 10, 47,851 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 and 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

Rs. in lakh

Sl. No	Categories	Disbursements during the Quarter		Outstanding at the end of the Quarter		
		No. of A/cs	Amount disbursed	No. of A/cs	No. of beneficiaries	Balance O/s
1	**Priority Sector (I+II+III+IV+V+VI+VII+VIII+IX)**	**6,80,643**	**2,75,034**	**43,18,054**	**41,60,935**	**6,67,915**
I	Agriculture (IA+IB+IC+ID)	2,53,049	98,197	15,65,700	15,11,974	1,59,933
II	MSMEs (i)+(ii)+(iii)+(iv)+(v)	1,01,619	47,073	5,73,396	5,36,664	1,28,387
III	Export Credit	-	-	-	-	-
IV	Education	1	2	2	2	2
V	Housing	41,271	34,652	3,25,313	3,17,543	1,74,351
VI	Renewable Energy	-	-	-	-	-
VII	Social Infrastructure	-	-	-	-	-
VIII	'Others' category under Priority Sector	2,84,703	95,110	18,53,643	17,94,752	3,65,241
IX	Net PSLC - General		-			-1,60,000
3	**Non-Priority Sector Loans (I+II+III+IV+V)**	**77,477**	**60,629**	**4,40,906**	**3,24,908**	**6,93,809**
I	Agriculture	10	8	300	299	2,00,514
	Out of Agriculture, Loans against Negotiable Warehouse Receipts (NWRs)	-	-	-	-	-
II	Education Loans	-	-	-	-	-
III	Housing Loans	1,176	10,397	7,325	7,193	50,635
IV	Personal Loans under Non-Priority Sector	2,171	3,338	7,089	7,086	8,525
V	Other Non-Priority Sector Loans	74,120	46,886	4,26,192	3,10,330	4,34,135
4	**Total Loans (1+3)**	**7,58,120**	**3,35,663**	**47,58,960**	**44,85,843**	**13,61,723**

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 Adjusted Net Bank Credit (ANBC) as on the corresponding date of the preceding year i.e. 31st December 2018 was Rs. 9, 05, 900 lakh. The Priority Sector lending was marginally below the minimum requirement at 73.73% (Rs. 6, 67, 915 Lakh) as a percentage to ANBC. The Bank ended up having a shortfall in overall PSL position and agriculture sub-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	9,05,900	6,67,915	73.73%
2	Agriculture	9,05,900	1,59,933	17.65%
3	Small and Marginal Farmers	9,05,900	3,13,724	34.63%
4	Non - Corporate Farmers	9,05,900	1,59,933	17.65%
5	Micro Enterprises	9,05,900	1,22,557	13.53%
6	Weaker Sections	9,05,900	6,67,873	73.72%

The PSL position was reported to the regulator as per guidelines prescribed. On a quarterly average basis, the Bank was comfortably positioned to meet its yearly PSL target. The average position of PSL (average of June 2019, September 2019 and December 2019) was as follows:

Rs. in lakh

Particulars	Average Target[19]	Average Achievement	Surplus/(Shortfall)
PSL – Agriculture	1,46,173.45	1,46,274.88	101.43
of which Small and Marginal Farmers	64,965.98	1,01,175.65	36,209.67
PSL – Micro Enterprises	60,905.60	87,195.26	26,289.66
PSL- General	-	-	-
Total PSL	**6,09,056.04**	**6,10,576.75**	**1,520.71**

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

Rs. in lakh

Particulars	Year ended 31st December 2019
	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 (Rs. in lakh)

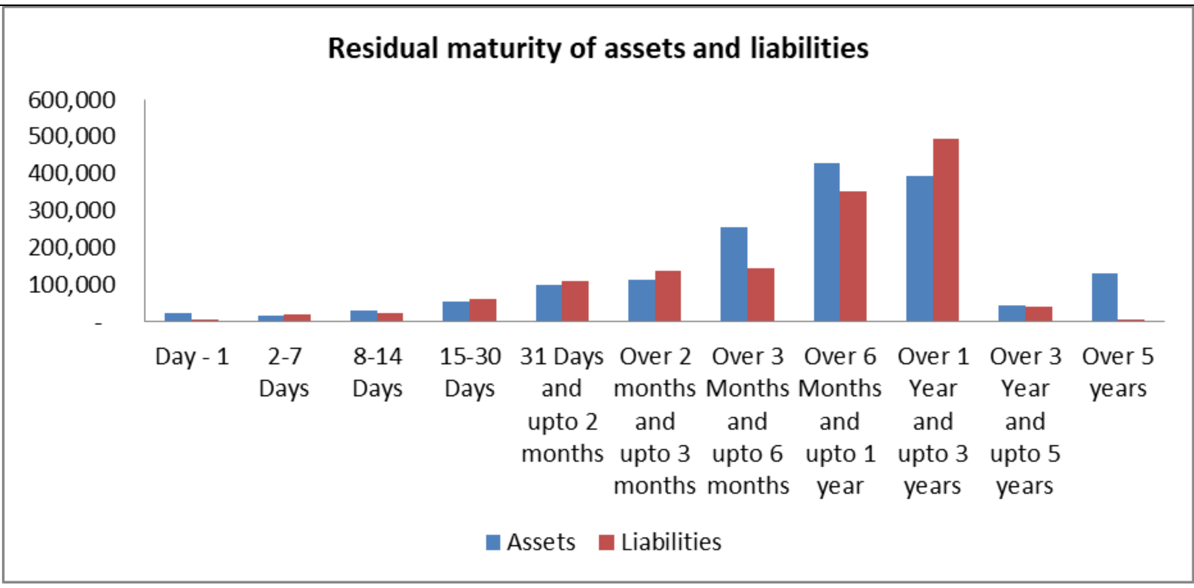
The Bank has continued to be highly liquid with surplus on a day to day basis being invested in call market. It has managed its funding requirement through a mix of retail and institutional deposits, progressive build-up of CASA balances, with a small balance being met

[19] Average of June 2019, September 2019 and December 2019

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 has 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	92	23,333	2,094	-
2-7 Days	13,095	2,550	17,731	-
8-14 Days	26,501	2,648	14,071	7,214
15-30 Days	41,777	12,723	59,655	-
31 Days and up to 2 months	85,077	14,974	70,202	37,411
Over 2 months and up to 3 months	83,588	28,535	1,28,644	7,880
Over 3 Months and up to 6 months	2,29,065	24,118	1,03,055	40,308
Over 6 Months and up to 1 year	3,67,753	61,522	2,88,391	63,913
Over 1 Year and up to 3 years	3,36,727	57,336	3,79,675	1,14,720
Over 3 Year and up to 5 years	41,530	394	1,847	38,500
Over 5 years	1,28,721	57	219	-
Total	**13,53,927**	**2,28,189**	**10,65,585**	**3,09,946**



SLS Mismatch:

Rs. in lakh

SLS	1 Day	2-7 Days	8-14 Days	15-30 Days
Total Outflows	19,436	19,941	22,761	64,988
Cumulative Outflows	19,436	39,377	62,138	1,27,126
Total Inflows	90,317	16,997	30,564	71,663
Cumulative Inflows	903.17	1073.15	1378.79	2095.42
Mismatch	70,881	-2,943	7,803	6,675
Cumulative Mismatch	70,881	67,938	75,741	82,416
Mismatch %	365%	-15%	34%	10%
Cumulative Mismatch%	365%	173%	122%	65%

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.

The Bank continues to monitor impact on liquidity under simulated stress situations by applying the RBI mandated increase in the run off factors. The analysis has shown that the ALM situation remained comfortable in normal stress scenarios, with only marginal mismatch in medium and severe stress situations.

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

Category of Gross NPA	30th September 2019
Sub-standard	11,149
Doubtful	1,432
Loss	363
Total	12,944

Net NPA	5, 149

NPA Ratios	Percentage
Gross NPA to Gross Advances	0.95%
Net NPA to Net Advances	0.38%

8.2.7. Movement of Gross NPA's

Particulars	Amount (Rs. In lakh)
Opening Balance	9,785
Additions during the period	10, 661
Reductions during the period	7,502
Closing Balance	12,945

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	6,058
Write back of excess provisions	5, 292
Closing Balance	**7,796**

The increase in delinquency and provisions can be mainly attributed on account of 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 is Held To Maturity (HTM) in nature and does 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%.[20] This has enabled that Bank to apply 100% risk weight on its micro banking loans (consumption loans) and personal loans segment.

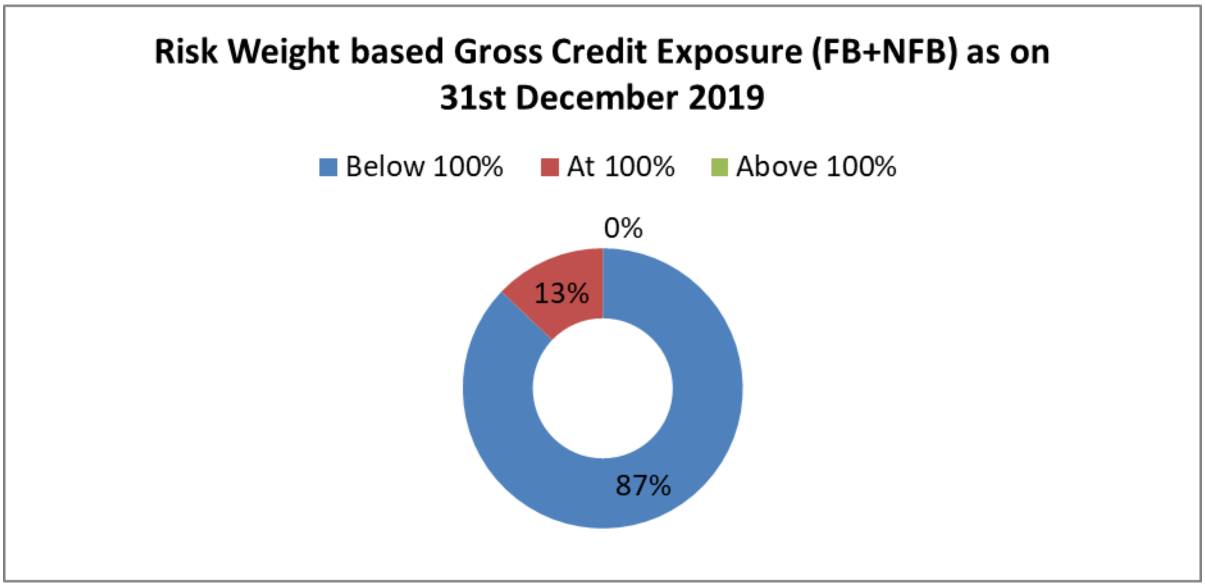
d) Institutional lending is risk-weighted as per ratings assigned by Eligible Credit Rating Agencies (ECRA) as prescribed by RBI.

e) As on 31st December, 2019, the Bank had a residual outstanding of "grandfathered" loans which comprised about 1% 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.

[20] 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 30th Sept 2019		
Sl.No	**Risk Weight**	**Rs. in lakh**
1	Below 100% Risk Weight	15,20,711
2	100% Risk Weight	2,24,629
3	More than 100% Risk Weight	10
4	Deductions from CRM	--
5	**Total**	17,45,350



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 by the first quarter of 2021. Loans to Financial Institutions are secured by a charge over book debts which are registered with CERSAI.
- The Bank accepts Eligible Financial Collateral[21] in a few instances for risk mitigation under secured Institutional lending and MSE loans. These financial collaterals are

[21] 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[22] 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 is in the process of revamping 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 provides valuable insights which enable the Bank to focus more on customers deemed to be of higher risk. The revised EWS framework is expected to be put in place in the ensuing quarter.
    - 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. <u>Qualitative Disclosure</u>

There were no securitization exposures in the banking book and trading book as at 31st December 2019.

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

12.1. <u>Qualitative Disclosures</u>

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)

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

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.

12.1.1. <u>Liquidity Risk</u>:

RBI has reduced the policy repo rate under the liquidity adjustment facility (LAF) by 25 bps in the Q3 of FY 201-209 and has maintained its accommodative stance. As a result of this there was ample liquidity in the system and interest rates were low. The Bank had reduced its retail deposit interest rates across tenor by 10 – 20 bps during the period. Vide circular no. RBI/2019-20/111/DPSS (CO) RPPD No.1097/04.03.01/2019-20 dated 6th December 2019, RBI had directed banks to make the NEFT facility available 24*7 for its customers. In order to facilitate the fund management in the wake of new development, RBI has provided additional window for fixed rate reverse repo and MSF. Bank has successfully implemented the NEFT facility 24*7 with effect from 16th December 2019 and has managed the liquidity in optimum way.

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 long term (i.e. greater than 5 years) loan exposure of the bank was Rs. 2, 06, 576 lakh and as a percentage of total loan exposure was 15.17%, as at 31st December 2019.

The ALM position for the Bank was well managed and regulatory thresholds complied with.

The share of legacy borrowings had reduced sharply to 1.27% as at 31st December 2019 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 25% 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 December 2019 constituting 2.54% 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).

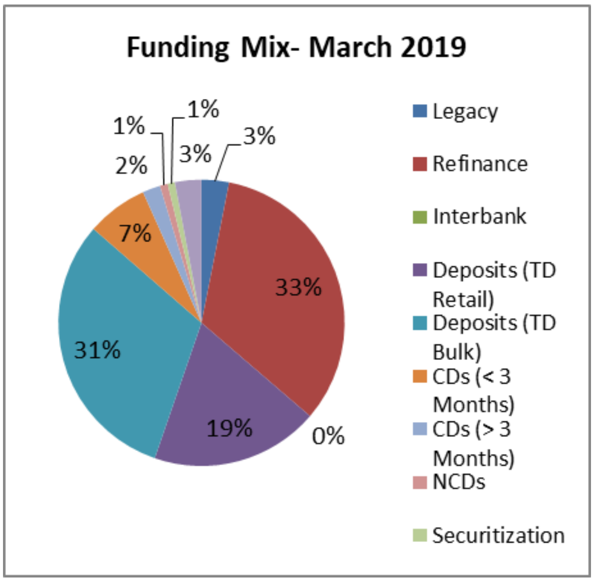
Deposits (Retail and Institutional) had registered a robust increase in its share of funding mix. The share of deposits has increased from 50% in March 2019 to 71% as at December 2019. As part of its Contingency Funding Plan and also to diversify its funding sources, the Bank has been sanctioned a committed 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.

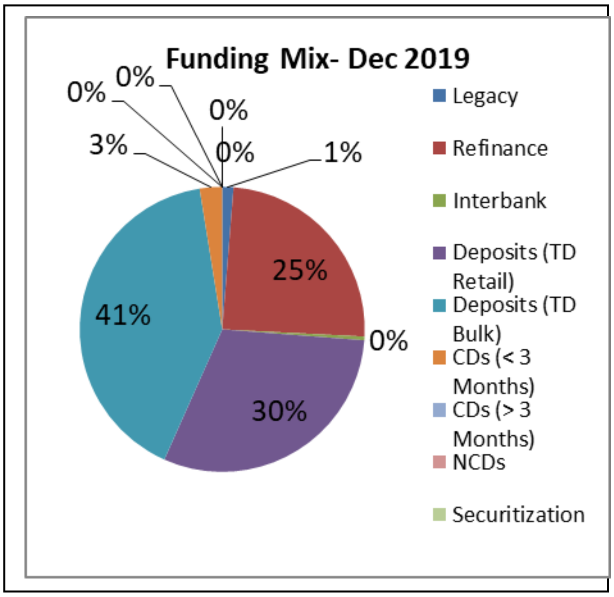
A comparative picture of the funding mix is given below:

Rs. in Lakh

Sl.No	Particulars	December 2018	March 2019[23]	June 2019	September 2019	December 2019[20]
1	Legacy	18,861	34,700	26,658	15,657	15,000
2	Refinance	3,12,440	3,72,000	3,53,950	3,01,360	2,89,900
3	Interbank	18,000	0	0	20,000	5,000
4	Deposits	3,85,151	5,61,300	6,88,268	8,16,458	8,41,700
5	CDs (< 3 Months)	92,500	77,500	22,500	23,500	30,000
6	CDs (> 3 Months)	5,000	22,500	2,500	17,500	0
7	NCDs	10,000	10,000	10,000	10,000	0
8	Securitization	12,600	9,100	5,378	1,638	0
9	IBPC	15,000	33,500	33,500	0	0
Outstanding		**8,69,552**	**11,20,600**	**11,42,754**	**12,06,113**	**11,81,600**

The distribution of funding mix is detailed as below:

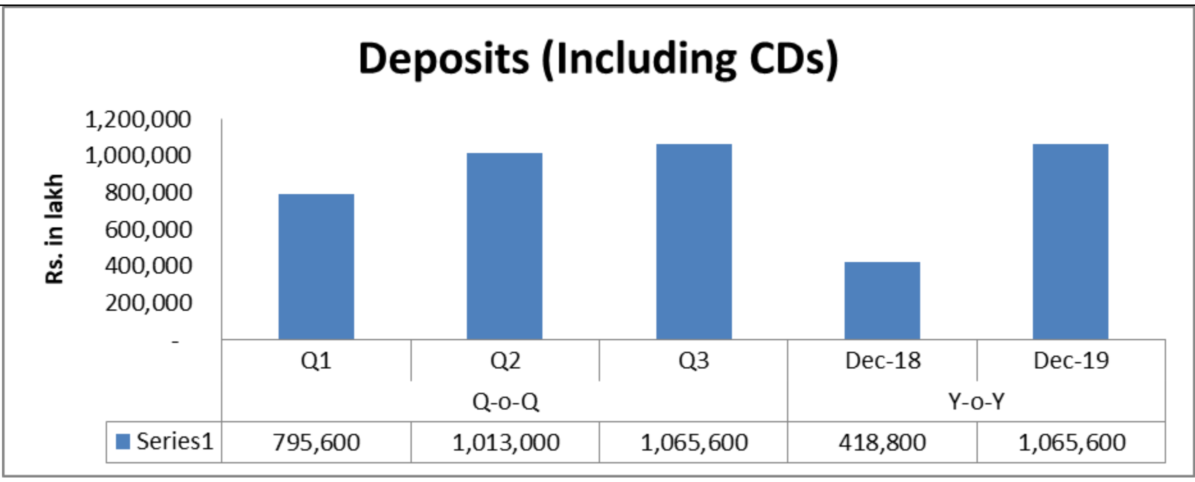




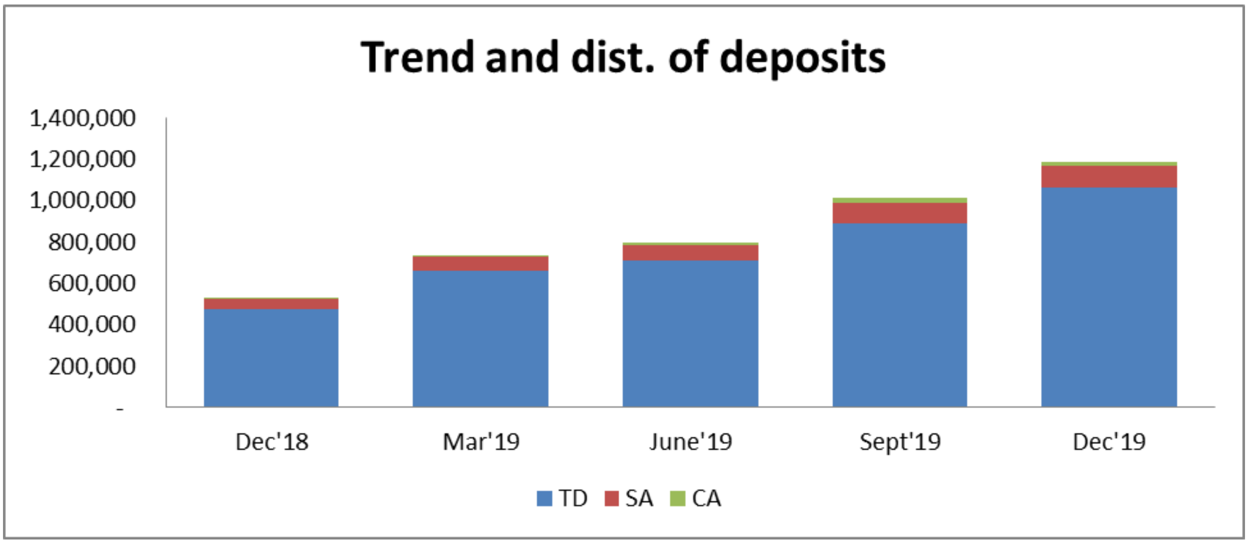
12.1.2. Deposit profile of the Bank

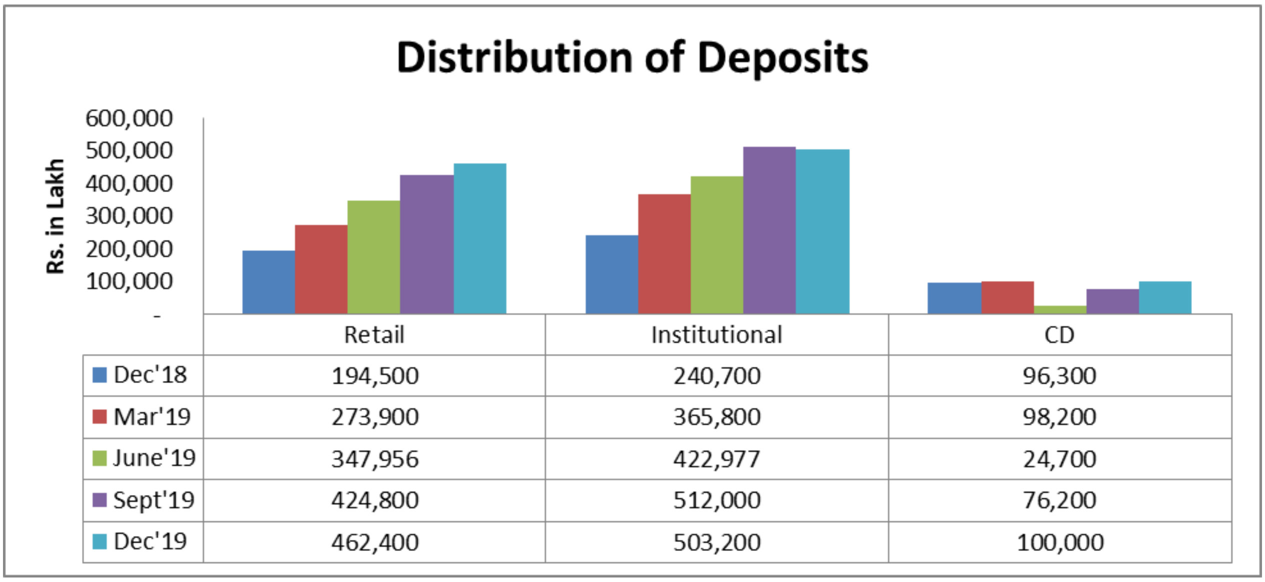
The Bank had registered a q-o-q growth of 5% while the y-o-y growth in deposits was a robust 98%. The comparative position of deposit profile is furnished as below :

[23] Rounded to nearest hundred

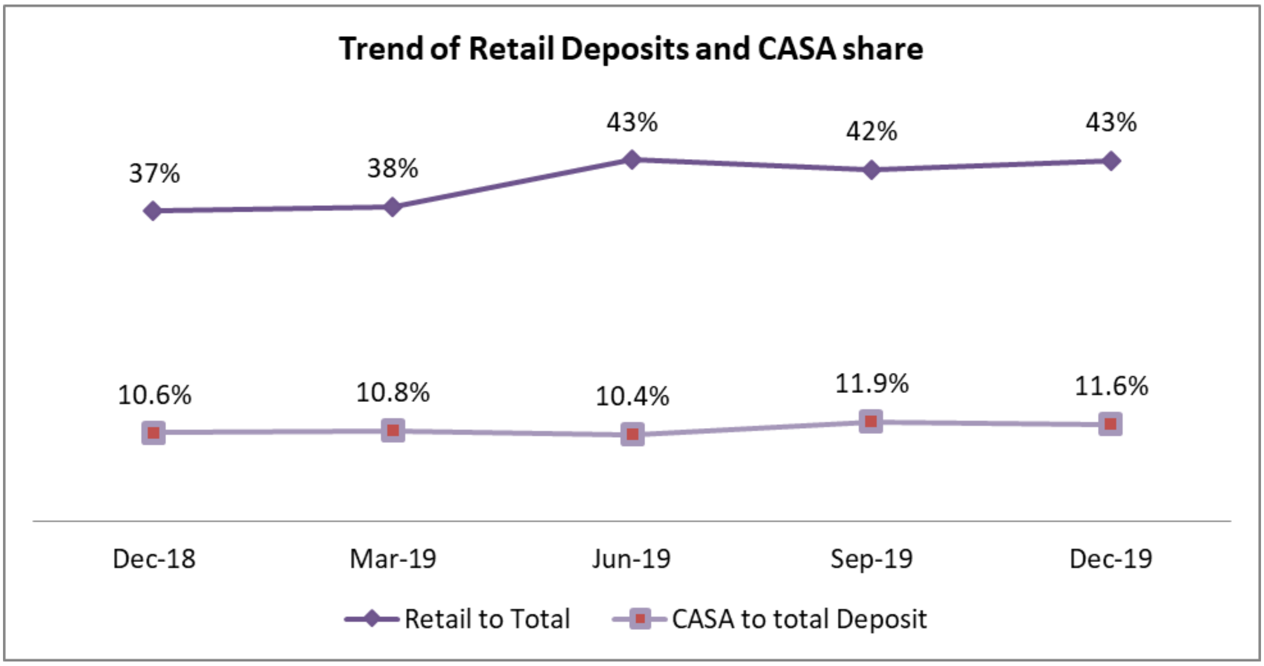


The distribution of deposits on the basis of type is furnished as below:





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 as at 31st December 2019, 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	2,07,884
	Level 2 A Assets	-
	Level 2 B Assets	-
B	**Total Stock of HQLAs**	**2,07,884**

C	Cash Outflows	1,24,202
D	Cash Inflows	54,570
E	Net Cash-flow	69,632
F	25% of Total Cash Outflow	31,051
G	**Higher of E or F**	**69,632**
	Liquidity Coverage Ratio	**298.55%**

The high LCR was on account of high excess cash position to the tune of Rs. 15,792.59 lakh and excess SLR securities. The excess SLR securities were acquired in order to facilitate 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[24] which will come into effect from April 1, 2020. The objective of NSFR is to ensure that banks maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities. The NSFR limits overreliance on short-term wholesale funding, encourages better assessment of funding risk across all on- and off-balance sheet items, and promotes funding stability.

The NSFR is defined as the amount of available stable funding relative to the amount of required stable funding. “Available stable funding” (ASF) is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. The amount of stable funding required ("Required stable funding") (RSF) of a specific institution is a function of the liquidity characteristics and residual maturities of the various assets held by that institution as well as those of its off-balance sheet (OBS) exposures.

$$\text{NSFR} = \frac{\text{Available Stable Funding (ASF)}}{\text{Required Stable Funding (RSF)}}$$

The above ratio should be equal to at least 100% on an on-going basis. Though the above ratio is applicable with effect from 1st April 2020 and in order to be better prepared, the Bank computes the above ratio on a frequent basis. The NSFR of the bank as on 31st December 2019 was 141%

12.2. <u>Quantitative Disclosures</u>

On the basis of SDA, the capital requirement for market risk reported to the Board from a governance perspective was as under:

Capital Requirement for Market Risk	Amount (Rs. in Lakh)
Interest Rate Risk	236
Equity Position Risk	--
Foreign Exchange Risk	--
Total	**236**

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

Total Market Risk RWA	2,953

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 Chief Operating Officer, Chief Vigilance Officer, Chief Business Officer, Chief Financial Officer and Head of Compliance. This committee which is convened by Chief Risk officer meets every quarter to provide 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), Key Risk Indicators (KRI), Loss Data Management.

13.1.3. Risk identification, measurement, monitoring and reporting

Following are some of the key techniques applied to manager 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 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 has 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 perform User Acceptance Testing (UAT) to identify gaps in the actual deliverable Vis a Vis as proposed in 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 has initiated RCSA during the year and has completed the same for eight processes. 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 quarter. 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 **17 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 banking 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 on 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:

- Monitoring of General Ledgers (GL) to operational loss
- Root Cause Analysis (RCA) of critical events
- Quarterly loss data submission to Board

The Bank has had only minor instances of fraud and these relate to cash related activities on 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.

- **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 worm eye level which are then taken up for rectification. These thematic reviews do not follow standardized risk identification techniques and therefore provides wider scope for a deeper and customized study of issues and gaps. During the quarter, the Bank has 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.
- **RRU[25] 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: micro banking, 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 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 for a sample 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

[25] Risk Rating Unit

undertakes a special review in consultation with branch personnel and recommend 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 the society. This process is being further enhanced to include customers who are on boarded through various digital channels.

- **Outsourcing Risk:** Progressive risk assessment of all material outsourced vendors (including legacy vendors) is completed to ensure that these vendors comply with the minimum requirements prescribed by RBI. Detailed notes have been recorded on the risk assessment done for each vendor and are 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 completed review of all material vendors except few which will be completed in the ensuing quarter. Of the pending vendors, only one vendor is deemed as critical while the others are application/licenses used by the Bank where physical review is not warranted. 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. The Bank has in a place a robust process for selection of activities to outsource, monitoring of vendors and in assessing the materiality of the outsourced activity. The RMC-B is authorized to approve/ratify/reject all proposals of outsourcing arrangements. The vendors are subjected to annual review on a sample basis and are mandatorily reviewed during the time of renewal. 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. The Bank is currently in the process of drafting a policy for risk categorization of financial outsourcing vendors.
- **Internal Financial Control (IFC) testing:** Under IFC testing, the Bank has adhered to regulatory guidelines. IFC controls are developed at a department level and a commentary on assessment type (Manual or automated) is provided. The frequency and residual risks are also assessed for each control item. The gaps are highlighted at ORMC and Board at quarterly intervals.
- The Bank is continuously engaged in addressing people risk. The employee count at the quarter end had reached 17,783. The annualized attrition as at 31st December 2019 was 21.86%. Employees in the age group of up to 30 years were the highest. Employees Stock Purchase Scheme (ESPS) and Employee Stock Option Schemes were granted to promote a sense of ownership among the employees.

- Medical checks for employees were completed across India. The completion percentage is as follows:

Region	Health check completion %
Corporate- HO	97.10%
East	79.45%
West	79.60%
North	86.29%
South	90.60%

- The Bank provides rigorous **training** to its employees in its pursuit to develop bank related skill sets. 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 quarter, the Bank has undertaken various employment engagement surveys, feedback from training participants, reaction surveys and other approaches to assess the training needs for its employees. The Bank updates its training content on various topics and areas in its SWAYAM[26] 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 Oct-Dec 2019, the Bank had provided training to 4,573 employees.

13.1.4. Information Technology and Security Risk

The Bank understands that it operates in a highly dynamic threat environment and has thus taken a plethora of measures to ensure the safety of customers while they perform their banking transactions. The Bank has implemented state of the art security technologies in its infrastructure and monitors the potential threats round the clock. A comprehensive strategy encompassing people, process and technology is constantly reviewed in light of emerging threats, the security requirements of the business and best practices. A 24x7 Cyber Security Operations Centre has been established that identifies potential incidents and takes the requisite action to respond, recover and learn from the incidents. Thus, the bank has adopted an approach of continuous improvement when it comes to security. In the field of emerging technologies, the Bank has embraced Artificial Intelligence, Machine Learning, Data Lake and User Behaviour Analysis for its Security Operations Centre.

The Bank has adopted a defence-in-depth approach to security where a combination of

[26] 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.

technologies acts in collaboration to complement each other's capabilities. Confidentiality, Integrity and Availability of data and information are accorded prime importance and a range of measures have been implemented to achieve the same. Other aspects such as accountability and non-repudiation are also considered. When it comes to complying with regulatory requirements, the Bank has largely adopted the Cyber Security Framework of the RBI in its security policies. The Bank is complying with the directives issued by RBI, from time to time in the area of Information/Cyber security. Other good practices such as ISO 27001:2013 standard have been adopted while developing the Information Security Policy and Cyber Security Policy. The Bank regularly assesses its products for security during its entire lifecycle which gives a high degree of assurance that products meet security requirements of the Bank.

The Bank regularly participates in Cyber Drills conducted by Institute of Development and Research on Banking Technology and conducts periodic Disaster Recovery drills for its technology infrastructure to ensure the availability of critical services in the event of a disaster. In order to keep abreast of the security best practices, the Bank participates in meetings conducted by CISO Forum and Data Security Council of India.

The endeavours of the Bank in the field of security have been recognized by reputed organizations like Indian Banks' Association, Data Security Council of India, CISO Forum and others. The Bank has been continuously bagging awards and accolades, and is open to adopting emerging technologies in its pursuit of a secure environment for its customers.

13.1.5. Business Continuity

The Business Continuity Management Policy (BCMP) of the Bank provides guidance for handling emergency situations and to reasonably ensure continuous and reliable delivery of 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. A Business Continuity Management Committee and Operational Risk Management Committee at apex level monitor the business continuity preparedness of the Bank on an on-going basis. Further, the Bank's critical systems undergo periodical disaster recovery drills/tests to ensure the capability of the same to handle disastrous situations. The Bank also has a Board approved Cyber Crisis Management Plan for tackling crisis level events.

13.1.6. 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. The Bank has on boarded the required personnel for the same. The Bank has also enhanced its Standard Operating Procedure (SOP) outlining the detailed activity flow from requirement gathering up to payment for the services availed. The Bank ensures that a minimum of 2 vendors/ service providers are evaluated before making any decision for procurement of goods and services. All contracts and agreements are vetted by Legal department before execution and all service agreements are accompanied by Non-Disclosure Agreements/ Clauses.

13.1.7. <u>Capital charge assessment</u>

Although RBI is in the process of issuing detailed guidelines on Operational Risk Management for SFBs, the Bank has adopted Basic Indicator Approach (BIA) for measuring the capital requirements for Operational risk as applicable to Scheduled Commercial Banks. The capital charge on operational risk is expected to stabilize on completion of 3 years (BIA directs Banks to allocate capital at 15% of the 3 years average gross income). The Bank has computed its Operational Risk Capital Charge at 15% of gross income for the past two completed years of operation.

13.2. <u>Quantitative Disclosure</u>

Particulars	Capital Reqd. (Rs. in Lakh)	RWA (Rs. in Lakh)
Operational Risk (BIA Approach)	11,431	1,42,893

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

14.1. <u>Qualitative Disclosures</u>

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.

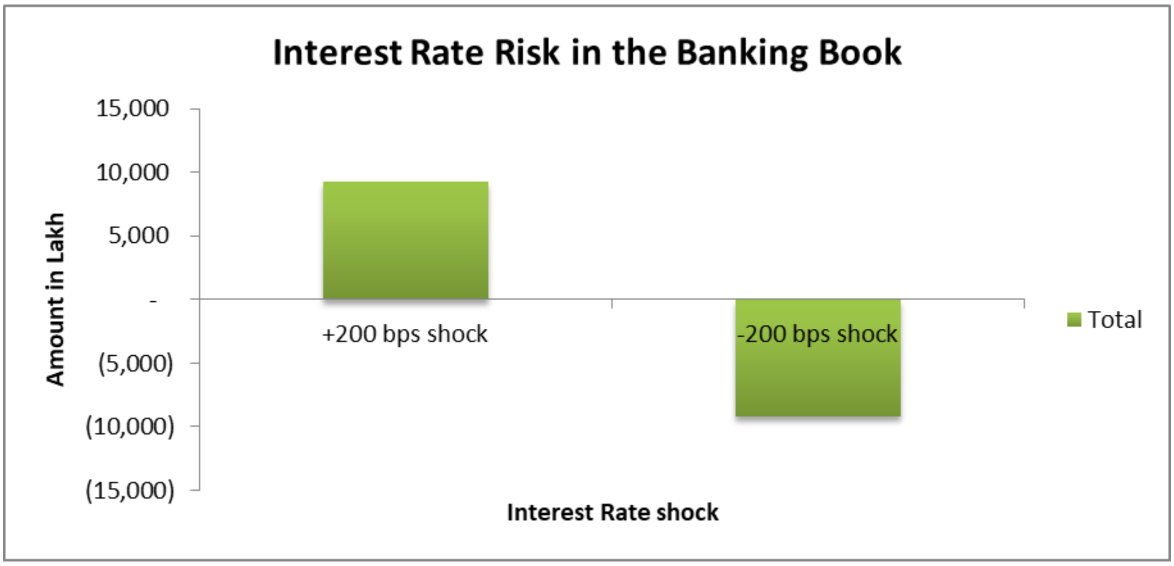
The interest rate risk is measured and monitored through two approaches:

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. <u>Quantitative Disclosures</u>

14.2.1. <u>Earnings at Risk (Earnings Perspective) (Rs. in Lakh)</u>

Interest Rate Risk in the Banking Book (IRRBB)			
Sl.No	**Country**	**Interest Rate Shock**	
		+200 bps shock	**-200 bps shock**
1	India	9,862	(9,862)
2	Overseas	-	-
		9,862	(9,862)



14.2.2. Economic Value Perspective (Rs. in Lakh)

Category	Items	Amount
A	Equity (i.e., Net Worth)	2,67,336
B	Computation of Aggregate RSA	16,44,925
C	Computation of Aggregate RSL	14,11,710
D	Weighted Avg. MD of RSL across all currencies	1.01
E	Weighted Avg. MD of RSA across all currencies	1.32
F	MDG	2,33,214
G	Change in MVE as % of equity for 200bps change in interest rate	-5.59%
H	Change in MVE in absolute terms	(14,933)

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

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)	Not Applicable (NA)

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. 1,72,822 lakh
9	Par value of instrument	Rs 10/-
10	Accounting classification	Capital
11	Original date of issuance	Rs 0.50 million – 4^{th} July 2016 Rs 1099.868 Million – 30^{th} July 2016 Rs 13,300 Million - 10^{th} February 2017 Rs. 10,459 million- 4^{th} 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 , NCD's , Creditors of the Bank and Depositors
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

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

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	17,14,841
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	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)	21,200
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off- balance sheet exposures)	4,051
7	Other Adjustments	-15,308
8	**Leverage ratio exposure**	17,24,784

19. Table DF 18: Leverage ratio common disclosure template

Rs. in lakh

Table DF-18: Leverage ratio common disclosure template		
	Item	**Amount (in INR lakhs)**
	On-balance sheet exposures	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	17,14,841
	Domestic Sovereign	2,28,110
	Banks in India	29,258
	Corporates	54,610

	Exposure to default fund contribution of CCPs	68
	Other Exposure to CCPs	
	Others	14,02,794
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	-15,308
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	16,99,533
	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	21,200
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	CCR exposure for SFT assets	-
15	Agent transaction exposures	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	21,200
	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	8,561
18	(Adjustments for conversion to credit equivalent amounts)	4,510
19	**Off-balance sheet items (sum of lines 17 and 18)**	4,051
	Capital and total exposures	
20	**Tier 1 capital**	2,87,336
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	17,24,784
	Leverage ratio	
22	**Basel III leverage ratio**	**16.66%**

Presently the contribution of Tier I capital to Total Basel II capital is 96.97%. 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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