Pillar III Disclosures as at December 31, 2021

2021

[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 Master Circular – Basel III Capital Regulations vide reference RBI/2015-16/58 and 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 December 31, 2021.]

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Key performance highlights of the Bank:

- **Change of guard**

With the approval of RBI and the Board, Mr. Ittira Davis was appointed as the Managing Director and Chief Executive Officer of the Bank with effect from January 14, 2022. He is an international banker with over 40 years of banking experience, having worked extensively in India, Middle East and Europe. He was with the Europe Arab Bank from July 2008 to October 2012 initially as the Managing Director – Corporate and Institutional Banking and then as an Executive Director. He had also previously worked with Citibank in India and the Arab Bank Group in the Middle East. He has been associated with the Bank since 2015 and has played a pivotal role in its transition into a Small Finance Bank. Subsequently, he was also appointed as the Chief Operating Officer (COO) of the Bank up to June 2018, after which he took charge as the MD and CEO of Ujjivan Financial Services Limited (UFSL) during the period of July 2018 to March 2021. He was also an Additional Director (Non-Executive, Non-Independent) of the Bank from March 13, 2021 to July 23, 2021.

The Bank has also appointed Mr. Sanjeev Barnwal in the capacity of 'Head of Regulatory Framework' with effect from February 15, 2022. He shall also be the designated Company Secretary of the Bank with effect from April 5, 2022.

At the management level, the Bank has appointed Ms. Carol Furtado as the Chief Business Officer. She is a key member of the leadership team who has been associated with the Bank since its inception. Her leadership in handling the after-effects of the Andhra Pradesh Micro Finance Institutions (Regulation of Money Lending) Act and Demonetization has been exemplary. The Bank is confident that under her stewardship, the build-up in stress on account of the pandemic can be effectively addressed by leveraging her rich experience.

Mr. Martin Pampilly, a seasoned banker with rich experience in operations management and an operations specialist in Microfinance has been appointed as the Chief Operating Officer (COO). He has been associated with the Bank since 2009.

To provide an impetus and maintain continuity on the Digital Banking initiatives, the Bank has on-boarded Mr. Sriram Srinivasan in the capacity of Chief Digital Officer. The Bank has also on-boarded Mr. Ashwin Khorana in the capacity of Chief Information Officer to further strengthen the Bank's technology capabilities.

In light of the recent changes to the leadership team, it is pertinent to reiterate that the Bank remains steadfast in its leadership and governance.

- **Branch network and distribution reach**

The branch position of the Bank as at December 31, 2021 was as follows:

Particulars	Count

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

There were no additions to the network during the year. The Bank is fully compliant with the RBI guidelines on having 25% (25.04% as at December 31 2021) of its Banking Outlets in the URCs.

The Bank had seven individual BCs as at December 31, 2021. They are accountable for enrolling customers for various financial products of the Bank. These individual BCs perform essential banking services such as acceptance/withdrawal of small value deposits, balance enquiry and generation of mini statement of accounts. The Bank also engages with Corporate Direct Selling Agents (DSAs) for sourcing variants of Personal Loans (PL) and MSE loans. The Bank also has an arrangement with a Corporate collection agent, primarily aimed at facilitating field collection for its microfinance business. The Bank evaluates the performance of the BCs and DSAs at regular intervals. For Rural banking, the Bank continues to focus on brick and mortar URC branches for providing a wide array of banking services since this has proven to be a profitable and efficacious model. The Bank operated a network of 438 Automated Teller Machines (ATMs) and 53 Automated Cash Recyclers (ACR) as at December 31, 2021.

- **COVID 19, Omicron Surge, macro-economic update and summary of measures taken by the Bank (Update as at February 5, 2022)**

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

[2] Unbanked Rural Centre (URC)

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

[4] North eastern states

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

Pandemic status in India: India witnessed a third wave of the viral infection with a sharp increase in positive cases during the period of December 15, 2021 to January 30 ,2022 with highest cases recorded on January 21, 2022 (3.47 lakh cases). Maharashtra recorded the highest number of cases of the new variant i.e. Omicron, followed by Rajasthan and Delhi[6]. While the variant was observed to be three times as contagious as the Delta variant, the fatality rate was relatively low and recovery was faster.

On the economic impact, while uncertainties triggered by the Omicron variant are yet to be fully assessed given the short term mobility restrictions imposed by several states, initial findings and field reports indicate that the impact may not be as pronounced when compared to the previous waves. Trends on mobility in early January 2022 registered some moderation in sectors like retail and recreation, grocery and pharmacy, parks and transit stations. While workplace related mobility restrictions have been imposed by various governments, it is unlikely that these will sustain/continue given that the health impact of this variant is not severe.

The Monetary Policy Committee (MPC) of RBI had slashed its projections on economic growth for the third and the fourth quarters of the current fiscal year (2021-22, or FY22), albeit mildly, due to volatility in commodity prices and financial markets, persisting global supply disruptions, and the impact of Omicron[7].However, higher-than-expected gross domestic product (GDP) growth rate in the second quarter (Q2) of the year prompted the MPC to retain the economic growth at 9.5% for FY22. The MPC has now pegged economic growth at 6.6 % for the third quarter (Q3) of the year, down from its earlier projection of 6.8%, and 6% for the fourth quarter (Q4) — lower than its earlier forecast of 6.1%. Because of the wide spread of the novel Omicron variant, the fourth quarter is expected to be somewhat impacted, taking into consideration-the predictions of a large rise in the number of cases during the last quarter.

	Q1	**Q2**	**Q3**	**Q4**	**FY 2022**
GDP growth rate	20.1%	8.4%	6.6%	6.0%	9.5%

The tables below show India's GVA estimates[8]:

Growth in value add (%)	**Annual**		**Half-Yearly**	
	FY22/FY21	**FY22/FY20**	**H1 FY22**	**H2 FY22**
GVA	**8.6**	**1.9**	**13.2**	**4.8**
Agri and allied	**3.9**	**7.7**	**4.5**	**3.4**
Industry	**11.8**	**4.1**	**22.9**	**3.6**

6 https://indianexpress.com/article/india/covid-19-omicron-india-live-news-coronavirus-booster-vaccine-latest-updates-7717033/

7 https://www.business-standard.com/article/economy-policy/mpc-cuts-gdp-growth-projection-for-q3-q4-cites-supply-crisis-and-covid-121120800418_1.html

8 https://www.acuite.in/GDP_FY22_NSO.htm

Mining and Quarrying	14.3	4.6	17.1	12.2
Manufacturing	12.5	4.5	22.9	4.4
Electricity, Gas, Water Supply etc.	8.5	10.6	11.5	5.6
Construction	10.7	1.2	30	-0.9
Services	**8.2**	**-0.8**	**10.7**	**6**
Trade, Hotels, Transport, Communication	11.9	-8.5	18.4	7.5
Financial, Real Estate & others	4	2.5	5.8	2
Public Administration, Defence	10.7	5.6	12	9.7

Impact on Banking Sector: Indian banks have largely recovered from the shock inflicted by two waves of the pandemic with asset quality problems being acknowledged and addressed through various measures. Banks have now adequately provided for stressed assets or have offered loan restructuring/resolution facilities under schemes as permitted by RBI. Sans the uncertainty effectuated by future variants, the Indian banking system is now nearly equipped to withstand the shocks induced by the pandemic. With the cumulative vaccination coverage at 169 crores[9], a health crisis on account of future variants is largely diminished. Credit growth has seen a gradual pick up and has reached a 7.3% Y-o-Y as at December 3, 2021, exhibiting green shoots of revival[10]. Banks and NBFCs might have to contend with potential deterioration in asset quality (especially from the segment which was provided with some resolution earlier) and higher provisions as an after-effect of the third wave.

Sectoral trends and other economic indicators:

The economy has registered strong signs of recovery from the pandemic, with an upswing being reported in 19 of the 22 economic indicators, when compared to pre-Covid levels. The position in these 19 indicators during the months of September, October, and November 2021 were higher than their readings during pre-pandemic levels (corresponding months). Listed below is the performance in some of these indicators:

- Unified Payments Interface volumes are nearly 4x at 4.22 billion[11]. Other indicators included merchandise imports, e-way bills, coal and cement production, rail freight traffic, fertilizer and tractor sales, power and fuel consumption, port cargo traffic, air cargo, Index of Industrial Production, and core sector output.
- The recent reductions in excise duty and state VAT on petrol and diesel are expected to support consumption demand by increasing purchasing power at least on a short-

[9] https://www.google.com/amp/s/www.hindustantimes.com/india-news/breaking-news-updates-5-february-2022-101644021205796-amp.html

[10] https://www.moneycontrol.com/news/business/banking-central-severe-omicron-wave-can-upset-bad-loan-math-7844571.html#:~:text=A%20severe%20Omicron%20spread%20could,predictions%20of%20bank%20asset%20quality.

[11] https://www.business-standard.com/article/economy-policy/mpc-cuts-gdp-growth-projection-for-q3-q4-cites-supply-crisis-and-covid-121120800418_1.htm

term basis. Rural demand continues to exhibit resilience and farm employment is picking up with robust performance by agriculture and allied activities.

- India's manufacturing Purchasing Managers' Index (PMI), compiled and collected by IHS Markit, fell to 55.5 in December from November's 57.6 though it stayed above the 50 mark for the sixth straight month[12].
- The unemployment rate increased to 7.9% in December 2021 from 7% in November. The unemployment rate during the quarter ended December 2021 was 7.6 per cent[13]
- Total exports were $37.29 billion in the month of December 2021, the highest ever in a month, as demand for items such as engineering products, petroleum items, and gems and jewelry continued to be robust[14].
- In December 2021, freight loading of Central Railways was 7.21 million tonnes as against 5.87 MT in December 2020, registering a sharp increase of 22.8%. The freight loading of Central Railways, during April-December 2021, was 55.06 million tonnes which was the highest ever during any of the corresponding previous periods of April-December[15].
- E-way bills are required for transportation of goods of more than Rs 50,000 in value. It is considered as one of the key metrics to estimate business activity and economic growth. E-way bill generation gathered pace for inter- and intra-state movement of goods last month after witnessing a dip in November, reflecting a sharp recovery in demand and manufacturing activity. According to goods and services tax network (GSTN) data, 71.6 million e-way bills were generated in December 2021, compared with 61.1 million in November 2021[16].

- India's fuel consumption in December 2021 scaled a nine-month peak. The country's fuel consumption totaled 18.43 million tonnes, up 7.6% from November 2021 and 0.4% from a year before. However, India's fuel consumption in December was still ~3% lower than December 2019 (pre-Covid levels). Also, despite this surge in fuel demand recorded last month, the latest pandemic wave may slow the gradual recovery made in the world's third-biggest oil-consuming country.
- On the supply side, momentum in FY22 is expected to be led by i) Mining & Quarrying (14.3% YoY), ii) Manufacturing (12.5% YoY), iii) Trade, Hotels, Transport & Communication (11.9% YoY), iv) Construction (10.7% YoY), v) Public Administration, Defense, & Other Services (10.7% YoY). The relatively low value-add in agriculture sector at 3.9% in comparison is predominantly on account of absence of favorable

12 https://www.business-standard.com/article/economy-policy/india-s-gasoil-sales-rise-in-dec-but-omicron-seen-dampening-demand-122010300529_1.html

13 https://www.business-standard.com/article/opinion/india-s-employment-challenge-122010301045_1.html

14 https://www.business-standard.com/article/economy-policy/india-records-highest-ever-monthly-exports-at-37-billion-in-december-122010400019_1.html

15 https://www.financialexpress.com/infrastructure/indian-railways-freight-traffic-achievements-continue-central-railway-records-highest-loading-in-april-dec-2021/2397815/

16 https://www.livemint.com/economy/eway-bill-generation-rises-in-december-signals-strong-economic-activity-11641286801832.html

base effect, which most other sectors enjoyed – in fact, growth in the primary sector appears robust compared to its long run (20-years) average of 3.2%[17].

- The Nomura India Business Resumption Index (NIBRI) touched yet another high of 119.8 for the week ended December 26, 2021 versus 116.4 in the prior week. The data suggests that the economy remains on a recovery path despite concerns of a surge in Omicron cases and inflationary pressure[18].
- Private consumption and investments are two biggest engines of India's economic growth. Advanced estimates of the government project Gross Fixed Capital Formation (GFCF), an estimation of the assets generated in a country, at Rs 48.52 lakh crore for 2021-22, slightly up from Rs 42.21 lakh crore when compared with FY2020-21 provisional estimates. Government Final Consumption Expenditure (GFCE), which indicates the government's expenditure on goods and services, is projected at Rs 17.07 lakh crore. As a percentage of the GDP, it is projected to be 29.6% in 2021-22. Private Final Consumption Expenditure (PFCE) - the expenditure incurred on the final consumption of goods and services by the resident households and non-profit institutions serving households - for 2021-22 is projected to be Rs 80.81 lakh crore. Income trends have shifted from high consumption category individuals to high savers[19].

- **Actions taken by the Bank (Update as at February 5, 2022 unless specified otherwise):**

The Bank constantly keeps track on all the events related to the pandemic and executes necessary steps as and when required, through its Quick Response Team (QRT). Details of the various initiatives are provided under relevant sections of this disclosure. A summary of the key initiatives taken by the Bank is produced below:

- Within the Bank, the number of positive cases among employees was on a declining trend till November. During the period of January 1, 2022 to February 6 2022, 474 employees were diagnosed as positive with the virus of which 452 had recovered. 22 personnel were under treatment. 97.3% of personnel are fully vaccinated with 2 doses while 99.7% of personnel have received the first dose. As at reporting date, 251 employees are eligible for the second dose.

- The Bank reinforced its pandemic related precautionary measures by re-introducing employee rosters and Work from Home (WFH), wherever applicable, in compliance to local regulatory guidelines.

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17 https://www.acuite.in/GDP_FY22_NSO.htm

18 https://www.moneycontrol.com/news/business/earnings/indias-business-resumption-hits-fresh-record-high-nomura-7873201.html

19 **https://www.outlookindia.com/website/story/business-news-does-governments-advance-estimate-of-92-gdp-growth-in-fy22-underestimate-omicrons-impact-on-capital-formation/408722**

- With the gradual decline in the number of new cases by February 2022, and with recovery percentage increasing to ~95%, Head office, Regional Offices, Treasury office, Administrative Offices and Phone Banking Units were directed to operate at full capacity with effect from February 14, 2022, unless advised otherwise by any state specific guidelines.

- The Bank conducted various vaccination drives to educate and encourage customers to take the vaccines. Advisories were sent to all employees for observing COVID appropriate behaviour at all times and safety measures to abide by within and outside the premises. Field staff were additionally advised to use face shields during promotional activities. All regions were directed to implement vaccination drives and set milestones which were monitored on a monthly basis.

- All COVID related guidelines issued by RBI were monitored during the year and were adhered to.
- In September 2021, the Bank had launched an initiative to assist in vaccinating customers and their families. By February 2022, 60,147 beneficiaries had been vaccinated. These camps were organized with an intent to vaccinate low-income population residing in urban, semi-urban and remote areas within the purview of the Bank's operational areas and those in the vicinity across 434 branches in 18 states and 1 Union Territory (UT). The Bank now aims to achieve another 50,000 vaccinations within these lower-income groups, to achieve an overall milestone of 1,00,000 vaccinations by March 31,2022.

- A new credit offering in line with the Emergency Credit Line and Guarantee Scheme (ECLGS) was rolled out by the Bank. The Bank had commenced this scheme on July 21, 2021 in line with directives from Government of India as a relief to pandemic hit customer segments. As at February 24, 2022, under ECLGS 1.0, the Bank had sanctioned and disbursed 45,989 cases amounting to Rs. 3,504 lakh. On November 12, 2021, the Bank had launched an ECLGS 1.0 extension scheme. Through this scheme, the Bank has disbursed 28,754 loans amounting to Rs. 3,309 lakh. In the recent budget announcement, the Government has now extended this scheme up to March 2023. The Bank continues to provide credit assistance under this scheme.

- During the quarter, the Bank devised a '100 days plan' for all its business generating verticals. The objective of the plan was to identify urgent areas of improvement to assist in ramping up disbursements, collections and strategic/policy level changes. The performance of the plan was monitored on weekly basis internally at a branch and cluster level. As an outcome to this plan, the Bank was able to kickstart its business volumes marking the highest ever disbursement in Q3 for FY 2022 (~Rs. 4,80,900 lakh), the asset quality improved (as a part of the plan) through reduction/recoveries from PAR/NPA case, and improved profitability.

Progress in Digital banking initiatives:
The Bank constantly endeavours to improve its back-end efficiencies by digitizing the processes and automating routine operations, wherever applicable.

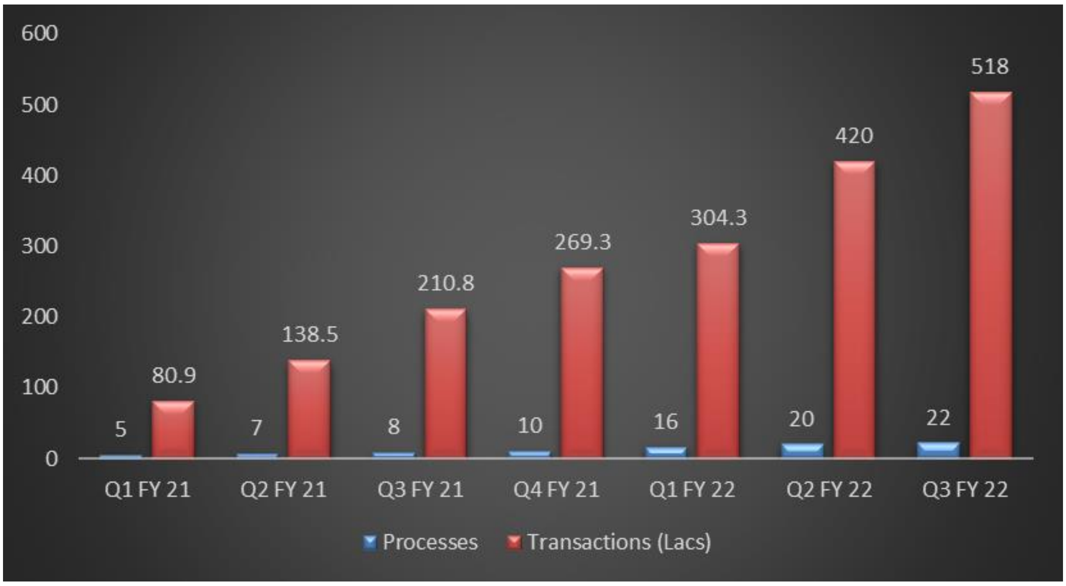
In Q3 of FY 2021-22, the Bank mobilized Rs. 12,138 lakh of deposits through digital channels. During this quarter, the digital banking vertical within the Bank took over the oversight of Fin-Tech partnerships to further drive digital lending business. Presently, there is one Fin-Tech partnership that is live in the Personal Loans and MSE vertical respectively, through which Rs. 12,039 lakh of loans have been disbursed at an aggregate level.

The Bank, armed with its full-fledged marketing automation suite has made significant strides in Existing to Bank (ETB) campaign strategy. In total, 86 campaigns were executed during Q3 of FY 21-22. These campaigns were spread across various categories such as acquisition, activation, and balance build up/win-back, collection, cross-sell, informative, promotional, regulatory, and usage.

The on-boarding process of customers has also been considerably digitized. Internal processes like statement analysis, document verification, e-agreements and E-mandates have been operationalized in digital mode.

An enhanced Intelligent Bot for Frequently Asked Questions (FAQs), lead generation and customer experience are planned to be piloted for launch in Q4-FY22. Automated Customer Engagement platform has been implemented for improved customer engagement and enriching customer Life Time Value (CLTV) and is now integrated with Website, SMS, Mobile Banking and Internet Banking, while WhatsApp and E-mail engine is currently in integration phase.

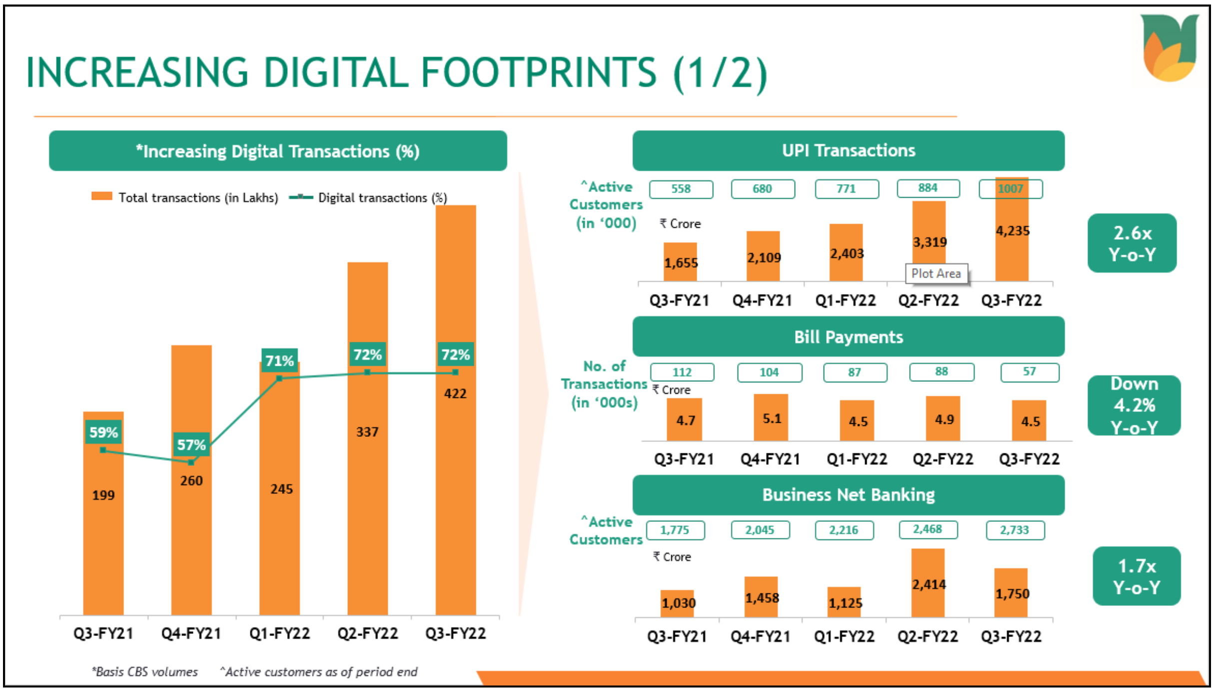
Machine-Learning based customer segmentation models have also been developed which have helped identify and target potential customers for cross-selling and up-selling opportunities. 22 processes across business verticals are completely automated. The Bank's Robotic Process Automation (RPA) currently handles over ~518 lakh transactions per month. The growth achieved over the quarters is furnished below:



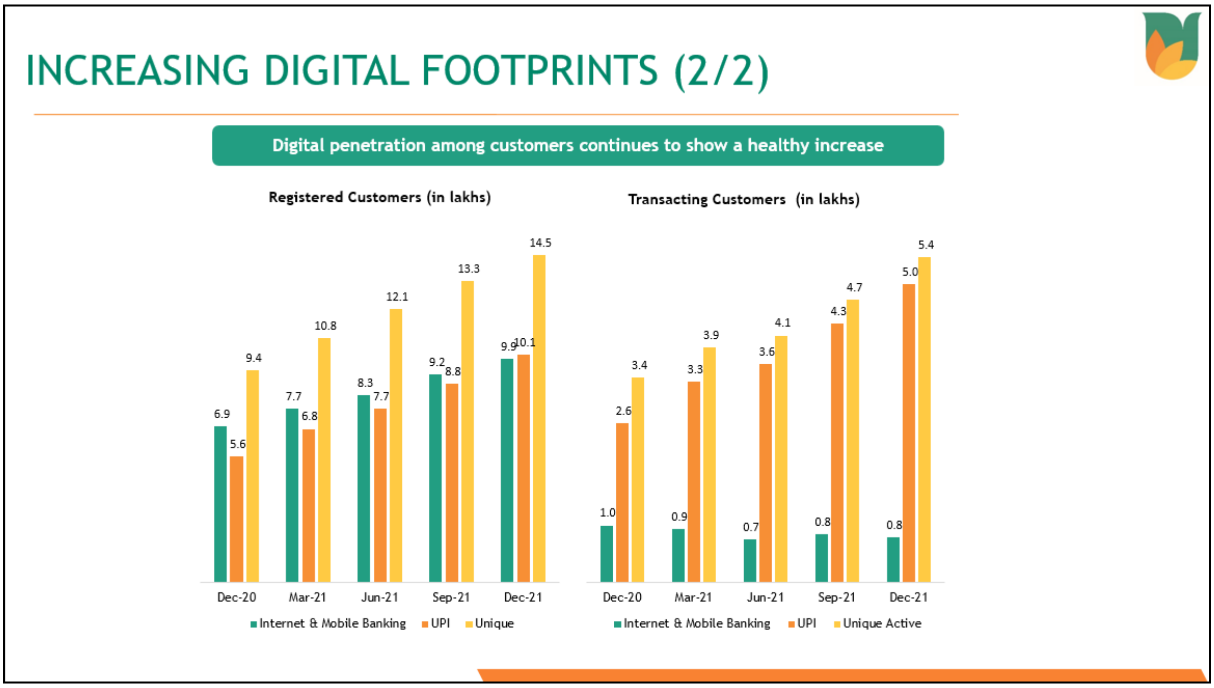
The Bank has listed its APIs[20] in the newly launched NPCI API Accelerator platform and is amongst the first set of banks (and the only SFB) to do so. This listing in the financial ecosystem, will help in increasing the API visibility among all financial players and facilitate easier partnership discussions and collaborations targeted at serving the un-banked and under-banked segments.

The Bank is currently designing a customized collection campaign to target customers within a radius of 1 km of the payment outlets to drive digital collections for better customer convenience and collection efficiency and activate new payment outlets wherever there are very few outlets in the vicinity of the customer location. The Bank has also launched its API Banking portal to showcase its existing API banking capabilities to Fin-Techs, Start-Ups, Developer communities, which in turn will help in attracting more such partners. RPA for Aadhaar seeding and de-seeding process has gone live. As of December 2021, ~20 other routine processes have been automated and are currently in UAT while ~17 projects are in their development stages.

[20] **Application Program Interface**



The Bank had witnessed a steady increase in its transaction processing in the form of IMPS, UPI and NEFT etc. In Q3 of FY21-22, transactions through UPI witnessed 2.6 times growth on a y-o-y basis whereas transactions undertaken using Net banking saw a 1.7 times growth on a year-on-year basis. In Q3 of FY21-22, digital transactions constituted 72% of the total payment related transactions, a strong improvement from 59% in the corresponding quarter of FY21.



At the end of Q3 FY21-22, the Bank had 14.5 lakh customers registered on digital platforms, an increase of 5.1 lakh compared to Q3-FY21-22. Out of these customers, 9.9 lakh and 10.1 lakh customers are registered on IBMB and UPI respectively.

Financial highlights for Q3 of FY 2021-22

Some of the key achievements for quarter ended December 31 2021 were as follows:

Key Highlights	Description
Customer base	• Total outreach: 62.1 lakh in December 2021 (59.7 lakh in September 2021, 58.2 lakh in June 2021, 59.2 lakh in March 2021, 56.6 lakh in December 2020)
Loan Portfolio	• Gross Advances at Rs. 16,46,306 lakh in December 2021 (Rs. 14,51,418 lakh in September 2021, Rs. 14,03,708 lakh in June 2021, Rs. 15,13,996 lakh in March 2021, Rs. 13,63,838 lakh in December 2020) • Non-Microfinance book at: 33.32% in December 2021 (33.62% in September 2021, 31.52% in June 2021, 28.21% in March 2021, 26.83% in December 2020)
Deposit Balance	• Total Deposits (Retail plus Institutional): Rs. 15,56,342 lakh in December 2021 (Rs 14,08,953 lakh in September 2021, Rs. 13,67,287 lakh in June 2021, Rs. 13,13,577 lakh in March 2021, Rs. 11,61,700 lakh in December 2020) • CASA: 26.5% in December 2021 (22.49% in September 2021, 20.30% in June 2021, 20.55% in March 2021, 17.69% in December 2020)
Portfolio Quality	• Gross Non-Performing Assets (GNPA): 9.8% in December 2021 (11.8% in September 2021, 9.8% in June, 2021 7.1% in March 2021, 0.96% in December 2020) • Net Non-Performing Assets (NNPA): 1.7% in December 2021 (3.3% in September 2021, 2.7% in June, 2021, 2.9% in March 2021, 0.05% in December 2020)
Employee strength	• 16,896 in December 2021 (16,251 in September 2021, 16,102 in June, 2021, 16,571 in March 2021, 16,733 in December 2020)
Profitability	• PAT for FY 2021-22 on YTD basis: Rs. (54,111) lakh; Rs 830 lakh for FY 2020-21; Rs. 34,992 lakh in FY 2019-20

	December	March	June	September	December

	2020	2021	2021	2021	2021
Quarterly PAT (Rs. in lakh)	(27,883)	13,649	(23,348)	(27,379)	(3,383)

The key performance ratios of the Bank were as follows:

Particulars	**Dec-20**[21]	**Mar-21**	**Jun-21**	**Sep-21**	**Dec-21**
Yield	18.6%	15.7%	16.0%	16.3%	16.8%
Cost of Funds	7.1%	6.8%	6.5%	6.3%	6.2%
Net Interest Margin	9.7%	7.9%	8.0%	8.1%	9.1%
Return on Assets (ROA)	-5.6%	2.7%	-4.7%	-5.6%	-0.7%
Return on Equity (ROE)	-34.7%	17.3%	-30.1%	-34.2%	-5.0%
Cost to Income ratio	62.0%	67.3%	64.8%	83.8%	74.1%
Other income/ Total Income	12.7%	16.0%	10.2%	6.8%	11.4%

Note: Bad debt recovery has been netted of with credit cost for all quarters as reported in audited H1 FY22 financials

Yield on advances has registered a 0.5% increase over September 2021 on account of better disbursements (~Rs.4,80,900 lakh in Q3). The monthly disbursement trends have registered a consistent improvement post September 2021.

With significant improvement in asset quality, improved collections and greater disbursements, the quarterly PAT figure has improved considerably as compared to last quarter. The Bank posted a loss of Rs. 3,383 lakh, considerably lower than the loss posted in the previous quarter (Rs. 27,379 lakh). ROA and ROE have also improved significantly as compared to previous quarter, on account of net income improvement in this quarter. The cost to income ratio has also registered notable improvement for the same reason. The Bank has maintained the floating provision of Rs. 25,000 lakh which was created in June 2021 in December 2021 and is well poised to withstand any future adverse changes to the external environment.

Table DF- 1: Scope of Application

1.1. <u>Qualitative Disclosures</u>

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.

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[21] Figures year ended

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.

1.2. 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

1.3. 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

1.4. 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

Table DF-2- Capital Structure

2.1. Qualitative Disclosures

Equity capital

The Bank has an authorized capital of Rs. 2,50,000 lakh in the form of Common Equity qualifying as Tier 1 capital under the guidelines of RBI. The Bank has an issued, subscribed and paid up equity capital of Rs.1,72,831.42 lakh, having 1,72,83,14,205 shares of face value Rs.10 each as at December 31, 2021.

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%). Foreign shareholding in the Bank was 0.82% (Foreign Portfolio investors (FPI), Non-Residential Indians (NRI)) at December 31, 2021.The Bank was compliant with Licensing 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.

Promoter contribution[22]:

As at December 31, 2021, the promoter contribution in the Bank was 83.32% with the holding company being the largest shareholder. As per RBI guidelines, the promoter shareholding is required to be brought down to 40% within a period of five years from the date of commencement of business. The promoter's minimum contribution is also subject to a lock-in for a period of five years during this period.

The Bank has initiated the process of reverse-merger with its holding company to meet the above mentioned criteria. To this effect, the Boards of both the Bank and Holding company have approved the scheme for amalgamation in its meeting dated October 30, 2021. As directed by RBI, the scheme for amalgamation was also submitted to the Regulator three months prior to completing the five years' timeline. SEBI, vide letter dated December 2, 2021 has acceded to the request made by the Bank for a relaxation of the three year criterion of promoter lock-in requirement. Further, the Bank had also placed a formal request for adopting the proposed scheme of amalgamation as a method to achieve the Minimum Public Shareholding criteria. The same stands approved vide the same communication. The shareholding pattern of the Bank as at December 31, 2021 was as follows:

Category of the Shareholder	No. of shares held	%age of shareholding
Promoter	1,44,00,36,800*	83.32
Mutual Funds	1,98,459	0.01
AIFs	1,06,41,882	0.75
Foreign portfolio investors	19,67,619	0.13
Resident Individuals/HUF	25,38,81,373	14.10
Others	2,15,88,072	1.70
Total	**1,72,83,14,205**	**100**

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

Capital Structure- Summary of Tier I & Tier II Capital

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

Sl. No.	Instrument	Whether Tier I or II	Amount (Rs. in Lakh)
1	Equity[23]	Tier I	1,72,831
2	PNCPS[24]	Tier I	20,000
	Total		**1,92,831**

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 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:

a Superior to the claims of investors in equity shares;

b Subordinated to the claims of Perpetual Debt Instruments (PDIs), all Tier 2 regulatory capital instruments, depositors and general creditors of the Bank; and

c 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 I 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	February 9, 2017	Perpetual	Yes	11% p.a.

PNCPS instruments are considered as Additional Tier I capital (AT I) for the purpose of capital adequacy.

Tier II Capital

Tier II capital[25] consists of revaluation reserves, general provisions and loss reserves, hybrid debt capital instruments, subordinated debt instruments and excess portion of Innovative Perpetual Debt Instruments (IPDI) and PNCPS. As at December 31, 2021, the

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[23] **Issued and Paid up equity capital**

[24] **Perpetual Non-cumulative Preference Shares**

***One Equity Share is held by an individual, as nominees, on behalf of Ujjivan Financial Services Limited (Promoter),**

[25] Refer clause 4.3 of NCAF guidelines.

Bank did not have any revaluation reserves, hybrid debt capital instruments or any excess portion of AT 1 capital instruments. The Bank has fully repaid its subordinated debt obligations and has no immediate plans for any floatation to augment its Tier II capital. As part of Tier II capital, the Bank has reckoned Rs. 14,954 lakh as general provisions (capped at 1.25% of Credit Risk Weighted Assets (CRWA) and Investment Fluctuation Reserve amounting to Rs. 2,051 lakh. The Bank has not factored the floating provisions of Rs. 2500 lakh for capital adequacy and has instead utilized the same for netting off from Gross Non Performing Assets (GNPA)[26] to arrive at disclosure of net NPAs. The Bank is exploring to raise subordinated debt instruments to augment its capital adequacy. This is expected to be completed in the ensuing financial year.

Dividend policy

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

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

Given setbacks from the second wave and potential threats from other unusual external events, it is crucial that the Bank remains resilient and proactively raise and conserve capital as a bulwark against unexpected losses. Therefore, while RBI guidelines[27] allowed certain relaxations on payment of dividend on equity shares, the Bank did not declare any dividends on its equity shares or preference shares as at December 31, 2021 as the Bank posted a loss for the quarter.

Table DF- 3: Capital Adequacy

3.1. 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[28], 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:

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[26] Refer clause 5.6.3. of IRAC guidelines dated October 1, 2021

[27] Refer RBI guidelines on Declaration of dividends by banks vide RBI/2021-22/23 DOR.ACC.REC.7/21.02.067/2021-22 dated 22nd April 2021.

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

Requirement	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 November 8, 2017 (DBR. NBD. No. 4502/16.13.218/2017-18). However, as a good governance practice, and as directed by its Board, the Bank separately computes capital charge for all the Pillar 1 risks viz. Credit, Market and Operational Risk following the Standardized Approach (SA) for Credit Risk, Standardized Duration Approach (SDA) for Market Risk and the Basic Indicator Approach (BIA) for Operational Risk.

In addition to the hybrid model for complying with capital adequacy requirement, for its internal and regulatory reporting, the Bank also complies with certain aspects of Basel III requirement, such as computation and maintenance of RBI prescribed minimum Liquidity Coverage Ratio (LCR) at 100% and Leverage Ratio at 4.5%.

The implementation of Net Stable Funding Ratio (NSFR) was made applicable for Banks with effect from October 1, 2021, post multiple rounds of deferment. The Bank has commenced computation of the same in compliance to the requirement.

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

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

Credit Risk	Underestimation of Credit Risk (Under ICAAP framework)
Market Risk	Reputational Risk
Operational Risk	Strategic Risk
Interest Rate Risk in Banking Book (IRRBB)	Compliance Risk
Liquidity Risk	People Risk
Concentration Risk	Digital and Technology Risk
Outsourcing Risk	Group Risk[29]

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

3.2 Quantitative Disclosures

Basel II capital calculation

The break-up of Basel II capital funds as at December 30, 2021 was as follows:

Rs. in lakh

	Description	Amount
	Core Equity Tier 1 Capital - Instruments and Reserves	
	Directly issued qualifying common share capital plus related stock surplus (share premium)	1,72,831
	Retained earnings	72,997
A	CET1 capital before regulatory adjustments	**2,45,828**
	Core Equity Tier 1 Capital - Regulatory Adjustments	

29 As per RBI guidelines on Guidelines on Management of Intra-Group Transactions and Exposures issued vide RBI/2013-14/487DBOD.No.BP.BC.96/21.06.102/2013-14 dated 11th February 2014

	Deferred tax assets arising from temporary differences	38,837
	Intangibles (Prepaid Expenses & Computer Software)	14,795
	Credit Enhancements	0
	Regulatory Adjustments applied to CET1 Capital due to insufficient funds in Tier 2 to cover deductions	0
B	Total regulatory adjustments to CET1 Capital	**53,633**
C	**CET1 capital (A-B)**	**1,92,195**
	Additional Tier 1 Capital - Instruments and Reserves	
	Preference Shares	20,000
E	AT1 capital before regulatory adjustments	20,000
	Additional Tier 1 Capital - Regulatory Adjustments	
F	Total regulatory adjustments to AT1 Capital	-
G	AT1 Capital	20,000
H	**Tier 1 Capital (C + G)**	**2,12,195**
	Tier 2 Capital - Instruments and Provisions	
	Sub - debt eligible as Tier 2 capital	0
	General Provisions on Std. Assets admissible as Tier 2	14,954
	Investment Fluctuation Reserve	2,051
I	Tier 2 Capital before regulatory adjustments	**17,005**
	Tier 2 Capital - Regulatory Adjustments	
J	Total Regulatory Adjustments to Tier 2 Capital	-
K	Tier 2 Capital (I - J)	17,005
L	**Total Regulatory Capital (H + K)**	**2,28,424**

Credit Risk RWA

The detailed break up of Credit RWA is as follows:

Asset Description	RWA (Rs. in lakh)
Cash and Balances with Reserve Bank of India	0
Balances with Banks and Money at Call and Short Notice	15,545
Investments	12.53
Advances	11,13,884

Fixed Assets	14,420
Other Assets	34,771
Off Balance Sheet	17,694
Total Credit RWA	**11,96,326**

Operational Risk RWA

Although RBI has not mandated SFBs to maintain capital charge for Operational Risk, the Bank has adopted Basic Indicator Approach (BIA) for measuring the capital requirements for Operational risk as applicable to Scheduled Commercial Banks. The Bank has computed its Operational Risk Capital Charge at 15% of the average of gross income for the past three completed years of operation. Under BIA, the Bank has to consider Gross Income of previous three Financial Years for computation. Therefore, the capital charge for Operational Risk will remain same as of March 21 even for subsequent quarters of FY 2021-22.

The detailed computation is as follows:

Rs. in lakh

Particulars	Mar-19	Mar-20	Mar-21
Net Profit	19,922	34,992	830
Operating Expenses	1,00,335	1,31,858	1,23,008
Provisions and Contingencies	10,980	28,731	80,100
Gross Income	1,31,237	1,95,581	2,03,937
Average (3 years)	1,76,918		
Capital Charge	**26,538**		
RWA	**3,31,722**		

Market Risk RWA

As at December 31, 2021, the AFS[30] book consisted of Treasury Bills, Certificates of Deposit (CDs) and the HFT[31] book consisted of T-bills and Government of India securities. On the basis of SDA[32], the capital requirement for market risk reported to the Board from a governance perspective was as under:

Rs. in lakh

Capital Requirement for Market Risk	Amount
Interest Rate Risk	148
Equity Position Risk	2
Foreign Exchange Risk	--
Total	150

[30] Available for Sale

[31] Held for Trading

[32] Standardized Duration Approach

Total Market Risk RWA	**1,868**

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

Rs. in lakh

Particulars	Amount/Ratio (Only Credit RWA)	Amount/ Ratio (all Pillar 1 risks)
Tier I Capital	2,11,419	2,11,419
Tier II Capital	17,005	17,005
Total Capital	**2,28,424**	**2,28,424**
Total RWA	11,96,326	**15,29,901**
CET Ratio	16.00%	12.51%
Tier I Ratio	17.67%	13.82%
Tier II Ratio	1.42%	1.11%
CRAR	**19.09%**	**15%**

Capital Requirements for Various Risks		
Sl. No	**Capital Requirements for various Risks**	**Amount (Rs. in Lakh)**
A	**Credit Risk**	1,79,449
A.1	For non-sec portfolio	1,79,449
A.2	For Securitized portfolio	NIL
B	**Market Risk**	**150**
B.1	For Interest Rate Risk	148
B.2	For Equity Risk	2
B.3	For Forex Risk (including gold)	NIL
B.4	For Commodities Risk	NIL
B.5	For Options risk	NIL
C	**Operational Risk**	**26,538**
D	**Total Capital Requirement**	**2,06,137**
E	**Total Risk Weighted Assets**	**15,29,901**
F	**Total capital funds of the bank**	**2,28,424**
G	**Capital Adequacy Ratio of the Bank (%) (all three Pillar I risks)**	**15%**

The Bank registered a loss of Rs. 3,383 lakh for Q3 FY 2021-22 and the RWA increased to Rs. 11,96,326 lakh in Q3, which when combined has resulted in a decreased CRAR. The Bank is however comfortably placed in meeting its minimum capital requirements of 15% on the basis of CRWA only as per Operating Guidelines for Small Finance Banks. Based on projected capital requirements under the ICAAP, the Bank's Board has approved to augment its capital position vide issue of equity shares through the Qualified Institutional Placement (QIP) route in the ensuing financial year amounting to Rs. 60,000 lakh.

Table DF- 4: Credit Risk: General Disclosures

4.1. Qualitative disclosures

Credit Risk Management

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

The Bank has implemented an extensive credit risk management architecture. The Board of Directors of the Bank endorses the credit risk strategy and approves the credit risk policies of the Bank. This is done taking into consideration the Bank's risk appetite, derived from perceived risks in the business, balanced by the targeted profitability level for the risks taken up. The Board oversees the credit risk management functions of the Bank. The Risk Management Committee of the Board (RMCB) is entrusted with the development of policies, procedures and systems for managing credit risk, towards implementing a robust credit risk strategy of the Bank. The RMCB reviews the credit risk profile and keeps an eye on both internal and externals contexts, their impact on the Bank's portfolio and devises management strategies accordingly. The RMCB regularly reviews the Bank's portfolio composition and the status of impaired assets.

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

The Credit Risk Management Committee (CRMC) is responsible for overseeing implementation of the credit risk management framework across the Bank and providing recommendations to the RMCB. CRMC ensures monitoring of credit risks on Bank wide basis and in ensuring compliance with the Board approved risk parameters/prudential limits and monitor risk concentrations. It also reviews the status of portfolio management, loan review mechanism, risk monitoring and evaluation, regulatory/legal compliance, adequacy of provision, risk concentrations, industry reviews, and suggest corrective measures and activity reviews for credit management. It reviews and approves the use of credit scorecards for business and risk management purposes, tests its performance and effectiveness and places recommendations before the RMCB.

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

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

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

Definitions of past due and impaired loans

An asset, including a leased asset, becomes non performing when it ceases to generate income for the bank. 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.
- 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 securitisation transaction undertaken in terms of the Reserve Bank of India (Securitisation of Standard Assets) Directions, 2021.

  - 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.

In case of interest payments, the Bank classifies an account as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter.
The Bank is guided by the provisions laid down in Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances dated October 1, 2021.

Automation of Income Recognition, Asset Classification and Provisioning (IRACP)
In order to ensure the completeness and integrity of the automated asset classification (classification of advances/investments as NPA/NPI and their upgradation), provisioning calculation and income recognition processes, banks were advised to put in place / upgrade their systems latest by June 30, 2021 vide RBI circular dated September 14, 2020[33].

In compliance to this notification, the Bank had introduced a new functionality for automating the income recognition, asset classification, upgrading/downgrading of accounts and provisioning processes. This functionality was continuously tested and moved to production within the stipulated timelines. Additionally, the Bank had commenced a parallel run for IRACP up to August 10, 2021 to identify potential mismatches in reporting. It is pertinent to note that RBI is cognizant of potential issues from system based reports. In this regard, exceptions are granted from system driven classification under certain circumstances, which are expected by the Regulator to be minimum and temporary, subject

[33] Refer RBI notification on Automation of Income Recognition, Asset Classification and Provisioning processes in banks dated September 14, 2020

to availability of adequate audit trails for overrides, a two-level authorisation and adequate documentation. As an internal policy, the Bank has set a threshold for manual overrides at 0.5% (i.e. 99.5% automation) for IRACP. This is continuously monitored at a Board level and any deviation from the threshold is analysed in detail for taking the necessary corrective measures.

Provisioning norms of the Bank

The Board reviews the provisioning norms of the Bank at regular intervals to determine if any enhanced provisioning is required based on credit performance. Despite a history of low Portfolio at Risk (PAR) and delinquencies, the microfinance portfolio of the Bank (the Bank's flagship offering) is unsecured and adverse events (such as demonetization and the COVID pandemic) have impacted the portfolio quality. To enhance the coverage on MB-RB portfolio, the Bank continuously identifies stress in specific accounts and geographies where accelerated provisions may be required on an on-going basis. The Bank's NPA Management Policy, on the directions of the Board, has adopted an accelerated provisioning regime which is higher than the RBI mandated provisioning norms since inception. The Bank's Risk Management Department undertakes a proactive assessment of the likely GNPAs, NNPA, Provision Coverage Ratio (PCR) and incremental credit/provisioning costs by studying historical delinquency trends and external developments which can have a bearing on the asset quality and credit costs. The Board is not averse to taking accelerated provisioning, if warranted by the outcome of this analysis.

To give effect to Resolution Framework (RF 1.0 and RF 2.0) guidelines issued by RBI, the Bank had put in place a Board approved policy for restructuring and providing resolution framework for pandemic related stressed assets. The policy included aspects such as the eligibility criterion for restructuring, asset classification and provisioning norms, conditions for reversal in provisions and asset classification, approach for restructuring at a vertical level, delegation of power/authority and disclosure requirements. The restructuring of borrowers was invoked within timelines stipulated i.e. September 30, 2021 and implemented well within the time-limit of December 2021.

The restructured book has registered instances of delinquencies indicating sub-optimal performance over its success. Various internal surveys and feedback from customers suggest that the impact of the pandemic has adversely affected the income generating capacity of the borrowers. Borrowers have indicated a combination of reasons encompassing business disruptions, loss of lives and increased medical expenses as individually or collectively affecting their ability to restart their livelihoods and that servicing the debt burden was difficult. The additional interest servicing due to restructuring was observed to be exacerbating the already stressed repayment ability.

Credit Risk Monitoring:

Micro finance portfolio

The Bank undertakes portfolio monitoring on a periodic basis with specific focus on key portfolio triggers. Continuous review of portfolio enables the Bank to identify incipient stress at cluster/region/state level. Breach in the internal thresholds for default is the starting point for identifying risk in the portfolio. Risk indicators such as PAR30+, PAR90+, early delinquencies, quick mortality, non-starters, On Time Repayment Rates (OTRR), Collection Efficiency (CoE), Stressed assets percentage and lagged PAR estimates provide useful insights in risk identification.

Any exception to the internally defined thresholds is reviewed by the Chief Credit Officer (CCrO) and Chief Risk Officer (CRO). Additionally, the Bank monitors the health of its Microbanking portfolio at a branch level through its branch scorecards. These scorecards assess the performance on various parameters such as incremental over-dues, error rates, non-starter cases, collection performance etc. The Bank undertakes its portfolio monitoring separately for Group Loans (GL) and Individual Loans (IL) within the Microbanking segment.

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

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

Considering that many a time the external environment or factors affect the portfolio, the Bank also monitors area specific communal issues, protests, sub-lending/ring leader issues, snatching attempts and others. In addition to the above, industry level information is also collected from the credit bureau/s to compare the performance in states or districts.

The Bank has developed risk scorecards for objective based credit appraisal and monitoring. This application score card has been integrated with Business Rule Engine (BRE) where every application will have a score generated from BRE which shall be reviewed as part of credit appraisal. This score will be in addition to present BRE rules. The Bank is monitoring the performance of these scorecards for further fine-tuning of parameters.

The scorecards implemented for the Individual Loan (IL) loans, consisting of variable dependent bands are being used in decisioning and linked to Risk Based Pricing with effect from October 1, 2021.

Housing and Micro and Small Enterprises (MSE) portfolios

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

During the quarter, the Bank had enhanced its Early Warning System (EWS) framework at an account level for enhanced monitoring. This framework enables the Bank to monitor a borrower's internal/external repayment record and changes in accessibility of the customer efficiently on an on-going basis. As a starting point, the Bank now utilizes data from Bureau scrubs (which provides a detailed report on the basis of several parameters) for an account level monitoring on a real time basis. Through this framework, the Bank has identified 10 EWTs for which accountability for action is pre-defined along with a monitoring mechanism. Over and above the scrub based EWT, the Bank has also included triggers from the RBI prescribed EWS signals for further assessment. For lending in the nature of overdrafts, the Bank has defined thresholds for utilization and churn trends to provide early signs of stress.

The EWS is thus designed to track customers who might transition from a non-default status to default status. This transition needs to be arrested so that a better repayment discipline can be established within the Bank.

Risk scorecards are developed and implemented for introducing objective based lending. These application scorecards have been integrated with Loan Operating Systems (LOS) where every application will have a score generated from LOS which shall be reviewed as part of credit appraisal. This score will be in addition to present appraisal norms. The scorecards implemented for MSE and Housing loans are being used in decisioning and linked to Risk Based Pricing with effect from October 1, 2021.

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

The Bank monitors the portfolio performance of other business verticals on a monthly basis. Business, Credit and Risk functions monitor these verticals on key indicators such as logins, turnaround time, ticket size, sanctioned versus disbursement, product performance, PAR and NPA trends etc. Risk department undertakes an independent assessment of the same and submits its findings to the CRMC for further action as per its Key Risk Indicators (PAR30+, PAR90+, ED, QM and lagged PAR trends).

The Bank has developed a statistical scorecard for Personal Loans and an Expert Judgement scorecard for its vehicle loans portfolio. While these scorecards are being used in decision making with effect from October 1, 2021, the linkage to Risk Based Pricing can only be undertaken after these scorecards are statistically validated especially for its Personal Loans business. For the Vehicle finance, given its unique business model, the Bank has received a forbearance from RBI from use of scorecards from Risk Based Pricing. The Bank has embedded the risk premium into its pricing ab initio at the design stage.

The Bank has also rolled out a framework for monitoring Early Warning Triggers (EWTs) similar to the one rolled out in the MSE and Housing verticals.

The Bank assesses EWTs in FIG loans on a case to case basis by studying the compliance to loan covenants, changes in external ratings, press releases and RFA tagging by other Banks.

The Internal Audit Department also evaluates the adequacy and effectiveness of processes to ensure adherence to various internal and regulatory guidelines and they in turn submit their findings along with recommendations at appropriate forums within the Bank. Based on the findings, the Bank undertakes the necessary changes to its various product programs and credit policies.

Audit

The Bank is subject to have an independent **Internal Audit** department (IAD) under governance norms mandated by the Reserve Bank of India (RBI). The Audit Department of the Bank complies to the latest RBI circular on Risk Based Internal Audit (RBIA) Framework – Strengthening Governance arrangements dated 07 January 2021[34]. All the staff within the IAD have the requisite skills to audit all areas of the Bank with areas of knowledge and desired skills in banking operation, accounting, Information Technology, data analytics and forensic Investigation etc. The IAD and its functionaries are:

- Accountable and reports only to the Board through the Audit Committee of Board (ACB);
- Independent of auditable activities i.e., have no responsibilities related to the first line of defence, the second line of defence and the vigilance function;
- Audits all activities undertaken by the first line of defence, the second line of defence and the vigilance function;

The IAD has its own Audit Policy and Manual approved by the Board. These are annually reviewed and ensured that regulatory expectations are met. These documents are presented to ACB for their approval. The Internal Audit process in the Bank complements the risk management and monitoring tool as the third line of defence. The IAD has five Audit verticals where in the RBIA approach is now established. As a control function, the Bank always strives for improvement in the functional knowledge of its staff and works to support the Bank in strengthening the control environment. The audit activities by Department are

[34] Refer RBI/2020-21/83 Ref.No.DoS.CO.PPG. /SEC.04/11.01.005/2020-21 dated January 7, 2021

explained below:

a. **Branch Audit:** The audit is performed at the operational branches covering Liability and assets business, including Business Correspondents (BCs). IAD has internally developed Risk Control Matrix and assesses the residual risks at the Branches. The Department follows a quantitative and qualitative risk assessment in its branch audit. This helps the first line and senior management to take appropriate mitigation on the identified risks.
b. **Credit Audit:** The audit of lending activity covers all the assets, products, process and credit risk department, which enumerates the risks in aggregation. This approach assesses the root cause and focused mitigation plan. Apart from these, thematic audits on Credit Risk management (risk ownership quality in the first line of defence) is also planned as per internal risk assessment and periodic RBI advisories. The risk identification, measurement and mitigation from sourcing to monitoring and collection of asset accounts results in continuous improvisation.
c. **Central Function:** Largely focus on all HO functions/departments, second line of defence, vigilance function and all liability operations. The RBIA approach is in accordance with ICAI[35] and IIA (US standards). This encompasses the Governance, Risk Management and Control (GRC) approach in each and every audit and internal review.
d. **IS Audit:** Assessment of application level risks, IT infrastructure (Network, Operating systems, Database), IT processes / Operations and IT governance to assure information assets are protected and security risk is mitigated, are covered in this audit activity and / or Integrated audit activities wherein, the IT controls are reviewed, as part of an end-to-end coverage of business process along with General IS controls.
e. **Concurrent Audit:** The Bank has a separate Board approved policy for Concurrent Audits which is aligned to RBI guidelines dated September 18, 2019. The Branch identification and implementation of Concurrent Audit activity is also now risk based in accordance with approach prescribed by RBI. Accordingly, the IAD identified the Branches that contributed more than 50% of Bank's business covered under concurrent audit. In FY 2021-22, along with other control environment attributes, 167 branches contributing 60% of Bank's business are covered in Concurrent Audit. Additionally, few critical processes like Payments and Treasury function, Data Centre and Disaster Recovery Centres are also covered under Concurrent Audit.

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

[35] Institute of Chartered Accountants of India (ICAI)

4.2. Quantitative Disclosures

The overall distribution of gross advances as at December 31, 2021 was as under:

Rs. in lakh

Vertical	OSB	Provisions	% Share by OSB
Microbanking (includes Rural Banking)	10,97,775	1,32,090[36]	66.7%
Housing	2,56,225	7,577	15.6%
MSE	1,58,295	11,970[37]	9.6%
Personal Loan	22,295	1,569	1.4%
Vehicle Loan	14,851	783	0.9%
Institutional Lending	88,485	882	5.4%
Staff Loans	3,197	20	0.2%
Loans against deposit	5,200	27	0.3%
Total	**16,46,306**	**1,54,918**	**100.00%**

The total provision held as at December 31, 2021 was Rs. 1,29,918 lakh excluding floating provision.

Exposure summary: Facility type

Exposure Type	Domestic (Rs. in Lakh)	Overseas
Fund- Based exposure	20,66,032	--
Non- Fund Based Exposure*	43,270	--
Total	**21,09,302**	**--**

*Non-fund based exposure for purpose of computation of CRAR includes undrawn limits of Overdrafts, Secured Housing and MSE customers and Contingent liabilities.

Geographic Distribution of advances (State-wise)

Rs. in lakh

States	Total Advances (in Lakh)	% Share
Assam	21,998	1.34%
Bihar	1,02,400	6.22%
Chandigarh (UT)	2,550	0.15%
Chhattisgarh	8,273	0.50%
Goa	1,121	0.07%
Gujarat	1,37,447	8.35%
Haryana	81,249	4.94%
Himachal Pradesh	1,819	0.11%

[36] Including floating provisions of Rs. 23,500 lakh
[37] Including floating provisions of Rs. 1500 lakh

Jharkhand	35,202	2.14%
Karnataka	2,35,634	14.31%
Kerala	25,920	1.57%
Madhya Pradesh	25,039	1.52%
Maharashtra	1,56,749	9.52%
Meghalaya	1,722	0.10%
New Delhi	71,995	4.37%
Odisha	41,521	2.52%
Pondicherry	11,250	0.68%
Punjab	36,284	2.20%
Rajasthan	68,769	4.18%
Tamil Nadu	2,60,578	15.83%
Tripura	19,641	1.19%
Uttar Pradesh	81,607	4.96%
Uttarakhand	7,325	0.44%
West Bengal	2,10,213	12.77%
Grand Total	**16,46,306**	**100.00%**

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)**	6,98,213	3,79,170	38,67,383	38,67,327	12,81,199
I	Agriculture (IA+IB+IC+ID)	2,84,881	1,43,047	14,17,120	14,17,103	2,78,576
II	MSMEs (i)+(ii)+(iii)+(iv)+(v)	2,682	16,125	7,42,260	7,42,235	3,13,316
III	Export Credit	0	-	-	-	-
IV	Education	0	-	-	-	-
V	Housing	25,382	43,238	1,66,546	1,66,544	2,42,745
VI	Renewable Energy	-	-	-	-	-
VII	Social Infrastructure	-	-	-	-	-
VIII	'Others' category under Priority Sector	3,85,268	1,76,760	15,41,457	15,41,445	4,46,562
IX	Net PSLC	-	-	-	-	-

3	**Non-Priority Sector Loans (I+II+III+IV+V)**	55,459	80,003	2,04,968	2,04,967	3,68,087
I	Agriculture	-	-	-	-	-
	Out of Agriculture, Loans against Negotiable Warehouse Receipts (NWRs)	-	-	-	-	-
II	Education Loans	-	-	-	-	-
III	Housing Loans	1,826	16,760	14,451	14,451	1,09,794
IV	Personal Loans under Non-Priority Sector	2,689	6,782	15,757	15,757	25,867
V	Other Non-Priority Sector Loans	50,944	56,461	1,74,760	1,74,759	2,29,445
4	**Total Loans (1+3)**	**7,53,672**	**4,59,173**	**40,72,351**	**40,72,294**	**16,46,306**

Priority Sector Lending (PSL) Compliance

The licensing conditions for SFBs require that PSL composition of a bank's asset book should be a minimum of 75% of the Adjusted Net Bank Credit (ANBC)[38]. Further, the overall PSL achievement of 75% is required to be maintained as at end of the year and not mandatory at the end of every quarter. The Bank calculates surplus/deficit as provided in Annex IV of the RBI circular on Priority Sector Lending[39].

While there is a quarterly monitoring of PSL in total and category-wise, the final compliance to PSL is reckoned on a yearly basis i.e. at the end of the financial year. For computing PSL, the Bank takes the ANBC of corresponding quarter of the previous year. The ANBC as on the corresponding date of the preceding year i.e. December 31, 2020 was Rs. 13,59,641 lakh. The Priority Sector lending was maintained at 94.23% as a percentage of ANBC for quarter ended December 31, 2021. The summary of compliance to PSL norms is as follows:

Rs. in lakh

Sl. No.	Sector wise achievements	Effective ANBC	Total Outstanding	% Achievement	RBI minimum
1	Overall PSL	13,59,641	12,81,199	94.23%	75%
2	Agriculture		2,78,576	20.49%	18%
3	Small and Marginal Farmers		2,71,717	19.98%	10%
4	Non - Corporate		2,78,576	20.49%	--

[38] ANBC is computed as per clause 6.1 of RBI guidelines on Priority Sector Lending

[39] RBI guidelines on PSL issued vide RBI/FIDD/2020-21/72 FIDD.CO.Plan.BC.5/04.09.01/2020-21 dated September 4, 2020 (Updated as at October 26, 2021).

	Farmers				
5	Micro Enterprises		3,00,008	22.07%	7.5%
6	Weaker Sections		5,70,530	41.96%	12%

The average PSL maintained on YTD basis is 94.23 %. Alternately, the average of quarterly achievements (in %) is 82.86%. The q-o-q position of PSL compliance is as below:

Rs. in lakh

Particulars	Q1	Q2	Q3
Gross PSL	11,20,186	11,38,812	12,83,099
PSLC (as until quarter)	1,15,000	1,15,000 Sell 1,13,100 Purchase	1,15,000 Sell 1,13,100 Pur.
Net PSL - (x)	10,05,186	11,36,912	12,81,199
ANBC	13,89,807	13,86,133	13,59,641
Target (75% of ANBC) - (y)	10,42,400	10,39,600	10,19,731
Achievement (Net PSL upon ANBC) for the quarter [QPSA]	72.33%	82.02%	94.23%
Surplus/Deficit (x)-(y)	-37,214	97,313	2,61,469
Average Surplus (on YTD basis)	-37,214	30,050	1,07,189

During the quarter Q2, the Bank purchased PSLC- Micro amounting to ~Rs. 1,13,100 lakh to comply with the requirement of maintaining PSL above 75%.

<u>Maturity pattern of assets and liabilities</u>

Rs. in lakh

Buckets	Net Advances	Net Investments	Deposits	Borrowings
Day – 1	192	-	5,030	
2-7 Days	17,655	-	34,685	20,278
8-14 Days	25,452	1,001	42,124	5,114
15-30 Days	25,637	-	38,712	-
31 Days and up to 2 months	74,912	2,511	75,453	23,136
Over 2 months and up to 3 months	77,485	-	1,31,713	28,780
Over 3 Months and up to 6 months	2,11,251	2,460	2,51,988	2,008
Over 6 Months and up to 1 year	3,49,043	28,905	3,35,081	36,956
Over 1 Year and up to 3 years	3,62,261	23,265	6,21,576	77,300

Over 3 Year and up to 5 years	1,56,727	45,146	19,240	-
Over 5 years	2,34,683	2,16,470	740	-
Total	**15,35,296**	**3,19,758**	**15,56,342**	**1,93,572**

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

Category of Gross NPA	December 2020	March 2021	June 2021	September 2021	December 2021
Sub-standard	3,799	83,232	1,36,765	1,69,900	1,37,279
Doubtful	8,089	4,947	728	1,297	23,737
Loss	1,171	18,881	6	69	150
Total	**13,058**	**1,07,060**	**1,37,498**	**1,71,266**	**1,61,166**

	December 2020	March 2021	June 2021	September 2021	December 2021
Net NPA	640	42,458	59,870	68,514	50,156

NPA Ratios	December 2020	March 2021	June 2021	September 2021	December 2021
Gross NPA to Gross Advances	0.96%	7.07%	9.80%	11.80%	9.79%
Net NPA to Net Advances	0.05%	2.93%	4.51%	5.08%	3.27%
NNPA% (after factoring floating provisions)	0.05%	2.93%	2.63%	3.23%	1.64%

Movement of Net NPAs (On YTD basis)

Particulars	Dec-20	Mar-21	Jun-21	Sept-21	Dec-21
Opening Balance	2,749	2,749	42,459	42,459	42,459
Additions during the period	920	42,994	34,880	62,067	59,185
Reductions during the period	3,029	3,285	17,465	36,011	51,488
Closing Balance	**640**	**42,458**	**34,873**	**43,514**	**50,156**

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

Rs. in lakh

Particulars (On YTD basis)	Dec-20	Mar-21	Jun-21	Sept-21	Dec-21
Opening Balance	10,965	10,965	64,601	64,601	64,601
Provisions made during the period	2,549	61,424	48,818	78,318	99,409
Write back of excess provisions	1,096	7,787	28,794	40,168	53,000
Closing Balance	**12,418**	**64,601**	**77,625**	**1,02,751**	**1,11,010**

<u>Provision Coverage Ratio (PCR)</u>

Rs. in lakh

Category	OSB	Provisions	% Share	GNPA	GNPA Provisions	Floating Provisions maintained	PCR%
MB-RB	10,97,759	1,32,090	66.68%	1,25,419	94,120	23,500	94%
FIG Lending	88,485	882	5.37%	442	442		100%
Housing	2,56,225	7,557	15.56%	14,383	5,762	1,500	50%
MSE	1,58,295	11,970	9.62%	18,040	8,562		47%
Personal Loans	22,295	1,569	1.35%	1877	1466		78%
Staff Loan	3,197	20	0.19%	5	4		73%
Vehicle Finance	14,851	783	0.90%	999	654		65%
Loan/OD Against Deposit	5,200	27	0.32%	2	1		49%
Grand Total	**16,46,306**	**1,54,919**	**100.00%**	**1,61,166**	**1,11,011**	**25,000**	**84%**

Key developments in Q3: FY 2021-22

The Bank's GNPA, NNPA and PCR as at December 2021 were 9.8%, 1.7% and 84.4% respectively. GNPA and NNPA had improved from the September 2021 position due to a combination of factors such as better recovery from NPA buckets, increased disbursement and write-off from microfinance portfolio amounting to Rs. 15,180 lakh. Stressed Assets Ratio (sum of SMA II, NPA and all of restructured book) was also on a declining trend with the ratio at 15% as at December 2021 as compared to 20% as at September 2021. For the month of December 2021, fresh additions to GNPA were ~Rs. 10200 lakh and recoveries from GNPA were ~Rs. 9500 lakh, which is nearly a full off-set indicating a strong improvement in recovery and no adverse movement to fresh slippages. Incremental credit cost for the month of December 2021 was ~Rs. 4,900 lakh, which was considerably lower than internal projections due to better than expected recovery from the NPA buckets. By reading these numbers, it is clearly evident that the Bank has successfully arrested its Incremental Overdue (IOD) within acceptable levels. Also, the collection rates in the NPA buckets have also considerably improved in Q3 across all asset verticals. The Bank's Board has also approved a special scheme for a one time settlement to encourage defaulted borrowers in clearing their outstanding dues with the Bank. Initial readings of the Janaury 2022 trends indicate a similar positive trend implying that the impact of the third wave has been negligible on asset quality.

As at December 2021, the Bank continued to maintain a floating provision of Rs. 25,000 lakh. After factoring the floating provisions, the Bank maintained a PCR% of 84% at Bank level which is higher than the internal threshold. The availability of the floating provision over and above the high levels of provision already held, contributed to the high PCR at end December, over and above that mandated by the Board of the Bank.

Write off:

Rs. in lakh

Particulars	Total Write off undertaken
Q1	27,961
Q2	6,609
Q3	15,180
YTD basis	**49,603**

Non-performing Investments (NPI)

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

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	**--**

Portfolio snapshot of various credit offerings:

Microfinance and Rural banking:

The Microfinance and Rural banking portfolio, which was adversely affected by the pandemic, has registered a strong recovery during the quarter. This was evidenced by the composite collection efficiency (CE%) reaching 92% in December 2021. During the quarter, the Bank's CE% was consistently above 90%. Loan disbursement during the quarter was ~Rs. 3,50,000 lakh, higher than the corresponding previous quarter (~Rs. 3,10,000 lakh). The disbursement trends registered for quarter ended December 2021 indicated that the microfinance portfolio was one of the first to recover on account of pent-up demand post lifting of mobility restrictions. This trend was observed in both COVID 1.0 and COVID 2.0 waves. On Time Repayment Trends (OTRR) have also increased during the quarter from 71.3% in the month of October 2021 to 74.5% in the month of December 2021. As part of the digital initiatives, the Bank laid strong emphasis on increasing its cashless repayment channels. During the quarter, the 'customer induced cashless repayment' was consistently in the range of 17% to 18% while 'CRO[40] deposits at cash collection points was in the range of 40% to 43%. As a strategic imperative, the Bank continues to focus on repeat customers who have a strong relationship with the Bank and have maintained a good repayment history. For the December 2021 month, the share of repeat disbursement was 57% and 48% in Group Loans and Individual Loans respectively. It is also pertinent to note that pursuant to the initiatives made by the Bank through a 100 day plan, the MB segment achieved the highest ever disbursement numbers during the quarter.

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

- **Strengthening Collection Capacity**: Hiring of additional man power to ensure sustained follow up with each customer.
- **Bucket wise collection focus**: Clear bifurcation of default cases of the various SMA accounts alongside monitoring of standard accounts and assignment between business and collection staff.
- **Multiple Reminders through SMS and Calling**: Customized SMS and calling in vernacular language. Pre-calling to SMA customers before center meeting date by branch staff.
- **Use of data and analytics**: Use of bureau data to identify customers who are paying to others and focus on them. Data analytics driven prediction models based on Early Warning Triggers and geo-special analysis aid in better collections.
- **Improve cashless collection**: Provide multiple options to customers to repay - cashless collections through digital payment apps and Airtel payment points. Digital

[40] Customer Relationship Officer

collections help in reducing the impact of restrictions on ground mobility and lead to better overall collections. Q3-FY22 cashless collections was 17% from the collection pool.

- Simplified overdue tracker for field functionaries.
- **Enhanced focus on affected geographies**: Prioritization of hiring off role staff in these affected states. Mentorship and Supervisory ownership of least collection branches, Co-ordinate with MFIN to balance political issues.

With reference to monitoring of defaulted loans, the performance of top 30 branches with high levels of NPA% in MB and RB are being assessed on a priority basis. Focused collection efforts on those borrowers with one or two pending EMIs will be the way forward toward normalization, resulting in reduction of GNPA. During the quarter, the Bank had analysed the Quick Mortality (PAR90+ within 12 months) at a branch level and calibrated fresh disbursements in those branches with high instances.

Current position of Restructured accounts: As at December 31, 2021, there were **3**,40,549 live accounts in the MB portfolio amounting to Rs. 65,500 lakhs (approximately) under RF 2.0 (original restructuring was ~Rs. 94,400 lakh); while 2,32,275 accounts in MB were live amounting to Rs. 43,120 lakhs which were restructured under RF 1.0. Likewise, in the Rural Banking portfolio, there were 11,954 live accounts amounting to ~Rs. 2450 lakh under RF 2.0; while 6,576 in RB were live amounting to ~Rs. 1,140 lakh. The performance of the RF2.0 book has been substantially better than the performance of the RF 1.0 book. In the first instance, RF1.0 customers were affected by the second wave almost immediately after the implementation of the restructuring which affected their livelihood. On the other hand, the relatively milder impact of Omicron post the implementation of RF2.0 and the improving economic situation contributed to the better results from implementation of RF2.0.

MSE[41]:

As at December 31 2021, there were 15,392 accounts amounting to Rs. 1,58,294 lakh. The Bank offers a suite of credit offerings catering to different customer segments. The top 2 credit products i.e. Loan Against Property (LAP- SENP-SEP) and Secured Enterprises Loans (SEL) comprised 40% (Rs. 63,281 lakh) and 25.7% (Rs. 40,703 lakh) of the portfolio respectively. These products are targeted largely at the informal/semi-formal customer segment and are secured by a mortgage of property.

To cater to the formal segment, the Bank offers Business Edge loans, a holistic banking services bouquet comprising of funding solutions with overdraft facility, current account and transaction ease through Corporate Internet Banking (CIB). The holistic offering enables the Bank to compete with established players in the market. The share of Edge offering advances was Rs. 25,844 lakh (16% share) as at December 2021.

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

[23] Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)

During the quarter new case log-ins had increased month on month. Total disbursement during the quarter was ~Rs. 33,980 lakh, a 150% increase from the corresponding previous quarter (~Rs. 13,630 lakh). The Bank has also increased its exposure in new product offerings with a credit guarantee cover from CGTMSE[23].

Unsecured Overdraft (Progcap partnership) was launched in Q4 of FY 2020-21 for the purpose of tapping opportunities in Last Mile Retailer (LMR) segment. The Bank is in the process of on-boarding additional DSAs to augment this portfolio. This book has exhibited good performance.

The composite collection rates recorded during the quarter were as below:

Vertical	October 2021	November 2021	December 2021
Secured MSE	87%	87%	87%

MSE Navnirman Loans (ECLGS scheme) were launched in FY 2020-21 to provide immediate financial assistance to borrowers affected by the pandemic. There are 1,609 Navnirman accounts, amounting to Rs. 4,985 lakhs. The Bank has invested in the required digitization and IT projects to improve productivity.

Loans to MSEs forms a core component of the Bank's strategy and also has seen a significant shift over the past two years. The legacy unsecured book has almost wholly run down and the focus is now wholly to build a secured book. The quasi unsecured book through the engagement of a Fintech partner is short term with tenor usually not exceeding 90 days.

Affordable Housing:

As at December 31, 2021, there were 30,178 Secured Housing (SHL) borrowers with a total book of Rs. 2,56,225 lakh**.** Within the housing products, ready purchase loans comprised Rs. 1,18,356 lakh (46%) of the total book followed by Home Equity with Rs. 73,594 lakh (29%). Total disbursement during the quarter was Rs. 34,949 lakh, a 68% growth from the corresponding previous quarter (Rs. 20,915 lakh)

The Bank provides a gamut of variants encompassing ready purchase, home improvement, composite loans and home equity (Loan against property).

The composite collection efficiency in Housing vertical was as follows:

Vertical	October 2021	November 2021	December 2021
Housing Loans	93%	93%	94%

The Bank aims to achieve 100% digital repayment in housing by March 31, 2022. Currently 87% of Housing customers pay their EMI due through digital mode. The average ticket size has increased when compared to Q3 FY21 by 12.75%. During the quarter, the Bank conducted a Strategy Meet with all regional teams, for including their views and advice, points for charting a short-term journey and long-term business plan.

Personal loans:

There were 12,057 borrowers with a total book of Rs. 22,295 lakh. Much of the stress in the PL book emanates from those loans sourced prior to July 2020. The delinquency trends in the book sourced post July 2020 following a relaunch of the product with much tighter parameters and with a stronger credit policy were within acceptable levels. The composite collection efficiency in Personal loan borrowers, for the quarter was as follows:

Vertical	October 2021	November 2021	December 2021
Personal Loans	89%	89%	89%

Collections have registered an improvement in Q3 across all buckets in Personal Loans. Top-up loans are planned to be launched in Q4-FY22 in order to enhance product proposition.

Institutional Lending

As at December 31 2021, there were 39 borrowers amounting to Rs. 88,485 lakh. The Institutional Lending portfolio was well balanced with an individual peak sanctioned limit of Rs. 10,000 lakh and average sanctioned limit of Rs. 3,426 lakh. During the pandemic period, the Bank had reviewed its FIG policy and has introduced additional control measures in the areas of exposure caps and Early Warning Signal (EWS) assessments. There was a concerted effort to reduce instances of wrong-way risk and focused on entity level diversification of the book.

As part of monitoring, the Bank analyses compliance to financial covenants (Capital Adequacy Ratio, GNPA, NNPA, Debt/Equity ratio as stipulated in sanction letter), monitoring of CA certified receivables statement received from borrowers and EWS alerts. The Bank is also actively monitoring the developments in one case which is classified as NPA. Collection efficiency for this vertical has consistently been at 100% (without including the solitary NPA asset).

As the FIG portfolio has matured over the past three years, the Bank has made a conscious effort to onboard higher rated borrowers. The progressive reduction in the cost of funding has enabled the Bank to bid with competitive rates for higher rated borrowers, and consequently the book has seen a shift with greater focus on A and AA rated entities.

Vehicle Loans

There were 22,637 Vehicle Loan borrowers with a total book of Rs. 14,937 lakh. The Bank had launched digital LOS for two-wheeler products in FY21, and scaled it to 100% in Q1FY22. The composite collection efficiency in Vehicle loan borrowers, for the quarter, was as follows:

Vertical	October 2021	November 2021	December 2021
Vehicle Loans	93%	92%	91%

During the quarter, the Bank had revisited the rehypothecation framework in the event of default and has also prepared a roadmap for launching a new product variant for financing in the used cars segment. The Bank is also in the process of exploring potential tie-ups with Original Equipment Manufacturers (OEMs), fintech and other NBFCs to expand the portfolio.

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

5.1 Qualitative Disclosures

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

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

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

d. As on December 31, 2021, the Bank had a residual outstanding of “grandfathered” loans which comprised 0.07% of its funding book. As per regulatory guidelines, there was an additional risk weight of 25% assigned to this portfolio.

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

f. On 12th October 2020[42], RBI issued directions for revision in limit for risk weight under the Regulatory Retail portfolio. RBI has now decided that the limit of Rs. 500 lakh for aggregated retail exposure to counterparty shall stand increased to Rs. 750 lakh from the date of this circular. The risk weight of 75% is applied to all fresh exposures and also to existing exposures where incremental exposure may be taken by the banks up to the revised limit of Rs. 750 lakh. The Bank takes cognizance of the same and these were incorporated for all loans sanctioned after the date of issuance of this circular.

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

5.2 Quantitative Disclosures

Details of Gross Credit Risk Exposure (Fund based and Non-fund based) based on Risk Weight – Position as on December 30, 2021		
Sl. No.	**Risk Weight**	**Rs. in lakh**
1	Below 100% Risk Weight	18,80,156
2	100% Risk Weight	3,59,277
3	More than 100% Risk Weight	10
	Less CRM deduction	-1,30,141
5	**Total**	**21,09,302**

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

6.1. 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 are primarily secured product variants under MSE loans with one variant catering to Last Mile Retailers (LMR) where financing is on unsecured basis. The residual book of unsecured loans[43] is being run down and expected to be fully repaid in the ensuing financial year. Loans to Financial Institutions are secured by a charge over book debts which are registered with CERSAI. All Personal Loans are extended on a clean basis; Vehicle loans are collateralised by a charge over the vehicle financed. Gold Loans are secured with the maximum Loan to Value (LTV) being offered at 70% on the value of the ornaments/jewel proposed to be pledged. The gold loan offering is however put on hold and its business strategy is currently being revisited for a relaunch.

- The Bank accepts Eligible Financial Collateral[44] in a few instances for risk mitigation under secured Institutional lending and MSE loans. These financial collaterals are netted off for its collateralized transactions under comprehensive approach[45] while computing its Risk Weighted Assets (RWA).

- The Bank regularly reviews the health of the portfolio/ borrowers and works on mitigation of any risk associated with the portfolio or borrower in particular.

[43] Unsecured Business Loans and Unsecured Enterprise Loans

[44] 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

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

- 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 loans. Housing, two wheeler, personal loans borrowers and gold loans are provided with an option to avail of life insurance, though this is not a bundled offering along with the loan products.
  - The Bank works with 4 Credit Information Companies (CICs) and ensures 100% application screening through the bureaus using their comprehensive credit reports.
  - The Bank also undertakes independent surveys and analyses 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.
  - The Bank has also set borrower wise limits in compliance with RBI mandated exposure norms and to also mitigate any concentration risks building in the portfolio.
  - A negative list/negative area profile is maintained at a branch level to avoid exposure to those categories.

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

7.1. Qualitative Disclosure

There were no securitization exposures in the banking book and trading book as at December 31, 2021.

Table DF- 8: Market Risk and Liquidity Risk

8.1. Qualitative Disclosures

Market Risk

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

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

The Treasury Department of the Bank comprises 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. There is also increased engagement of the Middle Office in liquidity risk management to ensure compliance with all key regulatory ratios. Middle Office reports to Chief Risk Officer. Back office is responsible for settlement and reconciliation activities which reports to Head of Operations.

Investments: The Bank has a Board approved policy to make investments in both SLR and Non SLR securities. The Bank had investments in the following instruments: Government of India securities (G Sec), Treasury Bills (T Bills), State Development Loans (SDL), Separate Trading of Registered Interest and Principal of Securities (STRIPS) and one legacy investment in an unquoted equity. The Bank had also made a token investment in a New Umbrella Entity (NUE) in association with National Payment Corporation of India (NPCI). As on December 31, 2021, the investment holdings in various SLR and Non SLR instruments were as under:

Rs. in lakh

	Investments in India						
	Government Securities	**Other Approved Securities**	**Shares**	**Debentures and Bonds**	**Subsidiaries and/or joint ventures**	**Others**	**Total investments in India**
Held till Maturity (HTM)							
Gross	2,81,375	-	-	-	-	-	2,81,375
Less: Provision for Non Performing Investments (NPI)	-	-	-	-	-	-	-
Net	2,81,375	-	-	-	-	-	2,81,375
Available for Sale							
Gross	18,475	-	10.02	-	-	145	18,630
Less: Provision for Non Performing Investments (NPI)	-	-	-	-	-	-	-
Net	18,475	-	10.02	-	-	145	18,630
Held for Trading							
Gross	497	-	-	-	-	49	545
Less: Provision for Non Performing Investments (NPI)	-	-	-	-	-	-	-
Net	497	-	-	-	-	49	545

Total Investments							
Gross	3,00,346	-	10.02	-	-	194	3,00,550
Less: Provision for Non Performing Investments (NPI)	-	-	-	-	-	-	-
Net	3,00,346	-	10.02	-	-	194	3,00,550

The investment in SLR securities is undertaken for the purpose of regulatory compliance i.e. SLR maintenance and for Asset Liability Management (ALM). Investment in SLR securities is held as both HTM and AFS, though holding in AFS comprises mainly investments in Treasury Bills and Mutual funds. During the quarter, the Bank has complied with the regulatory SLR requirement of 18% and has maintained SLR much above the requirement. During the quarter, the average SLR requirement and maintenance was as below:

Rs. in lakh

Month (in Rs. lakhs)	Average SLR requirement	Average SLR maintenance	Average SLR requirement maintained as a % of NDTL
Oct– 2021	2,46,662	3,54,022	25.83%
Nov – 2021	2,54,622	3,45,745	24.45%
Dec– 2021	2,59,441	3,10,764	21.56%

The maintenance of SLR was higher than the mandated requirement mainly to provide the buffer for LCR and forms the basis for Level 1 contingency fund planning. The Bank has used the buffer to raise funds through Repo and Third-Party Repo (TREPS) in times of contingencies. It also ensures that the regulatory thresholds for the Structural Liquidity Statement (SLS) limits are not breached. Further, the Bank had also complied with the HTM holding limit for all the days for the period during the quarter.

The investment in non SLR securities is mainly for short term cash deployment and for investment income. There is a small exposure in an unquoted equity and a token investment in a New Umbrella Entity. This unquoted equity investment in the share of M/s Alpha Microfinance for Rs 10.00 lakh, is a legacy investment of the Bank and was acquired from the parent company as per a Business Transfer Agreement (BTA) entered into at the time of launch of the Bank. All the Non SLR investments were categorized as part of the Available for Sale (AFS) portfolio.

Trading: The Bank had commenced trading in Government of India security in FY 2020-21, in a calibrated manner through its HFT portfolio. Trading during the quarter was limited and income from trading book was small. The Bank has therefore reviewed the PV01 limit that was approved for the Trading book, given that it was mostly unutilised and also scaled down the VaR limit that was originally approved. Within these limits, the Bank has robust stop loss monitoring with various levels of approval in a contingency to ensure that there is no breach.

Liquidity and Liquidity Risk Management:

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

In line with the prudent risk management practice, the Bank has in place a Board approved Contingency Funding Plan (CFP) in place, which is tested by the Front Office at a quarterly frequency. In all the instances of CFP testing during the quarter, the Bank was successful in generating fund commitment, from various sources, much above the average monthly shortfall. While the CFP hitherto has tested the Bank's ability to meet any contingency over a one day period, this is now proposed to be enhanced to test the Bank's ability to address a continued contingency over an extended period. The reliance on committed interbank lines to meet such contingencies is given paramount importance.

Liquidity Risk Management is governed as per the provisions of the ALM policy. The ALM position for the Bank was well managed and regulatory thresholds complied with during the quarter. The Bank has various avenues to leverage upon in mitigating any future liquidity shortfalls. Some of the measures include securitization, IBPC transactions and term loan facilities from Bank. The Bank is also engaging with Development Financial Institutions (DFI) for refinance facilities. Although the Bank currently has adequate short-term liquidity, longer tenor funding remains a challenge. Hence the need was felt to mobilize deposits, specifically non-callable FD's for tenors of 6 months and beyond and exploring alternate long-term funding (3 years and beyond) through refinance from Development Finance Institutions, term loans and securitization. On these lines, the Bank launched 'Platina Fixed Deposit', offering interest of 15 basis points (bps) higher than the regular term deposit rates provided by the Bank with a minimum deposit size of Rs. 20 lakh. The Platina FD is a non-callable deposit, where partial/premature withdrawal is not applicable.

The Bank had positive cash flows in the maturity buckets in the 1-30 days, over and above the regulatory minimum, as at December 31, 2021.

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

<table>
<tr><th>Risk Measurement</th><th>Description</th><th>Position for Q3 FY 2021-22</th></tr>
<tr><td>Cash Flow measurement and gap limits</td><td>Technique involving a comprehensive tracking of mismatches between outflows and inflows for balance sheet as well as off balance sheet items across different time buckets. The Bank computes the cash flow mismatches using Structural Liquidity Statement (‘SLS’). Under SLS, cash flows of assets, liabilities and off-balance sheet items are placed in different time bands based on the residual maturity or based on expected behaviour as per RBI / internal guidelines. The difference between cash inflows and outflows in any given time period measures the bank’s liquidity surplus or deficit in that time period.</td><td>As at December 31,2021, the Bank maintained a positive cumulative mismatch indicating surplus liquidity. The cumulative mismatch limits were well within the RBI mandated limits and also within the conservative limits as set internally by the Bank. The position for the first four buckets for which the Regulator has mandated minimum thresholds were as follows:
<table>
<tr><th>Bucket</th><th>RBI threshold</th><th>Cumulative Mismatch</th></tr>
<tr><td>Day 1</td><td>-5%</td><td>63.19%</td></tr>
<tr><td>2-7 days</td><td>-10%</td><td>30.05%</td></tr>
<tr><td>8-14 days</td><td>-15%</td><td>36.95%</td></tr>
<tr><td>15.30 days</td><td>-20%</td><td>33.04%</td></tr>
</table>
The bucketing of cash flows as per the maturity buckets is guided by regulatory guidelines and as per ALCO directives.</td></tr>
<tr><td>Behavioural analysis</td><td>Banks are required to analyse the behavioural maturity profile of various components of on / off-balance sheet items on the basis of assumptions and trend analysis supported by time series analysis.</td><td>During the quarter, the Bank has undertaken a behavioural study on CASA, FD and RD outflow and the same has been placed to ALCO/Board for further directions. Given the relative short vintage of the Bank, it was deemed appropriate to further refine the assumptions and dataset before deploying these models from CASA behavioural analysis for bucketing.
Presently, the Bank follows the RBI</td></tr>
</table>

		guidelines on bucketing assumptions until significant historical data is available for conducting behavioural studies. After ensuring the availability of data, the Bank will conduct behavioural studies to appropriately bucket products with non-deterministic cash flows. The Bank, however, uses the insights from these studies in stress testing to assess the potential funding gaps. The Bank is currently reviewing the integration of behavioural analysis and CFP.
Limits on borrowing and lending/investment	Bank monitors limits prescribed by the Regulator with respect to borrowing and lending in the interbank market.	During the quarter, the Bank was within the prescribed limits for interbank lending, call money borrowing/lending, SGL limits and HTM holding limit.
Liquidity ratios	Liquidity ratios under stock approach as prescribed by the Regulator are monitored	The liquidity ratios under stock approach were computed and placed to ALCO for their noting.
Stress Testing	The Bank undertakes stress tests on their Liquidity Coverage Ratio (LCR) and Interest rate risks.	During the quarter, the LCR was above the minimum thresholds under all levels of stress. Further, the impact of interest rate risk and its impact on the market value of equity were also below the regulatory limit of 20%.
Funding gap analysis	The Bank estimates its short-term liquidity profiles on the basis of business projections and other commitments for planning purposes	On a monthly basis, the Bank undertakes a detailed analysis on the projected funding requirement for its subsequent month on the basis of business projections and other commitments. This exercise essentially includes inputs on credit and deposit activities encompassing projected disbursements, collections and deposit mobilization. The Bank has

		ensured adequate liquidity to meet its commitments during the quarter.

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

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

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

8.2. Quantitative Disclosures

Liquidity Coverage Ratio (LCR)

Rs. in lakh

Date	Quarterly Average		
A	**High Quality Liquid Assets**	**Amount**	**Adjusted Amount**
	Level 1 Assets	3,33,623	3,33,623
	Level 2 A Assets	-	-
	Level 2 B Assets	-	-
B	**Total Stock of HQLAs (Adjusted for Capital)**		3,33,623
C	**Cash Outflows**	10,62,186	2,92,405
D	**Cash Inflows**	1,74,548	51,722
E	**Net Cash flow**		2,40,683
F	**25% of Total Cash Outflow**		73,101
G	**Higher of E or F**		2,40,683
Liquidity Coverage Ratio			**138.62%**

Net Stable Funding Ratio (NSFR): The NSFR Guidelines came into effect from October 1, 2021. As at December 2021, the NSFR was 108.67%.

NSFR	Unweighted Amount	Weighted Amount
Total Available Stable Funding (ASF)	21,32,474	15,39,712
Total Required Stable Funding (RSF)	22,53,140	14,16,854
NSFR	94.64%	108.67%

Table DF- 9: Operational Risk

9.1. Qualitative Disclosures

Operational Risk Management Policy and Governance Structure

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

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

Risk identification, measurement, monitoring and reporting

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

- **Product and Process reviews**: All new products and processes (including enhancements) are subject to a mandatory and comprehensive review by the Operational Risk department. For process related approvals, PrAC (Process Approval Committee) has been constituted in the month of February 2021 which mandates Operational Risk to convene the meeting at defined frequency. Accordingly, processes which are presented in the Committee are circulated in advance to all the

PrAC members for review and approval. From Operational Risk, post review observations are raised to the respective functions for including additional controls for the risks identified during the assessment. Subsequent to closure, the new/enhanced processes are placed at the PrAC for approval. The Bank continuously reviews and enhances its key processes to adapt to industry best practices. ORMD has reviewed 112 process / products, till Q3 FY22. Few of them are Value dating policy, Video KYC PD, Credit life SOP for TPP, Framework for review and monitoring of internal office account, Engagement with spice money, change in KYC guideline SOP and MOI for NR accounts etc.

- **UAT Testing** (including BRD and FSD): For any change management/ automation of products and processes, the department owners prepare the Business Requirement Document (BRD). The BRD is reviewed by key control and business functions for further improvements. Subsequently, the same is provided to the IT department within the Bank. The IT department then prepares the Functional Specification Document (FSD) detailing the scope of the project. Once a project is moved to testing stage, ORMD performs the User Acceptance Testing (UAT) along with others to identify gaps in the actual deliverable versus that which was proposed in the BRD. These gaps are further addressed and closed before moving to production. During the quarter, 87 BRD’s and FSD’s have been reviewed and UAT for 35 various activities such as fixed to floating interest, migration of Br.Net loan accounts to Finacle, Platina Deposit, CGTMSE loan, Non-revolving overdrafts, Vikas Loan, etc.
- **RCSA**: RCSA (Risk and Control Self-Assessment) is a forward-looking tool to identify and assess the level of risk inherent in any activity / process, the causes responsible for that risk and the status of existing controls to minimize the risk. Its result provides insight into known as well as potential Operational Risk areas in various process / business lines. Business being the first line of defence is responsible for carrying out RCSA activity as per the plan. Operational Risk being second line of defence is responsible for providing necessary guidance, training and inputs to the first line of defence for carrying out the RCSA. Accordingly, RCSA framework was approved in ORMC Apr’21 and till Q3 FY22, RCSAs have been completed for 15 functions by conducting a workshop with critical team members of the function. It is also planned to further complete RCSAs for other functions in the FY22 through a vendor on-boarded for this specific activity. There is a time bound plan to close the open issues as observed during RCSA and an update is provided to ORMC and RMC-Board at regular intervals.
- **Key Risk Indicators**: During the quarter **40 KRIs** were monitored at an organization level as part of the Operational Risk Management Framework. The thresholds for the KRIs have been decided upon in consultation with the stakeholders. These KRIs will be analysed on a monthly basis and a comprehensive report will be submitted to the ORMC and Board at quarterly intervals with action plan for closure of open issues. In addition to Organizational KRIs, Functional KRIs for Liabilities were monitored for the

period April 2021 to Oct 2021 and presented to ORMC held in July'21 and to RMCB held in the month of Dec'21. The Bank is also in the process of enhancing the existing risk monitoring framework by defining Functional KRIs for other key Functions in phased manner for better monitoring.

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

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

Loss Dashboard for YTD FY 21-22 (as on Dec'21):

	Count				**Rs. in lakh**			
Event Type	**YTD Dec'20**	**YTD FY 21-22 (as on Dec 31 '21)**			**YTD FY 21-22 (as on Dec 31 '21)**			**YTD Dec'20**
	Total	**Loss**	**Total**		**Gross**	**Net**	**Ops Loss**	**Ops Loss**
Business Disruption and Systems Failures	**146**	107	**120**		70.60	40.08	0.55	**5.24**
Clients, Products, and Business Practice	**15**	17	**18**		5.7	3.68	3.68	**0.97**
Damage to Physical Assets	**76**	39	**40**		8.49	8.49	0.01	**0**
Employment Practices and Workplace Safety	**16**	7	**7**		0	0	0	**0**
Execution, Delivery, and Process	**234**	167	**253**		283.79	22.67	11.28	**2.56**

Management								
External Fraud	**410**	486	**505**		139.69	88.01	32.84	**29.35**
Internal Fraud	**111**	217	**217**		297.42	110.82	35.95	**21.68**
Total	**1008**	**1040**	**1160**		**805.70**	**273.74**	**84.31***	**59.79**

*1) Includes movement of Rs. 33.11 lakhs from ARRF to Ops Loss on account of Money Mitra GL carried forward from last FY.

2) It includes movement of Rs. 5.22 lakhs to Ops loss on account of incorrect payment of rent to landlord for previous and present FY.

- **Thematic reviews:** While carrying out RCSA, KRIs, UAT testing, incident reporting etc., Operational Risk team identifies risk indicators warranting a special thematic review of the entire process. This enables the Bank to identify issues and gaps at minute level which are then taken up for rectification. These thematic reviews do not follow standardized risk identification techniques and therefore provide wider scope for a deeper and customized study of issues and gaps. Such thematic studies have enabled the Bank to further refine its existing processes and plug gaps that had been identified. In Q3, FY22, ORMD performed a thematic review of Payments process and key gaps were highlighted and discussed in RMCB held in the month of December'21.
- **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. Till Q3 FY22, User access review has been completed for Finacle Treasury, Br.Net, Finacle application. It is planned to conduct review for critical applications on a half yearly basis. Operational Risk team has drafted a Policy on User access review covering all the critical aspects of User life cycle starting from activation to de-activation of ID's, Review Frequency, Process to be followed for managing vendor ID's, Process to be followed for user de-activation on exit from organisation.

  Operational Risk team has initiated a request with individual business teams who manage the applications to have a comprehensive SOP for each of the applications managed by them with role based access given in system and approval matrix to be followed. Final draft note has been circulated to PrAC (Process Approval Committee) members for Trucel, Glow and SMELO and approved for Rupee power application and it is proposed to initiate preparation of SOP for other verticals as well who are managing applications viz., Br.Net, CRM Next etc.
- **Exceptions Handling Mechanism** is a new initiative, which started from July 2020 as guided by NIDC (National Inter Departmental Committee). A list of 27 exception reports was identified and tagged to Operational Risk for initiating the review. 24 exception reports are currently reviewed on a quarterly basis and gaps identified are discussed with relevant stake holders for needful action. All observations have been circulated to relevant stake holders and corrective action has been initiated. In

addition to existing list of reports, there are 5 more exceptions which are planned to be tracked by Operational Risk and report development is in progress.

- **Branch Assurance:** Branches across regions are reviewed against a checklist devised by the Operational Risk team to ensure adherence to branch processes. The checklist is reviewed and enhanced every quarter to strengthen monitoring. With onset of COVID-19 and lockdown, and physical branch visits curtailed for the time being, the check list has been restructured to ensure that monitoring and review is not eased and can be done on a remote basis, based on reports derived from systems and through remote access and verification of registers. Remote monitoring is the process of checking, verification and identification of process lapse and other operational errors without visiting the Branch, by working from remote locations. Critical and repeat observations are shared with the leadership team for remedial /corrective actions. Revised checklist was implemented from May 2021 post presenting the same in ORMC. Till 31st December 2021, Operational Risk has reviewed 237 branches which is about 98% of the total branches that is proposed to be covered this financial year. The plan is to cover 240 branches through remote monitoring in the current financial year.
- **Outsourcing Risk: 'Outsourcing'** is defined as the Bank's use of a third party (either an affiliated entity within the corporate group or an entity that is external to the corporate group) to perform certain activities on a continuing basis that would normally be undertaken by the Bank itself, now or in the future. The Bank has in place an outsourcing policy which provides guidance on outsourcing certain functions to specialized agencies for increasing efficiency and lower costs. The outsourcing policy is framed in compliance to various RBI guidelines on outsourcing issued from time to time. Key activities undertaken during Outsourcing are as follows:

  Pre - on boarding risk assessment: All vendors, deemed as material, are subjected to a rigorous pre-on boarding risk assessment which is done by both Operational Risk team and the Information Security team and this is repeated at annual intervals. Observations from these risk assessments are then shared with concerned functions for resolution. Post satisfactory responses to the observations raised, CRO approves on boarding of the vendor. Till Q3 FY22, pre-on boarding risk assessment of 28 vendors was carried out.

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

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

Annual review of material vendors: Operational Risk team along with CISO's team carries out annual risk review of material vendors.

Outsourcing done by the Bank is subjected to an annual audit by the Internal Audit team who provide the required compliance certificate to RBI. Annual review of 7 empanelled BCs was completed during Aug-Sept'21.

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

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

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

  Bank reviews BCMP policy and plan documents annually and enhances the documents as per the changes made in the Bank's Business Critical processes and activities. Bank also conducts periodic BCP testing considering various Disruptive scenarios which helps to identify the gaps in recovering and resuming the Business Critical processes after the disruptive events. On an ongoing basis, BCP testing for branches which are selected randomly is conducted to ensure that the recovery process becomes more robust and efficient to recover from any disaster / crisis situations. The BCP test results of branches and other functions viz., IT, Clearing, Transaction Banking Operations and Payments conducted if any, during the quarter along with their respective observations and recommendations are placed before the ORMC and Risk Management Committee of the Board. These learnings are documented in the respective Business Continuity Plan documents and the same are placed to RMCB. Till Q3 FY22, 151 planned BCPs and 152 unplanned BCPs were conducted. Business Impact Analysis is completed for Liabilities, Treasury, Phone Banking, Regional office and HR functions of the Bank.

- **Internal Financial Control (IFC) testing:** This is an annual exercise and done by the Operational Risk team. The team along with concerned stakeholders prepare and enhance Risk and Control Matrixes (RCMs). The financial and operational controls in these RCMs are then put to test by collecting samples from across the review period and from different regions, which are then evaluated for success or failure of the control effectiveness. The critical gaps observed during such testing are discussed with concerned functions for upgrading controls which may include automation of the controls. The result of this evaluation is also presented to ORMC and RMC of Board to update them on effectiveness of the internal controls of the Bank, and take guidance. This result is also shared with the Bank's external auditor to provide insight on adequacy and effectiveness of the controls in the Bank. The IFC testing is also mandatory requirement as per Companies Act, 2013. IFC testing for the previous financial year has been completed and an update on the same was presented to ORMC held in the month of July 2021. IFC Framework was also enhanced and approved by ORMC held in the month of July 2021. IFC testing for FY 2021-22 commenced in the month of August 2021. IFC testing was completed for 2 functions namely Housing and Phone Banking and is initiated for 14 functions and Risk Control Matrix (RCM) enhancement is under progress for 6 departments. Testing will be initiated post receipt of RCM sign-off from Heads of the departments.

Information Technology and Security Risk

The Bank has a Defense-in-Depth approach when it comes to Information Security. Bank has put in multiple measures and controls, be it technical, administrative, or physical control. This helps the Bank in averting the cyber risks which have been on the rise. The Bank also complies with various directives issued by the regulator, from time to time, and follows industry best practices when it comes to protecting the assets of the bank.

The Bank has well-documented, Board approved policies which are enhanced periodically with current security standards. In addition to above, advisories and directives issued by various bodies like RBI, CERT-In, IDRBT, NCIIPC, etc., are also analyzed and incorporated in day to day management. The Bank also follows industry best practices and standards like ISO 27001 to further strengthen the overall Information Security posture and increase stakeholders' trust.

Regular Vulnerability Assessments and Penetration Testing (VAPT) is being conducted by the Bank's internal team and also by an external party to safeguard the assets. In addition, periodic dashboards are presented to the Board to keep a track on overall posture.

Keeping in view of the stringent regulatory requirements in India, a constantly evolving threat landscape, and an increasingly sophisticated cybercrime incidents, a Security Operations Center is established by the Bank for 24x7 monitoring.

DSCI Excellence Awards – 2021:

The Data Security Council of India (DSCI) celebrates Excellence Awards in various categories of Information Security. Prominent banks, organizations, law enforcement agencies, and products are evaluated as part of this award exercise. The Bank was awarded for *'Best Security Practices in Organization under the category of Small or Medium Financial Institutions (NBFCs)'*. The award was presented on December 16, 2021 to the Bank after a detailed evaluation by a team of prominent jury members.

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

10.1. Qualitative Disclosures

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

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

- **Earnings at risk (Traditional Gap Analysis):** The impact of change in interest rates on net interest income is analysed under this approach and calculated under yield curve approach. Under this approach a parallel shift of 200 basis points is assumed both in assets and liabilities.
- **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.

10.2. Quantitative Disclosures

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

Interest Rate Risk in the Banking Book (IRRBB)			
Sl. No.	Country	Interest Rate Shock	
		+200 bps shock	-200 bps shock
1	India	(13,864)	13,864
2	Overseas	-	-
		(13,864)	13,864

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

Category	Items	Amount

A	Equity	2,68,313
B	Computation of Aggregate RSA	18,39,161
C	Computation of Aggregate RSL	20,28,090
D	Weighted Avg. MD of RSL across all currencies	1.03
E	Weighted Avg. MD of RSA across all currencies	2.23
F	MDG	1.30
G	Change in MVE as % of equity for 200bps change in interest rate	-19.63%
H	**Change in MVE in absolute terms**	(52,670)

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	16,05,206
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	4,86,303
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)	28,400
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off- balance sheet exposures)	21,675
7	Other Adjustments	-53,894
8	**Leverage ratio exposure**	**20,87,689**

Table DF 18: Leverage ratio common disclosure template

Rs. in lakh

	Table DF-18: Leverage ratio common disclosure template	
	Item	**Amount**
	On-balance sheet exposures	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	20,91,509
	Domestic Sovereign	3,19,693

	Banks in India	77,726
	Corporates	88,826
	Exposure to default fund contribution of CCPs	58
	Other Exposure to CCPs	
	Others	16,05,206
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(53,894)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	20,37,614
	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	28,400
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)**	28,400
	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	43,270
18	(Adjustments for conversion to credit equivalent amounts)	21,595

19	**Off-balance sheet items (sum of lines 17 and 18)**	21,675
	Capital and total exposures	
20	**Tier 1 capital**	2,11,419
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	20,87,689
	Leverage ratio	
22	**Basel III leverage ratio**	10.13%

Presently the contribution of Tier I capital to Total Basel II capital is 92.56%. 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%.

Glossary: list of key and important abbreviations

Abbreviation	Full form
AFS	Available for Sale
ALCO	Asset Liability Committee
ANBC	Adjusted Net Bank Credit
API	Application Program Interface
ATM	Automated Teller Machine
BC	Business Correspondent
BIA	Basic Indicator Approach
CET1	Common Equity Tier 1 Capital
CFO	Chief Financial Officer
CIC	Core Investment Company
COO	Chief Operating Officer
CRAR	Capital to Risk-weighted Assets Ratio
CRMC	Credit Risk Management Committee
CRO	Chief Risk Officer
DPD	Days Past Due
DSA	Direct Selling Agent
DSCB	Domestic Scheduled Commercial Bank
ECL	Expected Credit Loss
ECLGS	Emergency Credit Line and Guarantee Scheme
ECRA	External Credit Rating Agency
EWS	Early Warning System
FIG	Financial Institutions Group
GLC	General Ledger Code

GNPA	Gross Non-Performing Asset
GVA	Gross Value Added
HQLA	High Quality Liquid Assets
ICAAP	Internal Capital Adequacy Assessment Process
IFSC	Indian Financial System Code
ICAI	Institute of Chartered Accountants of India
IIA-SA	Institute of Internal Auditors (United States)
IGAAP	Indian Generally Accepted Accounting Principles
IMPS	Immediate Payment Service
IRAC	Income Recognition and Asset Classification
IRRBB	Interest Rate Risk in Banking Book
KRI	Key Risk Indicator
LCR	Liquidity Coverage Ratio
LMS	Loan Management System
LR	Leverage Ratio
LWE	Left Wing Extremism
LAP-SENP-SEP	Loan Against Property- Self Employed Nonprofessional- Self Employed Professional
MCA	Ministry of Corporate Affairs
MD	Modified Duration
MD & CEO	Managing Director and Chief Executive Officer
MDG	Modified Duration Gap
MPC	Monetary Policy Committee
MSE	Micro and Small Enterprises
NBFC-ND-SI-CIC	Non-Banking Financial Company-Non Deposit-taking-Systemically Important- Core Investment Company
NPCI	National Payment Corporation of India
NE	North Eastern
NEFT	National Electronic Funds Transfer
NNPA	Net Non-Performing Asset
NPI	Non Performing Investment
NSFR	Net Stable Funding Ratio
NURC	Non Unbanked Rural Centre
ORMC	Operational Risk Management Committee
OSP	Outstanding Principal
PAT	Profit After Tax
PNCPS	Perpetual Non-Cumulative Preference Shares
PSL	Priority Sector Lending
QR Code	Quick Response Code
QRT	Quick Response Team
RBI	Reserve Bank of India
RCA	Root Cause Analysis

RCSA	Risk Control and Self-Assessment
ROA	Return on Asset
RSA	Risk Sensitive Assets
RSL	Risk Sensitive Liabilities
RWA	Risk Weighted Assets
SA	Standardized Approach
SDA	Standardized Duration Approach
SFB	Small Finance Bank
SLR	Statutory Liquidity Ratio
SMA	Special Mention Accounts
TVR	Tele verification report
UAT	User Acceptance Testing
UFSL	Ujjivan Financial Services Limited
UPI	Unified Payments Interface
URC	Unbanked Rural Centre
VaR	Value at Risk
VAT	Value Added Tax
YTD	Year till Date

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