ujjivan SMALL FINANCE BANK

Pillar III Disclosures as at December 31, 2022

2022

[Ujjivan Small Finance Bank (hereinafter called "the Bank") is primarily subject to the BASEL II {New Capital Adequacy Framework (NCAF)} framework with some elements of Basel III regulations made applicable and has prepared this disclosure document in compliance with the directions of Reserve Bank of India (hereinafter referred to as "the Regulator" or "RBI") vide its circular RBI/2015-16/58; DBR.No.BP.BC.1/21.06.201/2015-16 dated 1st July 2015. The document provides a review of key observations pertaining to the Bank's capital adequacy, credit quality, key business highlights and a review of its key risks as at December 31, 2022.]

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1. List of key abbreviations

Abbreviation	Full form
ACR	Automated Cash Recycler
AFS	Available for Sale
ALCO	Asset Liability Committee
ANBC	Adjusted Net Bank Credit
ATM	Automated Teller Machine
AIF	Alternate Investment Fund
BC	Business Correspondent
BIA	Basic Indicator Approach
BRACO	Business Risk and Compliance Officer
BSE	Bombay Stock Exchange
BV	Book Value
CC	Cash Credit
CASA	Current Account Savings Account
CERSAI	Central Registry of Securitisation Asset Reconstruction and Security Interest of India
CET1	Common Equity Tier 1 Capital
CFO	Chief Financial Officer
CFP	Contingency Funding Plan
CIC	Core Investment Company
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
ESG	Environment, Social and Governance
EWS	Early Warning Signal
FIG	Financial Institutions Group
FOIR	Fixed Obligation to Income Ratio
FLOD	First line of Defence
FP	Floating provision
FPI	Foreign Portfolio Investor
GDP	Gross Domestic Product
GA	Gross Advances
GLB	Gross Loan Book
GLC	General Ledger Code

GNPA	Gross Non-Performing Asset
GVA	Gross Value Added
HFT	Held for Trading
HHI	Household Income
HTM	Held to Maturity
HQLA	High Quality Liquid Assets
HUF	Hindu Undivided Family
IBPC	Inter Bank Participation Certificate
ICAAP	Internal Capital Adequacy Assessment Process
ICAI	Institute of Chartered Accountants of India
ICE	Internal Combustion Engine
IFSC	Indian Financial System Code
IGAAP	Indian Generally Accepted Accounting Principles
IMPS	Immediate Payment Service
IPDI	Innovative Perpetual Debt Instrument
IPO	Initial Public Offer
IRAC	Income Recognition and Asset Classification
IRRBB	Interest Rate Risk in Banking Book
IWG	Internal Working Group
KRI	Key Risk Indicator
LAP-SENP-SEP	Loan Against Property- Self Employed Nonprofessional- Self Employed Professional
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LMS	Loan Management System
LR	Leverage Ratio
LWE	Left Wing Extremism
MB	Micro banking
MCA	Ministry of Corporate Affairs
MD	Modified Duration
MD & CEO	Managing Director and Chief Executive Officer
MDG	Modified Duration Gap
MSE	Micro and Small Enterprises
MVE	Market value of Equity
MV	Market Value
NBFC-ND-SI-CIC	Non-Banking Financial Company-Non-Deposit-taking-Systemically Important-Core Investment Company
NE	North Eastern
NEFT	National Electronic Funds Transfer
NGFS	Network for Greening the Financial System
NPA	Non-Performing Asset
NNPA	Net Non-Performing Asset

NPI	Non-Performing Investment
NSE	National Stock Exchange
NSFR	Net Stable Funding Ratio
Non-URC	Non-Unbanked Rural Centre
OD	Overdraft
ORMC	Operational Risk Management Committee
OSP	Outstanding Principal
PAT	Profit After Tax
PAR	Portfolio at Risk
PB	Payments Bank
PD	Probability of Default
PNCPS	Perpetual Non-Cumulative Preference Shares
PPOP	Pre – provision operating profit
PSL	Priority Sector Lending
QIP	Qualified Institutional Placement
QR Code	Quick Response Code
QRT	Quick Response Team
RB	Rural Banking
RBI	Reserve Bank of India
RCA	Root Cause Analysis
RCSA	Risk Control and Self-Assessment
RMCB	Risk Management Committee of the Board
ROA	Return on Asset
ROE	Return on Equity
RSA	Risk Sensitive Assets
RSL	Risk Sensitive Liabilities
RWA	Risk Weighted Assets
SA	Standardized Approach
SDA	Standardized Duration Approach
SEBI	Securities and Exchange Board of India
SEL	Secured Enterprise Loan
SFB	Small Finance Bank
SLOD	Second Line of Defence
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
USD	United States Dollar

VaR	Value at Risk
YTD	Year till Date

2. Key Performance highlights of the Bank

Ujjivan Small Finance Bank (hereinafter called "the Bank") is required to publish disclosures under the Pillar III framework as required in terms of RBI guidelines on New Capital Adequacy Framework issued vide RBI/2015-16/58; DBR.No.BP.BC.1/21.06.201/2015-16 dated July 1, 2015. This 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, 2022. All exposure related figures quoted in the document is 'Rs. in lakh', unless otherwise specifically stated.

A. Branch network and distribution reach

The branch position of the Bank as at December 31, 2022 was as follows:

Particulars	Count
Total Banking outlets, of which	598
Banking outlets[1] (Non-URC)	447
Banking outlets (URC)[2], *of which*	150
i Qualifying URC Branches (Branches situated in tier 3-6 locations in NE[3] states and LWE[4] districts)	144
ii Business Correspondents (BC)	7

During the quarter ended Q3FY23, the Bank had opened eight new branches across regions (South- 5, North -2, West- 1). With 25.25% of Banking outlets in URC, the Bank is– fully compliant with RBI guidelines in this regard.

[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] 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.

[3] North eastern states

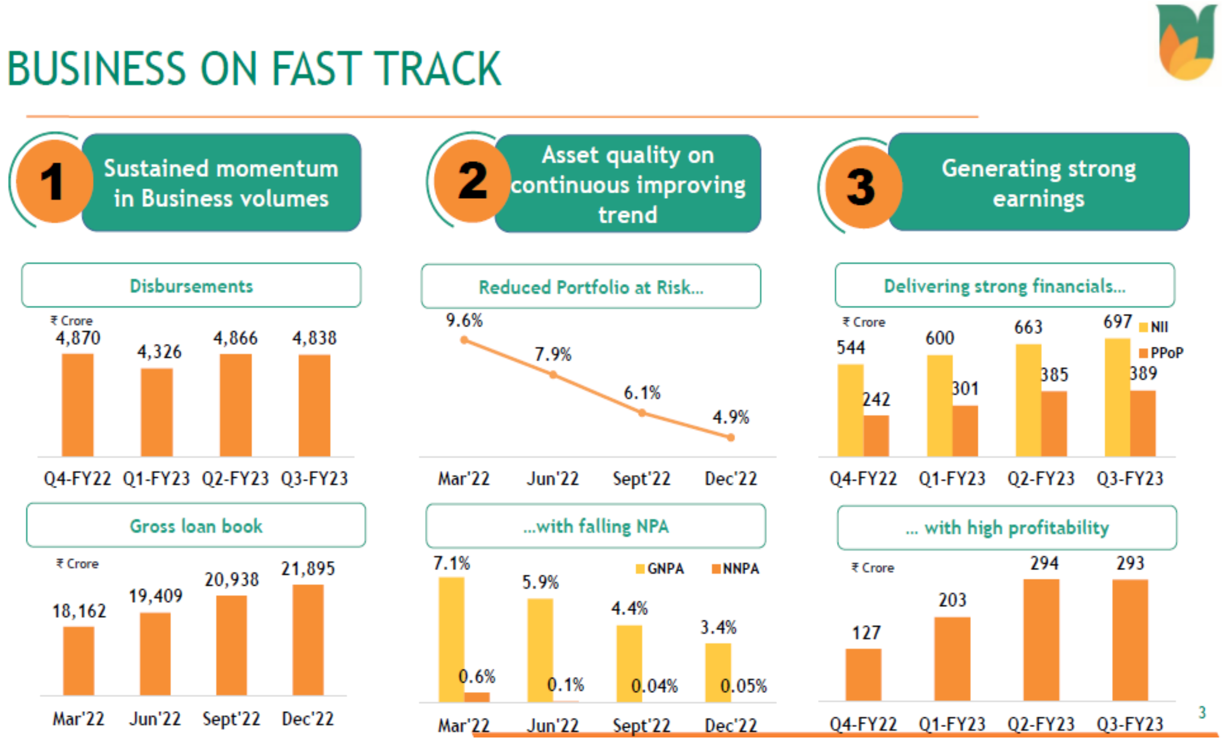
[4] Districts with active Left-Wing Extremism (LWE)

The post pandemic growth in the Banking sector has been robust with system-level non-food credit growth at 15.3% on y-o-y basis which continued to outpace deposit growth of 9.5%[5]. While the growth rates within the Bank were significantly higher at 33% (Credit) and 49% (deposits) as at December 2022 on y-o-y basis, the Bank intends on further expanding its physical presence across the country to augment business volumes to keep in line with the pre-pandemic strategic imperatives. To this effect, the Bank has reviewed and chalked out a detailed branch expansion plan- with 31 branches proposed for launch in Q4 FY 2022-23 out of which 22 branches will be Micro banking led branches. The physical reach would also be supplemented by a strong and focused investment in digital platforms to aide in business development, on both asset and the liabilities side. The Bank operated 511 Automated Teller Machines (ATM) including 59 Automated Cash Recycler (ACR) machines across the country as on December 31, 2022.

B. Financial highlights for Q3 FY 2022-23

Some of the key achievements made for quarter ended December 31, 2022 were as follows:

Rs. in crores



Note: Gross Loan Book (GLB) computed without netting off IBPC, Securitization and Direct assignment

[5] CMIE Economic Outlook report dated Janaury 23, 2023

Key Highlights	Description
Customer base	• Total customer outreach was 73 lakhs as at December 31, 2022 (69 lakh customers as on September 30, 2022)
Loan Portfolio	• Gross Loan Book (GLB) (without netting off IBPC/Securitization/Direct Assignment): Rs.21,89,542 lakh as at December 31, 2022 (Rs.20,93,790 lakh as at September 30, 2022). • Gross Advances (GA) (after netting off IBPC/Securitisation/Direct Assignment): Rs. 20,27,588 lakh[6] as at December 31, 2022 (Rs. 18,35,738 lakh[7] as at September 30, 2022). • Non-Microfinance book was 27.92% as at December 31, 2022 on Gross Advances (30.27% as at September30 2022)
Deposit Portfolio	• Total Deposits (Retail plus Institutional): Rs.23,20,300 lakhs as on September 30, 2022 (Rs.2,39,600 lakhs as on September 30, 2022). • CASA: 26.2% as at December 31,2022 (27% as at September 30, 2022)
Asset Quality	• Gross Non-Performing Assets (GNPA): 3.64% as at December 31, 2022[8] (5.06% as at September 30, 2022) • Net Non-Performing Assets (NNPA): 0.049% as at December 31, 2022[9] (0.04% as at September 30, 2022)
Capital Adequacy	• CRAR ratio of the Bank as at December 31, 2022 was 26.02%; well above the RBI prescribed CRAR (26.70% as at September 30, 2022)
Employee strength	• 16,764 as at December 31, 2022 (16,620 as at September 30, 2022)
Provisions and Credit costs	• Total provisions including Floating Provision as at December 31, 2022 was Rs. 83,383 lakhs (Rs. 86,337 lakhs as at September 30, 2022) • Total NPA provision (excluding floating provision) held was

[6] Outstanding balance in IBPC/Securitisation/ Direct Assignment as on December 31, 2022 was Rs 1,61,953.39 lakh

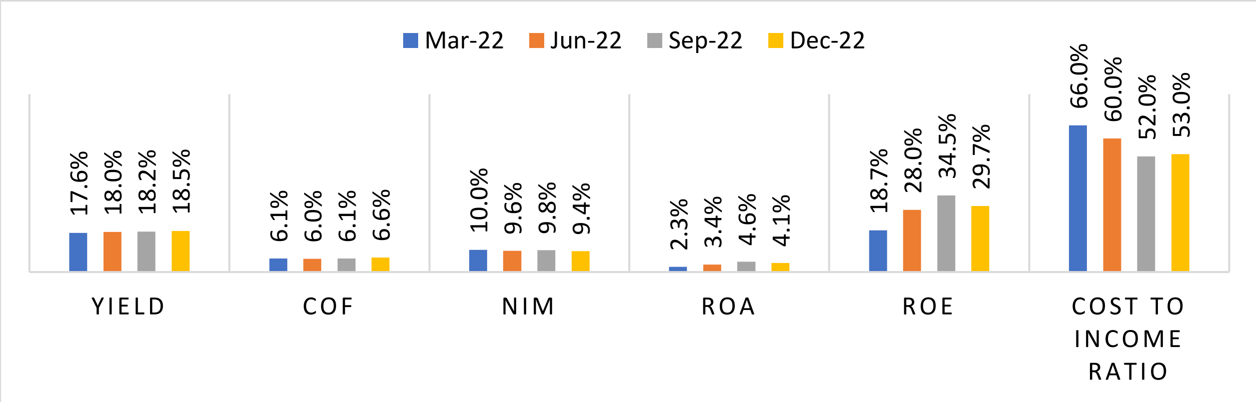
[7] Outstanding balance in IBPC/Securitisation/ Direct Assignment as on September 30, 2022 was Rs 1,72,039.34 lakh

[8] Computed as a percentage to Gross advances. GNPA% on GLB basis was 3.37%

[9] Computed as a percentage to Net advances. NNPA% as a ratio to Net GLB was 0.485%

	Rs.57,807 lakh as at December 31,2022 (Rs.76,154 lakh as at September 30, 2022). • Total NPA provision reduced by Rs. 18,347.59 lakh during quarter ended December 31, 2022. • Incremental credit cost for Q3FY23 was Rs. (4,311) lakh as against Rs. (4,635) lakh in Q2FY23. The incremental costs are after factoring write-off recovery.

The key performance ratios (quarterly positions) of the Bank were as follows:



The performance of Q3 FY23 was consistent on profitability aspects such as Pre-Provision Operating Profit (PPOP) of Rs. 38,892 lakhs (Rs. 38,498 lakhs in Sept- 22) and Profit After Tax (PAT) of Rs. 29,319 lakhs (Rs.29,429 lakh in Sept 22) for the quarter ended December 31, 2022. The Bank achieved a consistent disbursement in Q3 FY23 at ~Rs. 4,83,800 lakhs (~Rs. 4,86,600 lakh) despite the additional compliance requirements for microfinance business, mandated by RBI, vide guidelines dated July 25, 2022. The Bank maintained a steady NIM in excess of nine percent on a YTD basis, with a marginal decline in Q3FY23 which could be attributed to reduction in microfinance disbursements (on q-o-q basis) and also a change in the mix of interest yielding assets of the Bank during the quarter.

With the equity infusion in Q2 of FY 2022-23, the Bank stands complied with minimum public shareholding norms of SEBI. The respective Boards (the Bank and Ujjivan Financial Services Limited) have approved a revised scheme of amalgamation. The Bank has obtained No Objection Certificates (NOC) from both the stock exchanges (BSE and NSE and the proposal is currently under review with SEBI. Post receipt of SEBI clearance, the Bank will file an application with National Company Law Tribunal (NCLT). Post NCLT clearance and after obtaining shareholders' approval, the Bank expects to complete the proposed reverse merger. This is expected to be completed by Q2FY24.

B. Macro-Economic Outlook and way forward:

Global challenges on account of the ongoing war, debt fragility, inflationary trends, currency volatility and capital outflows continued to affect the performance of the global economy. The following are some of the key developments during the quarter.

Global Economic Outlook[10]

- Global growth is projected to fall from an estimated 3.4% in CY 2022 to 2.9% in CY 2023, then increase to 3.1% in 2024.
- The increase in policy rates by various central banks in a bid to tame inflation and Russia's war in Ukraine continues to weigh on global economic output.
- Global inflation is expected to fall from 8.8% in CY 2022 to 6.6% in CY 2023 and 4.3 % in 2024, still above pre-pandemic (2017–19) levels of about 3.5%[11].
- In most economies, amid the cost-of-living crisis, the priority remains in achieving sustained disinflation. With tighter monetary conditions and lower growth, rising interest rates are expected to be a key risk in near -term for the industry and the Bank, in that, the continuing rise in interest rates to tame inflation could adversely impact Net Interest Margin (NIM) and increase in cost of funds.
- Growth in emerging and developing Asia is expected to rise in 2023 and 2024 to 5.3% and 5.2%, respectively, after the deeper-than-expected slowdown in 2022 to 4.3% attributable to China's economy.

Indian Economic Outlook[12]

- India is set to be the second-fastest growing economy in the G20 in FY 2022-23, despite decelerating global demand and the tightening of monetary policy to manage inflationary pressures.
- GDP growth is expected to be slow at 5.7% in FY 2023-24, as exports and domestic demand growth moderate.
- India had recorded impressive progress in recent years in extending access to financial services to a larger portion of the population, including disadvantaged socio-economic groups.
- Economic survey 2022-23 projects a baseline GDP growth of 6.5% in real terms in FY2024.
- Credit growth to the Micro, Small, and Medium Enterprises (MSME) sector has been exceptionally high, over 30.5%, on average during the period of Jan-Nov 2022.
- Capital expenditure (capex) of the central government, which increased by 63.4% in the first eight months of FY23, was another growth driver of the Indian economy in the current year.

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10 Source : https://www.imf.org/ & https://www.oecd.org

11 https://www.businessinsider.in/policy/economy/news/global-inflation-to-drop-this-year-amid-subpar-economic-growth

12 Source :

1) https://pib.gov.in/PressReleasePage.aspx?PRID=1894932

2) OECD ECONOMIC OUTLOOK, VOLUME 2022 ISSUE 2: PRELIMINARY VERSION © OECD 2022

- CPI headline inflation moderated to 5.7% (y-o-y) in December 2022 – after easing to 5.9% in November – on the back of double-digit deflation in vegetable prices. On the other hand, inflationary pressures accentuated across cereals, protein-based food items and spices. Fuel inflation edged up primarily from an uptick in kerosene prices. Core CPI (i.e., CPI excluding food and fuel) inflation rose to 6.1% in December due to sustained price pressures in health, education and personal care and effects. The ongoing pass-through of input costs to output prices, especially in services, could continue to exert pressures on core inflation. As per RBI, inflation is projected at 6.5% in 2022-23, with Q4 at 5.7%. Surge in growth of exports in FY 2022 and the first half of FY23 induced a shift in the gears of the production processes from mild acceleration to cruise mode.
- Private consumption as a percentage of GDP stood at 58.4% in Q2 of FY 2023, the highest among the second quarters of all the years since 2013-14, supported by a rebound in contact-intensive services such as trade, hotel and transport.

Key Risks for the Banking industry:

- Deceleration of credit growth expected in FY 2023-24 due to slowdown in growth and impending recession in USA, UK and EU. Sustaining credit growth achieved in FY 2022-23 could be challenge.
- Rising mortgage rates and tighter lending standards could weigh on house prices in 2023 resulting in a likely lag in sales. Sharp repricing in floating rate loans may affect repayment ability due to extension of tenor/increase in EMI due to negative EMI scenarios.
- Higher utilization of High-Quality Liquid Assets (HQLA) and excess investments to fund/maintain credit growth may not be sustainable under rising interest rate scenario without impacting NIM. Lowering of industry LCR (indication of falling LCR coverage already being observed from a high of 173% in September 2020 to 135.6% by September 2022).[13]

Way forward for the Bank

- With the impact of the pandemic waning, the Bank intends on ramping up its business mix in line with its pre-pandemic strategic imperatives. While digital and digital enabled banking services encompassing paperless banking, repayments, leveraging analytical tools and deployment of best-in-industry payment solutions shall remain a mainstay, the Bank, as part of its intent on spreading its geographical coverage and aide in brand recognition and recall, had opened eight branches in Q3FY23. During the quarter, the Bank also marked its formal presence in Telangana, India with four branch openings. The Bank also intends on opening 50-70 branches in the ensuing financial year.

[13] Equity Research report by ICICI Securities dated January 1, 2023

- On account of increase in policy rates, the Bank undertook a fresh round of deposit rate review in November 2022. The Repo rate hike by 35 bps at MPC dated December 7, 2022 from the earlier 50 bps coupled with a subsequent rate hike by 25 bps at MPC dated February 8 ,2023 provides some indication of a change in stance from hawkish to a more accommodative approach. However, the Regulator has left the door open for future rate hikes depending on the inflation outlook and ensuring its alignment to the tolerance band. Any further deposit rate hikes by the Bank shall be undertaken only in the event of any abnormal shifting of stance by the Regulator with respect to policy rates.
- The Bank continues to remain steadfast in improving in technological environment in a bid to improve customer service. To this effect, “Hello Ujjivan”, a mobile based application was launched which has garnered more than 60,000 downloads in a single month. The app is aimed at increasing the Bank’s penetration digitally among its customers and also inculcate a banking habit. The app is compatible in eight regional languages. The Bank has around 26% customers who repay through digital mode and focuses to increase the same to 30% by year end.
- The Bank has also launched its Inter-Operable Card less Cash withdrawal (ICCW) as an issuer. With the launch, the Bank became the **first Small Finance Bank (SFB) & 7th Bank** in India to be enabled on ICCW platform. Through this feature, customers can now withdraw cash from any participating banks’ ATMs by using any of the UPI application (ICCW enabled) without using their Debit Card. The Bank envisages a completely card less future, as ICCW is rolled out across banks and UPI apps.
- To provide seamless integration in retail loan and augment turnaround time, the Bank has partnered with a vendor in providing a state-of-the-art Loan Origination System (LOS). This new LOS is intended to replace the current version in a phased manner.

New initiative: Climate Risk Management:

As a first of its kind, the Bank has analysed the impact of climate change and associated financial losses in its portfolio. Historically, natural disasters or physical risks have affected portfolio performance. Various reports from the scientific community indicate that the frequency and severity of such physical events is expected to increase with climate change and increase in Green House Gas (GHG) emissions. The Bank has relied on the expectations laid out in the Discussion Paper released by RBI[14] which directs banks to put in place an appropriate risk management framework and comply with the disclosure requirements.

Given that climate risk is an emerging topic, the best practices are yet to emerge. The Bank has developed an assessment framework as a ‘Proof of Concept’ for further deliberations. By virtue of being a new bank and focused on retail segment, transition risks by way of changes in policy, technology, legal and consumer sentiments are low due to negligible exposure in the

[14] https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=54097

top three polluting sectors namely power generation, transportation and steel. It was therefore imperative to identify the exposure at risk/exposure at default (EAD) subject to physical risks such as floods, cyclones, droughts and heatwaves. In an attempt to map the exposure subject to physical risks, the Bank has plotted its distribution of exposure to a Climate Vulnerability Index (CVI).

One of the requirements of the Discussion Paper was to develop scenario and stress test analysis for climate risk assessment by benchmarking to scenarios prescribed by Network for Greening the Financial System (NGFS). NGFS prescribes six different scenarios classified into 3 categories namely orderly, disorderly and hot house world. These scenarios are plotted on a 2*2 matrix to explain the severity level of physical and transition risk under each scenario. The Bank has developed simple stress tests to assess the likely impact on credit quality in the event of short-term physical risk events. These risk outcomes will be continuously evaluated and improved upon in line with industry best practices.

As an immediate imperative, from governance standpoint, the charter to the Bank's Risk Management Committee of the Board (RMCB) is enhanced to include climate risk and ESG risks. Likewise, the charter to the Risk Management- management level is also enhanced to act as the nodal point for any decisioning/endorsement to climate change/risk related actions.

On capacity building, the Bank has dedicated a small team of risk personnel who would now focus on assessing these new risks. The Bank has also prepared a roadmap on the data requirements in assessing and monitoring physical and transition risks.

The Bank is currently in the process of putting in place a Board approved policy on Environment and Social Management (ESG) and drafting a policy on climate risk management under the Pillar II framework of ICAAP. Post implementation of these governance documents, the Bank aims to publish its first TCFD compliant disclosures sometime by June 30, 2023.

3. Table DF- 1: Scope of Application

3.1 Qualitative Disclosures

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

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

3.1.1 List of group entities considered for consolidation

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

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

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

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

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

~~5.~~4. Table DF-2: Capital Structure

4.1 Qualitative Disclosures

4.1.1 Tier I capital

The Bank has an authorized capital of Rs. 2,50,000 lakhs in the form of Common Equity of Rs. 2,30,000 lakhs qualifying as Tier 1 capital and Perpetual Non-Cumulative Preference Shares (PNCPS) of Rs. 20,000 lakhs qualifying as Additional Tier 1 Capital under the guidelines of RBI. As on December 31, 2022, the Bank had an issued, subscribed and paid up equity capital of Rs. 1,95,450.47 Lakh, having 1,95,45,04,681 shares of face value Rs.10 each and 20,000 lakh PNCPS having 200,000,000 preference shares of face value of Rs. 10 each.

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%). As foreign shareholding in the Bank was 3.18% comprising of (a) Foreign Portfolio investors (FPI), (b) Non-Residential Indians (NRI) and (c) Non-Resident Indian Non Repatriable as at December 31, 2022, the Bank was compliant with RBI guidelines on SFBs. Further, in compliance with the licensing guidelines, UFSL, the Holding Company, is registered as an NBFC-Non-Deposit-Taking Systemically Important - Core Investment Company – (NBFC-ND-SI-CIC) with RBI and is the non-operating holding company.

4.1.1.1. Promoter contribution[15]:

As at December 31, 2022, the promoter contribution in the Bank was 73.68% with the holding company being the largest shareholder. As per licensing guidelines to SFBs, the promoter shareholding was required to be brought down to 40% within a period of five years from the date of commencement of business. However, as per the recommendations of an Internal Working Group (IWG) which was mandated to review extant ownership guidelines and corporate Structure for Indian Private Sector Banks dated November 26, 2021, the RBI has accepted the IWG recommendation of 'No intermediate sub-targets between 5-15 years may be required' without any modification, except subject to a submission of the dilution schedule by the Bank. The Bank understands that RBI has dispensed with this immediate dilution of promoter shareholding in the Bank to 40%.

Further, the promoter's minimum contribution which was subject to a lock-in for a period of five years starting from February 01, 2017 (date of commencement of business operations) stands complied.

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

The Bank has initiated the process of reverse-merger with its Holding Company to meet the above-mentioned criteria. As directed by SEBI, the Bank has achieved its minimum public shareholding of 25%, through allotment of additional equity shares vide Qualified Institutions Placement (QIP) on September 15, 2022. Subsequently, the Boards of both the Bank and Holding Company have approved the scheme for amalgamation in its meeting dated October 14, 2022. Further the scheme of amalgamation has been filed with the stock exchanges and RBI for their respective approvals/ sanctions. RBI vide its letter dated February 01, 2023, has conveyed its "no-objection" to its proposal for voluntary amalgamation of Holding Company with the Bank subject to the fulfilment of certain conditions as stipulated by RBI which includes *inter alia* obtaining approval from the NCLT, requisite majority of shareholders and creditors of both transferor and transferee companies and in ensuring compliance with all applicable statutory and regulatory requirements.

On receipt of NOC from SEBI, the Bank shall then apply for an approval from National Company Law Tribunal (NCLT), shareholders and creditors. Post receipt of all regulatory approvals, the Bank will initiate processes relating to finalization of record date, approval from Registrar of Companies (ROC), issue of shares etc. to effect the reverse - merger. The entire process is expected to be– completed within a time-frame of 9 months i.e. by September 30, 2023.

The shareholding pattern of the Bank as at December 31, 2022 was as follows:

Category of the Shareholder	No. of shares held	%age of shareholding
Promoter	1,44,00,36,800	73.68%
Mutual Funds	3,09,16,442	1.58%
Alternate Investment Funds (AIF)	5,13,67,358	2.63%
Foreign Portfolio Investors (FPI)	6,35,89,877	3.25%
Resident Individuals/Hindu Undivided Family (HUF)	24,85,02,980	12.71%
Others	12,00,91,224	6.14%
Total	**1,95,45,04,681**	**100.00**

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

Capital Structure- Summary of Tier I & Tier II Capital			
Sl. No.	**Instrument**	**Whether Tier I or II**	**Amount (Rs. in Lakh)**
1	Equity[16]	Common Equity Tier 1	1,95,450.47

[16] Issued and Paid up equity capital

		(CET 1)	
2	PNCPS[17]	Additional Tier I	20,000
3	Subordinated Debt Instruments	Tier II	30,000
	Total		**2,45,450.47**

4.1.1.2. Additional Details on 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. The Bank's PNCPS complies with the requirements prescribed under Basel III capital regulation[18]. 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 as agreed with the investor is 11 percent per annum or at a rate as specified in terms of Basel Master Circular and / or any other applicable law.

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.

4.1.2. Subordinated Debt Instrument

As per specific directions received from the Regulator[19], the Bank can issue Tier II capital instruments in compliance to either NCAF or Basel III guidelines of RBI. As on December 31, 2022 following are the Tier II Instruments raised by the Bank.

[17] Perpetual Non-Cumulative Preference Shares (PNCPS)

18 RBI/2022-23/12 DOR.CAP.REC.3/21.06.201/2022-23 dated April 1, 2022

[19] RBI communication to the Bank vide email dated December 13,2017

Capital	Description of the Security	Issue Amount (Rs. in Lakhs)	Issue date	Date of Redemption	Contractual Dividend rate (% p.a.) (on a fixed rate basis)
Tier II – Subordinated Debt	Subordinated, rated, unlisted, unsecured, transferable, redeemable, fully paid up, non-convertible debentures	22,500	August 26, 2022	April 26, 2028	11.95% p.a.
		7,500	September 09, 2022[20]	April 26, 2028	11.95% p.a.
Total		30,000	-	-	-

4.1.3. 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.

Due to the setbacks from the second wave and potential threats from other unusual external events, the Bank had not declared any equity dividend until FY 2021-22 to conserve capital. However, on account of improving business and economic environment during the current fiscal, the Bank has been profitable during the nine months ended December 31, 2022. While the Bank did not declare any dividends on its equity shares or on its preference shares as at December 31, 2022, any decision on dividend declaration will be reviewed internally by the Board after a review of its performance on managements and earnings and furnished in the ensuing disclosures.

[20] Deemed Allotment Date: August 26, 2022

5. Table DF- 3: Capital Adequacy

5.1 Qualitative Disclosures

The Bank has been well capitalized since inception and its capital position has been further augmented after equity raise through a QIP in Q2 FY 2022-23. As required by RBI in its operating guidelines to SFBs[21], the Bank is required to adopt the Standardized approach for Credit Risk and maintain a minimum Capital to Risk Weighted Assets Ratio (CRAR) of 15% segregated as under:

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

While SFBs are required to comply with Basel II norms for Capital Adequacy calculation purposes, the structure and nature of capital instruments such as Common Equity, Additional Tier 1 instruments are required to be compliant with the 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 New Standardized Approach (NSA) for Operational Risk. It is pertinent to note that the Regulator has now dispensed with the existing approaches of Operational Risk capital charge with the revised New Standardized Approach (NSA) vide Reserve Bank of India (Minimum Capital Requirements for Operational Risk) Directions, 2021 which is applicable to universal banks with effect from April 1, 2023.

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

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

requirement, such as computation and maintenance of RBI prescribed minimum Liquidity Coverage Ratio (LCR) at 100%, NSFR at 100% and Leverage Ratio at 4.5%.

The disclosures pertaining to capital adequacy are as per the Generally Accepted Accounting Practices (GAAP). Preparation of Financial statements under Ind-AS regime by banks have been deferred by RBI until further notice and hence a comparison of capital adequacy under both the regimes will be made part of disclosures after the same is made applicable to banks. There are indications from the recent Monetary Policy announcements, that the Regulator may consider adopting ECL framework for provisioning in Banks. To this effect, a Discussion Paper was released by the Regulator on January 16,2023 and formal guidelines in the matter are awaited. From the readiness standpoint, the Bank has put in place the necessary systems and processes to compute Expected Credit Loss (ECL) and Ind-AS compliant financial statements.

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)
Operational Risk	Reputational Risk
Market Risk	Strategic Risk
Interest Rate Risk in Banking Book (IRRBB)	Compliance Risk
Liquidity Risk	People Risk
Concentration Risk	Information Technology and Information Security Risk
Outsourcing Risk	Group Risk[22]
Securitization Risk	Fintech Risks

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, operational risk and reputational risk are assessed under assumed "stress" scenarios and sensitivity factors. Typically, these relate, inter alia, to the impact on the Bank's profitability

[22] 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

and capital adequacy. The stress tests are conducted and the results are placed to the Risk Management Committee of the Board (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.

5.2 Quantitative Disclosures

5.2.1. Basel II capital calculation

The break-up of Basel II capital funds as at December 31, 2022 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)	1,95,450.47
	Retained earnings	1,85,688.48
A	CET1 capital before regulatory adjustments	3,81,138.95
	Core Equity Tier 1 Capital - Regulatory Adjustments	
	Deferred tax assets arising from temporary differences	29,250.09
	Intangibles (Prepaid Expenses & Computer Software)	16,860.87
	Credit Enhancements	3,959.03
	Regulatory Adjustments applied to CET1 Capital due to insufficient funds in Tier 2 to cover deductions	0.00
B	Total regulatory adjustments to CET1 Capital	50,069.99
C	**CET1 capital (A-B)**	3,31,068.96
	Additional Tier 1 Capital - Instruments and Reserves	
	Preference Shares	20,000.00
E	AT1 capital before regulatory adjustments	20,000.00
	Additional Tier 1 Capital - Regulatory Adjustments	
F	Total regulatory adjustments to AT1 Capital	-
G	AT1 Capital	20,000.00
H	**Tier 1 Capital (C + G)**	3,51,068.96
	Tier 2 Capital - Instruments and Provisions	
	Sub - debt eligible as Tier 2 capital	30,000.00

	General Provisions on Std. Assets admissible as Tier 2	13,575.93
	Investment Fluctuation Reserve	5,255.96
I	Tier 2 Capital before regulatory adjustments	48,831.89
	Tier 2 Capital - Regulatory Adjustments	
J	Total Regulatory Adjustments to Tier 2 Capital	-
K	**Tier 2 Capital (I - J)**	48,831.89
L	**Total Regulatory Capital (H + K)**	3,99,900.85

5.2.2. Credit Risk RWA

The detailed break up of Credit RWA is as follows:

Rs. in lakh

Asset Description	RWA
Cash and Balances with Reserve Bank of India	0.00
Balances with Banks and Money at Call and Short Notice	17,655.20
Investments	1,452.28
Advances	14,40,619.98
Fixed Assets	15,175.07
Other Assets	40,609.57
Off Balance Sheet	21,428.27
Total Credit RWA	**15,36,940.37**

5.2.3. Operational Risk RWA

The Regulator has issued Master Directions on Minimum Capital Requirements for Operational Risk under the New Standardized Approach (NSA) which will be applicable with effect from April 1, 2023 for Universal Banks. While the Regulator is yet to take a decision on its applicability for SFBs, the Bank has already commenced computation of Operational RWA under this new approach for internal reporting purposes.

The detailed computation is as follows:

Rs. in lakh

Particulars	T	T-1
	FY'22	FY'21
Total amount of operational losses net of recoveries (no exclusion)	906.96	657.28
Total number of operational risk losses	1,253.00	1,247.00
Total amount of excluded operational risk losses#	807.83	566.09
Total number of exclusions	990.00	986.00
Total amount of operational losses net of recoveries and net of excluded losses	99.13	91.19

Rs. in lakh

Sr. No.	Business Indicator (BI) and its sub components	T	T-1	T-2
1	**Interest, lease, and dividend component**			
1a	Interest and lease income	281.28	280.61	270.36
1b	Interest and lease expenses	103.92	107.75	107.00
1c	Interest earning assets	21,64,058.57	17,65,639.88	16,54,943.28
1d	Dividend Income	0.00	0.00	0.00
2	**Services component**	0.00	0.00	0.00
2a	Fee and commission income	21.87	13.64	19.24
2b	**Fee and commission expense**	1.93	1.29	2.05
2c	Other operating income	5.23	9.94	10.42
2d	Other operating expense	39.52	24.61	24.75
3	**Financial Component**	0.00	0.00	0.00
3a	Net P&L on the trading book	1,619.63	1,716.17	553.23
3b	Net P&L on the banking book	185.34	3,878.45	0.00
4	BI	92,414.17	-	-
5	Business Indicator Components (BIC)	11,089.70	-	-

6a	BI gross of excluded divested activities	**92,414.17**
6b	Reduction in BI due to excluded divested activities	-

Disclosure on the BI

Rs. in lakh

1	Business indicator component (BIC)	**11,089.70**
2	Internal loss multiplier (ILM)	0.58
3	Minimum required operational risk capital (ORC)	11,089.70
4	**Operational risk RWA**	**1,38,621.26**

5.2.4. Market Risk RWA

As at December 31, 2022, the AFS[23] book consisted of Government of India Securities, Treasury Bills and unquoted equity and the HFT[24] book consisted of only T-bills. On the basis of SDA[25], the capital requirement for market risk reported to the Board from a governance perspective was as under:

[23] Available for Sale

[24] Held for Trading

[25] Standardized Duration Approach

Rs. in lakh

Capital Requirement for Market Risk	Amount
Interest Rate Risk	1,346.46
Equity Position Risk	15.11
Foreign Exchange Risk	--
Total	1,361.57
Total Market Risk RWA	17,019.65

5.2.5. Basel II CRAR (with only Credit RWA)

Rs. in lakh

Particulars	RBI thresholds	Amount/Ratio (Only Credit RWA)
Tier I Capital	--	3,51,068.96
Tier II Capital	--	48,831.89
Total Capital	**--**	3,99,900.85
Total RWA	**--**	15,36,940.37
CET Ratio	Minimum 6%	21.54% (Complied)
Tier I Ratio	Minimum 7.5%	22.84% (Complied)
Tier II Ratio	Maximum cap at 7.5% of CRWA	3.18% (Complied)
CRAR	**Minimum 15%**	**26.02% (Complied)**

Presently, the operating guidelines for SFBs mandate that the minimum CRAR be computed in relation to only the Credit Risk Weighted Assets (CRWA). The CRAR of the Bank at 26.02% is well above the minimum ratio of 15% as applicable for SFBs.

5.2.6. Capital Adequacy under Pillar I Risk (Credit, Market and Operational risks)

Particulars	Amount/ Ratio (all Pillar 1 risks)
Tier I Capital	3,51,068.96
Tier II Capital	48,831.89
Total Capital	**3,99,900.85**
Total RWA	**16,92,581.28**
CET Ratio	19.56%
Tier I Ratio	20.74%
Tier II Ratio	2.89%
CRAR	**23.63%**

It may be noted that the Bank's CRAR is assessed at 23.63% after inclusion of Credit RWA, Operational RWA and Market Risk RWA. The capital adequacy, is higher than the mandated SFB requirement of 15%, which is solely on the basis of CRWA. While the Regulator is yet to notify the applicability of the other two pillar risks, there is a possibility to align the minimum capital adequacy norms with that of UCBs for SFBs. Hence, not only from a governance perspective but also to meet its future projections in growth, the Bank has always been well capitalized, when taking into consideration capital charges for Credit Risk, Market Risk and Operational Risk.

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

6.1. Qualitative disclosures

Credit risk arises as a result of failure or unwillingness on part of customer or counterparties to fulfil their contractual obligations. The Bank is exposed to credit risk in its lending operations. Credit risk is the risk of loss that may occur from the failure of any counterparty to abide by the terms and conditions of any financial contract with the Bank, principally the failure to make required payments as per the terms and conditions of the contracts.

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. This is done taking into consideration the Bank's risk appetite, derived from perceived risks in the business and 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 and 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 external 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 with 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).

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. Any breaches to these limits are periodically reported to CRMC and the RMCB. The regulatory prudential norms with respect to ceilings on credit exposure to individual borrowers or group of borrowers also ensure that the Bank avoids concentration of exposure.

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 with respect to CC/ OD for 90 days on a continuous

basis;

- 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.

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 April 1, 2022 as amended from time to time.

Provisioning norms of the Bank

1) 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 with adverse and acute events (such as demonetization and the Pandemic) can impact the portfolio quality. To enhance the coverage on MB-RB portfolio, the Bank continuously identifies incipient stress in specific accounts and geographies where accelerated provisions may be required on an on-going basis.
2) 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. During the last financial year (FY 21-22), as a one-time measure, the Bank had created a Floating Provision amounting to Rs. 25,000 lakhs to address the risk of any recurrence of pandemic associated mobility restrictions. The decision to create a floating provision was made as there was no scientific consensus on the severity and frequency of future pandemic waves. While the chances of a fresh wave with similar levels of severity are low, the presence of the floating provision acts as a strong bulwark to protect against unexpected losses of any kind.

3) As on December 31, 2022, out of Rs. 25,000 lakhs, Rs. 15,000 lakhs are allocated for netting off Gross NPA for the purpose of computing NNPA/ PCR, while the Rs. 3,000 lakh has been factored as part of Tier II capital. The residual balance of Rs. 7,000 lakh has been grouped as part of other provisions without utilising the same towards Tier II capital, this amount continues to be earmarked for netting off GNPA as and when warranted.
4) RBI released a discussion paper on **Expected Credit Loss (Loss) framework for provisioning** by banks. Currently, banks are mandated to set aside provisions as per the IRACP guidelines which follows the **'incurred loss'** approach. The proposed approach aims to recognize Significant Increase in Credit Risk (SICR) on a forward-looking basis which is expected to strengthen the banking system. The discussion paper has revealed the following interpretations:
   - ECL amount is expected to be over and above IGAAP.
   - To avoid the capital shocks in banks, incremental provision required under ECL (ECL minus IGAAP) can be added back to Common Equity (Tier 1). This benefit to be phased out in 5 years.
   - A Bank may choose to phase it out on a shorter period as per their own plan.

Credit Risk Portfolio review and Monitoring:

Micro finance Portfolio:

A comprehensive review of the MBRB Portfolio for past 3 quarters is given below:

MBRB	Jun-22	Sep-22	Dec-22
Gross Advances*	12433.34	12800.27	14614.09
GNPA(Value)	797.51	632.97	441.49
GNPA%	6.41%	4.94%	3.02%

**Excluding IBPC/ Securitization/DA transactions.*

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/branch 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.

The Bank monitors collection trends at a bucket level on a daily basis and findings are reported to top management. Collection monitoring is aided by a strong and dedicated collection team at ground level with extensive use of analytics and digital tools. Digital collection continues to scale up through existing and new channels like Fintech, Payment Banks, Money Mitra outlets (BC outlets) and the Hello Ujjivan Mobile application.

The composite collection efficiency (CE%) had reached nearly 100% in the month of December 2022. The efforts of enhanced monitoring and collections enabled the Bank to arrest fresh slippages (incremental overdues) and also increase the recovery rates in delinquency buckets.
Effective April 1, 2022 the Bank has adopted Master Direction – Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022. To this effect, the Bank has revised its existing policies to ensure adherence to the same. During H1 FY 2022-23, the Bank continued to implement further enhancements to its policy to enable standardization in key appraisal parameters such as FOIR, HHI. Further the Bank is also reviewing its business expansion strategy by exploring opportunities to provide unsecured loans to those customers who do not fit into the contours of the aforesaid directions.

Given that the microfinance portfolio is subject to adverse event risks, 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.

As part of risk measurement, the Bank has designed behavioural models to compute Probability of Default (PD) and Loss Given Default (LGD) estimates. These inputs are primarily used in Expected Credit Loss (ECL) estimations and are also factored in providing a forward guidance to incremental credit costs. The Bank regularly conducts tests to test the homogeneity of the pools created for the purpose of computation of PD and LGD.

For the ensuing financial year, specifically in GL (Group Loan) vertical there would be increased focus on staff productivity. The vertical will also review existing processes for digital adoption –paperless/signatureless. In the IL (Individual Lending) vertical, the Bank is exploring to revamp its open market segment for retailers and also providing gateways to scale up pre-Approved loans of IL and repeat loans. On the digital front, the Micro banking vertical is exploring possibilities in increasing cashless repayments via personalised payment link to customers, mapping of partner kiosk points etc.

Affordable Housing Loans

A comprehensive review of the Housing Portfolio for past 3 quarters is given below:

HL	Jun-22	Sep-22	Dec-22
Gross Advances*	2153.78	2257.50	2435.99
GNPA(Value)	127.96	107.59	101.34
GNPA%	5.94%	4.77%	4.16%

**Excluding IBPC/ Securitization/DA transactions*

Credit risk monitoring 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.

Rising interest rates is a head wind for the portfolio over the next few quarters. To address this, the Bank has undertaken a detailed review of its impact thereof. To this effect, the Bank will explore to increase the EMI for identified borrowers in a bid to normalize loan tenor post receipt of consent. As a policy measure, the Bank has introduced additional safeguards on income assessment which will provide the necessary headroom in absorbing such volatility.

During the year, Housing vertical achieved break-even and has turned profitable with increased productivity in Q3 FY 2022-23. In Q3 FY 2022-23, there was increased focus on recoveries in NPAs through legal mechanisms. SARFAESI initiations were accelerated which led to faster recoveries from NPA accounts.

During the Q2 of FY 2022-23, the Affordable Housing segment achieved a new milestone by crossing Rs.3,00,000 lakh of Gross Loan Book with a customer base of 34,000+ customers and reaching 450+ locations. The housing segment will continue to focus on Profitability, Productivity and Portfolio quality (PPP) by leveraging phone banking, DSA (Direct Selling Agent) channels, introduction of tab-based mobility solution to replace any existing manual login process and enhanced monitoring for portfolio quality on proactive and reactive basis.

In line with the industry practice, the housing vertical is now progressing towards a hub and spoke model for processing of loan application at an asset centre in Non-branch locations. The vertical is also exploring customized marketing activities and a cluster profitability model.

MSE (Micro and Small Enterprise)

A comprehensive review of the MSE Portfolio for past 3 quarters is given below:

MSE	Jun-22	Sep-22	Dec-22
Gross Advances*	1653.75	1819.47	1705.41
GNPA(Value)	191.45	154.31	163.11
GNPA%	11.58%	8.48%	9.56%

**Excluding IBPC/ Securitization/DA transactions*

During Q3 of FY 2022-23, the Bank's MSE vertical was subject to a comprehensive business process re-engineering in the wake of the closure of fintech engagement. As a part of the strategy, the customer segment will now focus exclusively on secured loans targeted at semi-formal and formal set of customers. To this effect, a new product "Prime LAP (Loan against property) was launched during Q3 FY 2022-23 on a pilot basis aimed at targeting High net worth borrowers against acceptable property collateral and is availed by Self-employed Professionals (SEP), Self-employed Non-Professionals (SENP) and Business owners to meet their credit needs. The MSE vertical has also undertaken comprehensive revisions to its existing products/schemes and is in the process of introducing a new LOS for working capital variants. The MSE vertical is also -exploring new Fintech Partnerships while being compliant to RBI guidelines on Digital Lending. This vertical also intends to leverage digital analytics for MIS/reporting automation.

During the Q2 of FY 2022-23, the Bank set up a Health council under the ambit of Credit Risk vertical. The Health Council is mandated to specifically review delinquency cases and deliberate on ways to improve the asset quality of this portfolio. The Health Council is convened at monthly intervals with representation from Credit, Risk, Collections and Business teams who are empowered to take decisions against erring borrowers. The Bank has also set up a Crédit Risk Monitoring Unit (CRMU) which is empowered to perform review and monitoring of the loan sanctions with a primary focus on Quick Mortality and Early Delinquency cases.

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. For non- LOS variants, the scoring is undertaken manually through spreadsheets. The scores generated are being used in decision making delegation and linked to Risk Based Pricing with effect from October 1, 2021.

Institutional Lending

A comprehensive review of the Institutional Lending Portfolio for past 3 quarters is given below:

FIG	Jun-22	Sep-22	Dec-22
Gross Advances	871.58	938.82	1009.62
GNPA(Value)	4.42	4.42	4.42
GNPA%	0.51%	0.47%	0.44%

In Q 3 FY 22-23 the Institutional lending book of the Bank continued to be ~5 % of the overall lending book and registered a collection rate at 100%. During the quarter, the business unit achieved a significant milestone of Rs. 1,00,000 lakhs. As part of monitoring, the Bank regularly reviews compliance to financial covenants (Capital Adequacy Ratio, GNPA, NNPA, Debt/Equity ratio as stipulated in sanction letter), collection of CA certified receivables statement and potential Early Warning Signals (EWS) alerts. During the Q3 FY 2022-23, the Bank has enhanced its EWS[26],AUW[27] and RFA[28] framework and workflow. During the quarter, the Bank launched a Bank Guarantee Product for institutional Clients and executed its first BG transaction for Rs. 2,000 lakhs in the month of December 2022 which has opened up a new stream of fee income and business.

[26] Early Warning Signals
[27] Account under watch
[28] Red Flagged Accounts

Vehicle Loans

A comprehensive review of the Vehicle loan Portfolio for past 3 quarters is given below:

VF	Jun-22	Sep-22	Dec-22
Gross Advances*	152.75	153.16	147.80
GNPA(Value)	12.58	14.40	10.06
GNPA%	8.24%	9.40%	6.81%

**Excluding IBPC/ Securitization/DA transactions*

During Q2 FY 22-23, the Bank restarted its lending in the two-wheeler segment, albeit on a cautious note. Functionality to collect repayments through third party payment aggregators and other online portals was also enabled to provide ease of transaction. The Bank has engaged with a vendor for introducing a Loan Origination System (LOS) to aide in digital onboarding. The go-live of phase I is expected sometime in March 2023. The business unit is progressing towards sourcing of new loans through direct dealership model and also implement a trade advance model for its dealers.

Personal loans:

The Bank has temporarily put on hold any lending to this segment as part of its strategic plan to reduce potential concentration in unsecured loans for FY 2022-23.

Early Warning System framework:

The Bank has an Early Warning System (EWS) framework for enhanced monitoring various levels viz. macroeconomic, portfolio and account level triggers for all its business segments. The EWS framework and triggers are regularly enhanced and are in line with the regulatory requirements. This framework enables the Bank to monitor signs of incipient stress and provide early warnings on an on-going basis.

To that effect, the Bank has identified critical EWS triggers applicable to its retail/MFI segments and has automated the same. These triggers were also back tested to establish correlation between the signals and propensity to default. This framework is presently being further enhanced, in that, a workflow to enable capture of feedback from select group of customers and in taking suitable actions against the identified problematic accounts is being taken up internally. To this effect, the Bank has onboarded a vendor to provide the requisite technical support. The solution is expected to go-live by Q1FY24.

6.2. Quantitative Disclosures

The overall distribution of Gross advances and Gross Loan Book as at December 31, 2022 was as under:

Rs. in lakh

Vertical	Gross Advances	%	Gross Loan Book	%
MB-RB	14,61,409.44	72.08%	15,48,694.08	70.73%
FIG Lending	1,00,962.48	4.98%	1,00,962.48	4.61%
Housing	2,43,599.42	12.01%	3,14,448.01	14.36%
MSE	1,70,541.45	8.41%	1,74,361.61	7.96%
Personal Loans	17,039.08	0.84%	17,039.08	0.78%
Staff Loan	7,643.37	0.38%	7,643.37	0.35%
Vehicle Finance	14,779.81	0.73%	14,779.81	0.68%
Loan/OD Against Deposit/ Gold loan	11,613.25	0.57%	11,613.25	0.53%
Total	20,27,588.30	100.00%	21,89,541.69	100.00%

Exposure summary: Facility type

Exposure Type	Domestic (Rs. in Lakh)	Overseas
Fund- Based exposure[29]	29,10,714.23	--
Non- Fund Based Exposure*	81,711.35	--
LESS: CRM DEDUCTIONS (GNPA Provisions held)	57,806.81	
Total	**29,34,618.77**	**--**

*Non-fund-based exposure for purpose of computation of CRAR includes undrawn limits of MSE Overdrafts and KPC, yet to be disbursed portion of Secured Housing, MSE and FIG customers and Contingent liabilities.

Geographic Distribution of advances (State-wise)

States	Gross Advances after netting off IBPC/Securitization/Direct assignment[30]	% Share
Tamil Nadu	3,391.65	15%
West Bengal	2,670.00	12%
Karnataka	2,948.28	13%
Maharashtra	2,118.03	10%

[29] Fund Based exposure is computed as per Basel II guidelines

[30] Interest accrued portion on NPA is reduced on a pro-rata basis to tally with Gross Loan Book incl. IBPC/Securitization / Direct Assignment

Bihar	1,571.95	7%
Gujarat	1,770.82	8%
Haryana	1,144.73	5%
Uttar Pradesh	1,369.23	6%
Rajasthan	929.05	4%
Odisha	483.81	2%
Punjab	544.37	2%
Assam	189.49	1%
Jharkhand	492.82	2%
Kerala	385.39	2%
New Delhi	847.57	4%
Madhya Pradesh	333.88	2%
Tripura	258.39	1%
Pondicherry	130.19	1%
Chhattisgarh	95.24	0%
Uttarakhand	110.27	1%
Chandigarh (UT)	45.02	0%
Meghalaya	22.35	0%
Himachal Pradesh	29.16	0%
Goa	13.73	0%
Ujjivan	21,895.42	100%

Maturity pattern of assets and liabilities

Rs. in lakh

Buckets	**Net Advances after netting off IBPC/Securitisation/Direct assignment**	**Investments**	**Deposits**	**Borrowings**
Day - 1	202.5	(0.0)	6,976.9	-
2-7 Days	19,883.5	4,997.7	43,331.9	16,834.6
8-14 Days	33,655.0	12,484.0	42,793.8	-
15-30 Days	18,937.2	1,808.0	52,126.5	-
31 Days and up to 2 months	11,644.0	26,841.1	1,12,621.7	24,550.0
Over 2 months and up to 3 months	82,422.7	13,376.8	1,32,164.3	8,000.0
Over 3 Months and up to 6 months	2,79,184.6	1,73,492.0	3,20,398.8	6,770.0
Over 6 Months and up to 1 year	5,20,037.0	55,400.5	4,47,173.8	28,690.0
Over 1 Year and up to 3 years	6,57,607.9	13,193.5	11,22,253.6	78,560.0
Over 3 Year and up to 5 years	72,936.4	1,57,808.9	19,231.0	25,360.0

Over 5 years	2,56,020.0	2,55,788.6	21,185.7	43,060.0
Total	**19,52,530.7**	**7,15,191.2**	**23,20,257.9**	**2,31,824.6**

Gross Non-performing assets (NPA)

Rs. In Lakh

Category of Gross NPA	March 2022	June 2022	September 2022	December 2022
Sub-standard	77,989.36	34,924.26	33,843.51	29,983.09
Doubtful	50,135.55	55,680.41	58,833.04	43,566.93
Loss	282.82	284.08	209.73	204.87
Total	**1,28,407.73**	**90,888.75**	**92,886.28**	**73,754.89**

Rs. In Lakh

NNPA	March 2022	June 2022	September 2022	December 2022
Net NPA	34,959.79	23,774.95	16,733.34	15,948.09
NNPA after factoring Floating Provisions	9,959.78	1,774.95	733.34	948.09

NPA Ratios	March 2022	June 2022	September 2022	December 2022
Gross NPA to Gross Advances (excluding IBPC/Securitisation/DA) [31]	7.34%	6.51%	5.06%	3.64%
Net NPA to Net Advances (excluding IBPC/Securitisation/ DA)[32]	0.59%	0.11%	0.04%	0.049%

Movement of Net NPAs (Quarterly basis)

Rs. In lakh

Particulars	Mar-22	Jun-22	Sep-22	Dec-22
Opening Balance	42,458.39	9,959.79	9,959.79	9,959.79
Additions during the period	75,949.86	8,149.63	11,042.04	14,802.89
Reductions during the period	83,448.46	19,334.47	20,268.48	33,814.59
Closing Balance	**9,959.79**	**1,774.95**	**733.34**	**948.09**

[31] Gross NPA to Gross Loan Book (including IBPC/Securitisation/Direct Assignment) was 3.37% as on December 31, 2022

[32] Net NPA to Net Loan Book (including IBPC/Securitisation/Direct Assignment) was 0.04% as on December 31, 2022

Movement of Provisions for NPAs (excluding provisions on standard assets)

Rs. in lakh

Particulars	**Mar-22**	**Jun-22**	**Sep-22**	**Dec-22**
Opening Balance	64,601.36	93,447.94	93,447.94	93,447.94
Provisions made during the period	1,35,576.32	16,140.23	21,413.52	24,008.36
Write back of excess provisions	1,06,729.74	18,699.43	38,707.06	59,649.49
Closing Balance	**93,447.94**	**90,888.75**	**76,154.40**	**57,806.81**

Provision Coverage Ratio (PCR)

Rs. in lakh

Category	**Gross Advances after netting off IBPC, Securitization & Direct Assignment**	**GNPA on gross advances**	**GNPA Provisions on gross advances**	**Floating Provisions Considered for NNPA***	**PCR% on gross advances**
MB-RB	14,61,409.44	44148.93	39049.09	13500.00	119.03%
FIG Lending	1,00,962.48	441.68	441.68	-	100.00%
Housing	2,43,599.42	10133.95	6528.36	-	64.42%
MSE	1,70,541.45	16310.72	9726.18	1500.00	68.83%
Personal Loans	17,039.08	1711.50	1318.49	-	77.04%
Staff Loan	7,643.37	0.25	0.23	-	90.78%
Vehicle Finance	14,779.81	1005.89	740.81	-	73.65%
Loan/OD Against Deposit	11,613.25	1.98	1.98	-	100.00%
Grand Total	**20,27,588.30**	**73,754.89**	**57,806.81**	**15000.00**	**98.71%**

*Rs. 15,000 lakh considered for the purpose of netting of GNPA and factoring the benefit in NNPA/PCR computation.

Write off:[33]

Rs. in lakh

Particulars	**Total Write off undertaken**
Q1 FY 2022-23	7,936.65
Q2 FY 2022-23	15,750.60
Q3 FY 2022-23	17,914.00

[33] Write off includes actual write off and technical write off

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	**--**

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

7.1. 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. 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 and only on the basis of LTV vide a notification on October 16, 2020. The Bank has taken cognizance of the same and these were incorporated for all loans sanctioned after the date of issuance of this circular. The Bank has factored the directions of RBI circular dated April 8, 2022 wherein, it was directed to continue with risk weights contained in the circular ibid for all new individual housing loans sanctioned up to March 31 ,2023.

7.2. Quantitative Disclosures

Details of Gross Credit Risk Exposure (Fund based and Non-fund based) based on Risk Weight – Position as on December 31, 2022		
Sl. No.	**Risk Weight**	**Rs. in lakh**

1	Below 100% Risk Weight	25,91,158.41
2	100% Risk Weight	3,97,994.19
3	More than 100% Risk Weight	3,272.96
4	Deductions (GNPA PROVISION)	57,806.81
5	**Total**	**29,34,618.76**

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

8.1. 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 unsecured variant offered in collaboration with a Direct Selling Agent (DSA). The residual book of erstwhile unsecured loans[34] is being run down and is expected to be fully repaid in the current 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.

The Bank had temporarily suspended its gold loan operations in Q3 of FY 2021-22. During Q3 FY22-23, the Bank has revamped its Gold loan product schemes with additional features and safeguards and relaunched in November 2022. The Gold loan operation was active in 2 branches as on December 31, 2022, with a plan to expand to at least 50 branches by the next financial year end.

The Bank accepts Eligible Financial Collateral[35] 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[36] 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 through a combination of limits and restrictions.

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, and gold loans are provided with an option to avail a life insurance cover, though this is not a bundled offering along with the loan products.

[34] Unsecured Business Loans and Unsecured Enterprise Loans.
[35] 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
[36] 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 works with 4 Credit Information Companies (CICs) and ensures 100% application screening through the bureaus using their comprehensive credit reports.
- The Bank also undertakes independent surveys and analysis to identify negative areas/No- go areas based on historical events. These surveys enable the Bank to discourage increasing business from these areas as identified above.
- The Bank has also set borrower wise limits in compliance to RBI mandated exposure norms and 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.

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

9.1. Qualitative Disclosure

9.1.1. Securitisation Objectives

The Bank undertakes Securitisation transactions to increase the efficiency of capital and enhance the return on capital employed by diversifying sources of funds, managing liquidity and maximising yield on asset opportunities.

The RBI issued 'Revised Securitisation Guidelines' on September 24, 2021 (hereinafter, the 'revised securitisation guidelines') covering Securitisation of Standard Assets. The said guidelines define minimum holding period, minimum retention requirements, due diligence, credit monitoring, stress testing requirements etc. The Regulator has also issued "Master Direction – Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021' dated September 24, 2021 covering transfer of loan exposures (herein after, the 'transfer of loan exposure guidelines'). In compliance to the guidelines, the Bank has put in place appropriate policies for undertaking these transactions.

The overall framework for the Securitisation of Standard Assets for the Bank is specified in the Board approved policy on Securitisation of Standard Assets. During the Q1 2022-23 the Bank had undertaken 'sale' transactions through securitisation route and Direct assignment.

9.1.2. The major risks inherent in Securitisation of Standard Assets and Transfer of Loans are given below:

Credit Risk: In case of Securitisation transactions, where credit enhancement is provided by the originator or any third party as permitted under the revised guidelines, the investor bears the loss in case the shortfall in collections exceeds the credit enhancement provided. If credit enhancement is provided in the form of a corporate guarantee, the investor bears the loss that could arise due to default by the guarantor which is also reflected in the rating downgrade of the corporate guarantor.

Market Risk:

- **Liquidity Risk:** This is the risk arising on account of absence of a secondary market, which provides exit options to the investor/participant.
- **Interest Rate Risk:** This is the mark-to-market risk arising on account of interest rate fluctuations.

Regulatory and Legal Risk: These risks may arise when transactions are not compliant with applicable laws which may result in the transaction being rendered invalid. Conflict between the provisions of the transaction documents and those of the underlying financial facility agreement.

Operational Risk

- **Co-mingling risk:** Risk arising on account of co-mingling of funds belonging to investor(s) with that of the originator and /or collection and processing servicer, when there exists a time lag between collecting amount due from the obligors and payment made to the investors.

Reputational Risk:

- This risk may arise due to rating downgrade of a securitised instrument due to unsatisfactory performance of the underlying asset pool.
- Inappropriate practices followed by the collection and processing agents

Prepayment Risk:

- This risk arises on account of prepayment of dues by obligors/borrowers in the securitised pool.

In addition to above, originators are exposed to pipeline and warehousing risks which refers to the event where originating banks are unable to off-load assets, which were originated with an intention of selling thus potentially exposing them to losses arising on declining values of these assets. The Bank does not follow the "originator to distribute" model and hence is not exposed to the pipelining and warehousing risks.

The Bank has established appropriate risk management processes to monitor the risks on Securitisation of Standard Assets which include:

Monitoring credit risk

The Bank, in the capacity of collection and processing agent prepares monthly performance reports which are circulated to investors/ rating agencies. The securitised pools are continuously monitored and those requiring attention are subjected to specific interventions (e.g. focused collection efforts in affected geographies) to improve their performance. The pool is also monitored by the rating agencies based on amortisation level, collection efficiency, credit enhancement utilisation levels and credit cover available for balance deal tenor.

Note: During the Quarter ended December 31, 2022 the Bank did not use credit risk mitigants to mitigate credit risks.

Monitoring market risk

The Bank ascertains market value of the securitisation exposures based on extant norms, which is compared with their book value to assess the marked to market impact of these exposures monthly.

9.1.3 Roles Played by the Bank

Originator / Seller

The Bank originates assets in its book and subsequently sells down through the securitisation or assignment route.

Servicer

For sold assets, the Bank undertakes the activity of collections and other servicing activities including preparation of monthly pay out reports.

Provider of Liquidity Facilities

The Bank may provide liquidity facility to address temporary mismatches on account of the timing differences between the receipt of cash flows from the underlying performing assets and the fulfilment of obligations to the beneficiaries.

Credit Enhancement provider

The Bank provides credit enhancement on Securitisation 'sale' transactions undertaken by the Bank for meeting shortfalls arising on account of delinquencies and prepayment losses in the underlying pool sold.

9.1.4 Significant Accounting Policy for Securitisation and Direct Assignment of Standard Assets

The Bank as originator sells assets to a special purpose entity only on cash basis. Standard Assets transferred through securitisation are de-recognised in the Balance Sheet when they are sold (true sale criteria being fully met with) and consideration is received. Sales / transfers that do not meet true sale criteria are accounted for as borrowings. Standard assets transferred through direct assignment are de-recognised in the Balance Sheet of the Bank to the extent a portion of the rights, title and interest of the Bank in the underlying loans has been assigned. The Bank follows the accounting treatment specified in the revised securitisation guidelines and transfer of loan exposure guidelines for any realised and unrealised gain arising from the securitisation transactions.

The Bank transfers advances through inter-bank participation with risk. In the case of participation with risk, the aggregate amount of the participation issued by the Bank is reduced from advances.

9.1.5 Rating of Securitisation Transaction

During FY 2022-23, the Bank used the ratings provided by CARE Ratings limited for the securitisation of retail pools.

9.2. Quantitative Disclosures

Details of Securitisation exposures in the Banking Book

Rs.in Lakh

Total Exposures Securitised by the Bank*	-

*Represents total exposure of loans securitised and sell-downs via Direct Assignment during Q 3 FY 22-23.

For exposures securitised, losses recognised by the Bank during the current period broken by the exposure type

Rs.in Lakh

Exposure type	Losses
PTC (underlying assets being Loan against property) *	-
Total	-

*PTC- Pass Through Certificate

Assets to be securitised within a year as on December 31, 2022

Rs.in Lakh

Exposure type	Amount
Amount of assets intended to be securitized within a year	-
Of which amount of assets originated within a year before Securitization	-

Total outstanding exposures securitised by the Bank and the related unrecognised gains/(losses)

Rs.in Lakh

Exposure Type	Amount*	Unrecognised gains / (losses)
PTC (underlying assets being Loan against property and Micro finance loans)	25,579.87	-
Direct Assignment	9,734.52	
Total	**35,314,39**	**-**

*The amount represents the total outstanding for Securitization and Direct Assignment as on December 31, 2022

Securitisation exposures retained or purchased

Rs.in Lakh

Exposure Type	On Balance Sheet*	Off Balance Sheet	Total
Equity Tranche	1,262.94	-	1,262.94
Overcollateralization	1,969.22		1,969.22
Direct Assignment	1,204.69		1,204.69
Total	**4,436.85**	**-**	**4,436.85**

* Represents total principal amount of investment in Equity Tranche, Overcollateralization and Direct Assignment outstanding under risk sharing as at December 31, 2022

Risk weight bands break-up of securitisation exposures retained or purchased

Rs. In lakh

Exposure Type	50% weight	75% risk weight	114% risk weight*	125% risk weight	Total
Equity Tranche (underlying assets being Loan against property)			1,262.94		1,262.94
Total			**1,262.94**		**1,262.94**

* Calculated as per formula prescribed in Master Direction – Reserve Bank of India (Securitisation of Standard Assets) Directions, 2021

Securitisation exposures deducted from capital –

Exposure Type	Exposure deducted entirely from Tier-1 capital	Credit enhancing interest-only strips deducted from total capital	Other exposures deducted from total capital
Overcollateralization	1,969.22	-	-
First Loss Credit Enhancement	1,989.81	-	-
Total	**3,959.03**	**-**	**-**

Details of Securitisation Exposures in the Trading Book

- NIL

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

10.1. Qualitative Disclosures

10.1.1. Market Risk

The Bank defines Market Risk as the risk of loss in on-balance sheet and off-balance sheet positions arising from movements in market process, in particular, changes in interest rates, exchange rates and equity and commodity prices. The Bank has adopted the Standardized Duration Approach (SDA) for Market Risk capital charge computation. While this is not a regulatory requirement as per SFB guidelines, the Bank has considered it prudent to undertake capital adequacy assessment for all Pillar I risk 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. 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) and investment of Rs. 1,263 lakhs as Pass through Certificates as part of the Securitisation deal executed during the year. As on Dec 31, 2022, the investment holdings in various SLR and Non SLR instruments were as under:

Rs. in lakh

Instrument	AFS		HFT		HTM	
SLR						
	BV	MV	BV	MV	BV	MV
G Sec (CG)	14,301.18	14,332.42	16,750.15	16,780.40	3,66,117.28	3,53,828.62
SDL	0.00	0.00	0.00	0.00	86,276.05	83,207.54
STRIPS	0.00	0.00	0.00	0.00	0.00	0.00
T Bills	2,30,473.59	2,30,473.59	0.00	0.00	0.00	0.00

TOTAL SLR	**2,44,774.76**	**2,44,806.01**	**16,750.15**	**16,780.40**	**4,52,393.34**	**4,37,036.16**
Non SLR						
PTC	1,262.94	1,348.15	-	-	-	-
Legacy investment (unquoted Equity)	10.02	11.32	-	-	-	-
TOTAL NSLR	**1,272.96**	**1,359.47**	**-**	**-**	**-**	**-**
TOTAL Investment	**2,46,047.72**	**2,46,165.48**	**16,750.15**	**16,780.40**	**4,52,393.34**	**4,37,036.16**

The investment into SLR securities is undertaken for the purpose of regulatory compliance i.e. SLR maintenance and for Asset Liability Management (ALM). Investment in SLR securities is held as both HTM and AFS, majority of Investments in AFS is in the form of Treasury Bills with small part of the AFS portfolio held in Central Government securities and STRIPS. The mandatory requirement for maintenance of SLR as stipulated by RBI is 18.00% of Net Demand and Time Liabilities (NDTL). The Bank has complied with the regulatory SLR requirement and has maintained SLR much above the requirement. During the quarter, the average SLR requirement and maintenance was as below:

Rs. in lakh

Month	**Average SLR requirement**	**Average SLR maintenance**	**Average SLR requirement maintained as a % of NDTL**
Apr-22	3,29,946	5,25,968	28.69%
May-22	3,40,631	5,54,966	29.33%
Jun-22	3,37,758	5,30,898	28.29%
Jul-22	3,39,745	5,32,242	28.20%
Aug-22	3,44,434	5,18,143	27.07%
Sep-22	3,56,681	5,59,199	28.21%
Oct-22	3,67,111	6,17,361	30.28%
Nov-22	3,86,306	6,58,798	30.68%
Dec-22	4,00,894	7,35,079	**33.01%**

The maintenance of SLR was higher than the minimum requirement as per RBI in line with its Board directive. The Bank maintains higher SLR in order to ensure a cushion in case of a contingency, to keep a healthy Liquidity Coverage Ratio (LCR) at all times and also to ensure that the regulatory thresholds for the Structural Liquidity Statement (SLS) limits are not breached.

Effective management of LCR, through calibrated disbursements and maintaining sufficient liquid buffer to provide the necessary support to HQLA, ensured that the Bank ended the period with quarterly average LCR at 220.88% which was in excess of the mandated regulatory minimum of 100% and also the internal tolerance limit set by the Board. Further, the Bank had also complied with the HTM holding limit for all the days for the period during the quarter.

Trading: The Bank had commenced trading in Government of India security in FY 2020-21, in a calibrated manner through its HFT portfolio. While the Bank had initially commenced trading on an intraday basis only, it has now graduated to keeping open positions on an overnight basis as well. The trading limits in the form of duration limits, PV01 limits, trading book limit, exposure limits and Value at Risk (VaR) are monitored regularly by the Middle Office. Any instance of breach in limits is brought to the notice of stakeholders and remedial measures taken.

10.1.2. Liquidity and Liquidity Risk Management:

Treasury Department is primarily responsible for the day to day liquidity and fund management with an oversight by the ALM desk. 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.

Market Risk team keeps the senior management and the Board apprised of the Liquidity situation of the Bank through regular updates to the ALCO and RMCB. As a part of the update, a detailed analysis on cash flow projections, recommendations, constraints (if any), scenario analysis on various regulatory ratios and ALM position of the Bank are being placed.

Studies on how efficiently LCR and ALM can be maintained within regulatory and internal threshold are presented to the committees along with recommendations if any. Market Risk team also undertakes various analysis on Duration gaps and its impact on the capital adequacy to the ALCO and RMCB.

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 Q 3 FY 22-23. The Bank has various avenues to leverage upon in mitigating any future liquidity shortfalls. Some of the measures include securitization, Direct Assignment, IBPC transactions, refinance and term loan facilities from Bank. The Bank is prioritizing long-term funding through deposit mobilization.

10.2. Quantitative Disclosures

Liquidity Coverage Ratio (LCR)

The objective of the LCR is to promote the short-term resilience of a bank's liquidity risk profile, ensuring that it has adequate stock of unencumbered high-quality liquid assets that can easily be converted into cash to meet its liquidity needs in an acute stress scenario lasting for 30 days.

Liquidity Coverage Ratio			
Date	**Q3 Quarterly Average**		**Rs. in lakh**
A	**High Quality Liquid Assets**	**Amount**	**Adjusted Amount**
	Level 1 Assets	6,41,320.75	6,41,320.75
	Level 2 A Assets	-	-
	Level 2 B Assets	-	-
B	Total Stock of HQLAs (Adjusted for Capital)		6,41,320.75
C	Cash Outflows	16,31,342.70	4,08,009.92
D	Cash Inflows	1,82,973.34	1,17,655.51
E	Net Cash flow		2,90,354.41
F	25% of Total Cash Outflow		1,02,002.48
G	Higher of E or F		2,90,354.41
Liquidity Coverage Ratio		**220.88%**	

Net Stable Funding Ratio (NSFR): The objective of the NSFR is to require banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities over a one-year horizon. The Bank's NSFR as at December 31st ,2022 is 112.32% as against RBI minimum requirement of 100%.

Rs. In Lakh

NSFR	Weighted Amount
Total Available Stable Funding (ASF)	19,02,474.42
Total Required Stable Funding (RSF)	16,93,770.08
NSFR	**112.32%**

11. Table DF- 9: Operational Risk

11.1. Qualitative Disclosures

11.1.1. Operational Risk Management Policy and Governance Structure

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

For effective management of Operational Risk, the Bank has constituted an Operational Risk Management Committee (ORMC) chaired by MD & CEO. 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 are presented to the RMCB. The ORMC supports the RMCB 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 Business Continuity Management. This is a continuing process and the Bank is continuously striving to enhance its processes.

11.1.2. Risk identification, measurement, monitoring and reporting

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

- **Product and Process reviews**: All new products and processes (including enhancements) are subject to a mandatory comprehensive review by the Operational Risk department. For process related approvals, PrAC (Process Approval Committee) has been constituted with effect from February 2021 and meetings are held at defined frequency. The Bank's Operational Risk team reviews and provides their observations for including additional controls for the risks identified during the assessment, if warranted. 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. Operational Risk Management Department (ORMD) has reviewed 97 processes as on December 31, 2022. Few of them to note are RCU process flow – Liabilities, Process note on blocking CIF's of accounts with deferrals, SOP on Grant of Powers of Attorney and Letters of Authority to officials, Enhancement of Internet Banking & Mobile Banking Operating Manuals V4.0 etc.

- **UAT Testing** (including BRD and FSD): For any change management/ automation of products and processes, the respective department owners prepare a Business Requirement Document (BRD). The BRD is reviewed by key personnel from control and business functions for further improvements. Subsequently, the same is provided to the IT department within the Bank. The IT department then prepares a Functional Specification Document (FSD) detailing the scope of the project. Once the project is moved to testing stage, ORMD performs the User Acceptance Testing (UAT) along with other key stake holders 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. As on December 31, 2022, 24 BRD's and FSD's were reviewed and UAT was undertaken for 128 new developments/changes/fix deployed by IT covering NR service request, GL repayment through Mobile Banking, IDAM integration with Darwin box, Key system changes for digital customer acquisition transaction limited related, BR.Net single flow Glow project, RPA OD recovery, leap year interest calculation, multifactor authentication without debit card, staff vehicle loans two wheeler and four wheeler, adjustment of advance EMI payment in Br.Net, masking of Aadhaar Number, Interoperable card less cash withdrawal, Prime Lap products in MSE and Staff vehicle loans 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. The outcome of RCSA provides insight into known as well as potential Operational Risk areas in various process / business lines. Business teams, being the first line of defence, are responsible for carrying out RCSA activity. ORMD, being second line of defence is responsible for providing necessary guidance, training and inputs to the First Line of Defence (FLOD) for carrying out the RCSA. To create a Risk culture in FLOD and assume ownership for this activity, a Special Point of Contact (SPOC) is identified in each department who is designated as Business Risk and Compliance Officer (BRACO) with whom ORMD shall engage. RCSA framework was approved in April 2021 and as on date RCSA was completed for all 21 functions of the Bank including Information Technology department. ORMD team of the Bank has also initiated RCSA for branches which will provide an insight of Operational risk index at individual branches. It is proposed to conduct this activity in a phased manner and aimed to implement it at 54 branches in FY 22-23 which is completed at 57 branches as on December 31,2022. ORMD is also in process of implementing RCSA through first line of defence as per Board mandate and aimed to implement the same in four department by March 31,2023.
- **Key Risk Indicators**: In FY22-23, 40 KRIs continue to be monitored at organization level. At functional level, 14 KRI's are monitored for Branch Banking vertical, 14 KRI's are monitored for Micro Banking vertical from April'2022 and 9 KRI's had been identified and monitored for Housing vertical since December'2022 as part of the ORM

framework. The thresholds for the KRIs have been set in consultation with the respective stakeholders. These KRIs are analysed on a monthly basis and findings are placed at ORMC and RMCB at regular intervals with action plan for closure of open issues. With emerging trends of increased usage of digital platform by customers, it is pertinent to identify KRIs for digital payment products, The Bank has identified 25 parameters and commenced monitoring from April 2022 onwards.

- **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 of any 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.

Loss Dashboard for YTD FY 22-23 (as on Dec'22):

	Count			**Loss in lakh**			
Event Type	**YTD Dec'21**	**YTD Dec'22**		**YTD Dec'22**			**YTD Dec'21**
	Total	**Total**		**Gross#**	**Net#**	**Ops Loss#**	**Ops Loss**
Business Disruption and Systems Failures	119	308		₹ 16.24	₹ 5.27	₹ 3.62	**₹ 2.33**
Clients, Products, and Business Practice	18	15		₹ 2.93	₹ 2.07	₹ 0.00	**₹ 3.68**
Damage to Physical Assets	42	2		₹ 0.0	₹ 0.0	₹ 0.0	**₹ 0.01**
Employment Practices and Workplace Safety	7	1		₹ 0.0	₹ 0.0	₹ 0.0	₹ 0.0
Execution, Delivery, and Process Management	254	272		₹ 44.29	₹ 17.67	₹ 6.55	**₹ 11.58**
External Fraud	494	207		₹ 75.19	₹ 39.51	₹ 24.73	**₹ 34.16**
Internal Fraud	221	247		₹ 160.96	₹ 64.96	₹ 8.83	**₹ 32.12**
Total	**1,155**	**1,052**		**₹ 299.60**	**₹ 129.49**	**₹ 43.72**	**₹ 83.88**

#Gross loss refers to total amount involved in the reported incidents, Net loss refer to loss which got netted off post recoveries and Ops loss refer to the actual loss booked in GL in case of unsuccessful recovery efforts.

- **Thematic reviews:** While carrying out RCSA, KRIs, UAT testing, incident reporting etc., Operational Risk team identifies few risk indicators warranting a special thematic review of the entire process. This enables the Bank to identify issues and gaps at minute level which are then taken up for rectification. These thematic reviews do not follow standardized risk identification techniques and therefore provide wider scope for a deeper and customized study of issues and gaps. Such thematic studies have enabled the Bank to further refine its existing processes and plug gaps that had been identified. In Q3 FY 22-23, ORMD of the Bank performed a thematic review on Usage of Sundry General Ledgers by branches, Operational aspects of Income General Ledgers. Key gaps from these reviews were highlighted and discussed in ORMC held in the month of January'2023.
- **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. In FY 22-23, User access review has been completed for 12 applications including Active directory, Cermo, Posidex, Rupee power, SAS, TeamViewer, Glow, Smelo, Trucell, Lend perfect, Finacle Treasury and Ekuber. The Bank has 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 which is under review. During FY 21-22 User access review of Internal office accounts was also undertaken, basis the review the challenges faced in present architecture were identified and corrective actions required to be undertaken are being formalised.
- **Exceptions Handling Mechanism** is an initiative, which was initiated from July 2020 as guided by the National Controls and Compliance Committee. A list of 32 exception reports was identified and tagged to Operational Risk department of the Bank for initiating the review. Out of which, 30 exception reports were reviewed in Q3 FY 22 - 23 and ORM is in process of discussing the gaps identified with relevant stake holders to undertake appropriate corrective actions.
- **Branch Assurance:** Branches across regions are reviewed against a checklist devised by ORMD of the Bank to ensure adherence to branch processes. The checklist is reviewed and enhanced as and when required to strengthen monitoring of branches. Critical and repeat observations are shared with the leadership team for remedial /corrective actions. Checklist was reviewed and enhanced further which is implemented with effect from December 2022. As on December 31st, 2022, ORMD of the Bank has reviewed 206 branches against an annual plan to cover 240 branches PAN India in FY 22-23. A monthly connect is also called for with leadership team at Regions to discuss on critical and key observations made by ORM team as part of the branch visit.

- **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. In FY 22-23, pre-on boarding risk assessment for 13 vendors was carried out.

  Post – on boarding risk assessment: All material vendors are also subjected to a periodic post on boarding risk assessment. This assessment is carried out by ORMD and Information Security team, if required. 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 completion.

  Annual review of material vendors: ORMD of the Bank along with Information security team of the Bank carries out annual risk review of material vendors especially for IT, Fintech and Technical vendors. In FY 22 - 23, risk assessment was planned for 68 vendor's material vendors including 7 empanelled BC's. Annual review is completed for 20 material vendors as on December 31st 2022. Outsourcing undertaken by the Bank is also subject to an annual audit by the Internal Audit team who provide the required compliance certificate to RBI.

- **Business Continuity Planning (BCP):** Business Continuity Management Policy is a prerequisite for a Bank in minimizing the adverse effect 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.

  The Bank's 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 threats / attacks.

The Bank reviews BCM policy and plan documents annually and enhances the documents as per the changes made in the Bank's critical processes and activities. Bank also conducts periodic BCP testing considering various disruptive scenarios which helps identify the gaps in ensuring smooth recovery and resumption of the processes. On an ongoing basis, BCP testing for randomly selected branches is also conducted to ensure that the recovery process becomes more robust and efficient to recover from any disaster / crisis situation. Learnings are documented in the Business Continuity Plan for corrective action. Till Q3 FY 22-23, 104 planned and 39 unplanned BCP's were conducted across branches in Regions. A vendor is on-boarded for completing BIA and RA for all the departments of the Bank and to review existing policies and enhance the same according to international standards. As on date, BIA is completed for all 19 functions of the Bank.

- **Internal Financial Control (IFC) testing:** This is an annual exercise and carried out by ORMD of the Bank. The team along with concerned stakeholders prepares and enhances Risk and Control Matrices (RCMs) for activities performed by process owners. The financial and operational controls in these RCMs are then tested by collecting samples from across the review period covering 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 results of this evaluation are also presented to ORMC and RMCB to update them on effectiveness of the internal controls of the Bank and take guidance. These results are also shared with the Bank's statutory auditor to provide insight on adequacy and effectiveness of the controls in the Bank. The IFC Framework of the Bank was enhanced and approved in January 2023. IFC testing for FY 22-23 has commenced in the month of July 2022 and testing is planned to be completed for 21 functions of the Bank in a phased manner including testing of Entity level controls. As on 31st Dec'2022, Risk and Control matrix (RCM) enhancement is completed for 20 verticals and signed-off received from department heads except Information technology. For Information Technology, RCM enhancement and IFC testing will be completed through vendor by 31st March'23. As on 31st Dec'22, testing of controls is completed and sign-off received for 10 verticals viz., Electronic Banking, Digital Banking, Admin & Infra, FIG, Phone Banking, Collections, MSE, SHL, Service Quality and Treasury. For other verticals testing is work in progress and aimed to be completed by 28th Feb'23.

The approach for operational risk capital assessment for the bank is calculated in DF-3 in this document.

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

12.1. 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. For banking book, interest rate risk arises through mismatches in re-pricing of interest rate sensitive assets (RSA), rate sensitive liabilities (RSL). The Bank has identified the risks associated with 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. Additionally, the Bank has also performed steepening of yield curve wherein a change in 100 basis points was considered linearly between 15-day and over 25-year maturities and using an inversion of the yield curve wherein One -year rates were increased by 250 basis points and 10-year rates were decreased by 100 basis points. Such shocks are monitored regularly in order to assess the impact of interest risk on the Bank's book and its potential impact on the Bank's business projections. These scenarios are as per the RBI guidelines on stress testing dated 02 Dec 2013.

12.2. Quantitative Disclosures

12.2.1. Earnings at Risk (Earnings Perspective)

Rs. in Lakh

Interest Rate Risk in the Banking Book (IRRBB)			
Sl. No.	**Country**	**Interest Rate Shock**	
		+200 bps shock	**-200 bps shock**
1	India	(16,816.96)	16,816.96
2	Overseas	-	-
	Total	**(16,816.96)**	**16,816.96**

12.2.2. Economic Value Perspective (MDG Approach)

Rs. in Lakh

Category	Items	Amount
A	Computation of Aggregate RSA	29,75,956
B	Computation of Aggregate RSL	27,03,237
C	Weighted Avg. MD of RSL across all currencies	1.22
D	Weighted Avg. MD of RSA across all currencies	1.57
E	Modified Duration Gap (MDG)	0.46
F	Change in MVE as % of equity for 200 bps change in interest rate	(8.06%)
G	**Change in MVE in absolute terms**	(27,426.89)

12.2.3. Economic Value Perspective (Steeping of Yield Curve)

The Bank calculated the change in MVE using steepening of yield curve wherein a change of 100 basis points was considered linearly between 15-day and over 25-year maturities. Change in MVE under this scenario was (Rs. 10,964.93 lakh).

12.2.4. Economic Value Perspective (Inversion of Yield Curve)

The Bank calculated the change in MVE using Inversion of yield curve wherein one -year rate was increased by 250 basis points and 10-year rate was decreased by 100 basis points. Change in MVE under this scenario was (Rs. 1,631.51 lakh).

16. 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	21,41,549
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	9,04,526.09
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)	0
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off- balance sheet exposures)	54,331
7	Other Adjustments	-50,070
8	**Leverage ratio exposure**	30,50,337

17. 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)	30,46,075.55
	Domestic Sovereign	7,13,788.25
	Banks in India	88,276.00
	Corporates	1,02,325.85
	Exposure to default fund contribution of CCPs	136.00
	Other Exposure to CCPs	
	Others	21,41,549.46
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	-50,069.99
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	29,96,005.56
	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	-
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)**	-

	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	1,07,165.66
18	(Adjustments for conversion to credit equivalent amounts)	52,834.23
19	**Off-balance sheet items (sum of lines 17 and 18)**	54,331.43
	Capital and total exposures	
20	**Tier 1 capital**	3,51,068.96
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	30,50,337.00
	Leverage ratio	
22	**Basel III leverage ratio**	**11.51%**

Presently the contribution of Tier I capital to Total Basel II capital is 87.79%. 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 Off Balance Items is presently low, the Leverage ratio is well above the benchmark of 4.5%.

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