UJJIVAN SMALL FINANCE BANK

Pillar III Disclosures as at September 30, 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 September 30, 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
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
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
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
NPA	Non-Performing Asset
NNPA	Net Non-Performing Asset
NPI	Non-Performing Investment

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") has been making quarterly disclosures under the Pillar 3 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 September 30, 2022. Any exposure related figures quoted across the document is 'Rs. in lakh', unless otherwise specifically stated.

A. Branch network and distribution reach

The branch position of the Bank as at September 30, 2022 was as follows:

Particulars	Count
Total Banking outlets, of which	590
Banking outlets[1] (Non-URC)	440
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)	33
ii Business Correspondents (BC)	7

During the quarter, the Bank had opened 15 new branches across its four regions (South- 2, North -9, East- 2, West- 2)

[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

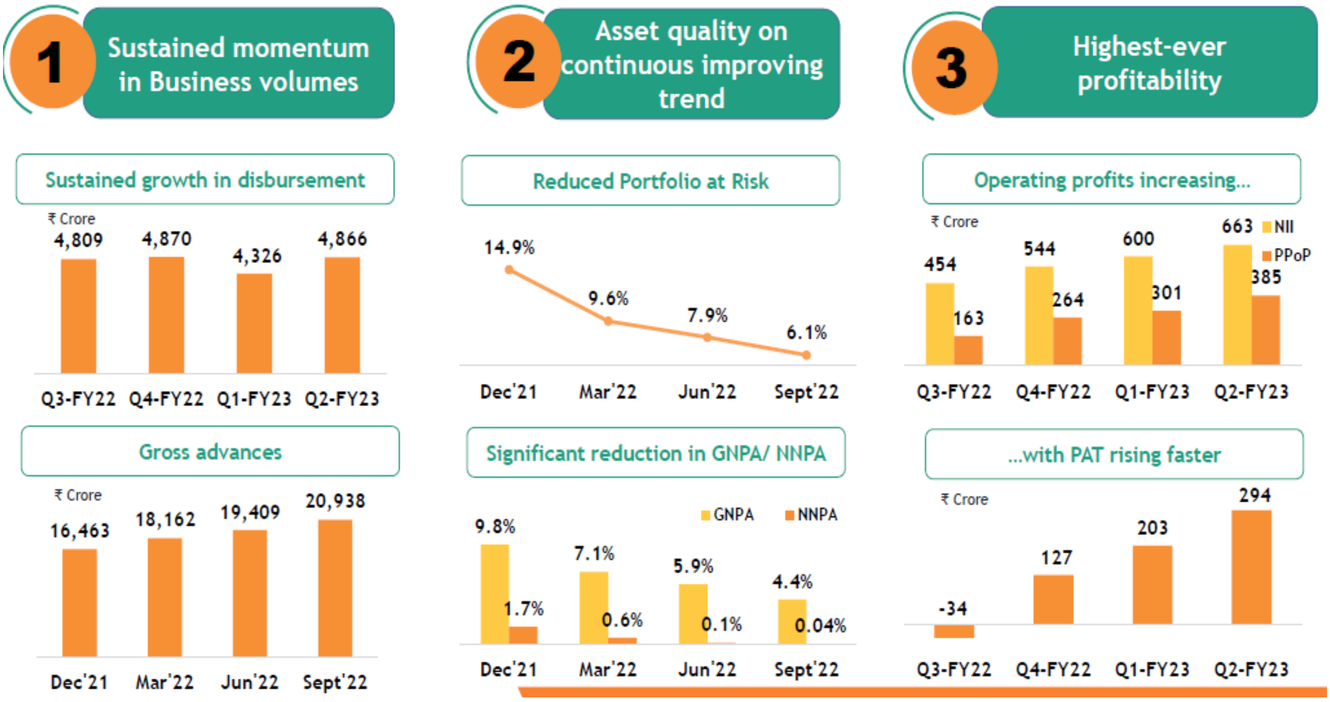
[4] Districts with active Left-Wing Extremism (LWE)

With the pandemic now on the wane, the Bank intends on further expanding its physical presence across the country to tap business opportunities with a broader focus on the liability-rich catchment areas. The physical reach would be supplemented by a strong and focused investment in digital platforms to grow its business volumes, on both asset and the liabilities side. The Bank had 502 ATM's including 57 ACR machines across the country as on September 30, 2022.

B. Financial highlights for Q2 FY 2022-23

Some of the key achievements made for quarter ended September 30 2022 were as follows:

Rs. in crores



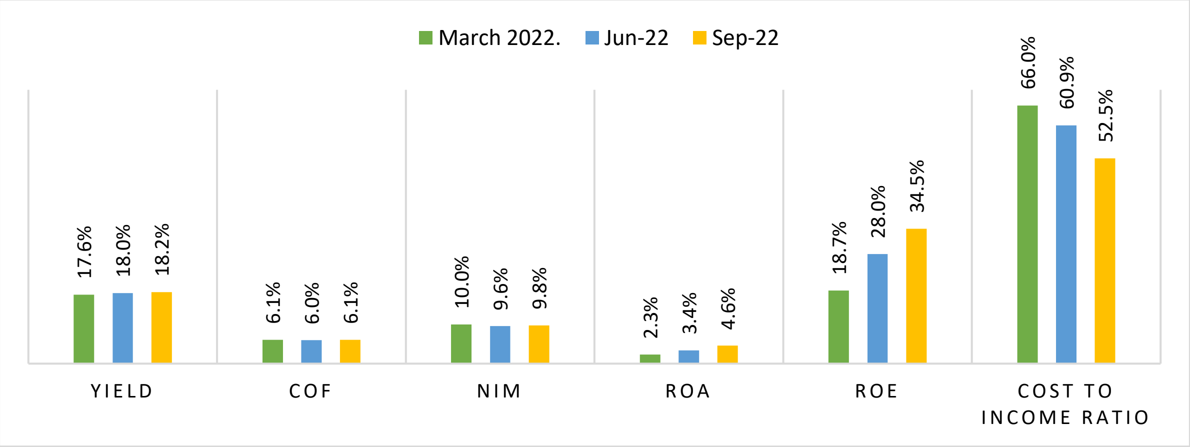
Note : Gross Advances includes IBPC, Securitization and Direct assignment

Key Highlights	Description
Customer base	• Total customer outreach was 69 lakh as at September 30, 2022 (66 lakh as on June 30th, 2022)
Loan Portfolio	• Gross Advances (including IBPC/Securitization/Direct Assignment): Rs.20,93,789.56 lakh as at September 30, 2022 (Rs. 1,94,08,99.12 lakh as at June 30, 2022) • Gross Advances (excluding IBPC/Securitisation/Direct Assignment): Rs. 18,35,738.42 lakh[5] as at September 30, 2022 (Rs. 17,61,455.2 lakh as at June 30, 2022) • Non-Microfinance book was 30.27% as at September 30, 2022 on

[5] IBPC/Securitisation/ Direct Assignment as on September 30, 2022 was Rs 1,72,039.34 lakh

	Gross Advances (i.e. excluding IBPC/Securitisation/Direct Assignment) (29.41% as at June 30 2022)
Deposit Portfolio	• Total Deposits (Retail plus Institutional): Rs.20,39,600.00 lakhs as on September 30, 2022 (Rs.18,44,900.00 lakh as at June 30, 2022). • CASA: 27% as at September 30,2022 (28% as at June 30, 2022)
Asset Quality	• Gross Non-Performing Assets (GNPA): 5.06% as at September 30, 2022[6] (6.51% as at June 30, 2022) • Net Non-Performing Assets (NNPA): 0.04% as at September 30, 2022[7] (-0.11% as at June 30, 2022)
Capital Adequacy	• CRAR ratio of the Bank as at September 30, 2022 increased to 26.70% (20.03% as at June 30, 2022) • Total capital raised during the Q2FY23: Rs. 77,500 lakh
Employee strength	• 16,620 as at September 30, 2022 (16,664 as at June 30, 2022)
NPA Provision	• Overall NPA provision (excluding floating provision) held was Rs.76,154.4 lakh (Rs. 90,888.8 lakh as at June 30, 2022). • Total NPA provision reduced by Rs. 14,734.3 lakh during quarter ended September 30, 2022

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



[6] Computed as a percentage to Gross advances after netting for IBPC/Securitisation/Direct Assignment. GNPA% as a ratio to Gross advances without netting off IBPC/Securitization / Direct Assignment was 4.44%
[7] Computed as a percentage to Gross advances after netting off IBPC/Securitisation/ Direct Assignment. NNPA% as a ratio to Gross advances without netting off IBPC/Securitization / Direct Assignment was 0.038%

Q2 FY 22-23 was yet another milestone quarter with record profitability for the Bank a Pre-Provision Operating Profit (PPOP) of Rs. 38,498 lakhs and Profit After Tax (PAT) of Rs. 29,429 lakhs for the quarter ended September 30, 2022. As indicated in the above chart, all the earnings related performance ratios registered an improving trend in September 2022 when compared with the previous quarters.
The Bank achieved strong disbursement in Q 1 FY 22-23 at Rs. 4,86,600 lakhs (56% growth Y-O-Y). The Banks deposits grew by 45% YoY to Rs. 20,39,600 lakhs as on September 30, 2022, with retail deposits growing 71% YoY to Rs. 12,416 crores. Gross Advances (after netting off IBPC/Securitisation/Direct Assignment) grew by 26 % YoY to Rs. 18,35,738.42 lakhs as on September 30, 2022.

During Q 2 FY 22-23 , the Bank was able to substantially improve its capital adequacy ratio due to a capital infusion of Rs. 47500 lakh through Qualified Institutional Placements (QIP) and infusion in the form of Basel II compliant Subordinated-debt amouting to Rs. 30000 lakh. With the equity infusion, the Bank has complied with the SEBI requirement for minimum public shareholding and the Boards of the Bank and Ujjivan Financial Services Limited (UFSL) have approved a revised scheme of amalgamation. The Bank is in the process of obtaining the requisite regulatory approvals, post which, the Bank would approach the NCLT[8]. The entire process is expected to take around 12 -14 months.

B. Macro-Economic Outlook and way forward:

Global Economic Outlook

- Global economic activity is weakening under the impact of the protracted conflict in Ukraine and aggressive monetary policy actions and stances across the world. The above events, along with generalized hardening of global commodity prices, the likelihood of prolonged supply chain disruptions due to China's Zero- Covid policy, dislocation in trade and capital flows, divergent global monetary policy responses and volatility in global financial markets are likely to continue having an impact on the inflation and depress global and domestic growth.
- It is anticipated that more than a third of the world economies would contract with three largest economies US, EU and China continuing to stall in FY 22 – 23.
- Consecutive rate hikes by Federal reserve in the current claendar year to combat US inflation have led to strengthening of US dollar and according to the benchmark ICE US dollar Index , US dollar was at a 20 year high. An appreciating dollar is expected to add to exisiting inflationary pressures in other countries by making the imports more expensive.

Indian Economic Outlook

[8] National Company Law Tribunal (NCLT)

- Given the global head winds, IMF has cut its forecast for India's GDP growth to 6.8% from 7.4% majorly due to subdued exports[9]. In its meeting held on September 30, 2022 RBI had pegged the Indian Economy to grow at 7 percent in 2022-23 , marginally lower than its earlier expectation of 7.2%. Despite the growth forecast dowgrade, India is expected to remain one of the fatest growing economies in the world in the mid-term, in the backdrop of strong rebound in Private Final Consumption Expenditure (PCFE) and Gross Fixed Capital Formation (GFCF). .
- On its guidance on inflation, the Monetary Policy Committee (MPC) of RBI mentioned that inflation is likely to be above the upper tolerance level of 6 per cent through the first three quarters of FY 2022-23, with core inflation continuing to remain high. MPC has further highlighted that the outlook is fraught with considerable uncertainty, given the volatile geopolitical situation, global financial market volatility and supply disruptions.

Way forward for the Bank

- The Bank maintains its guidance of 30% growth rate in its lending with deposit growth at a slightly higher rate. While cost of funds is expected to increase due to increase in policy rates, the Bank continues to focus on expanding its CASA base to reduce the net impact. Based on market dynamics, the Bank will review its interest rates on deposits internally and its impact on Net Interest Margin (NIM).
- The Bank expects to hold its Cost-to-Income ratio (CI ratio) comfortably below 60% for the FY 22 - 23. H1 cost-to-income ratio was at 55%.
- Based on the first half performance, the Bank expects to register a higher ROA than its earlier guidance of 2.3%. Net interest margin for the Bank is expected to be around 9.5% for FY 22-23.
- Overall, the Bank expects its profitability in H 2 FY 22-23 to be largely similar to that of H1FY22-23.
- Irrespective of the changes in the macro-economic outlook, the Bank's strategic imperative continues to focus on:

  - ✓ Increase Bank's digital presence. To aid this in November 2022 the Bank launched a mobile banking app, which is first of its kind to target customers who are not tech savvy called *'Hello Ujjivan'*. This app is based on voice and video in vernacular languages (at present the app is in 8 languages);
  - ✓ Building CASA in the next half of FY 22-23 by focusing on the branding of the Bank;
  - ✓ Building a retail deposit base and improve Banks CASA ratio;
  - ✓ Focus on the unserved and underserved segments and educate customers to develop improved financial behaviour;

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[9] https://timesofindia.indiatimes.com/business/india-business/imf-cuts-fy23-gdp-growth-forecast-to-6-8-from-7-4/articleshow/94798935.cms

- ✓ Build a dynamic and strong collection network with focus on digital repayments;
- ✓ Consolidate the existing businesses of the Bank, make them profitable and invest in new avenues for growth;

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

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 lakh in the form of Common Equity of Rs. 2,30,000 lakh qualifying as Tier 1 capital and Perpetual Non-Cumulative Preference

Shares (PNCPS) of Rs. 20,000 lakh qualifying as Additional Tier 1 Capital under the guidelines of RBI. As on September 30, 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 3.78% comprising of (a) Foreign Portfolio investors (FPI), (b) Non-Residential Indians (NRI) and (c) Non-Resident Indian Non Repatriable as at September 30, 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[10]:

As at September 30, 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 is 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 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 as at January 31, 2022.

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 on September 15, 2022. This enables the Bank to proceed with the merger application with the stock exchanges. 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. The Bank is in the process of

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

seeking other regulatory approvals from RBI, SEBI and stock exchanges, 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 affect the reverse - merger. The entire process is expected to be completed within a time-frame of 12-14 months from the date of completion of QIP.

The shareholding pattern of the Bank as at September 30, 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[11]	Common Equity Tier 1 (CET 1)	1,95,450.47
2	PNCPS[12]	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 to the requirements prescribed under Basel III capital regulation[13]. A key characteristic of PNCPS is that there

[11] Issued and Paid up equity capital

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

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

can be no maturity date and no step ups or other incentives to redeem with an exception to call option exercisable by the Bank not earlier than the fifth anniversary of the date of allotment. The rate of dividend payable to the investors may be either a fixed rate or a floating rate referenced to a market determined rupee interest benchmark rate.

The claims of the investors in the instruments are:

a Superior to the claims of investors in equity shares;

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

c Is neither secured nor covered by a guarantee of the issuer nor related entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis Bank creditors.

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

4.1.2. Subordinated Debt Instrument

As per specific directions received from the Regulator[14], the Bank can issue Tier II capital instruments in compliance to either NCAF or Basel III guidelines of RBI. The Bank has raised the following Tier II instruments in the quarter ended September 30, 2022 in compliance to the RBI NCAF guidelines:

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,	22,500	August 26, 2022	April 26, 2028	11.95% p.a.
		7,500	September 09, 2022[15]	April 26, 2028	11.95% p.a.

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

[15] Deemed Allotment Date: August 26, 2022

	non-convertible debentures				
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.

Given setbacks from the second wave and potential threats from other unusual external events, it was crucial that the Bank remains resilient and conserve capital as a bulwark against unexpected losses. While the Bank did not declare any dividends on its equity shares or on its preference shares as at September 30, 2022, any decision on dividend declaration will be reviewed internally by the Board after a review of its performance on managements and earnings.

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 22-23. As required by RBI in its operating guidelines to SFBs[16], 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%

[16] 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.

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 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 for banks. There are indications however from recent Monetary Policy pronouncements, that the RBI may consider adopting ECL model as a way forward for all banks. 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 largely to address the requirements of the Holding Company.

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[17]
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 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 September 30, 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

[17] 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

	Retained earnings	1,58,948.77
A	CET1 capital before regulatory adjustments	3,54,399.24
	Core Equity Tier 1 Capital - Regulatory Adjustments	
	Deferred tax assets arising from temporary differences	33,112.42
	Intangibles (Prepaid Expenses & Computer Software)	16,500.06
	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	53,571.51
C	**CET1 capital (A-B)**	3,00,827.73
	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)**	3,20,827.73
	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	13,182.47
	Investment Fluctuation Reserve	2,523.43
I	Tier 2 Capital before regulatory adjustments	45,705.90
	Tier 2 Capital - Regulatory Adjustments	
J	Total Regulatory Adjustments to Tier 2 Capital	-
K	**Tier 2 Capital (I - J)**	45,705.90
L	**Total Regulatory Capital (H + K)**	3,66,533.63

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	-
Balances with Banks and Money at Call and Short Notice	25,302.40
Investments	1,452.28
Advances	12,76,239.26

Fixed Assets	13,998.16
Other Assets	31,897.90
Off Balance Sheet	23,753.66
Total Credit RWA	**13,72,643.66**

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 September 30 2022, the AFS[18] book consisted of Government of India Securities, Treasury Bills and unquoted equity and the HFT[19] book consisted of only T-bills. On the basis of SDA[20], the capital requirement for market risk reported to the Board from a governance perspective was as under:

Rs. in lakh

Capital Requirement for Market Risk	Amount
Interest Rate Risk	445.41
Equity Position Risk	15.16
Foreign Exchange Risk	--
Total	460.57
Total Market Risk RWA	**5,757.16**

5.2.5. Basel II CRAR (with only Credit RWA)

Rs. in lakh

Particulars	RBI thresholds	Amount/Ratio (Only Credit RWA)
Tier I Capital	--	3,20,827.73
Tier II Capital	--	45,705.90
Total Capital	**--**	3,66,533.63
Total RWA	**--**	13,72,643.66
CET Ratio	Minimum 6%	21.92% (Complied)
Tier I Ratio	Minimum 7.5%	23.37% (Complied)
Tier II Ratio	Maximum cap at 7.5% of CRWA	3.33% (Complied)
CRAR	**Minimum 15%**	**26.70% (Complied)**

[18] Available for Sale

[19] Held for Trading

[20] Standardized Duration Approach

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 26.70% is well above the minimum ratio of 15% as applicable for SFBs. During the Quarter-2 of FY2022-23, the Bank raised its capital position through an issue of equity shares through Qualified Institutional Placement (QIP) route. The Bank also raised Subordinate debt to further augment its capital position.

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

Particulars	Amount/ Ratio (all Pillar 1 risks)
Tier I Capital	3,20,827.73
Tier II Capital	45,705.90
Total Capital	**3,66,533.63**
Total RWA	**15,17,022.09**
CET Ratio	19.83%
Tier I Ratio	21.15%
Tier II Ratio	3.01%
CRAR	**24.16%**

It may be noted that the Bank's CRAR is assessed at 24.16% 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 is low, the presence of the floating provisions acts as a strong bulwark to protect against unexpected losses of any kind.
3) As on September 30, 2022 , out of Rs. 25,000 lakh, Rs.16,000 lakh was utilised towards netting off Gross NPA and to take the benefit in NNPA/ PCR calculation. Rs.3,000 lakh was utilised towards Tier II capital augmentation in compliance to the caps stated in RBI guidelines and balance Rs. 6,000 lakh was grouped as a part of other provisions without utilising the same towards Tier II capital. This amount continues to be earmarked for utilization of NNPA /PCR, as and when needed. The entire floating provision continues to be on the books and can be utilised in the future for making any specific provisions under extraordinary circumstances with prior approval of RBI.

Credit Risk Portfolio review and Monitoring:

Micro finance portfolio

The Bank undertakes portfolio monitoring on a periodic basis with specific focus on key portfolio triggers. Continuous review of portfolio enables the Bank to identify incipient stress at cluster/region/state/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).

The composite collection efficiency (CE%) had reached nearly 100% in the month of September 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. These proposed enhancements are proposed to be implemented by Nov 1st 2022. 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.

Affordable Housing Loans and MSE portfolio

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

In Q2 FY 2022-23, in Housing and MSE Secured vertical, there was increased focus on recoveries in NPA through the legal channel. SARFAESI initiations were accelerated which led to faster recoveries from NPA accounts.

During the quarter, the Affordable Housing segment achieved a new milestone of crossing Rs.3,00,000 lakh OSP (Outstanding Principal) with a customer base of 34,000+ customers and reaching 450+ locations. The housing segment would continue to focus on Profitability, Productivity and Portfolio quality (PPP) by scaling up phone banking, DSA (Direct Selling Agent) channels, introduction of tab based mobility solution to replace any existing manual login process and closely monitor portfolio quality.

During the last quarter, the Bank set up a Health council for MSE vertical specifically to 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.

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

In Q 2 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%. 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. The Bank is also in the process of enhancing its EWS framework and workflow.

Vehicle Loans

During Q 2 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 were 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.

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 in 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 Q4FY23.

6.2. Quantitative Disclosures

The overall distribution of gross advances including & excluding IBPC/Securitization/Direct assignment as at September 30, 2022 was as under:

Rs. in lakh

Vertical	Gross Advances after netting off IBPC/Securitisation/ Direct Assignment	%	Gross Advances before netting off IBPC/Securitization/Direct assignment	%
MB-RB	12,79,990.93	69.73%	14,52,066.31	69.35%
FIG Lending	93,882.35	5.11%	93,882.35	4.48%
Housing	2,25,714.07	12.30%	3,07,941.73	14.71%
MSE	1,81,911.41	9.91%	1,85,767.60	8.87%
Personal Loans	19,442.28	1.06%	19,442.28	0.93%
Staff Loan	6,160.23	0.34%	6,160.23	0.29%
Vehicle Finance	15,315.71	0.83%	15,315.71	0.73%
Loan/OD Against Deposit/ Gold loan	13,213.35	0.72%	13,213.35	0.63%
Total	**18,35,630.32**	**100.00%**	**20,93,789.56**	**100.00%**

Exposure summary: Facility type

Exposure Type	Domestic (Rs. in Lakh)	Overseas
Fund- Based exposure[21]	25,47,179.52	--
Non- Fund Based Exposure*	1,03,609.68	--
LESS : CRM DEDUCTIONS (GNPA Provisions held)	76154.40	
Total	**25,74,634.80**	**--**

*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[22]	% Share
Tamil Nadu	3,23,547.92	15.45%
West Bengal	2,52,837.53	12.08%
Karnataka	2,94,866.93	14.08%
Maharashtra	1,94,274.58	9.28%
Bihar	1,44,267.78	6.89%
Gujarat	1,72,460.98	8.24%
Haryana	1,16,358.07	5.56%
Uttar Pradesh	1,23,712.06	5.91%
Rajasthan	85,828.30	4.10%
Odisha	52,152.23	2.49%
Punjab	56,102.28	2.68%
Assam	18,151.41	0.87%
Jharkhand	45,500.34	2.17%
Kerala	36,981.56	1.77%
New Delhi	78,318.89	3.74%
Madhya Pradesh	30,803.64	1.47%
Tripura	24,787.21	1.18%
Pondicherry	12,781.12	0.61%
Chhattisgarh	9,280.58	0.44%
Uttarakhand	10,153.04	0.48%
Chandigarh (UT)	4,346.67	0.21%
Meghalaya	2,091.72	0.10%
Himachal Pradesh	2,807.25	0.13%

[21] Fund Based exposure is computed as per Basel II guidelines
[22] Interest accrued portion on NPA is reduced on a pro-rata basis to tally with Gross Advances incl. IBPC/Securitization / Direct Assignment

Goa	1,377.47	0.07%
Total	**20,93,789.56**	**100.00%**

Maturity pattern of assets and liabilities

Rs. in lakh

Buckets	Net Advances after netting off IBPC/Securitisation/Direct assignment	Investments	Deposits	Borrowings
Day - 1	188.94	0.00	14,560.84	770.00
2-7 Days	0.00	0.00	35,397.86	0.00
8-14 Days	2,441.57	0.00	63,835.24	124.00
15-30 Days	30,765.46	13,973.29	36,802.49	0.00
31 Days and upto 2 months	64,699.94	43,313.88	80,354.77	5,000.00
Over 2 months and upto 3 months	79,650.42	18,308.48	71,256.31	1,674.00
Over 3 Months and upto 6 months	1,39,987.82	34,226.80	2,35,581.69	25,320.00
Over 6 Months and upto 1 year	4,68,671.60	25,889.95	5,39,320.87	34,290.00
Over 1 Year and upto 3 years	6,31,558.28	42,573.17	9,22,495.37	56,160.00
Over 3 Year and upto 5 years	71,781.79	1,35,975.66	21,082.91	6,160.00
Over 5 years	2,53,731.57	2,33,827.40	18,934.27	43,830.00
Total	**17,43,477.39**	**5,48,088.64**	**20,39,622.62**	**1,73,328.00**

Gross Non-performing assets (NPA)

Rs. In Lakh

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

Rs. In Lakh

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

NPA Ratios	March 2022	June 2022	September 2022

Gross NPA to Gross Advances (excluding IBPC/Securitisation/DA) [23]	7.34%	6.51%	5.06%
Net NPA to Net Advances (excluding IBPC/Securitisation/ DA)[24]	0.59%	0.11%	0.04%

Movement of Net NPAs (Quarterly basis)

Rs. In lakh

Particulars	March 2022	June 2022	September 2022
Opening Balance	42,458.39	9,959.79	9,959.79
Additions during the period	75,949.86	8,149.63	11,042.04
Reductions during the period	83,448.46	19,334.47	20,268.48
Closing Balance	**9,959.79**	**1,774.95**	**733.34**

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

Rs. in lakh

Particulars	March 2022	June 2022	September 2022
Opening Balance	64,601.36	93,447.94	93,447.94
Provisions made during the period	1,35,576.32	16,140.23	21,413.52
Write back of excess provisions	1,06,729.74	18,699.43	38,707.06
Closing Balance	**93,447.94**	**90,888.75**	**76,154.40**

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	14,52,066.31	63,296.86	57,393.61	14500.00	113.6%
FIG Lending	93,882.35	441.68	441.68	0.00	100.0%
Housing	3,07,941.73	10,758.74	6,647.35	0.00	61.8%
MSE	1,85,767.60	15,430.87	9,415.18	1500.00	70.7%
Personal Loans	19,442.28	1,511.29	1,118.56	0.00	74.0%

[23] Gross NPA to Gross advances (including IBPC/Securitisation/Direct Assignment) was 4.44% as on September 30, 2022

[24] Net NPA to Net advances (including IBPC/Securitisation/Direct Assignment) was 0.04% as on 30 September 2022

Staff Loan	6,160.23	0.22	0.22	0.00	100.0%
Vehicle Finance	15,315.71	1,439.88	1,133.53	0.00	78.7%
Loan/OD Against Deposit	13,213.35	6.75	4.28	0.00	63.4%
Grand Total	**20,93,789.56**	**92,886.29**	**76,154.40**	**16,000.00**	**99.21%**

*Rs. 16,000 lakh considered for the purpose of netting of GNPA and factoring the benefit in NNPA/PCR computation.

Write off:[25]

Rs. in lakh

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

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.

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

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 September 30th, 2022		
Sl. No.	**Risk Weight**	**Rs. in lakh**
1	Below 100% Risk Weight	23,54,744.47
2	100% Risk Weight	2,92,771.77
3	More than 100% Risk Weight	3,272.96
4	Deductions (GNPA PROVISION)	(76,154.40)
5	**Total**	**25,74,634.80**

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[26] 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 Q2 FY22-23, the Bank has revamped its Gold loan product schemes with additional features and safeguards. Gold loan offerings is expected to be relaunched on a pilot basis by November 1, 2022.

The Bank accepts Eligible Financial Collateral[27] 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[28] 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.
- 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

[26] Unsecured Business Loans and Unsecured Enterprise Loans.
[27] 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
[28] Refer section 7.3 of Master Circular - Prudential Guidelines on Capital Adequacy and Market Discipline New Capital Adequacy Framework (NCAF) dated July 1, 2015

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 September 30, 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 <u>Roles Played by the Bank</u>

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.

<u>9.1.4 Significant Accounting Policy for Securitisation and Direct Assignment of Standard Assets</u>

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 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 the Q1 and Q2 of 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 2 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 September 30, 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)	29,462.06	-
Direct Assignment	10,250.09	
Total	**39,712.14**	**-**

*The amount represents the total outstanding for Securitization and Direct Assignment as on September 30, 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 September 30, 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 Sep 30, 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)	7,948.83	7,947.18	5,475.98	5,479.07	3,34,768.76	3,20,705.67
SDL	0.00	0.00	0.00	0.00	85,904.01	82,498.18
STRIPS	3,965.00	3,948.11	0.00	0.00	0.00	0.00
T Bills	1,04,891.80	1,04,891.80	3,879.86	3,879.86	0.00	0.00

TOTAL SLR	**1,16,805.63**	**1,16,787.08**	**9,355.83**	**9,358.93**	**4,20,672.77**	**4,03,203.84**
Non SLR						
PTC	1,262.94	1350.40	-	-	-	-
Legacy investment (unquoted Equity)	10.02	11.32	-	-	-	-
TOTAL NSLR	**1,272.96**	**1361.72**	**-**	**-**	**-**	**-**
TOTAL Investment	**1,18,078.59**	**1,18,148.80**	**9,355.83**	**9,358.93**	**4,20,672.77**	**4,03,203.84**

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%**

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 LCR at 162.23% 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 2 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	**Q1 Quarterly Average**		**Rs. in lakh**
A	**High Quality Liquid Assets**	**Amount**	**Adjusted Amount**

	Level 1 Assets	4,75,811.38	4,75,811.38
	Level 2 A Assets	-	-
	Level 2 B Assets	-	-
B	Total Stock of HQLAs (Adjusted for Capital)		4,75,811.38
C	Cash Outflows	15,18,859.14	4,31,101.81
D	Cash Inflows	2,05,904.68	1,37,816.12
E	Net Cash flow		2,93,285.69
F	25% of Total Cash Outflow		1,07,775.45
G	Higher of E or F		2,93,285.69
Liquidity Coverage Ratio		**162.23%**	

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 September 30,2022 is 111.91% as against RBI minimum requirement of 100%.

Rs. In Lakh

NSFR	Weighted Amount
Total Available Stable Funding (ASF)	16,88,059.21
Total Required Stable Funding (RSF)	15,08,465.15
NSFR	**111.91%**

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 56 processes as on September 30, 2022. Few of them to note are Variable pay automation, ATM cash out management and reporting, Redacting Aadhaar number on paper copy and in the digital image stored in system, viz., CRM Next, Glow and HHD, Positive Pay confirmation from customers through phone banking and Trucell SB account process note 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 September 30, 2022, 16 BRD's and FSD's were reviewed and UAT was undertaken for 81 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 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. ORMD and Operations department has jointly or individually reviewed 35 branches against an annual plan of 54 branches on PAN India basis.
- **Key Risk Indicators**: In Q1 & Q2 of FY22-23, 40 KRIs continue to be monitored at an organization level and 14 parameters customized for Branch Banking vertical i.e., Functional KRIs which are part of the ORM framework. In addition to the same, the Bank has also identified 15 unique KRI's for Micro Banking vertical and commenced monitoring with effective from June'22. ORMD is also working on identifying KRI's for Housing vertical. 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 Sep'22):

	Count			Loss in lakh			
Event Type	**YTD Sep'21**	**YTD Sep'22**		**YTD Sep'22**			**YTD Sep'21**
	Total	**Total**		**Gross**	**Net**	**Ops Loss**	**Ops Loss**
Business Disruption and Systems Failures	85	177		9.27	6.37	1.85	0.39
Clients, Products, and Business Practice	17	9		2.83	1.98	0	3.68
Damage to Physical Assets	35	13		0.29	0.29	0.29	0
Employment Practices and Workplace Safety	4	1		0	0	0	0
Execution, Delivery, and Process Management	141	159		34.37	14.76	5.14	6.34
External Fraud	296	125		59.4	37.11	24.16	18.42
Internal Fraud	145	176		96.31	35.46	0.88	32.03
Total	**723**	**660**		**202.48**	**95.98**	**40.26**	**60.86**

- **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 Q2 FY 22-23, ORMD of the Bank performed a thematic review on process followed for TDS deduction (194A), Cash withdrawal tax (194N) and Insurance reconciliation process. Key gaps from these reviews were highlighted and discussed in ORMC held in the month of Aug'22.
- **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 was completed for 6 applications including

Finacle Treasury, Br.Net, Finacle CBS, Oracle, E kuber and Crismac. 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 started from July 2020 as guided by the National Controls and Compliance Committee. A list of 32 exception reports were identified and tagged to Operational Risk department of the Bank for initiating the review. Out of which, 30 exception reports were reviewed in Q 2 FY 22 - 23 and gaps identified were discussed with relevant stake holders and corrective action have been initiated
- **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. Critical and repeat observations are shared with the leadership team for remedial /corrective actions. Revised checklist was implemented with effect from April 2022. As on September 30th, 2022, ORMD of the Bank has reviewed 154 branches (including 35 Branch RCSA) against an annual plan to cover 240 branches PAN India in FY 22-23.
- **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 8 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 Information Security team and ORMD. Observations/gaps are shared with concerned function for rectification and response. These key observations along with department response are placed at ORMC and RMCB on a quarterly basis.

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 vendors material vendors including 7 empanelled BC's. 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. In Q1 FY 22-23, 37 planned and 11 unplanned & In Q2 FY 22-23,34 planned and 13 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 21 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 external 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 July 2021. IFC testing for FY 22-23 has commenced in the month of July 2022 and testing will be completed for 21 functions of the Bank in a phased manner including testing of Entity level controls. As on 30th Sep'2022 walk through of the processes and Risk and Control matrix (RCM) enhancement is completed and signed- off by department heads for 16 verticals viz., Electronic Banking, Digital Banking, Credit, FIG, Vehicle Finance, Phone Banking, Micro Banking, Collections, Human Resource, Branch Banking, Rural Banking, MSE, SHL, Service Quality, TPP and Admin & Infra. RCM enhancement is work in progress for 5 verticals viz., Finance & Accounts, Operations, Marketing, Information technology and Treasury department. The testing of controls is ongoing for current financial year where sign-off is received from departments and scheduled to complete the same by 31st Dec'2022.

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	(13,756.81)	13,756.81
2	Overseas	-	-
	Total	**(13,756.81)**	**13,756.81**

12.2.2. Economic Value Perspective (MDG Approach)

Rs. in Lakh

Category	Items	Amount
A	Computation of Aggregate RSA	25,98,466
B	Computation of Aggregate RSL	23,36,525
C	Weighted Avg. MD of RSL across all currencies	1.22
D	Weighted Avg. MD of RSA across all currencies	1.67
E	Modified Duration Gap (MDG)	0.58
F	Change in MVE as % of equity for 200 bps change in interest rate	-13.33%
G	**Change in MVE in absolute terms**	**(30,025.46)**

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. 11,846.95 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. 2,653.78 lakh).

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

Disclosure template for main features of regulatory capital instruments – Equity Shares		
Sr. No.	**Particulars**	**Details**
1	Issuer	Ujjivan Small Finance Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	ISIN: INE551W01018
3	Governing law(s) of the instrument	Applicable Indian Statutes and regulatory requirements
	Regulatory treatment	
4	Transitional Basel III rules	Common equity Tier 1
5	Post-transitional Basel III rules	Common equity Tier 1
6	Eligible at solo/group/ group & solo	Solo
7	Instrument type	Common Shares
8	Amount recognised in regulatory capital (Rs. in lakh, as of most recent reporting date)	Rs. 1,95,450.47 Lakh
9	Par value of instrument	Rs 10/-
10	Accounting classification	Capital
11	Original date of issuance	• Rs. 5 lakh – July 4, 2016 • Rs. 10,998.68 lakh –July 30, 2016 • Rs 1,33,000 Lakh – February 10, 2017 • Rs. 1,405.5 Lakh- November 11, 2019 • Rs. 7,142.9 Lakh- November 13, 2019 • Rs. 20,270.3 lakh- December 10, 2019 • Rs. 0.3 Lakh- November 7, 2020 • Rs. 0.2 Lakh- January 19, 2021 • Rs. 0.4 Lakh- February 15, 2021 • Rs. 0.04 Lakh- March 15, 2021

		• Rs. 22,619.05 Lakh – September 15, 2022
12	Perpetual or dated	Perpetual
13	Original maturity date	No Maturity date
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable	NA
	Coupons / dividends	Dividend
17	Fixed or floating dividend/coupon	NA
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Non-Cumulative
23	Convertible or non-convertible	NA
24	If convertible, conversion trigger(s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	No
31	If write-down, write-down trigger(s)	NA
32	If write-down, full or partial	NA
34	If temporary write-down, description of write-up mechanism	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinate to the claims of all depositors, general creditors, borrowings and all capital instruments qualifying Tier II Capital instruments , perpetual debt instruments and Perpetual non-cumulative preference shares
36	Non-compliant transitioned features	No

37	If yes, specify non-compliant features	NA

During the quarter ended September 30, 2022, the Bank has made following allotments:

Date of issue and allotment	Method of allotment	Face value (Rs.)	Issue price (Rs.)	Number of equity shares allotted
September 15, 2022	Qualified Institutional Placement	10	21	22,61,90,476

Perpetual Non-Cumulative Preference Shares (PNCPS)

Disclosure template for main features of regulatory capital instruments – Preference Shares		
Sr. No.	**Particulars**	**Details**
1	Issuer	Ujjivan Small Finance Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	INE551W04012
3	Governing law(s) of the instrument	Applicable Indian Statutes & Regulatory requirements and RBI Basel III Guidelines.
	Regulatory treatment	
4	Transitional Basel III rules	Addition Tier 1 Capital (AT1)
5	Post-transitional Basel III rules	Addition Tier 1 Capital (AT1)
6	Eligible at solo/group/ group & solo	Solo
7	Instrument type	Perpetual Non-Cumulative Preference shares
8	Amount recognised in regulatory capital (Rs. in lakh, as of most recent reporting date)	Rs. 20,000 lakh
9	Par value of instrument	Rs 10/-

10	Accounting classification	Capital
11	Original date of issuance	10th February 2017
12	Perpetual or dated	Perpetual
13	Original maturity date	No Maturity date
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	February 10, 2022
16	Subsequent call dates, if applicable	NIL
	Coupons / dividends	Dividend
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	11.0% (Dividend Rate)
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	NIL
22	Noncumulative or cumulative	Non-Cumulative
23	Convertible or non-convertible	Non-Convertible
24	If convertible, conversion trigger(s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA

28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	Yes
31	If write-down, write-down trigger(s)	PONV trigger & CET1 trigger
32	If write-down, full or partial	Full and Partial
34	If temporary write-down, description of write-up mechanism	The Issuer shall: 1. Notify holders of preference Shares. 2. Cancel any dividend which is scheduled to be paid on Dividend payment date. 3. Without the need for the consent of holders of the PNCPS, write down the face value of the PNCPS by such amount as the Issuer may in its absolute discretion decide. Provided that, in no event shall such amount of write down be less than the amount required to immediately return the Issuer's Common Equity Tier 1 Ratio to above the CET1 Trigger Event Threshold , nor shall such amount of write down exceed the amount which would be required to be written down to ensure that the Common Equity Tier 1 Ratio is equal to the aggregate of the CET1 Trigger Event Threshold and 2.5%, or such other percentage as may be prescribed by the RBI (the "CET1 Write Down Amount").
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinate to the claims of all depositors, general creditors, borrowings and all capital instruments qualifying Tier II Capital instruments and perpetual debt instruments. Only Superior to Equity Shares.
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	NA

Non-Convertible Debentures (NCD)

Disclosure template for main features of regulatory capital instruments - NCD

Sr. No.	Particulars	Details
1	Issuer	Ujjivan Small Finance Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	INE551W08013
3	Governing law(s) of the instrument	Applicable Indian Statutes & Regulatory requirements Reserve Bank of India's circular on "Master Circular - Prudential Guidelines on Capital Adequacy and Market Discipline-New Capital Adequacy Framework (NCAF)" dated July 1, 2015
	Regulatory treatment	
4	Transitional Basel III rules	Tier II Capital
5	Post-transitional Basel III rules	Tier II Capital
6	Eligible at solo/group/ group & solo	Solo
7	Instrument type	Subordinated, rated, unlisted, unsecured, transferable, redeemable, fully paid up, non-convertible debentures
8	Amount recognised in regulatory capital (Rs. in lakh, as of most recent reporting date)	Rs. 30,000 lakhs
9	Par value of instrument	Rs 1,00,000/-
10	Accounting classification	Capital
11	Original date of issuance	• August 26, 2022- Rs.22,500 lakh • September 09, 2022 – Rs.7,500 lakh
12	Perpetual or dated	dated
13	Original maturity date	April 26, 2028
14	Issuer call subject to prior supervisory approval	-
15	Optional call date, contingent call dates and redemption amount	-
16	Subsequent call dates, if applicable	-
	Coupons / dividends	Coupons
17	Fixed or floating dividend/coupon	Fixed

18	Coupon rate and any related index	11.95%
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	NA
21	Existence of step up or other incentive to redeem	NA
22	Noncumulative or cumulative	NA
23	Convertible or non-convertible	NA
24	If convertible, conversion trigger(s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	NA
31	If write-down, write-down trigger(s)	NA
32	If write-down, full or partial	NA
34	If temporary write-down, description of write-up mechanism	NA
35	Position in subordination hierarchy in liquidation (specify instrument type	The Debentures shall be: (a) senior to the claims of the investors in instruments eligible for inclusion in Tier I capital and Upper Tier II Capital of the Bank; and

	immediately senior to instrument)	(b) subject to paragraph (a) above, subordinated to the claims of the other creditors of the Bank but shall rank pari-passu with the other Lower Tier II instruments of the Bank (whether present or future).
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	NA

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

Full Terms and Conditions of Equity Shares of the Bank		
Sr. No.	**Particulars**	**Full Terms and Conditions**
1	Voting shares	Equity Shares of the Bank are Voting Shares
2	Limits on Voting Shares	Limits on Voting rights are applicable as per provisions of the Banking Regulation Act, 1949. One share has one voting right
3	Position in Subordination hierarchy	Represent the most Subordinated claim on liquidation of the Bank. It is not secured or guaranteed by issuer or related entity nor subject to any other arrangement that legally or economically enhances the seniority of the claim
4	Perpetuity	Principal is perpetual and never repaid outside of liquidation (Except discretionary repurchases/buy backs or other means of effectively reducing capital in a discretionary manner that is allowable under relevant law as well as guidelines, if any issued by RBI in the matter)
5	Accounting Classification	The paid-up amount is classified as Equity Capital in Banks Balance Sheet.
6	Distributions	Distributions are paid out of Distributable items (retained earnings included). There are no circumstances under which distributions are obligatory. Non-Payment is therefore not an event of default
7	Approval for Issuance	Issue of further shares requires requisite approval from the Board (includes duly

		authorised Board Committee) and the Shareholders of the Bank

PNCPS

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

		(with a notification to the holders of the PNCPS which shall specify the date fixed for exercise of the call option), exercise a call option on the PNCPS ("Issuer Call"). The Issuer Call may be exercised at the option of the Issuer no earlier than on the fifth anniversary of the Deemed Date of Allotment.
		Tax Call: If a Tax Event has occurred and is continuing, the Issuer may at its sole discretion, subject to Conditions for Call and Repurchase and notification to the holders of PNCPS of not less than 21 calendar days prior to the date of exercise of such call option (which notification shall specify the date fixed for exercise of the call option), exercise a call option on the PNCPS ("Tax Call").Provided further that, subject to conditions for Call and Repurchase the Issuer may substitute the PNCPS with capital instruments that are in accordance with the RBI Master Circular on Basel III capital regulations and any other applicable law
		Regulatory Call: If a Regulatory Event has occurred and is continuing, the Issuer may at its sole discretion, subject to Conditions for Call and Repurchase and notification to the holders of PNCPS of not less than 21 calendar days prior to the date of exercise of such call option (which notification shall specify the date fixed for exercise of the call option), exercise a call option on the outstanding PNCPS ("Regulatory Call"). Provided further that, subject to Condition 27 (Conditions for Call and Repurchase) the Issuer may substitute the PNCPS with capital instruments that are in accordance with the RBI Master Circular on Basel III capital regulations and any other applicable law.
11	Repurchase/ Redemption/ Buy-back	The Issuer may subject to Conditions for Call and Repurchase having been satisfied and such repayment being permitted by the RBI Master Circular on Basel III capital regulations, repay the PNCPS by way of repurchase, buy-back or redemption.
12	Loss Absorption	PNCPS should have principal loss absorption through a write-down mechanism which allocates losses to the instrument at a pre-specified trigger point. The write-down will have the following effects: 1. Reduce the claim of the PNCPS in case of liquidation; 2. Reduce the amount re-paid when a call over the PNCPS is exercised by the Issuer; and 3. Partially or fully reduce dividend payments on the PNCPS. The specific criteria for such loss absorption through conversion/write-down/write-off on breach of pre-specified trigger and the Point of Non-Viability (PONV) will be in accordance

		with the applicable RBI guidelines. The relevant terms of Annex 16 in Master Circular of Basel III capital regulations shall be deemed to be incorporated herein.
13	Permanent Principal Write-down on PONV Trigger Event	If a PONV Trigger Event occurs, the Issuer shall: 1. Notify the holders of the PNCPS; 2. Cancel any dividend which is scheduled to be paid on Dividend payment date ; and 3. Without the need for the consent of the holders of the PNCPS, write down the outstanding principal of the PNCPS by such amount as may be prescribed by RBI ("**PONV Write Down Amount**") and subject as is otherwise required by the RBI at the relevant time. The Issuer will affect a write-down within 30 (thirty) days (or such other time as may be prescribed by applicable law) of the PONV Write-Down Amount being determined by the RBI.A Permanent Principal Write-down on PONV Trigger Event may occur on more than one occasion. Unless specifically permitted by applicable law, once the face value of the PNCPS has been written down pursuant to PONV Trigger Event, the PONV Write-Down Amount will not be restored in any circumstances, including where the PONV Trigger Event has ceased to continue.
14	Temporary principal Write-down on CET1 Trigger Event	If a CET1 Trigger Event (as described below) occurs, the Issuer shall: 1. Notify the holders of the PNCPS; 2. Cancel any dividend which is scheduled to be paid on Dividend payment date; 3. Without the need for the consent of holders of the PNCPS, write down the face value of the PNCPS by such amount as the Issuer may in its absolute discretion decide. Provided that, in no event shall such amount of write down be less than the amount required to immediately return the Issuer's Common Equity Tier 1 Ratio to above the CET1 Trigger Event Threshold , nor shall such amount of write down exceed the amount which would be required to be written down to ensure that the Common Equity Tier 1 Ratio is equal to the aggregate of the CET1 Trigger Event Threshold and 2.5%, or such other percentage as may be prescribed by the RBI (the "CET1 Write Down Amount"). A write-down may occur on more than one occasion. Once the value of a PNCPS has been written down pursuant to this

		temporary Write down, the value of the PNCPS may only be restored in accordance with condition of reinstatement.

Subordinated Debt Instruments:

Terms and Conditions of NCDs of the Bank		
Sr. No.	**Particulars**	**Full Terms and Conditions**
1.	Type of Instrument	Non-Convertible Debentures (Subordinated debt instruments)
2.	Seniority	The Bond shall be: (a) senior to the claims of the investors in instruments eligible for inclusion in Tier I capital and Upper Tier II Capital of the Bank; and (b) subject to paragraph (a) above, subordinated to the claims of the other creditors of the Bank but shall rank pari passu with the other Lower Tier II instruments of the Bank (whether present or future).
3.	Maturity	Bullet redemption at par, at maturity, date of maturity is April 26, 2028
4.	Listing	Unlisted
5.	Accounting Classification	The paid-up amount is classified as Borrowings in Bank's Balance Sheet.
6.	Approval for Issuance	Once the shareholders' approval is received for issue of capital, NCDs are issued only with approval given by Board of Directors/ Board Approved Committee
7.	Coupon Type	Fixed
8.	Coupon Rate	11.95% p.a.
9.	Coupon Payment Frequency	Monthly with the final Coupon Payment Date being the Maturity Date

15. Table DF-15: Disclosure on Remuneration

15.1. Remuneration - Qualitative disclosures

A. Information relating to the bodies that oversee remuneration.

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

Name: Nomination and Remuneration Committee (NRC)

Composition of Nomination and Remuneration Committee as on September 30, 2022:

Sr. No.	Name of director	Designation/Category
1.	Ms. Anita Ramachandran	Chairperson -Independent Director
2.	Mr. Ravichandran	Member -Independent Director
3.	Mr. Banavar Anantharamaiah	Member-Independent Director
4.	Mr. Rajesh Kumar Jogi	Member - Independent Director
5.	Mr. Samit Kumar Ghosh	Member- Director (Non-Executive, Non-Independent)

Following are the main terms of reference of the Committee:

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

  The NRC, while formulating the above policy, ensures that:
  - the level and composition of remuneration be reasonable and sufficient to attract, retain and motivate talented directors required to run the Bank successfully;
  - relationship of remuneration to performance is clear and meets appropriate performance benchmarks; and
  - Remuneration to directors, Key Management Personnel (KMP) and senior management involving a balance between fixed and incentive pay reflecting short- and long-term performance objectives appropriate to the working of the Bank and its goals.
- Formulating criteria for evaluation of performance of independent directors and the Board of Directors.
- To ensure ‘fit and proper’ status of proposed/ existing Directors.
- Devising a policy on diversity of Board of Directors.
- Ensure that level and composition of remuneration is reasonable and sufficient, relationship of remuneration to performance is clear and meets appropriate performance benchmarks.
- Identifying persons who are qualified to become directors and who may be appointed in senior management in accordance with the criteria laid down, and

recommend to the Board of directors their appointment and removal and shall specify the manner for effective evaluation of performance of the Board, its committees and individual directors to be carried out either by the Board, by the NRC or by an independent external agency and review its implementation and compliance.

- Make appropriate disclosures of the remuneration policy and the evaluation criteria in the annual report.
- Analysing, monitoring and reviewing various human resource and compensation matters.
- Determining the Bank's policy on specific remuneration packages for executive directors including pension rights and any compensation payment and determining remuneration packages of such directors.
- Determining compensation levels payable to the senior management personnel and other staff (as deemed necessary), which shall be market-related, usually consisting of a fixed and variable component.
- Determining whether to extend or continue the term of appointment of the independent director, on the basis of the report of performance evaluation of independent directors.
- Recommending to the Board, all remuneration, in whatever form, payable to senior management.
- Administering, monitoring and formulating detailed terms and conditions of the Employees' Stock Option Scheme (ESOP) of the Bank, inter-alia, including the following:

a) Determining the eligibility of employees;
b) The quantum of option to be granted under the Employees' Stock Option Scheme per Employee and in aggregate;
c) The exercise price of the option granted;
d) The conditions under which option may vest in employee and may lapse in case of termination of employment for misconduct;
e) The exercise period within which the employee should exercise the option and that option would lapse on failure to exercise the option within the exercise period;
f) The specified time period within which the employee shall exercise the vested option in the event of termination or resignation of an Employee;
g) The right of an employee to exercise all the options vested in him at one time or at various points of time within the exercise period;
h) Re-pricing of the options which are not exercised, whether or not they have been vested if stock option rendered unattractive due to fall in the Market Price of the Shares;
i) Formulating and implementing the procedure for making a fair and reasonable adjustment to the number of options and to the exercise price in case of

corporate actions such as rights issues, bonus issues, merger, sale of division and others. In this regard following shall be taken into consideration by the Compensation Committee:

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

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

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

l) The procedure for cashless exercise of options;

m) Forfeiture/ cancellation of options granted;

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

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

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

- Administering, monitoring and formulating detailed terms and conditions of the Employee Stock Purchase Scheme of the Bank.
- Conducting due diligence as to the credentials of any director before his or her appointment/ re-appointment, and making appropriate recommendations to the Board, in consonance with the Dr. Ganguly Committee recommendations and the requirements of RBI.
- To make recommendations to the Board concerning any matters relating to the continuation in office of any Director at any time including the suspension or termination of service of an Executive Director as an employee of the Bank subject to the provision of the law and their service contract.
- Ensure that level and composition of remuneration is reasonable and sufficient, relationship of remuneration to performance is clear and meets appropriate performance benchmarks.
- To develop a succession plan for the Board and to regularly review the plan.
- To approve Job descriptions and Key Responsibility Areas (KRAs) of Senior Managers and Business Line Managers on an annual basis.
- To review Performance of the senior/business line managers by NRC on an annual

basis.

- Overseeing the framing, review and implementation of the Bank's Compensation Policy for Whole Time Directors/ Chief Executive Officers / Risk Takers and Control function staff for ensuring effective alignment between remuneration and risks.
- To recommend to the board, all remuneration, in whatever form, payable to senior management.
- Framing suitable policies and systems to ensure that there is no violation, as amended from time to time, of any securities laws or any other applicable laws in India or overseas, including:
- The Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015; and
- The Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulations, 2003.
- Carrying out any other function as is mandated by the Board from time to time and / or enforced/mandated by any statutory notification, amendment or modification, as may be applicable.
- Review regularly and approve the Bank's program for executive and employee development.
- Review and implement the various HR policies and manual of the Bank.
- Develop, review and approve the principles guiding the Bank's executive compensation philosophies.
- Assure that the bonus plan is administered in a manner consistent with Bank's compensation principles and strategies including Bank's policies relating to executive management succession and executive organization development.
- Performing such other functions as may be necessary or appropriate for the performance of its duties.

B. External consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process.

Not Applicable

C. A description of the scope of the Bank's remuneration policy (e.g.: by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches.

The purpose of the Compensation Policy is to ensure statutory compliance as well as alignment with the Bank's business policies and practices. The Compensation & Benefits (C & B) Policy document is based upon the principle that a fair and competitive salary is paid for acceptable levels of performance on the job. The compensation policy document is designed to align long-term interest of the employee and the organization.

The policy document covers all employees and Board of Directors of the Bank. This document provides guidance on:

- Compensation Philosophy
- Compensation Structure
- Grades
- Pay Review Process
- Variable Pay Plans
- Salary Pay-out

D. Description of the type of employees covered and number of such employees.

- All employees of the Bank are governed by the Compensation Policy. The total number of permanent employees in the Bank as on September 30, 2022 was 16,621.

E. Information relating to the design and structure of remuneration processes:

- ➢ An overview of the key features and objectives of remuneration policy.
  The Compensation Policy and Nomination & Remuneration Policy has been laid out keeping the following perspectives into considerations.
- ➢ Compensation principles support the Bank in achieving its mission of providing a full range of financial services to the economically active poor who are not adequately served (unserved and underserved) by financial institutions. This policy also support the Bank to attract and retain talent and skills required to consolidate the organization's purpose and ideology.
- ➢ The pay structure and amounts always conform to applicable Income Tax and other similar statutes.
- ➢ All practices of the Bank comply with applicable labour laws.
- ➢ The pay structure should be standardized for a level of employees.
- ➢ Elements eligible for tax exemption may be introduced at appropriate levels to enable employees take applicable tax breaks. Amounts related to certain benefits may undergo change due to change in grade/ roles/ function/ state/ region in the organization.
- ➢ The compensation structure shall be easy to understand for all levels of employees.
- ➢ The compensation policy is designed to promote meritocracy in the organization i.e. other things being equal, performers in a given role are expected to earn more than his/her peer group.
- ➢ The Bank pays the Independent Directors remuneration by way of sitting fees for attending meetings of the Board and its Committees as may be decided by the Board and, if required, approved by the Shareholders from time to time.
- Whether the remuneration committee reviewed the firm's remuneration policy during the past year, and if so, an overview of any changes that were made.
  The following were the changes made to the remuneration policy

Variable Pay

- Instead of a separate Bonus Scheme, the key principles shall be embedded into the compensation policy:
- The Bank shall announce the payment of bonus, as suitable. Payment of variable pay is not guaranteed.
- The pay-out will be made as a lump-sum amount and not deferred over 3 years for all employees, except the employees identified as Material Risk Takers who will be paid 1/3rd in each year over 3 years.
- Management Discretion - If there are significant developments in the year of payment (internal or external), management shall have leeway to announce a decision about bonus payment

- **A discussion of how the Bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee.**

  The Bank periodically benchmarks its remuneration practices against the market. Compensation ranges are in alignment to market pay which are derived and reviewed periodically. Remuneration payable for each function is independent of amounts payable to other function as is the market practice. Further, performance metrics for the Risk and Compliance function are completely unrelated to deliverables of any other business function. The deliverables of the risk function are periodically reviewed by the Risk Management Committee of the Board (RMCB) ensuring due independence.

F. Description of the ways in which current and future risks are considered in the remuneration processes.

- Structurally, the Control functions such as Credit, Risk and Vigilance are independent of the business functions and each other, thereby ensuring independent oversight from various aspects on the business functions.
- The Bank ensures that staff engaged in financial and risk control are independent, have appropriate authority, and are compensated in a manner that is independent of the business areas they oversee and commensurate with their key role in the firm.

G. Description of the ways in which the Bank seeks to link performance during a performance measurement period with levels of remuneration.

- A discussion of how amounts of individual remuneration are linked to the Bank wide and individual performance.
- The compensation policy is designed to promote meritocracy within the Bank i.e. other things being equal, performers in a given role are expected to earn more than his/her peer group.

- The Bank shall, from time to time benchmark its compensation practices against identified market participants to define its pay structure and pay levels.
- The merit and increments are finalized and approved by the National Human Resources Committee (NHRC) at annual intervals, basis organization's budgets and accomplishments as well as market reality.
- The Bank believes in paying its employees in an equitable and fair manner basis the incumbent's Role, Personal Profile (Education/Experience etc.) as well as Performance on the Job.
- Employees rated "Below Expectations" shall not be provided any increments, unless statutorily required.

H. A discussion of the measures the Bank will, in general implement to adjust remuneration in the event that performance metrics are weak. This should include the bank's criteria for determining 'weak' performance metrics

The Bank reviews metrics of all business units on a periodic basis and makes necessary changes to metrics to ensure satisfaction with the defined metrics and performance business outcomes across the stakeholder spectrum including investors, customers, regulator and employees. The Bank, particularly at Corporate and senior levels takes a balanced approach to performance management. High performance of an individual/ department is dependant not only on delivery of business metrics but also achievements of control functions.

For e.g.: over-achievement of business targets would not translate into a high-performance rating if there are significant issues with portfolio quality. Cost of acquisition, both in short and long term are typically evaluated to ensure healthy bottom-line.

I. A discussion of the Bank's policy and criteria for adjusting deferred remuneration before vesting and (if permitted by national law)

The Bank shall announce payment of cash variable pay as suitable. Discretion is typically applied related to staggered pay-out in case large pay-outs, particularly for functions like Credit and Risk. Payment is prorated for employees who have worked for part of the year at the Bank. If there are significant developments in the year of payment (internal or external), management shall have leeway to announce a decision about pay-outs.

The Bank believes in the philosophy of collective ownership by its employees. Thus, ESOPs of the Bank are distributed amongst employee's, basis their criticality and performance from time to time, at the discretion of the management.

Stock option schemes at the Bank vests in a staggered manner. Besides the statutory requirement of grant and 1-year vesting, the total set of options vest in various tranches for up to a period of 4 years.

Malus/ Clawback : In the event of negative contributions of the individual towards the achievements of the Banks objectives in any year, the deferred compensation should be subjected to Malus/Clawback arrangements. Similar provisions shall apply in case the individual is found guilty of any major non-compliance or misconduct issues.
Directors, if appointed/ Material Risk Takers/ other employees, as planned by the Bank/ or the relevant line of business, towards achievements of the Banks objectives in any year, the deferred compensation shall be subjected to Malus/Clawback arrangements.

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

Variable Compensation at the Bank has the following distinct forms:

<u>**Cash Variable Pay**</u>

- Statutory Bonus
- Performance Pay – Performance Bonus and Monthly Variable Pay
- Rewards & Recognition

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

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

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

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

Performance Bonus: All employees who are not a part of any Monthly Variable Pay but part of the year end performance review will be covered under the Performance Bonus Plan the Bank. However, the actual pay-out of performance bonus shall be paid only to employees who have met the set criteria.
The Bank shall announce the payment of bonus, as suitable year on year. If there are significant developments in the year of payment (internal or external), management shall have leeway to announce a decision about bonus payment.

Rewards & Recognition: The Bank shall design schemes and practices from time to time to celebrate employees / departmental / organizational success. These celebrations may include offering tokens of appreciation to employees as defined in specific schemes. Fairness of application and transparency of communication shall be the hallmark of all such schemes. These will be subject to income tax laws, as applicable. Examples of such schemes may include: Long Service Awards (currently at one, three, five, seven and ten yrs. of completion of service with the Bank), Functional R&R Schemes; Organizational Rewards Schemes such as: Service Champion; Process Excellence; Customer Connect Awards; Above and Beyond; etc.

Non-cash Variable Pay

The Bank believes in the philosophy of collective ownership by its employees. Thus, ESOPs of the Bank are distributed amongst employee's basis their criticality and performance from time to time, at the discretion of the management. Stock options are granted based on a combination of parameters such as tenure and/or employees' performance.

15.2. Quantitative Disclosures

Sl. No	Quantitative Disclosures (Covers only Whole Time Directors/ CEO/Other Risk Takers[29])	Numbers
1	Number of meetings held by the Nomination and Remuneration Committee during the first quarter and remuneration paid to its members.	**Total Meetings Held in H1 FY 2022-23:** 03 **Total sitting fee paid:** Rs. 9 lakh
2	Number of employees having received a variable remuneration award during the year.	5 employees: COO, CBO, CRO, CCO and Head of Treasury
3	Number and total amount of sign-on awards made during the financial year.	NIL
4	Details of guaranteed bonus, if any, paid as joining / sign on bonus.	NIL
5	Details of severance pay, in addition to accrued benefits, if any.	NIL
6	Total amount of outstanding **deferred remuneration**, split into cash, shares and share-linked instruments and other forms.	Cash: 9.52 Lakhs ESPS shares: Nil ESOP grants: Nil
7	Total amount of deferred remuneration paid out in the financial year.	Cash- Rs. 60.69 lakh
8	Breakdown of amount of remuneration awards for the financial year to show fixed and variable, deferred and non-deferred.	Fixed gross: Rs. 334.22 lakh (As of Sep-22) Variable deferred: Rs. 9.52 lakh Fixed gross of the following employees:

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

		MD & CEO, Head- Treasury, Chief Credit Officer (CCO), Chief Risk Officer (CRO), Chief Business officer (CBO) and Chief Operating officer (COO)
9	Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and / or implicit adjustments.	Variable Provisioned – Rs. 116.87 lakh (As of Sep-22)
10	Total amount of reductions during the financial year due to ex- post explicit adjustments.	NIL
11	Total amount of reductions during the financial year due to ex- post implicit adjustments.	NIL

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	26,78,509.61
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
4	Adjustments for derivative financial instruments	-
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	-
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off- balance sheet exposures)	61,752.89
7	Other Adjustments	(53,571.51)
8	**Leverage ratio exposure**	**26,86,690.99**

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)	26,78,509.61
	Domestic Sovereign	5,46,704.23
	Banks in India	1,26,512.01
	Corporates	93,974.02
	Exposure to default fund contribution of CCPs	136.00
	Other Exposure to CCPs	-
	Others	19,11,183.35
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(53,571.51)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	26,24,938.10
	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	1,33,035.45
18	(Adjustments for conversion to credit equivalent amounts)	(71,282.56)
19	**Off-balance sheet items (sum of lines 17 and 18)**	61,752.89
	Capital and total exposures	
20	**Tier 1 capital**	**3,20,827.73**
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	**26,86,691.00**
	Leverage ratio	
22	**Basel III leverage ratio**	**11.94%**

Presently the contribution of Tier I capital to Total Basel II capital is 87.53%. 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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