Pillar III Disclosures as at 31st March 2021

2021

[Ujjivan Small Finance Bank (hereinafter called "the Bank") has prepared this disclosure document in compliance with the directions of Reserve Bank of India (hereinafter referred to as "the Regulator" or "RBI") vide its circular RBI/2015-16/58; DBR.No.BP.BC.1/21.06.201/2015-16 dated 1st July 2015. The document provides a review of key observations pertaining to the Bank's capital adequacy, credit quality, key business highlights and a review of its key risks as at 31st March 2021.]

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1 List of key abbreviations

Abbreviation	Full form
AFS	Available For Sale
ALCO	Asset Liability Committee
ANBC	Adjusted Net Bank Credit
ATM	Automated Teller Machine
BC	Business Correspondent
BIA	Basic Indicator Approach
CET1	Common Equity Tier 1 Capital
CFO	Chief Financial Officer
CIC	Core Investment Company
CRAR	Capital to Risk-weighted Assets Ratio
CRMC	Credit Risk Management Committee
CRO	Chief Risk Officer
DPD	Days Past Due
DSCB	Domestic Scheduled Commercial Bank
ECL	Expected Credit Loss
ECRA	External Credit Rating Agency
EWS	Early Warning System
FIG	Financial Institutions Group
GLC	General Ledger Code
GNPA	Gross Non-Performing Asset
HQLA	High Quality Liquid Assets
ICAAP	Internal Capital Adequacy Assessment Process
IFSC	Indian Financial System Code
ICAI	Institute of Chartered Accountants of India
IIA-SA	Institute of Internal Auditors (United States)
IGAAP	Indian Generally Accepted Accounting Principles
IMPS	Immediate Payment Service
IRAC	Income Recognition and Asset Classification
IRRBB	Interest Rate Risk in Banking Book
KRI	Key Risk Indicator
LCR	Liquidity Coverage Ratio
LMS	Loan Management System
LR	Leverage Ratio
LWE	Left Wing Extremism
LAP-SENP-SEP	Loan Against Property- Self Employed Nonprofessional- Self

	Employed Professional
MCA	Ministry of Corporate Affairs
MD	Modified Duration
MD & CEO	Managing Director and Chief Executive Officer
MDG	Modified Duration Gap
MSE	Micro and Small Enterprises
NBFC-ND-SI-CIC	Non-Banking Financial Company-Non Deposit-taking-Systemically Important- Core Investment Company
NE	North Eastern
NEFT	National Electronic Funds Transfer
NNPA	Net Non-Performing Asset
NPI	Non Performing Investment
NSFR	Net Stable Funding Ratio
NURC	Non Unbanked Rural Centre
ORMC	Operational Risk Management Committee
OSP	Outstanding Principal
PAT	Profit After Tax
PNCPS	Perpetual Non-Cumulative Preference Shares
PSL	Priority Sector Lending
QR Code	Quick Response Code
RBI	Reserve Bank of India
RCA	Root Cause Analysis
RCSA	Risk Control and Self-Assessment
ROA	Return on Asset
RSA	Risk Sensitive Assets
RSL	Risk Sensitive Liabilities
RWA	Risk Weighted Assets
SA	Standardized Approach
SDA	Standardized Duration Approach
SFB	Small Finance Bank
SLR	Statutory Liquidity Ratio
SMA	Special Mention Accounts
TVR	Tele verification report
UAT	User Acceptance Testing
UFSL	Ujjivan Financial Services Limited
UPI	Unified Payments Interface
URC	Unbanked Rural Centre
VaR	Value at Risk
YTD	Year Till Date

1. Introduction

Ujjivan Small Finance Bank (hereinafter called "the Bank") has prepared this disclosure document in compliance with the directions of Reserve Bank of India (hereinafter referred to as "the Regulator" or "RBI") vide its circular RBI/2015-16/58; DBR.No.BP.BC.1/21.06.201/2015-16 dated 1st July 2015. The document provides a review of key observations pertaining to the Bank's capital adequacy, credit quality, key business highlights and a review of its key risks as at 31st March 2021.

2. Key performance highlights of the Bank:

a. Branch network and distribution reach

The branch position of the Bank as at 31st March 2021 was as follows:

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

The Bank is fully compliant with the RBI guidelines on having 25% (25.04% as at 31st March 2021) of its Banking Outlets in the URCs.

The Bank had seven individual BCs as at 31st March 2021. These individual BCs perform essential banking services such as acceptance/withdrawal of small value deposits, balance enquiry and generation of mini statement of accounts. The Bank also has an arrangement

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

[2] Unbanked Rural Centre (URC)

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

[4] North eastern states

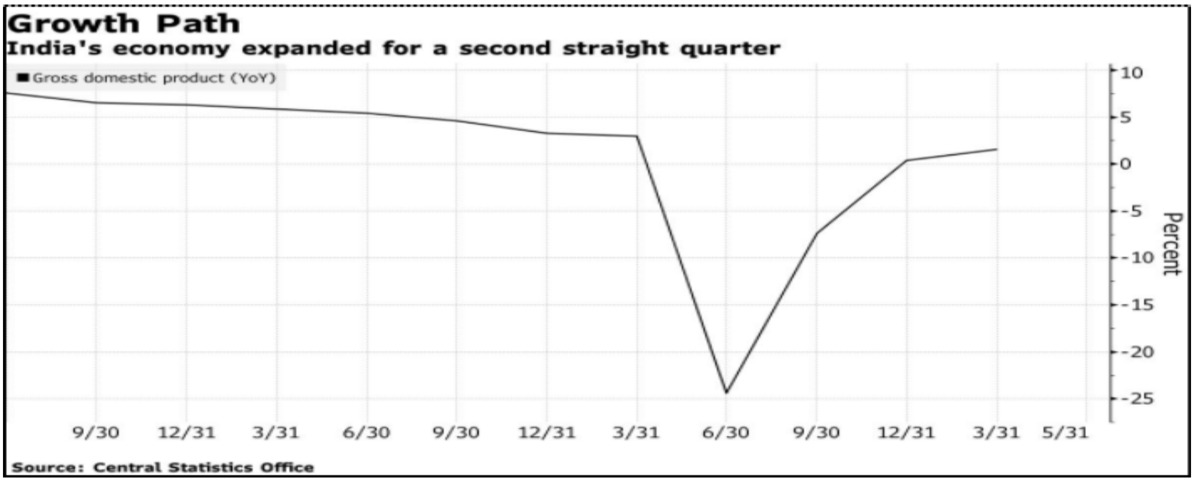
[5] Districts with active Left Wing Extremism (LWE)

with Corporate BCs, primarily aimed at facilitating field collection for its microfinance business. The Bank also engages with Corporate BCs for sourcing variants of Personal Loans (PL) and MSE loans. The Bank evaluates the performance of the BCs at regular intervals. The Bank will continue to focus on brick and mortar URC branches for providing a wide array of banking services as this has proven to be a profitable and effective model. The Bank operated a network of 491 Automated Teller Machines (ATMs) including 53 Automated Cash Recyclers (ACR) as at 31st March 2021.

b. **COVID 19 Environment and summary of measures taken by the Bank (with updates as at 31st May 2021 wherever applicable)**

Macro-economic outlook:

The month of March 2020 saw a disruption in the normal course of business on account of the nation-wide lockdown due to the COVID-19 pandemic. Except for some essential services and activities, the rest of India's $2.9 trillion economy remained shuttered during the lockdown period. In June 2020, the country's economy—which was counted among the fastest-growing not long ago contracted 23.9%[6] on y-o-y basis. India had slipped into a technical recession during July-September 2020 with the GDP falling for two successive quarters. In the July-September quarter, India's GDP contracted 7.5%[7] on year-on-year basis. After contracting for two straight quarters, Indian economy witnessed marginal growth in the October-December 2020 quarter with Gross Domestic Product (GDP) growing at 0.4% on a year-on-year basis, as per official data released by the National Statistics Office. The GDP growth rate for January – March 2021 quarter was 1.6% on a year-on-year basis. GDP at Constant (2011-12) Prices in Q4 of 2020-21 was estimated at Rs. 38.96 lakh crore, as against Rs. 38.33 lakh crore in Q4 of 2019-20, registering a growth of 1.6%.



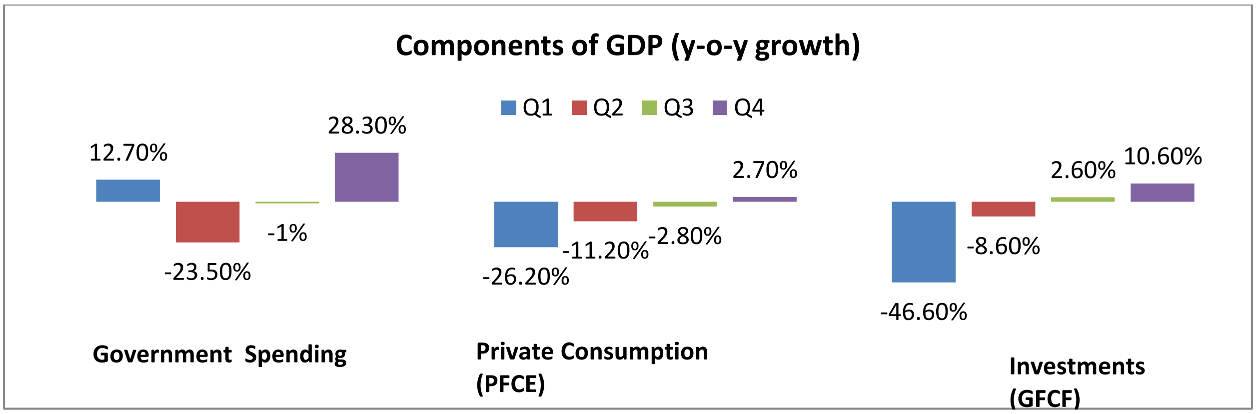
[6]https://www.bloombergquint.com/business/india-gdp-contracts-a-record-239-in-april-june-quarter#:~:text=The%20Indian%20economy%20contracted%20by,the%20spread%20of%20the%20coronavirus

[7] https://www.livemint.com/politics/policy/india-q3-gdp-highlights-11614334282139.htmlhttps://www.bloombergquint.com/business/india-gdp-contracts-a-record-239-in-april-june-quarter#:~:text=The%20Indian%20economy%20contracted%20by,the%20spread%20of%20the%20coronavirus

For the full fiscal year ended March 2021, GDP has contracted by 7.3%[8], less than its earlier estimate of -8%. A deeper dive into the quarterly GDP[9] data shows the following sectoral trends:

- Agriculture grew at 3.1% in Q4 as against 3.9% in Q3 and 3% in Q2.
- Manufacturing grew at 6.9% as against 1.6% in Q3 and 1.5% in the preceding quarter.
- Construction grew by 14.5% as compared to 6.2% growth in Q3 and 7.2% in Q2.
- Trade, hotel, transport, communication contraction was 2.3% as compared to 7.7% contraction in Q3 and 15.3% in Q2.

The y-o-y trend in components of GDP[10] is furnished as below:



Real Government Final Consumption Expenditure (GFCE) grew 28.3% in Q4, backed by massive spending by the Centre in the March quarter that included clearing of subsidy arrears. GFCE contraction of 23.5% in Q2 was offset by a sharp pickup in the capital spending of the Government of India in Q3, leading to a reduced contraction by 1.1% in Q3.

Private consumption, reflected in Private Final Consumption Expenditure (PFCE), increased by 2.70% as compared to a contraction of 2.80% in Q3. As a result, real PFCE fell 9.1% for the full year FY21. Despite the pickup during the festive season in Q3, PFCE registered a nominal increase in Q4, and trailed the performance of investment and government spending. This indicates that the share of consumer spending especially discretionary goods and services was slowly picking up by Q4, as the economy gradually opened up.

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8 https://www.bloomberg.com/news/articles/2021-05-30/indian-economy-faces-resilience-test-amid-risks-from-virus

9 https://www.livemint.com/politics/policy/india-q3-gdp-highlights 11614334282139.htmlhttps://www.bloombergquint.com/business/india-gdp-contracts-a-record-239-in-april-june-quarter#:~:text=The%20Indian%20economy%20contracted%20by,the%20spread%20of%20the%20coronavirus

10 https://www.business-standard.com/article/economy-policy/recovery-gains-strength-gdp-grows-1-6-in-q4-shrinks-7-3-in-fy21-121060100057_1.html

Investments, as reflected by Gross Fixed Capital Formation (GFCF), posted a robust growth of 10.6%, a further increase from the 2.6% achieved in Q3. The investment rate, which is the ratio of GFCF to GDP, was above the 30% barrier after almost six years, to reach 31.2%of GDP as at 31st March 2021 as compared to 27.5% in Q3 of FY 2020-21.

Second Wave: March 2021:

A second wave (COVID 2.0) beginning in March 2021 was much larger than the first, with a higher rate of transmission causing shortages of vaccines, hospital beds, oxygen cylinders and other medicines in parts of the country. By late April 2021, India led the world in new and active cases. On 30th April 2021, it became the first country to report over 400,000 new cases in a 24-hour period. The number of new cases had begun to steadily drop by late-May; on 25th May, the country reported 1, 95,994 new cases—its lowest daily increase since 13th April 2021.

While there was no imposition of a national lockdown, at the peak of the second wave, almost all states and union territories had some form of state-wide and localised restrictions in the form of total lockdowns, Section 144, weekend lockdowns, night curfews etc. The states and UTs are slated to commence the unlocking process sometime in Mid- June of FY 2021-22. The following table provides areas of concerns observed in COVID 2.0:

Lower concerns	Higher concerns
Job losses: • Unemployment rate (CMIE) report at ~8% in April 2021 vs. ~6.5% in March 2021 vs. 24% in April 2020	**Loss of life and medical expenses:** • High pace of spread infection and impact felt across all households (Poor, middle class and affluent) • Increase medical expenses/loss of income due to death
Movement of goods: • Localised and calibrated lockdowns in 2021 • Clear guidelines for factory operations, movement of goods and people • Home deliveries exempted from restrictions • Purchasing Manager Index (PMI) declined to 27.4 in April 2020 from 51.8 in March 2020 vs. 55.5 in April 2021 and 55.4 in March 2021	**Newer patterns** • Rural areas also impacted in this wave • Fear factor resulting in limited reverse migration, compounding issues • A stronger psychological change in purchasing and consumption behaviour for goods and services and increase savings.
Cash flows: • With business operation timings curtailed, the cash flows have not completely dried up as was the	**Back to back year of stress** • Economy wide shocks have not been seen for 2 years in a row • Bounce back typically happens with one

case last year for a wide majority. • Complete reliance on savings no longer required	good year
Liquidity and restructuring • Timely intervention by RBI on liquidity measures and restructuring 2.0. • Provision/extension of resolution framework for COVID affected borrowers.	

There is a case to be cautiously optimistic on the performance of economy in FY 2021-22 given that the restrictions were more calibrated. Near-term growth dynamics, however, remain crucially contingent on two factors — the pace of relaxation of lockdowns and the pace of vaccinations. While the former will determine the speed of recovery in mobility and broader economic activity, the latter will be important for ensuring that the number of cases remains in check and the lockdown easing is sustained.

High-frequency economic indicators such as NIBRI, mobility trackers, power consumption and railway freight loads are showing early signs of a rebound as the second wave of pandemic cases ebb[11] in June 2021. The turn, if it strengthens, will mean that the months of April-May 2021 were worst hit, with the economy set to rebound from June 2021.

Actions taken by the Bank (second wave):

The Bank is continuously monitoring the developments and implementing necessary steps to mitigate the same in light of the second wave. Details of the various initiatives are provided under relevant sections of this disclosure. A summary of the initiatives taken by the Bank is produced below:

- Quick Response Team (QRT) was re-constituted for monitoring and supervising banking operations. A special committee of the Board - Business Continuity Monitoring (BCM) Committee was regularly convened to advise, monitor and assess the social, financial, business, credit and risk impact under the current economic scenario.
- Within the Bank, the number of positive cases among employees has been on a declining trend with the number of positive cases peaking in the month of May 2021. 84% of the positive cases had recovered as at 8th June 2021. 46.3% of Bank personnel have received at least one dose of vaccination with 4.2% of personnel being fully vaccinated as at 8th June 2021.

[11] https://www.bloombergquint.com/business/as-the-second-wave-ebbs-indian-economy-turns-a-corner

- The Bank had encouraged its employees to Work from Home (WFH) with an objective to reduce the number of personnel at office premises especially in Regional and Corporate Offices. The Bank has also issued advisories/guidelines related to work timing and officer capacity for its branches in line with the SLBC guidelines. Roster system was implemented for customer facing roles to ensure staff rotation. The Bank will initiate the process of 'Back to Office' as and when the situation is observed to improve and after factoring the state level directions.
- The Bank's doctor-on-call facilities are being actively utilized by the Bank's staff while the confidential counselling support sessions facilitated by a trained counsellor are helping reduce stress and anxiety levels in these testing times.
- During the first wave, the Bank had implemented all the directions provided by RBI vide its circular dated 27th March 2020[12] and 23rd May 2020[13]. The Bank had put in place a Board approved policy on providing moratorium on loan repayments to its customers.

- On 6th August 2020, RBI had issued a directive on implementing a resolution framework for COVID-19 related stress[14]. The guidelines provide a window under the prudential framework to enable banks/lending institutions to implement a resolution plan in respect of eligible loans, while classifying such exposures as standard, subject to specified conditions. To this effect, the Bank had introduced an internal policy/process framework detailing the manner in which such evaluation may be done and the objective criteria that may be applied while considering the resolution plan in each case.

- As part of resolution 1.0, the Bank had completed the restructuring exercise for 3, 73,318 accounts amounting to Rs. 85,218 lakhs in its Microbanking portfolio. The restructuring facility was provided to the borrowers under two modes viz. 1) EMI reduction and tenor change and 2) Moratorium. Restructuring undertaken in MSE and Housing verticals was Rs. 1,299 lakh (78 accounts) and Rs. 1,372 lakh (121 accounts) respectively as at 31st March 2021.

- All COVID related guidelines issued by RBI were monitored during the year and were adhered to.

- In view of the continuing uncertainty caused by the on-going second wave, it is crucial that the Bank remain resilient and proactively raise and conserve capital as

[12] Refer COVID-19 – Regulatory Package issued vide RBI/2019-20/186 DOR.No.BP.BC.47/21.04.048/2019-20 dated 27th March 2020

[13] Refer COVID-19 – Regulatory Package issued vide RBI/2019-20/244 DOR.No.BP.BC.71/21.04.048/2019-20 dated 23rd May 2020.

[14] Refer Resolution Framework for COVID-19-related Stress vide RBI/2020-21/16 DOR.No.BP.BC/3/21.04.048/2020-21 dated 6th August 2020

a bulwark against unexpected losses. Therefore, while RBI guidelines[15] allowed certain relaxations on payment of dividend on equity shares, the Bank did not declare any dividends on its equity shares as at 31st March 2021.

- On 5th May 2021, RBI issued guidelines[16] that accorded PSL status to the fresh credit extended by Small Finance Banks (SFBs) to registered NBFC-MFIs and other MFIs (Societies, Trusts etc.) which are members of RBI recognised 'Self-Regulatory Organisation' of the sector and which have a 'Gross Loan Portfolio' of up to Rs. 50,000 lakh as on 31st March 2021, for the purpose of on-lending to individuals. Bank credit as above will be permitted up to 10% of the Bank's total priority sector portfolio as on 31 March, 2021. The Bank takes cognizance of the same.

- On 5th May 2021, RBI issued guidelines[17] modifying the rules for utilisation of Floating Provisions/Counter Cyclical Provisioning Buffer. In order to mitigate the adverse impact of COVID 19 related stress on banks, as a measure to enable capital conservation, it has been decided to allow banks to utilise 100% of floating provisions/ countercyclical provisioning buffer held by banks as on 31st December 2020 for making specific provisions for non-performing assets with prior approval of their Boards. Such utilisation is permitted with immediate effect and up to March 31, 2022. As at 31st March 2021, the Bank did not have any floating provisions in its books for such utilizations. However, it is pertinent to note that for the quarter ended December 2020, the Bank did frontload Rs. 54,700 lakh of additional provisioning to cover for the potential stress on accounts of the pandemic, but the same does not qualify as floating provisions as per RBI guidelines.

- On 5th February 2021, RBI[18] allowed Scheduled Commercial Banks to deduct the amount equivalent to credit disbursed to 'New MSME borrowers' from their Net Demand and Time Liabilities (NDTL) for calculation of the Cash Reserve Ratio (CRR). For the purpose of this exemption, 'New MSME borrowers' were defined as those MSME borrowers who have not availed any credit facilities from the banking system as on January 1, 2021. This exemption will be available only up to Rs. 25 lakh per borrower disbursed up to the fortnight ending October 1, 2021, for a period of one year from the date of origination of the loan or the tenure of the loan, whichever is earlier. On 5th May 2021, the exemption was extended for such credits disbursed up to the fortnight ending December 31, 2021. The Bank takes cognizance of the same and will utilize this exemption from the ensuing quarter onwards.

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

[16] Refer RBI guideline on Priority Sector Lending (PSL) - On-lending by Small Finance Banks (SFBs) to NBFC-MFIs vide RBI/2021-22/27 FIDD.CO.Plan.BC.No.10/04.09.01/2021-22 dated 5th May 2021

[17] Refer RBI guideline on Utilisation of Floating Provisions/Counter Cyclical Provisioning Buffer vide RBI/2021-22/28 DOR.STR.REC.10/21.04.048/2021-22 dated 5th May 2021

[18] Refer RBI guidelines on Credit to MSME Entrepreneurs vide RBI/2020-21/92 DOR.No.Ret.BC.37/12.01.001/2020-21 dated 5th February 2021.

- With the resurgence of pandemic (second wave) in India during March 2021 and the consequent containment measures to check the spread of the pandemic, the RBI has announced two directions[19] (Resolution framework 2.0 for individuals and small businesses and MSMEs) with an objective of alleviating the potential stress. The dispensation for restructuring existing loans would be without a downgrade in the asset classification subject to certain conditions. This dispensation can be allowed for the credit facilities / investment exposure to those borrowers who were classified as Standard by the lending institution as on March 31, 2021. The last date for invocation of resolution permitted under this window is September 30, 2021 and the resolution plan should be finalised and implemented within 90 days from the date of invocation of the resolution process under this window. To ensure compliance to this framework, the Bank is currently updating its restructuring policy in line with the new directions within the time stipulated. The Bank is also in the process of identifying borrowers who may be extended relief within this dispensation. The details of the same shall be furnished in the ensuing disclosures.

c. Progress in IT and Digital banking

The Bank continues to focus on improving its back-end efficiencies by digitizing the processes and automating routine operations.

<u>Digital Marketing Campaigns across various products</u>

To bolster and popularize the Bank's digital banking presence, the Bank has set up processes for lead funnel management to arrive at a benchmark Cost per Acquisition (CPA) across various products. In FY 20-21, the Bank mobilized Rs. 835 lakh of deposits and disbursed Rs. 400 lakh of loans via pure digital media campaigns. The Bank has also opened 1000+ Savings Account / Fixed Deposits accounts on a pilot basis. Additional pilot initiatives with various aggregators are in the offing to further expand sourcing options for the bank.

To drive Existing to Bank (ETB) campaigns via digital means, the Bank has embarked on the journey to have a holistic 360 degree strategy to reach its customers via various channels to drive business in FY 2020-21. To achieve this objective, an Automated Customer Engagement (ACE) platform was launched in October 2020. Since then, 60 campaigns have been executed for Existing to Bank (ETB) customer..

Pilot campaigns to drive and popularize digital repayments were also initiated. In the pilot, 4 lakh customers were targeted to adopt digital mode of repayments. This has led to incremental repayment via digital modes of Rs. 825 lakh. Cross-sell pilots were also undertaken which led to 30 Two Wheeler Loans conversions and 6 Personal Loan conversions. A total of Rs. 36 lakh were disbursed overall across these loan variants.

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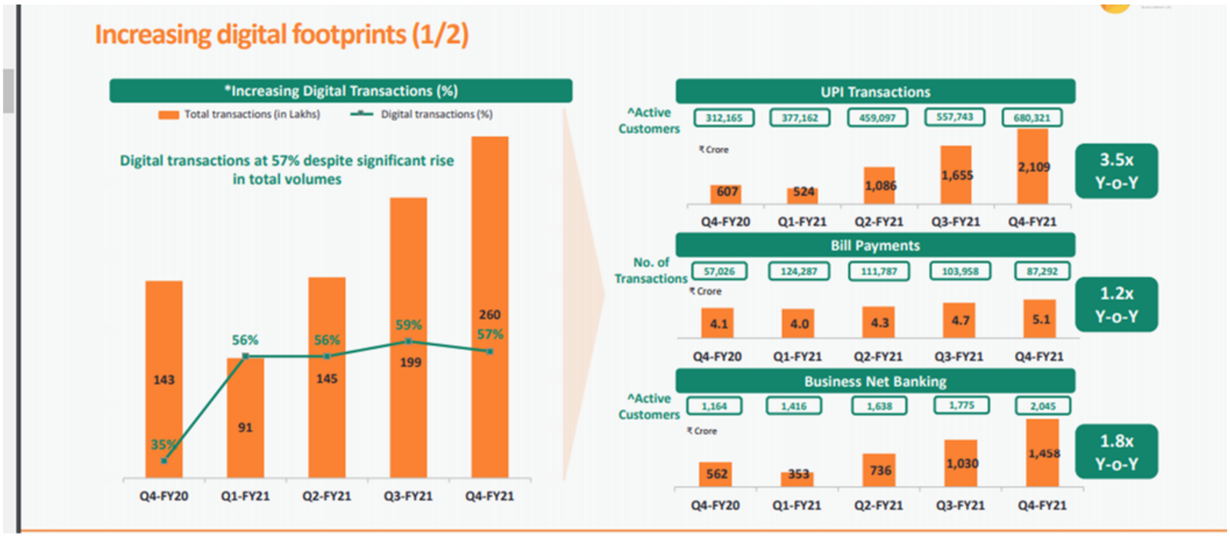
[19] Refer RBI guidelines on Resolution Framework – 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses and Resolution Framework 2.0 – Resolution of Covid-19 related stress of Micro, Small and Medium Enterprises (MSMEs)

Digital Banking Initiatives

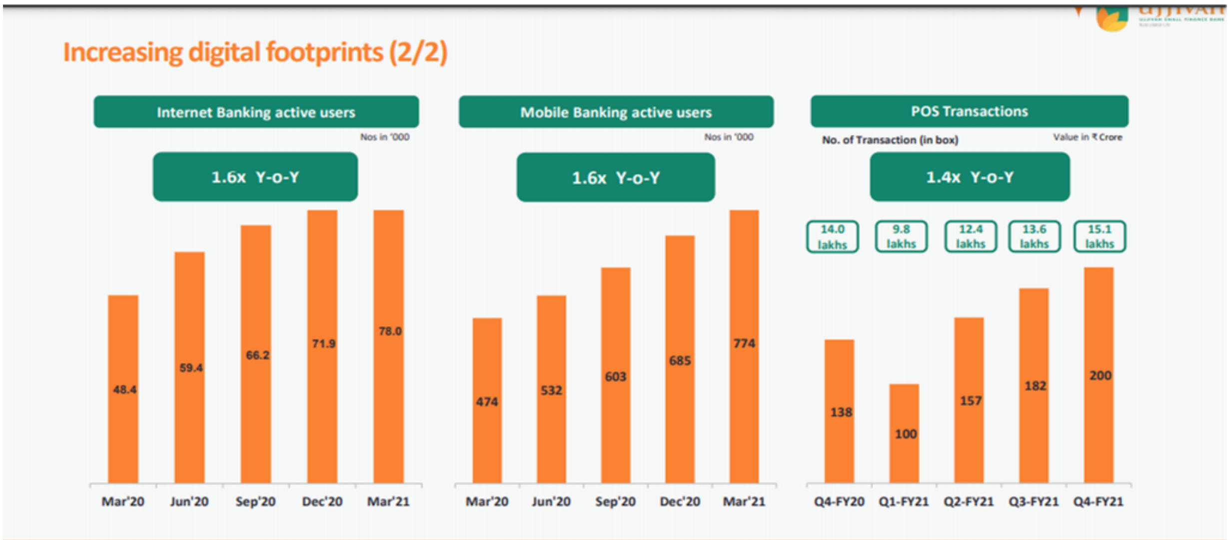
As part of the digital initiatives taken up by the Bank, the on-boarding process of customers has been considerably digitized. Internal processes like statement analysis, document verification, e-agreements, e-mandates have been operationalized in digital mode. The multilingual Chatbot on the Bank's website is slated to be enhanced further to an *Intelligent Bot* for better lead generation and smoother customer experience. Enhancement of Customer Lifetime Value has been corroborated through the launch of automated customer engagement tools which would help in the implementation of automated Omni channel marketing campaigns to reach out to the customers on their preferred channel at their preferred time. Machine Learning based customer segmentation models have also been developed which have helped identify and target potential customers for cross selling and up selling opportunities.

As an extension to enabling various channels for online repayment, the Bank now generates customized payment links for digital repayments and collections. Digital collections continue to remain stable contributing to average of 18% of Microbanking and Rural banking collections for FY 20-21. The Bank considers digital repayments as pivotal and a strategic shift in its business model, aimed at further optimizing costs and to stave off various mobility restrictions cause by the pandemic. The expanding reach of 'Money Mitra' outlets and Airtel Payments Bank has enabled customers to pay bills at their convenience and has contributed to ~40% of overall collections in Q4- FY21. The Bank went live with offering loan repayment facility for all businesses on Bharat Bill Payment system (BBPS), which has seen substantial uptick with month-on-month growth of 15% overtaking direct cash deposits at collection points. Pilot Testing of tie-ups for institutionalized digital collection/digital lending which had been successful in the previous quarter, have now been activated across pan India. Six such partnerships were made live- 3 for loan repayments and 3 for digital lending to personal loans and MSE customers as at year end.

At the end of Q4-FY21, 12 robotic processes have been automated across business verticals, leading to substantial savings. 15 processes are slated to be automated by Q1-FY22, with a focus of automating 15 processes every quarter.



The Bank had witnessed a steady increase in its transaction processing in the form of IMPS, UPI and NEFT etc. In Q4 of FY21, transactions through UPI saw 3.5 times year-on-year growth whereas transactions undertaken using Internet and Mobile banking (IB/MB) applications have witnessed a 1.6 times growth each on year-on-year basis. In Q4 of FY21 2021, digital transactions constituted 57% of the total transactions, a strong improvement from 35% in the corresponding quarter of FY20.



The Bank received the following awards and recognitions:

1) Business Today- KPMG Best Bank and Fintech Jury Award 2020 in innovation, workforce and talent and enterprise resilience (qualitative) for SFB category
2) Indian Banks' Association- 16th Annual Banking Technology Award 2021 (SFB category) for Best Digital Financial Inclusion Initiatives.
3) IBA- First Runner up: Best Technology Bank of the Year and Best IT Risk and Cyber Security initiatives.

4) Jury Recognition Award for Excellence in Cognitive Automation at UiPath Automation Excellence Awards 2020.
5) IDEX Legal award 2021 - Litigation Department of the Year
6) The Outlook Money Awards – Small Finance Bank of the year (Editor's Choice)
7) Inclusive Finance India Award 2020: SFB for achieving financial inclusion among SFBs.
8) Ranked 3rd in India's Best Companies to Work For (GPTWF) for 2020.
9) Awarded 'Best Microfinance Bank' by Asia Money.

d. Financial highlights for Q4 of FY 2020-21

Some of the key achievements made for quarter ended 31st March 2021 were as follows:

Key Highlights	Description
Customer base	• Total outreach: 59.2 lakh (56.6 lakh in December 2020, 55.3 lakh in September 2020, 54.7 lakh in June 2020, 54.4 lakh in March 2020)
Loan Portfolio	• Gross Advances at Rs. 15,13,996 lakh in March 2021 (Rs. 13,63,838 lakh in December 2020, Rs.13,88,970 lakh in September 2020, Rs. 14,36,584 lakh in June 2020; Rs. 14,15,330 lakh in March 2020) • Non-Microfinance book at: 28.21% in March 2021 (26.83% in December 2020, 24.20% in September 2020, 23.30% in June 2020; 22.74% in March 2020)
Deposit Balance	• Total Deposits (Retail plus Institutional): Rs. 13,13,577 lakh in March 2021 (Rs. 11,61,700 lakh in December 2020, Rs. 10,742,77 lakh in September 2020;Rs. 11,05,748 lakh in June 2020; Rs. 10,78,048 lakh in March 2020) • CASA: 20.55% in March 2021 (17.69% in December 2020, 16.47% in September 2020; 14.18% in June 2020; 13.54% in March 2020) • Retail: ~47.52% in March 2021 (47.89% in December 2020, 48.91% in September 2020; 44.58% in June 2020; 43.82% in March 2020;
Portfolio Quality	• Gross Non-Performing Assets (GNPA): 7.1% in March 2021 (0.96% in December 2020, 0.97% in June 2020; 0.97% in March 2020) • Net Non-Performing Assets (NNPA): 2.9% in March 2021

	(0.05% in December 2020, 0.18% in June 2020; 0.20% in March 2020)
Employee strength	• 16,571 in March 2021 (16,733 in December 2020, 17,370 in June 2020; 17,841 as at March 2020)
Profitability	• PAT for FY 2020-21: Rs. 830 lakh (Rs. 34,992 lakh in FY 2019-20)

	June 2020	September 2020	December 2020	March 2021
Quarterly PAT (Rs. in lakh)	5,465	9,600	(27,900)	13,665

The key performance ratios of the Bank were as follows:

Particulars	Mar-20	Jun-20	Sep-20	Dec-20[20]	Mar-21 (Qtr. Ended)	FY 2020-21
Yield	19.88%	19.70%	19.77%	18.60%	15.74%	18.48%
Cost of Funds	7.88%	7.67%	7.37%	7.10%	6.78%	7.24%
Net Interest Margin	11.16%	10.25%	10.23%	9.70%	7.94%	9.51%
Return on Assets (ROA)	1.64%	1.16%	2.01%	-5.80%	2.74%	0.04%
Return on Equity (ROE)	9.32%	6.79%	11.63%	-34.70%	17.33%	0.26%
Cost to Income ratio	64.63%	55.89%	56.57%	62.00%	67.32%	60.32%
Other income/ Total Income	8.91%	3.70%	7.87%	12.70%	15.95%	9.97%

The Cost of Funds has reduced over the quarters largely on account of increased availability of concessional refinance, rising share in retail deposits and fiscal stimulus measures by the government. The reduction in FY21 has been largely on account of increase in the share of CASA deposits from 13.5% of total deposits in March 2020 to 20.5% In Mar 2021 and repayment of high cost refinance.

[20] Figures year ended

The Bank witnessed a dip in its interest yields during the year on account of no interest income earned on borrowers who opted for moratorium. The Net Interest Margin also dipped on account of the reduced yields.

The Bank had front loaded Rs. 54,700 lakh as additional provisioning in anticipation of stress for quarter ended December 2020. The frontloading had resulted in reduced ROA on percentage basis owing to losses booked for that quarter. The Bank has however not made any additional frontloading of provisioning in Q4 of FY 2020-21.

The Bank saw a significant improvement in cost to income ratio during the year on account of rationalization of costs, cutting down of non-essentials, cost saving initiatives and process improvements.

Nominal increase in top line due to a muted y-o-y loan book growth of 7% coupled with significant increase in credit cost due to prudential provisioning on stressed assets resulted in lower net profit and ROA in FY21 as compared to that in FY20.

4. Table DF- 1: Scope of Application

4.1 Qualitative Disclosures

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

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

4.1.1 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

4.1.2 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

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

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

5. Table DF-2- Capital Structure

5.1 Qualitative Disclosures

5.1.1 Equity capital

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

The licensing guidelines for SFBs permit the aggregate foreign investment in a private sector bank from all sources up to a maximum of 74% of the paid-up capital (automatic up to 49% and approval route beyond 49% to 74%). By limiting foreign shareholding in the Bank to 4.97% (Foreign Portfolio investors (FPI), Non Residential Indians (NRI) and Foreign Nationals) as at 31st March 2021, 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.

5.1.1.2. Promoter contribution[21]: Subsequent to the IPO in December 2019, the promoter contribution in the Bank had reduced to 83.32% from being a 100% subsidiary of the holding company. As per RBI guidelines, if the initial shareholding by promoter in the Bank is in excess of 40%, it should be brought down to 40% within a period of five years. Additionally, the promoter's minimum contribution of 40% of paid-up equity capital shall be locked in for a period of five years from the date of commencement of business of the bank. Further, the promoter's stake should be brought down to 30% of the paid-up equity capital of the bank within a period of ten years, and to 26% within twelve years from the date of commencement of business of the bank.

The Bank takes cognizance of the same and compliance to the above guidelines will be undertaken as per the timelines prescribed. The shareholding pattern of the Bank as at 31st March 2021 was as follows:

Category of the Shareholder	No. of shares held	%age of

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

		shareholding
Promoter	1,44,00,36,800[22]	83.32
Mutual Funds	6,05,157	0.04
AIFs	4,18,01,833	2.42
Foreign portfolio investors	7,59,31,532	4.39
Resident Individuals/HUF	14,01,26,467	8.11
Others	2,98,12,416	1.72
Total	**1,72,83,14,205**	**100**

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

Capital Structure- Summary of Tier I & Tier II Capital			
Sl. No.	**Instrument**	**Whether Tier I or II**	**Amount (Rs. in Lakh)**
1	Equity[23]	Tier 1	1,72,831.42
2	PNCPS[24]	Tier 1	20,000
	Total		**1,92,831.42**

5.1.2 Details of PNCPS instruments

Perpetual Non-cumulative preference shares (PNCPS) can be issued by Indian banks, subject to the legal provisions, in Indian rupees and in compliance with the terms and conditions issued by RBI for qualification. A key characteristic of PNCPS is that there can be no maturity date and no step ups or other incentives to redeem with an exception to call option exercisable by the Bank not earlier than the fifth anniversary of the deemed date of allotment. The rate of dividend payable to the investors may be either a fixed rate or a floating rate referenced to a market determined rupee interest benchmark rate.

The claims of the investors in the instruments are:

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.

[22] One Equity Share each is held by Mr. Samit Ghosh, Ms. Carol Furtado, Ms. Sudha Suresh, Mr. Rajat Kumar Singh, Mr. Ittira Davis and Mr. G Premkumar, as nominees on behalf of Ujjivan Financial Services Limited (Promoter), who is the beneficial owner of such Equity Shares.

[23] Issued and Paid up equity capital

[24] Perpetual Non-cumulative Preference Shares

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

5.1.3. Subordinated Debt Instrument

The Bank has fully repaid its subordinated debt obligations and has no immediate plans for any floatation to augment its Tier II capital.

5.1.4. 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 4th May 2005.

On 17th April 2020, RBI had issued a special direction[25] to all commercial banks on declaration of dividends by banks. RBI had directed that all banks shall not make any further dividend pay-outs from the profits pertaining to the financial year ended 31st March 2020 until further instructions. This restriction shall be reassessed by the regulator based on the financial results of banks for the quarter ending 30th September 2020.
Further to the above direction, RBI on December 04, 2020[26], has notified that, banks shall not make any dividend payment on equity shares from the profits pertaining to the financial year ended March 31, 2020.

In view of the continuing uncertainty caused by the on-going second wave, it is crucial that the Bank remains resilient and proactively raise and conserve capital as a bulwark against unexpected losses. Therefore, while RBI guidelines[27] allowed certain relaxations on payment

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[25] Refer RBI guideline on 'Declaration of dividend by banks' issued vide RBI/2019-20/218 DOR.BP.BC.No.64/21.02.067/2019-20 dated April 17, 2020

[26] Refer RBI guideline on 'Declaration of dividend by banks' issued vide RBI/2020-21/75DOR.BP.BC.No.29/21.02.067/2020-21 dated December 04, 2020

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

of dividend on equity shares, the Bank did not declare any dividends on its equity shares as at 31st March 2021.

6. Table DF- 3: Capital Adequacy

6.1 Qualitative Disclosures

The Bank has been well capitalized since inception and was further augmented after its IPO. As required by RBI in its operating guidelines to SFBs[28], the Bank is required to adopt the Standardized approach for Credit Risk and maintain a minimum Capital to Risk Weighted Assets Ratio (CRAR) of 15% segregated as under:

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

While SFBs are required to comply with Basel II norms for Capital Adequacy, as would be noted from the table above, some elements of the capital structure, such as Common Equity and Additional Tier 1 requirement, are from Basel III guidelines. In essence therefore, in the case of SFBs, the Regulator has adopted a hybrid model.

SFBs are not required to have a separate capital charge for Market Risk and Operational Risk for the time being in terms of an RBI communication dated 8th November 2017 (DBR. NBD. No. 4502/16.13.218/2017-18). However, as a good governance practice, and as directed by its Board, the Bank separately computes capital charge for all the Pillar 1 risks viz. Credit, Market and Operational Risk following the Standardized Approach (SA) for Credit Risk, Standardized Duration Approach(SDA) for Market Risk and the Basic Indicator Approach(BIA) for Operational Risk.

In addition to the hybrid model for complying with capital adequacy requirement, for its internal and regulatory reporting, the Bank also complies with certain aspects of Basel III requirement, such as computation and maintenance of RBI prescribed minimum Liquidity Coverage Ratio (LCR) at 90% (revised to 80% vide RBI guideline[29] up to 30th September 2020,

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

[29] Refer RBI guideline on Basel III Framework on Liquidity Standards – Liquidity Coverage Ratio (LCR) issued vide RBI/2019-20/217 DOR.BP.BC.No.65/21.04.098/2019-20 dated 17th April 2020

subsequent to which 90% up to 31st March 2021 and 100% thereafter) and Leverage Ratio at 4.5%.

The RBI, on 27th March 2020, had decided to defer the implementation of Net Stable Funding Ratio (NSFR) from 1st April 2020 to 1st October 2020, an extension by six months as part of its COVID- 19 regulatory package. Further, the Regulator has decided to defer the implementation of NSFR guidelines[30] by a further period of six months. These guidelines were to come into effect from April 1, 2021. However, the same has again been deferred by a further period of six months[31]. Accordingly, the NSFR Guidelines shall come into effect from October 1, 2021.

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

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

Credit Risk	Underestimation of Credit Risk (Under ICAAP framework)
Market Risk	Reputational Risk
Operational Risk	Strategic Risk
Interest Rate Risk in Banking Book (IRRBB)	Compliance Risk
Liquidity Risk	People Risk
Concentration Risk	Digital and Technology Risk
Outsourcing Risk	Group Risk[32]

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

[30] Refer RBI guideline on Basel III Framework on Liquidity Standards – Net Stable Funding Ratio (NSFR) issued vide RBI/2020-21/43 DOR.BP.BC.No.16/21.04.098/2020-21 dated 29th September 2020

[31] Basel III Framework on Liquidity Standards – Net Stable Funding Ratio (NSFR) issued vide RBI/2020-21/95 DOR.No.LRG.BC.40/21.04.098/2020-21 dated 5th February 2021

[32] 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

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

6.2 <u>Quantitative Disclosures</u>

<u>6.2.1. Basel II capital calculation</u>

The break-up of Basel II capital funds as at 31st March 2021 was as follows:

Rs. in lakh

	Description	Amount
	Core Equity Tier 1 Capital - Instruments and Reserves	
	Directly issued qualifying common share capital plus related stock surplus (share premium)	1,72,831
	Retained earnings	1,26,992
A	CET1 capital before regulatory adjustments	**2,99,824**
	Core Equity Tier 1 Capital - Regulatory Adjustments	
	Deferred tax assets arising from temporary differences	20,909
	Intangibles (Prepaid Expenses & Computer Software)	12,647
	Credit Enhancements	0
	Regulatory Adjustments applied to CET1 Capital due to insufficient funds in Tier 2 to cover deductions	0
B	Total regulatory adjustments to CET1 Capital	**33,557**
C	**CET1 capital (A-B)**	**2,66,267**
	Additional Tier 1 Capital - Instruments and Reserves	
	Preference Shares	20,000
E	AT1 capital before regulatory adjustments	20,000
	Additional Tier 1 Capital - Regulatory Adjustments	
F	Total regulatory adjustments to AT1 Capital	-
G	AT1 Capital	20,000

H	**Tier 1 Capital (C + G)**	**2,86,267**
	Tier 2 Capital - Instruments and Provisions	
	Sub - debt eligible as Tier 2 capital	0
	General Provisions on Std. Assets admissible as Tier 2	13,675
	Investment Fluctuation Reserve	2,051
I	Tier 2 Capital before regulatory adjustments	**15,726**
	Tier 2 Capital - Regulatory Adjustments	
J	Total Regulatory Adjustments to Tier 2 Capital	-
K	Tier 2 Capital (I - J)	**15,726**
L	**Total Regulatory Capital (H + K)**	**3,01,993**

Capital Requirements for Various Risks		
Sl.No	**Capital Requirements for various Risks**	**Amount (Rs. in Lakh)**
A	**Credit Risk**	1,71,299
A.1	For non-sec portfolio	1,71,299
A.2	For Securitized portfolio	NIL
B	**Market Risk**	**220**
B.1	For Interest Rate Risk	196
B.2	For Equity Risk	24
B.3	For Forex Risk (including gold)	NIL
B.4	For Commodities Risk	NIL
B.5	For Options risk	NIL
C	**Operational Risk**	**26,538**
D	**Total Capital Requirement**	**1,98,057**
E	**Total Risk Weighted Assets**	**14,76,463**
F	**Total capital funds of the bank**	**3,01,993**
G	**Capital Adequacy Ratio of the Bank (%)**	**26.44%**

6.2.2. Credit Risk RWA

The detailed break up of Credit RWA is as follows:

Rs. in lakh

Asset Description	**RWA**
Cash and Balances with Reserve Bank of India	0
Balances with Banks and Money at Call and Short Notice	17,319

Investments	1,958
Advances	10,69,668
Fixed Assets	17,354
Other Assets	28,331
Off Balance Sheet	7,365
Total Credit RWA	**11,41,996**

6.2.3. Operational Risk RWA

Although RBI has not mandated SFBs to maintain capital charge for Operational Risk, the Bank has adopted Basic Indicator Approach (BIA) for measuring the capital requirements for Operational risk as applicable to Scheduled Commercial Banks. The Bank has computed its Operational Risk Capital Charge at 15% of the average of gross income for the past three completed years of operation.

The detailed computation is as follows:

Rs. in lakh

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

6.2.4. Market Risk RWA

As at 31st March 2021, the AFS[33] book consisted of treasury bills,), Commercial Papers (CPs) and Certificate of Deposits (CDs) and the HFT[34] book consisted of T-bills and Government of India securities. On the basis of SDA[35], 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	196
Equity Position Risk	24
Foreign Exchange Risk	--
Total	220
Total Market Risk RWA	**2,745**

[33] Available for Sale

[34] Held for Trading

[35] Standardized Duration Approach

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

Rs. in lakh

Particulars	Amount/Ratio(Only Credit RWA)	Amount/ Ratio (all Pillar 1 risks)
Tier I Capital	2,86,267	2,86,267
Tier II Capital	15,726	15,726
Total Capital	**3,01,993**	**3,01,993**
Total RWA	**11,41,996**	**14,76,463**
CET Ratio	23.32%	18.03%
Tier I Ratio	25.07%	19.39%
Tier II Ratio	1.38%	1.07%
CRAR	**26.44%**	**20.45%**

The Bank registered a nominal PAT of Rs. 830 lakh for FY 2020-21 and while the RWA increased to Rs. 11,41,996 lakh (Rs. 10,77,457 lakh as at March 2020) which when combined has resulted in a decreased CRAR.

However, it is pertinent to note that the capital adequacy is transitory in nature and is expected to further optimize with higher credit off -take during the last quarter of the financial year. The Bank is however comfortably placed in meeting its minimum capital requirements of 15% as per Operating Guidelines for Small Finance Banks.

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

7.1. Qualitative disclosures

7.1.1. Credit Risk Management

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

The Bank has implemented a comprehensive credit risk management architecture. The Board of Directors of the Bank endorses the credit risk strategy and approves the credit risk policies of the Bank. This is done taking into consideration the Bank's risk appetite, derived from perceived risks in the business, balanced by the targeted profitability level for the risks taken up. The Board oversees the credit risk management functions of the Bank. The Risk Management Committee of the Board (RMCB) guides the development of policies, procedures and systems for managing credit risk, towards implementing the credit risk strategy of the Bank. The RMCB ensures that these are adequate and appropriate to changing business conditions, the structure and needs and the risk appetite of the Bank. The

RMCB regularly reviews the Bank’s portfolio composition and the status of impaired assets.

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

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

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

The Board sets concentration ceilings which are monitored by the respective credit verticals and by the independent credit risk department. The Risk Management department reviews the exposure level under each dimension and ensures that the portfolio profile meets the approved concentration limits. These concentration ceilings and exposure levels are periodically reported to the Credit Risk Management Committee (CRMC) and the 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.

7.1.2. Definitions of past due and impaired loans

A Non-Performing Asset (NPA), as defined by the RBI, shall be a loan or an advance where-

- Interest and/or instalment remains overdue for a period of more than 90 days in respect of a Term Loan;
- The account remains out of order for 90 days;
- The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted. The Bank does not offer Bill Discounting as a product.
- In case of advances granted for Agricultural purposes
    - The instalment or interest thereon remains overdue for two crop seasons for short duration crops
    - The instalment or interest thereon remains overdue for one crop season for long duration crops
- The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitization transaction undertaken in terms of guidelines on securitization dated February 1, 2006.
- In respect of derivative transactions, the overdue receivables representing positive mark to- market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment. The Bank had no derivative transaction on its books.

7.1.3. Provisioning norms of the Bank

The Board reviews the provisioning norms of the Bank at regular intervals to determine if any enhanced provisioning is required based on credit performance. Despite a history of low Portfolio at Risk (PAR) and delinquencies, the microfinance portfolio of the Bank is unsecured and events (such as demonetization and the current COVID 19 pandemic) have impacted/are expected to impact the portfolio quality at Bank wide level. Taking cognizance of this and especially since the microfinance portfolio comprised 72% of the loan book as at 31st March 2021, the Bank has always deemed it appropriate to follow a conservative approach to its provisioning policy.

In accordance with the RBI guidelines relating to COVID-19 Regulatory Package guidelines dated 27th March 2020 and 17th April 2020, the Bank had granted a moratorium of three months on the payment of all instalments and / or interest, as applicable, due between 1st March 2020 to 31st May 2020 to all eligible borrowers classified as standard, even if overdue up to 1-89 DPD, as on 29th February 2020 (Opt-out basis). In line with the additional Regulatory Package guidelines dated 23rd May 2020, the Bank granted a second three-month moratorium on instalments or interest, as applicable, due between 1st June 2020 and 31st August 2020 to borrowers who opted for this (Opt in basis). For all such accounts where the moratorium is granted, the asset classification remained standard during the moratorium period (i.e. the number of day's past-due shall exclude the moratorium period for the purposes of determining whether an asset is non-performing).

7.1.4. Rescheduled/ Restructured loans

RBI had issued two guidelines and one FAQ note post 23rd May 2020 for treatment of advances which are as follows:

- RBI has mandated all banks to adopt the Resolution Framework for COVID-19-related Stress[36]. Considering the impact of COVID-19 pandemic, with the intent to facilitate revival of real sector activities and mitigate the impact on the ultimate borrowers, RBI had decided to provide a window under the Prudential Framework to enable the lenders to implement a resolution plan in respect of eligible corporate exposures without change in ownership, and personal loans, while classifying such exposures as Standard, subject to specified conditions. The lending institutions shall ensure that the resolution under this facility is extended only to borrowers having stress on account of the pandemic. Further, the lending institutions will be required to assess the viability of the resolution plan, subject to the prudential boundaries laid out in these guidelines.

- Further, RBI had issued a separate guideline for 'Micro, Small and Medium Enterprises (MSME) sector – Restructuring of Advances dated 6th August 2020. In view of the continued need to support the viable MSME entities on account of the fallout of pandemic and to align these guidelines with the Resolution Framework for COVID 19 – related Stress[37] announced for other advances, RBI had directed to extend the scheme permitted in terms of the aforesaid circular. Accordingly, existing loans to MSMEs classified as 'standard' may be restructured without a downgrade in the asset classification, subject to certain conditions.

- On 13th October, 2020, RBI issued an FAQ on Resolution Framework for COVID-19 related stress. The document provided relevant clarifications such as inclusion of allied agriculture activities, definition of MSME, clarification on microfinance or JLG borrowers etc.

A summary of the requirements are as follows:

MSME Restructuring - COVID 19	**Personal Loan – Resolution COVID 19**	**Other Exposure – Resolution COVID 19**
Aggregate Exposure of banks and NBFC to a borrower is up to Rs. 2,500 lakh	Includes Consumer Credit, Housing Loan, LAP, Education loan, Home Improvement Loan	Applicable for any other exposure other than Personal Loan, MSME loan up to Rs. 2,500 lakh, Farm

[36] Refer RBI guidelines on Resolution Framework for COVID-19-related Stress dated 6th August 2020

[37] Refer RBI guidelines on Resolution Framework for COVID-19-related Stress dated 6th August 2020

Asset Classification shall be Standard as on 1st Mar-20 (1- 89 DPD)	Not applicable to Staff Loan	Credit, loan to credit societies, loan to FIs, loan to government, loan to HFCs.
Restructuring is to be completed by 31st March 2021.	Asset Classification shall be Standard but not in default for more than 30 days as on 1st March 2020	Asset Classification shall be Standard but not in default for more than 30 days as on 1st March 2020
GST Registration is required. (Not required for MSMEs exempted from GST Registration)	Resolution is initiated by 31st December 20 and is to be completed within 90 days from invocation	Resolution is initiated by 31st December 2020 and is to be completed within 180 days from invocation
	Moratorium may be maximum of 2 years	Moratorium may be maximum of 2 years
Loan facility remains standard. Borrower slipped to NPA during 2nd March 2020 to Implementation date may be upgraded.	Loan facility remains standard. Borrower slipped to NPA between invocation date to Implementation date may be upgraded.	Loan facility remains standard. Borrower slipped to NPA between invocation dates to Implementation date may be upgraded.
Additional Provision @5% over and above the existing provision.	Provision @10%.	Provision @10%.

Additional considerations:

- In case of personal loans resolved under this facility, half of the above provisions may be written back upon the borrower paying at least 20% of the residual debt without slipping into NPA post implementation of the plan, and the remaining half may be written back upon the borrower paying another 10% of the residual debt without slipping into NPA subsequently.

- In case of resolution of other exposures, the provisions maintained by the ICA[38] signatories (if found applicable) may be reversed as prescribed in point 1. However, in respect of the non-ICA signatories (if found applicable) while half of the provisions may be reversed upon repayment of 20% of the carrying debt, the other half may be reversed upon repayment of another 10% of the carrying debt, subject to the required IRAC provisions being maintained.

[38] Inter Creditor Agreement

To give effect to these guidelines, the Bank has in place a Board approved policy for restructuring and resolution framework for COVID 19 related stressed assets. The policy includes aspects such as the eligibility criterion, asset classification and provisioning norms, conditions for reversal in provisions and asset classification, approach for restructuring at a vertical level, delegation of power/authority and disclosure requirements.

For the Microbanking portfolio, the Bank has completed the restructuring under this framework for 3.73 lakh accounts amounting to Rs. 85,218 lakh. A two fold approach was taken for the one-time restructuring which was as follows:

- Customers who needed a complete recast of the loan with reduction in EMI and tenor extension.
- Customers who were paying with a lag were provided moratorium to make them current.

Out of the total 3.73 lakh accounts that have been restructured, the break up for the same is as below

- EMI Reduction and Tenor Extension – 2.19 lakh accounts with an OSP of Rs. 52,623 lakh
- Moratorium of 1-2 months – 1.51 lakh (OSP of Rs. 31,568 lakh) accounts given only to customers paying with a lag in 1-60 DPD bucket
- In isolated cases Loans were given to SMA borrowers amounting to Rs. 1,027 lakh but these accounts were treated as restructured and additional provision was held.

For the MSE and Housing loans segment, the Bank has completed the identification exercise that would be subject to restructuring within stipulated timelines. On the restructuring front, the exercise was completed in 78 accounts in MSE amounting to Rs. 1,299 lakhs, as at 31st March 2021. COVID restructuring has been provided for 121 borrowers in Housing Loans amounting to Rs. 1,372 lakhs.

With the resurgence of pandemic (second wave) in India during March 2021 and the consequent containment measures to check the spread of the pandemic RBI has announced two directions[39] (Resolution framework 2.0 for individuals and small businesses and MSMEs) with the objective of alleviating the potential stress. The above dispensation for restructuring existing loans would be without a downgrade in the asset classification subject to certain conditions. This dispensation can be allowed for the credit facilities / investment exposure to the borrower which was classified as Standard by the lending institution as on March 31, 2021. The last date for invocation of resolution permitted under this window is September 30, 2021 and the resolution plan should be finalised and implemented within 90 days from the date of invocation of the resolution process under this window. To ensure

[39] Refer RBI guidelines on Resolution Framework – 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses and Resolution Framework 2.0 – Resolution of Covid-19 related stress of Micro, Small and Medium Enterprises (MSMEs)

compliance to this framework, the Bank is currently updating its restructuring policy in line with the new directions within the time stipulated. The Bank is also in the process of identifying borrowers who may be extended with this dispensation. The details of the same shall be furnished in the ensuing disclosures.

7.1.5 Credit Risk Monitoring:

7.1.5.1 Micro finance portfolio

The Bank undertakes portfolio monitoring on a periodic basis with specific focus on key portfolio triggers. The Bank has defined quantitative trigger limits with respect to early delinquency rates, On Time Repayment Rates (OTRR) and spurt in business growth. Any exception to the internally defined thresholds is reviewed by the Head of Credit - Microbanking and Rural Banking. The Bank monitors the health of its Microbanking portfolio at branch level through its branch scorecards. These scorecards assess the performance on various parameters such as incremental over-dues, error rates, non-starter cases, collection performance etc. The Bank undertakes its portfolio monitoring separately for Group Loans (GL) and Individual Loans (IL) within the Microbanking segment.

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

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

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

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

7.1.5.2 Housing and Micro and Small Enterprises (MSE) portfolios

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

The Bank has also introduced an Early Warning System (EWS) at an account level for enhanced monitoring. This framework enables the Bank to monitor a borrower's internal/external repayment record and signs of overleveraging efficiently on an on-going basis. Prior to the pandemic, the Bank had launched this framework on a pilot basis encompassing 1,000 accounts each in MSE and Housing. This framework has however been put on hold on account of the pandemic and the Bank has made changes to its EWS mechanism by solely relying on external bureau based triggers monitored on a real time basis.

Risk scorecards are developed and implemented for introducing objective based lending. These application scorecards have been integrated with Loan Operating Systems (LOS) where every application will have a score generated from LOS which shall be reviewed as part of credit appraisal. This score will be in addition to present appraisal norms. These scorecards are subject to statistical validation, subsequent to which, the same will be a part of credit decision making.

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

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

The Bank has introduced an internal rating model for Institutional Lending and Kisan Suvidha Loans (KSL) under Rural Banking.

Development of rating scorecards for Vehicle Loans and Personal loan segments are at different stages of implementation. The Bank has availed of the services of a credit bureau agency for assisting in the development of scorecards for vehicle loans and is at an advanced stage to finalize a vendor for development of scorecards. For personal loans and other agriculture loans under Rural Banking (Kisan Pragati Loans and Vikas Loans), the Bank intends to develop internal scorecards. The Bank intends to move these scorecards into production by June 2021.

The Bank assesses Early Warnings for monitoring FIG loans on a regular basis. For Personal Loans and Vehicle loans, the Bank has subscribed to various bureau reports to provide daily data on changes in credit scores, changes in residential and communication details and increase/decrease in leverage as part of monitoring activities.

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

7.1.6 Audit

The Bank is subject to have an independent **Internal Audit** department (IAD) under Governance norms mandated by the Reserve Bank of India (RBI). The Audit Department of the Bank complies with the latest RBI circular on Risk Based Internal Audit (RBIA) Framework – Strengthening Governance arrangements dated 07 January 2021. All the staff having requisite skills to audit all areas of the Bank with areas of knowledge and desired skills in Banking Operation, Accounting, Information Technology, Data Analytics and Forensic Investigation etc. The internal audit function and its functionaries are responsible and:

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

The IAD has its own Audit Policy and Manual approved by the Board. These are annually reviewed and ensured that Regulatory expectations are met. The Internal Audit process of the Bank complements the risk management and monitoring tool as the third line of defence. The IAD has following Audit verticals where in the Risk Based Internal Audit (RBIA) approach has been established. As a control function always striving for improvements in functional knowledge of its staff and work to support the Bank in strengthening control environment. The audit activities by Department are explained below:

a. Branch Audit: The audit is performed at the operational branches, including Banking Correspondents. IAD now has internally developed Risk Control Matrices and assesses the residual risks at the branches. The Department follows a quantitative and qualitative risk assessment for each and every branch audit. This helps the operating and senior management to take appropriate mitigation on the identified risks. Effective 1st October 2020, IAD implemented the Board instructions to provide comprehensive assessment of the control environment in Micro-banking and Branch Banking.

b. Credit Audit: The audit of lending activity covers all the assets, products, process and credit risk department, which enumerates the risks in aggregation. This approach assesses the root cause and focused mitigation plan. Apart from these, loan review mechanism of all accounts beyond a threshold limit as approved by the ACB is also part of Credit Audit. The risk identification, measurement and mitigation from sourcing to monitoring and collection of asset accounts results in continuous improvisation.

c. Central Function: Largely focus on all HO functions/departments, second line of defence, vigilance function and all liability operations. The RBIA approach is in accordance with ICAI and IIA US standards. This encompasses the Governance, Risk Management and Control (GRC) approach in each and every audit and internal review.

d. IS Audit: Assessment of application level risks, IT infrastructure (Network, Operating systems, Database), IT processes / Operations and IT governance to assure information assets are protected and security risk is mitigated, are covered in this audit activity and / or Integrated audit activities wherein, the IT controls are reviewed, as part of an end-to-end coverage of business process along with General IS controls.

e. Concurrent Audit: As per RBI guidelines on Concurrent Audit System in Commercial Banks, Concurrent audit at branches should cover at least 50% of the advances and 50% of deposits of a bank. In addition to these, there are specific branches/verticals which fall under the ambit of concurrent audit as per the RBI guidelines.

The Bank has put in place a Board approved separate Concurrent Audit Policy. On September 18, 2019, RBI has revised guidelines on Concurrent Audit and has advised banks to follow the Risk based approach in Concurrent Audit. IAD revised its policy and process which was approved by ACB in January 2020. Effective 1 April 2020, the Branch identification and implementation of Concurrent Audit activity is now in accordance with approach prescribed by RBI. Accordingly, the Bank identified the branches that contributed more than 50% of advances and 50% of deposits of the Bank and these are covered under concurrent audit. In FY 2020-21, 137 branches contributing 60% of Bank's business were covered under Concurrent Audit.

Additionally, few critical processes like Payments and Treasury function are also covered under Concurrent Audit.

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

7.1 Quantitative Disclosures

The overall distribution of gross advances as at 31st March 2021 was as under:

Rs. in lakh

Vertical	OSB	Provisions	% Share
Microbanking (includes Rural Banking)	10,86,813	84,060	71.78%
Housing	2,05,346	4,005	13.56%

MSE	1,29,512	6,132	8.55%
Personal Loan	13,931	803	0.92%
Vehicle Loan	7,418	93	0.49%
Institutional Lending	64,848	324	4.28%
Staff Loans	2,175	13	0.14%
Loans against deposit	5,285	26	0.35%
Less adjustments	1353[40]	-	0.09%
Total	**15,13,996**	**95,456**	**100.00%**

The total provision held as at 31st March 2021 was Rs. 95,456 lakh. The balance available at a book level as at 31st March 2021 was Rs. 17,180 lakh.

7.2.1 Exposure summary: Facility type

Exposure Type	Domestic (Rs. in Lakh)	Overseas
Fund- Based exposure	20,38,079	--
Non- Fund Based Exposure*	21,862	--
Total	**20,59,941**	**--**

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

7.2.2 Geographic Distribution of advances (State-wise)

Rs. in lakh

States	Total Advances (in Lakh)	% Share
Assam	35,413	2.34%
Bihar	92,206	6.09%
Chandigarh	2,442	0.16%
Chhattisgarh	8,132	0.54%
Delhi	44,881	2.96%
Goa	1,100	0.07%
Gujarat	1,25,079	8.26%
Haryana	72,177	4.77%
Himachal Pradesh	1,642	0.11%
Jharkhand	31,012	2.05%
Karnataka	2,18,003	14.40%
Kerala	24,459	1.62%

[40] Adjustments on account of interest reversals in NPA accounts.

Madhya Pradesh	22,686	1.50%
Maharashtra	1,47,119	9.72%
Meghalaya	1,727	0.11%
Odisha	40,253	2.66%
Pondicherry	10,783	0.71%
Punjab	37,125	2.45%
Rajasthan	64,244	4.24%
Tamil Nadu	2,40,094	15.86%
Tripura	17,198	1.14%
Uttar Pradesh	67,470	4.46%
Uttarakhand	6,675	0.44%
West Bengal	2,02,076	13.35%
Grand Total	**15,13,997**	**100.00%**

7.2.3 Advances distribution by activity

Rs. in lakh

Sl. No	Categories	Disbursements during the Quarter		Outstanding at the end of the Quarter		
		No. of A/cs	Amount disbursed	No. of A/cs	No. of beneficiaries	Balance O/s
1	**Priority Sector (I+II+III+IV+V+VI+VII+VIII+IX)**	**7,56,464**	**3,16,729**	**42,62,314**	**40,51,696**	**8,27,284**
I	Agriculture (IA+IB+IC+ID)	2,74,359	1,03,123	15,66,274	15,16,087	1,58,547
II	MSMEs (i)+(ii)+(iii)+(iv)+(v)	**6,243**	**20,193**	**6,72,045**	**6,18,743**	**51,257**
III	Export Credit	-	-	-	-	-
IV	Education	0	0	2	2	1
V	Housing	2,130	18,836	1,81,360	1,79,259	1,71,74,989
VI	Renewable Energy	-	-	-	-	-
VII	Social Infrastructure	-	-	-	-	-
VIII	'Others' category under Priority Sector	4,73,732	1,74,577	18,42,633	17,37,605	4,45,729
IX	Net PSLC					
3	**Non-Priority Sector Loans (I+II+III+IV+V)**	**26,847**	**56,186.57**	**2,00,214**	**1,79,541**	**6,86,76,829**
I	Agriculture	0	0	71	71	2,25,002
	Out of Agriculture, Loans against Negotiable Warehouse Receipts (NWRs)					

II	Education Loans					
III	Housing Loans	11,381	12,123	27,597	27,356	1,03,048
IV	Personal Loans under Non-Priority Sector	3,019	5,654	12,380	12,368	15,992
V	Other Non-Priority Sector Loans	12,447	38,410	1,60,166	1,39,746	3,42,726
4	**Total Loans (1+3)**	**7,83,311**	**3,72,915.86**	**44,62,528**	**42,31,237**	**15,14,052.55**

7.2.4 Priority Sector Lending (PSL) Compliance

The licensing conditions for SFBs require that PSL composition of a bank's asset book is a minimum of 75% of the total portfolio. Further, the overall PSL achievement of 75% should be maintained as at end of the year and not mandatory at the end of every quarter. The Bank calculates surplus/deficit as provided in Annex IV of the circular RBI/FIDD/2020-21/72 Master Directions FIDD.CO.Plan.BC.5/04.09.01/2020-21 dated 04.09.2020.

While there is a quarterly monitoring of PSL in total and category-wise, the final compliance to PSL is reckoned on a yearly basis i.e. at the end of the financial year. For computing PSL, the Bank takes the ANBC[41] of corresponding quarter of the previous year.
The ANBC as on the corresponding date of the preceding year i.e. 31st March 2020 was Rs. 14, 35,329.53 lakh. The Priority Sector lending was maintained at 57.64% as a percentage of ANBC for quarter ended 31st March 2021. The summary of compliance to PSL norms is as follows:

Sl. No.	Sector wise achievements	Effective ANBC	Total Outstanding	% Achievement
1	Overall PSL	14,35,329.53	8,27,284.25	57.64
2	Agriculture	14,35,329.53	1,58,546.53	11.05
3	Small and Marginal Farmers	14,35,329.53	1,43,635.95	10.01
4	Non - Corporate Farmers	14,35,329.53	1,58,543.95	11.05
5	Micro Enterprises	14,35,329.53	38,264.93	2.67
6	Weaker Sections	14,35,329.53	8,27,284.25	57.64

For the purpose of calculating PSL lending percentage, the average net PSL maintained in Q1, Q2 , Q3 and Q4 of FY 2020-21 was ~9,90,457 lakh as against the average ANBC of ~Rs. 13,05,299 lakh. The average PSL maintained on YTD basis was 75.88%. Alternatively, the average of quarterly achievements (in %) is 77.45%. The details of the calculations are as

[41] Adjusted Net Bank Credit

below:

Rs. in lakh

Particulars	Q1	Q2	Q3	Q4
Gross PSL	12,26,984	11,42,101	11,00,457	12,32,284
PSLC (as until quarter)	-	1,50,000	1,85,000	4,05,000
Net PSL - (x)	12,26,984	9,92,101	9,15,457	8,27,284
ANBC	**11,39,416**	**12,84,727**	**13,61,723**	**14,35,330**
Target (75% of ANBC) - (y)	8,54,562	9,63,545	10,21,292	10,76,497
Achievement (Net PSL upon ANBC) for the quarter [QPSA]	107.69%	77.22%	67.23%	57.64%
Surplus/Deficit (in lakhs) (x)-(y)	3,72,422	28,556	(1,05,836)	-2,49,213
Average Surplus (in Lakhs year till date)	3,72,422	2,00,489	98,381	11,482

7.2.5 Maturity pattern of assets and liabilities

Rs. in lakh

Buckets	Loans and advances	Investments	Deposits	Borrowings
Day - 1	154	-	3,065	-
2-7 Days	14,800	-	30,760	-
8-14 Days	27,719	-	23,045	52,214
15-30 Days	43,160	-	34,212	-
31 Days and up to 2 months	79,241	2,489	70,981	62,214
Over 2 months and up to 3 months	77,014	-	94,863	15,380
Over 3 Months and up to 6 months	2,19,058	9,885	1,90,144	40,455
Over 6 Months and up to 1 year	3,51,592	29,173	4,87,761	63,205
Over 1 Year and up to 3 years	3,41,785	11,068	3,74,446	86,264
Over 3 Year and up to 5 years	97,105	15,030	3,621	5,000
Over 5 years	1,97,767	1,83,999	679	-
Total	**14,49,395**	**2,51,645**	**13,13,577**	**3,24,732**

The Assets to liabilities are in a comfortable and positive position in all maturities cumulatively.

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

Category of Gross NPA	March 2020	June 2020	September 2020	December 2020	March 2021
Sub-standard	12,491	11,144	7,671	3,799	1,01,784

Doubtful	1,056	2,651	4,972	8,089	4,947
Loss	167	188	966	1,171	329
Total	**13,714**	**13,983**	**13,609**	**13,058**	**1,07,060**

	March 2020	June 2020	September 2020	December 2020	March 2021
Net NPA	2,749	2,510	1,908	640	42,458

NPA Ratios	March 2020	June 2020	September 2020	December 2020	March 2021
Gross NPA to Gross Advances	0.97%	0.97%	0.98%	0.96%	7.07%
Net NPA to Net Advances	0.20%	0.18%	0.14%	0.05%	2.93%

The Gross Non-Performing Assets have registered a sharp increase as at 31st March 2021 due to removal of the NPA standstill which was earlier mandated by the Honourable Supreme Court. The increase in GNPA is largely on account of the adverse effects of the pandemic.

7.2.6 Movement of Net NPAs

Particulars	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Opening Balance	2,755	2,749	2,749	2,749	2,749
Additions during the period	3,325	312	869	920	42,994
Reductions during the period	3,331	551	1,711	3,029	3,285
Closing Balance	**2,749**	**2,510**	**1,908**	**640**	**42,458**

7.2.7 Key Risk factors affecting the credit portfolio and strategy

7.2.7.1 Impact of Second wave

The impact of the recent spike in COVID cases (COVID 2.0) is expected to affect the portfolio performance across verticals largely on account of the mobility restrictions placed by various states.

It is to be noted that while the second wave is more pronounced with higher transmission rates, the restrictions placed by the states are observed to be calibrated with focus on both lives and livelihoods. While the Bank may expect muted collections in the month of April, May and June of the ensuing year, recent readings of the various economic parameters indicate a sharp bounce back post lifting of mobility restrictions. There is also reason to believe that the recovery will be sharp and swift with strong precedents available post lifting of the national lockdown during the first wave. Further, the timely intervention of the Regulator in providing resolution schemes to borrowers affected by the pandemic should enable reducing distress. Pent up demand for various goods and services is also expected to play a pivotal role in increased business.

The vertical wise report on the portfolio performance for Q4 is provided hereunder:

7.2.7.2 Microfinance and Rural banking

The Microfinance and Rural banking portfolio, which was affected by the pandemic adversely, had registered signs of strong recovery after December 2020. This was evidenced in the composite collection rates where it was observed to be reaching to almost pre-pandemic levels. The composite collection rates recorded during the quarter were as below:

Vertical	January 2021	February 2021	March 2021
MB & RB	91%	92%	94%

Collection efficiency improved to 94% in March 2021, an increase by 2% from February 2021. By including pre-closure and advance collection, the collection efficiency registered was 105% in the month of March 2021. 11% of collections were undertaken through digital channels. All the states had witnessed good improvement in collection efficiency in Q4 except Goa where collections dropped marginally by 0.4%

A summary of the key issues faced in the following states along with measures adopted by the Bank are as below:

State	Current Status	Action Taken
Assam	• Election being over, there was speculation on loan waivers; • MFI Protest and loan waiver commitment by ruling partly in the State; • Income impacted for migrant laborers, forced to return to their native place since jobs are unavailable due to the pandemic; • Business slow down and income reduction in many occupations due to mobility restrictions in operations till 2 pm;	• Enhanced focus on digital payment; • Pre-calling of all customers requesting them to keep the payment ready with them; • Pre-calling to know whether the area is allowed for movement or if there are any issues from public;

• Punjab	• Violent protest – Farm Bill, Loan and Interest Waivers and rumors by trade unions and political leaders and influencers causing damage; • COVID cases have been gradually increasing;	• Reduced the borrower base per officer in critical areas for special focus on collection; • Door to Door collection to convince customers to repay; continued with pre-calling prior to center meetings; • Encouraged collections through different channels ; • Mentorship program for branches for better monitoring; • Evangelization with the help of good customers to create awareness on the importance of having a good credit history; • Allocation of accounts to specific channels in order to focus on bucket wise collections;
Maharashtra	• Micro containment zones increasing day by day in Mumbai Cluster; • Several occupations have been impacted due to stringent guidelines by Maharashtra government for controlling the pandemic situation; • Migration -local migration / native place only, in anticipation of further stricter guidelines of lockdown in Maharashtra; • Severe Field Stress and Violent Agitation;	• More focus has been laid on regular collection with an aim to increase it over 99 % in non OD pool across the branches; • Increased number of visits where there are no restriction on public transport; • Increase collections through different channels and not only limit to center meetings / door to door collections; • Notices are being sent to higher bucket customers.
Tamil Nadu	• Members expressed concerns over loan waivers promise made by the political parties during elections; • Night Curfew, restrictions on inter district movement and	• Increase cashless collection in Containment zones; • Mandatory calling of customers before center meeting;

	Sunday curfews have affected daily wage earners with income reduced >50%;	

On the restructured portfolio, the Bank monitors the collection performance on a daily basis. Collection post restructuring is undertaken on a war footing to ensure the success of the exercise. No additional restructuring was done in Q4 FY21. The restructuring book constituted 6.8 % of the portfolio as at March 2021 (8.5% in Dec'20). The collection efficiency of the restructured book was consistent at 74% as compared to 49% prior to restructuring. While some levels of delinquencies were anticipated and were already factored in for the purpose of front loading Rs. 54,700 lakh of provisioning (in December 2020), it is an imperative that the actual collections rates are aligned to what was envisaged. Any adverse deviation from the collections rates may lead to further slippage to NPA and subsequently warrant additional provisioning.

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

- **Strengthening Collection Capacity**: Hiring of additional man power to ensure sustained follow up with each customer.
- **Bucket wise collection focus**: Clear bifurcation of default cases of the various SMA accounts and assignment between business and collection staff.
- **Multiple Reminders through SMS and Calling**: Customized SMS and calling in vernacular language. Pre-calling to SMA customers before center meeting date by branch staff.
- **Use of data and analytics**: Use of bureau data to identify customers who are paying to others and focus on them.
- **Improve cashless collection**: Provide multiple options to customers to repay - cashless collections through digital payment apps and Airtel payment points.
- **Simplified overdue tracker** for field functionaries.
- **Enhanced focus on affected geographies**: Prioritization of hiring off role staff in these affected states. Mentorship and Supervisory ownership of least collection branches, Co-ordinate with MFIN to balance political issues.

7.2.7.3 **MSE**[42]

As at 31st March 2021, there were 11,066 secured MSE accounts and 4,237 Unsecured MSE accounts. During the quarter, the Bank had constituted a special task force with focused attention on the unsecured MSE portfolio to ensure that slippages are contained.

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

New case log-ins have been above pre-Covid levels with more focus on semi-formal and formal segments.

There were 7,283 Loan Against Property (LAP-SENP-SEP[43]) accounts with a total book of Rs. 65,129 lakh. Loan Against Property (LAP- SENP- SEP) constituted 50.6% of the total MSE portfolio.

There were 1,495 Secured Enterprise Loan (SEL) accounts with a total book of Rs. 35,208 lakh.

Unsecured Overdraft (Progcap partnership) was launched during the year for the purpose of tapping opportunities in financing consumer durable lending. This partnership was backed by First Loss Default guarantee (FLDG). The book has exhibited satisfactory performance.

All regions have witnessed sharp increase in PAR30+ and PAR90+ due to adverse downturn in the economy on accounts of the pandemic. The YTD portfolio[44] performance has been relatively better off due to policy measures initiated early on by strengthening appraisal parameters. PAR30+ for secured MSE closed at 12.93%, while PAR90+ closed at 9.08% as at 31st March 2021.

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

Vertical	January 2021	February 2021	March 2021
Secured MSE	92%	92%	94%
Unsecured MSE	90%	89%	90%

During the moratorium period, the Bank had expanded its product basket across businesses. MSE Navnirman Loans were launched during the year to provide immediate financial assistance to borrowers affected by the pandemic. As at 31st March 2021, 1,691 accounts were financed amounting to Rs. 5,677 lakh. The Bank had also launched a scheme for Loan against Rent Receivables (LARR) in September 2020. LARR was specifically targeted at the owners of the Bank's branch premises, who can avail loans against the property rented to the Bank. The Bank has established the necessary systems and processes for the launch of new offerings such as loans under the CTGMSE credit guarantee scheme. The Bank is currently piloting hub based disbursements to expedite disbursements and reduce costs.

On the COVID restructuring front, the exercise was completed in 78 accounts amounting to Rs. 1,299 lakhs, as at 31st March 2021.

The Bank has focused on process improvements for its MSE vertical. Mobile sourcing

[43] Loan Against Property- Self Employed Non Professional- Self Employed Professional

[44] Loans sanctioned during FY 2020-21

solutions (HHD based appraisal) was piloted during the quarter across 5 locations, with full-fledged launch planned in the first quarter of the ensuing year. These improvement measures are intended to improve the turnaround time in the end to end process of origination till disbursement.

7.2.7.4 Affordable Housing

As at 31st March 2021, there were 25,044 Secured Housing Loan (SHL) borrowers with a total book of Rs. 20, 49, 90 lakh**.** Q4 of FY 2020-21 witnessed a robust turnaround in terms of volume disbursement and had exceeded all previous pre-pandemic benchmarks. The Bank's housing loan book crossed a milestone of Rs. 2, 00,000 lakh as at 31st March 2021.

The composite collection efficiency in Housing borrowers was as follows:

Vertical	January 2021	February 2021	March 2021
Housing Loans	93%	94%	96%

Collections had improved in the month of March across all buckets. On ITD basis, PAR 30 was 5.97% and PAR 90 was 3.61%. COVID restructuring had been provided to 121 borrowers in Housing Loans amounting to Rs. 1,373 lakhs.

During the quarter, the Bank introduced process improvements in its Housing book with focus on cost saving, process efficiency, increase in productivity. Some of the measures initiated were as follows:

- Digital on-boarding system is now live across branches in Affordable Housing.
- Digital and hub based disbursements are now active helping in the adaptation to the new normal and assuring business continuity. With this model, the Bank has registered a 30% reduction in its disbursal turnaround time.

7.2.7.5 Personal loans

There were 8,321 borrowers with a total book of Rs. 13,820 lakh as on 31st March, 2021. PAR30 was Rs. 1,630 lakhs (11.83%). The composite collection efficiency in Personal loan borrowers, for the quarter was as follows:

Vertical	January 2021	February 2021	March 2021
Personal Loans	89%	89%	90%

Collections have registered an improvement in Q4 across all buckets in Personal Loans. In June-July 2020, the PL credit policy was reviewed and credit appraisal standards were further tightened (PL 2.0) in the backdrop of the pandemic. The Bank has introduced company categorization, increased minimum bureau scores and income levels and also introduced FOIR as a parameter in its appraisal process.

7.2.7.6 Institutional Lending

As at 31st March 2021, there were 38 borrowers amounting to Rs. 64,848 lakh. The

Institutional Lending portfolio was well balanced with individual peak exposure of Rs. 6,500 lakh and average exposure is Rs. 1,700 lakhs per borrower and all loans, except one were at regular status as of 31st March 2021. Given the continuing stress in the NBFC sector which was exacerbated by the COVID 19 pandemic, the Bank has reviewed its FIG policy and has introduced additional control measures in the areas of exposure caps, strengthening of covenants and has enhanced the EWS mechanism. The Bank is also actively monitoring the developments in one case where payment is delayed.

7.2.7.7 Vehicle Loans

There were 10,458 Vehicle Loan borrowers with a total book of Rs. 10,458 lakh. In Q4, the Bank has expanded its offerings in the Used Cars category.

The composite collection efficiency in Vehicle loan borrowers, for the quarter, was as follows:

Vertical	January 2021	February 2021	March 2021
Vehicle Loans	96%	83%	96%

The Bank is cognizant of the initial signs of stress in the Electric Three wheeler segment, which had been launched on a pilot basis, but where several customers had slipped into the PAR 30 bucket even after availing moratorium. This segment, which mainly served customers travelling short distances, had been badly affected by the lockdown. After a careful evaluation of this portfolio, the three wheeler business has been suspended temporarily. Overdue contribution has been the highest from this segment.

On the two-wheeler portfolio, the Bank sees an opportunity to expand its reach given the change in preferences observed from shared mobility to individual mobility. The Bank has also reworked its business strategy for further expansion. Two wheeler segments comprise 92% of the total vehicle loans. As part of process improvements, the Bank has launched sourcing and appraisal through digital means for its two-wheeler products. Digital on boarding is expected to be 100% in the ensuing quarter.

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

Rs. in lakh

Particulars (On YTD basis)	March 2020	June 2020	September 2020	December 2020	March 2021
Opening Balance	7,030	10,965	10,965	10,965	10,965
Provisions made during the period	10,973	667	1,532	2,549	61,424

Write back of excess provisions	7,039	159	795	1,096	7,787
Closing Balance	**10,965**	**11,473**[45]	**11,702**	**12,418**	**64,601**

7.2.9 Provision Coverage Ratio (PCR)

Rs. in lakh

Category	OSB	Provisions	% Share	GNPA	Provisions	PCR%
MBRB	10,86,813	84,060	71.8%	84,981	55,617	65.4%
Housing	2,05,346	4,005	13.6%	7,400	2,878	38.9%
MSE	1,29,512	6,132	8.6%	13,283	5,333	40.2%
Personal Loans	13,931	803	0.9%	1,341	740	55.1%
Vehicle Loans	7,418	93	0.5%	**52**	**32**	60.8%
FIG	64,848	324	4.3%	0	0	NA
Staff Loans	2,175	13	0.1%	2	2	92.7%
Loans against deposits	5,285	26	0.3%	0	0	NA
Less adjustments	-1,353[46]	--	-0.1%	33	0	NA
Total	**15,13,996**	**95,456**	**100.0%**	**1,07,060**	**64,601**	**60.3%**

With the incipient stress in the Micro and Rural banking portfolio (MB-RB), the Bank has additionally utilized Rs. 13,000 lakh from provisions available in the form of Standard COVID provisions. The utilization was made against those NPA borrowers who have not made any repayment of their dues and any future repayment was unlikely and in select geographic states with low collections rates.

7.2.10 Non-performing Investments (NPI) (March 2020 to March 2021)

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

7.2.11 Movement of provisions for depreciation on investments (March 2020 to March 2021)

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

[45] Without additional COVID provisioning

[46] Adjustments on account of interest suspense account

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

8.1. Qualitative Disclosures

a. The Bank has adopted Standardized Approach for computation of capital charge for Credit Risk as per RBI guidelines. These guidelines envisage different risk weights for different asset classes, which have been duly applied.
b. The loan book of the Bank predominantly comprises retail category loans. Therefore, the risk weights as applicable to Regulatory Retail, Claims under Residential Mortgage and staff loans are applied. For consumer loans within its microfinance portfolio, the applicable risk weight is applied.
c. Institutional lending is risk-weighted as per ratings assigned by Eligible Credit Rating Agencies (ECRA) as prescribed by RBI.
d. As on 31st March 2021, the Bank had a residual outstanding of "grandfathered" loans which comprised 0.13% of its funding book. As per regulatory guidelines, there was an additional risk weight of 25% assigned to this portfolio.
e. In terms of circular No. DBR.BP.BC.No.72/08.12.015/2016-17 dated June 7, 2017, the capital charge for claims secured by residential property falling under the category of individual housing loans is assigned differential risk weights based on the size of the loan as well as the loan to value ratio (LTV). As a countercyclical measure, RBI has decided to rationalise the risk weights, irrespective of the amount vide a notification on 16th October 2020. The Bank takes cognizance of the same and these were incorporated for all loans sanctioned after the date of issuance of this circular.
f. On 12th October 2020[47], RBI issued directions for revision in limit for risk weight under the Regulatory Retail portfolio. RBI has now decided that the limit of Rs. 500 lakh for aggregated retail exposure to counterparty shall stand increased to Rs. 750 lakh from the date of this circular. The risk weight of 75 per cent will apply to all fresh exposures and also to existing exposures where incremental exposure may be taken by the banks up to the revised limit of Rs. 750 lakh. The Bank takes cognizance of the same and these were incorporated for all loans sanctioned after the date of issuance of this circular.

8.2. Quantitative Disclosures

Details of Gross Credit Risk Exposure (Fund based and Non-fund based) based on Risk Weight – Position as on 31st December 2020		
Sl.No	**Risk Weight**	**Rs. in lakh**
1	Below 100% Risk Weight	17,77,204
2	100% Risk Weight	3,47,026

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

3	More than 100% Risk Weight	312
4	Deductions from CRM[48]	(64,601)
5	**Total**	**20,59,941**

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

9.1. <u>Qualitative Disclosure</u>

- 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 and one FLDG backed unsecured loan variant. The residual book of unsecured loans[49] is discontinued and is being run down and is expected to be fully repaid in the ensuing financial year. Loans to Financial Institutions are secured by a charge over book debts which are registered with CERSAI. All Personal Loans are extended on a clean basis; Vehicle loans are collateralised by a charge over the vehicle financed. Gold Loans are secured with the maximum Loan to Value (LTV) being offered at 70% on the value of the ornaments/jewel proposed to be pledged.

- The Bank accepts Eligible Financial Collateral[50] 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[51] while computing its Risk Weighted Assets (RWA).

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

- The Bank has in place the following risk mitigation techniques for its loan portfolio which are as follows:
    - Life insurance cover is mandatory for all the borrowers availing of the Bank's microfinance loans. Housing, two wheeler, personal loans borrowers and gold loans are provided with an option to avail of life insurance, though this is not a bundled offering along with the loan products.
    - The Bank works with 4 Credit Information Companies (CICs) and ensures 100% application screening through the bureaus using their comprehensive credit reports.

[48] Credit Risk Mitigants (Provision against NPA)
[49] Unsecured Business Loans and Unsecured Enterprise Loans
[50] 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
[51] Refer section 7.3 of Master Circular - Prudential Guidelines on Capital Adequacy and Market Discipline New Capital Adequacy Framework (NCAF) dated July 1, 2015

- The Bank also undertakes independent surveys and analysis to identify negative areas/No- go areas based on historical events. These surveys enable the Bank to discourage increasing business from these areas as identified above.
- The Bank has also set borrower wise limits in compliance to RBI mandated exposure norms and also mitigate any concentration risks building in the portfolio.
- A negative list/negative area profile is maintained at a branch level to avoid exposure in those categories.

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

10.1. Qualitative Disclosure

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

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

11.1. Qualitative Disclosures

11.1.1. 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 risks i.e. Credit, Market and Operational Risk.

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

The Treasury Department of the Bank comprises of 3 independent units i.e. Front Office, Middle Office and Back office. The Front Office is responsible for trading, investment and fund management activity. Front Office is headed by Head of Treasury and is guided by Board approved Investment Policy. Middle Office is responsible for limit monitoring, valuation, regulatory / internal reporting and risk evaluation. Middle Office reports to Chief Risk Officer. Back office is responsible for settlement and reconciliation activities which reports to Head of Operations.

Investments: The Bank has a Board approved policy to make investments in both SLR[52] 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), Commercial Paper (CP) and one legacy investment in an unquoted equity. As on 31st March 2021, the investment holdings in various SLR and Non SLR instruments were as under:

Rs. in lakh

Instrument	Book Value	Market Value	Appreciation / Depreciation
SLR			
G Sec	1,38,058	1,36,691	(1,367)
SDL	82,219	82,207	(12)
T Bills	21,630	21,630	--
TOTAL	**2,41,908**	**2,40,528**	**(1,380)**
Non SLR			
CP	9,727	9,727	--
Legacy investment (unquoted Equity)	10	17	7
TOTAL	**9,737**	**9,744**	**7**

The investment into SLR securities is undertaken for the purpose of regulatory compliance i.e. SLR maintenance and for Asset Liability Management (ALM). Investment in SLR securities is held as both HTM and AFS, though holding in AFS comprises mainly investments in Treasury Bills only. The mandatory requirement for maintenance of SLR as stipulated by RBI was 18.25% of Net Demand and Time Liabilities (NDTL) till 10th April 2020 and 18% thereafter. The RBI had earlier announced a staggered reduction in SLR requirement to be held by banks, reducing every quarter till April 11, 2020. The Bank has complied with the regulatory SLR requirement and has maintained SLR much above the requirement. During the quarter, the average SLR requirement and maintenance was as below:

Rs. in lakh

Month (in Rs. lakhs)	Average SLR requirement	Average SLR maintenance	Average SLR requirement maintained as a % of NDTL
Jan - 2021	2,03,454	3,03,050	26.77%
Feb - 2021	2,01,134	2,52,207	22.57%

[52] Statutory Liquidity Ratio (SLR)

Mar - 2021	2,07,382	3,12,515	27.08%

The maintenance of SLR was higher than the mandated requirement in line with its Board directive. In the first instance, this buffer is intended to provide the required cushion for a contingency and forms the basis for Level 1 contingency fund planning. The Bank has used the buffer to raise funds through Repo and Third-Party Repo (TREPS) in times of contingencies. Second, the excess SLR is also intended to provide the cushion to maintain 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. Further, the Bank had also complied with the HTM holding limit[53] for all the days for the period during the quarter.

In order to improve the yield of the SLR portfolio, the proportion of T-Bills in the portfolio was reduced to 9% from 13% and the proportion of G-Secs was reduced to 57% from 61%. This was replaced by increasing the proportion of SDL in the portfolio to 34% from 26%. The yield on the SLR Portfolio as on 31st March 2021 was 6.09%.

The investment in non SLR securities is mainly for short term cash deployment and for investment income. During the period under review, the Bank had made Non SLR investments in Commercial Paper (CP) and also had a solitary exposure to an unquoted equity. This unquoted equity investment in the share of M/s Alpha Microfinance for Rs 10 lakh, is a legacy investment of the Bank and was acquired from the parent company as per a Business Transfer Agreement (BTA) entered into at the time of launch of the Bank. All the Non SLR investments were categorized as part of the Available for Sale (AFS) portfolio.

Trading: The Bank had commenced trading in Government of India security in Q3 FY 20, in a calibrated manner through its HFT portfolio. While the Bank had initially commenced trading on an intraday basis only, it has now graduated to keeping open positions on an overnight basis as well. Open positions taken by the Bank are progressively being stepped up with the required controls. During the period between 1st October 2020 and 31st March, 2021, the Bank had undertaken trading in G-Sec, SDL and T-Bill from its HFT book. The Trading volume as at, 31st March, 2021 was Rs, 35, 23,400 lakhs. 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.

11.1.2. Liquidity and Liquidity Risk Management:

Treasury Department is responsible for the day to day liquidity and fund management

[53] In terms of RBI circular No. RBI/2017-18/70 dated 4th October 2017, the limit of HTM holding for the Bank, was 19.5% of NDTL till 1st Sep 2020 and 22% of NDTL thereafter.

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

In line with the prudent risk management practice, the Bank has in place a Board approved Contingency Funding Plan (CFP) in place, which is tested by the Front Office at a quarterly frequency. In all the instances of CFP testing during the quarter, the Bank was successful in generating fund commitment, from various sources, much above the average monthly shortfall.

Liquidity Risk Management is governed as per the provisions of the ALM policy. The ALM position for the Bank was well managed and regulatory thresholds complied with during the quarter. The Bank has various avenues to leverage upon in mitigating any future liquidity shortfalls. Some of the measures include securitization, IBPC transactions, term loan facilities from Bank and utilizing lines of refinance from NABARD, NHB and SIDBI. The Bank had positive cash flows in the maturity buckets in the 1-30 days' maturity, over and above the regulatory minimum, as at 31st March 2021.
The Bank has deployed a suite of techniques as part of its Liquidity Risk Management. Some of the activities undertaken by the Bank are as follows:

<table>
<tr><th>Risk Measurement</th><th>Description</th><th>Position for Q4 FY 2020-21</th></tr>
<tr><td>Cash Flow measurement and gap limits</td><td>Technique involving a comprehensive tracking of mismatches between outflows and inflows for balance sheet as well as off balance sheet items across different time buckets. The Bank computes the cash flow mismatches using Structural Liquidity Statement ('SLS'). Under SLS, cash flows of assets, liabilities and off-balance sheet items are placed in different time bands based on the residual maturity or based on expected behaviour as per</td><td>As at 31st March 2021, the Bank maintained a positive cumulative mismatch indicating surplus liquidity. The cumulative mismatch limits were well within the RBI mandated limits and also within the conservative limits as set internally by the Bank. The position for the first four buckets for which the Regulator has mandated minimum thresholds were as follows:
<table>
<tr><th>Bucket</th><th>RBI threshold</th><th>Cumulative Mismatch</th></tr>
<tr><td>Day 1</td><td>-5%</td><td>462.94%</td></tr>
<tr><td>2-7 days</td><td>-10%</td><td>281.66%</td></tr>
</table></td></tr>
</table>

<table>
<tr><td></td><td>RBI / internal guidelines. The difference between cash inflows and outflows in any given time period measures the bank's liquidity surplus or deficit in that time period.</td><td><table><tr><td>8-14 days</td><td>-15%</td><td>86.99%</td></tr><tr><td>15.30 days</td><td>-20%</td><td>78.77%</td></tr></table>The bucketing of cash flows as per the maturity buckets is guided by regulatory guidelines and as per ALCO directives.</td></tr>
<tr><td>Behavioural analysis</td><td>Banks are required to analyse the behavioural maturity profile of various components of on / off-balance sheet items on the basis of assumptions and trend analysis supported by time series analysis.</td><td>During the year, the Bank has undertaken a behavioural study on CASA outflow and the same has been placed to ALCO for further directions. Given the relative short vintage of the Bank, it was deemed appropriate to further refine the assumptions and dataset before deploying these models for bucketing.
Presently, the Bank follows the RBI guidelines on bucketing assumptions until significant historical data is available for conducting behavioural studies. After ensuring the availability of data, the Bank will conduct behavioural studies to appropriately bucket products with non-deterministic cash flows.</td></tr>
<tr><td>Limits on borrowing and lending/investment</td><td>Bank monitors limits prescribed by the Regulator with respect to borrowing and lending in the interbank market.</td><td>During the quarter, the Bank was within the prescribed limits for interbank lending, call money borrowing/lending, SGL limits and HTM holding limit.</td></tr>
<tr><td>Liquidity ratios</td><td>Liquidity ratios under stock approach as prescribed by the Regulator are monitored</td><td>The liquidity ratios under stock approach were computed and placed to ALCO for their noting.</td></tr>
<tr><td>Stress Testing</td><td>The Bank undertakes stress tests on their Liquidity Coverage Ratio (LCR) and Interest rate risks.</td><td>During the quarter, the LCR was above the minimum thresholds under all levels of stress. Further, the impact of interest rate risk and</td></tr>
</table>

		its impact on the market value of equity were also below the regulatory limit of 20%.
Funding gap analysis	The Bank estimates its short-term liquidity profiles on the basis of business projections and other commitments for planning purposes	On a monthly basis, the Bank undertakes a detailed analysis on the projected funding requirement for its subsequent month on the basis of business projections and other commitments. This exercise essentially includes inputs on credit and deposit activities encompassing projected disbursements, collections and deposit mobilization. The Bank has ensured adequate liquidity to meet its commitments during the quarter.

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

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

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

Net Stable Funding Ratio (NSFR): The RBI, on 27th March 2020, had decided to defer the implementation of Net Stable Funding Ratio (NSFR) from 1st April 2020 to 1st October 2020, an extension by six months as part of its COVID- 19 regulatory package. Further, the

Regulator has decided to defer the implementation of NSFR guidelines[54] by a further period of six months. These guidelines were to come into effect from April 1, 2021. However, the same has again been deferred by a further period of six months[55]. Accordingly, the NSFR Guidelines shall come into effect from October 1, 2021.

11.2. <u>Quantitative Disclosures</u>

11.2.1. Liquidity Coverage Ratio (LCR)

Liquidity Coverage Ratio (Rs. in lakh)					
A	**High Quality Liquid Assets**	**Adjusted Amount (FY 2020-21)**			
		Q1 Average	**Q2 Average**	**Q3 Average**	**Q4 Average**
	Level 1 Assets	3,03,577	3,30,008	3,12,961.81	2,88,737
	Level 2 A Assets	-	-	-	--
	Level 2 B Assets	-	-	-	-
B	**Total Stock of HQLAs (Adjusted for Capital)**	**3,03,577**	**3,30,008**	**3,12,962**	**2,88,737**
C	Cash Outflows	1,26,080	2,92,842	2,71,895	3,13,785
D	Cash Inflows	59,073	1,06,140	96,640.80	65,088
E	**Net Cash flow**	**67,008**	**1,86,700**	**1,75,254**	**2,48,697**
F	25% of Total Cash Outflow	31,520	73,210	67,973.65	78,446
G	**Higher of E or F**	**67,008**	**1,86,700**	**1,75,254**	**2,48,697**
Liquidity Coverage Ratio		**453.05%**	**176.76%**	**178.58%**	**116.1%**

12. Table DF- 9: Operational Risk

12.1. Qualitative Disclosures

12.1.1. 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.

[54] Refer RBI guideline on Basel III Framework on Liquidity Standards – Net Stable Funding Ratio (NSFR) issued vide RBI/2020-21/43 DOR.BP.BC.No.16/21.04.098/2020-21 dated 29th September 2020

[55] Basel III Framework on Liquidity Standards – Net Stable Funding Ratio (NSFR) issued vide RBI/2020-21/95 DOR.No.LRG.BC.40/21.04.098/2020-21 dated 5th February 2021

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

12.1.2. 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 unit. Post review, observations are raised to the respective functions for including additional controls for the risks identified during the assessment. Subsequent to closure, the new/enhancement to product/process are placed at the Product Approval Committee (PAC) for approval. The Bank continuously reviews and enhances its key processes to adapt to industry best practices. ORMD had reviewed 33 process / products, in the period Q4 FY21.

- **UAT Testing** (including BRD and FSD): For any change management/ automation of products and processes, the department owners prepare the Business Requirement Document (BRD). The BRD is reviewed by key control and business functions for further improvements. Subsequently, the same is provided to the IT department within the Bank. The IT department then prepares the Functional Specification Document (FSD) detailing the scope of the project. Once the project is moved to testing stage, Operational Risk department performs the User Acceptance Testing (UAT) along with others to identify gaps in the actual deliverable versus that which was proposed in the BRD. These gaps are further addressed and closed before moving to production. During the quarter, the Bank had undertaken UAT for 42 various activities such as Digital account auto closure for partial KYC customers, AMC charge collection and card repository, Direct tax reforms announced by Finance ministry, PMSVANIDHI loans to GL customers etc.

- **RCSA**: RCSA (Risk and Control Self-Assessment) is a forward looking tool to identify and assess the level of risk inherent in any activity / process, the causes responsible for that risk and the status of existing controls to minimize the risk. Its result provides insight about known as well as potential Operational Risk areas in various process / business lines. Business being the first line of defence is responsible for carrying out RCSA activity as per the plan. Operational Risk being second line of defence is responsible for providing necessary guidance, training and inputs to the first line of defence for carrying out the RCSA. The Bank intends on undertaking RCSA for few critical functions during the FY22 as per plan that will be presented to ORMC in April 2021. RCSA methodology is being enhanced and presented to ORMC. There is a time bound plan to close the open issues as observed during RCSA and an update is provided to ORMC and RMC-Board at regular intervals.

- **Key Risk Indicators**: During the quarter **18 KRIs** were monitored at an organization level as part of the Operational Risk Management Framework. The thresholds for the KRIs have been decided upon in consultation with the stakeholders. These KRIs will be analysed on a monthly basis and a comprehensive report will be submitted to the ORMC and Board at quarterly intervals with action plan for closure of open issues. KRIs for the period December 2020 to February 2021, will be presented in the ORMC to be held in April 2021 and will be presented to the Board in May 2021 for their noting and information. In addition to Organizational KRIs, Functional KRIs for Liabilities were monitored for the period December 2020 to February 2021.The Bank is also in the process of enhancing the existing risk monitoring framework by defining Functional KRIs for other key Functions for better monitoring. Red KRIs which breached thresholds were discussed with stakeholders and actionable was presented in ORMC.
- **Loss Data Management** is in place to record material incidents and learn from errors and strengthening existing controls. Incidents are recorded as operational loss and near miss events. This is followed by a Root Cause Analysis (RCA) for critical incidents. EGRC module in SAS is implemented to record all loss events across the Bank. Significantly, the efforts of the Operational Risk team have resulted in greater reporting of operational risk incidents from the branches. The Bank has created a separate General Ledger Code (GLC) to record losses (separate for fraud and non-fraud) on account of these incidents and these are reported to the Board at quarterly intervals. The Bank encourages its personnel to report incidents in an unbiased manner without fear for retribution. The incident reporting process enables creation of loss database as per Basel definitions. The activities broadly include the following:
  - Reconciliation of General Ledgers (GL) to operational loss as recorded in SAS
  - Root Cause Analysis (RCA) of critical events

- Quarterly loss data submission to Board

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

Loss Dashboard for the FY21 (as at March'21 end):

	Count				Loss in Rs. lakh		
Basel Risk Event Type – I	**Loss**	**Near Miss**	**Total**		**Gross**	**Net**	**Ops Loss**
Business Disruption and Systems Failures	165	3	168		159.86	69.49	6.02
Clients, Products, and Business Practice	26	2	28		22.96	1.52	1.32
Damage to Physical Assets	85	1	86		24.54	24.54	
Employment Practices and Workplace Safety	0	20	20				
Execution, Delivery, and Process Management	220	32	337#		143.05	24.57	7.94
External Fraud	565	18	583		172.36	85.10	48.90
Internal Fraud	184	1	185		129.15	36.17	26.91
Total as on FY21	**1245**	**77**	**1407**		**651.93**	**241.39**	**91.09**

 # Total includes 85 gain events amounting to Rs. 2.91 lakh

- **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.

- **RRU [56] Scorecard approach**: The Bank has developed an internal scoring mechanism to capture all risk parameters at a granular level within the Bank i.e. branch level. The scorecard includes all facets of branch operations: Liabilities, Microbanking, Housing and MSE loans and other branch related parameters. Branches are categorized as High, Medium or Low risk based on these

[56] Risk Review Unit

assessments on monthly basis. Final RRU score includes vertical wise score, dashboard and region wise high risk branches under different business verticals. Once the RRU scoring is done, analysis of high risk branches and major contributing parameters are shared with respective stakeholders in the regions, for the purpose of taking corrective action. Additionally, Operational Risk team during their visits to such high risk branches, discusses the parameters that are impacting their performance. Key policy decisions emerge from these scoring and reviews. The scorecard is continuously enhanced to include relevant parameters for optimizing the Operational Risk score. Existing scorecard parameters were reviewed in the current financial year and new parameters were incorporated.

The RRU Scorecard for Micro Banking (MB) was discussed with MB team for taking their inputs and this is presently under discussion for finalization. Similarly, scorecard with the revised parameters was discussed with Liabilities team. Based on their inputs, changes under LAF pendency, AOF pendency parameters was introduced. Revised scorecard for October till December 2020 was presented to Liabilities team.

Also, the RRU Scorecard for MSE and Housing was discussed with the team for taking their inputs. Based on the discussions, few parameters were reviewed and further enhanced. Following modification have been proposed in MSE score card;

a. Area level instead of current branch level score card.

Following enhancement have been proposed in Housing score card;

a. Criteria for branch selection: Branches that have minimum 20 live cases and at least 5 cases booked in last 3 months will be considered.
b. Credit score: Credit score for those branches which qualify above mentioned minimum criteria will be considered.
c. Loan disbursed DD cancelled: Due to Business dynamics, all DDs ageing above 45 days to be considered instead of current 10 days.
d. PDD tracker: To consider PDDs which are 45 days overdue from the recorded due date in the system.
e. Additional parameter: Loss of original customer document will be a new parameter that was proposed to be included in the score card.

Total number of parameters that are being tracked presently has increased to 50 (Micro Banking-13, Liabilities – 19, MSE & Housing - 9 each) from 34 earlier. At present, entire scorecard is being computed manually. The Bank is in the process of automating the scorecard to make it a more effective tool.

- **User Access reviews** are conducted for critical applications to ensure that access and role matrix are well defined and that access is commensurate with the responsibility assigned. In FY 2020-21, User access review of 19 applications had been completed as part of phase 1 along with user access review of production servers. It is proposed to commence phase 2 of user access review for all backend related applications used by the central team at USFB and this is expected to get completed by July'21. Key observations noticed in phase 1 review was shared with respective teams for their feedback and responses. Few of the key observations are:

- There are no signed-off documents available for application wise / role based access provided to users and approval matrix to follow at IT for providing access.
- There is no defined frequency for internal review of access provided to employees / vendor due to which access is not de-activated for employees even after their exit or user has not accessed the application for more than 30days. (Dormancy Review)
- Presently this activity is completely manual and it needs to be automated, which will then help in tracking the access provided to employees.
- In the absence of monthly review, if the payment is done on user basis then the accuracy of the invoice will not be validated and may not be accurate.
- 20 users are having access to production servers without any approval through Service Request and Role based accesses was not given for the users having accesses to production servers.

A weekly status update is sought from IDAM team to check on progress of fixing the gaps and to ensure closure of observations within agreed TAT.

Operational Risk team has drafted a Policy on User access review covering all the critical aspects of User life cycle starting from activation to de-activation of ID's, Review Frequency, Process to be followed for managing vendor ID's, Process to be followed for user de-activation on exit from organisation. Draft note is under review by stake holders and on receipt of the suggestions and inputs, note will be enhanced further and circulated.

Operational Risk team has initiated a request with individual business teams who manage the applications to have a comprehensive SOP for each of the applications managed by them with role based access given in system and approval matrix to be followed. Final draft note has been circulated to PrAC (Process Approval Committee) members for Trucel, Glow and SMELO and work is in progress for Rupee power application and it is proposed to initiate preparation of SOP for other verticals as well who are managing applications viz., Br.Net, CRM Next etc.

- **Exceptions Handling Mechanism** is a new initiative, which started from July 2020 as guided by NIDM (National Inter Departmental Meeting). List of 27 exception reports was identified and tagged to Operational Risk for initiating the review. 17 exception reports have been extracted so far and reviewed / discussed with relevant stake holders for needful action. All observations have been circulated to relevant stake holders and corrective action has been initiated. Extraction of remaining exception reports is in progress.

- **RCU process:** The Bank has established a monitoring mechanism for identifying and rectifying instances of suspicious customers doing banking business. On a monthly basis, Vigilance department undertakes RCU check from a sampling of liability customers. The outcome of the RCU check provides a commentary on the customer profile. For all cases identified as 'negative', the Operational Risk unit undertakes a special review in consultation with branch personnel and recommends corrections. For customers who are found to be negative after the rectification measures, exit strategies from customers are explored. This mechanism has enabled the Bank to avoid undertaking business relationships with potential anti-social members of society. Account freeze process has been initiated for all the final negative cases as per the new RCU Process after serving adequate notices to the customers.
- **Digital Account Monitoring:** The Bank re-launched Digital SA (Savings Accounts) and TD (Term Deposits) in the month of May 2020 with enhanced monitoring measures around the product. 26311 Digital accounts had been opened till 31st March 2021 since the re-launch. Each account is being eyeballed by the Operational Risk team and observations with respect to demographic details have been shared with business for onwards corrective measures. As a process, Operational Risk team has also been monitoring the transactions done in all digital accounts every fortnight, basis certain pre-defined triggers around value, fraud and velocity. All accounts with suspected transaction patterns are referred to Vigilance and Compliance team for onwards investigation and action. Additionally, review around common address, email id, match with accounts where regulatory notices are sent etc. is also performed on a regular basis and triggers if any, gets shared with Vigilance and business for onwards action.

- **Branch Assurance**: Branches across regions are reviewed against a checklist devised by the Operational Risk team to ensure adherence to branch processes. The checklist is reviewed and enhanced every quarter to strengthen monitoring. With onset of COVID-19 and lockdown, and physical branch visits curtailed for the time being, the check list has been restructured to ensure that monitoring and review is not eased and can be done on a remote basis, based on reports derived from systems and through remote access and verification of registers. Remote monitoring is the process of checking, verification and identification of process lapse and other operational errors without visiting the branch, by working from remote locations. Critical and repeat observations are shared with the leadership team for remedial /corrective actions. Till 31st March 2021, Operational Risk had reviewed 292 branches which is nearly 50% of the total branches. In the last week of March

2021, Operational Risk had reviewed the existing parameters and additional parameters have been proposed. New revised checklist will be implemented from May 2021 post approval.

- **Outsourcing Risk: 'Outsourcing'** is defined as the Bank's use of a third party (either an affiliated entity within the corporate group or an entity that is external to the corporate group) to perform certain activities on a continuing basis that would normally be undertaken by the Bank itself, now or in the future. The Bank has in place an outsourcing policy which provides guidance on outsourcing certain functions to specialized agencies for increasing efficiency and lower costs. The outsourcing policy is framed in compliance to various RBI guidelines on outsourcing issued from time to time. Key activities undertaken during Outsourcing are as follows:

  Pre - on boarding risk assessment: All vendors, deemed as material, are subjected to a rigorous pre on boarding risk assessment which is done by both Operational Risk team and the Information Security team and this is repeated at annual intervals. Observations from these risk assessments are then shared with concerned functions for resolution. Post satisfactory responses to the observations raised, CRO approves on boarding of the vendor. In FY21, pre-on boarding risk assessment of 21 vendors was carried out.

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

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

  Annual review of material vendors: Operational Risk team along with CISO's team carries out annual risk review of material vendors. Annual Review has been completed for key vendors such as FSS and Finacus. Review of rest of the vendors will be carried out by Q4.

  Outsourcing done by the Bank is subjected to an annual audit by the Internal Audit team who provide the required compliance certificate to RBI. Annual risk assessment of almost 50 vendors was carried out in FY21.

- **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 a bank maintains confidence levels of its shareholders and satisfies relevant compliance requirements. The plans and procedures are in line with the guidelines issued by the RBI and these are reviewed at regular intervals.

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

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

  Bank reviews BCM policy and plan documents annually and enhances the documents as per the changes made in the Bank's Business Critical processes and activities. Bank also conducts periodic BCP testing considering various Disruptive scenarios which helps to identify the gaps in recovering and resuming the Business Critical processes after the disruptive events. On an ongoing basis, BCP testing for branches which are selected randomly is conducted to ensure that the recovery process becomes more robust and efficient to recover from any disaster / crisis situations. The BCP test results of branches, IT, CTS, and Payments along with their respective observations and recommendations are placed before the ORMC and Risk Management Committee of the Board at every quarter. These learnings are documented in the respective Business Continuity Plan documents and the same are placed to RMCB.

- **Internal Financial Control (IFC) testing:** This is an annual exercise and done by the Operational Risk team. The team along with concerned stakeholders prepares and enhances Risk and Control Matrixes (RCMs). The financial and operational controls in these RCMs are then put to test by collecting samples from across the review period and from different regions, which are then evaluated for success or failure of the control effectiveness. The critical gaps observed during such testing are discussed with concerned functions for upgrading controls which may include automation of the controls. The result of this evaluation is also presented to ORMC and RMC of Board to update them on effectiveness of the internal controls of the Bank, and take guidance. This result is also shared with the Bank's external auditor to provide insight on adequacy and effectiveness of the controls in the Bank. The IFC testing is also mandatory requirement as per Companies Act, 2013. IFC testing for the concluding financial year has been completed for majority of the departments and will be presented to Board in April 2021.

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

On a regular basis, the Bank disseminates information for creating awareness among employees on the importance of data-security along with emphasis on the requirements to protect the customer's data. Awareness emails regarding the data loss prevention, smart phone security and how the assets given to employees are supposed to be safeguarded by them, are part of cyber security awareness creation.

The Bank takes cognizance of the increased importance of Data Security. With Business Continuity Management being a critical aspect, the Bank has adhered to intelligence and best practices suggested from the various regulators, organizations like CERT-IN, DSCI, NIST, etc. to ensure Data Security. During the year, that Bank had focused on:

- Increased awareness of all stakeholders
- Adoption of zero trust solutions
- Enhanced logging and monitoring
- Automation of threat intelligence
- Coordinated incident response

The Bank has also enhanced its Incident Management and Cyber Crisis Management Plan to deal with incidents and potential cyber crisis. There is also a policy governing the acceptable usage of information and system assets and policy to ensure continuity of business operations in the event of a disaster.

Given the dynamic nature of risks that the Bank faces, the Bank periodically assesses the risks and develops strategies to ensure that risks are mitigated to an acceptable level. Being technology-oriented, most of the risks are technological in nature and thus the Bank has invested heavily in security technologies. A 24x7 Cyber Security Operations Centre has been established to detect and contain security anomalies. This Cyber SOC is also responsible to actively monitor emerging threats based on intelligence gathering. The Bank has developed a comprehensive awareness program wherein employees are trained during on-boarding, periodic phishing simulations are carried out and awareness mailers are broadcast to both employees and customers. Recent awareness emails pertaining to frauds based on COVID vaccination, spam COVID calls were circulated intending to spread awareness among the employees and keep them abreast of the pertinent COVID frauds.

Phishing simulation pertaining to COVID vaccination provision from the ministry of health was also conducted to check the employees' awareness about the contemporary frauds.

The Bank has enhanced the monitoring capacity by creating use cases to have better alerting on the SIEM (Security Information Event Management) system and further action taken by the Security Operations Centre (SOC). This is intended to avoid any potential delays in detection and response to the Cyber-Attacks.

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

13.1. Qualitative Disclosures

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

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

1. Earnings at risk (Traditional Gap Analysis): The impact of change in interest rates on net interest income is analysed under this approach and calculated under yield curve approach. Under this approach a parallel shift of 200 basis points is assumed both in assets and liabilities.
2. Economic Value of Equity (Duration Gap Approach): Modified duration of assets and liabilities is computed separately to arrive at modified duration gap. A parallel shift in yield curve by 200 basis points is assumed for calculating the impact on economic value of equity.

13.2. Quantitative Disclosures

13.2.1. 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	(13,263)	13,263
2	Overseas	-	-
		(13,263)	13,263

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

Category	Items	Amount
A	Equity	2,68,313
B	Computation of Aggregate RSA	19,50,646
C	Computation of Aggregate RSL	16,95,324
D	Weighted Avg. MD of RSL across all currencies	0.87
E	Weighted Avg. MD of RSA across all currencies	1.88

F	MDG	2,55,322
G	Change in MVE as % of equity for 200bps change in interest rate	(43,898)
H	**Change in MVE in absolute terms**	**16.36%**

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

Equity shares

Disclosure template for main features of regulatory capital instruments		
		Equity Shares
1	Issuer	Ujjivan Small Finance Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	ISIN: INE551W01018
3	Governing law(s) of the instrument	Applicable Indian Statutes and regulatory requirements
	Regulatory treatment	
4	Transitional Basel III rules	Common equity Tier 1
5	Post-transitional Basel III rules	Common equity Tier 1
6	Eligible at solo/group/ group & solo	Solo
7	Instrument type	Common Shares
8	Amount recognised in regulatory capital (Rs. in lakh, as of most recent reporting date)	Rs. 1,72,831.42 lakh
9	Par value of instrument	Rs 10/-
10	Accounting classification	Capital
11	Original date of issuance	• Rs 0.50 million – 4th July 2016 • Rs 1099.868 Million – 30th July 2016 • Rs 13,300 Million - 10th February 2017 • Rs. 140.55 Million- 11th November 2019 • Rs. 714.29 Million- 13th November 2019 • Rs. 2,027.03 Million- 10th December 2019 • Rs. 0.03 Million- 07th November 2020 • Rs. 0.02 Million- 19th January 2021 • Rs. 0.04 Million- 15th February

		2021 • Rs. 0.004 Million- 15th March 2021
12	Perpetual or dated	Perpetual
13	Original maturity date	No Maturity date
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable	NA
	Coupons / dividends	Dividend
17	Fixed or floating dividend/coupon	NA
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Non-Cumulative
23	Convertible or non-convertible	NA
24	If convertible, conversion trigger(s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	No
31	If write-down, write-down trigger(s)	NA
32	If write-down, full or partial	NA
34	If temporary write-down, description of write-up mechanism	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Secured Term Loan Borrowings , Creditors of the Bank and Depositors
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	NA

During April - March 2021, the Bank made the following allotments:

Date of issue and allotment	Method of allotment	Face value (Rs.)	Issue price (Rs.)	Number of equity shares allotted
November 07, 2020	Employee Stock Purchase Scheme	10	35	29,069
January 19, 2021	Employee Stock Option Plan	10	35	20,298
February 15, 2021	Employee Stock Option Plan	10	35	37,229
March 15, 2021	Employee Stock Option Plan	10	35	4,440
Total				91,036

PNCPS

Disclosure template for main features of regulatory capital instruments		
		Preference Shares
1	Issuer	Ujjivan Small Finance Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	INE551W04012
3	Governing law(s) of the instrument	Applicable Indian Statutes & Regulatory requirements and RBI Basel III Guidelines dated July 1, 2015
	Regulatory treatment	
4	Transitional Basel III rules	Addition Tier 1 Capital (AT1)
5	Post-transitional Basel III rules	Addition Tier 1 Capital (AT1)
6	Eligible at solo/group/ group & solo	Solo
7	Instrument type	Perpetual Non-Cumulative Preference shares
8	Amount recognised in regulatory capital (Rs. in million, as of most recent reporting date)	Rs 2,000 Million
9	Par value of instrument	Rs 10/-
10	Accounting classification	Capital
11	Original date of issuance	10^{th} February 2017
12	Perpetual or dated	Perpetual
13	Original maturity date	No Maturity date

14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	10th February 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%
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	NIL
22	Noncumulative or cumulative	Non-Cumulative
23	Convertible or non-convertible	Non-Convertible
24	If convertible, conversion trigger(s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	Yes
31	If write-down, write-down trigger(s)	PONV trigger & CET1 trigger
32	If write-down, full or partial	Full and Partial
34	If temporary write-down, description of write-up mechanism	The Issuer shall: 1. Notify holders of preference Shares 2. Cancel any dividend accrued and un paid to as on write down date 3 Without the need for the consent of holders of the PNCPS, write down the face value of the PNCPS by such amount as the Issuer may in its absolute discretion decide. Provided that, in no event shall such amount of write down be less than the amount required to immediately return the Issuer's Common Equity Tier 1 Ratio (as defined

		below) to above the CET1 Trigger Event Threshold (as defined below), nor shall such amount of write down exceed the amount which would be required to be written down to ensure that the Common Equity Tier 1 Ratio is equal to the aggregate of the CET1 Trigger Event Threshold and 2.5%, or such other percentage as may be prescribed by the RBI (the "CET1 Write Down Amount").
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinate to the claims of all depositors and general creditors and all capital instruments qualifying Tier II Capital instruments and perpetual debt instruments. Only Superior to Equity Shares
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	NA

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

Equity Shares

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

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

PNCPS

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

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

		1. Reduce the claim of the PNCPS in case of liquidation; 2. Reduce the amount re-paid when a call over the PNCPS is exercised by the Issuer; and 3. Partially or fully reduce dividend payments on the PNCPS. The specific criteria for such loss absorption through conversion/write-down/write-off on breach of pre-specified trigger and the Point of Non-Viability (PONV) will be in accordance with the applicable RBI guidelines The relevant terms of Annex 16 in Master Circular of Basel III capital regulations shall be deemed to be incorporated herein.
13	Permanent Principal Write-down on PONV Trigger Event	If a PONV Trigger Event occurs, the Issuer shall: 1.Notify the holders of the PNCPS; 2.cancel any dividend which is accrued and unpaid on the PNCPS as on the write-down date; and 3. Without the need for the consent of the holders of the PNCPS, write down the outstanding principal of the PNCPS by such amount as may be prescribed by RBI ("**PONV Write Down Amount**") and subject as is otherwise required by the RBI at the relevant time. The Issuer will affect a write-down within 30 (thirty) days (or such other time as may be prescribed by applicable law) of the PONV Write-Down Amount being determined by the RBI.A Permanent Principal Write-down on PONV Trigger Event may occur on more than one occasion. Unless specifically permitted by applicable law, once the face value of the PNCPS has been written down pursuant to PONV Trigger Event, the PONV Write-Down Amount will not be restored in any circumstances, including where the PONV Trigger Event has ceased to continue.
14	Temporary principal Write-down on CET1 Trigger Event	If a CET1 Trigger Event (as described below) occurs, the Issuer shall: 1.Notify the holders of the PNCPS; 2. Cancel any dividend which is accrued and unpaid to as on the write-down date; 3. Without the need for the consent of holders of the PNCPS, write down the face value of the PNCPS by such amount as the Issuer may in its absolute discretion decide. Provided that, in no event shall such amount of write down be less than the amount required to immediately return the Issuer's Common Equity Tier 1 Ratio to

		above the CET1 Trigger Event Threshold , nor shall such amount of write down exceed the amount which would be required to be written down to ensure that the Common Equity Tier 1 Ratio is equal to the aggregate of the CET1 Trigger Event Threshold and 2.5%, or such other percentage as may be prescribed by the RBI (the "CET1 Write Down Amount"). A write-down may occur on more than one occasion. Once the value of a PNCPS has been written down pursuant to this temporary Write down, the value of the PNCPS may only be restored in accordance with condition of reinstatement.

17. Table DF-15: Disclosure on Remuneration

18.1. Remuneration - Qualitative disclosures

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

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

Name: Nomination and Remuneration Committee

Composition of Nomination and Remuneration Committee as on March 31st, 2021:

Sr. No.	Name of director	Designation/Category
1.	Mr. Mahadev Lakshminarayanan	Chairperson -Independent Director
2.	Ms. Mona Kachhwaha	Member - Non-Executive, Non-Independent Director
3.	Mr. Prabal Kumar Sen	Member - Independent Director
4.	Mr. Harish Devarajan	Member- Additional Director (Independent)
5.	Mr. Ittira Davis	Member - Additional Director (Non-Executive, Non-Independent)

Following are the main terms of reference of the Committee:

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

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

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

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

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

2. Formulating criteria for evaluation of performance of independent directors and the Board of Directors;
3. To ensure 'fit and proper' status of proposed/ existing Directors;
4. Devising a policy on diversity of Board of Directors;
5. Ensure that level and composition of remuneration is reasonable and sufficient, relationship of remuneration to performance is clear and meets appropriate performance benchmarks,
6. Identifying persons who are qualified to become directors and who may be appointed in senior management in accordance with the criteria laid down, and recommend to the Board of directors their appointment and removal and shall specify the manner for effective evaluation of performance of the Board, its committees and individual directors to be carried out either by the Board, by the NRC or by an independent external agency and review its implementation and compliance. The Bank shall disclose the remuneration policy and the evaluation criteria in its annual report;
7. Analysing, monitoring and reviewing various human resource and compensation matters;
8. Determining the Bank's policy on specific remuneration packages for executive directors including pension rights and any compensation payment, and determining remuneration packages of such directors;
9. Determining compensation levels payable to the senior management personnel and other staff (as deemed necessary), which shall be market-related, usually consisting of a fixed and variable component;
10. Determining whether to extend or continue the term of appointment of the independent director, on the basis of the report of performance evaluation of in-

dependent directors;

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

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

    a) Determining the eligibility of employees;

    b) The quantum of option to be granted under the Employees' Stock Option Scheme per Employee and in aggregate;

    c) The exercise price of the option granted;

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

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

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

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

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

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

        - The number and the price of stock option shall be adjusted in a manner such that total value of the Option to the Employee remains the same after the Corporate Action;

        - For this purpose global best practices in this area including the procedures followed by the derivative markets in India and abroad may be considered;

- The Vesting Period and the life of the option shall be left unaltered as far as possible to protect the rights of the Employee who is granted such option;

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

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

l) The procedure for cashless exercise of options;

m) Forfeiture/ cancellation of options granted;

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

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

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

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

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

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

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

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

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

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

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

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

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

    1. The Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015; and
    2. The Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulations, 2003.

23. Carrying out any other function as is mandated by the Board from time to time and / or enforced/mandated by any statutory notification, amendment or modification, as may be applicable; and

24. Review regularly and approve the Bank's program for executive and employee development;

25. Review and implement the various HR policies and manual of the Bank;

26. Develop, review and approve the principles guiding the Bank's executive compensation philosophies;

27. 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; and

28. Performing such other functions as may be necessary or appropriate for the performance of its duties.

External consultants whose advice has been sought, the body by which they were

	commissioned, and in what areas of the remuneration process. Not Applicable ***• A description of the scope of the Bank's remuneration policy (eg: by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches.*** The purpose of the Compensation Policy is to ensure statutory compliance as well as alignment with the Bank's business policies and practices. The Compensation & Benefits (C & B) Policy document is based upon the principle that a fair and competitive salary is paid for acceptable levels of performance on the job. The compensation policy document is designed to align long-term interest of the employee and the organization. The policy document covers all employees and Board of Directors of the Bank. This document provides guidance on: • Compensation Philosophy • Compensation Structure • Grades • Pay Review Process • Variable Pay Plans • Salary Pay-out
	A description of the type of employees covered and number of such employees. All employees of the Bank are governed by the Compensation Policy. The total number of permanent employees in the Bank as on 31-Mar-2021 was 16,571.
b	***Information relating to the design and structure of remuneration processes. Disclosure should include:*** ***• An overview of the key features and objectives of remuneration policy.*** The Compensation Policy and Nomination & Remuneration Policy has been laid out keeping the following perspectives into considerations: a) Our Compensation principles should support us in achieving our mission of providing a full range of financial services to the economically active poor of India who are not adequately served (unserved and underserved) by financial institutions. Therein, this policy should support us to attract and retain talent and skills required to consolidate the organization's purpose and ideology. b) The pay structure and amounts shall always conform to applicable Income Tax and other similar statutes. c) All practices of Ujjivan SFB shall comply with applicable labour laws. d) The pay structure should be standardized for a level of employees. e) 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.

	f) The compensation structure shall be easy to understand for all levels of employees. g) The compensation policy is designed to promote meritocracy in the organization i.e. other things being equal, performers in a given role are expected to earn more than his/her peer group. h) The 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.*** There were no changes to the compensation policy of the Bank in FY 2020-21. ***A discussion of how the Bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee.*** The Bank periodically benchmarks its remuneration practices against the market. Compensation ranges in alignment to market pay are derived and reviewed periodically. Remuneration payable for each function is independent of amounts payable to other function as is the market practice. Further, performance metrics for the Risk and Compliance function are completely unrelated to deliverables of any other business function. The deliverables of the risk function are periodically reviewed by the Risk Committee of the Board ensuring due independence. Thus, the remuneration payable (which is linked to performance) is differentiated as well.
c.	***Description of the ways in which current and future risks are taken into account in the remuneration processes.*** • Structurally, the Control functions such as 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.
d.	***Description of the ways in which the Bank seeks to link performance during a performance measurement period with levels of remuneration.*** ***• A discussion of how amounts of individual remuneration are linked to the Bank-wide and individual performance.*** • The compensation policy is designed to promote meritocracy within the Bank i.e. other things being equal, performers in a given role are expected to earn more than his/her peer group. • The Bank shall, from time to time benchmark its compensation practices against identified market participants to define its pay structure and pay levels.

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

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

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

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

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

(a) The 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 Ujjivan. If there are significant developments in the year of payment (internal or external), management shall have leeway to announce a decision about pay-outs.

(b) Ujjivan believes in the philosophy of collective ownership by its employees. Thus, Employee Stock Options of the Bank are distributed amongst employee's basis their criticality and performance from time to time, at the discretion of the management.

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

(d) Malus/ 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.

(e) 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.

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

Variable Compensation at Ujjivan has the following distinct forms:

A - Cash Variable Pay

1. Statutory Bonus
2. Performance Pay – Performance Bonus and Monthly Variable Pay
3. Rewards & Recognition

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

- The Variable pay structure and amounts shall always conform to applicable Income Tax 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 of Ujjivan Small Finance 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: Ujjivan 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 Ujjivan), Functional R&R Schemes; Organizational Rewards Schemes such as: Service Champion; Process Excellence; Customer Connect Awards; Above and Beyond; etc. **B - Non-cash Variable Pay** Ujjivan believes in the philosophy of collective ownership by its employees. Thus, Employee Stock Options 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.

17.2. Quantitative Disclosures		
Sl. no	**Quantitative Disclosures (Covers only Whole Time Directors/ CEO/Other Risk Takers[57])**	**Numbers**
1	Number of meetings held by the Nomination and Remuneration Committee during the financial year and remuneration paid to its members.	**Total Meeting Held:** 8 **Total sitting fee paid:** Rs. 13.70 lakh
2	Number of employees having received a variable remuneration award during the year.	6 employees MD & CEO, Head- Treasury, Current and Ex-Chief Credit Officer (CCO), Head - Liabilities and Head - Micro and Rural Banking.
3	Number and total amount of sign-on awards made during the financial year.	Rs. 37.99 lakh[58]
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.	Rs. 74.10 lakh (Made to Ex- MD)
6	Total amount of outstanding **deferred remuneration**, split into cash, shares and share-linked instruments and other forms.	> Cash : NIL > ESPS shares : NIL > ESOP grants : 2,54,874 MD & CEO, Head- Treasury, Chief Credit Officer (CCO), Head - Liabilities and Head - Micro & Rural Banking.

[57] Key material risk takers are internally defined as mentioned in row 2 of the above table.
[58] ESOPs basis RBI approval as sign-on grant for MD and CEO; vesting due over 2 years - 2020 and 2021.

7	Total amount of deferred remuneration paid out in the financial year.	NIL
8	Breakdown of amount of remuneration awards for the financial year to show fixed and variable, deferred and non-deferred.	> Fixed gross : Rs. 491.98 lakh > Variable deferred : Rs. NIL Fixed gross of the following employees : MD & CEO, Head- Treasury, Current and Ex-Chief Credit Officer (CCO), Head - Liabilities and Head - Micro and Rural Banking.
9	Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and / or implicit adjustments.	NIL
10	Total amount of reductions during the financial year due to ex- post explicit adjustments.	NIL
11	Total amount of reductions during the financial year due to ex- post implicit adjustments.	NIL

14. 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	15,16,490
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	3,93,355
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)	1,28,200
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off- balance sheet exposures)	11,607

7	Other Adjustments	-33,557
8	**Leverage ratio exposure**	**20,16,096**

15. 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)	19,09,845
	Domestic Sovereign	2,41,853
	Banks in India	86,597
	Corporates	64,848
	Exposure to default fund contribution of CCPs	58
	Other Exposure to CCPs	
	Others	15,16,490
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	-33,557
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	18,76,289
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	0
5	Add-on amounts for PFE associated with all derivatives transactions	0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	0
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	0
8	(Exempted CCP leg of client-cleared trade exposures)	0
9	Adjusted effective notional amount of written credit derivatives	0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0
11	**Total derivative exposures (sum of lines 4 to 10)**	0
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	1,28,200
13	(Netted amounts of cash payables and cash receivables of gross SFT	0

	assets)	
14	CCR exposure for SFT assets	0
15	Agent transaction exposures	0
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	1,28,200
	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	21,862
18	(Adjustments for conversion to credit equivalent amounts)	10,255
19	**Off-balance sheet items (sum of lines 17 and 18)**	11,607
	Capital and total exposures	
20	**Tier 1 capital**	2,86,267
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	20,16,096
	Leverage ratio	
22	**Basel III leverage ratio**	14.20%

Presently the contribution of Tier I capital to Total Basel II capital is 94.79%. The business model of the Bank is relatively simple with a significant portion as fund-based assets. Gross advances were primarily in the nature of term loans. Since the exposure to Securities Financing Transactions (SFT) and Off Balance Items are presently low, the Leverage ratio is well above the benchmark of >4.5%.

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