Pillar 3 Disclosures- September 30, 2017

Ujjivan Small Finance Bank Limited (hereinafter referred to as the 'Bank' or 'USFB') which was incorporated on July 4, 2016 under the provisions of the Companies Act, 2013 and is licensed by the Reserve Bank of India (RBI) to operate as a Small Finance Bank (SFB) under the Banking Regulation Act, 1949 had converted 92 of its erstwhile Microfinance (MFI) asset centres into Bank branches and opened 2 branches at Unbanked Rural Centres (URC) as at 30th September 2017. The Bank has provided RBI with a plan for progressive conversion of its MFI branches into Bank branches, while commensurately expanding at URCs to comply with the licensing conditions. The Bank provides retail banking services to economically active poor in urban and semi urban areas and as on 30th September had just commenced its para banking activities as a corporate agent of Bajaj Allianz Insurance Company limited to distribute life insurance products. The Bank is headquartered in Bangalore and has regional offices in New Delhi, Kolkata and Pune. There are no foreign operations of the Bank.

The Bank was included in the second schedule of Reserve Bank of India Act, 1934 vide RBI communication marked DBR.No.Ret.BC.85/12.07.150/2017-18 dated September 7th, 2017. It is therefore a Scheduled Commercial Bank (SCB) as defined by RBI.

This is the second disclosure under the Pillar 3 requirements being made by the Bank since commencement of its formal operation on 6th February 2017. It covers the capital adequacy status of USFB as at 30th September 2017 and also describes the risk process and governance at the Bank to effectively on-board, monitor, measure and report risk.

Table DF- 1: Scope of Application

Qualitative Disclosures

Parent Organization: Ujjivan Financial Services Limited
Subsidiary: Ujjivan Small Finance Bank Limited

As per the Agreement to Transfer Business Undertaking (hereinafter referred to as 'BTA') dated January 12, 2017 Ujjivan Financial Services Limited (UFSL), the parent holding company of the Bank, transferred its business undertaking by way of a slump sale on a going concern basis to USFB with effect from February 01, 2017.

The disclosures in this document pertain to **Ujjivan Small Finance Bank (USFB)** as a stand-alone and independent entity.

The Bank does not have any subsidiary nor does it have any interest in any insurance entity.

List of group entities considered for consolidation			
Name of the entity / country of incorporation (as indicated in (I) a. above)	**Principal activity of the entity**	**Total balance sheet equity (as stated in the accounting balance sheet of the legal entity)**	**Total balance sheet assets (as stated in the accounting balance sheet of the legal entity)**
NIL	NIL	NIL	NIL

The 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 (as stated in the accounting balance sheet of the legal entity)**	**% of Bank's holding in the total equity**	**Capital deficiencies**
NIL	NIL	NIL	NIL	NIL

The 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 (as stated in the accounting balance sheet of the legal entity)**	**% of Bank's holding in the total equity / proportion of voting power**	**Quantitative impact of regulatory capital of using risk weighting methods versus using the full deduction method**
Nil	Nil	Nil	Nil	Nil

Table DF- 2: Capital Structure

Qualitative Disclosures

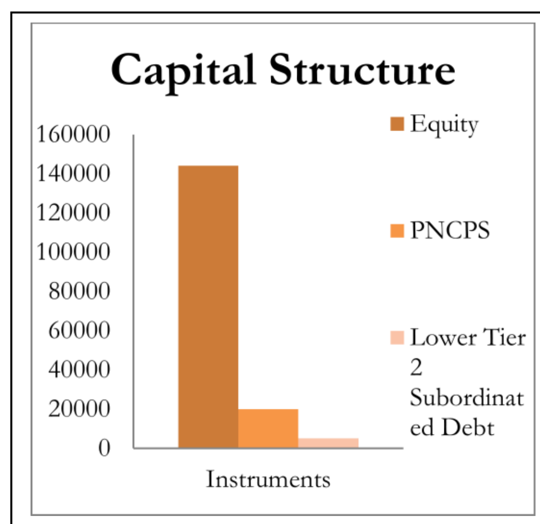
a) Equity capital

The Bank has an authorized capital of Rs.1, 50,000 lacs in the form of Common Equity qualifying as Tier 1 capital under the guidelines of RBI. The Bank has issued, subscribed and paid up equity capital of Rs.1, 44,003 lacs, constituting 1,44,00,36,800 numbers of shares of Rs.10 each.

Out of this, 100% shareholding was with UFSL, the holding company as on 30th September 2017. The shares of the Bank are not listed.

Capital Structure- Summary of Tier I & Tier II Capital			
S. No.	**Instrument**	**Whether Tier I or II**	**Amount in Lacs**
1	Equity	Tier 1	144004
2	PNCPS*	Tier 1	20000
3	Lower Tier 2 Subordinated Debt	Tier 2	5000

Perpetual Non-cumulative Preference Shares



Details of PNCPS instruments

Perpetual Non-cumulative preference shares 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 to PNCPS is that there can be no maturity date and no step ups or other incentives to redeem. 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 instruments is

(i) Superior to the claims of investors in equity shares;

(ii) Subordinated to the claims of PDIs, all Tier 2 regulatory capital instruments, depositors and general creditors of the bank; and

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

Tier II Series name	**Issue Amount**	**Issue date**	**Date of Redemption**	**Basel III complaint (Y/N)**	**Interest rate (% p.a.)**
PNCPS	20000	9th Feb 2017	Perpetual	Yes	11% p.a.

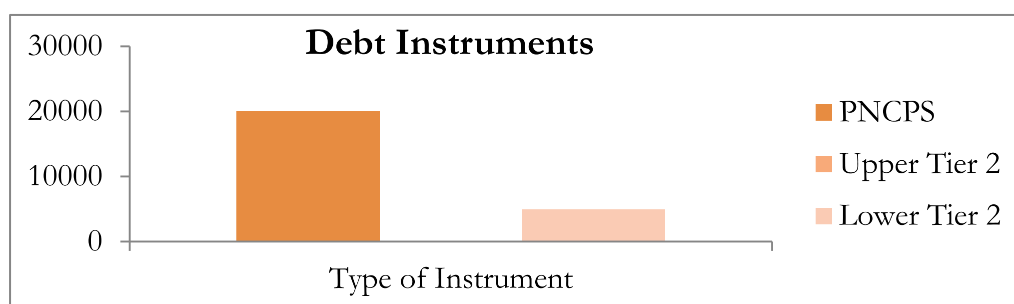
b) Debt Capital instruments (qualifying as Tier II capital)

Details of Subordinated debt instruments (in lacs)

The subordinated debt capital instruments are issued as bonds / debentures by USFB and meet the terms and conditions to qualify for inclusion as Tier 2 Capital for capital adequacy purposes. These debt instruments are subjected to a progressive discount for capital adequacy purposes as they approach maturity. The interest payable to the investors can either be at a fixed rate or at a floating rate referenced to a market determined rupee interest benchmark rate.

The claims of the investors in instruments are:
(i) senior to the claims of investors in instruments eligible for inclusion in Tier 1 capital;
(ii) subordinate to the claims of all depositors and general creditors of the Bank; and
(iii) Is neither secured nor covered by a guarantee of the issuer or related entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis Bank creditors.

Tier II Series name	**Issue Amount**	**Issue date**	**Date of Redemption**	**Basel III complaint (Y/N)**	**Interest rate (% p.a.)**
SIDBI Sub debt-US	5000	29th September 2014	10.4.2020	No	15%



Quantitative Disclosures

The break-up of Basel II capital funds (in lacs) as on 30th September is as follows:

A	**Tier 1 Capital - Instruments and Reserves**	(Rs in lacs)
	Directly issued qualifying common share capital plus related stock surplus (share premium)	144003.68
	Retained earnings	-8811.36
	Perpetual Non-Cumulative Preference Shares	20000.00
	Tier 1 capital before regulatory adjustments	155192.32
B	**Tier 1 Capital - Regulatory Adjustments**	
	Goodwill (net of related tax liability)	0.00
	Deferred tax assets arising from temporary differences	9262.04
	Intangibles (Prepaid Expenses)	716.12
	50% of Credit Enhancements	4319.17
	50% of securitised portfolio rated BB and below	426.50
	Regulatory Adjustments applied to Tier 1 Capital due to insufficient funds in Tier 2 to cover deductions	0.00
	Total regulatory adjustments to Tier 1 Capital	14723.83
C	**Tier 1 capital (A-B)**	**140468.49**
D	**Tier 2 Capital - Instruments and Provisions**	
	Sub - debt eligible as Tier 2 capital	2000.00

	General Provisions on Standard Assets admissible as Tier 2	3137.58
	Tier 2 Capital before regulatory adjustments	5137.58
E	**Tier 2 Capital - Regulatory Adjustments**	
	50% of Credit Enhancements	4319.17
	50% of securitised portfolio rated BB and below	426.50
	Total Regulatory Adjustments to Tier 2 Capital	4745.67
F	**Tier 2 Capital (D-E)**	**391.91**
G	**Total Regulatory Capital (C+F)**	**140860.40**

Table DF- 3: Capital Adequacy

Qualitative Disclosures

As at 30th September, the asset book of the Bank continued to be heavily skewed towards its erstwhile microfinance business. The total loan portfolio of the Bank as on 30th September was Rs 648,322 lacs of which loans to Micro-finance segment was Rs. 638,400 lacs. The balance was made up of loans to the affordable housing segment and to micro and small enterprises. The Bank had a total liability book of Rs.134,9 07.86 lacs as on 30th September 2017. The Bank is fully compliant with the Priority Sector Lending (PSL) requirement of SFBs as stipulated by RBI. As defined by RBI in its operating guidelines to Small Finance Banks (DBR.NBD.No.26/16.13.218/2016-17 dated October 6, 2016) SFBs are required to adopt the Standardized approach for credit risk and maintain a minimum CRAR of 15% segregated as under:

Minimum Capital Requirement	15%
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 6% up to March 31, 2019 , and 7% thereafter

The Guidelines state that the prudential framework for market risk and operational risk are being examined and the instructions in this regard will be issued separately. (I*n a separate communication dated 8th November 2017 marked DBR. NBD. No. 4502/16.13.218/2017-18, RBI has advised that no separate charge for market risk and operational risk for SFBs is prescribed for the time being)*

However, as a good governance practice, USFB separately computes capital charge for all the Pillar 1 risks viz. Credit, Market and Operational Risk following the Standardized approach for

Credit Risk, Standardized Duration Approach for Market Risk and the Basic Indicator Approach for Operational Risk As directed by RBI, the Bank follows the Basel II guidelines when computing capital adequacy, though for its internal and regulatory reporting it also complies with certain aspects of Basel III requirement, such as computation and maintenance of RBI prescribed minimum Liquidity Coverage Ratio (LCR).

The Bank also periodically assesses its capital requirement commensurate with its business projections and addressing Pillar 1 risks. However, as required by RBI, the Bank has commenced its Internal Capital Adequacy and Assessment Process (ICAAP) to cover risks over and beyond what is envisaged under Pillar 1 of the Basel guidelines. This report will be submitted after closure of the first full financial year of operation after review of the Bank's Board of Directors.

For its capital adequacy calculation as at 30.9.2017 under Basel II guidelines the Bank has also taken into cognizance, as required by RBI, assets under lien for its "grandfathered" portfolio of legacy borrowings and applied an additional Risk Weighted Asset (RWA)of 25% to these assets. This portfolio is progressively being paid down and alternate sources of funding such as certificates of deposit and term deposits are being tapped to additionally prepay the high cost external borrowings. The progressive repayment and prepayment of its legacy borrowings will release the underlying assets charged to the lending financial institutions and with that also release expensive RWA. The capital adequacy position, which was very comfortable as at 30th September 2017, is expected to improve further.

Likewise, the securitized portfolio which was transferred under the BTA is being paid down. The capital adjustment made to Tier I and Tier II capital on account of the credit enhancement provided for this securitized portfolio and also against the portfolio rated BB and below as required under the Basel II guidelines, will also be progressively reduced with the payment of the securitized obligation, thereby improving capital under both Tier I and Tier II.

Quantitative Disclosures

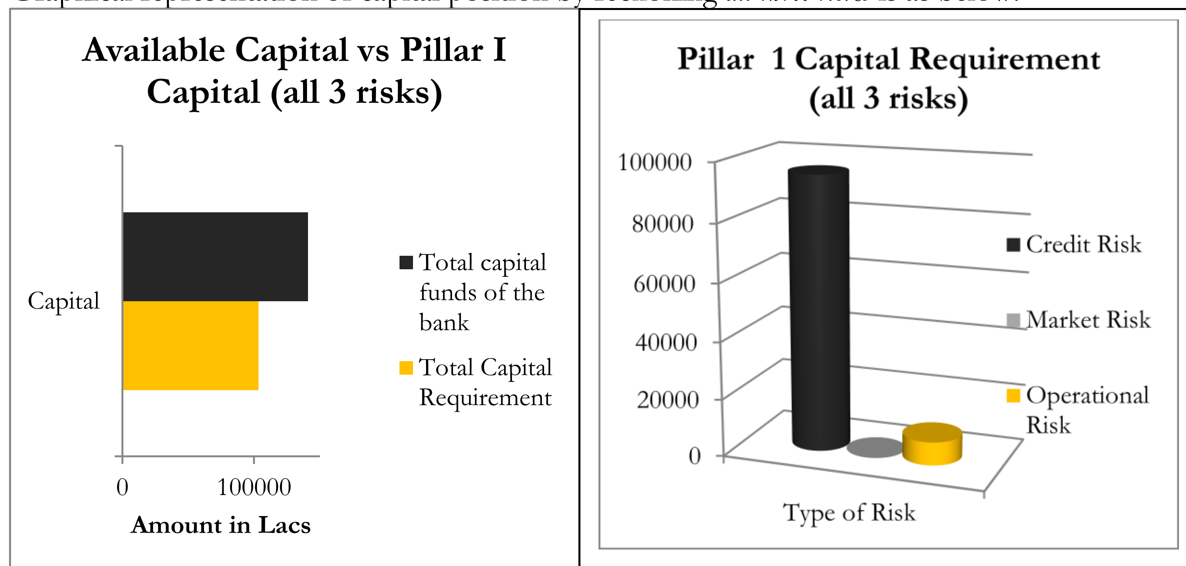
Capital requirements for various risks	**(in lacs)**	
Sl. No.	**Capital requirements for various risks**	**Amount**
A	**Credit Risk capital charge @ 15%**	
A.1	For non- securitized portfolio	94105
A.2	For Securitized Portfolio	1074
A.3	Non-Funded	NIL
	Total Credit Risk	**95179**
B	**Market Risk Capital Charge**	
B.1	Interest Rate Risk	90
B.2	Equity Risk	NIL
B.3	Forex	NIL
B.4	Commodities	NIL
B.5	Options	NIL
	Total Market Risk	**90**
C	**Operational Risk Capital Charge**	**8101**
D	**Pillar I Capital Charge**	**103370**

Basel II Ratios as on September 30th 2017 (in lacs)

Particulars	**Amount/Ratio(Only Credit RWA)**	**Amount/ Ratio (all Pillar 1 risks)**
Tier I Capital	140468	140468

Tier II Capital	392	392
Total Capital	140860	140860
Total RWA	634526	736914
Tier I Ratio	**22.14%**	**19.06%**
Tier II Ratio	**0.06%**	**0.05%**
Overall CRAR	**22.20%**	**19.11%**

Graphical representation of capital position by reckoning *all three risks* is as below:



General Qualitative Disclosures

A) Risk Culture

The Bank has embedded a strong risk culture throughout the organization with respect to acknowledging the inherent riskiness in the business segments it operates in. This starts with a very rigorous process of identifying risks in a branch location, a rigorous appraisal for identifying risks in any product that it launches and listing the risk mitigants, and a very robust and consistent methodology for review and appraisal. A strong risk culture is designed to help reinforce the Bank's efforts by encouraging a holistic approach to the management of risk and return throughout the organization as well as the effective management of the Bank's risk, capital and reputation.

The Bank has a well-defined Credit policy and Credit Risk policy in place. These policies utilize a slew of measures to ensure regular monitoring of the portfolio for identification and assessments of any increase in credit risk.

The Credit Policy sets out acceptable credit norms and stresses on achieving a high quality loan portfolio with optimal returns.

The Policy is applicable to all credit facilities sanctioned by the Bank. The Policy is guided by leading practices of commercial prudence and the highest standards of ethical norms including the key requirements of RBI directives on Fair Practices Code for Lenders and other such

directives in relation to loans and advances applicable to SFBs and in case of any conflict the regulatory directives would take precedence.

By virtue of the SFB licence, USFB is required to maintain 75% of its Adjusted Net Bank Credit (ANBC) in Priority Sector Lending (PSL). Out of these 75%, 40% of ANBC-PSL is allocated to different sub-sectors of PSL as per the extant PSL prescriptions and 35% to any one or more sub-sectors under the PSL where the Bank has a competitive advantage.

The Bank offers a wide range of products to its target customer segments to satisfy their financial needs. Each product is sufficiently documented via Product Programs with respect to quantum of loans, eligibility criteria, acceptable collaterals (in case of secured lending), appraisal process, loan documentation process and disbursement.

B) Credit Appraisal

The Bank has defined the following principles for credit appraisal to be consistently followed across business units for credit origination and sanction:

- Before a credit facility (both secured as well as unsecured) is approved/ renewed, the credit proposal is rigorously appraised. The credit appraisal process involves personal discussion with the borrowers, reference checks, cash flow based assessment, in-depth study of the financial (as applicable in product programs), technical, industry/sector and managerial aspects of the borrower in addition to account conduct (in case of renewals).
- Bank undertakes thorough and comprehensive financial and non-financial check to ensure that the right set of customers is selected. Before granting any credit facility, the Bank assesses a borrower's credit worthiness based on established credit guidelines. This includes a check on housing, continued residence in the current area, health and age of the borrower/guarantor, household annual income, repayment capacity etc. All these parameters help in establishing the genuineness of the prospective clients who are economically active poor.
- Each credit proposal is prepared in an appropriate appraisal format and placed before the appropriate sanctioning authority for approval.
- De-duplication (de-dupe) checks are carried out as a best practice to check if the borrower (or any of its connected parties) is/are already having any relationship or had any relationship with Bank (in which case the account conduct during the relationship is checked). Additionally, if the borrower (or any of its connected parties) was rejected / denied credit facility by Bank in the past, the reasons thereof are furnished as part of the credit proposal.
- Appropriate checks with various negative lists are performed (RBI defaulters' list, internal exclusion list) prior to on-boarding and any matches are highlighted to the approval authorities at the time of approval.
- Appropriate bureau checks are performed and any adverse repayment history is enquired upon and justifications are obtained from the customer and furnished as part of the credit proposal.

The Bank continuously attempts to introduce transparent and fair practices as envisaged by the RBI, with respect to acknowledging loan applications, the quick processing of these applications,

credit appraisal and sanction, stipulation of terms and conditions, post-disbursement supervision, changes in terms and conditions, recovery efforts, etc.

The Bank has established a mechanism for redressal of grievances of borrowers. A periodic review of the compliance with the Fair Practices Code (FPC) for lenders and the functioning of the grievance redressal mechanism is presented to the Board of Directors.

C) Risk Governance

The Bank has set up a robust risk governance framework based on the following key principles:

- While the Board of Directors is responsible for overall governance and oversight of core risk management activities, execution strategy is delegated to the Risk Management Committee of the Board (RMCB). At a management level, there are separate committees for Credit Risk, Operations and IT Risk and Asset Liability and Market Risk Management (ALCO). All these committees meet at monthly intervals.
- Segregation of duties across the 'three lines of defence' model is in place, whereby front-office functions, risk management and oversight and Internal Audit roles are played by functions independent of one another.
- Risk strategy and the Risk appetite of the Bank is approved by the Board and reviewed periodically.
- All major risk classes are managed through focused and specific risk management processes. These risks include credit risk, market risk, operational risk and liquidity risk.
- Policies and processes are in place and regularly enhanced to enable the risk management capability.
- All new processes and products introduced in the Bank have a rigorous due diligence process that includes a risk review before these are formally introduced.

D) Risk Management Department

The Chief Risk Officer and the Risk Management Department (RMD) along with its units (Credit Risk unit, Operational Risk unit, Market Risk and ALM unit) are responsible for implementation of the Risk Management Policy and other applicable policies as approved by the Board of Directors. Roles and responsibilities of the RMD are as below:

i. RMD is responsible for establishing systems and implementing processes related to identification, assessment, measurement, control, monitoring and reporting of credit, operational, market & ALM, liquidity and interest rate risks.
ii. RMD is also responsible for identifying, recording and reporting risks that are not part of Pillar 1 assessment.
iii. Manage risk in line with the risk appetite and tolerance structure as approved by the Board.
iv. Ensure necessary resources are available to perform risk management related activities.
v. Ensure co-ordination and communication between staff responsible for managing various risks and those who are responsible for outsourcing and procurement of services.

vi. Control and monitor all risks on a Bank wide basis within the approved risk parameters.

vii. Ensure that the risk management policy and standards are comprehensive, effectively maintained and clearly communicated.

viii. Review the risk management policy and all other related policies annually and update the same on the basis of RBI regulations and internal events.

ix. Implementing tools related to Operational risk management such as Risk and Control Self-assessment (RCSA), Key Risk Indicators (KRI), Loss Data management etc.; and work towards the goal of improved controls and lower risk.

x. Provide periodic trainings to the Bank's employees to generate awareness and communicate any updates about Operational Risk management, IT and Cyber Security and Credit Risk Management.

xi. Monitor, evaluate and investigate transactions in liability and asset accounts that are in breach of thresholds and internal guidelines to comply with the Anti-Money Laundering (AML) directives of RBI.

xii. Fraud risk monitoring;

xiii. To test the veracity of the Expected Credit Loss (ECL) computation as the Bank transitions from IND GAAP to IND AS basis of accounting;

xiv. To implement new initiatives like Credit Scorecards for the MSE, Housing and Individual Loans portfolio of the Bank.

E) Risk Infrastructure

USFB has a comprehensive infrastructure of Board approved policies, procedures, people and technology to actively measure, monitor and report risk to the senior management and to the Board. The Bank has invested considerably in technology as required by RBI. This is not only to enhance the customer experience but also be ahead in a competitive environment

For its risk management function, Bank has procured licenses from SAS covering Anti- money laundering (AML), Asset Liability Management (ALM), Operational Risk and Information Technology General Risk Control (ITGRC), Capital Adequacy computation and Fund Transfer Pricing (FTP). From these, the AML module is operational. This is worked in conjunction with a Restricted Entity (RE) module that the Bank has procured from Posidex. When worked in tandem, it provides a platform to check customer credentials and monitor transactions.

The Asset Liability Management module (ALM) and the Credit Risk modules are under User Acceptance Testing (UAT). The Enterprise Governance Risk and Compliance (EGRC) module that covers primarily reporting for Operational Risk is in production and will be used for Loss Data modelling, Incident reporting, KRI generation and preparation of RCSA reports. Pending the implementation of all the modules from SAS, the Bank uses excel templates to prepare all liquidity reports, its risk modelling and its capital adequacy computation.

This risk infrastructure is reviewed on a periodic basis for completeness, appropriateness and alignment to changing risk within the economy and the business.

Table DF- 4: Credit Risk: General Disclosures

Qualitative disclosures
Credit risk

A) Definitions of past due and impaired

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

(i) Interest and/or instalment of principal remains overdue for a period of more than 90days in respect of a Term Loan;

(ii) The account remains out of order for 90 days

(iii) The bill remains overdue for a period of more than 90days in the case of bills Purchased and Discounted

(iv) In case of advances granted for Agricultural purposes
a) The instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops
b) The instalment of principal or interest thereon remains overdue for one crop seasons for long duration crops

(v) 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.

(vi) 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.

Asset Classification shall be borrower wise and not facility wise: all the facilities granted by a bank to a borrower shall be treated as NPA and not the particular facility thereof which has become irregular

Sub-classification of NPA (as defined by RBI):
Sub-standard account: A substandard asset would be one, where the amount is overdue for a period of over 90 days (NPA) and which has remained NPA for a period less than or equal to 12 months.
Doubtful account: An asset would be classified as doubtful if it has remained in the substandard category for a period of 12 months.
Loss Assets: A loss asset is one which is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value. Such an account as identified by the bank or internal or external auditors or the RBI inspection where the amount has not been written off wholly.

Up gradation of loan account: If all arrears of interest and principal are paid by the borrower in the case of loan accounts classified as NPAs, the account shall no longer be treated as non-performing and shall be classified as 'standard' account.

Accounts where there is erosion in the value of security/frauds committed by the borrower: Accounts where there are potential threats for recovery on account of erosion in the value of security or non-availability of security and existence of other factors such as frauds committed by borrowers it will not be prudent that such accounts should go through various stages of asset classification. In cases of such serious credit impairment, the asset will be straightaway classified as doubtful or loss asset as appropriate and as decided by the Risk Management Committee.

B) Special Mention Accounts

A system of early recognition with timely and adequate intervention forms the focus of the approach in dealing with slippage of NPAs. In this context, the RBI has suggested introduction of an asset category between 'standard' and 'sub-standard' for internal monitoring and follow up. This asset category is known as 'Special Mention Accounts (SMA). The SMA has potential weakness and hence deserves close management attention which can be resolved through timely remedial action. If left uncorrected, the potential weaknesses in the said asset may result in deterioration in the asset classification.

The following overdue accounts are classified as Special Mention Accounts as per the Days Past Due (DPD) status from the date of payment:

DPD Buckets	SMA Sub-categories
1-30 days	SMA- 0
31-60 days	SMA-1
61-90 days	SMA- 2

C) Provisioning Norms of the Bank

The Risk Management Committee of the Board has approved 'accelerated provisioning' for NPA accounts in light of changes in the economic situation post the demonetization. The increased provisioning norms help recognize the actual risk and gradually account higher for sub-standard assets and also provide fully for an asset over 365 days. The provisioning policy of the Bank is as below:

Table 1: Unsecured loans: Group and Individual loans including unsecured MSE loans:

Asset Classification	Sub-category	Overdue Buckets	Regulatory Norms	Board approved Bank's Provision
Standard Asset	No Due	0 days	0.4%	0.5%
Standard Asset	SMA- 0	1-30 days	0.4%	0.5%
Standard Asset	SMA- 1	31-60 days	0.4%	1%
Standard Asset	SMA-2	61-90 days	0.4%	1%
Sub-standard Asset	NPA	91-150 days	25%	25%
Sub-standard Asset	NPA	151-180 days	25%	50%
Sub-standard Asset	NPA	181-365 days	25%	75%
Sub-standard Asset	NPA	366-455 days	25%	100%
Doubtful Asset	NPA	>455 days	100%	100%

The accelerated provisioning as indicated in Table 1 is conservative compared to the regulatory norms. The reasons for the accelerated provisioning when compared to regulatory minimums are as below::

- USFB, like all other companies engaged in microfinance business faced an extra-ordinary situation due to the demonetization
- Many of the Bank's customers were unable to repay their loan dues from November 2016 onwards due to currency shortage initially, major livelihood disruption and local political agitations.

Note: All cases identified as loss assets at any given point in time are fully provided for

Table 2: Secured loans: MSE Secured loans, Loan against Property-SENP-SEP and Housing loans:

Asset Classification	Sub-category	Overdue Buckets	Regulatory Norms	Board Approved Provisions
Standard Asset	No Due	0 days	0.4%	0.5%
Standard Asset	SMA- 0	1-30 days	0.4%	0.5%
Standard Asset	SMA- 1	31-60 days	0.4%	0.5%
Standard Asset	SMA-2	61-90 days	0.4%	0.5%
Sub-standard Asset	NPA	91-180 days	15%	25%
Sub-standard Asset	NPA	181-455 days	15%	50%
Doubtful Asset	NPA	456-545 days	25%	75%
Doubtful Asset	NPA	546-720 days	25%	100%
Doubtful Asset	NPA	721- 970 days	40%	100%
Doubtful Asset	NPA	971- 1000 days	40%	100%
Loss Asset	NPA	>1551 days	100%	100%

- The provisioning norms for Secured loans, both Business and Housing loans are higher than the regulatory norms. The overdue buckets are categorized after analysing the trend/movement in overdue status and traction percentage achieved in these buckets.
- All cases identified as loss assets at any given point in time are fully provided for.

Additional Considerations:
Treatment to the following special cases are as below:

- **Benami loans** and **Sub-lending cases** as identified by the Bank, and as investigated and confirmed by the Risk Management Committee are considered as loss asset and fully provided for immediately;
- **Abscond cases** are considered as loss assets from 91 days and fully provided for at 91 days. Any other fraudulent case as identified by the Bank and confirmed by the Risk Management Committee is considered as loss asset and fully provided for immediately

D) Rescheduled loans

All loans, where the repayment terms of existing advances have been revised in order to extend the repayment period and/or decrease the instalment amount as per the borrower's request are marked as rescheduled loans. Loan rescheduling is done for genuine cases and not for technical reasons.

- Rescheduling results in immediate down-gradation of the loan, i.e. a standard loan becomes substandard and immediately attracts provision as per the asset classification and subsequent provisioning norms.
- If the account continues to deteriorate post rescheduling, it will slip into further lower asset classification and attract provisioning as per the policy.
- If a non-performing asset is rescheduled, it shall continue to have the same classification as prior to rescheduling and slip into further lower asset classification as per asset classification norms with reference to the pre-rescheduling repayment schedule and attract provisioning as per policy. If the account performs regularly, it will be upgraded

after one year of satisfactory performance of the loan

E) Write-offs

Technical/prudential write-offs refer to the amount of non-performing assets which are outstanding in the books of branches, but have been written off (fully or partially) at head office level. The financial accounting systems of the Bank are integrated and there are no write-offs done by the Bank which remain outstanding in the books of the branches. The movement in the stock of technically or prudentially written off accounts are given as below:

Particulars	As at 30th September 2017 (Amount in lacs)	As at 31st March 2017 (Amount in lacs)
Opening balance of technical/ prudential write offs accounts	--	--
Technical/ Prudential write-offs during the period	8863.65	--
Recoveries made from previously technically / prudentially written off accounts during the period	--	--
Closing balance of technical/ prudential write off accounts	8863.65	--

All assets which have been fully provided for are considered for writing off after all recovery efforts have been exhausted:

Category of loans	**Write off Policy**
Unsecured loans (Post Nov'16)	Can be Written off after 365 days, when it is classified as doubtful
Unsecured loans (Prior demonetization)	Can be Written off after 180 days. These are cases largely where the borrower is an intentional defaulter or abscond case or a sub lending case and have been fully provided for
Benami loan/Sub-lending/Abscond cases	Unsecured loans after 180 days Secured loans after 365 days
Secured loans	Can be Written off after 545 days
Fraud Cases *(As confirmed by the Risk and Fraud Management committed and reviewed by the Risk committee)*	Unsecured loans after 180 days Secured loans after 365 days Any account over and above Rs. 1lakh is written off by the MD & CEO as defined in the Recovery Policy
Loss assets	Loss Assets can be written off after 180 days from the date of such classification, if approved by Credit Risk Management Committee of the Bank.

F) Credit Risk Management

Credit risk is managed through a framework that sets out policies and procedures covering the measurement and management of credit risk. There is a clear segregation of duties between transaction originators in the business function and approvers in the credit risk function. Board approved credit policies and procedures mitigate the Bank's prime risk - default risk.

Bank has put in place an internal limit framework as a prudent act to measure and monitor credit and concentration risks within the overall regulatory limits. The internal limits for credit exposure are applicable to all credit exposures originated by the Bank. Accordingly Bank has set forth Geographical exposure limits. These limits are monitored at regular intervals and placed to the Credit Risk Management Committee (CRMC).

As a measure to counter the effects of demonetization, during the HY 2017-18, the Bank established a dedicated collections teams to recover cases which are >90 DPD. 50% of the NPA accounts are allocated to the collections team, the balance remains with the branch teams.
Following this, there has been a marked improvement in collection and 30%+ traction (recovery) was observed in September on allocated accounts with an increasing monthly trend from June'17 as shown below:

Quarter Ended	# Employees	Allocated OD A/cs	Traction%	Collection (Rs. Lacs)
June'17	119	23,828	26%	80
Sept'17	460	1,43,205	30%	627

Vintage staffs (experienced staff) from affected branches were moved to the collections team.

Branches with high PAR are completely focused on recoveries. Branches are being reviewed on a monthly basis at the credit risk committee to allow/continue/discontinue new customer acquisition. A dedicated leadership team is managing portfolio quality management on a full time basis. In a unique effort, the management and leadership team members also mentor critical branches with ground level monitoring

Continued tele-calling support for high value default clients is provided. Conversion rate in successful calls made is as high as 91% for Individual Lending customers compared to 50% for Group Lending customers.

Credit Risk Monitoring
Micro-finance portfolio
The Unsecured Credit function specifically manages and monitors the microfinance business (JLG) and Individual Loans through an independent loan underwriting and approval process. Credit risk monitoring for the unsecured lending portfolio is undertaken in the following way:

- Field credit teams ensure implementation of various policies and processes through random customer visits and assessment, training of branch staff on application errors, liaison with other institutions to obtain necessary information/loan closure documents, as the case may be, and highlight early warning signals and industry developments enabling pro-active field risk management. The efforts of the field credit team are supplemented by that of the strong Internal Audit framework of the Bank. This is primarily audit of field and branch banking processes, including the credit sanction and disbursement process. Any breach is highlighted and corrective measures are initiated;
- Branch specific credit limits for JLG business have been formulated that define credit limits for various occupations thereby addressing exposure and concentration risks. The limits so drawn ensure approvals in accordance with customer's maturity in the lending

system, vintage with USFB, primary occupation of the family and their locale. The entire policy suite thus enables robust customer selection and assessment;

- Portfolio analysis and reporting is used to identify and manage credit quality and concentration risks. Monthly branch credit performance score cards have been implemented to ascertain the health of the branch portfolio.

Housing and MSE portfolios

Credit risk monitoring for MSE and the affordable housing sector is broadly done at two levels – account level and portfolio level. Account monitoring aims to identify weak accounts at an incipient stage to facilitate corrective action. Portfolio monitoring aims towards managing risk concentration in the portfolio as well as identifying stress in certain occupations, markets and states.

The Bank has also established an Early Warning System (EWS) to identify and act on signs of early sickness in the loan accounts and take necessary corrective action. Such accounts, where potential distress has been identified, are included and maintained in a watch list and reviewed on a periodic basis by the business and underwriting units so that suitable steps can be taken for mitigation of risk. The Bank also actively monitors its credit portfolio for identifying concentration risk and program limits.

Quantitative Disclosures

Exposure summary: Facility type

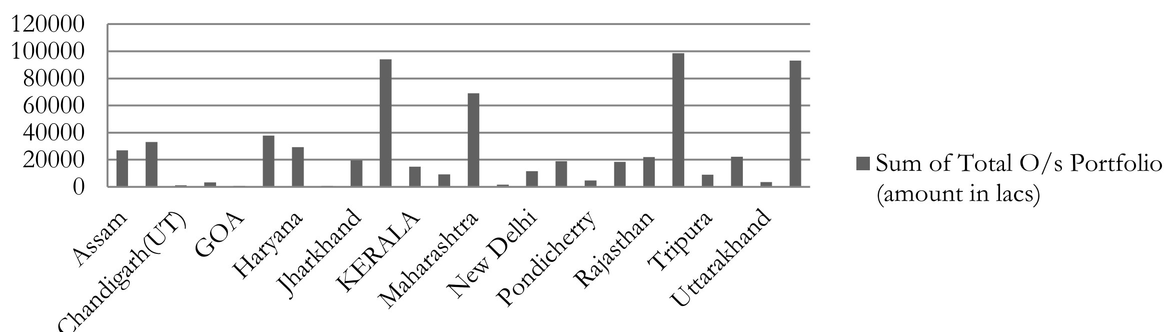
		In lacs
Exposure Type	**Domestic(outstanding)**	**Overseas (Outstanding)**
Fund- Based*	648,321.97	--
Non- Fund Based	--	--
Total	**648,321.97**	**--**

*Fund Based facilities includes loans and advances (customer and staff)

Geographic Distribution of advances (State-wise) (Excluding Staff Loans)

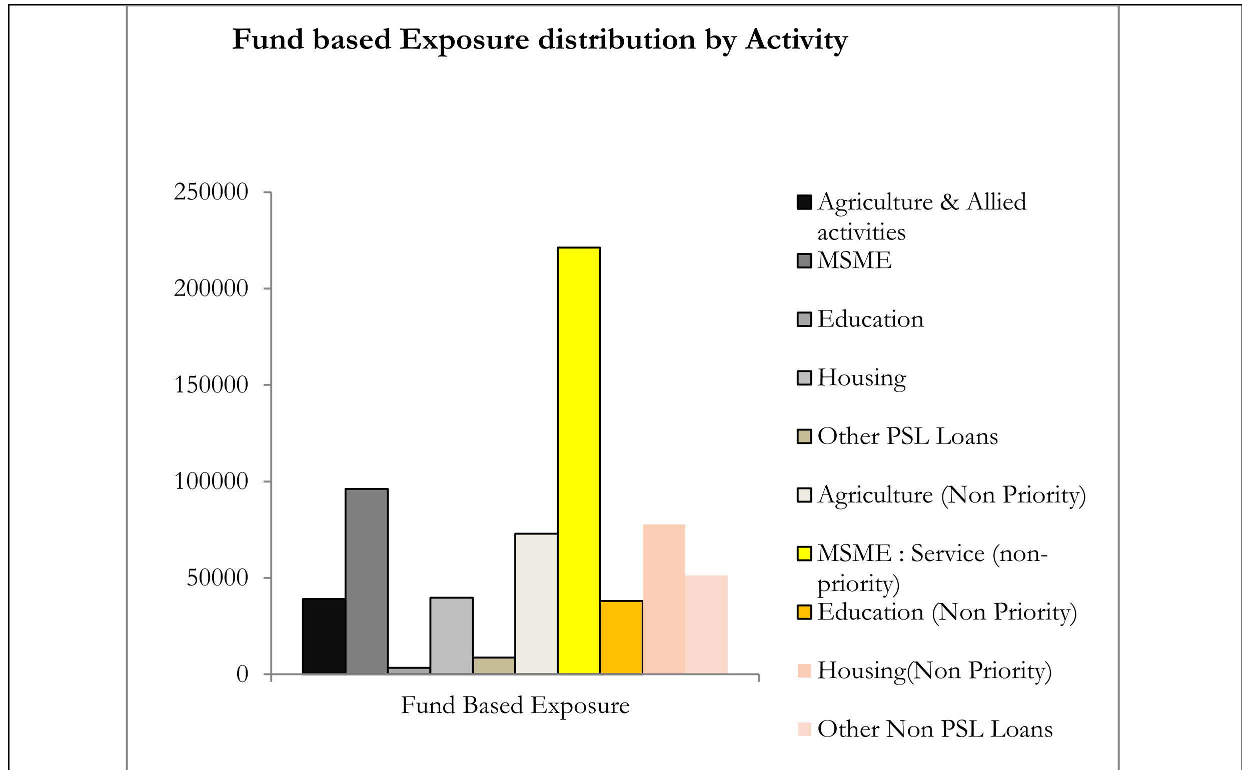
State	**Sum of Total O/s Portfolio (amount in lacs)**
Assam	26,992.28
Bihar	33,021.83
Chandigarh(UT)	1,295.59
Chhattisgarh	3,334.74
GOA	617.30
Gujarat	37,762.79
Haryana	29,241.05
Himachal Pradesh	693.00
Jharkhand	19,753.26
KARNATAKA	94,010.90
KERALA	14,852.06
Madhya Pradesh	9,225.51
Maharashtra	68,926.60
Meghalaya	1,752.63
New Delhi	11,538.96
Orissa	18,941.43
Pondicherry	4,676.56

Punjab	18,492.63
Rajasthan	22,096.41
Tamil Nadu	98,663.66
Tripura	9,090.87
Uttar Pradesh	22,352.74
Uttarakhand	3,573.20
West Bengal	93,033.06
Grand Total	**643939.07**



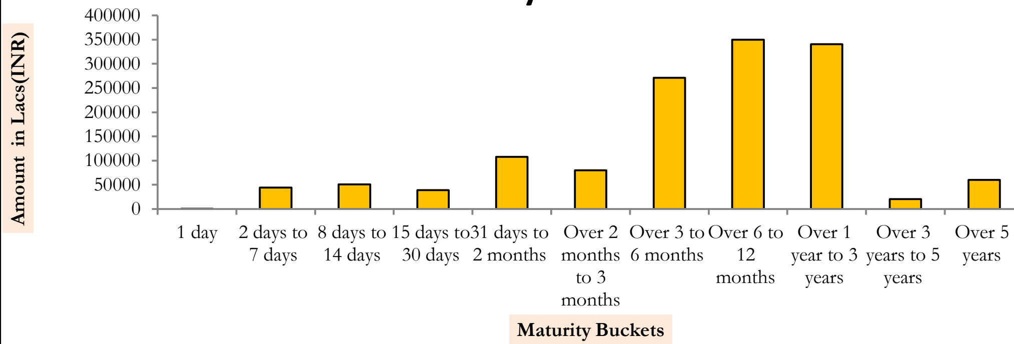
Exposure distribution by activity

Exposure Distribution by Activity (In lacs)			
Sr.no	**Industry Classification**	**Fund Based (Outstanding)**	**Non-fund Based (Outstanding)**
1	Agriculture & Allied activities	39149.52	0
2	MSME	96100.30	0
3	Education	3480.75	0
4	Housing	39665.56	0
5	Other PSL Loans	8766.84	0
	Total Priority Sector Loans	**187162.97**	0
6	Agriculture (Non Priority)	72875.31	0
7	MSME (Service)	221288.77	0
8	Education	38019.93	0
9	Housing	77612.01	0
10	Other Non PSL Loans	51362.97	0
	Total Non-Priority Sector Loans	**461159.00**	0
	Total Advances	**648321.97**	0



Maturity pattern of assets and liabilities (in lacs)

Maturity Buckets	Loans & Advances	Investment	Deposits	Borrowings
1 day	1.49	-	104.11	-
2 days to 7 days	14990.32	-	388.02	28990.36
8 days to 14 days	22922.96	19964.44	3354.63	4928.21
15 days to 30 days	21726.59	-	88.29	17081.52
31 days to 2 months	47834.96	24842.61	44820.55	15175.06
Over 2 months to 3 months	46585.07	-	16090.34	17089.72
Over 3 to 6 months	121187.75	21641.86	18044.12	110546.55
Over 6 to 12 months	191186.52	-	39078.35	119479.39
Over 1 year to 3 years	135552.86	-	12916.51	191930.72
Over 3 years to 5 years	13400.52	-	11.21	6751.66
Over 5 years	9202.56	50830.85	11.74	-
Total	**624591.61**	**117279.76**	**134907.86**	**511973.20**



Non-performing assets (in lacs)

Category of Gross NPA	30th September 2017
Sub-standard	17854.91
Doubtful	30.20
Loss	14440.11
Total	**32325.22**

Net NPA	8599.03

NPA Ratios	Percentage
Gross NPA to Gross Advances	4.99%
Net NPA to Net Advances	1.38%

Movement of Gross NPA's

Particulars	Amount
Opening Balance	1639.95
Additions during the period	46046.90
Reductions during the period	15357.46
Closing Balance	32329.39

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

Particulars	Amount
Opening Balance	1460.23
Provisions made during the period	34647.99
Write back of excess provisions	12377.86
Closing Balance	23730.36

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

Movement of provisions for depreciation on investments	Amount
Opening Balance	--
Provisions made during the period	--
Write-off	--
Write- Back of excess provisions	--
Closing Balance	--

Table DF-5: Credit Risk: Disclosures for Portfolios Subject to the Standardised Approach

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 USFB is predominantly comprised of retail category loans. Therefore, the risk weight as applicable to Regulatory Retail, Claims under residential mortgage and staff loans is applied.
c) No Borrower is currently risk-weighted as per Ratings assigned by Eligible Credit Rating Agencies as prescribed by RBI.
d) Bank has also taken into cognizance assets under lien for its “grandfathered” portfolio of legacy borrowings and applied an additional RWA of 25% to these assets as per the specific directives by RBI to SFBs. This portfolio is progressively being paid down and will not be replaced.

Quantitative Disclosures

Details of Gross Credit Risk Exposure (Fund based and Non-fund based) based on Risk Weight – Position as on 30th September 2017	
Risk Weight	**Amount in Lacs**
Below 100% Risk Weight	459256
100% Risk Weight	284241
More than 100% Risk Weight	111183
Deductions from CRM	0
Total	854680

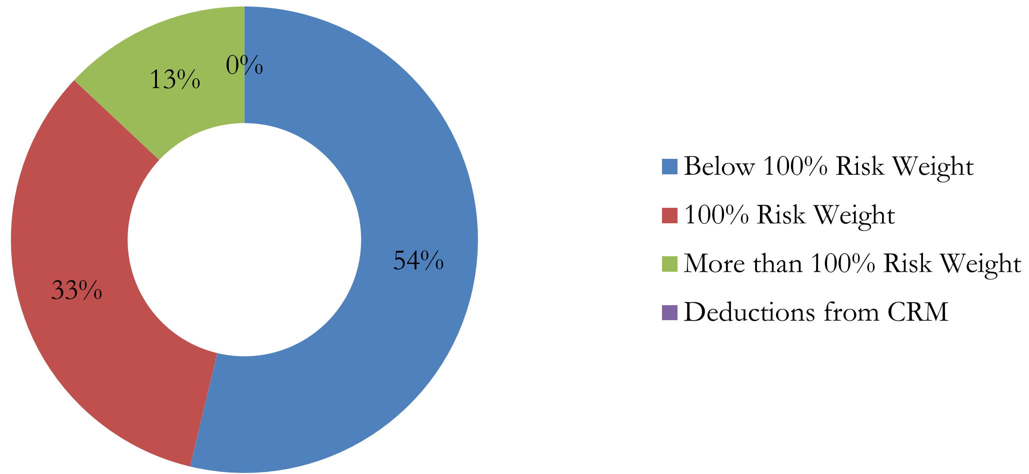


Table DF-6: Credit Risk Mitigation: Disclosures for Standardised Approaches

Qualitative Disclosure

- The JLG and Individual Loan portfolio of the Bank is unsecured. Loans to the affordable housing segment are collateralized by a mortgage over the property financed. The Bank is in the process of developing a score card model which would facilitate operational decision making. There is a Credit Approval committee comprising senior officials of the Bank which sanctions only the credit proposals above Rs 20 lakh.
- Credit risk mitigation refers to the use of methods to reduce the risk of lending to a borrower. The Bank has put in place a detailed credit appraisal process which is captured in separate product manuals and product programs. The mitigants used in the unsecured lending portfolio are as follows:

1) Life insurance is mandatory for all the borrowers availing any of Bank's products.
2) Bank works with 4 credit bureaus and ensures 100% application screening through the bureaus. State of the art paperless approval process, through the document management system enables a quick and uniform approval process.
3) Customers with overdue status are identified at an early stage through the tele-calling team. Remedial actions are implemented promptly to minimize the potential loss to the company.
4) A robust process for end use monitoring of funds post disbursement.
5) An effective use of the centre meeting platform for its JLG portfolio to determine incipient problems and introduce risk mitigants as appropriate

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

Qualitative Disclosure

The securitized transactions are without recourse to the Bank. The transferred loans and such securitized receivables are de-recognized as and when these are sold (true sale criteria being fully met) and the consideration has been received by the Bank. Gains/losses are recognized only if

the Bank surrenders the rights to the benefits specified in the loan contracts.
Bank has used the ratings assigned by India Ratings and ICRA for its various securitization pools.

Quantitative Disclosures

The outstanding principal amount for the securitization exposure is Rs. 22982 lacs.

There has been no loss recognised by the Bank during the current period for exposures securitized.

The Break up for securitization exposure is as follows:
Rating-wise

Rating	OSP
AA	-
A	19,257.30
BBB	2,872.00
BB	853.00
Grand Total	22,982.30

Securitization exposures in the rating grade of BB& below amounting to Rs. 853 lacs have been duly deducted from Tier I Capital (50%) and Tier II Capital (50%).

There are no securitization exposures in the Trading Book.

Table DF- 8: Market Risk in Trading Book

Qualitative Disclosures

The Bank has a well-defined Investment and Market Risk Management Policy. This policy covers all important areas of market risk measurement. The policy also deals with Market Risk Management is the Asset Liability Management Policy. The policies set various prudential exposure limits and risk limits for ensuring that the operations are in line with Bank's expectations of return through proper Market Risk Management and Asset Liability Management.

The Bank defines Market Risk as the risk of loss in on-balance sheet and off-balance sheet positions arising from movements in market process, in particular, changes in interest rates, exchange rates and equity and commodity prices.

The Bank defines Asset Liability Management as the risk of mismatch in the residual maturity of its assets and liabilities which can impact the Net Interest Income of the Bank which in turn can affect the expected returns on banking book. As the Bank continues on its transition phase from NBFC, the retirement of long term legacy/grandfathered borrowings from the books of the Bank and replacement through deposits garnered as well as use of various money market instruments is an active task. The Mid-Office Treasury function, which looks after the short,

medium and long term ALM of the Bank, is a well-defined function and advises ALCO, under the guidance of CRO, on the funding gap on a month on month basis along with optimising the use of various instruments available at Bank's disposal to effectively manage the mismatch between its Assets and Liabilities while minimising the impact on Net Interest Income (NII) and maximising the returns. Macro-economic indicators including interest rate movement and peer analysis play a vital role in the effective functioning of the Bank. Mid-Office keeps ALCO and senior management informed on the recent developments in the economy and its possible implication on the interest rate movement.

Liquidity Coverage Ratio (LCR) has become a standard tool on a global platform to understand the short term liquidity stress impact on Bank's Capital. The Bank computes LCR and Net Stable Funding Ratio (NSFR) on an on-going basis and advises ALCO on the effect of liquidity profile of the Bank, both on a short term 30 day period as well as on a long term period. Bank regularly conducts stress test to advise ALCO on the medium and severe stress scenario losses and its impact on Bank's Capital. Bank also computes Value at Risk (V-a-R) on its investments.

Liquidity is the ability of a bank to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses. Liquidity Risk is one of the most persistent risks in the books of a bank. With Scheduled Bank status, Bank has now access to short term money market instruments which it actively utilises to manage the liquidity needs for its regulatory as well as short term requirements. Bank is also active in the inter-bank market for lending/borrowing its short term surplus/shortfall situations within the applicable limits as prescribed by RBI.

Capital of the Bank is a scarce resource and its effective utilisation is an important parameter on the returns expected from it. Mid-Office advises ALCO on the current status of Capital Adequacy of the Bank along with the capital consumed by various products based on internal framework and projects the need of capital in the near future.

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

Quantitative Disclosures

Capital Requirement for Market Risk	**Amount in lacs**
Interest Rate Risk	89.73
Equity Position Risk	--
Foreign Exchange Risk	--
Total	**89.73**
Total Market Risk RWA	**1121.60**

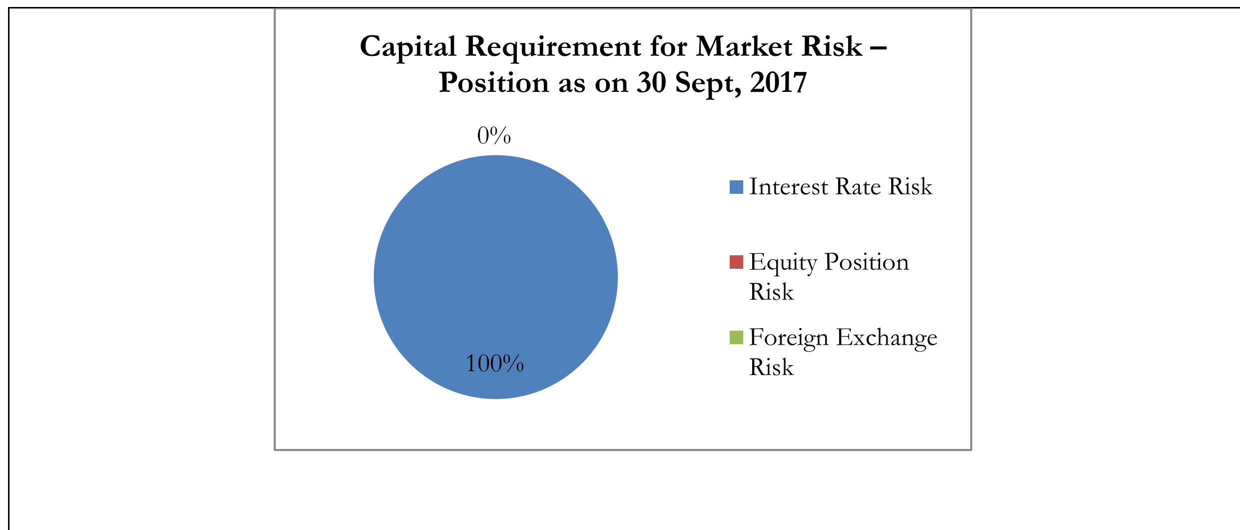


Table DF- 9: Operational Risk

Qualitative Disclosures

Strategy and policy for Operational Risk Management

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It excludes strategic and reputational risks but includes legal risk. Strategic or reputation risks are second order effect of operational risk.

Legal risk includes, however not limited to, exposure to penalties, fines, punitive damages arising out of supervisory action, civil litigation damages, related legal costs and any private settlements

The Bank faces operational risk due to use of technology, several processes that have exposure to errors, internal or external frauds and any unforeseen situation that may disrupt the normal functioning and lead to some unexpected losses in the course of day-to-day activities.

Operational risk seeks to identify why a loss happened and aims to classify at the broadest level under People, Process, Systems and External Factors. These identification cannot solely be based on single data points and hence Bank has adopted a combined approach of both qualitative assessment substantiated with quantitative data for an embedded approach model.

Since operational risk is a fluctuating and hidden risk which cannot be easily measured or reported, a combination of qualitative and quantitative approach is essential to capture the associated underlying risks in operating processes.

Consistent with Basel requirements, the Board has approved an Operational Risk Management policy of USFB 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.

The policy provides :

1) A comprehensive view of operational risks across business for proactively assessing key risks and initiating mitigating measures;

2) Reduce 'Impact' and 'Probability' of risk events through introduction of sound practices for operational risk, embedding right sized controls in a proactive manner to minimize losses from operational failures;
3) Create awareness by developing a common understanding and taxonomy of risks across the Bank and embed risk ownership by business

Governance Structure for ORM

The Bank has an Operational Risk Management Framework and the Board of Directors gives direction on the risk management strategies and approves the operational risk policy of the Bank commensurate with the size of the Bank. For effective management of Operational Risk, the Bank has constituted an Operational Risk Management Committee (ORMC) consisting of senior management drawn from different functions, Operations, Finance, IT and HR. The ORMC supports the RMC of the Board and is responsible for implementing the best practices in managing operational risk. The main function of the ORMC is to ensure appropriate processes are in place to mitigate/contain OR losses. It is also responsible for recommending suitable control measures for risk mitigation.

The operational risk team performs root cause analysis on operational risk incidents for identification of open risks and suggestion of risk mitigants. Near miss incidents are collated to create a database for loss events and to understand the different risk drivers.

Risk identification, measurement, monitoring and reporting

Following are some of the key techniques applied to manage operational risks. It involves both a qualitative and quantitative approach

1) Conducting a thorough due diligence by taking input from business and all control functions before opening any new branch. In addition a periodic assessment of the competitive environment in the branch operating area through an analytics tool is done and that acts as proactive risk mitigants;
2) Monthly risk scoring through an internally developed model to measure risk of each branch operation with resultant scores determining the action plan which is devised in consultation with business to ensure quick turnaround of branch operations from high/medium risk to low risk. This is an established process and is proposed to be automated through the SAS module;
   The risk scoring framework has now been enhanced to include both SFB and MFI branches. There are different set of parameters for risk scoring of MFI and SFB branches and these are repeated at monthly intervals. When complemented with a robust internal audit process, the risk scoring at a granular level ensures adherence to laid down processes, especially in newly converted SFB branches. ;
3) Operational risk checklist for assessment of controls in existing liability processes in SFB live branches. Similar checklist is also used for assessment of controls in branches not live with liability products. This is used to raise awareness amongst users of associated operational risks in case of controls being compromised;
4) Operational risk Incident reporting process involving a detailed risk analysis for material incidents and to learn from errors for strengthening controls through loss and near miss data. Incident reporting is used to capture operational risk incidents in a systematic

manner. This is followed by a Root Cause Analysis (RCA) of each reported incident and to book losses on identified operational risk events;

5) All new products are rolled out post assessment of critical operational and compliance risks and with approval of the Product Approval Committee (PAC);
6) Risk and Control Self-Assessment (RCSA) methodology that supports identification and mitigation of key risks using a bottoms-up approach. Every process is reviewed for identifying 'inherent risks' on the basis of probability of occurrence & severity of impact. Related controls are assessed for design efficiency and control effectiveness to arrive at 'residual risk'. Depending on the severity of residual risks, risk acceptances are obtained from appropriate authorities;
7) Internal control testing framework that assesses design and operating effectiveness of controls. This is an on-going exercise;
8) Framework for on-going monitoring of risks through Key Risk Indicators (KRIs). This includes defining and monitoring Bank level KRIs followed by process level KRIs;
9) Tracking of actions for timely closure of open Issues from RCSAs, control testing, risk incidents and audit;
10) Periodic reporting of material risk exposures to senior management to facilitate timely mitigation;
11) SAS EGRC is implemented to record all loss events across USFB. The module on KRI, Control Testing, Issue and Action is also live. In long run the Bank will have sufficient data to arrive at a proper base for capital charge calculation.
12) Periodic training to frontend staff to create awareness on risk and available controls.
13) The ITGC committee provides direction for mitigation of operational risk in IT security
14) Disaster Recovery and Business Continuity Plan have been established for ensuring continuity of operations and minimal disruption of services in the Bank for its customers.
15) Reports from concurrent audit and internal audit also provide with independent assessment of the operating and the financial controls for the various processes that form an integral part in managing the operational risk that is all pervasive.

Information Technology and Security Risk

Bank is complying with the directives issued by Reserve Bank of India, from time to time in the area of Information/Cyber security standards and follows the best practices. Information Security Risk Team operates under Information Security Management System framework (ISMS) and cyber security framework that is aligned with the regulatory guidelines. In the Bank, this group guides and supports implementation of strong information security principles in the areas of technology solutions, the related processes and people.

Business Continuity

The Bank has adopted robust policies on Business Continuity Management and Disaster Recovery. The Bank has formulated processes for identification of IT BCP and non-IT BCP teams, training and awareness sessions, identifying alternative premises, and coordination of contingency plans at the business unit levels and at the Bank level.

Information Security and Cyber Security

There is an independent information security group which addresses information and cyber security related risks. Well-documented, Board approved information security and cyber security policies are put in place. Periodical awareness exercise is ensured to update employees on information security practices.

Bank operates in a highly automated environment and makes use of latest technological framework for supporting various operations. Use of technology brings in newer kind of risks like business disruption, risks related to information assets, data security etc. Bank has put in a governance framework, information security practices to mitigate information technology and information system related risks which ensures preservation of Confidentiality, Integrity and Availability (CIA) of all Information assets.

Bank is actively participating in various meetings and forums organized by IDRBT, RBI and other forums to remain updated in latest security technologies and to continuously upgrade the security posture of the bank

Capital Charge assessment

Although RBI is in the process of issuing detailed guidelines on Operational Risk Management for SFBs the Bank has adopted Basic Indicator Approach for measuring the capital requirements for Operational risk as applicable to Scheduled Commercial Banks.

Quantitative Disclosure

Operational Risk		
Year	**30.9.2017**	
Entity	**Capital Reqd. in lacs.**	**RWA in lacs.**
Ujjivan Small Finance Bank	8101	101263

Other Pillar II Risks

Minimum regulatory capital requirements under Pillar 1 establish a threshold below which a bank's regulatory capital must not fall. Regulatory capital ratios permit some comparative analysis of capital adequacy across regulated banking entities because they are based on certain common methodology / assumptions. However, Reserve Bank of India performs a more comprehensive assessment of capital adequacy that considers risks specific to a bank, conducting analyses that go beyond minimum regulatory capital requirements. The assessment entails as to whether the bank maintains adequate capital cushion to take care of all material risks and operate with a cushion.

Pillar II risks such as Liquidity risk, Reputational Risk, Strategic Risk, Legal risks, outsourcing risks, Credit Concentration Risk are examples of Pillar II Risks.

These risks will be analysed separately by the Bank under its ICAAP.

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

Qualitative Disclosures

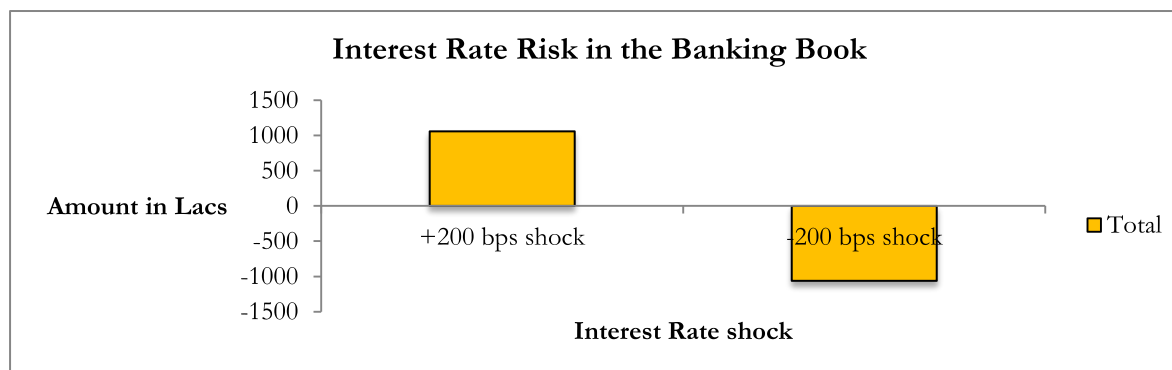
Interest Rate Risk in Banking Book (IRRBB) refers to the risk of loss in earnings and economic value of a bank's banking book as a consequence of movement in interest rates. The Bank has identified the risks associated with the changing interest rates on its exposures in the banking book from both a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

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

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

Earnings at Risk (Earnings Perspective) (in lacs)

Particulars	+200 bps shock	-200 bps shock
India	1062.23	(1062.23)
Overseas	--	--
Total	**1062.23**	**(1062.23)**



Economic Value Perspective (in lacs)

Particulars	September 2017
Net-worth/Market Value of Equity(MVE) of the Bank	1,44,004
Weighted Modified Duration of Assets	1.3439
Weighted Modified Duration of Liabilities	1.1508
Modified Duration Gap	-0.0211
Impact on ΔMVE due to 200 bps shock	0.22%
Impact on ΔMVE due to 200 bps shock (in amount)	316.81

Liability profile of the Bank

Transformation from an NBFC-MFI to a Small Finance Bank brings with it a plethora of opportunities related to diversification of funding sources through mobilisation of deposits from the untapped market of underserved and unserved strata of the society. With RBI issuing operating guidelines to SFBs on legacy borrowings exemption from Interbank up to a period of 3 years, SFBs partial replacement of long term legacy borrowings with deposits has been given a time frame. The short term money market instruments is the most active interbank market for supporting less than one year funding needs of a bank and will help in managing the asset-liability mix in an efficient manner.

USFB is going through a fundamental change in its liability profile wherein long term, cost heavy legacy borrowings is being replaced with a mixture of short term money market instruments and deposits mobilised from the target segment. The change is expected to bring a positive effect to the profitability of the Bank along with an active involvement in the ALM management brought on by the use of short term instruments. Bank has established a separate Mid-Office Treasury function which manages the ALM of the Bank and advises ALCO on the funding mix and tenure of the instruments to be raised via both money market as well as deposit instruments. Mid-Office also advises ALCO on the immediate as well as long term funding needs of the Bank for a pro-active approach towards the management of ALM.

DF 13: Main features of Regulatory capital Instruments

Disclosure template for main features of regulatory capital instruments			
		Equity Shares	**Preference Shares**
1	Issuer	Ujjivan Small Finance Bank Limited	Ujjivan Small Finance Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Applicable Indian Statutes and regulatory requirements	Applicable Indian Statutes & Regulatory requirements and RBI Basel III Guidelines dated July 1, 2015
	Regulatory treatment		
4	Transitional Basel III rules	Common equity Tier 1	Addition Tier 1 Capital (AT1)
5	Post-transitional Basel III rules	Common equity Tier 1	Addition Tier 1 Capital (AT1)
6	Eligible at solo/group/ group & solo	Solo	Solo
7	Instrument type	Common Shares	Perpetual Non-Cumulative Preference shares
8	Amount recognised in regulatory capital (Rs. in million, as of most recent reporting date)	Rs 14400.368 Million	Rs 2,000.00 Million

9	Par value of instrument	Rs 10/-	Rs 10/-
10	Accounting classification	Capital	Capital
11	Original date of issuance	Rs 0.50 million - July 4, 2016 Rs 1099.868 Million - July 30, 2016 Rs 13,300 Million - Feb 10, 2017	Feb 10,2017
12	Perpetual or dated	Perpetual	Perpetual
13	Original maturity date	No Maturity date	No Maturity date
14	Issuer call subject to prior supervisory approval	No	No
15	Optional call date, contingent call dates and redemption amount	Not Applicable	NIL
16	Subsequent call dates, if applicable	Not Applicable	NIL
	Coupons / dividends	Dividend	Dividend
17	Fixed or floating dividend/coupon	Not Applicable	Fixed
18	Coupon rate and any related index	Not Applicable	11.0%
19	Existence of a dividend stopper	Not Applicable	Yes
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	No	NIL
22	Noncumulative or cumulative	Non-Cumulative	Non-Cumulative
23	Convertible or non-convertible	Not Applicable	Non-Convertible
24	If convertible, conversion trigger(s)	Not Applicable	NA
25	If convertible, fully or partially	Not Applicable	NA
26	If convertible, conversion rate	Not Applicable	NA
27	If convertible, mandatory or optional conversion	Not Applicable	NA
28	If convertible, specify instrument type convertible into	Not Applicable	NA
29	If convertible, specify issuer of instrument it converts into	Not Applicable	NA

30	Write-down feature	No	Yes
31	If write-down, write-down trigger(s)	Not Applicable	PONV trigger & CET1 trigger
32	If write-down, full or partial	Not Applicable	Full and Partial
34	If temporary write-down, description of write-up mechanism	Not Applicable	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)	Secured Term Loan Borrowings , NCD's , Creditors of the Bank and Depositors	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	No
37	If yes, specify non-compliant features	Not Applicable	Not Applicable

DF 14: Terms and conditions of Regulatory Capital Instruments

Full Terms and Conditions of Equity Shares of Ujjivan Small Finance Bank(USFB)

SN	Particulars	Full Terms and Conditions
1	Voting shares	Equity Shares of USFB 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

Full Terms and Conditions of Perpetual non-cumulative Preference Shares (PNCPS) of Ujjivan Small Finance Bank(USFB)

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
	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 annually in arrears.
7	Dividend Rate	11% per annum or at a rate of specified in terms of Basel Master Circular and/or any other applicable law.

8	Dividend Stopper	In the event that the Preference shareholders are not paid dividend at the Dividend Rate, there shall be no payment of discretionary dividend on equity shares until the Dividend payments to the shareholders are made in accordance with terms hereof.
9	Put Option	Not Applicable.
10	Call Option	**Issuer call:** The Issuer may at its sole discretion, subject to Condition 27 (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 Basel Master Circular 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 Basel Master Circular 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 Basel Master Circular, 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 will be in accordance with the applicable RBI guidelines (including Annex 16 of the Basel Master Circular) and as more specifically described. The relevant terms of Annex 16 of the Basel Master Circular 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; and 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.