ujjivan SMALL FINANCE BANK

Pillar III Disclosures as at March 31, 2022

2022

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

Table of Contents

Table of Contents 2

1 List of key abbreviations 3

2. Key performance highlights of the Bank: 5

3. Table DF- 1: Scope of Application 12

4. Table DF-2- Capital Structure 13

5. Table DF- 3: Capital Adequacy 16

6. Table DF- 4: Credit Risk: General Disclosures 22

7. Table DF-5: Credit Risk: Disclosures for portfolios subject to the Standardised Approach 35

8. Table DF-6: Credit Risk Mitigation: Disclosures for Standardised Approach 36

9. Table DF-7: Securitisation Exposures: Disclosure for Standardised Approach 38

10. Table DF- 8: Market Risk and Liquidity Risk 42

11. Table DF- 9: Operational Risk 46

12. Table DF- 10: Interest Rate Risk in Banking Book (IRRBB) 51

13. Table DF-13: Main features of Regulatory capital Instruments 52

14. Table DF-14: Terms and conditions of Regulatory Capital Instruments 57

15. Table DF-15: Disclosure on Remuneration 60

16. Table DF-17: Summary Comparison of Accounting assets vs. Leverage ratio exposure measure 70

17. Table DF 18: Leverage ratio common disclosure template 71

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
AUM	Asset Under Management
AIF	Alternate Investment Fund
BC	Business Correspondent
BIA	Basic Indicator Approach
BRACO	Business Risk and Compliance Officer
CET1	Common Equity Tier 1 Capital
CFO	Chief Financial Officer
CFP	Contingency Funding Plan
CIC	Core Investment Company
CRAR	Capital to Risk-weighted Assets Ratio
CRMC	Credit Risk Management Committee
CRO	Chief Risk Officer
DPD	Days Past Due
DSA	Direct Selling Agent
DSCB	Domestic Scheduled Commercial Bank
ECL	Expected Credit Loss
ECLGS	Emergency Credit Line and Guarantee Scheme
ECRA	External Credit Rating Agency
EWS	Early Warning System
FIG	Financial Institutions Group
FLOD	First line of Defence
FP	Floating provision
FPI	Foreign Portfolio Investor
GLC	General Ledger Code
GNPA	Gross Non-Performing Asset
GVA	Gross Value Added
HQLA	High Quality Liquid Assets
HUF	Hindu Undivided Family
IBPC	Inter Bank Participation Certificate
ICAAP	Internal Capital Adequacy Assessment Process
ICAI	Institute of Chartered Accountants of India
ICE	Internal Combustion Engine
IFSC	Indian Financial System Code
IGAAP	Indian Generally Accepted Accounting Principles

IIA-SA	Institute of Internal Auditors (United States)
IMPS	Immediate Payment Service
IPDI	Innovative Perpetual Debt Instrument
IPO	Initial Public Offer
IRAC	Income Recognition and Asset Classification
IRRBB	Interest Rate Risk in Banking Book
IWG	Internal Working Group
KRI	Key Risk Indicator
LAP-SENP-SEP	Loan Against Property- Self Employed Nonprofessional- Self Employed Professional
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LMS	Loan Management System
LR	Leverage Ratio
LWE	Left Wing Extremism
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
Non URC	Non Unbanked Rural Centre
ORMC	Operational Risk Management Committee
OSP	Outstanding Principal
PAT	Profit After Tax
PB	Payments Bank
PD	Probability of Default
PNCPS	Perpetual Non-Cumulative Preference Shares
PSL	Priority Sector Lending
QIP	Qualified Institutional Placement
QR Code	Quick Response Code
QRT	Quick Response Team
RBI	Reserve Bank of India
RCA	Root Cause Analysis
RCSA	Risk Control and Self-Assessment
RMCB	Risk Management Committee of the Board
ROA	Return on Asset

ROE	Return on Equity
RSA	Risk Sensitive Assets
RSL	Risk Sensitive Liabilities
RWA	Risk Weighted Assets
SA	Standardized Approach
SDA	Standardized Duration Approach
SEL	Secured Enterprise Loan
SFB	Small Finance Bank
SLOD	Second Line of Defence
SLR	Statutory Liquidity Ratio
SMA	Special Mention Accounts
TVR	Tele verification report
UAT	User Acceptance Testing
UFSL	Ujjivan Financial Services Limited
UPI	Unified Payments Interface
URC	Unbanked Rural Centre
VaR	Value at Risk
YTD	Year till Date

2. Key performance highlights of the Bank:

a. Branch network and distribution reach

Ujjivan Small Finance Bank (hereinafter called "the Bank") has been making quarterly disclosures under the Pillar 3 framework as required in terms of RBI guidelines on New Capital Adequacy Framework issued vide RBI/2015-16/58; DBR.No.BP.BC.1/21.06.201/2015-16 dated 1st July 2015 This document is a review of the Bank's performance as at the close of the financial year ended 31st March 2022, and records key performance indicators.

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

Particulars	Count
Total Banking outlets, of which	575
Banking outlets[1] (Non URC)	431
Banking outlets (URC)[2], *of which*	144

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

' [2] An unbanked rural centre (URC) is defined as a rural (Tier 5 and 6) centre that does not have a CBS-enabled

i	Qualifying URC Branches (Branches situated in tier 3-6 locations in NE[3] states and LWE[4] districts)	33
ii	Business Correspondents (BC)	7

There were no additions to the network during the year. The Bank is fully compliant with the RBI guidelines on having 25% (25.04% as at March 31, 2022) of its Banking Outlets in the URCs.

The Bank had seven individual BCs as at March 31, 2022. They are accountable for enrolling customers for various financial products of the Bank. These individual BCs perform essential banking services such as acceptance/withdrawal of small value deposits, balance enquiry and generation of mini statement of accounts. The Bank also engages with Corporate Direct Selling Agents (DSAs) for sourcing variants in MSE loans. The Bank also has collaborative arrangements with third party agents, primarily aimed at facilitating field collection for its microfinance business. The Bank evaluates the performance of the BCs and DSAs at regular intervals. For Rural banking, the Bank continues to focus on brick and mortar URC branches for providing a wide array of banking services since this has proven to be a profitable and efficacious model. The Bank operated a network of 492 Automated Teller Machines (ATMs) as at March 31, 2022.

b. Financial highlights for FY 2021-22

Some of the key achievements made for financial year ended March 31 2022 were as follows:

Key Highlights	Description
Customer base	• Total outreach was 64.8 lakh as at March 31, 2022 (62.1 lakh as at December 31, 2021 ,59.7 lakh as at September 30, 2021, 58.2 lakh as at June 30, 2021 and 59.2 lakh as at March 2021)
Loan Portfolio	• Assets Under Management (AUM)[5] : Rs. 18,16,197 lakh as at 31 March 2022. • Gross Advances: Rs. 17,48,765 lakhs[6] as at March 31, 2022(Rs. 16,46,306 lakh as at December 31, 2021 ,Rs. 14,51,418 lakh as at September 30, 2021, Rs. 14,03,708 lakh as at June 30, 2021 and Rs. 15,13,996 lakh as at March 31, 2021)

'Banking Outlet' of a Scheduled Commercial Bank, a Payment Banks or an SFB or a Regional Rural Bank nor a branch of a Local Area Bank or licensed Co-operative Bank for carrying out customer based banking transactions.

[3] North eastern states

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

[5] Gross advances was the same as AUM in Q1, Q2 and Q3 of FY 2021-22

[6] After adjusting for Rs 67,442 lakh of IBPC/ Securitization executed during Q4 of FY 2021-22

<table>
<tr><td></td><td>

- Non-Microfinance book was 32.03% as at March 31, 2022 on Gross Advances basis (33.32% as at December 31, 2021, 33.62% as at September 30, 2021, 31.52% as at June 30, 2021 and 28.21% as at March 31, 2021)

</td></tr>
<tr><td>Deposit Balance</td><td>

- Total Deposits (Retail plus Institutional): Rs. 18,29,222 lakh as at March 31, 2022 (Rs. 15,56,342 lakh as at December 31, 2021, Rs 14,08,953 lakh as at September 30, 2021, Rs. 13,67,287 lakh as at June 30, 2021 and Rs. 13,13,577 lakh as at March 31, 2021)
- CASA: 27% as at 31 March 2022 (26.5% as at 31 December 2021, 22.49% as at 30 September 2021, 20.30% as at 30 June 2021 and 20.55% as at 31 March 2021)

</td></tr>
<tr><td>Portfolio Quality</td><td>

- Gross Non-Performing Assets (GNPA): 7.1% as at March 31, 2022[7] (9.8% as at December 31, 2021 ,11.8% as at September 30, 2021, 9.8% as at June 30, 2021 and 7.1% as at March 31, 2021)
- Net Non-Performing Assets (NNPA): 0.6% as at March 2022[8] (1.7% as at December 2021, 3.3% as at September 2021, 2.7% as at June, 2021 and 2.9% in March 2021)

</td></tr>
<tr><td>Employee strength</td><td>

- 16,895 as at March 2022 (16,896 as at December 2021, 16,251 as at September 2021, 16,102 in June, 2021 and 16,571 as at March 2021)

</td></tr>
<tr><td>Profitability</td><td>

- PAT for FY 2021-22 : Rs. (41,459) lakh; Rs. 830 lakh for FY 2020-21; Rs. 34,992 lakh in FY 2019-20

<table>
<tr><th></th><th>March 2021</th><th>June 2021</th><th>September 2021</th><th>December 2021</th><th>March 2022</th></tr>
<tr><td>Quarterly PAT (Rs. in lakh)</td><td>13,649</td><td>(23,348)</td><td>(27,379)</td><td>(3,383)</td><td>12,652</td></tr>
</table>

</td></tr>
</table>

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

Particulars	**Mar-21**	**Jun-21**	**Sep-21**	**Dec-21**	**Mar-22**
Yield	15.7%	16.0%	16.3%	16.8%	17.6%
Cost of Funds	6.8%	6.5%	6.3%	6.2%	6.1%

[7] Computed as a percentage to AUM. GNPA% as a ratio to Gross Advances was 7.3%
[8] Computed as a percentage to AUM. NNPA% as a ratio to Gross Advances was 0.6%

Net Interest Margin	7.9%	8.0%	8.1%	9.1%	10.1%
Return on Assets (ROA)	2.7%	-4.7%	-5.6%	-0.7%	2.3%
Return on Equity (ROE)	17.3%	-30.1%	-34.2%	-5.0%	18.7%
Cost to Income ratio	67.3%	64.8%	83.8%	74.0%	66.0%
Other income/ Total Income	16.0%	10.2%	6.8%	11.4%	11.1%

Yield on advances has increased nearly by 0.8% over December 2021 owing to higher disbursements (~Rs. 4,86,996 lakh in Q4) and interest income earned on the average advances. The monthly disbursement trends have registered a consistent improvement post September 2021 on account of the 100 days plan implemented in two phases during the second half of the financial year. The objective of the first 100 day plan was to identify urgent areas of improvement to assist in ramping up disbursements, collections and strategic/policy level changes. In a bid to step up further, a second 100 day plan was formulated to further augment disbursements, improve staff productivity with an enhanced focus on regaining the lost ground in the last nine months. Strong business performance, coupled with concerted collection efforts, resulted in a healthy book, with noteworthy improvement in asset quality. As an outcome of these plans, the Bank was able to turnaround in Q4 with a PAT of Rs. 12,652 lakh resulting in positive ROA and ROE. The cost to income ratio and cost of funds have also registered notable improvement for the same reason.

c. Pandemic management and recovery:

Based on the pandemic impact observed in Q1 of FY 2021-22, there was a broad consensus within the Bank that the turnaround can only happen in a phased manner. At a strategic level, the Bank embarked on its turnaround plan based on the following broad themes:

1) Stabilization of slippages in portfolio and some recovery in Q2 through completion of Resolution Framework 2.0 and overhauling the collection strategy for the remaining financial year.
2) Robust recovery in Q3 with some growth through a ‘100 days plan’ specifically focusing on collections and restarting disbursements in segments which were less affected by the pandemic.
3) Robust growth in Q4 through a second ‘100 days plan’ with an aim to achieve pre-pandemic levels across all areas.

The Bank unfurled a panoply of measures , some conventional measures and others out-of-the-box, to address pandemic-induced dislocations and constraints, both at Bank level and also specific to business verticals, operational , people management and technology.

1) **Creation of Floating Provisions**: One of the first decisions taken by the Bank was the creation of a Floating Provision amounting to Rs. 25,000 lakh as early as quarter ended June 2021. Usually, the practice of creating floating provisions by banks is undertaken during what can be defined as a “good time”. The ill-effects of

the pandemic revealed that the Bank's flagship business is strongly correlated to event risks. With ambiguity on availability of vaccines and lack of scientific confirmation on the severity level of pandemic waves in the future, the Bank at that point in time, took a decision of creating a floating provision taking full cognizance of its adverse impact on short term profitability. These provisions now provide an umbrella cover for future instances of stress affecting credit behaviour.

2) **Resolution Framework 2.0**: 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 had announced specific directions[9] (Resolution Framework 2.0 for individuals and small businesses and MSMEs) with an objective to alleviate the potential stress. The Bank updated its restructuring policy in line with the new directions and an option to restructure under RF 2.0 was provided amounting to Rs. 94,547 lakh in the microfinance segment, Rs. 2,466 lakh in Housing and Rs. 6,464 lakh in MSE variants.

3) **Emergency Credit Line and Guarantee Schemes (ECLGS)**: Two new credit offerings in line with the Emergency Credit Line and Guarantee Scheme (ECLGS) viz. ECLGS 1.0 and ECLGS 1.0 extension scheme were also rolled out by the Bank in July 2021 and November 2021 respectively in line with the directives from Government of India as a relief to pandemic hit customer segments. In the recent budget announcement, the Government has now extended this scheme up to March 2023. The Bank will continue to provide credit assistance under this scheme in the ensuing year to provide the required support to its customers and avail the benefit of the guarantee. The Bank disbursed loans backed by ECLGS to 74,931 customers amounting to Rs. 6,841 lakh in the microfinance segment and tor 1,517 customers amounting to Rs. 5,178 lakh in the MSE segment.

4) **Business Continuity Management**: A Quick Response Team (QRT) was constituted for monitoring and supervising banking operations since the onset of the pandemic and though the frequency of the meetings of this team had reduced by December 2020, the frequency of these QRT meetings was increased in light of the second wave from April 2021. The frequency of these meetings were increased again during the third wave in January 2022. QRT was the core group to initiate action in a contingency and also to provide updates to Top Management regularly. These meetings will be restarted as and when warranted. The Bank encouraged its employees to Work from Home (WFH), due to the resurgence of the second wave and the third wave, with an objective to reduce the number of personnel at office premises especially in Regional and Corporate Offices. The Bank had also issued

[9] 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)

advisories/guidelines related to work timings and officer capacity for its branches in line with the State Level Bankers' Committee (SLBC) guidelines and directions of States/Central Government. Roster system was implemented for customer facing roles to ensure staff rotation during the waves. The Bank reinforced precautionary measures and strictly continues to enforce pandemic related protocols and COVID appropriate behaviour at offices and branches at all times.

5) **Risk Management**: Forward guidance gained prominence in the Bank's risk management strategy. The Bank monitored delinquency levels, slippages and incremental credit costs at fortnightly intervals and the findings were looped back to the collection strategy. Early Warning Signal (EWS) framework was enhanced during the year to provide proactive insights on default probability at portfolio and customer level. Feedback mechanism on these EWS triggers was strengthened. Portfolio performance of every loan segment was analysed under different dimensions to gain insights on areas of weaknesses. The collective findings helped prioritise deployment of collection efforts and in allocation amongst personnel. The Bank undertook deep-dive analysis on the key portfolio segments to identify pockets of stress within product variants, ticket size, customer segment and geographical location. Where portfolio performance was observed to be unsatisfactory, the Bank temporarily discontinued fresh disbursements to lay emphasis on collection efforts. Fresh disbursements were allowed only after meeting pre-specified thresholds in delinquency and other key performance indicators at branch level. From liquidity standpoint, all key liquidity ratios were monitored on a daily basis. Forward guidance on the liquidity position was overtly factored into the disbursement plan. Disbursements were calibrated with abundant caution and undertaken only after a detailed review of the inflow/outflow of funds, trends observed in maturity, pre-maturity and instances of maturity bunching. The Bank also raised money through IBPC and securitization transactions to further augment its liquidity position and to operate with ample liquidity at all times. A significant portion of the fund inflows was utilized in maintaining High Quality Liquid Assets (HQLA) to shore up the Bank's Liquidity Coverage Ratio and maintain the same above the regulatory threshold of 100% and the Bank's internal tolerance levels.

d) Macro Economic Outlook and way forward:

Pandemic status in India: India witnessed a third wave of the viral infection with a sharp increase in positive cases during the period of December 15, 2021 to January 30 ,2022. While the variant was observed to be three times more contagious when compared to the Delta variant, the fatality rate was relatively low and recovery was faster. There is now a broad consensus among the scientific community[10] that given the high vaccination coverage and immunity due to natural infection, any future waves are unlikely to have a

[10] https://www.newindianexpress.com/nation/2022/mar/20/future-covid-waves-unlikely-to-have-serious-impact-in-india-experts-2432235.html

major impact on the country. As at April 6, 2022, cumulative vaccination coverage was 18,518 lakhs of the population, of which 8,368 lakh people were administered with the 2nd dose[11].

Russia- Ukraine war impact: On February 24, 2022, Russia invaded Ukraine, marking a steep escalation of the Russo-Ukrainian War. In reaction to this,, the prices of crude oil soared to a 14 year high at $140 per barrel on March 7, 2022 due to the fear of a potential ban on Russian oil imports by the USA and European Union (EU). Since Russia accounts for 14% of the global crude oil production [12] , only third after Saudi Arabia and the USA, the escalation of oil prices is likely to impact India's fuel bill. At 5.5 million barrels a day, India is the world's third-largest oil consumer, behind the US and China and is growing at the rate of 3% per year. The war increased the daily prices of petrol and diesel by a large margin across all geographical states and despite the recently announced excise duty cuts, the price of petrol continues to hover above Rs.100 per litre on an average basis. The ratcheting up of geopolitical tensions, generalised hardening of global commodity prices, the likelihood of prolonged supply chain disruptions, dislocation in trade and capital flows, divergent monetary policy responses and volatility in global financial markets are likely to have an impact on the inflation and depress domestic growth. In March 2022, headline CPI inflation surged to 7.0% from 6.1% in February 2022, largely reflecting the impact of geopolitical spill overs. Food inflation increased by 154 basis points to 7.5% and core inflation rose by 54 bps to 6.4%.

The impact on the Bank is likely to be a third-order effect with respect to credit defaults. While empirical data suggests nil to negligible correlations between inflation and default, especially in the microfinance and retail segments, the continuous persistence of an inflationary scenario can result in a lowering of discretionary spending among borrowers and credit off-take. Retail lending has traditionally laid greater emphasis on the repayment track record and leverage levels (Fixed Obligations as a percentage to Income). Any persistence of abnormally high inflationary conditions may warrant a change to the lending strategy through overt inclusion of Disposable Income in relation to loan commitments over and above the traditional methods. Higher thresholds to Average Bank Balance (ABB) in relation to loan commitments may also be considered. These collective tightening of credit norms can result in lower disbursements across the industry.

Increase in the Benchmark/lending rates: While there is resilience in the underlying fundamentals and buffers, the risks to the near-term inflation outlook are rapidly materializing, as reflected in the inflation print for March 2022 and the developments thereafter. In this milieu, the RBI expects inflation to rule at elevated levels, warranting

---

[11] https://pib.gov.in/newsite/pmreleases.aspx?mincode=31

[12] https://www.indiatoday.in/world/russia-ukraine-war/story/russia-ukraine-war-how-rising-crude-oil-prices-impact-us-in-ways-we-don-t-quite-notice-1925206-2022-03-14

resolute and calibrated steps to anchor inflation expectations and contain second round effects. Accordingly, the RBI in its MPC meeting held in May 2022 decided to increase the policy repo rate by 40 basis points to 4.40%. The Regulator has also hiked the Cash Reserve Ratio (CRR) requirements by 50 basis points. These decisions are likely to force banks to increase the deposit rates which in turn will increase the cost of borrowings due to passing off the incremental cost of funds on to the end borrower. Given that most of the Bank's credit offerings is provided on a fixed rate basis by virtue of customer demographics, there is a likelihood of a potential squeeze on interest rate margins. The Bank, on account of its relative vintage in the industry, already offers best-in-segment deposit rates in a bid to capture the market. The recent rate hike and its impact will be evaluated internally and any parallel shift in loan interest rates will be undertaken only after a thorough review of the external environment and competitor dynamics.

3. Table DF- 1: Scope of Application

3.1 Qualitative Disclosures

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

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

3.1.1 List of group entities considered for consolidation

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

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

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

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

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

4. Table DF-2- Capital Structure

4.1 Qualitative Disclosures

4.1.1 Tier I capital

The Bank has an authorized capital of Rs. 2,50,000 lakh in the form of Common Equity of Rs. 2,30,000 lakh qualifying as Tier 1 capital and Perpetual Non-Cumulative Preference Shares (PNCPS) of Rs. 20,000 lakh qualifying as Additional Tier 1 Capital under the guidelines of RBI. As on March 31, 2022, the Bank had 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 and 20,000 lakh PNCPS having 200,000,000 preference shares of face value of Rs. 10 each.

The licensing guidelines for SFBs permit the aggregate foreign investment in a private sector bank from all sources up to a maximum of 74% of the paid-up capital (automatic up to 49% and approval route beyond 49% to 74%). As foreign shareholding in the Bank was 0.80% comprising of (a) Foreign Portfolio investors (FPI), (b) Non-Residential Indians (NRI) and (c) Non Resident Indian Non Repatriable as at March 31, 2022, the Bank was compliant with RBI guidelines on SFBs. Further, in compliance with the licensing guidelines, UFSL, the Holding Company, is registered as an NBFC-Non-Deposit-Taking Systemically Important - Core Investment Company – (NBFC-ND-SI-CIC) with RBI and is the non-operating holding company.

4.1.1.1. Promoter contribution[13]:

As at March 31, 2022, the promoter contribution in the Bank was 83.32% with the holding company being the largest shareholder. As per RBI guidelines, the promoter shareholding is required to be brought down to 40% within a period of five years from the date of commencement of business. However, as per the Recommendations of an Internal Working Group (IWG) which was mandated to review extant ownership guidelines and corporate Structure for Indian Private Sector Banks dated November 26, 2021, the RBI has accepted the IWG recommendation of 'No intermediate sub-targets between 5-15 years

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

may be required' without any modification, except subject to a submission of the dilution schedule by the Bank. The Bank understands that RBI has dispensed this immediate dilution of promoter shareholding in the Bank to 40%.

Further, the promoter's minimum contribution which was subject to a lock-in for a period of five years starting from February 01, 2017 (date of commencement of business operations) stands complied as at January 31, 2022 .

The Bank has initiated the process of reverse-merger with its Holding Company to meet the above mentioned criteria. To this effect, the Boards of both the Bank and Holding Company have approved the scheme for amalgamation in its meeting dated October 30, 2021. As directed by RBI, the scheme for amalgamation was also submitted to the Regulator three months prior to completing the five years' timeline. However, as directed by SEBI, the Bank has to bring its promoter holding down to 75% or below before initiating the merger application with the stock exchanges. The Bank is in the process of raising capital through a Qualified Institutions Placement (QIP) which will help achieve the dilution of its promoter holding to below 75%.

Subsequent to the successful completion of the QIP, the Bank will seek various regulatory approvals from RBI, SEBI and stock exchanges, National Company Law Tribunal (NCLT), shareholders and creditors in the next few months. Post receipt of all regulatory approvals, the Bank will initiate processes relating to finalization of record date, approval from Registrar of Companies (ROC), issue of shares etc. to effect the merger. The entire process is expected to be completed within a time-frame of 12-14 months from the date of completion of QIP.

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

Category of the Shareholder	No. of shares held	%age of shareholding
Promoter	1,44,00,36,800[14]	83.32
Mutual Funds	17,874	0.001
Alternate Investment Funds (AIF)	92,86,215	0.54
Foreign Portfolio Investors (FPI)	25,04,002	0.14
Resident Individuals/Hindu Undivided Family (HUF)	25,36,03,554	14.67
Others	2,28,65,760	1.32
Total	1,72,83,14,205	100

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

[14] One Equity Share each is held by 6 individuals, as nominees, on behalf of Ujjivan Financial Services Limited (Promoter),

Capital Structure- Summary of Tier I & Tier II Capital			
Sl. No.	**Instrument**	**Whether Tier I or II**	**Amount (Rs. in Lakh)**
1	Equity[15]	Tier 1	1,72,831
2	PNCPS[16]	Additional Tier I	20,000
	Total		**1,92,831**

4.1.1.2. <u>Additional Details on PNCPS instruments</u>

Perpetual Non-Cumulative Preference Shares (PNCPS) can be issued by Indian banks, subject to the legal provisions, in Indian rupees and in compliance with the terms and conditions issued by RBI for qualification. The Bank's PNCPS is in compliance to the requirements prescribed under Basel III capital regulations[17]. A key characteristic of PNCPS is that there can be no maturity date and no step ups or other incentives to redeem with an exception to call option exercisable by the Bank not earlier than the fifth anniversary of the date of allotment. The rate of dividend payable to the investors may be either a fixed rate or a floating rate referenced to a market determined rupee interest benchmark rate.

The claims of the investors in the instruments are:

a Superior to the claims of investors in equity shares;

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

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

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

4.1.2. Subordinated Debt Instrument

The Bank has fully repaid its subordinated debt obligations. There are no capital instruments in the nature of Subordinated Debt warranting inclusion in Tier II capital as at

[15] Issued and Paid up equity capital

[16] Perpetual Non-cumulative Preference Shares

[17] RBI/2015-16/58 DBR.No.BP.BC.1/21.06.201/2015-16 dated July 1, 2015

the reporting date. As per directions received from the Regulator[18], Tier II capital instruments can be issued in compliance to Basel II or Basel III guidelines of RBI.

4.1.3. Dividend policy

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

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

Given setbacks from the second wave and potential threats from other unusual external events, it is crucial that the Bank remains resilient and proactively raise and conserve capital as a bulwark against unexpected losses. Therefore, while RBI guidelines[19] allowed certain relaxations on payment of dividend on equity shares, the Bank did not declare any dividends on its equity shares or on its preference shares as at March 31, 2022.

5. Table DF- 3: Capital Adequacy

5.1 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[20], 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

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

[19] 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.

[20] 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.

Counter- cyclical capital buffer	Not Applicable
Pre-specified Trigger for conversion of AT I	CET1 at 7%

While SFBs are required to comply with Basel II norms for Capital Adequacy calculation purposes, the structure and nature of capital instruments such as Common Equity, Additional Tier 1 are required to be compliant with the Basel III guidelines while Tier II capital instruments can be as per Basel II guidelines. In essence therefore, in the case of SFBs, the Regulator has adopted a hybrid model.

SFBs are not required to have a separate capital charge for Market Risk and Operational Risk for the time being in terms of an RBI communication dated November 8, 2017 (DBR. NBD. No. 4502/16.13.218/2017-18). However, as a good governance practice, and as directed by its Board, the Bank separately computes capital charge for all the Pillar 1 risks viz. Credit, Market and Operational Risk following the Standardized Approach (SA) for Credit Risk, Standardized Duration Approach (SDA) for Market Risk and the Basic Indicator Approach (BIA) for Operational Risk. It is pertinent to note that the Regulator has now dispensed with the existing approaches of Operational Risk capital charge with the revised New Standardized Approach (NSA) vide Reserve Bank of India (Minimum Capital Requirements for Operational Risk) Directions, 2021. These new guidelines are applicable from April 1 ,2023 for Universal Commercial Banks. The Bank, although not mandated to comply with these requirements has evaluated its capital charge requirement under this new approach. From a governance perspective, the NSA approach will be used for internal reporting purposes with effect from April 1, 2022.

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

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

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

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

Credit Risk	Underestimation of Credit Risk (Under ICAAP framework)
Market Risk	Reputational Risk
Operational Risk	Strategic Risk
Interest Rate Risk in Banking Book (IRRBB)	Compliance Risk
Liquidity Risk	People Risk
Concentration Risk	Digital and Technology Risk
Outsourcing Risk	Group Risk[21]
Securitization Risk	Climate Risk[22]

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

5.2 Quantitative Disclosures

5.2.1. Basel II capital calculation

The break-up of Basel II capital funds as at March 31, 2022 was as follows:

Rs. in lakh

	Description	Amount
	Core Equity Tier 1 Capital - Instruments and Reserves	
	Directly issued qualifying common share capital plus related stock surplus (share premium)	1,72,831
	Retained earnings	85,746

[21] 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

[22] The Bank is currently in the process of developing a framework to assess Climate Risk

A	CET1 capital before regulatory adjustments	2,58,576
	Core Equity Tier 1 Capital - Regulatory Adjustments	
	Deferred tax assets arising from temporary differences	34,856
	Intangibles (Prepaid Expenses & Computer Software)	13,794
	Credit Enhancements	2,021
	Regulatory Adjustments applied to CET1 Capital due to insufficient funds in Tier 2 to cover deductions	-
B	Total regulatory adjustments to CET1 Capital	50,671
C	**CET1 capital (A-B)**	2,07,905
	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)**	2,27,905
	Tier 2 Capital - Instruments and Provisions	
	Sub - debt eligible as Tier 2 capital	-
	General Provisions on Std. Assets admissible as Tier 2	14,596
	Investment Fluctuation Reserve	2,051
I	Tier 2 Capital before regulatory adjustments	16,647
	Tier 2 Capital - Regulatory Adjustments	
J	Total Regulatory Adjustments to Tier 2 Capital	-
K	**Tier 2 Capital (I - J)**	**16,647**
L	**Total Regulatory Capital (H + K)**	**2,44,552**

5.2.2. Credit Risk RWA

The detailed break up of Credit RWA is as follows:

Rs. in lakh

Asset Description	RWA

Cash and Balances with Reserve Bank of India	0
Balances with Banks and Money at Call and Short Notice	10,727
Investments	1,452
Advances	12,05,914
Fixed Assets	13,992
Other Assets	33,730
Off Balance Sheet	22,093
Total Credit RWA	**12,87,908**

5.2.3. 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. Under BIA, the Bank has to consider 15% of the average Gross Income of previous three Financial Years as a capital charge.

The detailed computation is as follows:

Rs. in lakh

Particulars	Mar-20	Mar-21	Mar-22
Net Profit	34,992	830	(41,459)
Operating Expenses	1,31,858	1,23,008	1,00,508
Provisions and Contingencies	28,731	79,249	1,49,638
Gross Income	1,95,581	2,03,087	2,08,687
Average (3 years)	2,02,451		
Capital Charge	30,368		
RWA	3,79,596		

5.2.4. Market Risk RWA

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

Rs. in lakh

Capital Requirement for Market Risk	Amount
Interest Rate Risk	355

[23] Available for Sale

[24] Held for Trading

[25] Standardized Duration Approach

Equity Position Risk	15
Foreign Exchange Risk	--
Total	370
Total Market Risk RWA	**4,625**

5.2.5. Basel II CRAR (with only Credit RWA)

Rs. in lakh

Particulars	RBI thresholds	Amount/Ratio(Only Credit RWA)
Tier I Capital	--	2,27,905
Tier II Capital	--	16,648
Total Capital	**--**	**2,44,552**
Total RWA	**--**	**12,87,909**
CET Ratio	Minimum 6%	16.14% (Complied)
Tier I Ratio	Minimum 7.5%	17.70% (Complied)
Tier II Ratio	Maximum cap at 7.5% of CRWA	1.29% (Complied)
CRAR	**Minimum 15%**	**18.99% (Complied)**

The RWA was stabilized at Rs.12,87,909 lakhs despite growth in advances on account of Inter Bank Participation Certificates (IBPC) and Securitization transactions executed in Q4. Presently, the operating guidelines for SFBs mandates that the minimum CRAR be computed in relation to only the Credit Risk Weighted Assets (CRWA). Therefore, the CRAR of 18.99% is well above the minimum ratio of 15% as applicable for SFBs. Based on projected capital requirements under the ICAAP scenario tests, the Bank's Board has approved to augment its capital position vide issue of equity shares through Qualified Institutional Placement (QIP). This is expected to be completed in the ensuing financial year.

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

Particulars	Amount/ Ratio (all Pillar 1 risks)
Tier I Capital	2,27,905
Tier II Capital	16,648
Total Capital	**2,44,552**
Total RWA	**16,72,130**
CET Ratio	12.43%
Tier I Ratio	13.63%
Tier II Ratio	1.00%
CRAR	**14.63%**

It may be noted that the Bank's CRAR is assessed at 14.63% after inclusion of Credit RWA, Operational RWA and Market Risk RWA. The capital adequacy, while it is assessed to be below the SFB requirement of 15% is however higher than the threshold of 11.5%, as applicable for Universal Commercial Banks (UCB). While the Regulator is yet to notify the applicability of the other two pillar risks, there is a possibility to align the minimum capital adequacy norms with that of UCBs, if made applicable to SFBs. During the year, the Regulator has issued Master Directions on Minimum Capital Requirements for Operational Risk under the New Standardized Approach (NSA) which will be applicable with effect from April 1, 2023 for Universal Banks. While the Regulator is yet to take decision on its applicability for SFBs, the Bank has already commenced computation of Operational RWA under this new approach for internal reporting purposes.

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

6.1. Qualitative disclosures

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

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

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

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

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

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

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

Definitions of past due and impaired loans

An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank. A Non-Performing Asset (NPA), as defined by the RBI, shall be a loan or an advance where-

- Interest and/or instalment remains overdue for a period of more than 90 days in respect of a Term Loan;
- The account remains out of order with respect to CC/ OD for 90 days on a continuous basis;
- The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted.
- In case of advances granted for Agricultural purposes
    - The instalment or interest thereon remains overdue for two crop seasons for short duration crops
    - The instalment or interest thereon remains overdue for one crop season for long duration crops

- the amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitisation transaction undertaken in terms of the Reserve Bank of India (Securitisation of Standard Assets) Directions, 2021.

- In respect of derivative transactions, the overdue receivables representing positive mark to- market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment. The Bank had no derivative transaction on its books.

In case of interest payments, the Bank classifies an account as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter.

The Bank is guided by the provisions laid down in Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances dated October 1, 2021 read with clarifications issued by RBI relating to Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances on November 12, 2021 and on February 15, 2022.

Automation of Income Recognition, Asset Classification and Provisioning (IRACP) in FY 2021-22

In order to ensure the completeness and integrity of the automated asset classification (classification of advances/investments as NPA/NPI and their upgradation), provisioning calculation and income recognition processes, banks were advised to put in place / upgrade their systems latest by June 30, 2021 vide RBI circular dated September 14, 2020[26].

In compliance to this notification, the Bank had introduced a new functionality for automating the income recognition, asset classification, upgrading/downgrading of accounts and provisioning processes. This functionality was continuously tested and moved to production within the stipulated timelines. Additionally, the Bank had commenced a parallel run for IRACP up to August 10, 2021 to identify potential mismatches in reporting. It is pertinent to note that RBI is cognizant of potential issues from system-based reports. In this regard, exceptions are granted from system driven classification under certain circumstances, which are expected by the Regulator to be minimum and temporary, subject to availability of adequate audit trails for overrides, a two-level authorisation and adequate documentation. As an internal policy, the Bank has set a threshold for manual overrides at 0.5% (i.e. 99.5% automation) for IRACP. This is continuously monitored at a Board level and any deviation from the threshold is analysed in detail for taking the necessary corrective measures.

Provisioning norms of the Bank

The Board reviews the provisioning norms of the Bank at regular intervals to determine if any enhanced provisioning is required based on credit performance. Despite a history of low Portfolio at Risk (PAR) and delinquencies, the microfinance portfolio of the Bank (the Bank's flagship offering) is unsecured and adverse events (such as demonetization and the COVID pandemic) have impacted the portfolio quality. To enhance the coverage on MB-RB portfolio, the Bank continuously identifies stress in specific accounts and geographies where accelerated provisions may be required on an on-going basis. The Bank's NPA Management Policy, on the directions of the Board, has adopted an accelerated provisioning regime which is higher than the RBI mandated provisioning norms since inception. The Bank's Risk Management Department undertakes a proactive assessment of the likely GNPAs, NNPA, Provision Coverage Ratio (PCR) and incremental credit/provisioning costs by studying historical delinquency trends and external developments which can have a bearing on the asset quality and credit costs. During the year, as a one-time measure, the Bank created a Floating Provision amounting to Rs. 25, 000 lakh in Q1 of FY 2022 to address any recurrence of pandemic associated mobility restrictions. The decision to create a floating provision was made as there was no scientific consensus on the severity and frequency of future pandemic waves. The decision to create a floating provision, especially in the quarter which experienced the highest level of pandemic induced stress stands as a validation that the Bank is always pro-active in identifying stress irrespective of its impact on the short term profitability.

To give effect to Resolution Framework (RF 2.0) guidelines issued by RBI during the year, the

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

Bank had put in place a Board approved policy for restructuring and providing resolution framework for pandemic related stressed assets. The policy included aspects such as the eligibility criterion for restructuring, asset classification and provisioning norms, conditions for reversal in provisions and asset classification, approach for restructuring at a vertical level, delegation of power/authority and disclosure requirements. The restructuring of borrowers was invoked within timelines stipulated i.e. September 30, 2021 and was implemented within the timeline prescribed in the RF 2 guidelines issued by RBI.

Credit Risk Portfolio review and Monitoring:

Micro finance portfolio

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

The 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 (under RF 1.0 and RF 2.0) and non-restructured book on a daily basis and findings were reported to top management. The collection team strength was increased for daily follow up with the customers towards repayment of loans. The Bank had also chalked out a state wise recovery plan with enhanced focus in large branches with maximum concentration with respect to collections. Where collections had improved, incremental business was sourced only from those states. The composite collection efficiency (CE%) has reached nearly 100% in the month of March 2022 as compared to 98% in month of December 2021. The efforts of enhanced monitoring and collections enabled the Bank to arrest fresh slippages (incremental overdues) and also increase the recovery rates in delinquency buckets. Collection Efficiency in No Dues Account (NDA) bucket improved to 99.9% in the month of March 2022 implying fresh overdues of only 0.1% which is in line with pre-pandemic levels. Even within the NPA buckets, CE% has improved from 33.5% in September 2021 to 48.6% by March 2022. Total overdues had reduced sharply from its peak of 37.1% in June 2021 to 9.2% by March 2022. The portfolio snapshot of the MBRB is as follows:

Rs. in lakh

Category	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Standard	10,01,832	8,50,074	8,24,744	9,72,356	11,40,416
Sub-Standard	63,281	1,11,251	1,38,651	1,05,680	55,982
Doubtful	2,917	0	17	19,661	37,921

Loss	18,782	0	1	77	94
Total	**10,86,812**	**9,61,325**	**9,63,413**	**10,97,774**	**12,34,413**

Given that the microfinance portfolio is subject to adverse event risks, the Bank also monitors area specific communal issues, protests, sub-lending/ring leader issues, snatching attempts and others. In addition to the above, industry level information is also collected from the credit bureau/s to compare the performance in states or districts.

As part of risk measurement, the Bank has designed behavioural models to compute Probability of Default (PD) and Loss Given Default (LGD) estimates. These inputs are primarily used in Expected Credit Loss (ECL) estimations and are also factored in providing a forward guidance to incremental credit costs. The models were suitably enhanced using management overlays to factor the potential impact of the pandemic and specific events detrimental to repayment behaviours.

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

On similar lines, a rating model for Individual Loans portfolio was designed using internal data encompassing attributes like demographic, repayment trends and bureau related variables. Variables were selected on the basis on Weight of Evidence and Variance Inflation Factor. Using logistic regressions, the customers are bucketed on a scale of 1 to 10 in increasing order of risk. This scorecard is also independently validated by the Risk team and is found to be satisfactory. The scorecard is embedded in the internal loan origination platform and is being used in credit decision making. Likewise, risk-based pricing is also implemented on the basis on the scorecard output.

<u>Affordable Housing Loans and MSE portfolio</u>

As at March 31, 2022, there were 31,788 accounts in Affordable Housing Loans (AHL) portfolio with a book size of Rs. 2,73,447 lakhs. Within the portfolio, ready purchase segment comprised Rs. 1,19,630 lakh of the total book followed by Home Equity segment at Rs. 78,977 lakh. The pandemic had also affected the performance of the AHL segments with Non-performing assets peaking in September 2021 on percentage basis (5.8% as at September 2021). With concerted recovery efforts, the Bank was able to reduce the NPA from the peak of ~Rs. 14,800 lakh in January 2022 on absolute basis to ~Rs. 12,800 lakh as at March 31, 2022. CE% especially in the NPA buckets had registered a strong improvement from 40% in December 2021 to 52% by March 2022, implying that the customers continue to exhibit some ability and willingness in paying their dues. The gross advances position[27] for

[27] Without factoring IBPC and Securitisation position

Affordable Housing Loans over the quarters is as below:

Rs. in lakh

Category	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Standard	1,97,592	2,00,295	2,18,584	2,41,842	2,60,667
Sub-Standard	6,466	9,132	12,957	13,552	8,165
Doubtful	913	246	388	691	4,546
Loss	21	-	-	5	69
Total	**2,04,992**	**2,09,673**	**2,31,929**	**2,56,090**	**2,73,447**

As at March 31 2022, there were 16,327 MSE accounts amounting to Rs. 1,71,025 lakhs. The Bank offers a suite of credit offerings catering to different customer segments. The top two credit variants i.e. Loan Against Property (LAP- SENP-SEP) and Secured Enterprises Loans (SEL) comprised 36% (Rs. 61,054 lakh) and 25% (Rs. 42,793 lakh) of the portfolio respectively. These products are targeted largely at the informal/semi-formal customer segment and are secured by a mortgage of property. To cater to the formal segment, the Bank offers Business Edge loans, a holistic banking services bouquet comprising of funding solutions with overdraft facility, current account and transaction ease through Corporate Internet Banking (CIB). The holistic offering enables the Bank to compete with established players in the market. The share of Edge offering advances was Rs. 33,405 lakh as at March 31, 2022. The Bank is now focussing on providing offerings through Working Capital Finance and Overdraft facilities. In Q4 of FY 2020-21, the MSE vertical revamped its unsecured variants and commenced disbursing unsecured overdrafts in collaboration with Direct Selling Agents (DSAs) to tap opportunities in Last Mile Retailer (LMR) segment. The Bank is in the process of on-boarding additional DSAs to augment this portfolio. This book has exhibited good performance. The pandemic and its associated mobility restrictions had adversely impacted the repayment behaviours in the MSE variants. Gross Non-Performing Assets (GNPA) peaked to 12.3% as at January 30, 2022 which subsequently reduced to 11.1% as at March 31, 2022. The gross advances position[28] for the MSE portfolio over the quarters is as below:

Rs. in lakh

Category	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Standard	1,15,370	1,12,426	1,25,894	1,40,255	1,52,066
Sub-Standard	12,183	14,270	15,327	14,808	11,607
Doubtful	1,049	481	891	3,222	7,269
Loss	52	-	10	10	84
Total	**1,28,654**	**1,27,177**	**1,42,122**	**1,58,295**	**1,71,026**

From a policy perspective, the Bank implemented various steps aimed at arresting fresh slippages. Follow up and collection efforts in delinquencies within 12 Months of Book (MOB) was transferred to the business teams which was earlier handled by the Collection vertical.

[28] Without factoring IBPC and Securitisation position

Ticket size of up to Rs. 10 lakh was stopped in the LAP variant across the country. Fresh disbursement from geographical clusters with high levels of delinquencies in LAP variant was stopped to focus exclusively on collections. Monthly LAP disbursements at state level were capped, where warranted. A similar review was also undertaken for the Home Equity (HEL) segment. A deep dive review on the NPA borrowers in MSE- LAP was undertaken to understand potential weaknesses and gaps in sourcing and appraisal norms. It is pertinent to note that the delinquencies in LAP were high across the industry and not a bank specific challenge. For the MSE variants targeting semi-formal and formal category, one to one mapping of relationship managers was undertaken to enhance customer connect and follow-up. SARFAESI was also initiated in right earnest in Q4 of the year where applicable and progress is expected in the ensuing year as per timelines prescribed by law. In the Housing portfolio, the Bank is currently working on a state specific collateral policy which is expected to be completed in the ensuing quarter.

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

During the year, the Bank had enhanced its Early Warning System (EWS) framework at an account level for enhanced monitoring. This framework enables the Bank to monitor a borrower's internal/external repayment record and changes in accessibility of the customer efficiently on an on-going basis. As a starting point, the Bank now utilizes data from Bureau scrubs (which provides a detailed report on credit parameters) for an account level monitoring on a real time basis. Through this framework, the Bank has identified 10 EWTs for which accountability for action is pre-defined along with a monitoring mechanism. For lending in the nature of overdrafts, the Bank has defined thresholds for utilization and churn trends to provide early signs of stress. The EWS is thus designed to track customers who might transition from a non-default status to default status. This transition needs to be arrested so that a better repayment discipline can be established within the Bank.

Risk scorecards are developed and implemented for introducing objective based lending. These application scorecards have been integrated with Loan Operating Systems (LOS) where every application will have a score generated from LOS which shall be reviewed as part of credit appraisal. For non- LOS variants, the scoring is undertaken manually through spreadsheets. The scores generated are being used in decision making delegation and linked to Risk Based Pricing with effect from October 1, 2021. Given that these scorecards were introduced on an expert judgement basis and are yet to be statistically validated, the Bank has not set any hurdle rates for rejecting credit proposals but borrowers classified under the higher risk grades are approved by the next higher sanctioning authority for enhanced oversight. One of the imperatives for the ensuing year is to analyse the scoring related data, perform statistical analysis to test the discriminatory power and calibration of scoring bands and introduce hurdle rates.

Institutional Lending

As at March 31 2022, there were 37 borrowers amounting to Rs. 85,519 lakh with a single entity classified as NPA. The Institutional Lending portfolio was well balanced with an individual peak sanctioned limit of Rs. 10,000 lakh and average sanctioned limit of Rs. 3,426 lakh. Collection efficiency in the standard book was 100%. During the pandemic, the Bank had reviewed its FIG policy and has introduced additional control measures in the areas of exposure caps and Early Warning Signal (EWS) assessments. There was a concerted effort to reduce potential instances of wrong-way risk and focused on entity level diversification of the book.

As part of monitoring, the Bank analyses compliance to financial covenants (Capital Adequacy Ratio, GNPA, NNPA, Debt/Equity ratio as stipulated in sanction letter), monitoring of CA certified receivables statement received from borrowers and EWS alerts. The Bank has also introduced an internal rating model with additional bank specific parameters. The rating output is analysed in conjunction with the external rating for the purpose of credit decisioning and pricing.

Vehicle Loans

There were 25,702 Vehicle Loan borrowers with a total gross advances of Rs. 16,174 lakh. The Bank had launched digital LOS for two-wheeler products in FY21, and scaled it to 100% in Q1FY22. The products variants offered under Vehicle Loans are Two Wheeler loans and Light Commercial Vehicle (LCV) Loans (Three wheeler ICE[29], three wheeler electric and small commercial vehicle). As part of the strategy overhaul, the Bank has temporarily stopped sourcing business in the LCV segment. The Bank intends to restart these variants in the ensuing year post augmentation of capital.

Key Risk Indicators are defined and monitored at portfolio level while EWS triggers are analysed at account level. Expert judgement scorecards are developed on the basis of customer track record. Two variants viz. thick (with rich credit history), thin (with low credit history) are developed and deployed for the two-wheeler variants. Customers are categorized on a four-point scale viz. green, yellow, amber and red. The delegation of authority is linked to the rating outcome of the Borrower. Pricing is however not linked to these scorecards as per the dispensation received from RBI. These scorecards are deployed

[29] Internal combustion engine

primarily to collate data which can be further analysed to develop statistical scorecards.

Personal loans:

There were 12,393 borrowers with gross advances amounting to Rs. 24,270 lakh. Much of the stress in the PL book emanated from those loans sourced prior to July 2020 (PL 1.0). The delinquency trends in the book sourced post July 2020 (PL 2.0) following a relaunch of the product with much tighter parameters and with a stronger credit policy were within acceptable levels. The personal loan variants are also temporarily put on hold as part of the strategic plan to reduce concentration in unsecured lending and also as part of the capital optimization plan. The Bank will revisit its PL business plan post augmentation of capital sometime in the ensuing year.

6.2. Quantitative Disclosures

The overall distribution of gross advances and Asset Under Management (AUM) as at March 31, 2022 was as under:

Rs. in lakh

Vertical	Gross Advances	AUM	% of Gross advances
MB-RB	12,34,413	12,34,413	70.59%
FIG Lending	85,519	85,519	4.89%
Housing	2,17,352	2,73,447	12.43%
MSE	1,59,689	1,71,026	9.13%
Personal Loans	24,270	24,270	1.39%
Staff Loan	3,441	3,441	0.20%
Vehicle Finance	16,174	16,174	0.92%
Loan/OD Against Deposit	7,907	7,907	0.45%
Total	**17,48,765**	**18,16,197**	**100.00%**

Exposure summary: Facility type

Exposure Type	Domestic (Rs. in Lakh)	Overseas
Fund- Based exposure[30]	23,35,191	--
Non- Fund Based Exposure*	59,450	--
Total	**23,94,641**	**--**

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

Geographic Distribution of gross advances (State-wise)

Rs. in lakh

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

States	Asset Under Management[31]	% Share
Tamil Nadu	2,80,894	15.5%
West Bengal	2,22,973	12.3%
Karnataka	2,66,072	14.6%
Maharashtra	1,73,254	9.5%
Bihar	1,20,862	6.7%
Gujarat	1,52,682	8.4%
Haryana	94,457	5.2%
Uttar Pradesh	98,791	5.4%
Rajasthan	75,128	4.1%
Odisha	44,584	2.5%
Punjab	42,152	2.3%
Assam	19,719	1.1%
Jharkhand	40,042	2.2%
Kerala	28,035	1.5%
New Delhi	69,913	3.8%
Madhya Pradesh	26,660	1.5%
Tripura	22,479	1.2%
Pondicherry	11,759	0.6%
Chhattisgarh	8,997	0.5%
Uttarakhand	8,318	0.5%
Chandigarh (UT)	3,151	0.2%
Meghalaya	1,766	0.1%
Himachal Pradesh	2,244	0.1%
Goa	1,266	0.1%
Total	**18,16,197**	**100.0%**

Maturity pattern of assets and liabilities

Rs. in lakh

Buckets	Net Advances	Investments	Deposits	Borrowings
Day - 1	190	-	5,255	-
2-7 Days	16,149	-	49,523	-
8-14 Days	26,545	-	47,737	114
15-30 Days	33,075	-	70,986	-
31 Days and up to 2 months	77,920	-	1,43,216	15,114
Over 2 months and up to 3 months	78,534	-	91,690	1,780
Over 3 Months and up to 6 months	1,85,952	27,637	1,96,868	27,250

[31] Interest accrued portion on NPA is reduced on a pro-rata basis to tally with Gross Advances

Over 6 Months and up to 1 year	3,97,271	32,548	3,89,626	37,348
Over 1 Year and up to 3 years	4,36,924	19,677	8,13,842	64,750
Over 3 Year and up to 5 years	1,49,501	64,270	19,460	-
Over 5 years	2,28,257	2,71,162	1,017	30,000
Total	**16,30,317**	**4,15,293**	**18,29,222**	**1,76,356**

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

Category of Gross NPA	**March 2021**	**June 2021**	**September 2021**	**December 2021**	**March 2022**
Sub-standard	83,232	1,36,764	1,69,900	1,37,279	77,989
Doubtful	4,947	728	1,296	23,737	50,136
Loss	18,881	6	69	150	283
Total	**1,07,060**	**1,37,498**	**1,71,265**	**1,61,166**	**1,28,408**

	March 2021	**June 2021**	**September 2021**	**December 2021**	**March 2022**
Net NPA	42,458	59,874	68,514	50,156	34,960
NNPA after factoring Floating Provisions	42,458	34,873	43,514	25,155	9,960

NPA Ratios	**March 2021**	**June 2021**	**September 2021**	**December 2021**	**March 2022**
Gross NPA to Gross Advances	7.07%	9.79%	11.80%	9.79%	7.34%[32]
Net NPA to Net Advances	2.93%	2.68%	3.29%	1.67%	0.61%[33]

Movement of Net NPAs (On YTD basis)

Particulars	**Mar-21**	**Jun-21**	**Sept-21**	**Dec-21**	**Mar-22**
Opening Balance	2,749	42,459	42,459	42,459	42,459
Additions during the	42,994	34,880	62,066	59,184	32,728

[32] GNPA as a percentage to AUM basis was 7.07%
[33] NNPA as a percentage to AUM basis was 0.59%

period					
Reductions during the period	3,285	17,466	36,011	51,488	40,227
Less Floating provision	-	25,000	25,000	25,000	25,000
Closing Balance	**42,458**	**34,873**	**43,515**	**25,155**	**9,960**

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

Rs. in lakh

Particulars (On YTD basis)	**Mar-21**	**Jun-21**	**Sept-21**	**Dec-21**	**Mar-22**
Opening Balance	10,965	64,601	64,601	64,601	64,601
Provisions made during the period	61,424	48,818	78,318	99,409	1,35,576
Write back of excess provisions	7,787	28,794	40,168	53,000	1,06,730
Closing Balance	**64,602**	**77,625**	**1,02,751**	**1,11,010**	**93,448**

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

Rs. in lakh

Category	**Gross Advances**	**GNPA**	**GNPA Provisions**	**Floating Provisions held**	**PCR%**
MB-RB	12,34,413	93,996	73,908	23,500	104%
FIG Lending	85,519	442	442		100%
Housing	2,17,335	12,780	6,763	1,500	65%
MSE	1,59,689	18,960	10,772		57%
Personal Loans	24,270	1,063	751		71%
Staff Loan	3,441	4	3		72%
Vehicle Finance	16,174	1,160	806		69%
Loan/OD Against Deposit	7,907	-	-		-
Grand Total	**17,48,748**	**1,28,408**	**93,448**		**92%**

As at March 2022, the Bank continued to maintain a Floating Provisions (FP) of Rs. 25,000 lakh. After factoring the FP, the Bank maintained a PCR% of 92.24% at Bank level which is higher than the internal threshold of 70%. The availability of FP in the MBRB segment also provides a provision coverage of 104%. The Bank has retained the utilization of floating provisions for the purpose of netting of Gross NPA as at March 2022. The FP will be reckoned as part of Tier II capital in a phased manner as and when there is headroom available for inclusion in Tier II capital. As per RBI guidelines, floating provisions can be utilized for the purpose of netting off GNPA or as part of Tier II capital. Presently the provisions held against standard assets as at March 31, 2022 is 1.13% of the Credit RWA leaving a headroom for inclusion of FP amounting to only Rs. 1,500 lakh. As an internal policy, the Bank shall reckon FP as part of Tier II capital as and when a headroom of Rs. 5,000 lakh is available. The headroom will be available with growth in gross advances in the ensuing year. This is expected to normalize the PCR% and also help in augmenting the Bank's CRAR in the ensuing year.

Write off:[34]

Rs. in lakh

Particulars	Total Write off undertaken
FY 2021-22	78,858

Non-performing Investments (NPI)

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

Movement of provisions for depreciation on investments

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

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

7.1. Qualitative Disclosures

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

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

[34] Write off includes both actual and technical write offs

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

d. In terms of circular No. DBR.BP.BC.No.72/08.12.015/2016-17 dated June 7, 2017, the capital charge for claims secured by residential property falling under the category of individual housing loans is assigned differential risk weights based on the size of the loan as well as the loan to value ratio (LTV). As a countercyclical measure, RBI has decided to rationalise the risk weights, irrespective of the amount and only on the basis of LTV vide a notification on October 16, 2020. The Bank takes cognizance of the same and these were incorporated for all loans sanctioned after the date of issuance of this circular. The Bank also takes concurrence to the RBI circular dated April 8, 2022 where it has decided to continue with risk weights contained in the circular ibid for all new individual housing loans sanctioned up to March 31 ,2023. The Bank has taken note of the same.

e. On October 12, 2020[35], RBI issued directions for revision in limit for risk weight under the Regulatory Retail portfolio, RBI 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.

7.2. Quantitative Disclosures

Details of Gross Credit Risk Exposure (Fund based and Non-fund based) based on Risk Weight – Position as on March 31, 2022

Sl. No.	Risk Weight	Rs. in lakh
1	Below 100% Risk Weight	21,66,660
2	100% Risk Weight	3,20,157
3	More than 100% Risk Weight	1,273
4	Deductions from CRM[36]	-93,448
5	**Total**	**23,94,642**

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

8.1. Qualitative Disclosure

- The Group Loan and Individual Loan portfolio, under microfinance is unsecured. Loans to the Affordable Housing segment are collateralized by a mortgage over the property

[35] 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

[36] Credit Risk Mitigants (Provision against NPA)

financed. There are primarily secured product variants under MSE loans with one unsecured variant offered in collaboration with a Direct Selling Agent (DSA). The residual book of erstwhile unsecured loans[37] 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. The small portfolio of Gold Loans, temporarily suspended, is 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[38] 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[39] while computing its Risk Weighted Assets (RWA).

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

- The Bank has in place the following risk mitigation techniques for its loan portfolio which are as follows:
    - Life insurance cover is mandatory for all the borrowers availing of the Bank's microfinance loans. Housing, two wheeler, personal loans borrowers and gold loans are provided with an option to avail a life insurance cover, though this is not a bundled offering along with the loan products.
    - The Bank works with 4 Credit Information Companies (CICs) and ensures 100% application screening through the bureaus using their comprehensive credit reports.
    - The Bank also undertakes independent surveys and analysis to identify negative areas/No- go areas based on historical events. These surveys enable the Bank to discourage increasing business from these areas as identified above.
    - The Bank has also set borrower wise limits in compliance to RBI mandated exposure norms and also mitigate any concentration risks building in the portfolio.
    - A negative list/negative area profile is maintained at a branch level to avoid exposure to those categories.

[37] Unsecured Business Loans and Unsecured Enterprise Loans
[38] 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
[39] Refer section 7.3 of Master Circular - Prudential Guidelines on Capital Adequacy and Market Discipline New Capital Adequacy Framework (NCAF) dated July 1, 2015

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

9.1. Qualitative Disclosure

9.1.1. Securitisation Objectives

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

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

The overall framework for the Securitisation of Standard Assets for the Bank is specified in the Board approved policy on Securitisation of Standard Assets. During the financial year ended March 31, 2022 the Bank had undertaken 'sale' transactions through securitisation route.

9.1.2. The Major Risks inherent in Securitisation of Standard Assets are given below:

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

Market Risk:

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

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

Operational Risk

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

Reputational Risk:

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

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

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

Monitoring credit risk

The Bank in the capacity of collection and processing agent prepares monthly performance reports which are circulated to investors/ rating agencies. The securitised pools are continuously monitored and those requiring attention are subjected to specific interventions (e.g. focused collection efforts in affected geographies) to improve their performance. The risk assessment of the pools is done continuously by the rating agencies based on amortisation level, collection efficiency, credit enhancement utilisation levels and credit cover available for balance deal tenor. Note: During the financial year ended March 31, 2022 the Bank did not use credit risk mitigants to mitigate credit risks.

Monitoring market risk

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

9.1.3 <u>Roles Played by the Bank</u>

Originator / Seller

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

Servicer

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

Provider of Liquidity Facilities

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

Credit Enhancement provider

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

9.1.4 Significant Accounting Policy for Securitisation of Standard Assets

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

9.1.5 Rating of Securitisation Transaction

During the financial year ended March 31, 2022 the Bank used the ratings provided by CARE Ratings limited for the securitisation of retail pools.

9.2. Quantitative Disclosures

Details of Securitisation exposures in the Banking Book

Rs.in Lakh

Total Exposures Securitised by the Bank*	**25,258.83**

*Represents total amount of loan securitised during FY2022

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

Rs.in Lakh

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

*PTC- Pass Through Certificate

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

Rs.in Lakh

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

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

Rs.in Lakh

Exposure Type	**Amount***	**Unrecognised gains / (losses)**
PTC (underlying assets being Loan against property)	25,258.83	-
Total	**25,258.83**	**-**

*The amount represents the total principal outstanding as on March 31, 2022 for PTC transactions

Securitisation exposures retained or purchased

Rs.in Lakh

Exposure Type	**On Balance Sheet***	**Off Balance Sheet**	**Total**
Equity Tranche	1,262.94	-	1,262.94
Overcollateralization	757.76		757.76
Total	**2020.71**	**-**	**2020.71**

* Represents total principal amount of investment in Equity Tranche SNs amount and Overcollateralization during FY2022

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

Exposure Type	**50% weight**	**75% risk weight**	**114% risk weight***	**125% risk weight**	**Total**
Equity Tranche (underlying assets being Loan against property)			1262.94		
Total					

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

Securitisation exposures deducted from capital –

Exposure Type	**Exposure deducted**	**Credit enhancing**	**Other exposures**

	entirely from Tier-1 capital	interest-only strips deducted from total capital	deducted from total capital
Overcollateralization	757.76	-	-
First Loss Credit Enhancement	1,262.94	-	-
Total	**2,020.71**	-	-

Details of Securitisation Exposures in the Trading Book

- **NIL**

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

10.1. Qualitative Disclosures

10.1.1. Market Risk

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

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

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

Investments: The Bank has a Board approved policy to make investments in both SLR and Non SLR securities. The Bank had investments in the following instruments: Government of India securities (G Sec), Treasury Bills (T Bills), State Development Loans (SDL), Separate Trading of Registered Interest and Principal of Securities (STRIPS) and one legacy investment in an unquoted equity. The Bank had also made a token investment in a New Umbrella Entity (NUE) in association with National Payment Corporation of India (NPCI) and investment of Rs. 1,263 lakhs as Pass through Certificates as part of the Securitisation deal executed during the year. As on March 31, 2022, the investment holdings in various SLR and Non SLR instruments were as under:

Rs. in lakh

	HTM		AFS		HFT		Total	
Instrument	**Book Value**	**Market Risk**	**Book Value**	**Market Risk**	**Book Value**	**Market Risk**	**Book Value**	**Market Risk**
				SLR				
G Sec	2,65,516	2,60,137	9,969	9,969	-	-	2,75,485	2,70,107
SDL	86,241	85,168	-	-	-	-	86,241	85,168
PTC	-	-	1,263	1,263	-	-	1,263	1,263
STRIPS	-	-	8,649	8,649	-	-	8,649	8,649
TB	-	-	40,221	40,221	3,424	3,424	43,645	43,645
				Non-SLR				
CP	-	-	-	-	-	-	-	-
Equity (Unquoted)	-	-	10.02	11	-	-	10	11
Mutual funds	-	-	-	-	-	-	-	-
TOTAL	**3,51,757**	**3,45,306**	**60,112**	**60,113**	**3,424**	**3,424**	**4,15,293**	**4,08,842**

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.. 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	**Average SLR requirement**	**Average SLR maintenance**	**Average SLR requirement maintained as a % of NDTL**
Jan-22	2,75,173	3,37,622	22.09%
Feb-22	2,95,384	3,95,818	24.12%
Mar-22	3,15,340	4,54,468	25.94%

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. 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. Effective management of LCR, through calibrated disbursements and maintaining sufficient liquid buffer to provide the necessary support to HQLA, ensured that the Bank ended the financial year with LCR at 126.41% which was in excess of the mandated regulatory minimum of 100% and also the internal tolerance limit set by the Board. Further, the Bank had also complied with the HTM holding limit for all the days for the period during the quarter.

In the last quarter of the financial year the Bank ceased to make investments in NSLR, except for the investment in PTC in the securitisation transaction that the Bank originated, pending the full automation of its NPI module. As such therefore, deployment of surplus cash was only in Reverse Repo in the last quarter. It is anticipated that investments in NSLR will resume from the next quarter.

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

10.1.2. <u>Liquidity and Liquidity Risk Management</u>:

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

In line with the prudent risk management practice, the Bank has in place a Board approved Contingency Funding Plan (CFP) , which is tested by the Front Office at a quarterly frequency. Contingency Funding Plan testing was done for Q4 FY 21-22. In all the instances of CFP testing during the quarter, the Bank was successful in generating fund commitment, from various sources, much above the average monthly shortfall. While the CFP hitherto has tested the Bank’s ability to meet any contingency over a one day period, this is now proposed to be enhanced to test the Bank’s ability to address a continued contingency over an extended period. The reliance on committed interbank lines to meet such contingencies is given paramount importance.

Liquidity Risk Management is governed as per the provisions of the ALM policy. The ALM position for the Bank was well managed and regulatory thresholds complied with during the quarter. The Bank has various avenues to leverage upon in mitigating any future liquidity shortfalls. Some of the measures include securitization, IBPC transactions and term loan facilities from Bank. The Bank is also engaging with Development Financial Institutions (DFI) for refinance facilities. Although the Bank currently has adequate short-term liquidity, longer tenor funding remains a challenge. Hence the need was felt to mobilize deposits, specifically non-callable FD's for tenors of 6 months and beyond and exploring alternate long-term funding (3 years and beyond) through refinance from Development Finance Institutions, term loans and securitization. On these lines, the Bank launched 'Platina Fixed Deposit', offering interest of 15 basis points (bps) higher than the regular term deposit rates provided by the Bank with a minimum deposit size of Rs. 20 lakh. The Platina FD is a non-callable deposit, where partial/premature withdrawal is not applicable. IBPC amounting to Rs. 42,500 lakh undertaken in Q4 of FY 2021-22 has also provided additional liquidity buffer. The Bank adopts abundant caution in making fresh disbursements to ensure that LCR is maintained above internal threshold.

10.2. <u>Quantitative Disclosures</u>

Liquidity Coverage Ratio (LCR)

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

Liquidity Coverage Ratio			
Date	**Q4 Quarterly Average**		***INR lakhs***
A	**High Quality Liquid Assets**	**Amount**	**Adjusted Amount**
	Level 1 Assets	3,77,325	3,77,325
	Level 2 A Assets	-	-
	Level 2 B Assets	-	-
B	**Total Stock of HQLAs (Adjusted for Capital)**	-	3,77,325
C	**Cash Outflows**	12,17,414	3,55,019
D	**Cash Inflows**	1,68,577	56,520
E	**Net Cash flow**	-	2,98,499
F	**25% of Total Cash Outflow**	-	88,755
G	**Higher of E or F**	-	2,98,499
Liquidity Coverage Ratio			**126.41%**

Net Stable Funding Ratio (NSFR): The objective of the NSFR is to require banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities over a one year horizon. The NSFR Guidelines came into effect from October 1, 2021. As at March 31, 2022, the NSFR was 104.08%.

NSFR	Unweighted Amount	Weighted Amount
Total Available Stable Funding (ASF)	23,66,810	14,16,690
Total Required Stable Funding (RSF)	23,69,832	13,61,145
NSFR	**99.87%**	**104.08%**

11. Table DF- 9: Operational Risk

11.1. Qualitative Disclosures

11.1.1. Operational Risk Management Policy and Governance Structure

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

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

11.1.2. Risk identification, measurement, monitoring and reporting

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

- **Product and Process reviews**: All new products and processes (including enhancements) are subject to a mandatory comprehensive review by the Operational Risk department. For Process related approvals, PrAC (Process Approval Committee) has been constituted with effect from February 2021 and meetings are held at defined frequency. The Bank's Operational Risk team reviews and provides their observations for including additional controls for the risks identified during the assessment, if warranted. Subsequent to closure, the new/enhanced processes are placed at the PrAC for approval. The Bank continuously reviews and enhances its key processes to adapt to industry best practices. Operating Risk Management Department (ORMD) has reviewed 159 processes in FY'22. Few of them are value dating policy, video KYC PD, credit life SOP for Third Party Products, framework for review and monitoring of internal office accounts, engagements with collection DSAs, change in SOP for compliance to KYC guidelines, SOP on Robotic Process automation, repossession process of vehicles etc.

- **UAT Testing** (including BRD and FSD): For any change management/ automation of products and processes, the department owners prepare the Business Requirement Document (BRD). The BRD is reviewed by key control and business functions for further improvements. Subsequently, the same is provided to the IT department within the Bank. The IT department then prepares the Functional Specification Document (FSD) detailing the scope of the project. Once the project is moved to testing stage, ORMD performs the User Acceptance Testing (UAT) along with others to identify gaps in the actual deliverable versus that which was proposed in the BRD. These gaps are further addressed and closed before moving to production. In FY 2021-22, 93 BRD's and FSD's were reviewed and UAT was undertaken in 176 activities covering fixed to floating interest conversion, migration of Br.Net loan accounts to Finacle, launch of Platina Deposits, CGTMSE loans, Non-revolving OD, Vikas Loan, Vehicle and Home loan for staff, Group loan repayments through Internet Banking, Money Mitra Hand Held Device (HHD) workflow etc.
- **RCSA**: RCSA (Risk and Control Self-Assessment) is a forward-looking tool to identify and assess the level of risk inherent in any activity / process, the causes responsible for that risk and the status of existing controls to minimize the risk. The outcome of RCSA provides insight into known as well as potential Operational Risk areas in various process / business lines. Business teams, being the first line of defence, are responsible for carrying out RCSA activity. ORMD, being second line of defence is responsible for providing necessary guidance, training and inputs to the First Line of Defence (FLOD) for carrying out the RCSA. To create a Risk culture in FLOD and assume ownership for this activity, a Special Point of Contact (SPOC) is identified in each department who is designated as Business Risk and Compliance Officer (BRACO) with whom ORMD shall engage. RCSA framework was approved in April 2021 and as at March 31, 2022, RCSA was completed in all functions vide workshops with BRACO with an exception to Information Technology department which is in advanced stages of completion.
- **Key Risk Indicators**: During the year, **40 KRIs** were monitored at an organization level as part of the ORM Framework. The thresholds for the KRIs have been decided in consultation with the stakeholders. These KRIs are analysed on a monthly basis and findings are placed at ORMC and Board at regular intervals with action plan for closure of open issues. In addition to Organizational KRIs, the Bank has also defined functional KRIs for liabilities and is in the process of defining the same for other key

functions in a phased manner for better monitoring.

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

  The Bank records instances along the Basel defined lines of Operational Risk events.

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

	Count				Loss in lakh			
Event Type	**YTD Mar'21**	**YTD Mar'22**			**YTD Mar'22**			**YTD Mar'21**
	Total	**Loss**	**Total**		**Gross**	**Net**	**Ops Loss**	**Ops Loss**
Business Disruption and Systems Failures	167	138	155		71.12	38.88	2.35	6.01
Clients, Products, and Business Practice	28	17	18		5.70	3.68	3.68	1.32
Damage to Physical Assets	88	48	53		9.72	9.72	0.01	0.00
Employment Practices and Workplace Safety	20	0	8		0.00	0.00	0.00	0.00
Execution, Delivery, and Process Management	338	211	312		129.79	26.76	14.92	7.94
External Fraud	594	596	615		204.78	116.11	40.66	49.00
Internal Fraud	185	332	332		352.71	121.75	34.51	26.91
Total	**1420**	**1342**	**1493**		**773.83**	**316.91**	**99.12**[40]	**91.19**

- **Thematic reviews:**

[40] Includes movement of Rs. 30.68 lakhs from ARRF to Ops Loss on account of Money Mitra GL carried forward from last FY. It also includes movement of Rs. 5.22 lakhs to Ops loss on account of incorrect payment of rent to landlord for previous FY.

While carrying out RCSA, KRIs, UAT testing, incident reporting etc., Operational Risk team identifies few risk indicators warranting a special thematic review of the entire process. This enables the Bank to identify issues and gaps at minute level which are then taken up for rectification. These thematic reviews do not follow standardized risk identification techniques and therefore provide wider scope for a deeper and customized study of issues and gaps. Such thematic studies have enabled the Bank to further refine its existing processes and plug gaps that had been identified. In FY22, ORMD performed a thematic review of Payments process and key gaps were highlighted and discussed in RMCB held in the month of December'21.

- **User Access reviews** are conducted for critical applications to ensure that access and role matrix are well defined and that access is commensurate with the responsibility assigned. In FY'22, User access review has been completed for 19 applications including Finacle Treasury, Br.Net, Finacle application and CRM Next. 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 which is under review.
  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 and circulated to PrAC (Process Approval Committee) members for their review and inputs.
- **Exceptions Handling Mechanism** is an initiative, which started from July 2020 as guided by the Compliance and Control Functions Committee. A list of 32 exception reports was identified and tagged to Operational Risk for initiating the review. 30 exception reports were reviewed and gaps identified are discussed with relevant stake holders for needful action. All observations have been circulated to relevant stake holders and corrective action has been initiated.
- **Branch Assurance:** Branches across regions are reviewed against a checklist devised by ORMD to ensure adherence to branch processes. The checklist is reviewed and enhanced as and when required to strengthen monitoring. Critical and repeat observations are shared with the leadership team for remedial /corrective actions. Revised checklist was implemented with effect from May 2021. As at March 31, 2022, ORMD has reviewed 285 branches which is about 120% of the planned coverage of 240 branches.
- **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, the Chief Risk Officer approves the on-boarding of vendor. In FY 2022, pre-on boarding risk assessment for 39 vendors was carried out.

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

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

Annual review of material vendors: ORMD along with CISO's team carries out annual risk review of material vendors. In FY 2022, risk assessment was completed for 22 material vendors including 7 empanelled BC's.

Outsourcing undertaken by the Bank is also subject to an annual audit by the Internal Audit team who provide the required compliance certificate to RBI.

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

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

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

The Bank reviews BCMP policy and plan documents annually and enhances the documents as per the changes made in the Bank's critical processes and activities. Bank also conducts periodic BCP testing considering various disruptive scenarios which helps identify the gaps in ensuring smooth recovery and resumption of the processes. On an ongoing basis, BCP testing for randomly selected branches is also conducted to ensure that the recovery process becomes more robust and efficient to recover from any disaster / crisis situation. Learnings are documented in the Business Continuity Plan for corrective action. In FY 2022, 186 planned BCPs and 181 unplanned BCPs were conducted. Business Impact Analysis was completed for Liabilities, Treasury, Phone Banking, Regional office and HR functions of the Bank. A vendor is on-boarded for completing BIA and RA for all the departments of the Bank and to review existing policies and enhance the same according to international standards.

- **Internal Financial Control (IFC) testing:** This is an annual exercise and carried out by ORMD. The team along with concerned stakeholders prepares and enhances Risk and Control Matrices (RCMs) for activities performed by Process owners. The financial and operational controls in these RCMs are then tested by collecting samples from across the review period covering different regions, which are then evaluated for success or failure of the control effectiveness. The critical gaps observed during such testing are discussed with concerned functions for upgrading controls which may include automation of the controls. The result of this evaluation is also presented to ORMC and RMCB 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 a mandatory requirement as per Companies Act, 2013. The IFC Framework of the Bank was enhanced and approved in July 2021. IFC testing for FY 2022 was commenced in the month of August 2021 and testing was completed in 21 functions of the Bank including testing of Entity level controls.

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

12.1. <u>Qualitative Disclosures</u>

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.

12.2. Quantitative Disclosures

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

Interest Rate Risk in the Banking Book (IRRBB)			
Sl. No.	**Country**	**Interest Rate Shock**	
		+200 bps shock	**-200 bps shock**
1	India	(13,726)	13,726
2	Overseas	-	-
		(13,726)	13,726

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

Category	Items	Amount
A	Computation of Aggregate RSA	22,32,638
B	Computation of Aggregate RSL	20,84,968
C	Weighted Avg. MD of RSL across all currencies	1.2
D	Weighted Avg. MD of RSA across all currencies	2.2
E	Modified Duration Gap (MDG)	1,47,671
F	Change in MVE as % of equity for 200bps change in interest rate	-17.40%
G	**Change in MVE in absolute terms**	**(48,766)**

13. 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. 5 lakh – July 4, 2016 • Rs. 10,998.68 lakh –July 30, 2016 • Rs 1,33,000 Lakh – February 10, 2017 • Rs. 1,405.5 Lakh- November 11, 2019 • Rs. 7,142.9 Lakh- November 13, 2019 • Rs. 20,270.3 lakh- December 10, 2019 • Rs. 0.3 Lakh- November 7, 2020 • Rs. 0.2 Lakh- January 19, 2021 • Rs. 0.4 Lakh- February 15, 2021 • Rs. 0.04 Lakh- March 15, 2021
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 lakh, as of most recent reporting date)	Rs. 200 lakh
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	February 10, 2022
16	Subsequent call dates, if applicable	NIL
	Coupons / dividends	Dividend
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	11.0%
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

UJJIVAN SMALL FINANCE BANK

14. 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
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.

15. Table DF-15: Disclosure on Remuneration

15.1. 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 (NRC)

Composition of Nomination and Remuneration Committee as on March 31, 2022:

Sr. No.	Name of director	Designation/Category
1.	Mr. Ravichandran Venkataraman	Chairperson -Independent Director
2.	Mr. Banavar Anantharamaiah Prabhakar	Member-Independent Director
3.	Mr. Rajesh Kumar Jogi	Member - Independent Director
4.	Mr. Samit Kumar Ghosh	Member- Director (Non-Executive, Non-Independent)
5.	Ms. Sudha Suresh	Member- Director (Non-Executive, Non-Independent)
6.	Mr. Prabal Kumar Sen	Member - Independent Director

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 NRC, while formulating the above policy, ensures that:

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

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

(iii) Remuneration to directors, Key Management Personnel (KMP) and senior management involving a balance between fixed and incentive pay reflecting short- and long-term performance objectives appropriate to the working of the Bank and its goals.

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. 7. Make appropriate disclosures of the remuneration policy and the evaluation criteria in the annual report. 8. Analysing, monitoring and reviewing various human resource and compensation matters. 9. 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. 10. 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. 11. Determining whether to extend or continue the term of appointment of the independent director, on the basis of the report of performance evaluation of independent directors. 12. Recommending to the Board, all remuneration, in whatever form, payable to senior management. 13. Administering, monitoring and formulating detailed terms and conditions of the Employees' Stock Option Scheme (ESOP) of the Bank, inter-alia, including the following: a) Determining the eligibility of employees; b) The quantum of option to be granted under the Employees' Stock Option Scheme per Employee and in aggregate; c) The exercise price of the option granted; d) The conditions under which option may vest in employee and may lapse in case of termination of employment for misconduct; e) The exercise period within which the employee should exercise the option and that option would lapse on failure to exercise the option within the exercise period; f) The specified time period within which the employee shall exercise the vested option in the event of termination or resignation of an Employee; g) The right of an employee to exercise all the options vested in him at one time

or at various points of time within the exercise period;

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

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

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

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

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

l) The procedure for cashless exercise of options;

m) Forfeiture/ cancellation of options granted;

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

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

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

14. Administering, monitoring and formulating detailed terms and conditions of the Employee Stock Purchase Scheme of the Bank.
15. 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.
16. 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.

17. Ensure that level and composition of remuneration is reasonable and sufficient, relationship of remuneration to performance is clear and meets appropriate performance benchmarks.
18. To develop a succession plan for the Board and to regularly review the plan.
19. To approve Job descriptions and Key Responsibility Areas (KRAs) of Senior Managers and Business Line Managers on an annual basis.
20. To review Performance of the senior/business line managers by NRC on an annual basis.
21. 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.
22. To recommend to the board, all remuneration, in whatever form, payable to senior management.
23. 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.
24. 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.
25. Review regularly and approve the Bank's program for executive and employee development.
26. Review and implement the various HR policies and manual of the Bank.
27. Develop, review and approve the principles guiding the Bank's executive compensation philosophies.
28. 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.
29. 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 (e.g.: by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches. The purpose of the Compensation Policy is to ensure statutory compliance as well as alignment with the Bank's business policies and practices. The Compensation & Benefits (C & B) Policy document is based upon the principle that a fair and competitive salary is paid for acceptable levels of performance on the job. The compensation policy document is designed to align long-term interest of the employee and the organization. The policy document covers all employees and Board of Directors of the Bank. This document provides guidance on: • Compensation Philosophy • Compensation Structure • Grades • Pay Review Process • Variable Pay Plans • Salary Pay-out
	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 March 31, 2022 was 16,895
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) Compensation principles should support the Bank in achieving its mission of providing a full range of financial services to the economically active poor who are not adequately served (unserved and underserved) by financial institutions. Therein, this policy should support the Bank 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 the Bank 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.*** The following were the changes made to the remuneration policy in FY 2021-22 : **Variable Pay** • Instead of a separate Bonus Scheme, the key principles shall be embedded into the compensation policy: • The Bank shall announce the payment of bonus, as suitable. Payment of variable pay is not guaranteed. • The pay-out will be made as a lump-sum amount and not deferred over 3 years for all employees, except the employees identified as Material Risk Takers who will be paid 1/3rd in each year over 3 years. • Management Discretion - If there are significant developments in the year of payment (internal or external), management shall have leeway to announce a decision about bonus payment. ***A discussion of how the Bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee.*** The Bank periodically benchmarks its remuneration practices against the market. Compensation ranges are in alignment to market pay which are derived and reviewed periodically. Remuneration payable for each function is independent of amounts payable to other function as is the market practice. Further, performance metrics for the Risk and Compliance function are completely unrelated to deliverables of any other business function. The deliverables of the risk function are periodically reviewed by the Risk Management Committee of the Board (RMCB) ensuring due independence.
c.	***Description of the ways in which current and future risks are considered in the remuneration processes.*** • Structurally, the Control functions such as Credit, Risk and Vigilance are independent of the business functions and each other, thereby ensuring independent oversight from various aspects on the business functions. • The Bank ensures that staff engaged in financial and risk control are independent, have appropriate authority, and are compensated in a manner that is independent of the business areas they oversee and commensurate with their key role in the firm.

d.	***<u>Description of the ways in which the Bank seeks to link performance during a performance measurement period with levels of remuneration.</u>*** ***<u>• A discussion of how amounts of individual remuneration are linked to the Bank-wide and individual performance.</u>*** • 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. ***<u>• 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</u>*** 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.
	<u>• A discussion of the Bank's policy and criteria for adjusting deferred remuneration before vesting and (if permitted by national law) after</u> (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 the Bank. If there are significant developments in the year of payment (internal or external), management shall have leeway to announce a decision about pay-outs. (b) The Bank believes in the philosophy of collective ownership by its

	employees. Thus, ESOPs of the Bank are distributed amongst employee's, basis their criticality and performance from time to time, at the discretion of the management. (c) Stock option schemes at the Bank vests in a staggered manner. Besides the statutory requirement of grant and 1 year vesting, the total set of options vest in various tranches for up to a period of 4 years. (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 the Bank has the following distinct forms: **A - Cash Variable Pay** • Statutory Bonus • Performance Pay – Performance Bonus and Monthly Variable Pay • Rewards & Recognition The policy has been laid out keeping the following perspectives into considerations: • The Variable pay structure and amounts shall always conform to applicable Income Tax statutes, Labour Laws, Regulatory Requirements, any other applicable statutes and prevalent market practice. • It is designed to promote meritocracy in the organization i.e. other things being equal, performers in a given role are expected to earn more than his/her peer group. **Statutory Bonus:** Statutory Bonus in India is paid as per Payment of Bonus Act, 1965. **Monthly Variable Pay:** Employees in the Sales function, directly responsible for revenue generation shall be covered under the Monthly Variable Pay, if meeting the criteria of the respective scheme. Typically, some of the entry level roles and up to two or three levels of supervision thereof shall be covered. **Performance Bonus:** All employees who are not a part of any Monthly Variable Pay but part of the year end performance review will be covered under the Performance Bonus Plan the Bank. However, the actual pay-out of performance bonus shall be paid only to employees who have met the set criteria.

	The Bank shall announce the payment of bonus, as suitable year on year. If there are significant developments in the year of payment (internal or external), management shall have leeway to announce a decision about bonus payment. **Rewards & Recognition:** The Bank shall design schemes and practices from time to time to celebrate employees / departmental / organizational success. These celebrations may include offering tokens of appreciation to employees as defined in specific schemes. Fairness of application and transparency of communication shall be the hallmark of all such schemes. These will be subject to income tax laws, as applicable. Examples of such schemes may include: Long Service Awards (currently at one, three, five, seven and ten yrs. of completion of service with the Bank), Functional R&R Schemes; Organizational Rewards Schemes such as: Service Champion; Process Excellence; Customer Connect Awards; Above and Beyond; etc. **<u>B - Non-cash Variable Pay</u>** The Bank believes in the philosophy of collective ownership by its employees. Thus, ESOPs of the Bank are distributed amongst employee's basis their criticality and performance from time to time, at the discretion of the management. Stock options are granted based on a combination of parameters such as tenure and/or employees' performance.

15.2. Quantitative Disclosures		
Sl. No	**Quantitative Disclosures (Covers only Whole Time Directors/ CEO/Other Risk Takers[41])**	**Numbers**
1	Number of meetings held by the Nomination and Remuneration Committee during the first half financial year and remuneration paid to its members.	**Total Meetings Held:** 13 **Total sitting fee paid:** Rs. 30.50 lakh
2	Number of employees having received a variable remuneration award during the year.	1 employee Ex-MD & CEO
3	Number and total amount of sign-on awards made during the financial year.	NIL
4	Details of guaranteed bonus, if any, paid as joining / sign on bonus.	NIL
5	Details of severance pay, in addition to accrued benefits, if any.	Rs 43.29 Lakh
6	Total amount of outstanding **<u>deferred</u>**	Cash : Nil

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

	remuneration, split into cash, shares and share-linked instruments and other forms.	ESPS shares : Nil ESOP grants : 3,41,785 MD & CEO, Head- Treasury, Chief Credit Officer (CCO), Head - Liabilities and Head - Micro & Rural Banking.
7	Total amount of deferred remuneration paid out in the financial year.	Cash- Rs. 0.31 lakh
8	Breakdown of amount of remuneration awards for the financial year to show fixed and variable, deferred and non-deferred.	Fixed gross : Rs. 453.09 lakh Variable deferred : Rs. 0.31 lakh Fixed gross of the following employees : MD & CEO, Head- Treasury, Current and Ex-Chief Credit Officer (CCO), Head - Liabilities and Head - Micro & Rural Banking.
9	Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and / or implicit adjustments.	Variable Provisioned – Rs. 34.50 lakh
10	Total amount of reductions during the financial year due to ex- post explicit adjustments.	NIL
11	Total amount of reductions during the financial year due to ex- post implicit adjustments.	NIL

16. Table DF-17: Summary Comparison of Accounting assets vs. Leverage ratio exposure measure

Rs. in lakh

Summary comparison of accounting assets versus leverage ratio exposure measure		
	Item	**Amount**
1	Total consolidated assets as per published financial statements	17,30,281
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	5,48,429

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)	82,100
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off- balance sheet exposures)	28,153
7	Other Adjustments	-48,650
8	**Leverage ratio exposure**	**23,40,313**

17. Table DF 18: Leverage ratio common disclosure template

Rs. in lakh

	Table DF-18: Leverage ratio common disclosure template	
	Item	**Amount (in INR lakhs)**
	On-balance sheet exposures	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	22,78,710
	Domestic Sovereign	4,13,940
	Banks in India	48,585
	Corporates	85,783
	Exposure to default fund contribution of CCPs	121
	Other Exposure to CCPs	
	Others	17,30,281
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(48,650)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	22,30,060
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	-
5	Add-on amounts for PFE associated with all derivatives transactions	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-

11	**Total derivative exposures (sum of lines 4 to 10)**	-
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	82,100
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	CCR exposure for SFT assets	-
15	Agent transaction exposures	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	82,100
	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	59,450
18	(Adjustments for conversion to credit equivalent amounts)	31,297
19	**Off-balance sheet items (sum of lines 17 and 18)**	28,153
	Capital and total exposures	
20	**Tier 1 capital**	2,27,905
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	**23,40,313**
	Leverage ratio	
22	**Basel III leverage ratio**	**9.74%**

Presently the contribution of Tier I capital to Total Basel II capital is 93.19%. The business model of the Bank is relatively simple with a significant portion as fund-based assets. Gross advances were primarily in the nature of term loans. Since the exposure to Off Balance Items is presently low, the Leverage ratio is well above the benchmark of 4.5%.

****