Pillar III Disclosures as at 30th September 2020

2020

[Ujjivan Small Finance Bank (hereinafter called “the Bank”) has prepared this disclosure document in compliance with the directions of Reserve Bank of India (hereinafter referred to as “the Regulator” or “RBI”) vide its circular RBI/2015-16/58; DBR.No.BP.BC.1/21.06.201/2015-16 dated 1st July 2015. The document provides a review of key observations pertaining to the Bank’s capital adequacy, credit quality, key business highlights and a review of its key risks as at 30th September 2020.]

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1. List of key abbreviations

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

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

2. Introduction

Ujjivan Small Finance Bank (hereinafter called “the Bank”) has prepared this disclosure document in compliance with the directions of Reserve Bank of India (hereinafter referred to as “the Regulator” or “RBI”) vide its circular RBI/2015-16/58; DBR.No.BP.BC.1/21.06.201/2015-16 dated 1st July 2015. The document provides a review of key observations pertaining to the Bank's capital adequacy, credit quality, key business highlights and a review of its key risks as at 30th September 2020.

3. Key performance highlights of the Bank:

3.1. Branch network and distribution reach

The branch position of the Bank as at 30th September 2020 was as follows:

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

The Bank is fully compliant with the RBI guidelines on having 25% (25.04% as at 30th September 2020) of its Banking Outlets in the URCs. All erstwhile asset centres (centres which continued to do asset only business pending conversion into full service commercial bank branches) have now been converted into Banking Outlets (BO) within the mandated 3 years of commencement of banking operations.

The Bank had seven individual BCs as at 30th September 2020. These individual BCs perform essential banking services such as acceptance/withdrawal of small value deposits, balance enquiry, mini statement of accounts and undertake activities pertaining to updating Know Your Customer (KYC) requirements. The Bank also has an arrangement with two Corporate BCs and has on-boarded 74 'Money-Mitra agents' primarily aimed at facilitating field collection for its microfinance business and is also in discussion with other Corporate BCs to source new customers beyond its branch network. These corporate BCs and Money-Mitra agents will be responsible for sourcing new customers for loan products and collecting

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

[2] Unbanked Rural Centre (URC)

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

[4] North eastern states

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

repayments as well. The engagement, where the Corporate BC will be engaged in loan sourcing, will be backed by FLDG (First Loss Default Guarantee) and will cover primarily personal loans, agricultural loans and loans to the micro and small enterprises. The Bank is currently updating its BC governance policy in line with the above mentioned arrangements. The agents of the Corporate BCs on the other hand are used primarily to provide alternate options to the Bank's customers to make loan repayments. IIBF certification of agents will be completed within timelines as per IBA latest circular[6]. To increase reach and to provide more convenience to customers, the Bank will further strengthen this channel with all the required controls in place. The Bank evaluates the performance of BCs at regular intervals. For its URC requirement, the Bank's strategy will continue to focus on brick and mortar branches in providing a wide array of banking services as this has proven to be a profitable and effective model.

The Bank operated a network of 424 Automated Teller Machines (ATMs) and 53 Automated Cash Recyclers (ACR) as at 30th September 2020.

3.2. COVID 19 Environment and summary of measures taken by the Bank (Update as at 6th November 2020)

The month of March 2020 saw a disruption in the normal course of business on account of the nation-wide lockdown due to the on-going COVID-19 pandemic. Except for some essential services and activities, the rest of India's $2.9 trillion economy remained shuttered during the lockdown period. In June 2020, the country's economy—which was counted among the fastest-growing not long ago contracted 23.9%[7]. India's real GDP fell to Rs. 26.9 lakh crore in constant terms, 23.9% lower than a year ago as per data released by the Ministry of Statistics and Programme Implementation. Nominal GDP fell to Rs. 38.08 lakh crore, 22.6% lower than the same period last year. In gross value terms, the economy contracted 22.8%.

A deeper dive into the GDP data shows that construction sector took the steepest hit along with manufacturing, hotels and transport segment. While manufacturing, construction, hotels, finance and real estate sectors witnessed contraction, the agriculture sector registered an increase of 3.4% on y-o-y basis[8]. On the expenditure trends, Private Final Consumption Expenditure (PFCE) fell by 26.7% and Investments (as reflected by Gross Fixed Capital Formation) contracted by 47.1% while Government Final Consumption Expenditure (GFCE) grew by 16.4% reflecting an increased role of government intervention to support the economy. Without government support, the contraction was estimated to be nearly 30% in Q1 FY 2020-21. The concerted efforts of the RBI (on the liquidity front) and the

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[6] Refer IBA circular on BC Certification -Graded Certification Process issued vide SB/CIR/FI-BC/2019-20/7482 dated 18th June 2019.

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

[8] Data from MOSPI

government (through its various fiscal stimulus packages) have provided some respite in the recent times with green shoots being visible during the months of August 2020 and September 2020. While some level of normalcy is getting restored, it is too early to predict that this trend will continue. Even as the supply of most goods has stabilised, demand continues to be a cause of concern. Some of the positive developments during Q2 were as follows:

- Strong pick-up in exports due to overseas demand fuelled by economic stimulus packages in the US and Europe. Exports in the month of September 2020 were ~$25 billion, which was almost on par with pre-COVID levels.
- The automobile industry, especially tractor sales grew year-on-year in October 2020, however, other segments such as passenger vehicles, two-wheelers, three-wheelers, and commercial vehicles (small and big trucks) continued to contract. The contraction has however improved when looked on a month on month basis, especially with demand picking up in two-wheelers and passenger vehicles. The growth was fuelled largely on account of pent-up demand; desire to avoid public transport and the upcoming festive season that is considered auspicious for big ticket purchases.
- The composite Purchasing Managers' Index (PMI) for manufacturing and services, a popular reading released by London-based IHS Markit, hit a nine-year high of 58.6 in October 2020 after expanding for the first time in September 2020 post lockdown. A PMI reading below 50 indicates contraction.
- These positive developments are partially echoed by Nomura India Business Resumption Index (NIBRI) with the index recording 82.1 on 4th October 2020 as compared to 82.9 on 22nd March 2020. While the index shows that there is a strong recovery almost back to pre-COVID levels, it also dips slightly in the last week of September and the first week of October. The index takes into account driving mobility from Apple, Google mobility data, labour force participation, and power demand.
- The Goods & Service Tax (GST) mop-up in the month of September 2020 grew by 4% after contracting for six months pointing towards economic recovery. While GST collections still remain below pre-COVID levels, the recent figure for September 2020 shows recovery in demand after months of disruption due to lockdown. The figure for September 2020 was reported at Rs 95, 84,000 lakh against Rs. 86, 49,900 lakh in August 2020.
- Improvement in freight loading was positive with Indian Railways having earned more revenue in the month of September 2020 as compared to last year despite COVID related challenges. In September 2020, Indian Railways earned Rs. 9, 89,686 lakh from freight loading which is Rs 1, 18,057 lakh higher compare to last year's earnings for the same period (Rs 8, 71,629 lakh). The increase in freight revenue is 13.54%.

- E-way bill[9] hit a record high in the month of September 2020 with more than 5.74 crore e-way bills having been generated. Over 4.83 crore e-way bills were generated in July 2020 whereas on 30th September 2020 alone, almost 26.2 lakh e-way bills were generated, the most on a single day.
- Several firms across sectors have/are planning to roll back the sharp salary cuts that were announced due to the pandemic earlier. Many firms have/are also planning to release pending increments to provide an added festive cheer[10]. The Centre and some state governments[11] have also announced bonus, gifts, and arrears for its employees ahead of Diwali. These steps are aimed to improve the private consumption spending behaviour which should leave a positive impact on the GDP growth rate.
- The festive season has indicated strong uptick in consumer spending which can be evidenced in e-commerce spending patterns. One of the leading e-commerce platforms registered their highest sales in excess of $ 600 million within a 48 hour window with a participation of nearly 1 lakh sellers who received orders from across 97% of India's pin codes. Although this trend can be attributed to the festive season, it also provides an indication to the increasing shift in consumer purchasing patterns online. The trend in increasing online purchases can be expected to continue on account of the health risks due to pandemic and the relative ease of purchase in the comfort of home.

Key risks:

- The overall business activity and consumption may remain subdued in the coming months post festive season due to a continued rise in virus cases across the country. Since July 2020, several state governments have imposed localised lockdowns to curb the spread of infections.
- Currently, manufacturing from the supply side and rural from the demand side could be doing better but it needs to be seen if this sustains once pent up and festive demands wane off. While government support is important, the path of the pandemic post the festive season would also be crucial.
- Discretionary spending on non-essential goods is expected to be subdued due to high unemployment levels and worries about likely job losses in the future. In the absence of domestic demand, businesses may not undertake fresh investments, which in turn would curb employment and overall economic growth.

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[9] E-Way Bill is the short form of Electronic Way Bill. It is a unique document/bill, which is electronically generated for the specific consignment/movement of goods from one place to another, either inter-state or intra-state and of value more than Rs.50,000, required under the current GST regime

[10] https://www.indiatoday.in/business/story/festive-season-employees-salary-cut-rollback-increments-and-bonuses-1735098-2020-10-26

[11] Notably Haryana and Madhya Pradesh

- With consumers trying to save more during a recession, it may lead to a 'paradox of thrift' which eventually ends up hurting the economy rather than helping it. This is because an increase in savings (precautionary) leads to a fall in consumption and therefore aggregate demand or income. This is evidenced by the sharp increase in the share of household savings from Rs. 3.84 lakh crore as at June 2019 to Rs. 8.15 lakh crore as at June 2020[12].
- Food items have a higher weight in consumption spending especially among poor households. As per NSSO[13], the bottom 50% of households spent more than half their consumption expenditure on food. At a time when pandemic-related headwinds to income and employment continue to persist, the sharp rise in inflation and food prices (Food inflation in September 2020 was 10.7%) may create a sharp squeeze on non-food spending by households.
- India's benchmark equity index, the BSE Sensex is scaling new heights. This is despite the fact that most institutional forecasts have predicted a double-digit contraction for the Indian economy in the current financial year. A look at one of the most basic indicators of stock market performance, the price to earnings or PE multiple, suggests that the current stock market rally is not backed by objective performance. This multiple has increased rapidly since April 2020, underlining the speculative nature of the current boom. This, when read with the fact that the rest of the economy does not have many investment opportunities to offer could also mean that it has been acting as "an investment of last resort" of sorts for people with a glut of savings. An economy where the relatively poor have lost incomes and jobs, are having to spend more on buying food, and where the rich are facing a savings glut because they cannot spend even if they want to and are perhaps therefore investing in stocks presents a mixed picture. To conclude, the rise in benchmark indices is an incorrect barometer to assess the recovery from the pandemic.

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

- A Quick Response Team (QRT) was constituted for monitoring and supervising banking operations and to provide updates to Top Management regularly. A special committee of the Board - Business Continuity Monitoring (BCM) Committee has been formed to advise, monitor and assess the social, financial, business, credit and risk impact under the current economic scenario.
- The Bank had issued explicit instructions to its personnel to avoid reporting to work if their residential locations were within a containment zone. Initially, the Bank had adopted a Work from Home (WFH) policy for its Corporate and Regional Offices effective 24th March 2020 in view of the 21-day lockdown announced by the

[12] RBI reports

[13] National Sample Survey Officer

government and continues to provide this facility as an option for back-end staff within the Bank on a case to case basis. A majority of the backend staff continued to Work from Home (WFH) while the Bank ensured adequate safety measures for its frontline staff and customers.

- To restrict the daily turn-out at the Bank's HO premises, the Bank launched a simple survey application name 'Arogya Ujjivan' to facilitate self-declaration of employee COVID status for issue of digital pass for entry into office premises. This provided the supervisors, a complete view of the well-being of their subordinates through easy to use dashboards. As an enhancement to the above application, the Bank is currently developing a patient dashboard which will enable the Bank to monitor the health status of COVID positive personnel.
- The Bank had arranged for an AI[14] based chest X-Ray screening kiosk for non-invasive, early detection of COVID-19 and any abnormality in respiratory system. 140 employees benefitted from the facility. The Bank's doctor-on–premises and doctor-on-call facilities are being actively utilized by the Bank's staff while the confidential counselling support sessions facilitated by a trained counsellor are helping in reducing stress and anxiety levels in these testing times.
- Most of the Bank's branches were open and operated with skeletal staff during the first half of the financial year, adhering to the guidelines on branch timings issued by SLBCs, LDMs and local administration. The Bank ensured adequate cash in its ATMs and encouraged its customers to utilize alternate channels to banking namely ATMs, Mobile and Internet Banking for their transactions in view of the current situation. Customers and staff were also educated to maintain social distancing norms and take preventive measures to contain the spread of the virus. The Bank is regularly reaching out to its staff and customers to ensure their wellbeing and to express solidarity in these trying times.
- The Bank also used this period to enhance its Business Continuity Process. Each branch was mapped to an alternated BCP branch. Back up staff was identified at each branch and trained for respective functions. The QRT monitored the effectiveness of the BCP in affected branches and learnings from each of these were used to enhance the process considerably.
- The Bank had implemented all the directions provided by RBI vide its circular dated 27th March 2020[15] and 23rd May 2020[16]. The Bank had put in place a Board approved policy on providing moratorium on loan repayments for its customers. Initially, the Bank had extended moratorium under all segments, deferring the repayments for

14 Artificial Intelligence (AI)

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

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

~99% of loan accounts. Subsequently, the Bank had extended the same (1st June 2020 to 31st August 2020) on a need basis only post discussion with the borrower.

- On 6th August 2020, RBI had issued a directive on implementing a resolution framework for COVID-19 related stress[17]. The guidelines provide a window under the prudential framework to enable banks/lending institutions to implement a resolution plan in respect of eligible loans, while classifying such exposures as standard, subject to specified conditions. Further, the lending institutions were mandated to ensure that the resolution under this facility is extended only to borrowers having stress on account of COVID- 19. To this effect, the Bank is currently chalking out an internal policy/process framework detailing the manner in which such evaluation may be done and the objective criteria that may be applied while considering the resolution plan in each case. The guideline mandates the lending institutions to identify/invoke resolution under this framework not later than 31st December 2020 and also prescribes timelines for implementing the resolution from the date of invocation. The Bank takes cognizance of the same and compliance to the above guidelines will be undertaken as per the timelines prescribed.
- Further, on 26th October 2020, RBI/Ministry of Finance (MoF) had issued guidelines[18] on a scheme for grant of *ex-gratia* payment of difference between compound interest and simple interest for six months to borrowers in specified loan accounts (hereinafter referred to as 'the Scheme'). The Scheme mandates banks/financial institutions to reimburse the difference between compound interest and simple interest charged between 1st March 2020 and 31st August 2020. The Scheme has prescribed the eligibility criteria along with operational guidelines to implement the same. The exercise of crediting the amount as stated above to respective eligible borrowers had to be completed by 5th November 2020. The Bank has complied with these directions for eligible accounts. The details of implementation will be furnished in the disclosures for the ensuing quarter.
- The Bank has also made additional provisioning of Rs. 10,000 lakh during the quarter as a contingency measure against the pandemic impact. The details of additional provisioning made are furnished under section 7.2.8 of these disclosures.
- On the liquidity front, the Bank's deposit base was stable with no significant withdrawals. The measures announced by RBI with respect to enhanced Marginal Standing Facility, reduction in Cash Reserve Ratio etc. (daily minimum holding restored effective 26th September, 2020) have helped the Bank in maintaining sufficient liquidity. In Q1 of FY 2020-21, the Bank had secured funding from

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

[18] Refer RBI guideline issued vide RBI/2020-21/61 DOR.No.BP.BC.26/21.04.048/2020-21 dated 26th October 2020. Also refer https://financialservices.gov.in/sites/default/files/Scheme%20Letter.pdf

refinance aggregating Rs. 1, 85,000 lakh. LTRO borrowing amounting to Rs. 14,400 lakh was raised for 3 years and an amount of Rs. 13,800 lakh was obtained for a tenor of one year. The Bank also took advantage of reduction in CRR requirement from 4% to 3% and reduced CRR requirement for incremental lending to specific sectors as allowed by RBI vide its circular dated February 10, 2020. In Q2, the Bank secured additional funding of Rs. 25,000 lakh through interbank facilities. A significant part of funds mobilized during Q2 were in the form of CASA and Term deposits.

- The Bank sees an opportunity amidst this crisis for increasing its digital footprint across all its business operations. The Bank has on-boarded necessary personnel and has appointed a specialized executive to spearhead all Digital Banking initiatives within the Bank. .

3.3. Progress in IT and Digital banking

The Bank continues to strive for continuous improvement in systems and procedures. A system has been established for auto-escalation of complaints that are partly or wholly rejected by the Bank's internal grievance redressal mechanism to the internal Ombudsman through Complaints Management Software (CRM Next) for final decision. The risk of a customer opening a digital account can only be found after a full KYC, so a process for changing the risk value of a customer from High to Low/Medium/maintaining High till the time of completion of full KYC has been put in place.

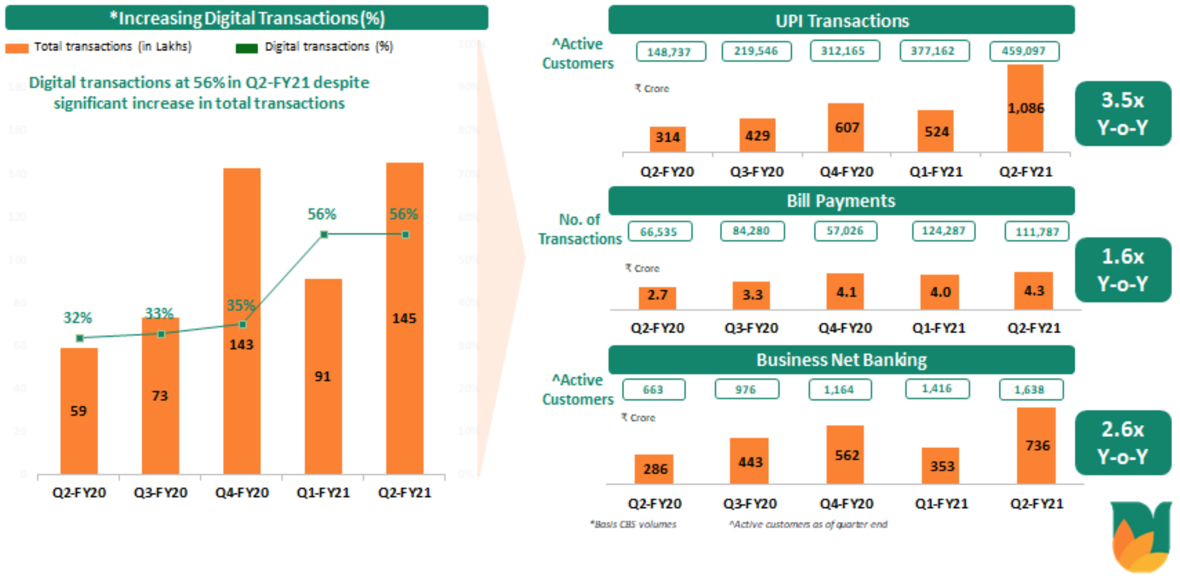
As part of the Bank's efforts towards laying a contactless disbursement infrastructure, the Bank have gone live with E-Stamping and E-signing solution for digital execution of loan agreements. The Bank also launched online ID and document verification solution to help assess the authenticity of documents submitted by customers across all asset verticals of the Bank, without physical touch points. The Bank has gone live with 12 unique APIs[19] which will be used for Neo-banking partnerships. These APIs along with the other 24 APIs as part of building the Bank's API Banking infrastructure will help the Bank to speedily engage and integrate with various Fintech providing solutions to the mass-market segment. These partnerships will not only help the Bank provide a better experience to existing customers but also enable in reaching out to more of the Bank's target segment through partnerships with Fin-techs. The services were made live to include the facility to check the account balance, fetch the accounts statements, fetch details of any particular transaction and other basic services any customer would immediately require after opening an account.

As an extension to enabling various channels for online repayment, the Bank went live with offering loan repayment facility for all businesses on Bharat Bill Payment system (BBPS) platforms through the tie-up with SETU, a Fintech API infra provider. It will enable customers to pay bills from any on-boarded biller or payment app. The Bank is already live

[19] Application Program Interface (API)

on PhonePe application and plans to go live on other apps such as Google Pay, PayTM in the ensuing quarter. The Bank has also enabled Chat Bot facility designed to stimulate conversation with its customers and answer ad-hoc queries in real time.

The Bank had witnessed a steady increase in its transaction processing in the form of IMPS, UPI and NEFT etc. In Q2 of FY 2020-21 there was an increase of 32% in customers using digital services over Q1 FY21. During the same period transactions through UPI saw a jump of 63% in volumes whereas transactions undertaken using Internet and Mobile banking (IB/MB) applications increased by 34%. In September 2020, digital transactions constituted 56.9% of the total transactions, a strong improvement from 35% in March 2020.



Total customers registered for the Bank's Mobile Banking (MB) application has crossed 0.6 million. The Bank is relentlessly working to ensure convenience for the customer using digital platforms, to provide the user with a seamless digital experience with added features like debit card management, standing instruction for payments etc. on its MB/IB platforms.

3.4. Financial highlights for Q2 of FY 2020-21

Some of the key achievements made for quarter ended 30th September 2020 were as follows:

Key Highlights	Description
Customer base	• Total outreach: 55.3 lakh (54.7 lakh in June 2020, 54.4 lakh in March 2020; 50.6 lakh in September 2019)
Loan Portfolio	• Gross Advances at Rs. 13,88,970 lakh (Rs. 14,36,584 lakh in June 2020; Rs. 14,15,330 lakh in March 2020; 12,84,728 lakh in September 2019) • Non-Microfinance book at: 24.20% (23.30% in June 2020; 22.74% in March 2020 ; 21% in September 2019)

Deposit Balance	• Total Deposits (Retail plus Institutional): Rs. 10,742,77 lakh (Rs. 11,05,748 lakh in June 2020; Rs. 10,78,048 lakh in March 2020; Rs. 10,12,985 lakh in September 2019) • CASA: 16.47% (14.18% in June 2020; 13.54% in March 2020; 12% in September 2019) • Retail: 48.90% (44.58% in June 2020; 43.82% in March 2020; 42% in September 2019)
Portfolio Quality	• Gross Non-Performing Assets (GNPA): 0.98% (0.97% in June 2020; 0.97% in March 2020; 0.85% in September 2019) • Net Non-Performing Assets (NNPA): 0.14% (0.18% in June 2020; 0.20% in March 2020; 0.33% in September 2019)
Employee strength	• 17,018 (17,370 in June 2020; 17,841 as at March 2020; 16,776 as at September 2019)
Profitability	• Profit after Tax (PAT) for Q2 FY 2020-21: Rs. 9,600 (Rs. 5,465 lakh in Q1 FY 2020-21, Rs. 7,315 lakh in Q4 FY 2019-20, Rs. 9,263 lakh in Q2 FY 2019-20)

The key performance ratios of the Bank were as follows:

Particulars	**Sept 2019**	**December 2019**	**March 2020**	**June 2020**	**Sept 2020**
Yield	20.05%	20.10%	19.88%	19.70%	19.77%
Cost of Funds	8.37%	8.08%	7.88%	7.67%	7.37%
Net Interest Margin	10.76%	10.86%	11.16%	10.25%	10.23%
Return on Assets	2.44%	2.14%	1.64%	1.16%	2.01%
Return on Equity	18.91%	14.05%	9.32%	6.79%	11.63%
Cost to Income ratio	69.46%	71.27%	64.63%	55.89%	56.57%
Other income/ Total Income	10.29%	9.60%	8.91%	3.70%	7.87%

The Cost of Funds has reduced over the quarters largely on account of increased availability of concessional refinance, fiscal stimulus measures by the government and policy rate cuts by RBI. Return on Equity (RoE) has reduced from September 2019 onward largely due to the successful IPO in December 2019. The additional capital infusion has resulted in reduced ROE on percentage basis. ROE has exhibited an increasing trend in September 2020 on account of higher profits during the quarter. The Bank has also recorded a marked reduction in its Cost to Income ratio (as compared to September 2019) due to concerted cost cutting initiatives launched in this financial year. The Bank has optimized personnel costs (digital trainings), operating costs (renegotiation of contracts and rentals, reversal of rent equalization, reduced business linked expenses) and finance costs (deposit rate cuts, low cost funds availed etc.)

4. Table DF- 1: Scope of Application

4.1 Qualitative Disclosures

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

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

4.1.1 List of group entities considered for consolidation

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

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

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

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

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

5. Table DF-2- Capital Structure

5.1 Qualitative Disclosures

5.1.1 Equity capital

The Bank has an authorized capital of Rs.2, 50,000 lakh in the form of Common Equity qualifying as Tier 1 capital under the guidelines of RBI. The Bank has an issued, subscribed and paid up equity capital of Rs.1, 72, 822 lakh, having 172, 82, 23, 169 shares of face value Rs.10 each as at 30th September 2020.

The licensing guidelines for SFBs permit the aggregate foreign investment in a private sector bank from all sources up to a maximum of 74% of the paid-up capital (automatic up to 49% and approval route beyond 49% to 74%). By limiting foreign shareholding in the Bank to 5.53% (Foreign Portfolio investors (FPI) and Non Residential Indians (NRI)) as at 30th September 2020, the Bank was compliant with RBI guidelines on SFBs. Further, in compliance with the licensing guidelines, UFSL, the Holding Company, is registered as an NBFC-Non-Deposit-taking Systemically Important - Core Investment Company – (NBFC-ND-SI-CIC) with RBI and is the non-operating holding company.

5.1.1.2. Promoter contribution[20]:

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

The Bank takes cognizance of the same and compliance to the above guidelines will be undertaken as per the timelines prescribed. The shareholding pattern of the Bank as at 30th September 2020 was as follows:

Category of the Shareholder	No. of shares held	%age of shareholding
Promoter	1,44,00,36,800[21]	83.32
Mutual Funds	28,83,861	0.17
AIFs	5,71,86,829	3.31
Foreign portfolio investors	8,95,05,982	5.18
Resident Individuals/HUF	11,24,32,727	6.51
Others	2,61,76,970	1.51
Total	**1,72,82,23,169**	**100**

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

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

[21] One Equity Share each is held by Mr. Samit Ghosh, Ms. Carol Furtado, Ms. Sudha Suresh, Mr. Rajat Kumar Singh, Mr. Ittira Davis and Mr. G Premkumar, as nominees on behalf of Ujjivan Financial Services Limited (Promoter), who is the beneficial owner of such Equity Shares. Further, they also hold Equity Shares in their respective individual capacities, and accordingly, for the purpose of calculating the total number of shareholders, they have also been counted towards the number of under Resident Individuals.

Capital Structure- Summary of Tier I & Tier II Capital			
Sl. No.	**Instrument**	**Whether Tier I or II**	**Amount (Rs. in Lakh)**
1	Equity[22]	Tier 1	1,72,822
2	PNCPS[23]	Tier 1	20,000
	Total		**1,92,822**

5.1.2 Details of PNCPS instruments

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

The claims of the investors in the instruments are:

- Superior to the claims of investors in equity shares;
- Subordinated to the claims of Perpetual Debt Instruments (PDIs), all Tier 2 regulatory capital instruments, depositors and general creditors of the Bank; and
- Is neither secured nor covered by a guarantee of the issuer nor related entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis Bank creditors.

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

5.1.3. Subordinated Debt Instrument

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

5.1.4. Dividend policy

The Bank has formulated the Dividend Distribution Policy in compliance with the provisions of Banking Regulation Act, 1949 and Guidelines/circulars issued by Reserve Bank of India (“RBI”) and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“SEBI

[22] Issued and Paid up equity capital
[23] Perpetual Non-cumulative Preference Shares

Listing Regulations"). The objective of the Policy is to appropriately reward shareholders through dividends for reposing their confidence in Bank while retaining the capital required for supporting future growth.

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

On 17th April 2020, RBI had issued a special direction[24] to all commercial banks on declaration of dividends by banks. RBI had directed that all banks shall not make any further dividend pay-outs from the profits pertaining to the financial year ended 31st March 2020 until further instructions. This restriction shall be reassessed by the regulator based on the financial results of banks for the quarter ending 30th September 2020. Accordingly, the Bank has passed an internal resolution in its Board meeting for restriction in payment of dividends for FY 2019-20.

6. Table DF- 3: Capital Adequacy

6.1 Qualitative Disclosures

The Bank has been well capitalized since inception and was further augmented after its IPO. As required by RBI in its operating guidelines to SFBs[25], the Bank is required to adopt the Standardized approach for Credit Risk and maintain a minimum Capital to Risk Weighted Assets Ratio (CRAR) of 15% segregated as under:

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

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

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

[25] 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

case of SFBs, the regulator has adopted a hybrid model.

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

In addition to the hybrid model for complying with capital adequacy requirement, for its internal and regulatory reporting, the Bank also complies with certain aspects of Basel III requirement, such as computation and maintenance of RBI prescribed minimum Liquidity Coverage Ratio (LCR) at 90% (revised to 80% vide RBI guideline[26] up to 30th September 2020, subsequent to which 90% up to 31st March 2021 and 100% thereafter) and Leverage Ratio at 4.5%.

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

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

The Bank has a comprehensive Internal Capital Adequacy Assessment Process (‘ICAAP’). The Bank’s ICAAP covers the capital management policy of the Bank, sets the process for assessment of the adequacy of capital to support current and future activities / risks and a report on the capital projections for the ensuing financial year[28]. The Bank has a structured management framework in the internal capital adequacy assessment process for the identification and evaluation of the significance of all risks that the Bank faces, which may have a material adverse impact on its business and financial position. The Bank considers the following as material risks it is exposed to in the course of its business and therefore,

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

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

[28] Due to impact of COVID 19 pandemic, the Bank has deemed it necessary to undertake a detailed analysis for FY 2020-21. The Bank intends to analyse the business environment post completion of moratorium to project its three year plan.

factors these while assessing / planning capital:

Credit Risk	Underestimation of Credit Risk
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

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 test results are put up to the Risk Management Committee of the Board on a quarterly basis, for their review and guidance. The Bank periodically assesses and refines its stress tests in an effort to ensure that the stress scenarios capture material risks as well as reflect possible extreme market moves that could arise as a result of business environment conditions. The stress tests are used in conjunction with the Bank's business plans for the purpose of capital planning in the ICAAP.

6.2 Quantitative Disclosures

6.2.1. Basel II capital calculation

The break-up of Basel II capital funds as at 30th September 2020 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)	1,72,822
	Retained earnings	1,40,477
A	CET1 capital before regulatory adjustments	3,13,299
	Core Equity Tier 1 Capital - Regulatory Adjustments	
	Deferred tax assets arising from temporary differences	4,413
	Intangibles (Prepaid Expenses & Computer Software)	12,042
	Credit Enhancements	-
	Regulatory Adjustments applied to CET1 Capital due to insufficient funds in Tier 2 to cover deductions	-
B	Total regulatory adjustments to CET1 Capital	16,455
C	**CET1 capital (A-B)**	**2,96,844**

	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)**	**3,16,844**
	Tier 2 Capital - Instruments and Provisions	
	Sub - debt eligible as Tier 2 capital	-
	General Provisions on Std. Assets admissible as Tier 2	7,871
	Investment Fluctuation Reserve	2,051
I	Tier 2 Capital before regulatory adjustments	9,923
	Tier 2 Capital - Regulatory Adjustments	
J	Total Regulatory Adjustments to Tier 2 Capital	-
K	Tier 2 Capital (I - J)	9,923
L	**Total Regulatory Capital (H + K)**	**3,26,767**

Capital Requirements for Various Risks

Sl.No	Capital Requirements for various Risks	Amount(Rs. in Lakh)
A	**Credit Risk**	1,58,142
A.1	For non-sec portfolio	1,58,142
A.2	For Securitized portfolio	NIL
B	**Market Risk**	2,471
B.1	For Interest Rate Risk	2,457
B.2	For Equity Risk	13
B.3	For Forex Risk (including gold)	NIL
B.4	For Commodities Risk	NIL
B.5	For Options risk	NIL
C	**Operational Risk**	21,203
D	**Total Capital Requirement**	1,81,816
E	**Total Risk Weighted Assets**	13,50,205
F	**Total capital funds of the bank**	3,26,767
G	**Capital Adequacy Ratio of the Bank (%)**	**24.20%**

6.2.2. Credit Risk RWA

The detailed break up of Credit RWA is as follows:

Rs. in lakh

Asset Description	RWA
Cash and Balances with Reserve Bank of India	0
Balances with Banks and Money at Call and Short Notice	6,671
Investments	8,098
Advances	9,93,146
Fixed Assets	19,779
Other Assets	23,806
Off Balance Sheet	2,778
Total Credit RWA	**10,54,279**

6.2.3. Operational Risk RWA

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

The Bank follows the BIA approach to compute its Operational Risk capital charge and RWA. The detailed computation is as follows:

Rs. in lakh

Particulars	Mar-18	Mar-19	Mar-20
Net Profit	686	19,922	34,992
Operating Expenses	65,287	1,00,335	1,31,858
Provisions and Contingencies	31,276	10,980	28,731
Gross Income	97,249	1,31,237	1,95,581
Average (3 years)	1,41,356		
Capital Charge	**21,203**		
RWA	**2,65,042**		

6.2.4. Market Risk RWA

As at 30th September 2020, the AFS[29] book consisted of treasury bills, Non-Convertible Debentures (NCDs), Commercial Papers (CPs) and Certificate of Deposits (CDs) and the HFT[30] book consisted of T-bills and Government of India securities. On the basis of SDA[31], 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	2,457

[29] Available for Sale

[30] Held for Trading

[31] Standardized Duration Approach

Equity Position Risk	13
Foreign Exchange Risk	--
Total	**2471**
Total Market Risk RWA	**30,884**

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

Rs. in lakh

Particulars	Amount/Ratio(Only Credit RWA)	Amount/ Ratio (all Pillar 1 risks)
Tier I Capital	3,16,844	3,16,844
Tier II Capital	9,923	9,923
Total Capital	**3,26,767**	**3,26,767**
Total RWA	**10,54,279**	**13,50,205**
CET Ratio	28.16%	21.99%
Tier I Ratio	30.05%	23.47%
Tier II Ratio	0.94%	0.73%
CRAR	**30.99%**	**24.20%**

With the addition of quarterly PAT of Rs. 9,600 lakh and a relatively sluggish incremental business during the first half of FY 2020-21, implies thereby only marginal changes in Risk Weighted Assets (RWA), the combined effect which resulted in an increase in CRAR. However, it is pertinent to note that the high capital adequacy is transitory in nature and is expected to optimize with higher credit off -take during the second half of the financial year. The high capital adequacy also serves as a cushion against any potential adverse impact on account of COVID-19 pandemic in the current year.

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

7.1. Qualitative disclosures

7.1.1. Credit Risk Management

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

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

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

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

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

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

7.1.2. Definitions of past due and impaired loans

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

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

The Bank has not recognised any NPAs since 31st August 2020, in line with the interim order of Hon. Supreme Court.

7.1.3. Provisioning norms of the Bank

The Board reviews the provisioning norms of the Bank at regular intervals to determine if any enhanced provisioning is required based on credit performance. Despite a history of low Portfolio At Risk (PAR) and delinquencies, the microfinance portfolio of the Bank is unsecured and events (such as demonetization and the current COVID 19 pandemic) have impacted/are expected to impact the portfolio quality at Bank wide level. Taking cognizance of this and especially since the microfinance portfolio comprised 75.80% of the loan book as at 30th September 2020, the Bank has always deemed it appropriate to follow a conservative approach to its provisioning policy.

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

RBI had directed all banks to maintain 10% provision on standard overdue cases (1-89 DPD) split between two quarters. However, the Bank had deemed it appropriate to maintain over and above the RBI mandated norms keeping in mind the inherent risk in the portfolio. The details of additional provisions made by the Bank are furnished under section 7.2.8 of these disclosures. The Bank has also increased its provision rate in some NPA categories[32] to further strengthen the Provision Coverage Ratio (PCR %).

7.1.4. Rescheduled/ Restructured loans

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

- RBI has mandated all banks to adopt the Resolution Framework for COVID-19-related Stress[33]. Considering the impact of COVID-19 pandemic, with the intent to facilitate revival of real sector activities and mitigate the impact on the ultimate borrowers, RBI had decided to provide a window under the Prudential Framework to enable the lenders to implement a resolution plan in respect of eligible corporate exposures without change in ownership, and personal loans, while classifying such exposures as Standard, subject to specified conditions. The lending institutions shall ensure that the resolution under this facility is extended only to borrowers having stress on account of the pandemic. Further, the lending institutions will be required to assess the viability of the resolution plan, subject to the prudential boundaries laid out in these guidelines.

- Further, RBI had issued a separate guideline for 'Micro, Small and Medium Enterprises (MSME) sector – Restructuring of Advances dated 6th August 2020. In view of the continued need to support the viable MSME entities on account of the fallout of pandemic and to align these guidelines with the Resolution Framework for COVID 19 – related Stress[34] announced for other advances, RBI had directed to extend the scheme permitted in terms of the aforesaid circular. Accordingly, existing loans to MSMEs classified as 'standard' may be restructured without a downgrade in

[32] One time acceleration of NPA provision in DPD buckets of 121-150 (50% from 25%), 151-180 (75% from 50%) and 181-365 (100% from 75%) with 100% provision for 180+ DPD.

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

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

the asset classification, subject to certain conditions.

A summary of the requirements are as follows:

MSME Restructuring - COVID 19	**Personal Loan – Resolution COVID 19**	**Other Exposure – Resolution COVID 19**
Aggregate Exposure of banks and NBFC to a borrower is up to Rs. 2,500 lakh	Includes Consumer Credit, Housing Loan, LAP, Education loan, Home Improvement Loan	Applicable for any other exposure other than Personal Loan, MSME loan up to Rs. 2,500 lakh, Farm Credit, loan to credit societies, loan to FIs, loan to government, loan to HFCs.
Asset Classification shall be Standard as on 1^{st} Mar-20 (1- 89 DPD)	Not applicable to Staff Loan	
Restructuring is to be completed by 31^{st} March 2021.	Asset Classification shall be Standard but not in default for more than 30 days as on 1^{st} March 2020	Asset Classification shall be Standard but not in default for more than 30 days as on 1^{st} March 2020
GST Registration is required. (Not required for MSMEs exempted from GST Registration)	Resolution is initiated by 31^{st} December 20 and is to be completed within 90 days from invocation	Resolution is initiated by 31^{st} December 2020 and is to be completed within 180 days from invocation
	Moratorium may be maximum of 2 years	Moratorium may be maximum of 2 years
Loan facility remains standard. Borrower slipped to NPA during 2^{nd} March 2020 to Implementation date may be upgraded.	Loan facility remains standard. Borrower slipped to NPA between invocation date to Implementation date may be upgraded.	Loan facility remains standard. Borrower slipped to NPA between invocation dates to Implementation date may be upgraded.
Additional Provision @5% over and above the existing provision.	Provision @10%.	Provision @10%.

Additional considerations:

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

2) In case of resolution of other exposures, the provisions maintained by the ICA[35] signatories (if found applicable) may be reversed as prescribed in point 1. However, in respect of the non-ICA signatories (if found applicable) while half of the provisions may be reversed upon repayment of 20% of the carrying debt, the other half may be reversed upon repayment of another 10% of the carrying debt, subject to the required IRAC provisions being maintained.

To give effect to these guidelines, the Bank is currently in the process of formulating a policy to restructure those borrowers whose businesses have got affected by COVID induced stress. The Bank is also undertaking a detailed and exhaustive exercise to identify borrowers who would be subject to restructuring. This includes seeking feedback from borrowers, analysing repayment trends of borrowers who had opted for moratorium and also current performance in standard but overdue borrowers. The Bank has also undertaken various scenario analyses to identify stress levels of restructuring requirements at a vertical level and its associated costs. The details of restructuring undertaken will be furnished in the ensuing quarter.

7.1.5. Credit Risk Monitoring:

7.1.5.1. Micro finance portfolio

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

Considering that many a time the external environment or factors affect the portfolio performance of a branch or district or a state, the Bank has also incorporated external factors in addition to internal EWS parameters to have better early monitoring and to take proactive measures. Some of the external factors which are considered are 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 rate the states or districts and align the growth strategy accordingly.

The Bank has developed risk scorecards for objective based credit appraisal and monitoring.

[35] Inter Creditor Agreement

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. Credit approvers at backend shall review the BRE results (as per the existing practice) along with application score card while processing the applications. The Bank intends to monitor the performance of these scorecards for further fine-tuning of parameters on a semi-annual basis.

7.1.5.2. <u>Housing and Micro and Small Enterprises (MSE) portfolios</u>

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

The Bank has also introduced an Early Warning System (EWS) at an account level for enhanced monitoring. This framework enables the Bank to monitor a borrower's internal/external repayment record and signs of overleveraging efficiently on an on-going basis. The Bank has also initiated real-time monitoring of borrowers who have availed moratorium to monitor any potential signs of stress. These early warnings are expected to identify borrowers who may be subject to restructuring as per RBI guidelines.

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

7.1.5.3. Other Portfolio- FIG, Vehicle Loans and Personal Loans

The Bank monitors the portfolio performance of other business verticals on a monthly basis. Business, Credit, Risk and Audit functions monitor these verticals on key indicators such as logins, turnaround time, ticket size, sanctioned versus disbursement, product performance, PAR and NPA trends etc. Risk department undertakes an independent assessment of the same and submits its findings to the CRMC for further action. Audit department undertakes post-mortem analysis to ensure adherence to various internal and regulatory guidelines and they in turn submit their findings along with recommendations at appropriate forums within the Bank. Based on the findings, the Bank undertakes the necessary changes to its product programs and credit policies.

The Bank has introduced an internal rating model for Institutional Lending. The scorecard will supplement the external ratings during the appraisal process.

Development of rating scorecards for Vehicle Loans and Personal loan segments are at different stages of implementation. The Bank has availed of the services of a credit bureau agency for assisting in the development of scorecards for vehicle loans and is at an advanced stage to finalize a vendor for development of scorecards for Personal Loans. For agriculture loans under Rural Banking, the Bank intends to develop an internal scorecard. The Bank intends to move these scorecards into production in this financial year.

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

7.1.6. Audit

The Bank is subject to have an independent **Internal Audit** department (IAD) under Governance norms mandated by the Reserve Bank of India (RBI). An Internal Audit department has been setup in the Bank since the inception of Bank. The Bank's top Management and Board have taken additional steps to further strengthen the IAD in the Bank and act as Third Line of Defence. The internal audit function and its functionaries are responsible and:

- Accountable and report only to the Board through the Audit Committee of Board (ACB);
- Independent of auditable activities i.e., have no responsibilities related to the first line of defence, the second line of defence and the vigilance function;
- Audit all activities undertaken by the first line of defence, the second line of defence and the vigilance function;
- Having sufficient staff strength, skills, resources and authority within the bank to enable auditors to carry out their assignments effectively and objectively.

The IAD has its own Audit Policy and Manual approved by the Board. The Internal Audit process of the Bank complements the risk management and monitoring tool as the third line of defence. The IAD has following Audit verticals where in the Risk Based Internal Audit (RBIA) approach was implemented in FY 2019-20 with extensive support from top management and second line of defence, briefly explained below:

a. **Branch Audit:** The audit is performed at the operational Branches, including Banking Correspondents. IAD now has internally developed Risk Control Matrices and assesses the residual risks at the Branches. The Department follows a quantitative and qualitative risk assessment for each and every Branch audit. This helps the operating and senior management to take appropriate mitigation on the identified risks.
b. **Credit Audit:** The audit of lending activity covers all the assets, products, process and credit risk department, which enumerates the risks in aggregation. This approach

assesses the root cause and focused mitigation plan. Apart from these, Loan Review Mechanism of all accounts beyond a threshold limit as approved by the ACB is also part of Credit Audit. The risk identification, measurement and mitigation from sourcing to monitoring and collection of asset accounts results in continuous improvisation.

c. **Central Function:** Largely focus on all HO functions/departments, second line of defence, vigilance function and all liability operations. The RBIA approach is in accordance with ICAI and IIA.US standards. This encompasses the Governance, Risk Management and Control (GRC) approach in each and every audit and internal review.
d. **IS Audit:** Assessment of application level risks, IT infrastructure (Network, Operating systems, Database), IT processes / Operations and IT governance to assure information assets are protected and security risk is mitigated, are covered in this audit activity and / or Integrated audit activities wherein, the IT controls are reviewed, as part of an end-to-end coverage of business process along with General IS controls.
e. **Concurrent Audit:** As per RBI guidelines on Concurrent Audit System in Commercial Banks, Concurrent audit at branches should cover at least 50% of the advances and 50% of deposits of a bank. In addition to these, there are specific branches/verticals which fall under the ambit of concurrent audit as per the RBI guidelines.

Accordingly the Bank identified the Branches that contributed to 50% of advances and 50% of deposits of the bank to be covered under concurrent audit. Similarly, few critical processes like Payments and Treasury function are also covered under concurrent audit. The Bank has put in place a Board approved separate Concurrent Audit Policy. On September 18, 2019, RBI has revised guidelines on Concurrent Audit and has advised to follow the Risk based approach in Concurrent Audit also. IAD has revised its policy & process and approved from ACB in January 2020. Accordingly w.e.f. 1 April 2020, the Branch identification and implementation of Concurrent Audit activity is now in accordance with RBIA as prescribed by RBI.

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

7.2. <u>Quantitative Disclosures</u>

The overall distribution of gross advances as at 30th September 2020 was as under:

Rs. in lakh

	OSP	Provisions	% Share
Microbanking (includes Rural Banking)	10,52,799	39,683	75.80%
Housing	1,63,495	2,252	11.77%
MSE	1,05,859	4,589	7.62%
Personal Loan	8,425	233	0.61%
Vehicle Loan	1,960	10	0.14%
Institutional Lending	50,575	253	3.64%
Staff Loans	1,274	15	0.09%
Loans against deposit	4,702	23	0.34%
Less adjustments	-120[36]	-	-0.01%
Total	**13,88,970**	**47,059**	**100.00%**

7.2.1. Exposure summary: Facility type

Exposure Type	Domestic (Rs. in Lakh)	Overseas
Fund- Based exposure	18,79,374	--
Non- Fund Based Exposure*	8,317	--
Total	**18,87,691**	**--**

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

7.2.2. Geographic Distribution of advances (State-wise)

Rs. in lakh

States	Total Advances (in Lakh)	% Share
Tamil Nadu	2,25,363	16.23%
Karnataka	2,00,503	14.44%
West Bengal	1,94,724	14.02%
MAHARASHTRA	1,31,902	9.50%
Gujarat	1,08,104	7.78%
Bihar	83,202	5.99%
Haryana	65,099	4.69%
Rajasthan	55,101	3.97%
Uttar Pradesh	52,652	3.79%
Assam	41,176	2.96%
Punjab	37,530	2.70%
Odisha	37,141	2.67%
New Delhi	33,397	2.41%

[36] Adjustments on accounts of interest suspense accounts

Jharkhand	28,685	2.07%
Kerala	25,413	1.83%
Madhya Pradesh	21,456	1.54%
Tripura	15,968	1.15%
Pondicherry	10,887	0.78%
Chhattisgarh	10,300	0.74%
Uttarakhand	5,848	0.42%
Meghalaya	1,807	0.13%
Himachal Pradesh	1,641	0.12%
Goa	962	0.07%
Chandigarh	109	0.01%
Grand Total	**13,88,970**	**100.00%**

7.2.3. Advances distribution by activity

Rs. in lakh

Sl. No	Categories	Disbursements during the Quarter		Outstanding at the end of the Quarter		
		No. of A/cs	Amount disbursed	No. of A/cs	No. of beneficiaries	Balance O/s
1	**Priority Sector (I+II+III+IV+V+VI+VII+VIII+IX)**	**2,09,580**	**92,248**	**43,01,439**	**40,47,635**	**9,92,101**
I	Agriculture (IA+IB+IC+ID)	**1,04,400**	**45,522**	**15,56,934**	**14,82,617**	**2,19,443**
II	MSMEs (i)+(ii)+(iii)+(iv)+(v)	**-**	**-**	**8,43,354**	**7,33,750**	**2,70,765**
III	Export Credit		**-**			**-**
IV	Education	**-**	**-**	**2**	**2**	**2**
V	Housing	**8,602**	**11,406**	**2,60,236**	**2,54,505**	**1,78,154**
VI	Renewable Energy		**-**			**-**
VII	Social Infrastructure		**-**			**-**
VIII	'Others' category under Priority Sector	**96,578**	**35,319**	**16,40,913**	**15,76,761**	**3,23,737**
IX	Net PSLC		**-**			**-1,50,000**
3	**Non-Priority Sector Loans (I+II+III+IV+V)**	**49,870**	**54,397**	**2,20,986**	**1,73,193**	**3,96,871**
I	Agriculture	**-**	**-**	**196**	**196**	**1,50,020**
	Out of Agriculture, Loans against					

	Negotiable Warehouse Receipts (NWRs)					
II	Education Loans					
III	Housing Loans	**4,366**	**9,293**	**12,237**	**12,195**	**67,762**
IV	Personal Loans under Non-Priority Sector	**961**	**1,195**	**8,797**	**8,797**	**9,110**
V	Other Non-Priority Sector Loans	**44,543**	**43,908**	**1,99,756**	**1,52,005**	**1,69,978**
4	**Total Loans (1+3)**	**2,59,450**	**1,46,644**	**45,22,425**	**42,20,828**	**13,88,971**

7.2.4. Priority Sector Lending (PSL) Compliance

The licensing conditions for SFBs require that PSL composition of a bank's asset book is a minimum of 75% of the total portfolio. While there is a quarterly monitoring of PSL in total and category-wise, the final compliance to PSL is reckoned on a yearly basis i.e. at the end of the financial year. For computing PSL, the Bank takes the ANBC of corresponding quarter of the previous year.

The ANBC as on the corresponding date of the preceding year i.e. 30th September 2020 was Rs. 12, 84,726 lakh. The Priority Sector lending was maintained at 77.22% as a percentage of ANBC. The Bank ended up having an overall surplus of ~Rs. 42, 54, 03 lakh and sufficient surplus in each sub-category except for the PSL Agri sub category. The summary of compliance to PSL norms is as follows:

Sl. No.	Sector wise achievements	Effective ANBC	Total Outstanding	% Achievement
1	Overall PSL	12,84,727	9,92,101	77.22%
2	Agriculture	12,84,727	2,19,443	17.08%
3	Small and Marginal Farmers	12,84,727	3,43,351	26.72%
4	Non - Corporate Farmers	12,84,727	2,19,443	17.08%
5	Micro Enterprises	12,84,727	2,64,885	20.61%
6	Weaker Sections	12,84,727	9,29,315	72.33%

7.2.5. Maturity pattern of assets and liabilities

Rs. in lakh

Buckets	Loans and advances	Investments	Deposits	Borrowings
Day - 1	319	26,999	2,741	17,230
2-7 Days	17,054	-	21,289	-
8-14 Days	31,063	3,996	19,054	9,714
15-30 Days	49,516	3,017	22,567	5,000

31 Days and up to 2 months	85,956	12,468	62,172	2,214
Over 2 months and up to 3 months	84,184	7,985	60,970	32,880
Over 3 Months and up to 6 months	2,35,373	47,424	1,95,038	38,455
Over 6 Months and up to 1 year	3,65,705	15,704	3,69,103	1,99,596
Over 1 Year and up to 3 years	2,93,205	13,306	3,18,831	79,802
Over 3 Year and up to 5 years	47,070	12,861	2,133	10,000
Over 5 years	1,67,823	1,91,180	377	-
Total	**13,77,269**	**3,34,941**	**10,74,277**	**3,94,891**

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

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

Category of Gross NPA	September 2019	December 2019	March 2020	June 2020	September 2020
Sub-standard	9423	11,149	12,491	11,144	7,671
Doubtful	1,266	1,432	1,056	2,651	4,972
Loss	251	363	167	188	966
Total	**10,940**	**12,944**	**13,714**	**13,983**	**13,609**

	September 2019	December 2019	March 2020	June 2020	September 2020
Net NPA	4,253	5, 149	2,749	2,510	1,908

NPA Ratios	September 2019	December 2019	March 2020	June 2020	September 2020
Gross NPA to Gross Advances	0.85%	0.95%	0.97%	0.97%	0.98%
Net NPA to Net Advances	0.33%	0.38%	0.20%	0.18%	0.14%

7.2.6. Movement of Gross NPA's

Particulars (On YTD Basis)	September 2019	December 2019	March 2020	June 2020	September 2020
Opening Balance	9,785	9,785	9,785	13,714	13,714

Additions during the period	6,542	10, 661	14,519	526	1,638
Reductions during the period	5,387	7,502	10,590	257	1,743
Closing Balance	**10,940**	**12,945**	**13,714**	**13,983**	**13,609**

Due to the moratorium implementation and Honourable Supreme Court order on freezing of NPA classification, the Bank had not witnessed any significant movement in its NPA levels during the financial year. The Bank intends to adopt the resolution framework provided by RBI as part of its COVID-19 regulatory package for borrowers who are 1-89 Days Past Due (DPD) in an effort to prevent fresh slippages. For the existing NPA borrowers, the Bank has chalked out a detailed collection strategy for resolution after factoring the impact of the pandemic.

7.2.7. Key Risk factors affecting the credit portfolio and strategy

7.2.7.1. Microfinance and Rural banking

Post completion of moratorium, the Bank is mandated to adopt the resolution framework provided by RBI as part of its COVID19 regulatory package, where applicable. The performance of moratorium opted accounts has exhibited satisfactory performance with an increasing trend in collections over the months in this financial year. The overall collection efficiency in Microbanking borrowers was as follows:

Vertical	Mar ‘20	Apr ‘20	May ‘20	Jun ‘20	Jul ‘20	Aug ‘20	Sep ‘20
MB & RB	93%	2%	14%	53%	60%	67%	83%

Collection efficiency improved to 83% in September 2020, an increase by 16% from August 2020. By including pre-closure and advance collection, the collection efficiency stood at 88%. 23% of collections came through alternate channels of collection. South and North regions had 87% and 86% collections efficiency while East and West regions exhibited collection efficiency at 79% and 78% respectively. All the states had shown improvement in collection efficiency when compared to August 2020. Microbanking collection increased by 16% and Rural banking collection increased by 13%. 23% of collections were through Business correspondents, Digital payment apps and direct debit from bank accounts. 16 out of 24 states had exhibited collection efficiency in excess of 85% in the month of September 2020. This was further improved in October 2020 with 15 out of 24 states exhibiting collection efficiency in excess of 90%.

The Bank launched new offerings for Street Vendors under PMSVANidhi scheme. The Street Vendor Loans program is aimed at providing easy access to credit to small vendors in the current situation, with loans up to Rs 10,000. The Bank has also launched gold loans to provide simple and quick access to credit through pledge of gold and gold ornaments. The Bank expanded its Money Mitra (the Bank’s transaction points) in 74 outlets across 23 states to facilitate customers for basic banking services.

The Bank’s key areas of concern were from 5 states with less than 80% collections namely

Assam, Maharashtra, West Bengal, Chhattisgarh and Punjab. Together they constituted 31% of Bank's MB-RB portfolio. These states have been impacted by external factors like political intervention, natural calamity and strict lockdowns. Except Chhattisgarh, the other 4 states have seen significant external political/local intervention in Q2 leading to intentional defaults by some customers

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

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

8) **Restructuring** loans of only genuinely affected borrowers.

7.2.7.2. MSE[37]

As at 30th September 2020, there were 6,127 unsecured MSE borrowers with a total book of Rs. 7,600 lakh. PAR30 was Rs. 2270 lakh out of which PAR90 was Rs. 1,826 lakh. The Bank has constituted a special task force with focused attention on the unsecured MSE portfolio to ensure that slippages are contained.

There were 6,618 Loan Against Property (LAP-SENP-SEP[38]) borrowers with a total book of Rs. 59,700 lakh. PAR30 was Rs. 1,417 lakh (2.37%) out of which PAR90 was Rs. 613 lakh (1.03%).

There were 1, 222 Secured Enterprise Loan (SEL) borrowers with a total book of Rs. 28,100 lakh. PAR30 was Rs. 611 lakh (2.18%) out of which PAR90 was Rs. 306 lakh (1.09%).

The overall collection efficiency in MSE borrowers was as follows:

Vertical	Mar '20	Apr '20	May '20	Jun '20	Jul '20	Aug '20	Sep '20

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

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

MSE	82%	19%	17%	46%	55%	55%	70%

PAR 30 and PAR 90 trends across all MSE products were relatively stable during H1 due to moratorium and collection efforts. However September 2020 had witnessed a spike. High roll forward rate to X bucket was seen in September 2020 in all categories. There has been an increase in SMA0[39] bucket both in count and value in the month of September due to flow of NDA[40] accounts in this category. Impact on NDA accounts both in count and value has been diluted by fresh disbursements in the months to some extent, still they are on a decline by more than 15%. Percentage of restructuring of borrowers (NDA and 1-89DPD) as per new guidelines and improved collection will be critical factors in deciding trend in 2nd half of FY 2020-21.

During the moratorium period, the Bank had expanded its product basket across businesses. MSE Navnirman Loans were launched with 18 cases totalling Rs. 100 lakh getting disbursed in the month of August 2020. The Bank has also launched Loan against Rent Receivables (LARR) Product in September 2020. LARR is specifically targeted at the Bank's landlords, who can avail loans against the property rented to the Bank. The Bank has established the necessary systems and processes for the launch of new offerings such as loans under the CTGMSE credit guarantee scheme. The Bank is currently piloting hub based disbursements to expedite disbursements and reduce costs.

7.2.7.3. Affordable Housing

As at 30th September 2020, there were 15,191 Secured Housing Loan (SHL) borrowers with a total book of Rs. 1, 20,200 lakh. PAR30 was Rs. 1,512 lakh (1.26%) out of which PAR90 was Rs. 880 lakh (0.73%). Under Home Equity loans, there were 5,566 borrowers with a total book of Rs. 43,200 lakh. PAR30 was Rs. 401 lakh (0.93%) out of which PAR90 was Rs. 171 lakh (0.40%).

The overall collection efficiency in Housing borrowers was as follows:

Vertical	Mar '20	Apr '20	May '20	Jun '20	Jul '20	Aug '20	Sep '20
Housing	94%	32%	33%	52%	66%	71%	88%

PAR 30 and PAR 90 trends were relatively stable (decreasing trend up to August 2020) during H1 due to moratorium and collection efforts. However PAR 30 in September 2020 had witnessed a spike. High roll forward rate to X bucket was seen in September 2020 in all categories. There had been a sharp increase in the SMA 0 category both in count and value majorly accounting for the post moratorium effect where customers have slipped into bucket 1 in September 2020. Percentage of restructuring of borrowers (NDA and 1-89DPD)

[39] Special Mention Accounts

[40] No Dues Accounts

as per new guidelines and improved collection will be critical factors in deciding trend in 2nd half of FY 2020-21.

7.2.7.4. Personal loans

There were 5,571 borrowers with a total book of Rs. 8,400 lakh. PAR30 was Rs. 174 lakh (2.07%) out of which PAR90 was Rs. 63 lakh (0.75%). The overall collection efficiency in Personal loan borrowers was as follows:

Vertical	Mar '20	Apr '20	May '20	Jun '20	Jul '20	Aug '20	Sep '20
PL	91%	44%	38%	62%	61%	60%	72%

There has been an overall increase in PAR in September 2020 especially in the SMA0 bucket. This was reflective of the low collection efficiency. Overall PAR increased from 9.33% in March 2020 to 22.20% in September 2020. PAR90+ which was 0.75% had reduced when compared to March 2020. However fresh slippages from SMA0 to higher buckets may ultimately lead to increased delinquency. Percentage of restructuring of borrowers (NDA and 1-89DPD) as per new guidelines and improved collection will be critical factors in deciding trend in 2nd half of FY 2020-21.

7.2.7.5. Institutional Lending

The Institutional Lending portfolio was well balanced with individual peak exposure of Rs. 3,000 lakh and average exposure of Rs. 1,500 lakh and all loans were at regular status as of 30th September 2020. Given the continuing stress in the NBFC sector which is exacerbated by the COVID 19 pandemic, the Bank intends to re-visit its FIG policy. The revisions to the policy and strategy are currently being discussed internally and a revised policy would be implemented in the ensuing quarter.

7.2.7.6. Vehicle Loans

There were 2,935 Vehicle Loan borrowers with a total book of Rs. 1,960 lakh. There were 19 overdue borrowers amounting to ~Rs. 12 lakh. The overall collection efficiency in Vehicle loan borrowers was as follows:

Vertical	Mar '20	Apr '20	May '20	Jun '20	Jul '20	Aug '20	Sep '20
VL	95%	33%	23%	67%	72%	68%	91%

The Bank is cognizant of the initial signs of stress in the Electric Three wheeler segment, which had been launched on a pilot basis, but where several customers had slipped into the Par 30 bucket even after availing of 6 months moratorium. This segment, which mainly served customers travelling short distances, had been badly affected by the lockdown. A careful evaluation of this portfolio is under process to determine if the businesses could be revived and whether restructuring of loans would lead to a phased recovery. The Bank intends to launch loans for purchase of used cars having already launched a product to provide loans for purchase of micro and mini commercial vehicles in September 2020.

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

Particulars (On YTD basis)	September 2019	December 2019	March 2020	June 2020	September 2020
Opening Balance	7,030	7,030	7,030	10,965	10,965
Provisions made during the period	3,780	6,058	10,973	667	1,532
Write back of excess provisions	4,124	5, 292	7,039	159	795
Closing Balance	**6,687**	**7,796**	**10,965**	**11,473**[41]	**11,702**

During the quarter, the Bank undertook a detailed exercise of understanding probable restructuring post completion of the moratorium period which ended in August 2020. The Bank has reviewed its performance trends at branch level for each credit vertical and has also incorporated qualitative inputs from its front-line staff. Using the inputs, the Monthly Repayment Rates (MRR) for each vertical has been projected. The repayment projections have taken into account the current situation on ground in terms of the following:

- Pandemic impact on staff and customers;
- Economic impact on different customer segments and their lives and livelihoods;
- External intervention on account of local political interventions, protests against MFI collections, coercive collection practices;

Considering the above, the Bank has taken an additional credit cost of Rs. 10,000 lakh for future contingencies against Microbanking loans during the quarter.

Rs. in lakh

Vertical	OSP Sep'20	Current Provisions (Sep'20)	Coverage on Total Portfolio (%)	PCR Sep'20	Additional COVID Provisioning	Total Provisions (Including additional provisions)	Coverage on Total Portfolio (%)
MB & RB	10,52,799	29,683	2.82%	92%	10,000	39,683	3.77%
MSE	1,05,859	4,589	4.34%	76%	0	4,589	4.34%
Housing	1,63,495	2,252	1.38%	61%	0	2,252	1.38%
FIG & VF	52,535	263	0.49%	-	0	263	0.49%
PL	8,425	233	2.74%	93%	0	233	2.74%
Others	5,976	39	0.67%	93%	0	39	0.67%
Total	**13,88,970**	**37,059**	**2.67%**	**86%**	**10,000**	**47,059**	**3.39%**

7.2.9. Non-performing Investments (NPI) (Sept 2019 to Sept 2020)

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

[41] Without additional COVID provisioning

investments	

7.2.10. Movement of provisions for depreciation on investments (Sept 2019 to Sept 2020)

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

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

8.1. Qualitative Disclosures

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

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

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

d) As on 30th September 2020, the Bank had a residual outstanding of "grandfathered" loans which comprised 0.40% of its funding book. As per regulatory guidelines, there was an additional risk weight of 25% assigned to this portfolio.

e) In terms of circular No. DBR.BP.BC.No.72/08.12.015/2016-17 dated June 7, 2017; the capital charge for claims secured by residential property falling under the category of individual housing loans is assigned differential risk weights based on the size of the loan as well as the loan to value ratio (LTV). As a countercyclical measure, RBI has decided to rationalise the risk weights, irrespective of the amount vide a notification on 16th October 2020. The Bank takes cognizance of the same and these will be incorporated for all loans sanctioned after the date of issuance of this circular.

8.2. Quantitative Disclosures

Details of Gross Credit Risk Exposure (Fund based and Non-fund based) based on Risk Weight – Position as on 30th September 2020		
Sl.No	**Risk Weight**	**Rs. in lakh**
1	Below 100% Risk Weight	16,90,791
2	100% Risk Weight	2,07,900
3	More than 100% Risk Weight	697

4	Deductions from CRM[42]	11,701
5	**Total**	**18,87,686**

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

9.1. Qualitative Disclosure

- The Group Loan and Individual Loan portfolio, under microfinance is unsecured. Loans to the Affordable Housing segment are collateralized by a mortgage over the property financed. There is primarily a secured product variant under MSE loans and a residual book of unsecured loans which 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 Bank accepts Eligible Financial Collateral[43] 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[44] while computing its Risk Weighted Assets (RWA).
- The Bank has a Portfolio Review/ Loan Review Mechanism (LRM) to review the health of the portfolio/ borrowers and work on mitigation of any risk associated with the portfolio or borrower in particular.
- The Bank has in place the following risk mitigation techniques for its loan portfolio which are as follows:
    - Life insurance cover is mandatory for all the borrowers availing of the Bank's microfinance loans. In the case of housing, two wheeler and personal loans borrowers are provided the option to avail of life insurance, though this is not a bundled offering along with the loan products.
    - The Bank works with 4 Credit Information Companies (CICs) and ensures 100% application screening through the bureaus using their comprehensive credit reports.
    - 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.

[42] Credit Risk Mitigants

[43] 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

[44] Refer section 7.3 of Master Circular - Prudential Guidelines on Capital Adequacy and Market Discipline New Capital Adequacy Framework (NCAF) dated July 1, 2015

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

10.1. Qualitative Disclosure

There were no securitization exposures in the banking book and trading book as at 30th September 2020

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

11.1. Qualitative Disclosures

11.1.1. Market Risk

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

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

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

Investments: The Bank has a Board approved policy to make investments in both SLR[45] 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), Certificates of Deposit (CD), Commercial Paper (CP), Mutual Fund, Non-Convertible Debenture (NCD) and one legacy investment in an unquoted equity. As on 30th September 2020, the investment holdings in various SLR and Non SLR instruments were as under:

Instrument	Book Value	Market Value	Appreciation / Depreciation

[45] Statutory Liquidity Ratio (SLR)

SLR			(Rs. in lakh)
G Sec	1,65,202	1,69,619	4,417
SDL	67,174	67,681	507
T Bills	50,315	50,315	--
TOTAL	**2,82,690**	**2,87,614**	**4,924**
Non SLR			**(Rs. in lakh)**
CD	4,452	4,452	--
CP	19,242	19,242	--
NCD	1,548	1,550	2
Mutual Fund	25,999	26,135	136
Legacy investment (unquoted Equity)	10	17	7
TOTAL	**51,252**	**51,397**	**145**

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

Rs. in lakh

Month	Average SLR requirement	Average SLR maintenance	Percentage
July - 2020	1,94,336	3,43,987	177.01%
Aug - 2020	1,98,460	3,31,666	167.12%
Sep - 2020	1,95,123	3,05,646	156.64%

The maintenance of SLR was higher than the mandated requirement in line with its Board directive. In the first instance, this buffer is intended to provide the required cushion for a contingency and forms the basis for Level 1 contingency fund planning. The Bank has used the buffer to raise funds through Repo and Third-Party Repo (TREPS) in times of contingencies. Second, the excess SLR is also intended to provide the cushion to maintain a healthy Liquidity Coverage Ratio (LCR) at all times, and also to ensure that the regulatory thresholds for the Structural Liquidity Statement (SLS) limits are not breached. Further, the Bank had also complied with the HTM holding limit[46] for all the days for the period during the quarter.

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

Trading: The Bank had commenced trading in Government of India security in Q3 FY 20, in a calibrated manner through its HFT portfolio. While the Bank had initially commenced trading on an intraday basis only, it has now graduated to keeping open positions on an overnight basis as well. Open positions taken by the Bank are progressively being stepped up with the required controls. The profit from trading business had crossed the Rs. 100 lakh milestone with a realized profit of Rs. 103 lakh as at August 2020. Realized gains on the trading portfolio were Rs. 94 lakh and interest income earned was Rs. 144 lakh as at 30th September 2020. During the quarter, the Bank had also increased its trading limit to Rs. 30,000 lakh. 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 instances of breach in limits are brought to the notice of stakeholders and remedial measures taken.

11.1.2. Liquidity and Liquidity Risk Management:

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

To counter the economic impact and subsequent pressure on cash flows, RBI decided to conduct auctions of Long Term Repos (LTRO) of up to three years tenor of appropriate sizes for a total amount of up to Rs. 100, 00,000 lakh at a floating rate linked to the policy repo rate. RBI subsequently announced a repeat of this exercise through TLTRO 2.0. RBI introduced LTRO with a view to assuring banks about the availability of liquidity at reasonable cost relative to prevailing market conditions, and to further encourage banks to undertake maturity

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

transformation smoothly and seamlessly so as to augment credit flows to productive sectors.

The Bank had participated in LTRO operations, using its reserve of excess SLR securities as pledge, and raised a total of Rs. 28,200 lakh (Rs. 14,400 lakh for one year and Rs. 13,800 for three years) at 5.15%. On 31st August 2020[47], RBI had announced that banks which had availed of funds under LTROs may exercise an option of reversing these transactions before maturity. Taking cognizance of the same and after undertaking an internal cost-benefit analysis, the Bank had repaid the LTRO funds availed for one year amounting to Rs. 14,400 lakh. This further provides an impetus to reduce the cost of funds (CoF) and negative carry.

The trend in deposit growth on YTD basis was as follows:

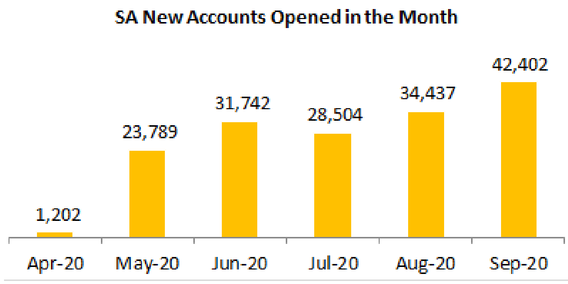
Rs. in lakh

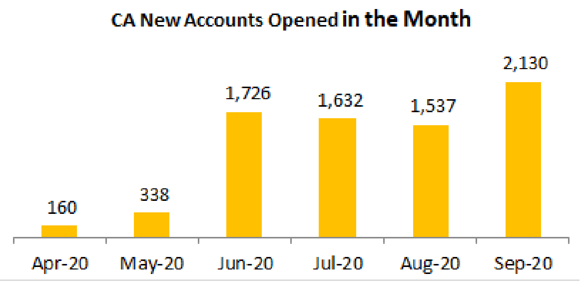
Particulars[48]	**March 2020**	**June 2020**	**September 2020**
Retail Deposits	3,43,228	3,69,413	3,86,320
Wholesale Deposits	5,01,983	5,52,030	4,84,774
FIG	3,95,521	4,59,417	3,77,425
TASC	1,06,462	92,613	1,07,350
CASA	1,45,741	1,56,591	1,76,796
Total	**9,90,952**	**1,078,034**	**1,047,890**
Interbank Term Deposits	39,000	5,000	25,000
Certificate of Deposits*	84,532	25,732	23,669
Total	**11,14,484**	**11,08,766**	**10,96,559**

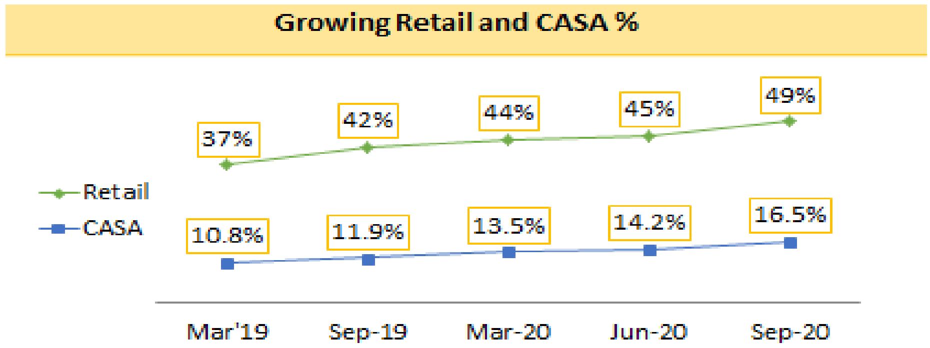
The Bank has witnessed a strong traction in mobilizing retail deposits despite rate cuts in excess of 125 bps and a relative slowdown in mobilizing institutional deposits. On an YTD basis, the Bank was able to open ~2.80 lakh new retail deposit accounts, an increase of 48% from the corresponding previous year (~1.90 lakh new deposit accounts). The Bank has revisited its deposit mobilization strategy with a strong focus for increasing the share of privileged SAs and senior citizen deposits. The Bank was also able to increase in Monthly Average Balance (MAB) from Rs. 10,000 per account as at June 2020 to Rs. 10,800 per accounts as at September 2020. The trend in the growth of CASA deposits was as below:

[47] Refer press release 2020-2021/263 on "Measures to Foster Orderly Market Conditions" dated August 31, 2020

[48] Including accrued interest







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

Liquidity Risk Management is governed as per the provisions of the ALM policy. The average tenor of a microfinance loan is 18 months. The Bank has grown its portfolio of Affordable Housing and MSE portfolio, which are of longer tenor. Personal loans are for short dated tenors and the average tenor for loans to Financial Institutions did not exceed 24 months.

The ALM position for the Bank was well managed and regulatory thresholds complied with during the quarter. The Bank has various avenues to leverage upon in mitigating any future liquidity shortfalls. Some of the measures include securitization, IBPC transactions, term loan facilities from Bank and utilizing lines of refinance from NABARD, NHB and SIDBI. The Bank had positive cash flows in the maturity buckets in the 1-30 days maturity, over and above the regulatory minimum, as at 30th September 2020.

The Bank has deployed a suite of techniques as part of its Liquidity Risk Management. Some of the activities undertaken by the Bank are as follows:

Risk Measurement	Description	Position for Q2 FY 2020-21
Cash Flow measurement and gap limits	Technique involving a comprehensive tracking of mismatches between outflows	As at 30th September 2020, the Bank maintained a positive cumulative mismatch indicating surplus liquidity.

<table>
<tr>
<td></td>
<td>and inflows for balance sheet as well as off balance sheet items across different time buckets. The Bank computes the cash flow mismatches using Structural Liquidity Statement (‘SLS’). Under SLS, cash flows of assets, liabilities and off-balance sheet items are placed in different time bands based on the residual maturity or based on expected behaviour as per RBI / internal guidelines. The difference between cash inflows and outflows in any given time period measures the bank’s liquidity surplus or deficit in that time period.</td>
<td>The cumulative mismatch limits were well within the RBI mandated limits and also within the conservative limits as set internally by the Bank. The position for the first four buckets for which the regulator has mandated minimum thresholds were as follows:
<table>
<tr><th>Bucket</th><th>RBI threshold</th><th>Cumulative Mismatch</th></tr>
<tr><td>Day 1</td><td>-5%</td><td>442%</td></tr>
<tr><td>2-7 days</td><td>-10%</td><td>271%</td></tr>
<tr><td>8-14 days</td><td>-15%</td><td>179%</td></tr>
<tr><td>15.30 days</td><td>-20%</td><td>158%</td></tr>
</table>
The bucketing of cash flows as per the maturity buckets are guided by regulatory guidelines and as per ALCO directives.</td>
</tr>
<tr>
<td>Behavioural analysis</td>
<td>Banks are required to analyse the behavioural maturity profile of various components of on / off-balance sheet items on the basis of assumptions and trend analysis supported by time series analysis.</td>
<td>During the quarter, the Bank has undertaken a behavioural study on CASA outflow and the same has been placed to ALCO for further directions. Given the relative short vintage of the Bank, it was deemed appropriate to further refine the assumptions and dataset before deploying these models for bucketing.
Presently, the Bank follows the RBI guidelines on bucketing assumptions until significant historical data is available for conducting behavioural studies. After ensuring the availability of data, the Bank will conduct behavioural studies to appropriately bucket products with non-deterministic cash flows.</td>
</tr>
<tr>
<td>Limits on borrowing and</td>
<td>Bank monitors limits prescribed by the regulator with respect to</td>
<td>During the quarter, the Bank was within the prescribed limits for</td>
</tr>
</table>

lending/investment	borrowing and lending in the interbank market.	interbank lending, call money borrowing/lending, SGL limits and HTM holding limit.
Liquidity ratios	Liquidity ratios under stock approach as prescribed by the regulator are monitored	The liquidity ratios under stock approach were computed and placed to ALCO for their noting.
Stress Testing	The Bank undertakes stress tests on their Liquidity Coverage Ratio (LCR) and Interest rate risks.	During the quarter, the LCR was above the minimum thresholds under all levels of stress. Further, the impact of interest rate risk and its impact on the market value of equity were also below the limit of 20%.
Funding gap analysis	The Bank estimates its short-term liquidity profiles on the basis of business projections and other commitments for planning purposes	On a monthly basis, the Bank undertakes a detailed analysis on the projected funding requirement for its subsequent month on the basis of business projections and other commitments. This exercise essentially includes inputs on credit and deposit activities encompassing projected disbursements, collections and deposit mobilization. The Bank has ensured adequate liquidity to meet its commitments during the quarter.

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

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

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

Net Stable Funding Ratio (NSFR): RBI had issued its final guidelines for NSFR[49] which will come into effect from April 1, 2020. However, the same has been extended to 1st October 2020 in the backdrop of the COVID-19 pandemic. This was further extended to 1st April 2021[50].

11.2. Quantitative Disclosures

11.2.1. Liquidity Coverage Ratio (LCR)

Liquidity Coverage Ratio (Rs. in lakh)- Q2 Average		
A	**High Quality Liquid Assets**	**Adjusted Amount**
	Level 1 Assets	3,30,008
	Level 2 A Assets	-
	Level 2 B Assets	-
B	**Total Stock of HQLAs (Adjusted for Capital)**	**3,30,008**
C	Cash Outflows	2,92,842
D	Cash Inflows	1,06,140
E	**Net Cash flow**	**1,86,700**
F	25% of Total Cash Outflow	73,210
G	**Higher of E or F**	**1,86,700**
Liquidity Coverage Ratio		**176.76%**

12. Table DF- 9: Operational Risk

12.1. Qualitative Disclosures

12.1.1. Operational Risk Management Policy and Governance Structure

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

For effective management of Operational Risk, the Bank has constituted an Operational Risk Management Committee (ORMC) chaired by MD & CEO with a quorum of Head of Operations, Chief Vigilance Officer, Chief Risk Officer, and Chief Technology Officer with Head of Internal Audit as an observer. This committee which is convened by Chief Risk

[49] Refer RBI guidelines issued vide circular DBR.BP.BC.No.106/21.04.098/2017-18 dated May 17, 2018

[50] Refer RBI circular on Basel III Framework on Liquidity Standards – Net Stable Funding Ratio (NSFR) issued on 29th September 2020.

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

12.1.2. Risk identification, measurement, monitoring and reporting

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

- **Product and Process reviews**: All new products and processes (including enhancements) are subject to a mandatory comprehensive review by the Operational Risk department. Post review, observations are raised to the respective functions for including additional controls for the risks identified during the assessment. Subsequent to closure, the new/enhancement to product/process are placed at the Product and Process Approval Committee (PPAC) for approval. The Bank continuously reviews and enhances its key processes to adapt to industry best practices. Few product programs reviewed in this quarter are Gold loans product program, AGL/KSL documentation, UCL product program, CASA and PSA charges automation 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, Operational Risk department performs the User Acceptance Testing (UAT) along with others to identify gaps in the actual deliverable versus that which was proposed in the BRD. These gaps are further addressed and closed before moving to production. During the quarter, the Bank had undertaken UAT for various activities such as NIRA production, Loan appropriation logic, corporate liability RE check, DBT seeding for joint holder, Aadhaar vault phase 2 amongst others.
- **RCSA**: RCSA (Risk and Control Self-Assessment) is a forward looking tool to identify and assess the level of risk inherent in any activity / process, the causes responsible for that risk and the status of existing controls to minimize the risk. Its result provides insight about known as well as potential Operational Risk areas in various process / business lines. Business being the first line of defence is responsible for carrying out RCSA activity as per the plan. Operational Risk being second line of defence is responsible for providing necessary guidance, training and inputs to the

first line of defence for carrying out the RCSA. The Bank intends on undertaking RCSA for few critical functions during the year. There is a time bound plan to close the open issues as observed during RCSA and an update is provided to ORMC and RMC-Board at regular intervals.

- **Key Risk Indicators**: During the quarter **18 KRIs** were monitored at an organization level as part of the Operational Risk Management Framework. The thresholds for the KRIs have been decided upon in consultation with the stakeholders. These KRIs will be analysed on a monthly basis and a comprehensive report will be submitted to the ORMC and Board at quarterly intervals with action plan for closure of open issues. KRIs for the period April to July 2020, were presented in the ORMC held in September 2020 and KRIs for the period July 2020 to September 2020, were submitted to the Board on November 06, 2020 for their noting and information. The Bank is also in the process of enhancing the existing risk monitoring framework by defining functional KRIs for key functions such as Liabilities amongst others, 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 for retribution. The incident reporting process enables creation of loss database as per Basel definitions. The activities broadly include the following:
  - Reconciliation of General Ledgers (GL) to operational loss as recorded in SAS
  - Root Cause Analysis (RCA) of critical events
  - Quarterly loss data submission to Board

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

  Major operational risk loss events:

Rs. in lakh

Events	**As at September 2020**
Compensation - Fraudulent ATM withdrawal	6,93,394
Compensation - External customers	72,370
Compensation - to customers	15,752
Staff Frauds	28,68,114

Snatching	9,25,675
Lapse in lending (micro-banking)	1,62,605
Staff lapse/ errors	1,88,500
Software failure	82,113
Shortage due to coin movements	2,200

Loss Dashboard:

	Count			Loss in lakh	
Basel Risk Event Type – I	**Loss**	**Near Miss**	**Total**	**Gross**	**Net**
Business Disruption and Systems Failures	123		**123**	1.31	1.31
Clients, Products, and Business Practice	11	5	**16**	12.44	5.88
Damage to Physical Assets	58	1	**59**	15.82	15.82
Employment Practices and Workplace Safety		5	**5**	0	0
Execution, Delivery, and Process Management	88	9	**137**	24.36	4.74
External Fraud	275	9	**284**	72.16	37.21
Internal Fraud	44	1	**45**	68.45	33.27
Total as on Sept FY21	**599**	**30**	**669**	**194.55**	**98.24**
Total as on Sept FY20	**329**	**33**	**442**	**127.59**	**31.27**

- **Thematic reviews:** While carrying out RCSA, KRIs, UAT testing, incident reporting etc., Operational Risk team identifies few risk indicators warranting a special thematic review of the entire process. This enables the Bank to identify issues and gaps at minute level which are then taken up for rectification. These thematic reviews do not follow standardized risk identification techniques and therefore provide wider scope for a deeper and customized study of issues and gaps. Such thematic studies have enabled the Bank to further refine its existing processes and plug gaps that had been identified.
- **RRU[51] Scorecard approach**: The Bank has developed an internal scoring mechanism to capture all risk parameters at a granular level within the Bank i.e. branch level. The scorecard includes all facets of branch operations: Liabilities, Microbanking, Housing and MSE loans and other branch related parameters. Branches are categorized as High, Medium or Low risk based on these assessments on monthly

[51] Risk Review Unit

basis. Final RRU score includes vertical wise score, dashboard and region wise high risk branches under different business verticals. Once the RRU scoring is done, analysis of high risk Branches and major contributing parameters are shared with respective stakeholders in the regions, for the purpose of taking corrective action. Additionally, Operational Risk team during their visits to such high risk Branches, discusses the parameters that are impacting their performance. Key policy decisions emerge from these scoring and reviews. The scorecard is continuously enhanced to include relevant parameters for optimizing the Operational Risk score. Existing scorecard parameters were reviewed in the current financial year and new parameters were incorporated. Scorecard with new parameters for January 2020 to March 2020 was recast and comparison between old and new was analysed.

The RRU Scorecard for Micro Banking (MB) was discussed with MB team for taking their inputs. Subsequently, based on the discussions, few parameters were reviewed and further enhanced. Some of these additional parameters are;

a. Customer complaints beyond TAT instead of all the complaints
b. Revised credit score
c. Digital collection

Similarly, scorecard with the revised parameters was discussed with Liabilities team. Based on their inputs, changes under LAF pendency, AOF pendency parameters was introduced. Revised scorecard for July and August was presented to Liabilities team. With the change in process for tracking LAF pendency, this parameter will be further reviewed in consultation with the concerned stakeholders.

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

- **User Access reviews** are conducted for critical applications to ensure that access and role matrix are well defined and that access is commensurate with the responsibility assigned. These reviews are undertaken at half-yearly intervals. The half yearly review for the current financial year has been initiated by the Operational Risk team. During the quarter, User access review has been completed for 16 applications as part of Phase 1 and key observations have been shared with respective teams for their review and responses. Few of the key observations are:
  - There are no signed-off documents available for application wise / role based access provided to users and approval matrix to follow at IT for providing access.
  - There is no defined frequency for internal review of access provided to employees / vendor due to which access is not de-activated for employees even after their exit or user has not accessed the application for more than 30days.
  - Presently this activity is completely manual and it needs to be automated, which will then help in tracking the access provided to employees.
  - In the absence of monthly review, if the payment is done on user basis then the

accuracy of the invoice will not be validated and may not be accurate.

Review of other applications is work in progress and shall be completed in Phase 2. Final report will be shared with senior management of the Bank for their review and guidance.

- **Exceptions Handling Mechanism** is a new initiative, which started from July 2020 as guided by NIDM (National Inter Departmental Meeting). List of 27 exception reports were identified and tagged to Operational Risk for initiating the review. 15 exception reports have been extracted so far and reviewed / discussed with relevant stake holders for needful action. In case of 7 observations, confirmation received on corrective action taken from respective stake holders and for remaining 3 observations, this is work in progress. Extraction of remaining exception reports is in progress.
- **RCU process:** The Bank has established a monitoring mechanism for identifying and rectifying instances of suspicious customers doing banking business. On a monthly basis, Vigilance department undertakes RCU check from a sampling of liability customers. The outcome of the RCU check provides a commentary on the customer profile. For all cases identified as 'negative', the Operational Risk department undertakes a special review in consultation with branch personnel and recommends corrections. For customers who are found to be negative after the rectification measures, exit strategies from customers are explored. This mechanism has enabled the Bank to avoid undertaking business relationships with potential anti-social members of society. This process is being further enhanced to include customers who are on boarded through various digital channels.
- **Digital Account Monitoring:** The Bank re-launched Digital SA (Savings Accounts) and TD (Term Deposits) in the month of May 2020 with enhanced monitoring measures around the product. 23,566 Digital accounts have been opened till 15th November 2020 since the re-launch. Each account is being eyeballed by the Operational Risk team and observations with respect to demographic details have been shared with business for onwards corrective measures. As a process, Operational Risk team has also been monitoring the transactions done in all digital accounts every fortnight, basis certain pre-defined triggers around value, fraud and velocity. All accounts with suspected transaction patterns are referred to Vigilance and Compliance team for onwards investigation and action. Additionally, review around common address, email id, match with accounts where regulatory notices are sent etc. is also performed on a regular basis and triggers if any, gets shared with Vigilance and business for onwards action.
- **Branch Assurance**: Branches across regions are reviewed against a checklist devised by the Operational Risk team to ensure adherence to branch processes. The checklist is reviewed and enhanced every quarter to strengthen monitoring. With onset of COVID-19 and lockdown, and physical branch visits curtailed for the time being, the check list has been restructured to ensure that monitoring and review is not eased

and can be done on a remote basis, based on reports derived from systems and through remote access and verification of registers. Remote monitoring is the process of checking, verification and identification of process lapse and other operational errors without visiting the Branch, by working from remote locations. Critical and repeat observations are shared with the leadership team for remedial /corrective actions. Till September 2020, Operational Risk has reviewed 143 Branches. 41 branches will be covered in October 2020, which will result into 32% coverage of the total branches. Operational Risk plans to review 396 branches by 31st March 2021.

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

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

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

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

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

  Outsourcing done by the Bank is subjected to an annual audit by the Internal Audit team who provide the required compliance certificate to RBI.

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

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 Business Critical Systems undergo periodical disaster recovery drills/tests in order to make sure that the recovery process becomes more robust and efficient to recover from any disaster / crisis situations. The observations of DR drills along with root cause and learnings are recorded and the same are placed to the IT Strategy Committee of the Board on quarterly basis. The Bank also has a Board approved Cyber Crisis Management Plan for tackling cyber threat / attack.

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

Internal Financial Control (IFC) testing: This is an annual exercise and done by the Operational Risk team. The team along with concerned stakeholders prepare and enhance Risk and Control Matrixes (RCMs). The financial and operational controls in these RCMs are then put to test by collecting samples from across the review period and from different regions, which are then evaluated for success or failure of the control effectiveness. The critical gaps observed during such testing are discussed with concerned functions for upgrading controls which may include automation of the controls. The result of this evaluation is also presented to ORMC and RMC of Board to update them on effectiveness of the internal controls of the Bank, and take guidance. This result is also shared with the Bank’s external auditor to provide insight on adequacy and effectiveness of the controls in the Bank. The IFC testing is also mandatory requirement as per Companies Act, 2013. IFC testing for the current financial year will be initiated from Q3.

12.1.3. Information Technology and Security Risk

The Bank undertakes enhanced monitoring and has taken all required actions to ensure no compromise in cyber security especially in the pandemic situation and to ensure Business Continuity without any disruptions. Considering the requirement and risks associated with Remote Working, the Bank implemented various technical and administrative controls such Zero-Trust Based Model VPN, Declaration Forms, Data Leakage Protection Alerting and Special Awareness Training on Remote Working.

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

The Bank regularly disseminates information for creating awareness among employees on the importance of data-security along with emphasis on the requirements to protect the customer's data.

The Bank takes cognizance of the increased importance of Data Security. With Business Continuity Management being a critical aspect, the Bank has adhered to intelligence and best practices suggested from the various regulators, organizations like CERT-IN, DSCI, NIST, etc. to ensure Data Security. During the first half of FY 2020-21, that Bank has focused on:

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

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

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

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

13.1. Qualitative Disclosures

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

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

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

13.2. Quantitative Disclosures

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

Interest Rate Risk in the Banking Book (IRRBB)			
Sl.No	Country	Interest Rate Shock	
		+200 bps shock	-200 bps shock
1	India	(10,710)	10,710
2	Overseas	-	-
		(10,710)	10,710

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

Category	Items	Amount
A	Equity	2,83,352
B	Computation of Aggregate RSA	17,67,920
C	Computation of Aggregate RSL	15,05,737
D	Weighted Avg. MD of RSL across all currencies	0.90
E	Weighted Avg. MD of RSA across all currencies	2.14
F	MDG	2,62,183
G	Change in MVE as % of equity for 200bps change in interest rate	-17.22%
H	Change in MVE in absolute terms	(48,801)

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

Equity shares

Disclosure template for main features of regulatory capital instruments		
		Equity Shares
1	Issuer	Ujjivan Small Finance Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	ISIN: INE551W01018
3	Governing law(s) of the instrument	Applicable Indian Statutes and regulatory requirements
	Regulatory treatment	
4	Transitional Basel III rules	Common equity Tier 1
5	Post-transitional Basel III rules	Common equity Tier 1
6	Eligible at solo/group/ group & solo	Solo
7	Instrument type	Common Shares
8	Amount recognised in regulatory capital (Rs. in million, as of most recent reporting date)	Rs. 17,282.23 million
9	Par value of instrument	Rs 10/-
10	Accounting classification	Capital
11	Original date of issuance	Rs 0.50 million – 4th July 2016 Rs 1099.868 Million – 30th July 2016 Rs 13,300 Million - 10th February 2017 Rs. 140.55 Million- 11th November 2019 Rs. 714.29 Million- 13th November 2019 Rs. 2,027.03 Million- 10th December 2019
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

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)	NA
3	Governing law(s) of the instrument	Applicable Indian Statutes & Regulatory requirements and RBI Basel III Guidelines dated July 1, 2015
	Regulatory treatment	
4	Transitional Basel III rules	Addition Tier 1 Capital (AT1)
5	Post-transitional Basel III rules	Addition Tier 1 Capital (AT1)
6	Eligible at solo/group/ group & solo	Solo
7	Instrument type	Perpetual Non-Cumulative Preference shares

8	Amount recognised in regulatory capital (Rs. in million, as of most recent reporting date)	Rs 2,000 Million
9	Par value of instrument	Rs 10/-
10	Accounting classification	Capital
11	Original date of issuance	10th February 2017
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	NIL
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	PONV trigger & CET1 trigger

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

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

Equity Shares

Full Terms and Conditions of Equity Shares of the Bank		
SN	**Particulars**	**Full Terms and Conditions**
1	Voting shares	Equity Shares of the Bank are Voting Shares
2	Limits on Voting Shares	Limits on Voting rights are applicable as per provisions of the Banking Regulation Act, 1949. One share has one voting right
3	Position in Subordination hierarchy	Represent the most Subordinated claim on liquidation of the Bank. It is not secured or guaranteed by issuer or related entity nor subject to any other arrangement that legally or

		economically enhances the seniority of the claim
4	Perpetuity	Principal is perpetual and never repaid outside of liquidation (Except discretionary repurchases/buy backs or other means of effectively reducing capital in a discretionary manner that is allowable under relevant law as well as guidelines, if any issued by RBI in the matter)
5	Accounting Classification	The paid up amount is classified as Equity Capital in Banks Balance Sheet
6	Distributions	Distributions are paid out of Distributable items (retained earnings included). There are no circumstances under which distributions are obligatory. Non Payment is therefore not an event of default
7	Approval for Issuance	Paid up capital is only issued with approval given by Board of Directors

PNCPS

SN	Particulars	Full Terms and Conditions
1	Type of Instrument	Perpetual Non-Cumulative Preference Shares
2	Terms for Raising PNCPS	Issue of PNCPS for augmenting the overall capital of the Issuer to strengthen the Issuer's capital adequacy and enhance its long-term resources in compliance with the applicable law.
3	Seniority	The claims in respect of the PNCPS, subject to applicable law, will rank: 1. Superior to claims of holders of equity shares and 2. Subordinate to the claims of all depositors, term loan borrowings, all capital instruments qualifying as tier II capital and all perpetual debt instruments
4	Listing	Unlisted.
5	Tenor	The PNCPS shall be perpetual i.e. there is no maturity date and there are no step-ups or any other incentives to redeem the PNCPS.
6	Dividend Payment Frequency	Subject to Dividend Limitation and Loss Absorption, dividend will be payable as per the discretion of the Bank's Board. The Board is

		empowered to (i) Declare Interim Dividend during the financial year (ii) Declare for subsequent financial years (including interim dividends) or (iii) Declare dividend during the period between the end of the financial year and before conducting the AGM.
7	Dividend Rate	11% per annum or at a rate as specified in terms of RBI Master Circular on Basel III capital regulations
8	Dividend Stopper	In the event that the Preference shareholders are not paid dividend at the Dividend Rate, there shall be no payment of discretionary dividend on equity shares until the Dividend payments to the shareholders are made in accordance with terms hereof.
9	Put Option	Not Applicable.
10	Call Option	**Issuer call:** The Issuer may at its sole discretion, subject conditions for Call and Repurchase and exercise of such call option (with a notification to the holders of the PNCPS which shall specify the date fixed for exercise of the call option), exercise a call option on the PNCPS ("Issuer Call"). The Issuer Call may be exercised at the option of the Issuer no earlier than on the fifth anniversary of the Deemed Date of Allotment.
		Tax Call: If a Tax Event has occurred and is continuing, the Issuer may at its sole discretion, subject to Conditions for Call and Repurchase and notification to the holders of PNCPS of not less than 21calendar days prior to the date of exercise of such call option (which notification shall specify the date fixed for exercise of the call option), exercise a call option on the PNCPS ("Tax Call").Provided further that, subject to conditions for Call and Repurchase the Issuer may substitute the PNCPS with capital instruments that are in accordance with the RBI Master Circular on Basel III capital regulations and any other applicable law
		Regulatory Call: If a Regulatory Event has occurred and is continuing, the Issuer may at its sole discretion, subject to Conditions for Call and Repurchase and notification to the holders of PNCPS of not less than 21 calendar days prior to the date of exercise of such call option (which notification shall specify the date fixed for exercise of the call option), exercise a call option on the outstanding PNCPS ("Regulatory Call").Provided further that,

		subject to Condition 27 (Conditions for Call and Repurchase) the Issuer may substitute the PNCPS with capital instruments that are in accordance with the RBI Master Circular on Basel III capital regulations and any other applicable law.
11	Repurchase/ Redemption/ Buy-back	The Issuer may subject to Conditions for Call and Repurchase having been satisfied and such repayment being permitted by the RBI Master Circular on Basel III capital regulations, repay the PNCPS by way of repurchase, buy-back or redemption.
12	Loss Absorption	PNCPS should have principal loss absorption through a write-down mechanism which allocates losses to the instrument at a pre-specified trigger point. The write-down will have the following effects: 1. Reduce the claim of the PNCPS in case of liquidation; 2. Reduce the amount re-paid when a call over the PNCPS is exercised by the Issuer; and 3. Partially or fully reduce dividend payments on the PNCPS. The specific criteria for such loss absorption through conversion/write-down/write-off on breach of pre-specified trigger and the Point of Non-Viability (PONV) will be in accordance with the applicable RBI guidelines The relevant terms of Annex 16 in Master Circular of Basel III capital regulations shall be deemed to be incorporated herein.
13	Permanent Principal Write-down on PONV Trigger Event	If a PONV Trigger Event occurs, the Issuer shall: 1.Notify the holders of the PNCPS; 2.cancel any dividend which is accrued and unpaid on the PNCPS as on the write-down date; and 3. Without the need for the consent of the holders of the PNCPS, write down the outstanding principal of the PNCPS by such amount as may be prescribed by RBI ("**PONV Write Down Amount**") and subject as is otherwise required by the RBI at the relevant time. The Issuer will affect a write-down within 30 (thirty) days (or such other time as may be prescribed by applicable law) of the PONV Write-Down Amount being determined by the RBI.A Permanent Principal Write-down on PONV Trigger Event may occur on more than one occasion. Unless specifically permitted by applicable law, once the face value of the PNCPS has been written down pursuant to PONV Trigger Event, the PONV Write-Down Amount will not be restored in any circumstances, including where the PONV Trigger Event has

		ceased to continue.
14	Temporary principal Write-down on CET1 Trigger Event	If a CET1 Trigger Event (as described below) occurs, the Issuer shall: 1.Notify the holders of the PNCPS; 2. Cancel any dividend which is accrued and unpaid to as on the write-down date; 3. Without the need for the consent of holders of the PNCPS, write down the face value of the PNCPS by such amount as the Issuer may in its absolute discretion decide. Provided that, in no event shall such amount of write down be less than the amount required to immediately return the Issuer's Common Equity Tier 1 Ratio to above the CET1 Trigger Event Threshold , nor shall such amount of write down exceed the amount which would be required to be written down to ensure that the Common Equity Tier 1 Ratio is equal to the aggregate of the CET1 Trigger Event Threshold and 2.5%, or such other percentage as may be prescribed by the RBI (the "CET1 Write Down Amount"). A write-down may occur on more than one occasion. Once the value of a PNCPS has been written down pursuant to this temporary Write down, the value of the PNCPS may only be restored in accordance with condition of reinstatement.

17. Table DF-15: Disclosure on Remuneration

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: Composition of the Nomination and Remuneration Committee

Sr. No.	Name of director	Designation/Category
1.	Ms. Vandana Viswanathan	Chairperson -Independent Director
2.	Mr. Biswamohan Mahapatra	Member - Independent Director

3.	Mr. Prabal Kumar Sen	Member - Independent Director
4.	Jayanta Kumar Basu	Member-Non-Executive, Non-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 Nomination and Remuneration Committee, while formulating the above policy, ensures that:

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

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

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

2. Formulating criteria for evaluation of performance of independent directors and the Board of Directors;
3. To ensure 'fit and proper' status of proposed/ existing Directors;
4. Devising a policy on diversity of Board of Directors;
5. Ensure that level and composition of remuneration is reasonable and sufficient, relationship of remuneration to performance is clear and meets appropriate performance benchmarks,
6. Identifying persons who are qualified to become directors and who may be appointed in senior management in accordance with the criteria laid down, and recommend to the Board of directors their appointment and removal and shall specify the manner for effective evaluation of performance of the Board, its committees and individual directors to be carried out either by the Board, by the NRC or by an independent external agency and review its implementation and compliance. The Bank shall disclose the remuneration policy and the evaluation criteria in its annual report;
7. Analysing, monitoring and reviewing various human resource and compensation matters;
8. Determining the Bank's policy on specific remuneration packages for executive

directors including pension rights and any compensation payment, and determining remuneration packages of such directors;

9. Determining compensation levels payable to the senior management personnel and other staff (as deemed necessary), which shall be market-related, usually consisting of a fixed and variable component;

10. Determining whether to extend or continue the term of appointment of the independent director, on the basis of the report of performance evaluation of independent directors;

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

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

    a) Determining the eligibility of employees;

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

    c) The exercise price of the option granted;

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

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

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

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

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

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

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

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

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

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

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

l) The procedure for cashless exercise of options;

m) Forfeiture/ cancellation of options granted;

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

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

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

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

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

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

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

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

18. To approve Job descriptions & KRA's of Senior Managers and Business Line Managers on an annual basis;
19. To review Performance of the senior/business line managers by NRC on an annual basis;
20. Overseeing the framing, review and implementation of the Bank's Compensation Policy for Whole Time Directors/ Chief Executive Officers / Risk Takers and Control function staff for ensuring effective alignment between remuneration and risks;
21. To recommend to the board, all remuneration, in whatever form, payable to senior management;
22. Framing suitable policies and systems to ensure that there is no violation, as amended from time to time, of any securities laws or any other applicable laws in India or overseas, including:
    1. The Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015; and
    2. The Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulations, 2003.
23. Carrying out any other function as is mandated by the Board from time to time and / or enforced/mandated by any statutory notification, amendment or modification, as may be applicable; and
24. Performing such other functions as may be necessary or appropriate for the performance of its duties.

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

Not Applicable

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

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

	• Compensation Philosophy • Compensation Structure • Grades • Pay Review Process • Variable Pay Plans • Salary Pay-out
	<u>A description of the type of employees covered and number of such employees.</u> All employees of the Bank are governed by the Compensation Policy. The total number of permanent employees of the Bank at 30th September 2020 was 17,018.
b	***<u>Information relating to the design and structure of remuneration processes. Disclosure should include:</u>*** ***<u>• An overview of the key features and objectives of remuneration policy.</u>*** The Compensation Policy and Nomination & Remuneration Policy has been laid out keeping the following perspectives into considerations: (a) The Compensation principles should support the Bank in achieving its mission of providing a full range of financial services to the economically active poor of India who are not adequately served (unserved and underserved) by financial institutions. Therein, this policy should support the Bank to attract and retain talent and skills required to further the Bank's purpose and ideology. (b) The pay structure 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 all levels of employees. (e) Elements eligible for tax exemption may be introduced at appropriate levels to enable employees take applicable tax breaks. Amounts related to benefits may undergo change with change in grade 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 directors are paid sitting fees as approved by the Board for attending the Board and Board Committee Meetings. ***<u>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.</u>*** As on 30th Sept 2020, there are no changes to the compensation policy of the Bank.

	<u>A discussion of how the Bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee.</u> The Bank periodically benchmarks its remuneration practices against the market. Compensation ranges in alignment to market pay are derived and reviewed periodically. Remuneration payable for each function is independent of amounts payable to other function as is the market practice. Further, performance metrics for the Risk and Compliance function are completely unrelated to deliverables of any other business function. The deliverables of the risk function are periodically reviewed by the Risk Committee of the Board ensuring due independence. Thus, the remuneration payable (which is linked to performance) is differentiated as well.
c.	***<u>Description of the ways in which current and future risks are taken into account in the remuneration processes.</u>*** • Structurally, the control functions such as Risk, Audit and Vigilance are independent of the business functions and each other, thereby ensuring independent oversight from various aspects on the business functions.
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.
	• A discussion of the Bank's policy and criteria for adjusting deferred remuneration before vesting and (if permitted by national law) after (a) The performance bonus pay-out shall be Annual. Discretion is typically applied related to staggered pay-out in case large pay-outs, particularly for functions like Credit and Risk. Bonus is to be prorated for employees who have worked for part of the year at the Bank. (b) The Bank believes in the philosophy of collective ownership by its employees. Thus, Employee Stock Options of the Bank are distributed amongst employees basis their criticality and performance. (c) Typically, all Stock option schemes at the Bank vest in a staggered manner. Besides the statutory requirement of grant and 1 year vesting, the total set of options vest in various tranches for up to a period of 5 years. (d) **Malus / Claw back**: In the event of negative contributions of the individual towards the achievements of the Banks objectives in any year, the deferred compensation is subjected to Malus / Claw back arrangements. Similar provisions apply in case the individual is found guilty of any major non-compliance or misconduct issues.
	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: 1. Statutory Bonus 2. Performance Pay : a. Performance bonus b. Monthly Variable Pay 3. Rewards & Recognition The policy has been laid out keeping the following perspectives into considerations: • The Variable pay structure and amounts shall always conform to applicable Income Tax laws, 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.

	Performance Bonus: All employees who are not a part of any Monthly Variable Pay but part of the year end performance review will be covered under the Performance Bonus Plan of the Bank. However, the actual pay-out of performance bonus shall be paid only to employees who have met its performance criteria. Monthly Variable Pay: Employees in the Sales function, directly responsible for revenue generation are 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 levels of supervision thereof shall be covered. Rewards & Recognition: The Bank has designed schemes and practices from time to time to celebrate employee / departmental / organizational successes. 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), Portfolio Improvement Reward Scheme; Functional R&R Schemes; Organizational Rewards Schemes such as: Service Champion; Process Excellence; Customer Connect Awards; Above and Beyond; Recognition program for Liabilities Branches for Retail Deposits; Recognition program for Asset growth in Branches

15.2. Quantitative Disclosures

Sl. no	Quantitative Disclosures (Covers only Whole Time Directors/ CEO/Other Risk Takers[52])	Numbers
1	Number of meetings held by the Remuneration Committee during the financial year and remuneration paid to its members.	**Total Meeting Held:** 2 **Total sitting fee paid:** Rs. 3.60 lakh
2	Number of employees having received a variable remuneration award during the year.	NIL (MD&CEO/CFO/CRO/Head of Treasury/CS)
3[53]	Number and total amount of sign-on awards made during the financial year.	NIL
4	Details of guaranteed bonus, if any, paid as joining / sign on bonus.	NIL
5	Details of severance pay, in addition to accrued benefits, if any.	NIL

[52] Key material risk takers are internally defined as mentioned in row 2 of the above table.
[53] No sign-on options have been granted between 1-Apr-20 to 30-Sep-20

6	Total amount of outstanding **deferred remuneration**, split into cash, shares and share-linked instruments and other forms.	➢ Cash : NIL ➢ UFSL ESOP : 18,756 ➢ USFB ESOP : 40,73,307 ➢ USFB ESPS in RD mode : 5000 (MD&CEO/CFO/CRO/Head of Treasury/CS) **Note:** ESPS upfront options were already allotted in demat account of employees on 11th November 2019. So there are no outstanding ESPS upfront shares. Above ESPS options mentioned are outstanding options through ESPS RD mode yet to be exercised.
7	Total amount of deferred remuneration paid out in the financial year.	NIL
8	Breakdown of amount of remuneration awards for the financial year to show fixed and variable, deferred and non-deferred.	➢ Fixed gross : Rs. 2,13,91,393 ➢ Variable deferred : NIL (MD&CEO/ CFO / CRO / Head of Treasury / CS)
9	Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and / or implicit adjustments.	NIL
10	Total amount of reductions during the financial year due to ex- post explicit adjustments.	NIL
11	Total amount of reductions during the financial year due to ex- post implicit adjustments.	NIL

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

Rs. in lakh

Summary comparison of accounting assets versus leverage ratio exposure measure		
	Item	**Amount**
1	Total consolidated assets as per published financial statements	13,97,637
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	3,64,823
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
4	Adjustments for derivative financial instruments	-
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	1,17,000
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off- balance sheet exposures)	1,042
7	Other Adjustments	-16,455
8	**Leverage ratio exposure**	18,64,047

15. Table DF 18: Leverage ratio common disclosure template

Rs. in lakh

	Table DF-18: Leverage ratio common disclosure template	
	Item	**Amount**
	On-balance sheet exposures	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	17,62,459
	Domestic Sovereign	2,82,651
	Banks in India	31,555
	Corporates	50,575
	Exposure to default fund contribution of CCPs	42
	Other Exposure to CCPs	
	Others	13,97,637
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	-16,455
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	17,46,005
	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	1,17,000
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)**	1,17,000
	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	8,317
18	(Adjustments for conversion to credit equivalent amounts)	7,275
19	**Off-balance sheet items (sum of lines 17 and 18)**	1,042
	Capital and total exposures	
20	**Tier 1 capital**	3,16,844
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	18,64,047
	Leverage ratio	
22	**Basel III leverage ratio**	17.00%

Presently the contribution of Tier I capital to Total Basel II capital is 96.06%. The business model of the Bank is relatively simple with a significant portion as fund-based assets. Gross advances were primarily in the nature of term loans. Since the exposure to Securities Financing Transactions (SFT) and Off Balance Items are presently low, the Leverage ratio is well above the benchmark of >4.5%.

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