Pillar III Disclosures for Half year ended September 30th 2023

2023-2024

[Ujjivan Small Finance Bank (hereinafter called "the Bank") is primarily subject to the BASEL II {New Capital Adequacy Framework (NCAF)} framework with some elements of Basel III regulations made applicable and has prepared this disclosure document in compliance with the directions of Reserve Bank of India (hereinafter referred to as "the Regulator" or "RBI") vide its circular RBI/2015-16/58; DBR.No.BP.BC.1/21.06.201/2015-16 dated 1st July 2015. The document provides a review of key observations pertaining to the Bank's capital adequacy, credit quality, key business highlights and a review of its key risks as at September 30, 2023.]

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1. List of key abbreviations

Abbreviation	Full form
ACR	Automated Cash Recycler
AFS	Available for Sale
ALCO	Asset Liability Committee
ANBC	Adjusted Net Bank Credit
ATM	Automated Teller Machine
AIF	Alternate Investment Fund
BC	Business Correspondent
BIA	Basic Indicator Approach
BRACO	Business Risk and Compliance Officer
BSE	Bombay Stock Exchange
BV	Book Value
CC	Cash Credit
CASA	Current Account Savings Account
CBDR	Common But Differentiated Responsibilities (CBDR) and respective capabilities
CERSAI	Central Registry of Securitisation Asset Reconstruction and Security Interest of India
CET1	Common Equity Tier 1 Capital
CFO	Chief Financial Officer
CFP	Contingency Funding Plan
CIC	Core Investment Company
CRAR	Capital to Risk-weighted Assets Ratio
CRMC	Credit Risk Management Committee
CRO	Chief Risk Officer
DPD	Days Past Due
DSA	Direct Selling Agent
DSCB	Domestic Scheduled Commercial Bank
ECL	Expected Credit Loss
ECLGS	Emergency Credit Line and Guarantee Scheme
ECRA	External Credit Rating Agency
ESG	Environment, Social and Governance
EWS	Early Warning Signal
FIG	Financial Institutions Group
FOIR	Fixed Obligation to Income Ratio
FLOD	First line of Defence
FP	Floating provision
FPI	Foreign Portfolio Investor
GDP	Gross Domestic Product
GA	Gross Advances
GLB	Gross Loan Book

GLC	General Ledger Code
GNPA	Gross Non-Performing Asset
GVA	Gross Value Added
HFT	Held for Trading
HHI	Household Income
HTM	Held to Maturity
HQLA	High Quality Liquid Assets
HUF	Hindu Undivided Family
IBPC	Inter Bank Participation Certificate
ICAAP	Internal Capital Adequacy Assessment Process
ICAI	Institute of Chartered Accountants of India
ICE	Internal Combustion Engine
IFSC	Indian Financial System Code
IGAAP	Indian Generally Accepted Accounting Principles
IMPS	Immediate Payment Service
IPDI	Innovative Perpetual Debt Instrument
IPO	Initial Public Offer
IRAC	Income Recognition and Asset Classification
IRRBB	Interest Rate Risk in Banking Book
IWG	Internal Working Group
KRI	Key Risk Indicator
LAP-SENP-SEP	Loan Against Property- Self Employed Nonprofessional- Self Employed Professional
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LMS	Loan Management System
LR	Leverage Ratio
LWE	Left Wing Extremism
MB	Micro banking
MCA	Ministry of Corporate Affairs
MD	Modified Duration
MD & CEO	Managing Director and Chief Executive Officer
MDG	Modified Duration Gap
MSE	Micro and Small Enterprises
MVE	Market value of Equity
MV	Market Value
NBFC-ND-SI-CIC	Non-Banking Financial Company-Non-Deposit-taking-Systemically Important- Core Investment Company
NE	North Eastern
NEFT	National Electronic Funds Transfer
NGFS	Network for Greening the Financial System
NPA	Non-Performing Asset
NNPA	Net Non-Performing Asset

NPI	Non-Performing Investment
NSE	National Stock Exchange
NSFR	Net Stable Funding Ratio
Non-URC	Non-Unbanked Rural Centre
OD	Overdraft
ORMC	Operational Risk Management Committee
OSP	Outstanding Principal
PAT	Profit After Tax
PAR	Portfolio at Risk
PB	Payments Bank
PD	Probability of Default
PNCPS	Perpetual Non-Cumulative Preference Shares
PPOP	Pre – provision operating profit
PSL	Priority Sector Lending
QIP	Qualified Institutional Placement
QR Code	Quick Response Code
QRT	Quick Response Team
RB	Rural Banking
RBI	Reserve Bank of India
RCA	Root Cause Analysis
RCSA	Risk Control and Self-Assessment
RMCB	Risk Management Committee of the Board
ROA	Return on Asset
ROE	Return on Equity
RSA	Risk Sensitive Assets
RSL	Risk Sensitive Liabilities
RWA	Risk Weighted Assets
SA	Standardized Approach
SDA	Standardized Duration Approach
SEBI	Securities and Exchange Board of India
SEL	Secured Enterprise Loan
SFB	Small Finance Bank
SLOD	Second Line of Defence
SLR	Statutory Liquidity Ratio
SMA	Special Mention Accounts
TVR	Tele verification report
UAT	User Acceptance Testing
UFSL	Ujjivan Financial Services Limited
UPI	Unified Payments Interface
URC	Unbanked Rural Centre
USD	United States Dollar
VaR	Value at Risk
WEO	World Economic Outlook

YTD	Year till Date

2. *Key Performance highlights of the Bank*

Ujjivan Small Finance Bank (hereinafter referred to as "the Bank") is required to publish disclosures under the Pillar III framework as required in terms of RBI guidelines on New Capital Adequacy Framework issued vide RBI/2015-16/58; DBR.No.BP.BC.1/21.06.201/2015-16 dated July 1, 2015. This document provides a review of key observations pertaining to the Bank's capital adequacy, credit quality, key business highlights and a review of its key risks as at September 30, 2023. All exposure related figures quoted in the document are 'Rs. in lakhs', unless otherwise specifically stated.

A. Branch network and distribution reach

The branch position of the Bank as at September 30, 2023 was as follows:

Particulars	Count
Total Banking outlets, of which	700
Banking outlets[1] (Non-URC)	517
Banking outlets (URC)[2], *of which*	183
i Qualifying URC Branches (Branches situated in tier 3-6 locations in NE[3] states and LWE[4] districts)	43
ii Business Correspondents (BC)	7

During the quarter ended Q2FY24, the Bank had opened 39 new branches across regions (South- 17, North -13, East – 4 and West- 5). With 25.40% of Banking outlets in URC, the Bank is fully compliant with RBI guidelines in this regard.

With a strategic imperative to expand on its customer base and area of operations, the Bank intends on expanding its network with 37 additional brick and mortar branches during Q3 FY 2023-24. The physical reach would also be supplemented by a strong and focused investment

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

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

[3] North eastern states

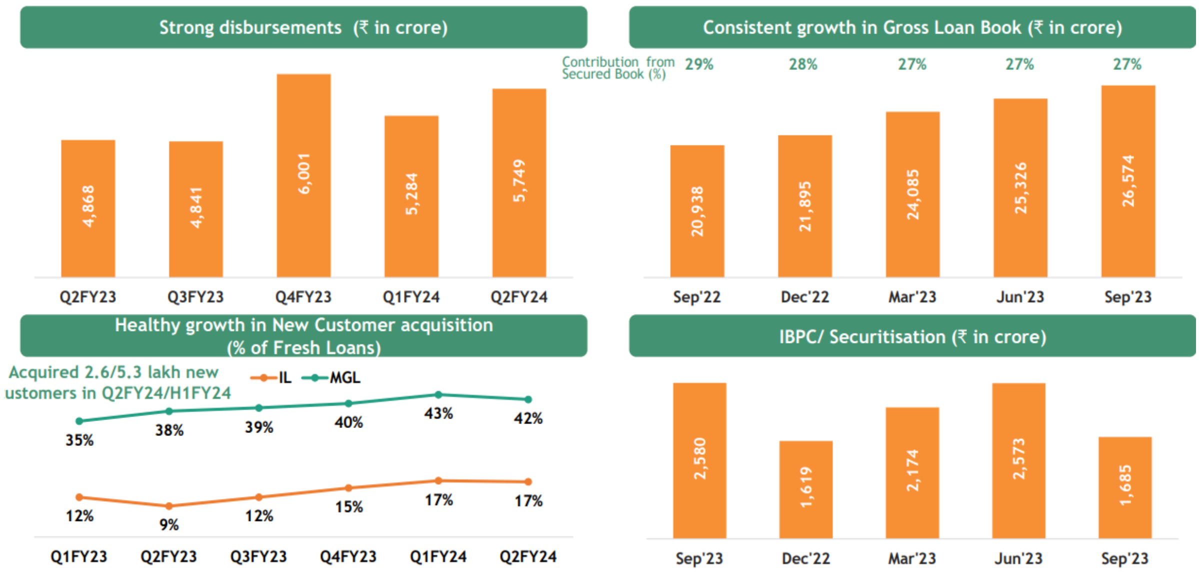
[4] Districts with active Left-Wing Extremism (LWE)

in digital platforms to aid in business development, on both asset and the liabilities side. The Bank operated 545 Biometric enabled Automated Teller Machines (ATM) including 62 Automated Cash Recycler (ACR) machines across the country as at September 30, 2023.

B. Financial highlights for Q2 and HY FY 2023-24

Some of the key achievements made for quarter ended September 30, 2023 were as follows:

Rs. in crores



Customer base	• Total customer outreach was 79 lakhs as at September 30, 2023 (76 lakhs as at June 30, 2023; 77 lakhs as at March 31, 2023)
Loan Portfolio	• Gross Loan Book (GLB) (without netting off IBPC/Securitization/Direct Assignment): Rs.26,57,415 lakhs as at September 30, 2023 (Rs. 25,32,619 lakhs as at June 30, 2023; Rs. 24,08,502 lakhs as at March 31, 2023). • Gross Advances (GA) (after netting off IBPC/Securitisation/Direct Assignment): Rs. 24,88,850 lakhs[5] as at September 30, 2023 (Rs. 22,75,272 lakhs[6] as at June 30, 2023; Rs. 21,91,083 lakhs as at March 31 ,2023). • Non-Microfinance book was 28.52% as at September 30, 2023 on Gross Advances (28.38% as at June 30, 2023; 29.16% as at March 31, 2023).

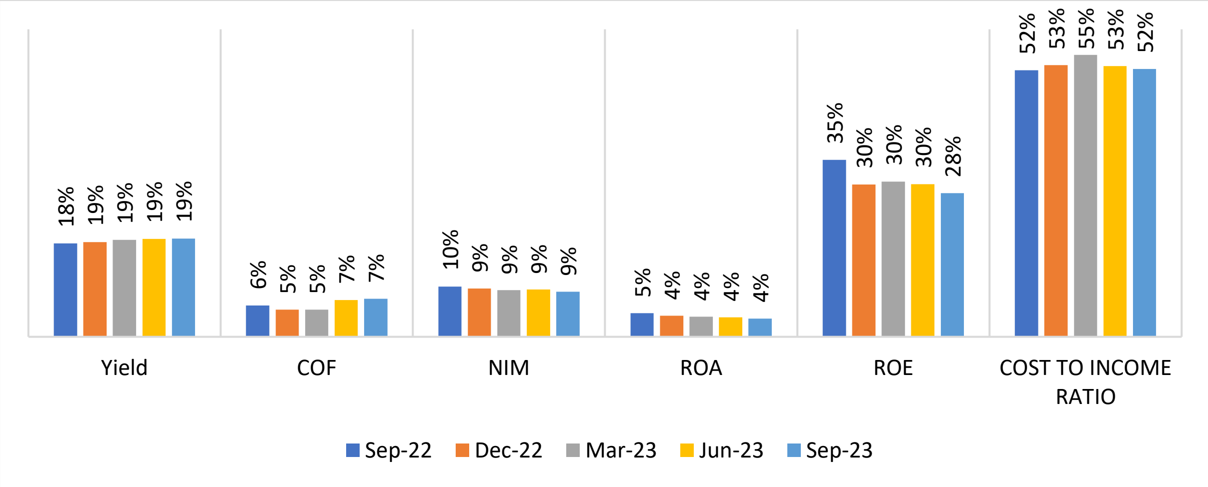
[5] Outstanding balance in IBPC/Securitisation/ Direct Assignment as on Sept' 30, 2023 was Rs 1,68,564.42 lakh

[6] Outstanding balance in IBPC/Securitisation/ Direct Assignment as on June 30, 2023 was Rs 2,57,346.40 lakh

Deposit Portfolio	• Total Deposits (Retail plus Institutional): Rs.29,13,900 lakhs as at September 30, 2023 (Rs.26,66,000 lakhs as at June 30, 2023; 25,53,800 lakhs as at March 31, 2023). • CASA: 24.1% as at September 30, 2023 (24.6% as at June 30, 2023; 26.4% as at March 31, 2023).
Asset Quality	• Gross Non-Performing Assets (GNPA): 2.35% as at September 30, 2023[7] (2.62% as at June 30, 2023; 2.88% as at March 31, 2023) • Net Non-Performing Assets (NNPA): 0.090% as at September 30, 2023[8] (0.0569% as at June 30, 2023; 0.042% as at March 31,2023)
Capital Adequacy	• CRAR ratio of the Bank as at September 30, 2023 was 25.19%, well above the mandated norms (26.69% as at June 30, 2023; 25.81% as at March 31, 2023)
Employee strength	• 21,040 as at September 30, 2023 (19,294 as at June 30, 2023; 17,870 as at March 31, 2023)
Provisions and Credit costs	• Total provisions including Floating Provision as at September 30, 2023 was Rs. 69,196 lakhs (Rs. 70,134 lakhs as June 30, 2023; 73,530 lakhs as at March 31, 2023) • Total NPA provision (excluding floating provision) held was Rs.44,398 lakhs as at September 30, 2023 (Rs.46,391 lakhs as at June 30, 2023; 50,157 lakhs as at March 31,2023). • Total NPA provision reduced by Rs. 1,993 lakhs during quarter ended September 30, 2023. The NPA provision reduced by Rs. 31,754 lakhs as compared to September 2022. Y-O-Y reduction in NPA provision of 41.70%.

[7] Computed as a percentage to Gross advances. GNPA% on GLB basis was 2.21%
[8] Computed as a percentage to Net advances. NNPA% as a ratio to Net GLB was 0.0895%

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



The Bank recorded good performance across all parameters during the Half year. A summary of the key highlights of the Bank as at September 30, 2023 is given below:

- Pre Provision Operating Profit (PPoP) for H1FY24 was at Rs.94,100 lakhs up 37% Y-o-Y; PAT for H1FY24 of Rs.65,200 lakhs up 31% Y-o-Y.
- Disbursements were at Rs.11,03,300 lakhs for HY FY24; Gross loan book at Rs.26,57,400[9] lakhs up 30%/5% Y-o-Y/Q-o-Q.
- Total Deposits registered a growth of 28%/7% on Q-o-Q/Y-o-Y basis. Retail Term Deposit registered a growth of 56%/8% on Y-o-Y/Q-o-Q basis.
- Continued traction on Collections with ~99% efficiency in September 2023; NDA collection consistently at ~100%. Portfolio at risk was stable at 3.7% as of September 2023[10]. GNPA on GLB basis, declined to 2.2% as of September 2023 as against 2.4% as at June 2023; NNPA continues to be negligible at 0.09% as at September 23. Total of Rs.5,600 lakhs written-off in Q2FY24; Provision coverage ratio as at September 2023 was 96%[11].

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[9] Without adjusting IBPC & Securitization of ₹ 1,685/ ₹ 2,573/ ₹ 2,580 crores as on Sep 2023/ Jun 2023/ Sep 2022

[10] Without adjusting IBPC & Securitization of ₹ 1,685/ ₹ 2,573/ ₹ 2,580 crores as on Sep 2023/ Jun 2023/ Sep 2022

[11] For Sept'23, out of Rs. 250 crores floating provision amounting to Rs. 120 crores has been utilized towards NNPA/ PCR calculation; Rs. 100 crores was classified under "other provisions" and Rs. 30 crores was used towards Tier II capital augmentation. The entire floating provisions of Rs.250 crores continues to be on the books which can be utilized towards specific provisions in the future under extraordinary circumstances, with prior approval from the RBI

C. Macro-Economic Outlook:

Global challenges on account of the geo-political implications due to ongoing war in Ukraine and the recent invasion of Israel on the Gaza strip, debt fragility, inflationary trends, currency volatility and capital outflows continued to affect the performance of the global economy. The following are some of the key developments during the quarter.

Global Economic Outlook[12]

- More than three years after the global economy suffered the largest shocks of the past 75 years, the wounds are still healing, amid widening growth divergences across regions. After a strong initial rebound from pandemic, the pace of recovery has however moderated. Several forces are holding back the recovery, such as the long-term consequences of the pandemic, Russia's war in Ukraine, and increasing geo-political fragmentation. Other factors are more cyclical, including the effects of monetary policy tightening necessary to curb inflation, withdrawal of fiscal support amid high debt, and extreme weather events.

- **Global growth** is projected to fall from 3.5% in CY 2022 to 3.0% in 2023 and 2.9% in 2024 on an annual average basis. There is a downward revision of 0.5% in the growth rate for CY2024 when compared to the January 2023 projections at 3.4% by World Economic Outlook (WEO). At the same time, there are more sizable changes in the underlying growth trajectories of major economies, with stronger projections for the United States and downward revisions for China and the Euro zone. The 2023–24 forecasts are also below the historical (2000–19) annual average of 3.8%.

- **Inflation**: Global headline inflation has more than halved, from its peak of 11.6% in the second quarter of 2022 (at a quarterly annualized rate) to 5.3 percent in the second quarter of 2023. The annual global headline inflation is expected to steadily decline from its peak of 8.7% in 2022 (annual average) to 6.9 % in CY2023 and 5.8% in CY2024. The forecast for CY2024 is revised upward by 0.6%, reflecting higher-than-expected core inflation. Among major economies, headline inflation in the second quarter of CY2023 ranged from –0.1% in China (at a quarterly annualized rate) to 2.8% in the Euro area and 2.7% in the United States. The drivers of core inflation have reflected a combination of demand pressures, as shown in labour market conditions and pass-through effects from past shocks to headline inflation shocks, including those arising

[12] Source : https://www.imf.org/ & https://www.oecd.org
1) https://pib.gov.in/PressReleasePage.aspx?PRID=1894932
2) OECD ECONOMIC OUTLOOK
4) World bank website
5) IMF World economic outlook April 2023
6) RBI Financial Stability Report
7) RBI Bulletin
8) India Brand Equity Foundation (IBEF)

from supply shifts in various industries. Key risk factor for Inflation continues to be supply side issues on account of the ongoing wars.

- **Tighter Monetary Policy, Tighter Credit***:* The contagion effects of the Silicon Valley Bank episode in March 2023 remained largely contained and limited to problematic regional banks in the United States. The contagion effects from the downfall of Credit Suisse—a Swiss globally systemically important bank was also limited on account of the swift reaction by authorities in both countries. Tighter monetary policy has started to work its way through the financial system. Lending surveys in the United States and Europe suggest that banks restricted access to credit considerably over the past year and were expected to continue to do so in coming months. In advanced economies, credit and investment demand contracted in the first half of the year, reflecting tighter supply as well as lower demand for credit, as many businesses began to deleverage in response to higher interest rates and production overcapacity. Key risk factor continues to be inflationary trends leading to a sustained higher interest rate regime. The high levels of policy rates may likely increase pressure to the banking system in major economies, both directly (through higher cost of funding) and indirectly (as credit quality deteriorates). There is consensus in the global narrative[13] that risks to the global banking system remains tilted to the downside. The collapse of multiple banks highlights a possibility of more disorderly failures, which could trigger to systemic banking crisis and protracted economic losses. Triggers for a crisis can be on account of increase in non-performing loans, lower asset values impairing balance sheets, a deeper correction in house prices or losses from the heavily leveraged Commercial Real Estate sector. In addition to the above, a higher or more persistent inflation—especially, more persistent core inflation could trigger further monetary tightening.

Indian Economic Outlook[14]

- Real Gross Domestic Product (GDP) posted a growth of 7.8% on a y-o-y basis in Q1:2023-24 (April-June), underpinned by private consumption and investment demand.

[13] Global Economic prospects report of June 2023 published by the World Bank.
[14] Other sources referred :
1) https://pib.gov.in/PressReleasePage.aspx?PRID=1894932
2) OECD ECONOMIC OUTLOOK
3) Crisil Insight report May 2023
4) World bank website
5) IMF World economic outlook April 2023
6) RBI Financial Stability Report
7) Research report on “Credit Growth to drive GDP: Nothing Unsecured about Unsecured Lending” by SBI

- South-west monsoon rainfalls recovered during September 2023 but ended 6% below the long run average. The acreage under kharif crops was 0.2% higher than a year ago. The Index of Industrial Production (IIP) increased by 5.7% in July 2023 with core industries output expanding by 12.1% in August 2023.
- On the demand front, urban consumption was buoyant while rural demand was showing signs of revival. Investment activity was benefitting from public sector capital expenditure. Strong growth was registered in consumption of steel, cement production as well as in imports and production of capital goods. Merchandise exports and 'non-oil non-gold imports' contracted in August 2023, although the pace of decline eased. Services exports improved in August 2023.
- CPI headline inflation surged by 2.6% to 7.4% in July 2023 due to a spike in vegetable prices, before moderating to 6.8% by August 2023. Fuel inflation edged up to 4.3% in August 2023. Core inflation (i.e., CPI excluding food and fuel) softened to 4.9% during the period of July-August 2023.
- As at September 22, 2023, money supply (M3) expanded by 10.8% (y-o-y basis) and bank credit grew by 15.3%. India's foreign exchange reserves was at $586.9 billion as on September 29, 2023.
- Weak global economic growth and external demand have kept the global price pressures down. The global fuel and energy prices volatility and firming up of some of the food commodity prices are a concern in the short-term, in view of the persistent geopolitical tensions and vulnerability to adverse climate shocks.

- There are some indicators of strong domestic demand. For instance, the Purchasing Managers' Indices (PMIs) and other high frequency indicators of the services sector exhibited a healthy expansion in August-September. India Services PMI increased to 61.0 in September 2023 from 60.1 in August, beating market forecasts of 59.5, signalling a sharp upturn in output that was one of the strongest in over 13 years.

- The Current Account Deficit (CAD) is up from -1.2% of GDP in FY22 to -2% in FY23. The widening of CAD on a quarter-on-quarter basis was primarily on account of a higher trade deficit coupled with a lower surplus in net services (due to decline in exports of computer, travel and business services) and decline in private transfer receipts. With the average merchandise trade deficit trending higher in Jul-Aug 2023 relative to Q1 FY2024 levels, and the recent rise in crude oil prices, ICRA estimates the CAD to widen sequentially to $19-21 billion (-2.3% of GDP) in Q2 FY2024. Overall, ICRA projects the CAD to widen to $73-75 billion (-2.1% of GDP) in FY2024 from $67.0 billion (-2.0% of GDP) in FY2023, building in an average crude oil price of $90/bbl. in H2 FY2024
- Unemployment Rate in India decreased to 7.10% in September 2023 from 8.10 % in August 2023. While the unemployment rates eased in both rural and urban India, in rural India, it was achieved along with an increase in Labour Participation Rate (LPR).

The labour force participation rate inched up to 40.9% in September 2023 from 39.8% in March 2023.

Indian Banking industry Outlook:

- Credit growth (on YoY basis) in Assessed Scheduled Commercial Banks (ASCBs) has been accelerating since early 2022. Aggregate deposits have increased by 13.2% and increase credit by 20% (without HDFC it was 15.3%, but still broadly similar to FY22) till September 2023. In the coming months, robust credit demand is expected due to the festive season. The total asset/liabilities growth of the banking system during FY 2014-23 was 1.3 times higher than the growth in the last 63-years. The combined incremental growth in assets and liabilities of SCBs for the 9-year period ended March 2023 was Rs 187 lakh crores as against Rs. 142 lakh crore growth cumulatively clocked during the six-plus decades post-independence (FY1951-2014).

- In FY2024, credit to nominal GDP ratio may end up being around 1.7 times, up from 1.2 times in FY23, boosting the flow of funds to the broader economy, as also ensuring a bull phase of growth is sustained. The credit-to-GDP gap has also narrowed, reflecting the improved credit demand in the economy in the face of rising capacity utilization in the manufacturing sector. There is one-way causal relationship between GDP and SCB credit, with increase in credit leading to higher GDP using credit data and GDP from 1990.

- Analysing time trends in retail loans shows no major compositional shifts (since April'2021 for secured as also unsecured portfolio of retail credit) with both secured and unsecured segments growing since the Pandemic. Also, the share of secured portfolio dominates the unsecured portfolio within retail space. Further, total share of unsecured retail loans is only around one-tenth of SCBs credit portfolio. However, with credit growth clocking new highs since early 2022, there is a now a growing need to assess the multiplier effect created through the broader economy within the overarching objective of sustainability. There are early concerns being raised by the Regulator on the abnormal build up and high growth witnessed in the 'Consumer credit' segment. It is likely that the Regulator may initiate some action through regulations to curb the spiralling growth.

- Macro stress tests for credit risk revealed that all banks in India would be able to comply with the minimum capital requirements even under severe stress scenarios. The system-level capital ratio under the baseline, medium and severe stress scenarios is projected at 16.1 per cent, 14.7 per cent and 13.3 per cent, respectively, by March 2024, well above the regulatory minimum of 11.5% (for universal banks). Likewise, Interest Rate Risks in Banking Book (IRRBB) on account of 250 bps parallel upward shift in the yield curve, resulted in a negative mark-to-market impact on the HTM portfolio of banks. The impact, if crystallized, would reduce the system level capital ratios from 17.1% in March 2023 to 13.7 %, which is still above the regulatory requirement.

D. Key developments within the Bank

- With the impact of the pandemic waning, the Bank intends on ramping up its business mix in line with its pre-pandemic strategic imperatives. While digital and digital enabled banking services encompassing paperless banking, repayments, leveraging analytical tools and deployment of best-in-industry payment solutions shall remain a mainstay, the Bank, as part of its intent on spreading its geographical coverage and aid in brand recognition and recall, had opened 32 branches in Q1 FY24. The Bank also intends on opening 70 branches in the remaining quarters.
- The Bank launched a nationwide Brand Campaign, is a prominent step towards establishing a mass market Bank and Building trust.
- The Bank launched premium current account and savings account products during the quarter, and the same has seen good success in terms of customer acquisition and deposit build-up. The Bank is building a stable and granular liability base by adopting multi-channel approach, expanding branch-reach, relationship banking, digital offerings, video banking, enhancements in Phone Banking services, state-of-the-art IBMB, Business Net Banking, Hello Ujjivan etc.
- The Bank has also activated loan acknowledgment on the Hello Ujjivan app, which saves the customer time of visiting branches for signing disbursement documents. This also reduces the pressure on our branches. Going ahead, the Bank plans to introduce repeat loan facility on the app that will bring a significant cost saving, as more than 60% of disbursements are actually repeat loans. As the application gains usage and acceptance, it will provide field staff greater bandwidth to cross-sell to existing customers and also acquire new customers.
- Digital fixed deposits went live this quarter, which provides smooth onboarding of digitally savvy and new to bank customers. Jointly, these efforts yielded strong results.
- The Bank has tied up with two Fintech Partners for Supply Chain financing and is in process of commencing disbursements. It is expected that this business shall contribute significantly towards second half of the year. The Bank continues to evaluate more such fintech partnerships on an ongoing basis.

Climate Risk Management and ESG– developments on capacity building:

During the quarter, the Bank has furthered on its capacity building initiatives on climate risk management. Some of the key developments were as follows:

- Conducted stress tests on climate induced physical risks in the short term (1 to 3 years). Based on the impact assessed, risk mitigation measures were deliberated internally. A policy in this regard is expected to be finalized in the ensuing quarter.
- The Bank's policy on investment/financing to coal entities and unconventional oil and gas was drafted and deliberated at management level. The policy is expected to be approved in the ensuing Board meeting.
- The Bank's principles on approaching sustainability, corporate climate goals, ESG and climate risk management finalized for adoption.
- The Bank has drafted its maiden TCFD compliant disclosure on climate risk management. Post Board approval, the report will be published on the Bank's website in the ensuing quarter.
- On the ESG front, the Bank has drafted its maiden Sustainability Report (SR), in compliance to Global Reporting Initiatives (GRI) standards. The report summarizes the Bank's progress and plans in furthering UN SDG goals and ESG pillars.
- The Bank's ESG journey is bifurcated into short term, mid-term and long-term goals. Some of the key initiatives undertaken to further ESG goals were as below:
  - Launched Video KYC which enables reduction in paper consumption by 6-7 sheets per customer
  - Replacement of the existing bulbs in office premises with LED bulbs. The Bank's branch expansion plan overtly mandated installation of LED bulbs in all the new branches and offices.
  - Internal campaigns on Water, Energy conservation and Waste Management were held to raise awareness among employees.
  - Authorised recyclers were identified across regions for efficient and sage disposal of E-wastes.
  - The Bank has launched an initiative to be 'Sustainable by Design'. It entails usage of sustainable/recycled construction materials in all new offices and branches. The Bank's corporate training centre at Jakkasandra, Bangalore which was recently renovated stands as a testament in efficient usage of recycled raw materials.
  - On the Social dimension, the Bank has drafted/revisited its internal policies on Occupational Health and Safety (OH), Human Rights and Anti-harassment with internal best practices.
  - A vendor code of conduct is defined for incorporation in all large and material contracts which seeks compliance to base expectations on ESG principles.
  - The Bank initiated a campaign called 'Un-pause, an initiative to recruit women with long career breaks on account of personal commitments. This campaign is driven in association with an external partner to improve diversity and inclusion.
  - On the environment front, the Bank undertook various tree plantation drives as part of its 'Project Swachh Neighbourhood'. As at reporting date, the Bank has planted 412 saplings and intends to scale up to the extent of 3,000 saplings by end of 2028.

- The Bank is also in process of commencing initiatives on emission offsetting through CSR programs as part of its corporate climate goals/ Net Zero goals. Some of the projects which are currently under exploration are as follows:
  - ✓ Installation of solar power panels in branch/officer premises wherever feasible.
  - ✓ Construction of percolation pits to aide in recharge of groundwater.

3. Table DF- 1: Scope of Application

3.1 Qualitative Disclosures

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

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

3.1.1 List of group entities considered for consolidation

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

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

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

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

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

4. *Table DF-2: Capital Structure*

4.1 Qualitative Disclosures

4.1.1 Tier I capital

The Bank has an authorized capital of Rs. 2,50,000 lakhs in the form of Common Equity of Rs. 2,30,000 lakhs qualifying as Tier 1 capital and Perpetual Non-Cumulative Preference Shares (PNCPS) of Rs. 20,000 lakhs qualifying as Additional Tier 1 Capital under the guidelines of RBI. As on September 30, 2023, the Bank had an issued, subscribed and paid-up equity capital of Rs. 1,95,559.13 Lakh, having 1,95,55,91,301 shares of face value Rs.10 each and 20,000 lakhs PNCPS having 200,000,000 preference shares of face value of Rs. 10 each.

The licensing guidelines for SFBs permit the aggregate foreign investment in a private sector bank from all sources up to a maximum of 74% of the paid-up capital (automatic up to 49% and approval route beyond 49% to 74%). As foreign shareholding in the Bank was 4.56% comprising of (a) Foreign Portfolio investors (FPI), (b) Non-Residential Indians (NRI) and (c) Non-Resident Indian Non Repatriable as at September 30, 2023, the Bank was compliant with RBI guidelines on SFBs. Further, in compliance with the licensing guidelines, UFSL, the Holding Company, is registered as an NBFC-Non-Deposit-Taking Systemically Important - Core Investment Company – (NBFC-ND-SI-CIC) with RBI and is the non-operating holding company.

4.1.1.1. Promoter contribution[15]:

As at September 30, 2023, the promoter contribution in the Bank was 73.66% with the holding company being the largest shareholder. As per licensing guidelines to SFBs, the promoter shareholding was required to be brought down to 40% within a period of five years from the date of commencement of business. However, as per the recommendations of an Internal Working Group (IWG) which was mandated to review extant ownership guidelines and corporate Structure for Indian Private Sector Banks dated November 26, 2021, the RBI has accepted the IWG recommendation of 'No intermediate sub-targets between 5-15 years may be required' without any modification, except subject to a submission of the dilution schedule by the Bank. The Bank understands that the RBI has dispensed with this immediate dilution of promoter shareholding in the Bank to 40%.

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

Further, the promoter's minimum contribution which was subject to a lock-in for a period of five years starting from February 01, 2017 (date of commencement of business operations) stands complied and as on September 30, 2023, no lock-in exists on the promoter shareholding in the Bank.

The Bank has initiated the process of reverse-merger with its Holding Company, Ujjivan Financial Services Limited to meet the above-mentioned criteria. The Boards of both the Bank and Holding Company have approved the scheme for amalgamation in its meeting dated October 14, 2022 and RBI vide its letter dated February 01, 2023, has conveyed its “no-objection” to the proposal for voluntary amalgamation of Holding Company with the Bank subject to the fulfilment of certain conditions as stipulated by RBI which includes *inter alia* obtaining approval from the NCLT, requisite majority of shareholders and creditors of both transferor and transferee companies and in ensuring compliance with all applicable statutory and regulatory requirements. Further, the Bank on March 09, 2023 has received the no-objection letters from the Stock Exchanges, basis which a joint application has been filed with the National Company Law Tribunal (NCLT) on March 29, 2023, by the Bank and the Holding Company. Hon’ble NCLT pronounced its order on September 08, 2023 for convening the general meeting on November 03, 2023 for shareholders’ approval for the reverse merger of the holding company, Ujjivan Financial Services Limited with and into Ujjivan Small Finance Bank Limited.

The Bank expects that the entire merger process will be completed by Q4-FY23-24 i.e., by March 31, 2024. Pursuant to the completion of the merger, the Promoter Company would stand dissolved and cease to exist. Consequently, the shareholding of the Promoter Company in the Bank would be reduced / diluted to NIL. As a result, the Bank will meet the required dilution of promoter holding to the satisfaction of the RBI.

The shareholding pattern of the Bank as at September 30, 2023 was as follows:

Category of the Shareholder	No. of shares held	%age of shareholding
Promoter	1,440,036,800	73.66
Mutual Funds	2,23,13,755	1.14
Alternate Investment Funds (AIF)	2,83,54,712	1.45
Foreign Portfolio Investors (FPI)	6,92,75,286	3.54
Resident Individuals/Hindu Undivided Family (HUF)	32,61,49,946	16.68
Others	6,94,60,802	3.55
Total	**1,95,55,91,301**	**100.00**

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

Capital Structure- Summary of Tier I & Tier II Capital			
Sl. No.	**Instrument**	**Whether Tier I or II**	**Amount (Rs. in Lakhs)**
1	Equity[16]	Common Equity Tier 1 (CET 1)	1,95,559.13
2	PNCPS[17]	Additional Tier I	20,000
3	Subordinated Debt Instruments	Tier II	30,000
	Total		**2,45,559.13**

4.1.1.2. Additional Details on PNCPS instruments

Perpetual Non-Cumulative Preference Shares (PNCPS) can be issued by Indian banks, subject to the legal provisions, in Indian rupees and in compliance with the terms and conditions issued by RBI for qualification. The Bank's PNCPS complies with the requirements prescribed under Basel III capital regulation[18]. A key characteristic of PNCPS is that there can be no maturity date and no step ups or other incentives to redeem with an exception to call option exercisable by the Bank not earlier than the fifth anniversary of the date of allotment which was completed on February 10, 2022. The rate of dividend as agreed with the investor is 11 percent per annum or at a rate as specified in terms of Basel Master Circular and / or any other applicable law.

The claims of the investors in the instruments are:

a Superior to the claims of investors in equity shares;

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

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

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

4.1.2. Subordinated Debt Instrument

[16] Issued and Paid up equity capital

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

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

As per specific directions received from the Regulator[19], the Bank can issue Tier II capital instruments in compliance to either NCAF or Basel III guidelines of RBI. As on September 30, 2023 following are the Tier II Instruments raised by the Bank.

Capital	Description of the Security	Issue Amount (Rs. in Lakhs)	Issue date	Date of Redemption	Contractual Dividend rate (% p.a.) (on a fixed rate basis)
Tier II – Subordinated Debt	Subordinated, rated, unlisted, unsecured, transferable, redeemable, fully paid up, non-convertible debentures	22,500	August 26, 2022	April 26, 2028	11.95% p.a.
		7,500	September 09, 2022[20]	April 26, 2028	11.95% p.a.
Total		30,000	-	-	-

4.1.3. Dividend policy

The Bank has formulated the Dividend Distribution Policy in compliance with the provisions of Banking Regulation Act, 1949 and guidelines/circulars issued by Reserve Bank of India (“RBI”) and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“SEBI Listing Regulations”). The objective of the Policy is to appropriately reward shareholders through dividends for reposing their confidence in Bank while retaining the capital required for supporting future growth. The payment of dividend to equity and PNCPS shareholders is also subject to conditions as prescribed by RBI issued vide RBI/2004-05/451 DBOD.NO.BP.BC. 88 / 21.02.067 / 2004-05 dated May 4, 2005.

5. Table DF- 3: Capital Adequacy

5.1 Qualitative Disclosures

The Bank has been well capitalized since inception and its capital position has been further augmented after equity raise through a QIP in Q2 FY 2022-23. As required by RBI in its operating guidelines to SFBs[21], the Bank is required to adopt the Standardized approach for

[19] RBI communication to the Bank vide email dated December 13,2017
[20] Deemed Allotment Date: August 26, 2022
[21] Refer RBI guidelines on Operating Guidelines for Small Finance Banks issued vide DBR.NBD.

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 calculation purposes, the structure and nature of capital instruments such as Common Equity, Additional Tier 1 instruments are required to be compliant with the Basel III guidelines. In essence therefore, in the case of SFBs, the Regulator has adopted a hybrid model.

SFBs are not required to have a separate capital charge for Market Risk and Operational Risk for the time being in terms of an RBI communication dated November 8, 2017 (DBR. NBD. No. 4502/16.13.218/2017-18). However, as a good governance practice, and as directed by its Board, the Bank separately computes capital charge for all the Pillar 1 risks viz. Credit, Market and Operational Risk following the Standardized Approach (SA) for Credit Risk, Standardized Duration Approach (SDA) for Market Risk and the New Standardized Approach (NSA) for Operational Risk. It is pertinent to note that the Regulator has now dispensed with the existing approaches of Operational Risk capital charge with the revised New Standardized Approach (NSA) vide Reserve Bank of India (Minimum Capital Requirements for Operational Risk) Directions, 2021 which is applicable to universal banks with effect from April 1, 2023.

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

The disclosures pertaining to capital adequacy are as per the Generally Accepted Accounting Practices (GAAP). Preparation of Financial statements under Ind-AS regime by banks have been deferred by RBI until further notice and hence a comparison of capital adequacy under both the regimes will be made part of disclosures after the same is made applicable to banks. There are indications from the recent Monetary Policy announcements, that the Regulator may consider adopting a dynamic loan loss provisioning under IFRS9/Ind-

No.26/16.13.218/2016-17 dated October 6, 2016.

AS framework. To this effect, a Discussion Paper was released by the Regulator on January 16,2023 and formal guidelines in the matter are awaited. From the readiness standpoint, the Bank has put in place the necessary processes to compute Expected Credit Loss (ECL) and Ind-AS compliant financial statements. While the Bank has utilized internal capabilities in automating ECL components, the preparation of Ind-AS compliant financial statements continues to be manual. A final guidelines from the Regulator is awaited to commence engagement with technology partners in developing necessary systems.

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

Credit Risk	Underestimation of Credit Risk (Under ICAAP framework)
Operational Risk	Reputational Risk
Market Risk	Strategic Risk
Interest Rate Risk in Banking Book (IRRBB)	Compliance Risk
Liquidity Risk	People Risk
Concentration Risk	Information Technology and Information Security Risk
Outsourcing Risk	Group Risk[22]
Securitization Risk	Fintech Risks
Climate induced financial risks	ESG risks

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

[22] As per RBI guidelines on Guidelines on Management of Intra-Group Transactions and Exposures issued vide RBI/2013-14/487DBOD.No.BP.BC.96/21.06.102/2013-14 dated 11th February 2014

moves that could arise as a result of business environment conditions. The stress tests are used in conjunction with the Bank's business plans for the purpose of capital planning in the ICAAP.

5.2 Quantitative Disclosures

5.2.1. Basel II capital calculation

The break-up of Basel II capital funds as at September 30, 2023 was as follows:

Rs. in lakhs

	Description	Amount
	Core Equity Tier 1 Capital - Instruments and Reserves	
	Directly issued qualifying common share capital plus related stock surplus (share premium)	1,95,559.13
	Retained earnings	2,50,660.22
A	CET1 capital before regulatory adjustments	4,46,219.35
	Core Equity Tier 1 Capital - Regulatory Adjustments	
	Deferred tax assets arising from temporary differences	27,199.62
	Intangibles (Prepaid Expenses & Computer Software)	13,092.87
	Credit Enhancements	2,020.71
	Regulatory Adjustments applied to CET1 Capital due to insufficient funds in Tier 2 to cover deductions	0.00
B	Total regulatory adjustments to CET1 Capital	42,313.20
C	**CET1 capital (A-B)**	4,03,906.15
	Additional Tier 1 Capital - Instruments and Reserves	
	Preference Shares	20,000.00
E	AT1 capital before regulatory adjustments	20,000.00
	Additional Tier 1 Capital - Regulatory Adjustments	
F	Total regulatory adjustments to AT1 Capital	-
G	AT1 Capital	20,000.00
H	**Tier 1 Capital (C + G)**	4,23,906.15
	Tier 2 Capital - Instruments and Provisions	
	Sub - debt eligible as Tier 2 capital	24,000.00
	General Provisions on Std. Assets admissible as Tier 2	15,797.80
	Investment Fluctuation Reserve	10,810.03
	Investment Reserve Account	34.04
I	Tier 2 Capital before regulatory adjustments	50,641.87

	Tier 2 Capital - Regulatory Adjustments	
J	Total Regulatory Adjustments to Tier 2 Capital	-
K	**Tier 2 Capital (I - J)**	50,641.87
L	**Total Regulatory Capital (H + K)**	4,74,548.02

	Description	**Amount**
	Core Equity Tier 1 Capital - Instruments and Reserves	
	Directly issued qualifying common share capital plus related stock surplus (share premium)	1,95,559.13
	Retained earnings	2,50,660.22
A	CET1 capital before regulatory adjustments	4,46,219.35
	Core Equity Tier 1 Capital - Regulatory Adjustments	
	Deferred tax assets arising from temporary differences	27,199.62
	Intangibles (Prepaid Expenses & Computer Software)	13,092.87
	Credit Enhancements	2,020.71
	Regulatory Adjustments applied to CET1 Capital due to insufficient funds in Tier 2 to cover deductions	0.00
B	Total regulatory adjustments to CET1 Capital	42,313.20
C	**CET1 capital (A-B)**	4,03,906.15
	Additional Tier 1 Capital - Instruments and Reserves	
	Preference Shares	20,000.00
E	AT1 capital before regulatory adjustments	20,000.00
	Additional Tier 1 Capital - Regulatory Adjustments	
F	Total regulatory adjustments to AT1 Capital	-
G	AT1 Capital	20,000.00
H	**Tier 1 Capital (C + G)**	4,23,906.15
	Tier 2 Capital - Instruments and Provisions	
	Sub - debt eligible as Tier 2 capital	24,000.00
	General Provisions on Std. Assets admissible as Tier 2	15,797.80
	Investment Fluctuation Reserve	10,810.03
	Investment Reserve Account	34.04
I	Tier 2 Capital before regulatory adjustments	50,641.87
	Tier 2 Capital - Regulatory Adjustments	
J	Total Regulatory Adjustments to Tier 2 Capital	-
K	**Tier 2 Capital (I - J)**	50,641.87
L	**Total Regulatory Capital (H + K)**	4,74,548.02

5.2.2. Credit Risk RWA

The detailed break up of Credit RWA is as follows:

Rs. in lakhs

Asset Description	RWA
Cash and Balances with Reserve Bank of India	0.00
Balances with Banks and Money at Call and Short Notice	7,901.18
Investments	20,942.70
Advances	17,62,549.16
Fixed Assets	22,634.82
Other Assets	53,157.69
Off Balance Sheet	16,670.95
Total Credit RWA	**18,83,856.50**

5.2.3. Operational Risk RWA

The Regulator has issued Master Directions on Minimum Capital Requirements for Operational Risk under the New Standardized Approach (NSA) which will be applicable with effect from April 1, 2023 for Universal Banks. While the Regulator is yet to take a decision on its applicability for SFBs, the Bank has already commenced computation of Operational RWA under this new approach for internal reporting purposes.

The detailed computation is as follows:

Rs. in lakhs

Particulars	T	T-1	T-2
	FY'23	**FY'22**	**FY' 21**
Total amount of operational losses net of recoveries (no exclusion)	527.35	906.96	657.28
Total number of operational risk losses	1416	1,253	1,247
Total amount of excluded operational risk losses#	474.69	807.83	566.09
Total number of exclusions	1255	990	986
Total amount of operational losses net of recoveries and net of excluded losses	52.66	99.13	91.19

Rs. in lakhs

Sr. No.	Business Indicator (BI) and its sub components	T	T-1	T-2
1	**Interest, lease, and dividend component**			
1a	Interest and lease income	4,16,499.47	2,81,279.91	2,80,606.56
1b	Interest and lease expenses	1,46,709.26	1,03,920.70	1,07,751.40
1c	Interest earning assets	30,42,153.98	21,64,058.57	17,65,639.88
1d	Dividend Income	0.00	0.00	0.00
2	**Services component**	0.00	0.00	0.00
2a	Fee and commission income	31,737.78	21,874.86	13,640.34

2b	**Fee and commission expense**	1417.61	1932.24	1289.10
2c	Other operating income	22822.14	9894.91	9938.88
2d	Other operating expense	51036.29	39523.94	24606.37
3	**Financial Component**	0.00	0.00	0.00
3a	Net P&L on the trading book	178.40	1,575.63	1,716.17
3b	Net P&L on the banking book	0.00	185.34	3,878.45
4	BI	1,15,606.75	92,414.17	-
5	Business Indicator Components (BIC)	13,872.81	11,089.70	-

6a	BI gross of excluded divested activities	**1,15,606.75**
6b	Reduction in BI due to excluded divested activities	-

Disclosure on the BI **Rs. in lakhs**

1	Business indicator component (BIC)	**13,872.81**
2	Internal loss multiplier (ILM)	0.58
3	Minimum required operational risk capital (ORC)	13872.81
4	**Operational risk RWA**	**1,73,410.13**

5.2.4. Market Risk RWA

As at September 30, 2023, the AFS[23] book consisted of Government of India Securities, Treasury Bills and unquoted equity and the HFT[24] book consisted of Government Securities , Commercial Paper, Certificate of Deposits and Mutual Funds. On the basis of SDA[25], the capital requirement for market risk reported to the Board from a governance perspective was as under:

Rs. in lakhs

Capital Requirement for Market Risk	**Amount**
Interest Rate Risk	3,079.20
Equity Position Risk	2.72
Foreign Exchange Risk	--
Total	3,081.91
Total Market Risk RWA	38,523.89

[23] Available for Sale

[24] Held for Trading

[25] Standardized Duration Approach

5.2.5. Basel II CRAR (with only Credit RWA)

Rs. in lakhs

Particulars	RBI thresholds	Amount/Ratio (Only Credit RWA)
Tier I Capital	--	4,23,906.15
Tier II Capital	--	50,641.87
Total Capital	**--**	4,74,548.02
Total RWA	**--**	18,83,856.50
CET Ratio	Minimum 6%	21.44% (Complied)
Tier I Ratio	Minimum 7.5%	22.50% (Complied)
Tier II Ratio	Maximum cap at 7.5% of CRWA	2.69% (Complied)
CRAR	**Minimum 15%**	**25.19% (Complied)**

Presently, the operating guidelines for SFBs mandate that the minimum CRAR be computed in relation to only the Credit Risk Weighted Assets (CRWA). The CRAR of the Bank at **25.19%** is well above the minimum ratio of 15% as applicable for SFBs.

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

Particulars	Amount/ Ratio (all Pillar 1 risks)
Tier I Capital	4,23,906.15
Tier II Capital	50,641.87
Total Capital	4,74,548.02
Total RWA	**20,95,790.52**
CET Ratio	19.27%
Tier I Ratio	20.23%
Tier II Ratio	2.42%
CRAR	**22.64%**

It may be noted that the Bank's CRAR is assessed at 22.64% after inclusion of Credit RWA, Operational Risk RWA and Market Risk RWA. The capital adequacy, is higher than the mandated SFB requirement of 15%, which is solely on the basis of CRWA, and also considerably higher than the minimum mandated for Universal Commercial Banks. While the Regulator is yet to notify the applicability of the other two pillar 1 risks, there is a possibility to align the minimum capital adequacy norms with that of Universal Commercial Banks for SFBs. Hence, not only from a governance perspective but also to meet its future projections in growth, the Bank has always been well capitalized, when taking into consideration capital charges for Credit Risk, Market Risk and Operational Risk.

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

6.1. Qualitative disclosures

Credit risk arises as a result of failure or unwillingness on part of customer or counterparties to fulfil their contractual obligations. The Bank is exposed to credit risk in its lending operations. Credit risk is the risk of loss that may occur from the failure of any counterparty to abide by the terms and conditions of any financial contract with the Bank, principally the failure to make required payments as per the terms and conditions of the contracts.

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

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

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

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

Credit concentration risk arises mainly on account of concentration of exposures under various categories including industry, products, geography, underlying collateral nature and single / group borrower exposures. To ensure adequate diversification of risk, concentration ceilings have been set up by the Bank on different risk dimensions, in terms of borrower/ business group, geographic state, unsecured lending ratio and risk grading (for institutional lending).

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

<u>Definitions of past due and impaired loans</u>

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

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

  - The instalment or interest thereon remains overdue for one crop season for long duration crops;
- The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitisation transaction undertaken in terms of the Reserve Bank of India (Securitisation of Standard Assets) Directions, 2021.
- In respect of derivative transactions, the overdue receivables representing positive mark to- market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment. The Bank had no derivative transaction on its books.

The Bank is guided by the provisions laid down in Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances dated April 1, 2023 as amended from time to time.

Provisioning norms of the Bank

1) The Board reviews the provisioning norms of the Bank at regular intervals to determine if any enhanced provisioning is required based on credit performance. Despite a history of low Portfolio at Risk (PAR) and delinquencies, the microfinance portfolio of the Bank (the Bank's flagship offering) is unsecured where adverse and acute events (such as demonetization and the Pandemic) can impact the portfolio quality. To enhance the coverage on MB-RB portfolio, the Bank continuously identifies incipient stress in specific accounts and geographies where accelerated provisions may be required on an on-going basis.
2) The Bank's NPA Management Policy, on the directions of the Board, has adopted an accelerated provisioning regime which is higher than the RBI mandated provisioning norms since inception. The Bank's Risk Management Department undertakes a proactive assessment of the likely GNPAs, NNPA, Provision Coverage Ratio (PCR) and incremental credit/provisioning costs by studying historical delinquency trends and external developments which can have a bearing on the asset quality and credit costs. During the financial year FY 21-22, as a one-time measure, the Bank had created a Floating Provision amounting to Rs. 25,000 lakhs to address the risk of any recurrence of pandemic associated mobility restrictions. The decision to create a floating provision was made as there was no scientific consensus on the severity and frequency of future pandemic waves. While the chances of a fresh wave with similar levels of severity are low, the presence of the floating provision acts as a strong bulwark to protect against unexpected losses of any kind.
3) As on September 30, 2023, out of Rs. 25,000 lakhs, Rs. 12,000 lakhs are allocated for netting off Gross NPA for the purpose of computing NNPA/ PCR, while Rs. 3,000 lakhs have been factored as part of Tier II capital. The residual balance of Rs. 10,000 lakhs have been grouped as part of other provisions without utilising the same towards Tier II capital. This amount continues to be earmarked for netting off GNPA as and when warranted.

4) RBI released a discussion paper on **Expected Credit Loss (Loss) framework for provisioning** by banks. Currently, banks are mandated to set aside provisions as per the IRAC guidelines which follows the **'incurred loss'** approach. The proposed approach aims to recognize Significant Increase in Credit Risk (SICR) on a forward-looking basis which is expected to strengthen the banking system. The discussion paper has provided the following directions:
   - ECL amount is expected to be over and above IGAAP.
   - To avoid the capital shocks in banks, incremental provision required under ECL (ECL minus IGAAP) can be added back to Common Equity (Tier 1). This benefit to be phased out in 5 years.
   - A bank may choose to phase it out on a shorter period as per their own plan.

<u>Credit Risk Portfolio review and Monitoring:</u>

<u>Micro finance Portfolio:</u>

A comprehensive review of the MBRB Portfolio for past quarters is given below:

Rs. in lakh

MBRB	Sep-22	Mar-23	Jun-23	Sep-23
Gross Advances*	12,80,026.97	15,52,066.34	16,06,863.74	17,78,964.36
GNPA(Value)	63,291.54	37,028.49	33,950.89	33,565.45
GNPA%	4.94%	2.39%	2.11%	1.89%

**Excluding IBPC/ Securitization/DA transactions.*

The Micro-banking vertical registered total disbursements of Rs.9,10,692.61 lakhs in Q2 FY 2023-24. The Bank undertakes portfolio monitoring on a periodic basis with specific focus on key portfolio triggers. Continuous review of portfolio enables the Bank to identify incipient stress at cluster/region/state/branch level. Breach in the internal thresholds for default is the starting point for identifying risk in the portfolio. Risk indicators such as PAR30+, PAR90+, early delinquencies, quick mortality, non-starters, On Time Repayment Rates (OTRR), Collection Efficiency (CoE), stressed assets percentage and lagged PAR estimates provide useful insights in risk identification.

The Bank monitors collection trends at a bucket level on a daily basis and findings are reported to top management. Collection monitoring is aided by a strong and dedicated collection team at ground level with extensive use of analytics and digital tools. Digital collection continues to scale up through existing and new channels like Fintech, Payment Banks, Money Mitra outlets (BC outlets) and the Hello Ujjivan Mobile application.

The composite collection efficiency (CE%) had reached nearly 100% in the month of September 2023. The efforts of enhanced monitoring and collections enabled the Bank to arrest fresh slippages (incremental overdues) and also increase the recovery rates in delinquency buckets.

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

For the ensuing financial year, specifically in GL (Group Loan) vertical there would be increased focus on staff productivity. The vertical will also review existing processes for digital adoption –paperless/signatureless. In the IL (Individual Lending) vertical, the Bank is exploring to revamp its open market segment for retailers and also providing gateways to scale up pre-approved loans of IL and repeat loans. On the digital front, the Micro banking vertical is exploring possibilities in increasing cashless repayments via personalised payment link to customers, mapping of partner kiosk points etc.

Affordable Housing Loans

A comprehensive review of the Housing Portfolio for past quarters is given below:

Amt in Rs. Lakhs.

Housing Loans	Sep-22	Mar-23	Jun-23	Sep-23
Gross Advances*	2,25,750.10	3,11,398.13	3,39,651.29	3,77,513.17
GNPA(Value)	10,758.74	8,877.83	8,623.02	8,691.87
GNPA%	4.77%	2.85%	2.54%	2.30%

**Excluding IBPC/ Securitization/DA transactions*

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

During Q2 FY 2023-24, affordable housing unit comprised of 15% of the total gross loan book. The vertical disbursed Rs. 54,100 lakhs in this quarter, resulting in a total book size of Rs. 4,03,600 lakhs. SARFAESI initiations were accelerated which led to faster recoveries from NPA accounts. The Bank has recovered Rs.2,2,22.95 lakhs through SARFAESI recoveries in Housing Accounts in HY 2023-24.

During the quarter, the Regulator has issued two specific guidelines which affects affordable housing operations.

1. The RBI guidelines on 'Reset of floating interest rate on EMI based personal loans'

dated August 18, 2023 mandates banks to consider the repayment capacity of borrowers to ensure that adequate headroom/ margin is available for elongation of tenor and/ or increase in EMI, in the scenario of possible increase in the external benchmark rate during the tenor of the loan. The circulate prescribes six specific measures covering benchmark communication to borrowers, optionality to switch to fixed rate loans, option to borrowers to customize their loan rescheduling in the event of increase in benchmark, transparency in costs, safeguards to avoid negative amortization and provision of loan financial statements to borrowers. The guidelines mandates to ensure that the above instructions are extended to the existing as well as new loans suitably by December 31, 2023. The Bank has taken cognizance of the same and making requisite changes in systems, processes and policies to comply in this regard.

2. The RBI guidelines on ‘Fair Lending Practices- Penal Charges in Loan accounts’ dated August 18, 2023 mandates banks to adopt certain measures on application of penal charges. The guidelines mandated that the intent of levying penal interest/charges is essentially to inculcate a sense of credit discipline and such charges are not meant to be used as a revenue enhancement tool over and above the contracted rate of interest. The directions prescribed in the guidelines are made effective from January 1, 2024. The Bank has taken cognizance of the same and making requisite changes in systems, processes and policies to comply in this regard.

MSME (Micro and Small and Medium Enterprise)

A comprehensive review of the MSME Portfolio given below:

Rs. in lakh

MSME	Sep-22	Mar-23	Jun-23	Sep-23
Gross Advances*	1,81,947.44	1,59,335.80	1,50,787.08	1,44,170.48
GNPA(Value)	15,430.87	14,013.74	14,745.42	14,161.17
GNPA%	8.48%	8.80%	9.78%	9.82%

**Excluding IBPC/ Securitization/DA transactions*

At the commencement of FY 2023-24, the Bank’s MSME unit underwent a comprehensive transition through discontinuation of all existing products and launch of new products. The MSME business will now focus on providing Loan Against Property (LAP) with semi-formal and formal customers as the target segment. In addition to LAP, the MSME will also offer tailored products on working capital facilities, supply chain financing and Fintech based loans. The Banks has launched semiformal LAP in Q1, which is now scaling up. The Bank is investing on internal capabilities to address the other business lines like Fintech Partnership, working capital financing, Supply chain financing, etc; This vertical also intends to leverage digital analytics for MIS/reporting automation.

During the Q2 of FY 2022-23, the Bank set up a **Health council** under the ambit of **Credit Risk Monitoring Unit (CRMU)**. The Health Council is mandated to specifically review delinquency cases and deliberate on ways to improve the asset quality of the MSME portfolio. The Health Council is convened at monthly intervals with representation from Credit, Risk, Collections and Business teams who are empowered to take decisions against erring borrowers.

Institutional Lending

A comprehensive review of the Institutional Lending Portfolio is given below:

Rs. in lakh

FIG	Sep-22	Mar-22	Jun-23	Sep-23
Gross Advances	93,882.35	1,12,752.62	1,21,795.79	1,30,369.79
GNPA(Value)	441.68	441.68	441.68	441.68
GNPA%	0.47%	0.39%	0.36%	0.34%

During Q1 FY 2023-24, FIG vertical disbursed Rs.32,000 lakhs which is a 113% increase Y-O-Y. In Q1, FY 23-24, the share of the institutional lending book of the Bank continued to be ~5 % of the overall lending book and registered a collection rate at 100%. As part of monitoring, the Bank regularly reviews compliance to financial covenants (Capital Adequacy Ratio, GNPA, NNPA, Debt/Equity ratio as stipulated in sanction letter), collection of CA certified receivables statement and potential Early Warning Signals (EWS) alerts.

Vehicle Loans

A comprehensive review of the Vehicle loan Portfolio given below:

Rs. in lakh

VF	Sep-22	Mar-23	Jun-23	Sep-23
Gross Advances*	15,315.71	14,032.81	13,339.37	14,252.23
GNPA(Value)	1,439.32	875.12	769.87	737.41
GNPA%	9.40%	6.24%	5.77%	5.17%

**Excluding IBPC/ Securitization/DA transactions*

The Bank has restarted its lending in the two-wheeler segment, albeit on a cautious note. Functionality to collect repayments through third party payment aggregators and other online portals was also enabled to provide ease of transaction. The Bank has engaged with a vendor for introducing a Loan Origination System (LOS) to aid in digital onboarding. The project has gone live though on a pilot basis pending all India launch. The business model is focused on sourcing new loans through tie-ups with direct dealerships. The Bank is also in the advanced stages of developing a trade advance facility to dealers. This is expected to be launched in the ensuing quarter.

Personal loans:

The Bank has temporarily put on hold any lending to this segment as part of its strategic plan to reduce potential concentration in unsecured loans for FY 2023-24.

Gold Loans and Micro LAP:

With an objective to diversify away from Microfinance which is largely unsecured and reduce concentration risk, the Bank has placed top priority in venturing into new business lines which are secured with underlying collateral. The Bank intends on leveraging the synergy in the target customer segment and has identified gold loans and Micro- LAP loans as key enablers to meet the dual target of secured loans ratio and profitability targets.

During Q3 FY22-23, the Bank had revamped its Gold loan product schemes with additional features and safeguards and relaunched the schemes in November 2022. The Gold Loan is now being offered in 23 branches. By Q3FY2024, the Bank intends on expanding its offerings in Gold Loans in 63 branches covering 4 states i.e. Karnataka, Tamil Nadu, Kerala, Assam.

Micro LAP as a product offering, was launched within the Housing unit to cater to the financing needs of customers with a collateral. The product has been launched majorly in Tamilnadu, Karnataka and also in Maharashtra, Gujarat. The disbursements trends (in value) of the Product is given below:

Particulars	April' 23	May'23	June'23	July'23	Aug'23	Sept'23
Disbursement-MLAP Actuals	400	500	900	1100	1200	1300

Credit Risk Monitoring Unit (CRMU)

As per management directives, CRMU was created during FY2023 within the Credit Risk Department under the supervision of the Bank's Chief Risk Officer. Some of the key activities undertaken by CRMU during Q2 FY2024:

- Conducted monthly Health Council with CRO, CBO and CCrO as council members. The idea of these health councils was to provide an insight into ongoing concerns in the MSME portfolio and get case specific feedbacks directly from the field which includes Regional Credit Managers, Business as well Collection Team

- Analysis of credit proposals disbursed under newly launched MSME Program "Prime LAP Semi Formal" during Q2 FY2024. A detailed report was placed to the MD & CEO, CRO, CCrO, MSME Business Head and all the respective RCMs. The report highlighted findings at a case level. Feedback and recommendations for improving product/credit appraisal standards were highlighted.

Other Credit Risk management initiatives:

In a continuous endeavour to improve risk management practices, the Bank has, over time, transitioned from being reactive to proactive. In the post pandemic period, the Bank has put in place tools and techniques in order to transition to a proactive approach.

District Risk Index (DRI) and DPM (District Performance Matrix) was developed to identify and monitor high risk branches on the basis of pre-specified parameters. The Bank is monitoring and taking appropriate steps towards any findings from the matrix.

The Bank has developed an Early Warning System (EWS) framework at an account level to detect and monitor account level behaviour patterns. This framework aids in identifying early signs of stress in loan accounts for early intervention and follow-up. The Bank has onboarded a vendor to put in place a system to capture feedback and enable on going monitoring. The system is currently under configuration and is expected to go-live sometime in Q4FY2024.

With the availability of credit and loan performance data in the post pandemic period, the Bank has restarted its risk analytics journey for development of statistical application scorecards. Application scorecards are being redeveloped with post pandemic data for microfinance, vehicle and housing loans. Leveraging on the EWS outputs, the Bank also intends on developing behavioural scorecards, the outputs of which will be used in advances capital charge calculation frameworks (FIRB approach).

6.2. <u>Quantitative Disclosures</u>

The overall distribution of Gross advances and Gross Loan Book as at September 30, 2023 was as under:

Rs. in lakhs

Vertical	Gross Advances	%	Gross Loan Book	%
MB&RB	17,78,964.36	71.48%	19,21,464.36	72.31%
FIG Lending	1,30,369.79	5.24%	1,30,369.79	4.91%
Housing	3,77,513.17	15.17%	4,03,566.95	15.19%
MSME	1,44,170.48	5.79%	1,44,170.48	5.43%
Personal Loans	9,971.82	0.40%	9,971.82	0.38%
Staff Loan	13,535.01	0.54%	13,545.65	0.51%
Vehicle Finance	14,252.23	0.57%	14,252.23	0.54%
Loan/OD Against Deposit/Gold loan	20,073.31	0.81%	20,073.31	0.76%
Total	24,88,850.16	100.00%	26,57,414.58	100.00%

<u>Exposure summary: Facility type</u>

Exposure Type	Domestic (Rs. in Lakhs)	Overseas
Fund- Based exposure[26]	38,25,707.79	--
Non- Fund Based Exposure*	46,519.69	--
LESS: CRM DEDUCTIONS (GNPA Provisions held)	(44,398.44)	
Total	38,27,829.03	--

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

Geographic Distribution of advances (State-wise)[27] (Rs in lakhs)

States	Advances (excluding IBPC/ Securitization/ Direct Assignment)	% Share
Tamil Nadu	3,57,907.11	14.38%
West Bengal	3,00,536.72	12.08%
Karnataka	3,29,677.39	13.25%
Maharashtra	2,37,218.69	9.53%
Bihar	1,58,529.11	6.37%
Gujarat	2,02,520.35	8.14%
Haryana	1,33,186.35	5.35%
Uttar Pradesh	1,71,966.44	6.91%
Rajasthan	1,06,880.53	4.29%
Odisha	61,113.72	2.46%
Punjab	64,247.92	2.58%
Assam	25,096.05	1.01%
Jharkhand	58,865.81	2.37%
Kerala	45,223.80	1.82%
New Delhi	1,17,700.91	4.73%
Madhya Pradesh	38,499.31	1.55%
Tripura	26,487.56	1.06%
Pondicherry	13,785.11	0.55%
Chhattisgarh	11,463.98	0.46%
Uttarakhand	13,672.18	0.55%
Chandigarh(UT)	5,432.52	0.22%
Meghalaya	3,077.81	0.12%
Himachal Pradesh	2,932.59	0.12%
Goa	1,545.33	0.06%
Telangana	1,282.88	0.05%

[26] Fund Based exposure is computed as per Basel II guidelines
[27] Geography wise loans and advances is excluding IBPC and Securitization

Maturity pattern of assets and liabilities

Rs. in lakhs

Buckets	Net Advances after netting off IBPC/Securitisation/Direct assignment	Investments	Deposits	Borrowings
Day – 1	211	5,09,262	11,286	770
2-7 Days	24,481	7,806	69,491	1,81,174
8-14 Days	42,154	14,860	60,055	0
15-30 Days	41,540	21,249	77,383	0
31 Days and up to 2 months	1,17,817	30,111	76,794	0
Over 2 months and up to 3 months	1,20,932	27,046	1,03,213	9,050
Over 3 Months and up to 6 months	3,39,021	90,206	2,64,974	19,820
Over 6 Months and up to 1 year	5,84,802	1,86,377	11,32,055	27,140
Over 1 Year and up to 3 years	7,60,240	1,65,220	10,89,673	54,810
Over 3 Year and up to 5 years	78,728	19,100	10,577	46,960
Over 5 years	3,22,574	21,738	18,426	8,556
Total	24,32,500	10,92,975	29,13,927	3,48,280

Gross Non-performing assets (NPA)

Rs. In Lakh

Category of Gross NPA	Sep-22	Dec-22	Mar-23	Jun-23	Sept-23
Sub-standard	33,843.51	29,983.09	23,604.11	25,496.61	27,395.28
Doubtful	58,833.04	43,566.93	39,239.83	33,965.53	30,265.28
Loss	209.73	204.87	217.00	191.62	919.22
Total	**92,886.28**	**73,754.89**	**63,060.94**	**59,653.76**	**58,579.78**

Rs. In Lakh

NNPA	Sep-22	Dec-22	Mar-23	Jun-23	Sept-23
Net NPA	16,733.34	15,948.09	12,903.83	13,262.39	14,181.34
NNPA after factoring Floating Provisions	733.34	948.09	903.83	1,262.39	2,181.34

NPA Ratios	September 2022	December 2022	March 2023	June 2023	Sept-23
Gross NPA to Gross	5.06%	3.64%	2.88%	2.62%	2.35%

Advances (excluding IBPC/Securitisation/DA) [28]					
Net NPA to Net Advances (excluding IBPC/Securitisation/ DA)[29]	0.04%	0.049%	0.042%	0.057%	0.0897%

Movement of Net NPAs (Quarterly basis)

Rs. In lakh

Particulars	Sep-22	Dec-22	Mar-2023	June 2023	Sept 2023
Opening Balance	9,959.79	9,959.79	9,959.79	903.83	903.83
Additions during the period	11,042.04	14,802.89	14,805.19	7,052.85	12,819.62
Reductions during the period	20,268.48	33,814.59	36,861.14	6,694.29	11,542.12
Closing Balance	**733.34**	**948.09**	**903.83**	**1,262.39**	**2,181.34**

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

Rs. in lakh

Particulars	Sep-22	Dec-22	Mar-23	June- 2023	Sept-2023
Opening Balance	93,447.94	93,447.94	93,447.94	50,157.11	50,157.11
Provisions made during the period	21,413.52	24,008.36	25,255.03	6,811.00	13,729.98
Write back of excess provisions	38,707.06	59,649.49	68,545.86	10,576.75	19,488.65
Closing Balance	**76,154.40**	**57,806.81**	**50,157.11**	**46,391.37**	**44,398.44**

Provision Coverage Ratio (PCR)

Rs. in lakh

Category	Gross Advances after netting off IBPC, Securitization & Direct Assignment	GNPA on gross advances	GNPA Provisions on gross advances	Floating Provisions Considered for NNPA*	PCR% on gross advances
MB-RB	17,78,964.36	33,565.45	25,855.66	10,500.00	108.31%
FIG Lending	1,30,369.79	441.68	441.68	0	100.00%
Housing	3,77,513.17	8,691.87	6,168.94	0	70.97%
MSME	1,44,170.48	14,161.17	10,626.94	1,500.00	85.64%
Personal Loans	9,971.82	968.31	700.62	0	72.35%
Staff Loan	13,535.01	12.03	6.58	0	54.76%

[28] Gross NPA to Gross Loan Book (including IBPC/Securitisation/Direct Assignment) was 2.63% as on March 31, 2023

[29] Net NPA to Net Loan Book (including IBPC/Securitisation/Direct Assignment) was 0.04% as March 31, 2023

Vehicle Finance	14,252.23	737.41	596.17	0	80.85%
Loan/OD Against Deposit	20,073.31	1.86	1.86	0	100.00%
Grand Total	24,88,850.16	58,579.78	44,398.44	**12,000.00**	**96.28%**

*Rs.12,000 lakh considered for the purpose of netting of GNPA and factoring the benefit in NNPA/PCR computation.

Write off:[30]

Rs. in lakh

Particulars	Total Write off undertaken
HY FY 2023-24	11,628.35

Non-performing Investments (NPI)

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

Movement of provisions for depreciation on investments

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

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

7.1. Qualitative Disclosures

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

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

c. Institutional lending is risk-weighted as per ratings assigned by Eligible Credit Rating Agencies (ECRA) as prescribed by RBI. During the year, the Regulator had issued specific guidelines with respect to treatment of exposures with instances of rating withdrawal

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

and unrated exposures in relation to total borrowings from industry. The Bank has taken cognizance of the same.

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

7.2. Quantitative Disclosures

Details of Gross Credit Risk Exposure (Fund based and Non-fund based) based on Risk Weight – Position as on September 30, 2023		
Sl. No.	**Risk Weight**	**Rs. in lakh**
1	Below 100% Risk Weight	33,65,464.42
2	100% Risk Weight	5,03,490.09
3	More than 100% Risk Weight	3,272.96
4	Deductions (GNPA PROVISION)	(44,398.44)
5	**Total**	**38,27,829.03**

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

8.1. Qualitative Disclosure

The Group Loan and Individual Loan portfolio, under microfinance is unsecured. Loans to the Affordable Housing segment are collateralized by a mortgage over the property financed. There are primarily secured product variants under MSME loans. 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[31] in a few instances for risk mitigation under secured Institutional lending and MSME loans. These financial collaterals are netted off for

[31] 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

its collateralized transactions under comprehensive approach[32] while computing its Risk Weighted Assets (RWA). The Bank regularly reviews the health of the portfolio/ borrowers and works on mitigation of any risk associated with the portfolio or borrower in particular through a combination of limits and restrictions.

The Bank has in place the following risk mitigation techniques for its loan portfolio which are as follows:

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

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

9.1. Qualitative Disclosure

9.1.1. Securitisation Objectives

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

The RBI issued 'Updated Securitisation Guidelines' on December 5th 2022 (hereinafter, the 'revised securitisation guidelines') covering Securitisation of Standard Assets. The said guidelines define minimum holding period, minimum retention requirements, due diligence, credit monitoring, stress testing requirements etc. The Regulator has also revised "Master Direction – Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021' dated September 24, 2021 (updated on December 5, 2022) covering transfer of loan exposures (herein after, the 'transfer of loan exposure guidelines'). In compliance to the

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

guidelines, the Bank has put in place appropriate policies for undertaking these transactions.

The overall framework for the Securitisation of Standard Assets for the Bank is specified in the Board approved policy on Securitisation of Standard Assets. During the Q1 2022-23 the Bank had undertaken 'sale' transactions through securitisation route and Direct assignment.

9.1.2. The major risks inherent in Securitisation of Standard Assets and Transfer of Loans are given below:

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

Market Risk:

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

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

Operational Risk

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

Reputational Risk:

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

Prepayment Risk:

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

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

The Bank has established appropriate risk management processes to monitor the risks on Securitisation of Standard Assets which include:

Monitoring credit risk

The Bank, in the capacity of collection and processing agent prepares monthly performance reports which are circulated to investors/ rating agencies. The securitised pools are continuously monitored and those requiring attention are subjected to specific interventions (e.g. focused collection efforts in affected geographies) to improve their performance. The pool is also monitored by the rating agencies based on amortisation level, collection efficiency, credit enhancement utilisation levels and credit cover available for balance deal tenor.

Monitoring market risk

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

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

Originator / Seller

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

Servicer

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

Provider of Liquidity Facilities

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

Credit Enhancement provider

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

9.1.4 Significant Accounting Policy for Securitisation and Direct Assignment of Standard Assets

The Bank as originator sells assets to a special purpose entity only on cash basis. Standard Assets transferred through securitisation are de-recognised in the Balance Sheet when they are sold (true sale criteria being fully met with) and consideration is received. Sales / transfers that do not meet true sale criteria are accounted for as borrowings. Standard assets transferred through direct assignment are de-recognised in the Balance Sheet of the Bank to the extent a portion of the rights, title and interest of the Bank in the underlying loans has been assigned. The Bank follows the accounting treatment specified in the revised securitisation guidelines and transfer of loan exposure guidelines for any realised and unrealised gain arising from the securitisation transactions.
The Bank transfers advances through inter-bank participation with risk. In the case of participation with risk, the aggregate amount of the participation issued by the Bank is reduced from advances.

9.1.5 Rating of Securitisation Transaction

During FY 2023-24, the Bank used the ratings provided by CARE Ratings limited for the securitisation of retail pools.

9.2. Quantitative Disclosures

Details of Securitisation exposures in the Banking Book

Rs.in Lakh

Total Exposures Securitised by the Bank*	-

*Represents total exposure of loans securitised and sell-downs via Direct Assignment during Q 2 FY 23-24

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

Rs.in Lakh

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

*PTC- Pass Through Certificate

Assets to be securitised within a year as on September 30, 2023

Rs.in Lakh

Exposure type	Amount

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

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

Rs.in Lakh

Exposure Type	**Amount***	**Unrecognised gains / (losses)**
PTC (underlying assets being Loan against property)	17,633.27	-
Direct Assignment	8,420.51	
Total	**26,053.78**	**-**

*The amount represents the total outstanding for Securitization and Direct Assignment as on September 30, 2023.

Securitisation exposures retained or purchased

Rs.in Lakh

Exposure Type	**On Balance Sheet***	**Off Balance Sheet**	**Total**
Equity Tranche	1,262.94	-	1,262.94
Overcollateralization	1,969.22		1,969.22
Direct Assignment	979.77		979.77
Total	**4,211.93**	**-**	**4,211.93**

***** Represents total principal amount of investment in Equity Tranche, Overcollateralization and Direct Assignment outstanding under risk sharing as at September 30, 2023

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

Rs. In lakh

Exposure Type	**50% weight**	**75% risk weight**	**114% risk weight***	**125% risk weight**	**Total**
Equity Tranche (underlying assets being Loan against property)			1,262.94		1,262.94
Total			**1,262.94**		**1,262.94**

* Calculated as per formula prescribed in Master Direction – Reserve Bank of India (Securitisation of Standard Assets) Directions, 2022

Securitisation exposures deducted from capital –

Exposure Type	Exposure deducted entirely from Tier-1 capital	Credit enhancing interest-only strips deducted from total capital	Other exposures deducted from total capital
Overcollateralization	1,969.22	-	-
First Loss Credit Enhancement	1,989.81	-	-
Total	**3,959.03**	**-**	**-**

Details of Securitisation Exposures in the Trading Book

- NIL

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

10.1. <u>Qualitative Disclosures</u>

<u>10.1.1. Overview of Market Risk Management</u>

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

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

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

Investments: The Bank has a Board approved policy to make investments in both SLR and Non SLR securities. The Bank had investments in the following instruments: Government of India Securities (G Sec), Treasury Bills (T Bills), State Development Loans (SDL), Certificate of

Deposits (CD), Commercial Papers (CP), Mutual Funds (MF) and one legacy investment in an unquoted equity. The Bank had also made a token investment in a New Umbrella Entity (NUE) in association with National Payment Corporation of India (NPCI) and investment of Rs. 1,263 lakhs as Pass through Certificates as part of the Securitisation deal executed during FY 2022. The Bank resumed investments in non SLR securities such as certificate of deposits, commercial papers and Mutual Funds during Q2 FY 2024 after successfully completing the automation of NPI module. As on September 30, 2023, the investment holdings in various SLR and Non SLR instruments were as under:

Rs. in lakh

	AFS		HFT		HTM	
Instruments	**BV**	**MV**	**BV**	**MV**	**BV**	**MV**
SLR						
G Sec	22,427.89	22,402.07	18,186.34	18,193.66	410,101.63	399,687.12
SDL	0	0	0	0	142,397.52	140,094.14
STRIPS	0	0	0	0	0	0
T Bill	366,163.81	366,163.81	0	0	0	0
Total SLR	**388,591.70**	**388,565.88**	**18,186.34**	**18,193.66**	**552,499.15**	**539,781.26**
NON-SLR						
PTC	1,262.94	1,369.48	0	0	0	0
Equity	10.02	11.32	0	0	0	0
CP	24,731.29	24,731.29	0	0	0	0
CD	72,720.82	72,720.82	0	0	0	0
MF	34,998.25	35,263.58	0	0	0	0
Total NSLR	**133,723.32**	**134,096.49**	**0**	**0**	**0**	**0**
Total Investment	**522,315.02**	**522,662.37**	**18,186.34**	**18,193.66**	**552,499.15**	**539,781.26**

During the quarter, the Bank had added ~Rs. 47,410 lakhs of securities in its HTM portfolio. There was no transfer of securities from HTM to AFS portfolio in the current quarter.

As at Sep 30 ,2023, the negative MTM was Rs. 25.82 lakhs mainly from G-Sec (Government Security) positions held in HFT and AFS. As the upward rate cycle was towards the fag end, the Bank started increasing the duration of securities in HTM portfolio and HTM duration stood at 4.36 years. The Bank continued to operate under the HTM limit of 23% applicable until March 31 ,2024. The HTM% of the investment portfolio was ~19.27% as at reporting date. Presently, the Regulator has paused the rate hike to assess the percolation levels of the previous rate hikes and its resultant impact on inflation. The Bank monitors the market signals and yield curve for any investment opportunities which can maximise yield. The current investment mix of the HTM portfolio is well poised to generate a positive MTM in the event of interest rate reduction. From risk management standpoint, the duration mix of the investment portfolio is also strategically maintained in a manner to limit incremental negative MTM in the event of recommencement of rate hikes.

The investment into SLR securities is undertaken for the purpose of regulatory compliance i.e. SLR maintenance and for Asset Liability Management (ALM). Investment in SLR securities is held as both HTM and AFS, majority of Investments in AFS is in the form of Treasury Bills with small part of the AFS portfolio held in Central Government securities. The mandatory requirement for maintenance of SLR as stipulated by RBI is 18.00% of Net Demand and Time Liabilities (NDTL). The Bank has complied with the regulatory SLR requirement and has maintained SLR much above the requirement. During the quarter, the average SLR requirement and maintenance was as below:

Rs. in lakh

Month	Average SLR requirement	Average SLR maintenance	Average SLR requirement maintained as a % of NDTL
Jul-23	477,654	890,501	33.56%
Aug-23	489,046	897,365	33.03%
Sep-23	507,707	900,142	31.93%

The maintenance of SLR was higher than the minimum requirement which is in line with its Board directive. The Bank maintains a higher SLR on account of two reasons viz. 1) risk management, in that, to ensure a cushion in case of a contingency, to keep a healthy Liquidity Coverage Ratio (LCR) at all times and also to ensure that the regulatory thresholds for the Structural Liquidity Statement (SLS) limits are not breached and 2) availability of liquid assets for non-SLR investments as an avenue to optimise the yield on investment portfolio.

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

The Bank resumed non SLR investments from June 2023 onwards and has made investments in CD, CP and debt and liquid mutual funds. The investment is undertaken with an objective of diversifying the investment portfolio and maximising the yield on the investment portfolio by deploying surplus liquidity. The transactions in non SLR investments were within the Board approved policies and regulatory thresholds.

During the quarter, the Regulator has issued Master Direction - Classification, Valuation and Operation of Investment Portfolio of Commercial Banks (Directions), 2023 on September 12, 2023. As per the new guidelines, the Banks are now allowed to hold non- SLR investments in the HTM portfolio. Shifting of securities between HTM to AFS is now allowed anytime during the year with the permission of RBI. Likewise, the guidelines also covers the changes made in investment classification, accounting and valuation norms and enhancements in disclosures. These guidelines are effective from April 1, 2023. The Bank has taken cognizance to the directions and has constituted an internal working group to undertake the necessary changes in systems, processes and policy aspects.

10.1.2. Liquidity and Liquidity Risk Management:

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

Market Risk team keeps the senior management and the Board apprised of the Liquidity situation of the Bank through regular updates to the ALCO and RMCB. As a part of the update, a detailed analysis on cash flow projections, recommendations, constraints (if any), scenario analysis on various regulatory ratios and ALM position of the Bank are being placed at regular intervals.

Liquidity Risk Management is governed as per the provisions of the ALM policy. The ALM position for the Bank was well managed and regulatory thresholds complied with in Q2FY24. The Bank has various avenues to leverage upon in mitigating any future liquidity shortfalls. Some of the measures include securitization, Direct Assignment, IBPC transactions, refinance and term loan facilities from Bank. The Bank is prioritizing long-term funding through deposit mobilization. The liquidity position of the Bank is at comfortable levels with LCR hovering above 150% during Q2 FY 23-24.

Despite the challenges faced on account of spiralling inflation, liquidity reduction in the market and increase in policy interest rates, the Bank's ALCO took various proactive measures to align the Bank's funding and interest rate risk management strategies to evolving market dynamics by tweaking the interest rate offered on deposits and advances, diversifying funding avenues with the twin objective of staggered maturities and controlled increase in cost of funds and revisiting the investment portfolio limits which helped to minimise the impact of risks and aiding balance sheet growth. Besides, ALCO reviewed the outcomes of stress testing scenarios, contingency funding buffers, cash flows and LCR projections on ex-ante basis to ensure that the Bank maintains resiliency to liquidity and interest rate risks.

10.2. Quantitative Disclosures

Liquidity Coverage Ratio (LCR)

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

Liquidity Coverage Ratio			
Date	**Q1 Quarterly Average**		**Rs. in lakh**
A	**High Quality Liquid Assets**	**Amount**	**Adjusted Amount**
	Level 1 Assets	8,81,350.41	8,81,350.41
B	Total Stock of HQLAs	-	**8,81,350.41**
C	Cash Outflows	**22,07,837.10**	**6,09,406.67**
D	Cash Inflows	**2,15,502.18**	**1,34,711.39**
E	Net Cash flow	-	**4,74,695.28**
F	25% of Total Cash Outflow	-	**1,52,351.67**
G	Higher of E or F	-	**4,74,695.28**
Liquidity Coverage Ratio		**185.67%**	

Net Stable Funding Ratio (NSFR): NSFR is defined as the amount of available stable funding relative to the amount of required stable funding. "Available Stable Funding" (ASF) is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. The amount of stable funding required ("Required Stable Funding") (RSF) of a specific institution is a function of the liquidity characteristics and residual maturities of the various assets held by that institution as well as those of its off-balance sheet (OBS) exposures. The minimum NSFR requirement set out in the RBI guideline is 100%.

The Bank's NSFR as at September 30 ,2023 was 140.56% as against RBI minimum requirement of 100%.

Rs. In Lakh

NSFR	Weighted Amount
Total Available Stable Funding (ASF)	24,70,459
Total Required Stable Funding (RSF)	17,57,616
NSFR	**140.56%**

11. Table DF- 9: Operational Risk

11.1. Qualitative Disclosures

11.1.1. Operational Risk Management Policy and Governance Structure

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

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

In the post pandemic era, the Bank has largely been successful in mitigating the risks of credit quality deterioration, collection risks, liquidity risks and interest rate risks which were largely triggered on account of external dynamics. The Bank has taken concerted efforts in reviewing the operational risk framework to identify and mitigate idiosyncratic risks in processes and systems. For instance, the Bank has identified various deficiencies in branch level operations which can exacerbate internal and external frauds. The presence of a few fraudulent instances identified during H1FY24 has helped the Bank in initiating a panoply of measures, all aimed at improving resilience of operations.

11.1.2. Risk identification, measurement, monitoring and reporting

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

Product and Process reviews: All new products and processes (including enhancements) are subject to a mandatory comprehensive review by the Operational Risk department. For process related approvals, PrAC (Process Approval Committee) has been constituted with effect from February 2021 and meetings are held at defined frequency. The Bank's Operational Risk team reviews and provides their observations for including additional controls for the risks identified during the assessment, if warranted. Subsequent to closure, the new/enhanced processes are placed at the PrAC for approval. The Bank continuously reviews and enhances its key processes to adapt to industry best practices. Operational Risk Management Department (ORMD) has approved 91 processes as on September 30, 2023. Few of them to note are SOP on Udyam Registration Number (URN) generation through

Udyam Assist Platform (UAP) confined to Micro Banking Vertical, Group Health Insurance for loan borrowers (Rural Banking), Updating Communication address and Re-KYC through IB & MB, Safe deposit lockers and Geo tagging, Geo fencing & Mobile number dedupe check in GLOW.
Implementation of Internal Ombudsman Scheme, Process note on Green PIN Generation via IB, MB, IVR, ATM, Pro-Collect - Collection Management System and E-receipts Management, SOP on Security Perfection Secured Assets, Process on Portfolio Code Management and Customer Mapping (CRM), UPI Lite - low value transactions processed at high speed and efficiency and Operational Guidelines – DLG for asset business through Fintech Partners, etc.

UAT Testing (including BRD and FSD): For any change management/ automation of products and processes, the respective department owners prepare a Business Requirement Document (BRD). The BRD is reviewed by key personnel from control and business functions for further improvements. Subsequently, the same is provided to the IT department within the Bank. The IT department then prepares a Functional Specification Document (FSD) detailing the scope of the project. Once the project is moved to testing stage, ORMD performs the User Acceptance Testing (UAT) along with other key stake holders to identify gaps in the actual deliverable versus that which was proposed in the BRD. These gaps are further addressed and closed before moving to production. As on September 30, 2023, 53 BRD's and FSD's were reviewed and UAT was undertaken for 104 new developments/changes/fix provided by IT covering Safe Deposit Locker, Validation of Aadhaar and PAN linking, Gold Loan LOS, Credit Nirvana Collection App, Maxima Savings, Current & Privilege Account, Loan acknowledgement through VMB, Gold Loan LOS, Bank guarantee – BB, Atal Pension Yojana, Family Banking grouping etc.

RCSA: RCSA (Risk and Control Self-Assessment) is a forward-looking tool to identify and assess the level of risk inherent in any activity / process, the causes responsible for that risk and the status of existing controls to minimize the risk. The outcome of RCSA provides insight into known as well as potential Operational Risk areas in various process / business lines. Business teams, being the first line of defence, are responsible for carrying out RCSA activity. ORMD, being second line of defence is responsible for providing necessary guidance, training and inputs to the First Line of Defence (FLOD) for carrying out the RCSA. To create a Risk culture in FLOD and assume ownership for this activity, a Special Point of Contact (SPOC) is identified in each department who is designated as Business Risk and Compliance Officer (BRACO) with whom ORMD shall engage. RCSA framework was approved in April 2021. Based on directions from the Board, in FY'23, RCSA is implemented in 5 identified departments of the Bank through BRACOs of the vertical who will ensure that RCSA is done on an ongoing basis by First line of defense. In FY'24, RCSA is planned to be performed in 10 identified departments through BRACOs of the vertical. Departments identified viz., Admin & Infra, Branch Banking, Credit, Digital Banking, Housing, Information Technology, Micro & Small Enterprises, Phone Banking, Service Quality & Treasury.

Key Risk Indicators: In FY’24, 40 KRIs continue to be monitored at Organization level. At functional level, 14 KRI’s are monitored for Branch Banking vertical, 14 KRI’s are monitored for Micro Banking vertical, 9 KRI’s for Secured Housing Loans, 25 KRI’s for Digital Banking as part of the ORM framework. The thresholds for the KRIs have been set in consultation with the respective stakeholders. These KRIs are analysed on the monthly basis and wherever breached observed those KRI’s are shared with the respective stakeholders for their action plan. The KRI’s across all the 5 functions (Organisation, Branch Banking, Micro Banking, Secured Housing Loans & Digital Banking) were computed till Q2 FY’24. Ops Risk has presented the KRIs along with the action plan provided by the department to ORMC and RMCB held in the month of Oct’23.
In Q2 FY’24, ORM has developed an Operational risk index for Micro banking vertical which covers key aspects from Operational risk perspective that can be monitored centrally, and which will also support the business vertical as trigger for initiating required actions.
In Q4 FY’24, ORM has planned to identify the KRIs for other departments viz., Vehicle Finance, Rural Banking, MSME and Operations.

Loss Data Management is in place to record material incidents and learnings 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. Bank has onboarded new vendor M/s. Acies to replace existing EGRC module SAS which was in place to record all loss events across the Bank till 30th June’2023. Significantly, the efforts of the Operational Risk team have resulted in greater reporting of operational risk incidents from the branches. The Bank has created a separate General Ledger Code (GLC) to record losses (separate for fraud and non-fraud) on account of these incidents and these are reported to the Board at quarterly intervals. The Bank encourages its personnel to report incidents in an unbiased manner without fear of any retribution. ORMD performed annual loss study on the loss database for FY’23 and analysed trends in Operational losses to provide a high-level Operational risk profile with focus on material and strategic implications for business.

The incident reporting process enables creation of loss database as per Basel definitions. The activities broadly include the following:

- Reconciliation of General Ledgers (GL) to operational loss as recorded in SAS;
- Root Cause Analysis (RCA) of critical events;
- Quarterly loss data submission to Board;

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

Loss Dashboard for YTD FY 23-24 (as on Sep’23):

	Count		Loss in lakhs			
Event Type	YTD Sep'22	YTD Sep'23	YTD Sep'23			YTD Sep'22
	Total	Total	Gross	Net	Ops Loss	Ops Loss
Business Disruption and Systems Failures	192	223	₹ 12.31	₹ 5.86	₹ 5.66	₹ 1.54
Clients, Products, and Business Practice	9	3	₹ 0.03	₹ 0.03	₹ 0.03	₹ 0.00
Damage to Physical Assets	4	4	₹ 0.00	₹ 0.00	₹ 0.00	₹ 0.00
Employment Practices and Workplace Safety	1	1	₹ 0.00	₹ 0.00	₹ 0.00	₹ 0.00
Execution, Delivery, and Process Management	158	816	₹ 107.64	₹ 91.13	₹ 14.61	₹ 4.88
External Fraud	127	149	₹ 104.79	₹ 35.30	₹ 18.15	₹ 11.66
Internal Fraud	178	113	₹ 103.94	₹ 62.74	₹ 0.00	₹ 8.83
Total	**669**	**1312**	**₹ 328.72**	**₹ 195.07**	**₹ 38.46**	**₹ 26.92**

#Gross loss refers to total amount involved in the reported incidents, Net loss refer to loss which got netted off post recoveries and Ops loss refer to the actual loss booked in Operational loss GL (Fraud & Non-fraud) in case of unsuccessful recovery efforts.

Thematic reviews: While carrying out RCSA, KRIs, UAT testing, incident reporting etc., Operational Risk team identifies few risk indicators warranting a special thematic review of the entire process. This enables the Bank to identify issues and gaps at minute level which are then taken up for rectification. These thematic reviews do not follow standardized risk identification techniques and therefore provide wider scope for a deeper and customized study of issues and gaps. Such thematic studies have enabled the Bank to further refine its existing processes and plug gaps that had been identified. In Q2 FY 23-24, ORMD team performed a gap analysis on branch banking BCP. Key gaps from the review were highlighted and discussed in ORMC held in the month of October 2023.

User Access reviews are conducted for critical applications to ensure that access and role matrix are well defined and that access is commensurate with the responsibility assigned. In FY 23-24, user access reviews is proposed to be performed for 21 applications which are used with the Bank. The bank has completed the review in 6 applications namely Finacle Treasury, Finacle, Br. Net, Oracle, Crismac (IRAC) and E-Kuber in H1 FY'24 and findings were shared with respective stake holders for initiating corrective action. The Bank has a process for user access review covering all the critical aspects of user life cycle starting from activation to de-activation of ID's, Review frequency, process to be followed for managing vendor ID's, Process to be followed for user de-activation on exit from organisation which is under review.

Exceptions Handling Mechanism is an initiative, which was initiated from July 2020 as guided by the National Controls and Compliance Committee. A list of 32 exception reports was identified and tagged to Operational Risk department of the Bank for initiating the review. In Q2 FY'24, 29 exception reports were reviewed, and exceptions identified in 19 reports, which will be taken up with stakeholders for discussing the gaps observed to undertake appropriate corrective actions.

Branch Assurance: Branches across regions are reviewed against a checklist devised by ORMD of the Bank to ensure adherence to branch processes. The checklist is reviewed and enhanced as and when required to strengthen monitoring of branches. Critical and repeat observations are shared with the leadership team for remedial /corrective actions. Checklist was reviewed and enhanced further which is implemented with effect from December 2022. In Q2 FY'24, ORM team had reviewed 116 branches PAN India against a plan to cover 120 branches. A monthly connect is also called for with leadership team at Regions to discuss on critical and key observations made by ORM team as part of their branch visit.

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 ORM team was assigned to define a new policy based on the RBI's IT Outsourcing Master Directions in April 2023. With the support of a working group consisting of members from Compliance, Legal, Finance, Alliances and Information Technology the new all-encompassing policy including financial and technology outsourcing was defined and put in place with approvals from the Board. Outsourcing undertaken by the Bank is also subject to an annual audit by the Internal Audit team who provide the required compliance certificate to RBI. Key activities undertaken during Outsourcing are as follows:

Pre - on boarding risk assessment: All outsourcing 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. Pre-on boarding risk assessment was carried out for 12 vendors as on September 30, 2023.

Post – on boarding risk assessment: All material vendors are also subjected to a periodic post on boarding risk assessment. This assessment is carried out by the respective unit that has outsourced the activity.

Annual review of material vendors: ORMD of the Bank along with Information security team of the Bank carries out annual risk review of material vendors especially for IT, Fintech and

Technical vendors. In FY ‘24, ORMD has planned to perform annual review for 35 identified vendors which includes Financial, IT and Bulk category.

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

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

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

The Bank reviews BCM policy and plan documents annually and enhances the documents as per the changes made in the Bank’s critical processes and activities. Bank also conducts periodic BCP testing considering various disruptive scenarios which helps identify the gaps in ensuring smooth recovery and resumption of the processes. On an ongoing basis, BCP testing for randomly selected branches is also conducted to ensure that the recovery process becomes more robust and efficient to recover from any disaster / crisis situation. Learnings are documented in the Business Continuity Plan for corrective action. In Q2 FY’24, 46 planned and 3 unplanned BCP’s were conducted across branches in Regions. Also 3 planned BC Exercises were conducted by Payments & Settlements, Transaction Banking & Treasury Operations. A vendor is on-boarded for completing BIA and RA for all the departments of the Bank and to review existing policies and enhance the same according to international standards. As on date, BIA is completed for all functions of the Bank. As part of BCM awareness, a tabletop exercise was conducted in Q2 of FY’24.

Internal Financial Control (IFC) testing: This is an annual exercise and carried out by ORMD of the Bank. The team along with concerned stakeholders prepares and enhances Risk and Control Matrices (RCMs) for activities performed by process owners. The financial and operational controls in these RCMs are then tested by collecting samples from across the review period covering different regions, which are then evaluated for success or failure of the control effectiveness. The critical gaps observed during such testing are discussed with concerned functions for upgrading controls which may include automation of the controls. The results of this evaluation are also presented to ORMC and RMCB to update them on effectiveness of the internal controls of the Bank and take guidance. These results are also shared with the Bank's statutory auditor to provide insight on adequacy and effectiveness of the controls in the Bank. In Q2 FY'24, ORMD initiated the IFC testing for all the 21 departments as per the plan and RCM enhancement is in progress.

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

12.1. Qualitative Disclosures

Interest Rate Risk in Banking Book (IRRBB) refers to the risk of loss in earnings and economic value of a bank's banking book as a consequence of movement in interest rates. For banking book, interest rate risk arises through mismatches in re-pricing of interest rate sensitive assets (RSA), rate sensitive liabilities (RSL). The Bank has identified the risks associated with changing interest rates on its exposures in the banking book from both a short-term and long-term perspective.

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

- Earnings at risk (Traditional Gap Analysis): The impact of change in interest rates on net interest income is analysed under this approach and calculated under yield curve approach. Under this approach a parallel shift of 200 basis points is assumed both in assets and liabilities.
- Economic Value of Equity (Duration Gap Approach): Modified duration of assets and liabilities is computed separately to arrive at modified duration gap. A parallel shift in yield curve by 200 basis points is assumed for calculating the impact on economic value of equity. Additionally, the Bank has also performed steepening of yield curve wherein a change in 100 basis points was considered linearly between 15-day and over 25-year maturities and using an inversion of the yield curve wherein One -year rates were increased by 250 basis points and 10-year rates were decreased by 100 basis points. Such shocks are monitored regularly in order to assess the impact of interest risk on the Bank's book and its potential impact on the Bank's business projections. These scenarios are as per the RBI guidelines on stress testing dated 02 Dec 2013.
- The cumulative hikes to the RBI repo rate in FY 2022-23 had also increased Interest Rate Risks (IRR) in the Bank, especially in the long-term floating rate loans. With increasing share of floating rate loans[33], the rate hikes of the past are likely to increase the tenor of loans, upon conversion to floating regime. The Bank took cognizance that, parallel shifts in pricing, if not passed on to customers, can squeeze profitability (Business risk) or any increase in EMI to counter extension in tenor might exacerbate defaults (Credit Risk) especially in the Affordable Housing segment. To address the same, the Bank has introduced a panoply of measures to counter the impact. The Bank has developed simulators to estimate impact on EMI/tenor increase. Using a combination of caps and floors on tenor/EMI/borrower age, systems are being reconfigured to provide the ideal

[33] The Bank offers Housing loans on fixed rate basis for the initial period of three years and floating thereafter

rescheduling which mitigates loss of income and default risk on best effort basis.

- The Bank has also undertaken various simulations to understand the impact of reduction in the valuation of Housing portfolio on account of rate hikes.
- As a risk measurement tool, the Bank has developed an IRRVaR model to aid in applying a Pillar II capital charge under ICAAP under pre-specified breaches to internal limits.

12.2. Quantitative Disclosures

12.2.1. Earnings at Risk (Earnings Perspective)

Rs. in Lakh

Interest Rate Risk in the Banking Book (IRRBB)			
Sl. No.	**Country**	**Interest Rate Shock**	
		+200 bps shock	**-200 bps shock**
1	India	**3,602.90**	**(3,602.90)**
2	Overseas	-	-
	Total	**3,602.90**	**(3,602.90)**

12.2.2. Economic Value Perspective (MDG Approach)

Rs. in Lakh

Category	Items	Amount
A	Computation of Aggregate RSA	36,07,108.39
B	Computation of Aggregate RSL	33,07,206.96
C	Weighted Avg. MD of RSL across all currencies	1.04
D	Weighted Avg. MD of RSA across all currencies	1.81
E	Modified Duration Gap (MDG)	0.86
F	Change in MVE as % of equity for 200 bps change in interest rate	15.02%
G	**Change in MVE in absolute terms**	**61,779.95**

12.2.3. Economic Value Perspective (Steeping of Yield Curve)

The Bank calculated the change in MVE using steepening of yield curve wherein a change of 100 basis points was considered linearly between 15-day and over 25-year maturities. Change in MVE under this scenario was (Rs.16247.90 lakh).

12.2.4. Economic Value Perspective (Inversion of Yield Curve)

The Bank calculated the change in MVE using Inversion of yield curve wherein one -year rate was increased by 250 basis points and 10-year rate was decreased by 100 basis points. Change in MVE under this scenario was (Rs. 2436.06 lakh).

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

Equity shares

Disclosure template for main features of regulatory capital instruments – Equity Shares		
Sr. No.	**Particulars**	**Details**
1	Issuer	Ujjivan Small Finance Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	ISIN: INE551W01018
3	Governing law(s) of the instrument	Applicable Indian Statutes and regulatory requirements
	Regulatory treatment	
4	Transitional Basel III rules	Common equity Tier 1
5	Post-transitional Basel III rules	Common equity Tier 1
6	Eligible at solo/group/ group & solo	Solo
7	Instrument type	Common Shares
8	Amount recognised in regulatory capital (Rs. in lakh, as of most recent reporting date)	Rs. 1,95,470.66 Lakh
9	Par value of instrument	Rs 10/-
10	Accounting classification	Capital
11	Original date of issuance	• Rs. 5 lakh – July 4, 2016 • Rs. 10,998.68 lakh –July 30, 2016 • Rs 1,33,000 Lakh – February 10, 2017 • Rs. 1,405.5 Lakh- November 11, 2019 • Rs. 7,142.9 Lakh- November 13, 2019 • Rs. 20,270.3 lakh- December 10, 2019 • Rs. 0.3 Lakh- November 7, 2020 • Rs. 0.2 Lakh- January 19, 2021 • Rs. 0.4 Lakh- February 15, 2021 • Rs. 0.04 Lakh- March 15, 2021 • Rs. 22,619.05 Lakh – September 15, 2022

		• Rs. 8.78 Lakh – February 09, 2023 • Rs. 11.41 Lakh – March 14, 2023 • Rs. 4.12 Lakh – April 12, 2023 • Rs. 4.45 Lakh – May 08, 2023 • Rs. 5.15 Lakh – June 09, 2023 • Rs. 18.52 Lakh- July 03, 2023 • Rs. 55.98 Lakh- August 04, 2023 • Rs. 161.48 Lakh – September 15, 2023
12	Perpetual or dated	Perpetual
13	Original maturity date	No Maturity date
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable	NA
	Coupons / dividends	Dividend
17	Fixed or floating dividend/coupon	NA
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Non-Cumulative
23	Convertible or non-convertible	NA
24	If convertible, conversion trigger(s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	No
31	If write-down, write-down trigger(s)	NA
32	If write-down, full or partial	NA
34	If temporary write-down, description of write-up mechanism	NA

35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinate to the claims of all depositors, general creditors, borrowings and all capital instruments qualifying Tier II Capital instruments, perpetual debt instruments and Perpetual non-cumulative preference shares
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	NA

During the HY FY 23-24, the Bank has made following allotments:

<table>
<tr><th>Date of issue and allotment</th><th>Method of allotment</th><th>Face value (Rs.)</th><th>Issue price (Rs.)</th><th>Number of equity shares allotted</th></tr>
<tr><td>February 09, 2023</td><td>ESOP</td><td>10</td><td>19.95</td><td>87,814</td></tr>
<tr><td>March 14, 2023</td><td>ESOP</td><td>10</td><td><table><tr><td>No. of Shares</td><td>Issue Price</td></tr><tr><td>101, 467</td><td>19.95</td></tr><tr><td>12,663</td><td>19.05</td></tr></table></td><td>1,14,130</td></tr>
<tr><td>April 12, 2023</td><td>ESOP</td><td>10</td><td><table><tr><td>No. of Shares</td><td>Issue Price</td></tr><tr><td>14351</td><td>19.95</td></tr><tr><td>7623</td><td>16.60</td></tr></table></td><td>21,974</td></tr>
<tr><td>May 08, 2023</td><td>ESOP</td><td>10</td><td><table><tr><td>No. of Shares</td><td>Issue Price</td></tr><tr><td>22,332</td><td>19.95</td></tr></table></td><td>22,332</td></tr>
<tr><td>June 09, 2023</td><td>ESOP</td><td>10</td><td><table><tr><td>No. of Shares</td><td>Issue Price</td></tr><tr><td>24,917</td><td>19.95</td></tr><tr><td>527</td><td>35</td></tr></table></td><td>25,444</td></tr>
<tr><td>July 03, 2023</td><td>ESOP</td><td>10</td><td><table><tr><td>No. of Shares</td><td>Issue Price</td></tr><tr><td>61,268</td><td>19.95</td></tr><tr><td>18,017</td><td>35</td></tr></table></td><td>79,285</td></tr>
<tr><td>August 04, 2023</td><td>ESOP</td><td>10</td><td><table><tr><td>No. of Shares</td><td>Issue Price</td></tr><tr><td>83,793</td><td>19.95</td></tr><tr><td>1,12,197</td><td>35</td></tr></table></td><td>1,95,990</td></tr>
<tr><td>September 15, 2023</td><td>ESOP</td><td>10</td><td><table><tr><td>No. of Shares</td><td>Issue Price</td></tr><tr><td>1,59,262</td><td>19.95</td></tr></table></td><td>5,39,651</td></tr>
</table>

				3,60,727	35	
				12,103	16.70	
				7,559	19.05	

Perpetual Non-Cumulative Preference Shares (PNCPS)

Disclosure template for main features of regulatory capital instruments – Preference Shares		
Sr. No.	**Particulars**	**Details**
1	Issuer	Ujjivan Small Finance Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	INE551W04012
3	Governing law(s) of the instrument	Applicable Indian Statutes & Regulatory requirements and RBI Basel III Guidelines.
	Regulatory treatment	
4	Transitional Basel III rules	Addition Tier 1 Capital (AT1)
5	Post-transitional Basel III rules	Addition Tier 1 Capital (AT1)
6	Eligible at solo/group/ group & solo	Solo
7	Instrument type	Perpetual Non-Cumulative Preference shares
8	Amount recognised in regulatory capital (Rs. in lakh, as of most recent reporting date)	Rs. 20,000 lakh
9	Par value of instrument	Rs 10/-
10	Accounting classification	Capital
11	Original date of issuance	10th February 2017
12	Perpetual or dated	Perpetual
13	Original maturity date	No Maturity date
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates	February 10, 2022

	and redemption amount	
16	Subsequent call dates, if applicable	NIL
	Coupons / dividends	Dividend
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	11.0% (Dividend Rate)
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	NIL
22	Noncumulative or cumulative	Non-Cumulative
23	Convertible or non-convertible	Non-Convertible
24	If convertible, conversion trigger(s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	Yes
31	If write-down, write-down trigger(s)	PONV trigger & CET1 trigger
32	If write-down, full or partial	Full and Partial

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

Non-Convertible Debentures (NCD)

Disclosure template for main features of regulatory capital instruments - NCD		
Sr. No.	**Particulars**	**Details**
1	Issuer	Ujjivan Small Finance Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	INE551W08013
3	Governing law(s) of the instrument	Applicable Indian Statutes & Regulatory requirements Reserve Bank of India's circular on "Master Circular - Prudential Guidelines on Capital Adequacy and Market Discipline-New Capital Adequacy Framework (NCAF)" dated July 1, 2015

	Regulatory treatment	
4	Transitional Basel III rules	Tier II Capital
5	Post-transitional Basel III rules	Tier II Capital
6	Eligible at solo/group/ group & solo	Solo
7	Instrument type	Subordinated, rated, unlisted, unsecured, transferable, redeemable, fully paid up, non-convertible debentures
8	Amount recognised in regulatory capital (Rs. in lakh, as of most recent reporting date)	Rs. 30,000 lakhs
9	Par value of instrument	Rs 1,00,000/-
10	Accounting classification	Capital
11	Original date of issuance	• August 26, 2022- Rs.22,500 lakh • September 09, 2022 – Rs.7,500 lakh
12	Perpetual or dated	dated
13	Original maturity date	April 26, 2028
14	Issuer call subject to prior supervisory approval	-
15	Optional call date, contingent call dates and redemption amount	-
16	Subsequent call dates, if applicable	-
	Coupons / dividends	Coupons
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	11.95%
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	NA
21	Existence of step up or other incentive to redeem	NA

22	Noncumulative or cumulative	NA
23	Convertible or non-convertible	NA
24	If convertible, conversion trigger(s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	NA
31	If write-down, write-down trigger(s)	NA
32	If write-down, full or partial	NA
34	If temporary write-down, description of write-up mechanism	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	The Debentures shall be: (a) senior to the claims of the investors in instruments eligible for inclusion in Tier I capital and Upper Tier II Capital of the Bank; and (b) subject to paragraph (a) above, subordinated to the claims of the other creditors of the Bank but shall rank pari-passu with the other Lower Tier II instruments of the Bank (whether present or future).
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	NA

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

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

PNCPS

Sr. No.	Particulars	Full Terms and Conditions
1	Type of Instrument	Perpetual Non-Cumulative Preference Shares

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

		Tax Call: If a Tax Event has occurred and is continuing, the Issuer may at its sole discretion, subject to Conditions for Call and Repurchase and notification to the holders of PNCPS of not less than 21 calendar days prior to the date of exercise of such call option (which notification shall specify the date fixed for exercise of the call option), exercise a call option on the PNCPS ("Tax Call").Provided further that, subject to conditions for Call and Repurchase the Issuer may substitute the PNCPS with capital instruments that are in accordance with the RBI Master Circular on Basel III capital regulations and any other applicable law
		Regulatory Call: If a Regulatory Event has occurred and is continuing, the Issuer may at its sole discretion, subject to Conditions for Call and Repurchase and notification to the holders of PNCPS of not less than 21 calendar days prior to the date of exercise of such call option (which notification shall specify the date fixed for exercise of the call option), exercise a call option on the outstanding PNCPS ("Regulatory Call"). Provided further that, subject to Condition 27 (Conditions for Call and Repurchase) the Issuer may substitute the PNCPS with capital instruments that are in accordance with the RBI Master Circular on Basel III capital regulations and any other applicable law.
11	Repurchase/ Redemption/ Buy-back	The Issuer may subject to Conditions for Call and Repurchase having been satisfied and such repayment being permitted by the RBI Master Circular on Basel III capital regulations, repay the PNCPS by way of repurchase, buy-back or redemption.
12	Loss Absorption	PNCPS should have principal loss absorption through a write-down mechanism which allocates losses to the instrument at a pre-specified trigger point. The write-down will have the following effects: 1. Reduce the claim of the PNCPS in case of liquidation; 2. Reduce the amount re-paid when a call over the PNCPS is exercised by the Issuer; and 3. Partially or fully reduce dividend payments on the PNCPS. The specific criteria for such loss absorption through conversion/write-down/write-off on breach of pre-specified trigger and the Point of Non-Viability (PONV) will be in accordance with the applicable RBI guidelines. The relevant terms of Annex 16 in Master Circular of Basel III capital regulations shall be deemed to be incorporated herein.

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

Subordinated Debt Instruments:

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

15. Table DF-15: Disclosure on Remuneration

15.1. Remuneration - Qualitative disclosures

A. Information relating to the bodies that oversee remuneration.

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

Name: Nomination and Remuneration Committee (NRC)

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

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

Following are the main terms of reference of the Committee:

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

  The NRC, while formulating the above policy, ensures that:
  - the level and composition of remuneration be reasonable and sufficient to attract, retain and motivate talented directors required to run the Bank successfully;
  - relationship of remuneration to performance is clear and meets appropriate performance benchmarks; and
  - Remuneration to directors, Key Management Personnel (KMP) and senior management involving a balance between fixed and incentive pay reflecting short- and long-term performance objectives appropriate to the working of the Bank and its goals.
- Formulating criteria for evaluation of performance of independent directors and the Board of Directors.
- To ensure 'fit and proper' status of proposed/ existing Directors.
- Devising a policy on diversity of Board of Directors.
- Ensure that level and composition of remuneration is reasonable and sufficient, relationship of remuneration to performance is clear and meets appropriate performance benchmarks.
- Identifying persons who are qualified to become directors and who may be appointed in senior management in accordance with the criteria laid down, and recommend to the Board of directors their appointment and removal and shall specify the manner for effective evaluation of performance of the Board, its committees and individual directors to be carried out either by the Board, by the NRC or by an independent external agency and review its implementation and compliance.
- Make appropriate disclosures of the remuneration policy and the evaluation criteria in the annual report.

- Analysing, monitoring and reviewing various human resource and compensation matters.
- Determining the Bank's policy on specific remuneration packages for executive directors including pension rights and any compensation payment and determining remuneration packages of such directors.
- Determining compensation levels payable to the senior management personnel and other staff (as deemed necessary), which shall be market-related, usually consisting of a fixed and variable component.
- Determining whether to extend or continue the term of appointment of the independent director, on the basis of the report of performance evaluation of independent directors.
- Recommending to the Board, all remuneration, in whatever form, payable to senior management.
- Administering, monitoring and formulating detailed terms and conditions of the Employees' Stock Option Scheme (ESOP) of the Bank, inter-alia, including the following:
  a) Determining the eligibility of employees;
  b) The quantum of option to be granted under the Employees' Stock Option Scheme per Employee and in aggregate;
  c) The exercise price of the option granted;
  d) The conditions under which option may vest in employee and may lapse in case of termination of employment for misconduct;
  e) The exercise period within which the employee should exercise the option and that option would lapse on failure to exercise the option within the exercise period;
  f) The specified time period within which the employee shall exercise the vested option in the event of termination or resignation of an Employee;
  g) The right of an employee to exercise all the options vested in him at one time or at various points of time within the exercise period;
  h) Re-pricing of the options which are not exercised, whether or not they have been vested if stock option rendered unattractive due to fall in the Market Price of the Shares;
  i) Formulating and implementing the procedure for making a fair and reasonable adjustment to the number of options and to the exercise price in case of corporate actions such as rights issues, bonus issues, merger, sale of division and others. In this regard following shall be taken into consideration by the Compensation Committee:
     - The number and the price of stock option shall be adjusted in a manner such that total value of the Option to the Employee remains the same after the Corporate Action;
     - For this purpose, global best practices in this area including the procedures

followed by the derivative markets in India and abroad may be considered;
- ➢ The Vesting Period and the life of the option shall be left unaltered as far as possible to protect the rights of the Employee who is granted such option;

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

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

l) The procedure for cashless exercise of options;

m) Forfeiture/ cancellation of options granted;

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

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

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

- Administering, monitoring and formulating detailed terms and conditions of the Employee Stock Purchase Scheme of the Bank.
- Conducting due diligence as to the credentials of any director before his or her appointment/ re-appointment, and making appropriate recommendations to the Board, in consonance with the Dr. Ganguly Committee recommendations and the requirements of RBI.
- To make recommendations to the Board concerning any matters relating to the continuation in office of any Director at any time including the suspension or termination of service of an Executive Director as an employee of the Bank subject to the provision of the law and their service contract.
- Ensure that level and composition of remuneration is reasonable and sufficient, relationship of remuneration to performance is clear and meets appropriate performance benchmarks.
- To develop a succession plan for the Board and to regularly review the plan.
- To approve Job descriptions and Key Responsibility Areas (KRAs) of Senior Managers and Business Line Managers on an annual basis.
- To review Performance of the senior/business line managers by NRC on an annual basis.
- Overseeing the framing, review and implementation of the Bank's Compensation Policy for Whole Time Directors/ Chief Executive Officers / Risk Takers and Control function staff for ensuring effective alignment between remuneration and risks.
- To recommend to the board, all remuneration, in whatever form, payable to senior management.
- Framing suitable policies and systems to ensure that there is no violation, as

amended from time to time, of any securities laws or any other applicable laws in India or overseas, including:

- The Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015; and
- The Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulations, 2003.
- Carrying out any other function as is mandated by the Board from time to time and / or enforced/mandated by any statutory notification, amendment or modification, as may be applicable.
- Review regularly and approve the Bank's program for executive and employee development.
- Review and implement the various HR policies and manual of the Bank.
- Develop, review and approve the principles guiding the Bank's executive compensation philosophies.
- Assure that the bonus plan is administered in a manner consistent with Bank's compensation principles and strategies including Bank's policies relating to executive management succession and executive organization development.
- Performing such other functions as may be necessary or appropriate for the performance of its duties.

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

Not Applicable

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

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

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

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

- Salary Pay-out

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

- All employees of the Bank are governed by the Compensation Policy. The total number of permanent employees in the Bank as on September 30, 2023 was 21,040.

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

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

- ➢ The pay-out will be made as a lump-sum amount and not deferred over 3 years for all employees, except the employees identified as Material Risk Takers who will be paid 1/3rd in each year over 3 years.
- ➢ Management Discretion - If there are significant developments in the year of payment (internal or external), management shall have leeway to announce a decision about bonus payment

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

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

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

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

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

- A discussion of how amounts of individual remuneration are linked to the Bank wide and individual performance.
- The compensation policy is designed to promote meritocracy within the Bank i.e. other things being equal, performers in a given role are expected to earn more than his/her peer group.
  - ➢ The Bank shall, from time to time benchmark its compensation practices against identified market participants to define its pay structure and pay levels.
  - ➢ The merit and increments are finalized and approved by the National Human Resources Committee (NHRC) at annual intervals, basis organization's budgets and accomplishments as well as market reality.

- The Bank believes in paying its employees in an equitable and fair manner basis the incumbent's Role, Personal Profile (Education/Experience etc.) as well as Performance on the Job.
- Employees rated "Below Expectations" shall not be provided any increments, unless statutorily required.

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

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

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

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

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

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

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

Malus/ Clawback : In the event of negative contributions of the individual towards the achievements of the Banks objectives in any year, the deferred compensation should be subjected to Malus/Clawback arrangements. Similar provisions shall apply in case the individual is found guilty of any major non-compliance or misconduct issues.

Directors, if appointed/ Material Risk Takers/ other employees, as planned by the Bank/ or the relevant line of business, towards achievements of the Banks objectives in any year, the deferred compensation shall be subjected to Malus/Clawback arrangements.

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

Variable Compensation at the Bank has the following distinct forms:

<u>Cash Variable Pay</u>

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

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

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

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

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

Performance Bonus: All employees who are not a part of any Monthly Variable Pay but part of the year end performance review will be covered under the Performance Bonus Plan the Bank. However, the actual pay-out of performance bonus shall be paid only to employees who have met the set criteria.

The Bank shall announce the payment of bonus, as suitable year on year. If there are significant developments in the year of payment (internal or external), management shall have leeway to announce a decision about bonus payment.

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

<u>Non-cash Variable Pay</u>

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

15.2. Quantitative Disclosures

Sl. No	Quantitative Disclosures (Covers only Whole Time Directors/ CEO/Other Risk Takers[34])	Numbers
1	Number of meetings held by the Nomination and Remuneration Committee during the first quarter and remuneration paid to its members.	**Total Meetings Held in H1 FY 2022-23:** 03 **Total sitting fee paid:** Rs. 9 lakh
2	Number of employees having received a variable remuneration award during the year.	4 employees: COO, CBO, CCO and Business Head-Micro Banking
3	Number and total amount of sign-on awards made during the financial year.	NIL
4	Details of guaranteed bonus, if any, paid as joining / sign on bonus.	NIL
5	Details of severance pay, in addition to accrued benefits, if any.	NIL
6	Total amount of outstanding **deferred remuneration**, split into cash, shares and share-linked instruments and other forms.	Cash: Rs. 4.82 Lakhs (2nd and 3rd year pay-outs) ESOP Grants FY22-23: Submitted for RBI Approval ESOP Granted for FY21-22 - 1st vesting due in Nov'23 – Rs. 4.82 Lakhs
7	Total amount of deferred remuneration paid out in the financial year.	Cash- Rs. 59.39 lakh
8	Breakdown of amount of remuneration awards for the financial year to show fixed and variable, deferred and non-deferred.	Fixed gross paid: Rs. 275.25 lakh (As of Sep-23) Variable Provisioned deferred – Rs. 184.66 lakh (As of Sep-23) Fixed gross of the following employees:

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

		MD & CEO, Chief Credit Officer (CCO), Chief Business officer (CBO), Chief Operating officer (COO) and Business Head-Micro Banking
9	Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and / or implicit adjustments.	Variable Provisioned – Rs. 184.66 lakh (As of Sep-23)
10	Total amount of reductions during the financial year due to ex- post explicit adjustments.	NIL
11	Total amount of reductions during the financial year due to ex- post implicit adjustments.	NIL

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

Rs. in lakh

Summary comparison of accounting assets versus leverage ratio exposure measure		
	Item	**Amount**
1	Total consolidated assets as per published financial statements	38,68,020.99
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	
4	Adjustments for derivative financial instruments	
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off- balance sheet exposures)	37,878.89
7	Other Adjustments	-42,313.20
8	**Leverage ratio exposure**	38,63,586.68

17. Table DF 18: Leverage ratio common disclosure template

Rs. in lakh

	Table DF-18: Leverage ratio common disclosure template

	Item	Amount
	On-balance sheet exposures	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	38,68,020.99
	Domestic Sovereign	9,59,162.19
	Banks in India	39,508.88
	Corporates	1,31,747.17
	Exposure to default fund contribution of CCPs	121.00
	Other Exposure to CCPs	
	Others	27,37,484.76
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	-42,313.20
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	38,25,707.79
	Derivative exposures	-
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	-
5	Add-on amounts for PFE associated with all derivatives transactions	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	**Total derivative exposures (sum of lines 4 to 10)**	-
	Securities financing transaction exposures	-
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	CCR exposure for SFT assets	-
15	Agent transaction exposures	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	-

	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	63,969.08
18	(Adjustments for conversion to credit equivalent amounts)	26,090.19
19	**Off-balance sheet items (sum of lines 17 and 18)**	37,878.89
	Capital and total exposures	
20	**Tier 1 capital**	4,23,906.15
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	38,63,586.68
	Leverage ratio	
22	**Basel III leverage ratio**	**10.97%**

Presently the contribution of Tier I capital to Total Basel II capital is 89.33%. The business model of the Bank is relatively simple with a significant portion as fund-based assets. Gross advances were primarily in the nature of term loans. Since the exposure to Off Balance Items is presently low, the Leverage ratio is well above the benchmark of 4.5%.

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