Pillar III Disclosures for year ended June 30, 2023-2024 2023

[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 June 30, 2023.]

Table of Contents

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-SICIC	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
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 June 30, 2023. All exposure related figures quoted in the document are ‘Rs. in lakh’, unless otherwise specifically stated.

A. Branch network and distribution reach

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

Particulars	Count
Total Banking outlets, of which	661

Banking outlets[1] (Non-URC)	492
Banking outlets (URC)[2], *of which*	169
i Qualifying URC Branches (Branches situated in tier 3-6 locations in NE[2] states and LWE[3] districts)	43
ii Business Correspondents (BC)	7

During the quarter ended Q1 FY24, the Bank had opened 32 new branches across regions (South-6, North -8, East – 14 and West- 4). With 25.57% of Banking outlets in URC, the Bank is fully compliant with RBI guidelines in this regard.

---

[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.

[2] North eastern states

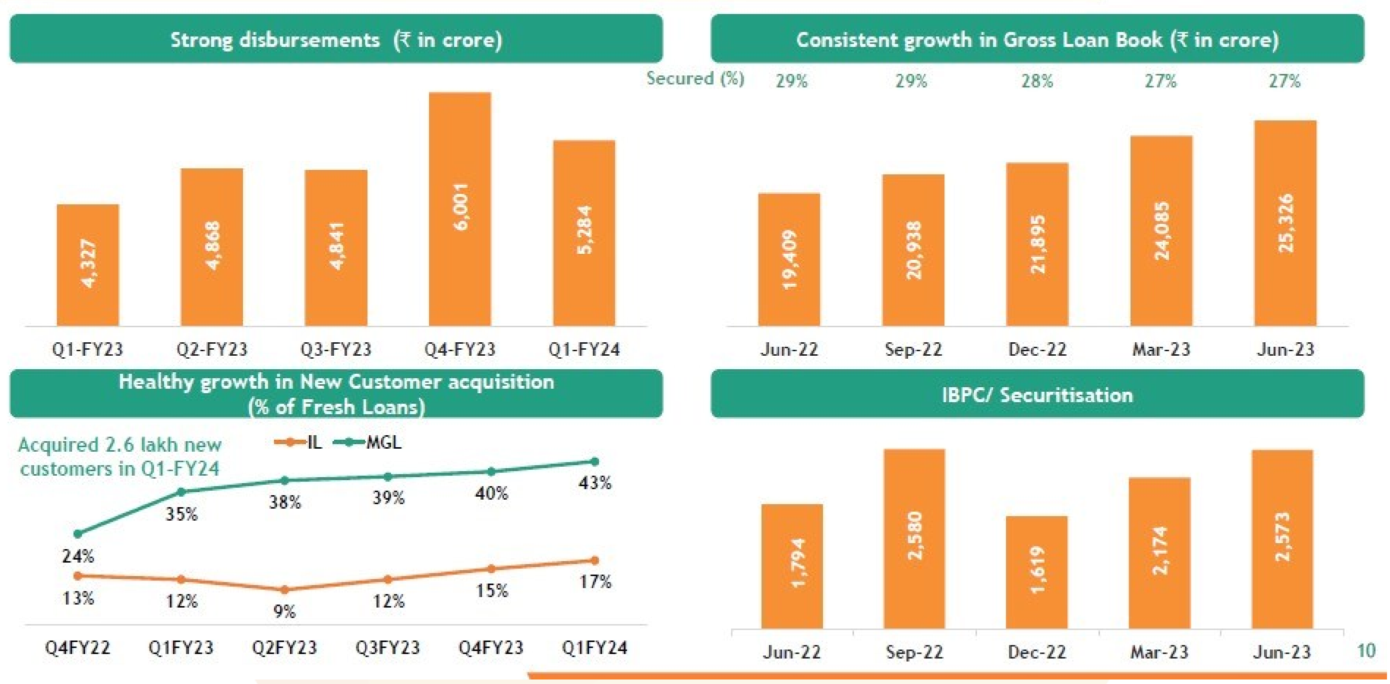
[3] Districts with active Left-Wing Extremism (LWE)

The Bank has reviewed and chalked out a detailed branch expansion plan with 48 branches, including progressive replacement of the 7 BCs with brick and mortar branches (subject to Infra and HR readiness) proposed for launch in Q2 FY 2023-24 out of which 3 branches will be Micro banking led branches. The physical reach would also be supplemented by a strong and focused investment in digital platforms to aid in business development, on both asset and the liabilities side. The Bank operated 523 Biometric enabled Automated Teller Machines (ATM) including 61 Automated Cash Recycler (ACR) machines across the country as on June 30th 2023.

B. Financial highlights for Q1 and FY 2023-24

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

Rs. in crores



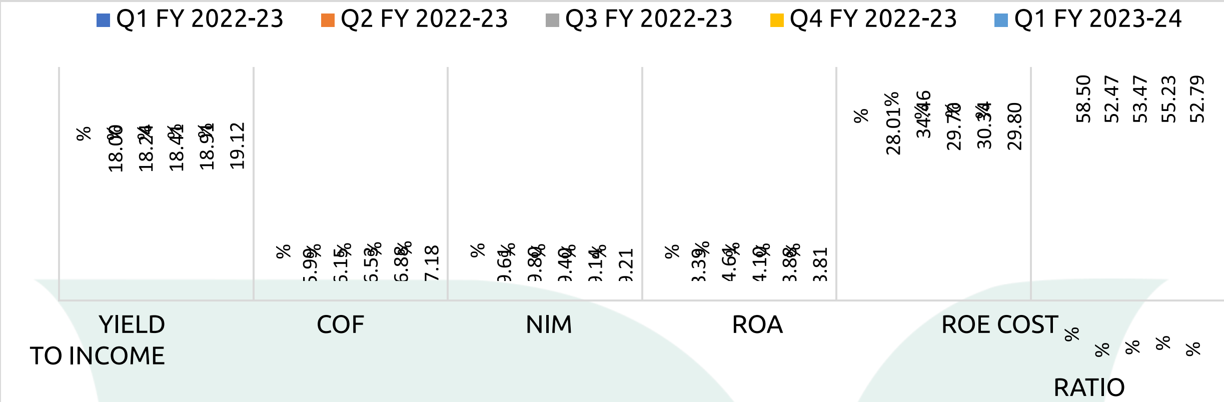
Customer base	• Total customer outreach was 76 lakhs as at June 30, 2023 (77 lakh as at March 31, 2023; 64.8 lakh as at March 31, 2022)
Loan Portfolio	• Gross Loan Book (GLB) (without netting off IBPC/Securitization/Direct Assignment): Rs. 25,32,619 lakh as at June 30, 2023 (Rs. 24,08,502 lakh as at March 31, 2023; Rs. 18,16,197 lakh as at March 31, 2022). • Gross Advances (GA) (after netting off IBPC/Securitisation/Direct Assignment): Rs. 22,75,272 lakh[5] as at June 30, 2023 (Rs.

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

	21,91,083 lakh[4] as at March 31, 2023; Rs. 17,48,765 lakh as at March 31 ,2022). • Non-Microfinance book was 29.38% as at June 30, 2023 on Gross Advances (29.16% as at March 31, 2023; 32.03 % as at March 31, 2022)
Deposit Portfolio	• Total Deposits (Retail plus Institutional): Rs.26,66,000 lakh as at June 30, 2023 (Rs.25,53,800 lakh as on March 31, 2023; 18,29,222 lakh as at March 31, 2022). • CASA: 24.6% as at June 30, 2023 (26.4% as at March 31, 2023; 27% as at March 31, 2022)
Asset Quality	• Gross Non-Performing Assets (GNPA): 2.62% as at June 30, 2023[5] (2.88% as at March 31, 2023; 7.1% as at March 31, 2022) • Net Non-Performing Assets (NNPA): 0.059% as at June 30, 2023[6] (0.042% as at March 30, 2023; 0.6% as at March 31,2022)
Capital Adequacy	• CRAR ratio of the Bank as at June 30, 2023 was 26.69%, well above the RBI prescribed CRAR (25.81% as at March 31, 2023; 18.99% as at March 31, 2022)
Employee strength	• 19,294 as at June 30, 2023 (17,870 as at March 30, 2023; 16,895 as at March 31, 2022)
Provisions and Credit costs	• Total provision including Floating Provision as at June 30, 2023 was Rs. 70,134 lakh (Rs. 73,530 lakhs as March 31, 2023; 1,33,044 lakh as at March 31, 2022) • Total NPA provision (excluding floating provision) held was Rs.46,391 lakh as at June 30, 2023 (Rs.50,157 lakh as at March 30, 2023; 93,448 lakh as at March 31,2022). • Total NPA provision reduced by Rs. 3,766 lakh during quarter ended June 30, 2023. The NPA provision reduced by Rs.44,497 lakh as compared to June 2022. Y-O-Y reduction in NPA provision of 48.96%.

[4] Outstanding balance in IBPC/Securitisation/ Direct Assignment as on March 31, 2023 was Rs 2,17,417.90 lakh
[5] Computed as a percentage to Gross advances. GNPA% on GLB basis was 2.37%
[6] Computed as a percentage to Net advances. NNPA% as a ratio to Net GLB was 0.0570%

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



The Bank recorded its best ever performance across all parameters during the year. A summary of the key highlights of the Bank in Q1 FY 2023-24 is given below:

Q1 PPoP at Rs.45,800 lakh up 52% Y-o-Y; PAT of Rs.32,400 lakh up 60% Y-o-Y. isbursements were at Rs.5,28,400 lakh for Q1 FY24; Gross loan book at Rs.25,32,600[7] lakh up 30%/5% Y-o-Y/Q-o-Q.

- Total Deposits registered a growth of 4%/45% on Q-o-Q/Y-o-Y basis. Retail Term Deposit registered a growth of 8%/71% on Q-o-Q/Y-o-Y basis.

- Continued traction on Collections with ~99% efficiency in Jun'23; NDA collection consistently at ~100%. Portfolio at risk was stable at 3.8% as of Jun'23[8]. GNPA declined to 2.4% as of Jun'23 vs 2.6% as of Mar'23; NNPA continues to be negligible at 0.06% as on Jun'23. Total of Rs.6,000 lakhs written-off in Q1FY24; Provision coverage ratio as on Jun'23 was 97.6%[9].

B. Macro-Economic Outlook and way forward:

Global challenges on account of the ongoing war, 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]

- The World Health Organization (WHO) announced in May that it no longer considers COVID-19 to be a "global health emergency." Supply chains have largely recovered, and shipping costs and suppliers' delivery times are back to pre-pandemic levels. The global recovery from the COVID-19 pandemic and Russia's invasion of Ukraine is slowing amid widening divergences among economic sectors and regions.

- *The fight against inflation continues.* Inflation is easing in most countries but remains high, with divergences across economies and inflation measures. Following the buildup of gas inventories in Europe and weaker-than-expected demand in China, energy and food prices have dropped substantially from their 2022 peaks, although food prices

---

[7] Without adjusting IBPC & Securitization of ₹2,573/ ₹2,174/₹1,794 crores as on Jun 2023/ Mar 2023 / Jun 2022

[8] Without adjusting IBPC & Securitization of ₹2,573/₹2,174/₹1,794 crores as on Jun 2023/ Mar 2023/ Jun 2022

[9] For Jun'23, out of ₹250 crores floating provision only ₹120 crores has been utilized towards NNPA/ PCR calculation; ₹100 crores has been classified under "other provisions" and ₹30 crores used towards Tier II capital. Entire Floating provision of ₹250 Cr continues to be on books & can be utilized for making specific provisions in future during extraordinary circumstances, with prior approval from the RBI

remain elevated. Together with the normalization of supply chains, these developments have contributed to a rapid decline in headline inflation in most countries.

- Inflation remains high and continues to erode household purchasing power. Policy tightening by central banks in response to inflation has raised the cost of borrowing, constraining economic activity. Global headline inflation is expected to fall from 8.7 percent in 2022 to 6.8 percent in 2023 and 5.2 percent in 2024. Underlying (core) inflation is projected to decline more gradually, and forecasts for inflation in 2024 have been revised upward.

- Global growth is projected to fall from an estimated 3.5 percent in 2022 to 3.0 percent in both 2023 and 2024. While the forecast for 2023 is modestly higher than predicted in the April 2023 World Economic Outlook (WEO), remains weak by historical standards.

- Despite the headwinds, global economic activity was resilient in the first quarter of 2023, with that resilience driven mainly by the services sector. The post-pandemic

[12] Source : https://www.imf.org/ & https://www.oecd.org
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

rotation of consumption back toward services is approaching completion in advanced economies (including in tourism-dependent economies of southern Europe), and it accelerated in a number of emerging market and developing economies in the first quarter. However, as mobility returns to pre-pandemic levels, the scope for further acceleration appears more limited. Nonservices sectors, including manufacturing, have shown weakness, and high-frequency indicators for the second quarter point to a broader slowdown in activity. Amid softening consumption of goods, heightened uncertainties regarding the future geo-economic landscape, weak productivity growth, and a more challenging financial environment, firms have scaled back investment in productive capacity.

- The Federal Reserve paused rate hikes at its June meeting but signalled further ones ahead, and the Reserve Bank of Australia, Bank of Canada, Bank of England, and European Central Bank have continued to raise rates. At the same time, in some other economies, particularly in East Asia, where mobility curbs during the pandemic restricted demand for services longer than elsewhere, core inflation has remained low. In China, where inflation is well below target, the central bank recently cut policy interest rates. The Bank of Japan has kept interest rates near zero under the quantitative and qualitative monetary easing with yield curve control policy.

- Excess savings built up during the pandemic are declining in advanced economies, especially in the United States, implying a slimmer buffer to protect against shocks, including those to the cost of living and those from more restricted credit availability.

- Immediate concerns about the health of the banking sector have subsided, but high interest rates are filtering through the financial system, and banks in advanced economies have significantly tightened lending standards, curtailing the supply of credit. The shift of deposits in the United States from regional to large banks and money market funds has subsided, but a tighter monetary environment continues to challenge banks and non-bank financial intermediaries.

- *Acute stress in the banking sector has receded, but credit availability is tight.* Thanks to the authorities' swift reaction, the March 2023 banking scare remained contained and limited to problematic regional banks in the United States and Credit Suisse in Switzerland. Accordingly, since the April 2023 WEO, global financial conditions have eased, a sign that financial markets may have become less concerned about risks to financial stability coming from the banking sector. But tight monetary policy continues to put some banks under pressure, both directly (through higher costs of funding) and indirectly (by increasing credit risk). Bank lending surveys in the United States and Europe suggest that banks restricted access to credit considerably in the first quarter of 2023, and they are expected to continue to do so in coming months. Corporate loans have been declining lately, as has commercial real estate lending.

- As per the systemic risk survey conducted in May 2023, risk perception across all major categories of systemic risk except institutional risk has receded. Global spill overs remained in the 'high' risk category. Financial market risk declined to the 'medium' risk category from 'high' risk. Macroeconomic risk remained in the 'medium' risk category and was perceived to have moderated.

Indian Economic Outlook[13]

- Growth in *emerging and developing Asia* is on track to rise to 5.3 percent in 2023, then to moderate to 5.0 percent in 2024, reflecting a modest (0.1 percentage point) downward revision for 2024. The forecast for *China* is unchanged at 5.2 percent for 2023 and 4.5 percent for 2024, but with a change in composition: Consumption growth has evolved broadly in line with April 2023 WEO projections, but investment has underperformed due to the ongoing real estate downturn in that country. Stronger-than-expected net exports have offset some of the investment weakness, although their contribution is declining as the global economy slows. Growth in *India* is projected at 6.1 percent in 2023, a 0.2 percentage point upward revision compared with the April projection, reflecting momentum from stronger-than-expected growth in the fourth quarter of 2022 as a result of stronger domestic investment.

- The Indian economy has exhibited resilience and dynamism in spite of formidable headwinds and an uncertain global economic outlook. The rising momentum of domestic economic activity is supported by an environment of macroeconomic stability marked by moderating inflation, fiscal consolidation, external viability and financial stability. The domestic financial system has been largely immune to the recent banking turmoil in some AEs. Indian banks have reinforced their capital bases and their asset quality has improved. The aggregated balance sheet of non-banking financial companies (NBFCs) also remains healthy and assets under management (AUM) of mutual funds have recorded steady growth. These developments augur well for the prospects of financial intermediation in the context of the evolving macroeconomic and financial outlook for India.

- The revival in domestic demand, increasing capacity utilisation in the manufacturing sector, easing input cost pressures and more recently, improvement in profitability

[13] Source :

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

are catalysing the commercial sector to avail more finances from domestic as well as external sources than a year ago.

- Driven down by a broad-based moderation in prices, the headline consumer price index (CPI) inflation came down sharply from a peak of 7.8 per cent in April 2022 to 4.3 per cent in May 2023, though core inflation (i.e., excluding food and fuel items) remained somewhat higher at 5.1 per cent.

- A combination of monetary policy tightening and supply-side measures led to this disinflation. According to the latest household inflation expectations survey (June 2023), inflation expectations of households have been moderating since September 2022.

- The improvement in demand conditions has sustained growth, earnings and profitability of the private corporate sector. Start-ups across geographies are witnessing a synchronised funding crunch. Venture capital (VC) funding has seen a marked downturn across funding stages and sectors from its peak level in 2021. Startups in India are also facing funding stress. Tighter liquidity conditions, uncertain global macroeconomic outlook, and geopolitical fragmentation continue to pose risks that may trigger correction in valuations of these firms and a wave of consolidation.

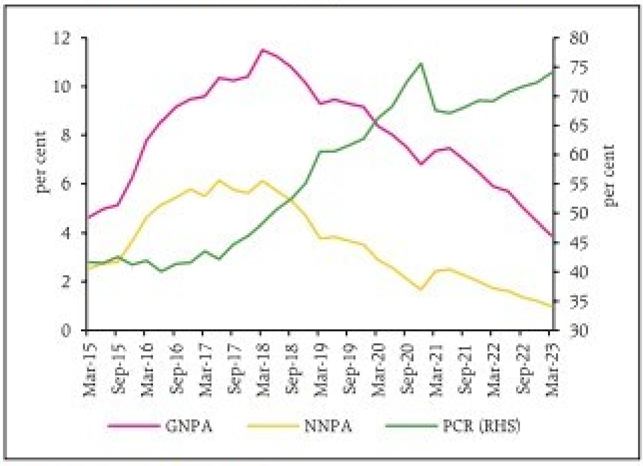
- India's current account deficit (CAD) narrowed to 0.2 per cent of GDP (at current market prices) in Q4:2022-23 from 3.8 per cent and 2.0 per cent in Q2 and Q3 of 202223, respectively. A narrowing of the merchandise trade deficit and robust services exports were the major factors that contributed to the decline in the CAD.

- The information technology sector has led the robust growth in exports of services. Export through technology driven innovations in professional and management consulting services, research and development, drugs and pharmaceutical products and mobile handsets are also gaining global market share. The proliferation of global capability centres (GCCs) that provide services such as automation, consulting, AI and machine learning, is instrumental in driving future growth in these dynamic areas.

Indian Banking industry Outlook:

- The health of the Indian banking system is robust, fortified by a multi-year low nonperforming loans and adequate level of capital and liquidity buffers. The system-level gross non-performing assets (GNPA) ratio and net non-performing assets (NNPA) ratio have sharply fallen from a high of 11.5 per cent and 6.1 per cent in March 2018 to 3.9 per cent and 1.0 per cent in March 2023 respectively. Alongside, the provisioning coverage ratio (PCR), which was as low as 40.1 per cent in June 2016, has improved to
74.0 per cent in March 2023 (See chart below).

Chart 1.57: Asset Quality Indicators – All SCBs



Source: RBI supervisory returns.

- The banking system profitability improved with return on assets (RoA) increasing to 1.1 per cent in 2023 from a low of -0.2 per cent in 2018. This in turn helped the capital to risk-weighted assets ratio (CRAR)to reach a record high of 17.1 per cent in 2023. Healthier balance sheets are catalysing sustained and broad-based pick-up in the momentum of credit growth, with credit flow improving to all sectors of the economy.
- Bank deposits grew by 10.0 per cent (y-o-y) in 2022-23 and improved to 11.8 per cent in early June 2023, partly aided by the announcement of withdrawal of `2000 bank notes from circulation. Although deposits have trailed the rate of credit expansion, the structural liquidity mismatch has been narrowing and the annual incremental creditdeposit (C-D) ratio has come down from its recent peak of 141.8 per cent in November 2022 to 94.7 per cent on June 02, 2023.

- The improvement in borrowers' debt servicing capacity augurs well for financial stability, alongside the deleveraging in corporate balance sheets since 2015. Retail loans grew at a compounded annual growth rate (CAGR) of 24.8 per cent from March 2021 to March 2023, almost double the CAGR of 13.8 per cent for gross advances during the same period. It formed around one-third of the total banking system's gross loans and advances. The composition of secured and unsecured advances has changed during this period, with unsecured retail loans increasing from 22.9 per cent to 25.2 per cent and secured loans declining from 77.1per cent to 74.8 per cent. Although the GNPA ratio of retail loans at the system level was low at 1.4 per cent in March 2023, the share of special mention accounts (SMA) was relatively high at 7.4 per cent for SCBs and it accounted for a tenth of the retail assets portfolio.

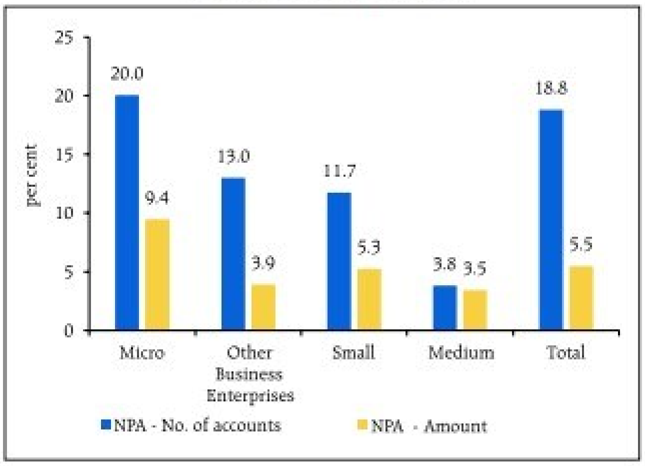
- Another distinguishing feature of the recent global bank turmoil was the large share of uninsured deposits in the failed banks, which, in combination with losses on investments, triggered bank runs when deposits haemorrhaged. In the Indian context, deposits with run-off factors of 5-10 per cent form around 63.1 per cent of total

deposits and current and savings accounts (CASA) constitute 42.3 per cent. Moreover, banks that have a higher share of uninsured deposits have lower HTM unrealised losses impacting their capital levels. Alongside stronger balance sheets and better corporate governance by banks, strengthening of banking regulation and supervision has contributed to better internal controls and risk management. A key plank of recent supervisory initiatives is to identify business model risks and ensure that banks do not grow at an unsustainable pace or undertake risk that is not commensurate with their risk-taking capacity.

- The asset quality of the MSME portfolio of SCBs improved significantly during 2022-23 with (a) the GNPA ratio declining from 9.3 per cent in March 2022 to 6.8 per cent in March 2023; (b) the GNPA ratio for advances below `Rs. 2,500 lakhs, which are particularly vulnerable to slippage, also declining sequentially from 7.2 per cent to 6.7 per cent; and (c) SMA accounts going down from 11 per cent in March 2022 to 8.6 per cent in March 2023. Importantly, the improvement in asset quality has coincided with the expiry of regulatory forbearance and restructuring schemes introduced since 2018.

- Sector-wise analysis of NPAs indicates that services and trade, which formed one third of the ECLGS disbursements, remain stressed and accounted for nearly half of the total delinquency under the ECLGS in these cohorts (See chart below).

Chart 1.76: Unit Type-wise NPA



Note: As on March 31, 2023.
Source: National Credit Guarantee Trustee Company Limited (NCGTC).

- The FSSI (Financial System Stress Indicator) shows that the overall stress in the domestic financial system eased in Q4:2022-23 relative to Q3:2022-23, driven by general improvement in stress factors across banking and non-banking sectors. Financial market stress indicators were mixed, with equity markets witnessing stress following the banking turmoil in some of the AEs and money market risk indicators rose due to increase in spreads of commercial paper (CP) and certificates of deposit (CDs) over treasury bills and higher volatility in CP market. On the other hand, forex market indicators remained stable and bond market indicators improved as spreads and volatility reduced. Real sector indicators improved while mutual fund risk indicators rose marginally due to redemption pressures.

Way forward for 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 Nation wide Brand Campaign which is a prominent step towards establishing a mass market Bank and Building trust.
- The Bank has a Tablet-based customer acquisition for loan products. Liability customer acquisition from anywhere using website and Chatbot Aria to improve user experience
- 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, BNB, Hello Ujjivan.
- The Bank has around 31% customers repaying their credit dues through digital mode; an improvement by 2% as compared to March 2022 and improved by 11% Y-O-Y (Yearon-Year).
- The Bank envisages a deposit mobilization growth of ~30% with focus on CASA to support the ~25% growth target in Gross Loan book for FY 2023-24. These business plans and strategies are drawn after detailed internal deliberations and future macroeconomic environment.
- Digital strategies like video banking, phone banking and digital deposits will continue to support business development in FY 2024.

Climate Risk Management - a precursor to TCFD compliant disclosures:

As a first of its kind, the Bank has analysed the impact of climate change and associated financial losses in its portfolio. Historically, natural disasters or physical risks have affected portfolio performance. Various reports from the scientific community indicate that the frequency and severity of such physical events is expected to increase with climate change and increase in Green House Gas (GHG) emissions. The Bank has relied on the expectations laid out in the Discussion Paper released by RBI[10] which directs banks to put in place an appropriate risk management framework and comply with the disclosure requirements.

Given that climate risk is an emerging topic, the best practices are yet to emerge. The Bank had developed an assessment framework as a 'Proof of Concept' with continuous plans for improvement. These assessment frameworks are developed under the principle of Common but Differentiated Responsibilities (CBDR) and respective capabilities. By virtue of being a new bank and focused on retail segment, transition risks by way of changes in policy, technology, legal and consumer sentiments are low due to negligible exposure in the top three polluting sectors namely power generation, transportation and steel. It was therefore imperative to identify the exposure at risk/exposure at default (EAD) subject to physical risks such as floods, cyclones, droughts and heatwaves. In an attempt to map the exposure subject to physical risks, the Bank has plotted its distribution of exposure to a Climate Vulnerability Index (CVI).

One of the requirements of the Discussion Paper was to develop scenario and stress test analysis for climate risk assessment by benchmarking to scenarios prescribed by Network for Greening the Financial System (NGFS). The Bank has developed simple stress tests to assess the likely impact on credit quality in the event of short-term physical risk events. These risk outcomes will be continuously evaluated and improved upon in line with industry best practices.

---

[10] https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=54097

As an immediate imperative, from governance standpoint, the charter to the Bank's Risk Management Committee of the Board (RMCB) is enhanced to include climate risk and ESG risks. Likewise, the charter to the Risk Management- management level is also enhanced to act as the nodal point for any decisioning/endorsement to climate change/risk related actions.

On capacity building, the Bank has dedicated a small team of risk personnel who would now focus on assessing these new risks. The Bank has also prepared a roadmap on the data requirements in assessing and monitoring physical and transition risks.

Environment, Social and Governance (ESG) and ESG risks:
As one of India's newest entrant to the Banking industry, the Bank has, since inception integrated Responsible Banking as one of its key differentiators. This Credo has seen considerable traction in the space of financial inclusion and economic justice. Thought leadership on sustainability issues has been one of the key philosophies which includes research culminating into policy advocacy. While much of the Bank's business operations is skewed towards meeting and enhancing social goals and justice today, it is imperative that the Bank also makes its small contribution in the areas of environment management and climate change adaptation/mitigation. To that effect, the Bank welcomes India's commitment to *Panchamrit* for climate action and also adopts the mantra of LIFE- Lifestyle for Environment to combat climate change. The Bank is internally deliberating on ways to make meaningful contribution to these marathon goals through its products, policies and processes within the contours of the triple bottom line. Here again, the Bank shall be guided under the CBDR principle in its ESG journey.
The Bank has onboarded knowledge partner in assisting the Bank with the ESG project. The partner will assist in Materiality/ gap assessment, ESG strategy and roadmap, data management, reporting and disclosures and communication strategy.

ESG risks will increase over the medium term with direct impact on the Bank's cost of funds, ability to raise capital, increasing pressure from regulatory bodies and reputational risks. The Bank's ESG journey is plotted as short term, mid-term and long term. In the short term, needs are identified to formulate baseline ESG policy packs highlighting the current social impact of the Bank. Other areas under consideration include a policy on carpooling for employees (environment), banning plastic water cups in offices (for environment) and a dedicated section on the Bank's website to communicate sustainability led efforts of the Bank to all stakeholders. In the medium term, the Bank may explore introduction of green deposits (RBI guidelines published) and increase green financing initiatives in Microbanking, Housing and MSME segments. In the long term, creation of a Sustainable Banking Unit (SBU) is an imperative to provide maximum synergy between ESG goals and the current business model. Opportunity to transform into an ESG leader may be explored by leveraging existing capabilities.

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 <u>Aggregate amount of capital deficiencies in all subsidiaries which are not included in the regulatory scope of consolidation</u>

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

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 June 30, 2023, the Bank had an issued, subscribed and paid-up equity capital of Rs. 1,95,477.64 Lakh, having 1,95,47,76,375 shares of face value Rs.10 each and 20,000 lakh PNCPS having 200,000,000 preference shares of face value of Rs. 10 each.

The licensing guidelines for SFBs permit the aggregate foreign investment in a private sector bank from all sources up to a maximum of 74% of the paid-up capital (automatic up to 49% and approval route beyond 49% to 74%). As foreign shareholding in the Bank was 4.83% comprising of (a) Foreign Portfolio investors (FPI), (b) Non-Residential Indians (NRI) and (c) Non-Resident Indian Non Repatriable as at June 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[11]:

As at June 30, 2023, the promoter contribution in the Bank was 73.67% 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%.

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 June 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. The hearing of the Bank’s application with the NCLT was completed on June 28, 2023 and the Bank expects to receive the order by end of July 2023 – early August 2023, entailing directions for scheduling the meetings of the shareholders / other stakeholders, if directed and other directions as the NCLT may deem fit.

The Bank expects that the entire merger process will be completed during Q3-FY23-24 i.e., by December 31, 2023. 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

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

/ diluted to NIL. As a result, the Bank will meet the compliance related to the required dilution of promoter holding to the satisfaction of the RBI.

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

Category of the Shareholder	**No. of shares held**	**%age of shareholding**
Promoter	1,440,036,800	73.67
Mutual Funds	30,862,609	1.58
Alternate Investment Funds (AIF)	33,132,531	1.69
Foreign Portfolio Investors (FPI)	76,129,032	3.90
Resident Individuals/Hindu Undivided	267,855,974	13.70
Family (HUF)		
Others	106,759,429	5.46
Total	**1,954,776,375**	**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 Lakh)**
1	Equity[12]	Common Equity Tier 1 (CET 1)	1,95,477.64
2	PNCPS[13]	Additional Tier I	20,000
3	Subordinated Debt Instruments	Tier II	30,000
	Total		**2,45,477.64**

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[14]. 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:

[12] Issued and Paid up equity capital

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

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

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

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 June 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, nonconvertible 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.

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

[20] Deemed Allotment Date: August 26, 2022

The Bank closed the year with an outstanding net profit of Rs. 1,10,000 lakhs and to adequately reward the shareholders for their continued association with the Bank, the Board declared and paid the first ever interim equity dividend of 7.5% i.e. Rs. 0.75 per equity share in the FY 2022-23 and further has also recommended a final equity dividend of 5%
i.e. Rs. 0.5 per equity share for which shareholders' approval is being sought at the 7th AGM of the Bank scheduled on July 28, 2023. Also, the Bank has met its commitment to the preference shareholder by declaring and paying 11% preference dividend for the FY22-23.

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[15], the Bank is required to adopt the Standardized approach for Credit Risk and maintain a minimum Capital to Risk Weighted Assets Ratio (CRAR) of 15% segregated as under:

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

While SFBs are required to comply with Basel II norms for Capital Adequacy 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.

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

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 ECL framework for provisioning in Banks. 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 systems and processes to compute Expected Credit Loss (ECL) and IndAS compliant financial statements.

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[16]
Securitization Risk	Fintech 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

[16] 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

under assumed “stress” scenarios and sensitivity factors. Typically, these relate, inter alia, to the impact on the Bank’s profitability and capital adequacy. The stress tests are conducted and the results are placed to the Risk Management Committee of the Board (RMCB) on a quarterly basis, for their review and guidance. The Bank periodically assesses and refines its stress tests in an effort to ensure that the stress scenarios capture material risks as well as reflect possible extreme market moves that could arise as a result of business environment conditions. The stress tests are used in conjunction with the Bank’s business plans for the purpose of capital planning in the ICAAP.

5.2 Quantitative Disclosures

5.2.1. Basel II capital calculation

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

Rs. in lakh

	Description	Amount
	Core Equity Tier 1 Capital - Instruments and Reserves	
	Directly issued qualifying common share capital plus related stock surplus (share premium)	1,95,477.64
	Retained earnings	2,30,880.09
A	CET1 capital before regulatory adjustments	4,26,357.73
	Core Equity Tier 1 Capital - Regulatory Adjustments	
	Deferred tax assets arising from temporary differences	27,783.82
	Intangibles (Prepaid Expenses & Computer Software)	12,810.14
	Credit Enhancements	3,959.03
	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	44,552.99
C	**CET1 capital (A-B)**	3,81,804.74
	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)**	4,01,804.74

	Tier 2 Capital - Instruments and Provisions	
	Sub - debt eligible as Tier 2 capital	30,000.00
	General Provisions on Std. Assets admissible as Tier 2	14,742.65
	Investment Fluctuation Reserve	7,472.51
	Investment Reserve Account	34.04
I	Tier 2 Capital before regulatory adjustments	52,249.20
	Tier 2 Capital - Regulatory Adjustments	
J	Total Regulatory Adjustments to Tier 2 Capital	-
K	**Tier 2 Capital (I - J)**	52,249.20
L	**Total Regulatory Capital (H + K)**	4,54,053.94

5.2.2. Credit Risk RWA

The detailed break up of Credit RWA is as follows:

Rs. in lakh

Asset Description	**RWA**
Cash and Balances with Reserve Bank of India	0.00
Balances with Banks and Money at Call and Short Notice	4,162.86
Investments	5,412.46
Advances	16,05,729.21
Fixed Assets	20,030.23
Other Assets	49,356.48
Off Balance Sheet	16,548.02
Total Credit RWA	**17,01,239.26**

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 lakh

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 lakh

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 lakh

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 June 30, 2023, the AFS[17] book consisted of Government of India Securities, Treasury Bills and unquoted equity and the HFT[18] book consisted of Government Securities only. On the basis of SDA[19], the capital requirement for market risk reported to the Board from a governance perspective was as under:

Rs. in lakh

Capital Requirement for Market Risk	Amount
Interest Rate Risk	1,025.41
Equity Position Risk	2.72
Foreign Exchange Risk	--
Total	1028.12
Total Market Risk RWA	12851.53

[17] Available for Sale

[18] Held for Trading

[19] Standardized Duration Approach

5.2.5. Basel II CRAR (with only Credit RWA)

Rs. in lakh

Particulars	RBI thresholds	Amount/Ratio (Only Credit RWA)
Tier I Capital	--	4,01,804.74
Tier II Capital	--	52,249.20
Total Capital	**--**	4,54,053.94
Total RWA	**--**	17,01,239.26
CET Ratio	Minimum 6%	22.44% (Complied)
Tier I Ratio	Minimum 7.5%	23.62% (Complied)
Tier II Ratio	Maximum cap at 7.5% of CRWA	3.07% (Complied)
CRAR	**Minimum 15%**	**26.69% (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 **26.69%** 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	4,01,804.74
Tier II Capital	52,249.20
Total Capital	4,54,053.94
Total RWA	**18,22,355.58**
CET Ratio	20.11%
Tier I Ratio	21.16%
Tier II Ratio	2.75%
CRAR	**23.92%**

It may be noted that the Bank's CRAR is assessed at 23.92% after inclusion of Credit RWA, Operational 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.

Definitions of past due and impaired loans

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

- Interest and/or instalment remains overdue for a period of more than 90 days in respect of a Term Loan;
- The account remains out of order with respect to CC/ OD for 90 days on a continuous basis;
- The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted.
- In case of advances granted for Agricultural purposes o The instalment or interest thereon remains overdue for two crop seasons for short duration crops;
  - o 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 lakh 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 June 30, 2023, out of Rs. 25,000 lakh, Rs. 12,000 lakh are allocated for netting off Gross NPA for the purpose of computing NNPA/ PCR, while Rs. 3,000 lakh has been factored as part of Tier II capital. The residual balance of Rs. 10,000 lakh has 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.

Credit Risk Portfolio review and Monitoring:
Micro finance Portfolio:
A comprehensive review of the MBRB Portfolio for past 3 quarters is given below:

Amt in Rs. lakhs.

MBRB	Jun-22	Dec-22	Mar-23	Jun-23
Gross Advances*	12,43,333.81	14,61,409.44	15,52,066.34	16,06,863.74
GNPA(Value)	79,751.18	44,148.93	37,028.49	33,950.89
GNPA%	6.41%	3.02%	2.39%	2.11%

**Excluding IBPC/ Securitization/DA transactions.*

The Micro-banking (GL + IL) vertical registered total disbursements of Rs.3,81,185 lakh in Q1 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 June 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 3 quarters is given below:

Amt in Rs. lakhs

HL	Jun-22	Dec-22	Mar-23	Jun-23
Gross Advances*	2,15,377.69	2,43,599.42	3,11,398.13	3,39,651.29
GNPA(Value)	12,796.46	10,133.95	8,877.83	8,623.02
GNPA%	5.94%	4.16%	2.85%	2.54%

**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.

Rising interest rates are a head wind for the portfolio over the next few quarters. To address this, the Bank has undertaken a detailed review of its impact thereof. To this effect, the Bank will explore to increase the EMI for identified borrowers in a bid to normalize loan tenor post receipt of consent. As a policy measure, the Bank has introduced additional safeguards on income assessment which will provide the necessary headroom in absorbing such volatility.

During Q1 FY 2023-24, Housing vertical disbursed Rs.41,800 Lakh (Rs 28,800 Lakh in Q1 FY 2022-23) recording a 45% increase year on year. SARFAESI initiations were accelerated which led to faster recoveries from NPA accounts.

The Housing segment will continue to focus on Profitability, Productivity and Portfolio quality (PPP) by leveraging phone banking, DSA (Direct Selling Agent) channels, introduction of tab-based mobility solution to replace any existing manual login process and enhanced monitoring for portfolio quality on proactive and reactive basis.

In line with the industry practice, the housing vertical is now progressing towards a hub and spoke model for processing of loan application at an asset centre in Non-branch locations.

MSME (Micro and Small and Medium Enterprise)

A comprehensive review of the MSME Portfolio for Q1 FY 2023-24 is given below:

Amt in Rs. lakhs

MSME	Jun-22	Dec-22	Mar-23	Jun-23
Gross Advances*	1,65,374.83	1,70,541.45	1,59,335.80	1,50,787.08
GNPA(Value)	19,145.26	16,310.72	14,013.74	14,745.42
GNPA%	11.58%	9.56%	8.80%	9.78%

**Excluding IBPC/ Securitization/DA transactions*

The MSME vertical is undergoing a transition and technology related revamp. During Q1 FY 23-24, the vertical has introduced Semiformal LAP (for semi-formal Micro and Small enterprise). 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 **Crédit 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 for Q1 FY 2023-24 is given below:

Amt in Rs. lakhs

FIG	Jun-22	Dec-22	Mar-23	Jun-23
Gross Advances	87,158.28	1,00,962.48	1,12,752.62	1,21,795.79
GNPA(Value)	441.68	441.68	441.68	441.68
GNPA%	0.51%	0.44%	0.39%	0.36%

During Q1 FY 2023-24, FIG vertical disbursed Rs.32,000 lakh which is a 113% increase Y-OY. In Q1, FY 23-24, 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 for Q1 FY 2023-24 given below:

Amt in Rs. lakhs

VF	Jun-22	Dec-22	Mar-23	Jun-23
Gross Advances*	15,274.60	14,779.81	14,032.81	13,339.37
GNPA(Value)	1,258.17	1,005.89	875.12	769.87
GNPA%	8.24%	6.81%	6.24%	5.77%

**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 unit is progressing towards sourcing of new loans through direct dealership model and also implement a trade advance model for its dealers.

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.

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 CRO. He has direct control and monitoring over the unit and under his supervision the unit has been able to vastly enhance its scope of work since formation.

Key Activities undertaken by CRMU during Q1 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 files of all the cases disbursed under newly launched MSMR Program "Prime LAP Semi Formal" during Q1 FY2024. A detailed presentation on the same was conducted with MD & CEO, CRO, CCrO, MSME Business Head and all the respective RCMs. The purpose of the same is to touch upon various parameters of the loans sanctioned, case level analysis to provide feedback and suggestions wherever warranted for better sourcing and risk management

- Portfolio monitoring and provide updates to the senior management at regular intervals.

In a continuous endeavour to improve risk management practices, the Bank has, over time, transitioned from being reactive to progressive. In the post pandemic period and in Q1 FY 2023-24, the Bank has put in place tools and techniques in order to transition to a proactive approach. Some of the initiatives undertaken were as follows:

NPA and Arrear Collections- key risk from productivity angle

- There have been continuous efforts to improve NPA and Technical write off collections. Since the collectible pool is reducing year on year, it is anticipated that the absolute collections might reduce or remain stagnant.

District Risk Index (DRI) and DPM (District Performance Matrix): The Bank has developed a DPM to identify and monitor high risk branches on basis of certain parameters laid down. The Bank is monitoring and taking appropriate steps towards any findings from the matrix.

6.2. Quantitative Disclosures

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

Rs. in lakh

Vertical	Gross Advances	%	Gross Loan Book	%
MB&RB	16,06,863.74	70.62%	18,36,779.26	72.52%
FIG Lending	1,21,795.79	5.35%	1,21,795.79	4.81%
Housing	3,39,651.29	14.93%	3,67,082.18	14.49%
MSME	1,50,787.08	6.63%	1,50,787.08	5.95%
Personal Loans	12,028.63	0.53%	12,028.63	0.47%
Staff Loan	11,388.18	0.50%	11,388.18	0.45%
Vehicle Finance	13,339.37	0.59%	13,339.37	0.53%
Loan/OD Against Deposit/Gold loan	19,418.35	0.85%	19,418.35	0.77%
Total	22,75,272.44	100.00%	25,32,618.83	100.00%

Exposure summary: Facility type

Exposure Type	Domestic (Rs. in Lakh)	Overseas
Fund- Based exposure[20]	33,80,455.17	--

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

Non- Fund Based Exposure*	55,651.47	--
LESS: CRM DEDUCTIONS (GNPA Provisions held)	(46391.37)	
Total	33,89,715.27	**--**

*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)[21] (Rs in lakh)

States	Advances (including IBPC/ Securitization/ Direct Assignment)	% Share
Tamil Nadu	3,87,354.59	15.29%
Karnataka	3,40,615.00	13.45%
West Bengal	3,04,915.9013	12.04%
Maharashtra	2,27,395.07	8.98%
Gujarat	1,98,878.46	7.85%
Bihar	1,80,494.98	7.13%
Uttar Pradesh	1,69,575.24	6.70%
Haryana	1,38,575.55	5.47%
Rajasthan	1,06,950.62	4.22%
New Delhi	99,503.17	3.93%
Odisha	66,179.60	2.61%
Punjab	65,308.10	2.58%
Jharkhand	59,656.78	2.36%
Kerala	45,265.55	1.79%
Madhya Pradesh	38,852.56	1.53%
Tripura	27,500.29	1.09%
Assam	23,258.40	0.92%
Uttarakhand	14,126.80	0.56%
Puducherry	13,854.80	0.55%
Chhattisgarh	10,981.79	0.43%
Chandigarh(Ut)	5,122.74	0.20%
Himachal Pradesh	3,294.29	0.13%
Meghalaya	2,838.28	0.11%
Goa	1,517.60	0.06%

[21] Geography wise loans and advances is including IBPC and Securitization

Telangana	602.67	0.02%
Ujjivan	25,32,618.83	100.00%

Maturity pattern of assets and liabilities

Rs. in lakh

Buckets	Net Advances after netting off IBPC/Securitisation/Direct assignment	Investments	Deposits	Borrowings
Day – 1	213	4,01,387	10,873	770
2-7 Days	24,414	13,909	67,590	35,756
8-14 Days	36,380	9,138	49,047	0
15-30 Days	32,518	33,216	48,114	0
31 Days and up to 2 months	1,03,410	42,279	1,20,077	5,750
Over 2 months and up to 3 months	1,02,650	53,415	1,38,679	17,050
Over 3 Months and up to 6 months	2,98,399	90,245	2,40,817	9,820
Over 6 Months and up to 1 year	5,24,812	1,12,075	7,09,085	38,390
Over 1 Year and up to 3 years	7,23,667	88,657	12,49,582	84,810
Over 3 Year and up to 5 years	73,397	19,013	12,886	49,760
Over 5 years	2,97,065	15,337	19,249	11,520
Total	22,16,926	8,78,670	26,65,999	2,53,626

Gross Non-performing assets (NPA)

Rs. In Lakh

Category of Gross NPA	**Jun-22**	**Sep-22**	**Dec-22**	**Mar-23**	**Jun-23**
Sub-standard	34,924.26	33,843.51	29,983.09	23,604.11	25,496.61
Doubtful	55,680.41	58,833.04	43,566.93	39,239.83	33,965.53
Loss	284.08	209.73	204.87	217.00	191.62
Total	**90,888.75**	**92,886.28**	**73,754.89**	**63,060.94**	**59,653.76**

Rs. In Lakh

NNPA	**Jun-22**	**Sep-22**	**Dec-22**	**Mar-23**	**Jun-23**

Net NPA	23,774.95	16,733.34	15,948.09	12,903.83	13,262.39
NNPA after factoring Floating Provisions	1,774.95	733.34	948.09	903.83	1,262.39

NPA Ratios	**June 2022**	**September 2022**	**December 2022**	**March 2023**	**June 2023**
Gross NPA to Gross Advances (excluding IBPC/Securitisation/DA) [22]	6.51%	5.06%	3.64%	2.88%	2.62%
Net NPA to Net Advances (excluding IBPC/Securitisation/ DA)[23]	0.11%	0.04%	0.049%	0.042%	0.057%

Movement of Net NPAs (Quarterly basis)

Rs. In lakh

Particulars	**Jun-22**	**Sep-22**	**Dec-22**	**Mar-2023**	**June 2023**
Opening Balance	9,959.79	9,959.79	9,959.79	9,959.79	903.83
Additions during the period	8,149.63	11,042.04	14,802.89	14,805.19	7,052.85
Reductions during the period	19,334.47	20,268.48	33,814.59	36,861.14	6,694.29
Closing Balance	**1,774.95**	**733.34**	**948.09**	**903.83**	**1,262.39**

Movement of Provisions for NPAs (excluding provisions on standard assets) Rs. in lakh

Particulars	**Jun-22**	**Sep-22**	**Dec-22**	**Mar-23**	**June- 2023**
Opening Balance	93,447.94	93,447.94	93,447.94	93,447.94	50,157.11
Provisions made during the period	16,140.23	21,413.52	24,008.36	25,255.03	6,811.00
Write back of excess provisions	18,699.43	38,707.06	59,649.49	68,545.86	10,576.75
Closing Balance	**90,888.75**	**76,154.40**	**57,806.81**	**50,157.11**	**46,391.37**

---

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

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

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	16,06,863.74	33,950.89	28,020.29	10,500.00	113.46%
FIG Lending	1,21,795.79	441.68071	441.68071	-	100.00%
Housing	3,39,651.29	8,623.02	6,212.12	-	72.04%
MSME	1,50,787.08	14,745.42	10,334.37	1,500.00	80.26%
Personal Loans	12,028.63	1,114.31	772.20	-	69.30%
Staff Loan	11,388.18	6.5971141	3.1454916	-	47.68%
Vehicle Finance	13,339.37	769.8683108	605.5741898	-	78.66%
Loan/OD Against Deposit	19,418.35	1.9796515	1.9796515	-	100.00%
Grand Total	22,75,272.44	59,653.76	46,391.37	**12,000.00**	**97.88%**

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

Write off:[24]

Rs. in lakh

Particulars	Total Write off undertaken
Q1 FY 2023-24	5995.19

Non-performing Investments (NPI)

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

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

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 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 June 30, 2023	
Sl. No.	**Risk Weight**	**Rs. in lakh**
1	Below 100% Risk Weight	29,88,663.76
2	100% Risk Weight	4,44,169.92
3	More than 100% Risk Weight	3,272.96
4	Deductions (GNPA PROVISION)	(46391.37)
5	**Total**	**33,89,715.27**

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

8.1. <u>Qualitative Disclosure</u>

The Group Loan and Individual Loan portfolio, under microfinance is unsecured. Loans to the Affordable Housing segment are collateralized by a mortgage over the property financed. There are primarily secured product variants under 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.

During Q3 FY22-23, the Bank has revamped its Gold loan product schemes with additional features and safeguards and relaunched in November 2022. The Gold Loan is now being offered in 14 branches covering 3 states i.e. Karnataka, Tamil Nadu, Kerala with a plan to expand in 60 branches in the ensuing financial year.

The Bank accepts Eligible Financial Collateral[25] in a few instances for risk mitigation under secured Institutional lending and MSME loans. These financial collaterals are netted off for its collateralized transactions under comprehensive approach[26] 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. <u>Qualitative Disclosure</u>

<u>9.1.1. Securitisation Objectives</u>

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

---

[25] 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

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

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

The overall framework for the Securitisation of Standard Assets for the Bank is specified in the Board approved policy on Securitisation of Standard Assets. During the 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.

Note: During the Quarter ended June 30, 2023 the Bank did not use credit risk mitigants to mitigate credit risks.

Monitoring market risk

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

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

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

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

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

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

<u>9.1.4 Significant Accounting Policy for Securitisation and Direct Assignment of Standard Assets</u>

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.

<u>9.1.5 Rating of Securitisation Transaction</u>
During FY 2023-24, the Bank used the ratings provided by CARE Ratings limited for the securitisation of retail pools.

9.2. <u>Quantitative Disclosures</u>
<u>Details of Securitisation exposures in the Banking Book</u>

Rs.in Lakh

Total Exposures Securitised by the Bank*	**-**

*Represents total exposure of loans securitised and sell-downs via Direct Assignment during Q 1 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 June 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 and Micro finance loans)	20,063.40	-
Direct Assignment	8,782.99	
Total	**28,846.40**	**-**

*The amount represents the total outstanding for Securitization and Direct Assignment as on June 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 June 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. Qualitative Disclosures

10.1.1. Overview of Market Risk Management

The Bank defines Market Risk as the risk of loss in on-balance sheet and off-balance sheet positions arising from movements in market process, in particular, changes in interest rates, exchange rates and equity and commodity prices. The Bank 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), Separate Trading of Registered Interest and Principal of Securities (STRIPS) and one legacy investment in an unquoted equity. The Bank had also made a token investment in a New Umbrella Entity (NUE) in association with National Payment Corporation of India (NPCI) and investment of Rs. 1,263 lakhs as Pass through Certificates as part of the Securitisation deal executed during FY 2022. The Bank recommenced investments in non SLR securities such as certificate of deposits and commercial papers during Q1 FY 2024 after successfully completing the automation of NPI module. As on Jun 30, 2023, the investment holdings in various SLR and Non SLR instruments were as under:

Rs. in lakh

Instrument	AFS		HFT		HTM	
SLR						
	BV	**MV**	**BV**	**MV**	**BV**	**MV**
G Sec (CG)	18,465.76	18,453.25	15,017.60	14,984.87	379,301.57	370,661.28
SDL	0.00	0.00	0.00	0.00	125,787.86	123,998.43
STRIPS	0.00	0.00	0.00	0.00	0.00	0.00
T Bills	316,137.30	316,137.30	2,931.22	2,931.22	0.00	0.00
TOTAL SLR	**334,603.06**	**334,590.55**	**17,948.83**	**17,916.09**	**505,089.43**	**494,659.71**
Non SLR						
PTC	1,262.94	1,375.63	-	-	-	-

Legacy investment (unquoted Equity)	10.02	11.32	-	-	-	-
CP/CD	19,800.90	19,800.90				
TOTAL NSLR	**21,073.86**	**21,187.85**	**-**	**-**	**-**	**-**
TOTAL Investment	**355,676.92**	**355,778.40**	**17,948.83**	**17,916.09**	**505,089.43**	**494,659.71**

During the quarter, the Bank had added ~Rs. 65,570 lakh of securities in its HTM portfolio. There was a one-time transfer of Rs. 70,000 lakhs of securities from HTM to AFS portfolio resulting in a profit booking of Rs. 469.71 lakh.

As at Jun 30 ,2023, the negative MTM was Rs. 45.24 lakh 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 4.5 years. The Bank continued to operate under the HTM limit of 23% applicable until March 31 ,2024. The HTM% of the investment portfolio was ~19.4% 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. Elevated crude oil prices, US Fed monetary policy actions, progress of monsoon and its impact on vegetable prices may influence future Monetary Policy Committee stance on interest rate. The Bank is continuously monitoring the market signals and yield curve for opportune 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. Internal simulations of notional unexpected losses, in that, crystallization of HTM losses under extreme hypothetical scenarios also indicate that the impact on capital adequacy is well below 1%.

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
Apr-23	454,730	844,550	33.43%
May-23	457,154	835,979	32.92%
Jun-23	464,441	834,494	32.34%

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 to commence 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. In a significant development, the Bank was successful in rolling out the infrastructure to commence non-SLR investments during the quarter. To that effect, automated systems for identification and recognition of non-performing investments (NPIs) were tested and deployed in compliance to RBI guidelines. The Bank has gradually commenced investing in non SLR securities such as certificate of deposits and commercial papers issued by top rated Banks and Development Financial Institution which helps to increase the yield without any credit or interest rate risk.

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

Treasury Department is primarily responsible for the day to day liquidity and fund management with an oversight by the ALM desk. The day to day fund excess or shortfall is arrived at based on a daily liquidity statement prepared by Front Office in co-ordination with Finance department. Based on the daily shortage or excess of funds, Front Office undertakes money market borrowing and lending activity. The source of borrowing and lending amongst Call money, Repo, 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.

Studies on how efficiently LCR and ALM can be maintained within regulatory and internal threshold are presented to the committees along with recommendations if any. Market Risk team also undertakes various analysis on Duration gaps and its impact on the capital adequacy and apprises the ALCO and RMCB.

Liquidity Risk Management is governed as per the provisions of the ALM policy. The ALM position for the Bank was well managed and regulatory thresholds complied with during Q 1 FY 23-24. 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 Q1 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. <u>Quantitative Disclosures</u> Liquidity Coverage Ratio (LCR)

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

Liquidity Coverage Ratio			
Date	**Q1 Quarterly Average**		**Rs. in lakh**
A	**High Quality Liquid Assets**	**Amount**	**Adjusted Amount**
	Level 1 Assets	8,31,086.88	8,31,086.88
B	Total Stock of HQLAs (Adjusted for Capital)		8,31,086.88
C	Cash Outflows	20,07,645.68	5,09,187.37
D	Cash Inflows	1,71,729.00	98,400.61
E	Net Cash flow	-	4,10,786.76
F	25% of Total Cash Outflow	-	1,27,296.84
G	Higher of E or F	-	4,10,786.76
	Liquidity Coverage Ratio	**202.32%**	

Net Stable Funding Ratio (NSFR): The objective of the NSFR is to require banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities over a one-year horizon. The Bank's NSFR as at June 30 ,2023 is 144.15% as against RBI minimum requirement of 100%.

Rs. In Lakh

NSFR	Weighted Amount
Total Available Stable Funding (ASF)	23,05,693.38
Total Required Stable Funding (RSF)	15,99,474.01
NSFR	**144.15%**

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 welldefined reporting and Business Continuity Management. This is a continuing process and the Bank is continuously striving to enhance its processes.

11.1.2. Risk identification, measurement, monitoring and reporting

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

- **Product and Process reviews**: All new products and processes (including enhancements) are subject to a mandatory comprehensive review by the Operational Risk department. For process related approvals, PrAC (Process Approval Committee) has been constituted with effect from February 2021 and meetings are held at defined frequency. The Bank's Operational Risk team reviews and provides their observations for including additional controls for the risks identified during the assessment, if warranted. Subsequent to closure, the new/enhanced processes are placed at the PrAC for approval. The Bank continuously reviews and enhances its key processes to adapt to industry best practices. Operational Risk Management Department (ORMD) has approved 22 processes as on June 30, 2023. Few of them to note are 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.
- **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 June 30, 2023, 26 BRD's and FSD's were reviewed and UAT was undertaken for 70 new developments/changes/fix provided by IT covering Safe Deposit Locker, Validation of Aadhaar and PAN linking, Gold Loan LOS, Credit Nirvana Collection App, 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., Alliance & Electronic payment, Collection, Digital Banking, FIG, Operations, Vehicle Finance, Rural Banking, Third party product, Micro Banking and Finance and Accounts.

- **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 from April'2022 and 9 KRI's had been identified and monitored for Housing vertical since December'2022 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 a monthly basis and findings are placed at ORMC and RMCB at regular intervals with action plan for closure of open issues. With emerging trends of increased usage of digital platform by customers, it is pertinent to identify KRIs for digital payment products, The Bank has identified 25 parameters and commenced monitoring from April 2022 onwards. In FY'24, ORM planned to identify the KRIs for the departments viz., Vehicle Finance, Rural Banking, MSE and Operations which will be commenced post obtaining the concurrence for the threshold from the respective departments. ORM has developed, Operational risk index for Micro banking vertical which cover 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.

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

  o Reconciliation of General Ledgers (GL) to operational loss as recorded in SAS;

o Root Cause Analysis (RCA) of critical events; o
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 Jun'23):

	Count			Loss in lakh			
Event Type	**YTD Jun'22**	**YTD Jun'23**		**YTD Jun'23**			**YTD Jun'22**
	Total	**Total**		**Gross#**	**Net#**	**Ops Loss#**	**Ops Loss**
Business Disruption and Systems Failures	155	471		₹ 10.30	₹ 4.98	₹ 3.81	₹ 0.07
Clients, Products, and Business Practice	18	16		₹ 0.03	₹ 0.03	₹ 0.03	₹ 0.00
Damage to Physical Assets	43	8		₹ 0*	₹ 0*	₹ 0*	₹ 0.00*
Employment Practices and Workplace Safety	8	1		₹ 0	₹ 0	₹ 0	₹ 0.00
Execution, Delivery, and Process Management	312	377		₹ 47.35	₹ 26.90	₹ 7.43	₹ 2.79
External Fraud	615	283		₹ 88.29	₹ 41.97	₹ 0.85	₹ 0.93
Internal Fraud	332	293		₹ 50.82	₹ 34.97	₹ 0.00	₹ 8.72
Total	**1,493**	**1,449**		**₹ 196.78**	**₹ 108.83**	**₹ 12.11**	**₹ 12.52**

#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 Q1 FY 23-24, ORMD team performed a thematic review on Payment process. Key gaps from the review were highlighted and discussed in ORMC held in the month of July'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 review is proposed to be performed for 21 applications including Active directory, Cermo, Posidex, Rupee power, SAS, TeamViewer, Glow, Smelo, Trucell, CRM Next, Finacle Treasury, Finacle, Br. Net, Oracle,
Crismac (IRAC), BR. OD, Lend perfect, I-Exceed, CTS, O365 and E kuber by annually. For 6 applications including Finacle Treasury, Finacle, Br. Net, Oracle, Crismac (IRAC) and E-

Kuber user access review will be conducted half yearly. The Bank has 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 Q1 FY'24, 22 exception reports were reviewed, and exceptions identified in 12 criteria's will be taken up with stake holders 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 Q1 FY'24, ORM team had reviewed 125 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 Bank has in place an outsourcing policy which provides guidance on outsourcing certain functions to specialized agencies for increasing efficiency and lower costs. The outsourcing policy is framed in compliance to various RBI guidelines on outsourcing issued from time to time. Key activities undertaken during Outsourcing are as follows:

  Pre - on boarding risk assessment: All vendors, deemed as material, are subjected to a rigorous pre-on boarding risk assessment which is done by both Operational Risk team and the Information Security team and this is repeated at annual intervals. Observations from these risk assessments are then shared with concerned functions for resolution. In Q1 FY'24, pre-on boarding risk assessment was carried out for 7 vendors as on June 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 ORMD and Information Security team, if required. Observations/gaps are shared with concerned function for rectification and response. These key observations along with department response are placed at ORMC and RMCB on completion.

  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. ORMD is identified as key SPOC by Committee members of ORMC in implementation of IT Outsourcing guidelines released by RBI in the month of April'2023 where a core team involving representatives from Compliance, Legal, Finance, Alliances and Information Technology is formed to review existing outsourcing arrangements, categorising and developing framework aligning to the guidelines. Outsourcing undertaken by the Bank is also subject to an annual audit by the Internal Audit team who provide the required compliance certificate to RBI.

- **Business Continuity Planning (BCP):** Business Continuity Management Policy is a prerequisite for a Bank in minimizing the adverse effect on critical areas of Operational Risk with respect to High-Impact and Low-Probability Disruptions, through which Bank maintains confidence levels of its shareholders and satisfies relevant compliance requirements. The plans and procedures are in line with the guidelines issued by the RBI and these are reviewed at regular intervals.
  The Business Continuity Management Policy (BCMP) of the Bank provides guidance to ensure continuity of Business through implementation of contingency plans to restore normal business functioning of Branches, if disrupted during any type of disaster / crisis situation to provide continuous and reliable services and delivery of key products to customers.

  The Bank'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 Q1 FY'24, 48 planned and 7 unplanned BCP's were conducted across branches in Regions. 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 BCMS awareness, a tabletop exercise is planned to be 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 has planned to commence IFC testing for all the 21 departments as per the plan.

The approach for operational risk capital assessment for the bank is captured in DF-3.

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[27], 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 rescheduling which mitigates loss of income and default risk on best effort basis.

---

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

- 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	32,51,052.23
B	Computation of Aggregate RSL	29,39,624.97
C	Weighted Avg. MD of RSL across all currencies	1.20
D	Weighted Avg. MD of RSA across all currencies	1.95
E	Modified Duration Gap (MDG)	0.87
F	Change in MVE as % of equity for 200 bps change in interest rate	14.56%
G	**Change in MVE in absolute terms**	**56,224.59**

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.23,018.64 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. 999.14 lakh).

13. 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	34,74,963.22
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)	40,235.57
7	Other Adjustments	-44,552.99
8	**Leverage ratio exposure**	34,70,645.79

14. 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)	34,74,963.22
	Domestic Sovereign	8,57,526.31
	Banks in India	20,814.29
	Corporates	1,23,166.14
	Exposure to default fund contribution of CCPs	121.00
	Other Exposure to CCPs	
	Others	24,73,335.48
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	-44,552.99

3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	34,30,410.23
	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	75,487.37
18	(Adjustments for conversion to credit equivalent amounts)	35,251.80
19	**Off-balance sheet items (sum of lines 17 and 18)**	40,235.57
	Capital and total exposures	

20	**Tier 1 capital**	4,01,804.74
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	34,70,645.79
	Leverage ratio	
22	**Basel III leverage ratio**	**11.58%**

Presently the contribution of Tier I capital to Total Basel II capital is 88.49%. 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%.

****