Ujjivan SMALL FINANCE BANK
Build a Better Life

Pillar III Disclosures for Half year ended December 31st 2023

2023-2024

[Ujjivan Small Finance Bank (hereinafter called "the Bank") is primarily subject to the BASEL II {New Capital Adequacy Framework (NCAF)} framework with some elements of Basel III regulations made applicable and has prepared this disclosure document in compliance with the directions of Reserve Bank of India (hereinafter referred to as "the Regulator" or "RBI") vide its circular RBI/2015-16/58; DBR.No.BP.BC.1/21.06.201/2015-16 dated 1st July 2015. The document provides a review of key observations pertaining to the Bank's capital adequacy, credit quality, key business highlights and a review of its key risks as at December 31, 2023.]

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1. List of key abbreviations

Abbreviation	Full form
ACR	Automated Cash Recycler
AFS	Available for Sale
ALCO	Asset Liability Committee
ANBC	Adjusted Net Bank Credit

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

HUF	Hindu Undivided Family
IBPC	Inter Bank Participation Certificate
ICAAP	Internal Capital Adequacy Assessment Process
ICAI	Institute of Chartered Accountants of India
ICE	Internal Combustion Engine
IFSC	Indian Financial System Code
IGAAP	Indian Generally Accepted Accounting Principles
IMPS	Immediate Payment Service
IPDI	Innovative Perpetual Debt Instrument
IPO	Initial Public Offer
IRAC	Income Recognition and Asset Classification
IRRBB	Interest Rate Risk in Banking Book
IWG	Internal Working Group
KRI	Key Risk Indicator
LAP-SENP-SEP	Loan Against Property- Self Employed Nonprofessional- Self Employed Professional
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LMS	Loan Management System
LR	Leverage Ratio
LWE	Left Wing Extremism
MB	Micro banking
MCA	Ministry of Corporate Affairs
MD	Modified Duration
MD & CEO	Managing Director and Chief Executive Officer
MDG	Modified Duration Gap
MSE	Micro and Small Enterprises
MVE	Market value of Equity
MV	Market Value
NBFC-ND-SI-CIC	Non-Banking Financial Company-Non-Deposit-taking-Systemically Important- Core Investment Company
NE	North Eastern
NEFT	National Electronic Funds Transfer
NGFS	Network for Greening the Financial System
NPA	Non-Performing Asset
NNPA	Net Non-Performing Asset
NPI	Non-Performing Investment
NSE	National Stock Exchange
NSFR	Net Stable Funding Ratio
Non-URC	Non-Unbanked Rural Centre
OD	Overdraft
ORMC	Operational Risk Management Committee
OSP	Outstanding Principal

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

2. Key Performance highlights of the Bank

Ujjivan Small Finance Bank (hereinafter referred to as “the Bank”) is required to publish disclosures under the Pillar III framework as required in terms of RBI guidelines on New Capital Adequacy Framework issued vide RBI/2015-16/58; DBR.No.BP.BC.1/21.06.201/2015-16 dated

July 1, 2015. This document provides a review of key observations pertaining to the Bank's capital adequacy, credit quality, key business highlights and a review of its key risks as at December 31st, 2023. All exposure related figures quoted in the document are 'Rs. in lakhs', unless otherwise specifically stated.

A. Branch network and distribution reach

The branch position of the Bank as at December 31st, 2023 was as follows:

Particulars	Count
Total Banking outlets, of which	729
Banking outlets[1] (Non-URC)	542
Banking outlets (URC)[2], *of which*	187
i Qualifying URC Branches (Branches situated in tier 3-6 locations in NE[3] states and LWE[4] districts)	43
ii Business Correspondents (BC)	4

During the quarter ended Q3FY24, the Bank had opened 29 new branches across regions (South- 7, North -7, East – 7 and West- 8). With 25.40% of Banking outlets in URC, the Bank is fully compliant with RBI guidelines in this regard. The number of BCs that the Bank had appointed had reduced from 7 to 4 during the quarter. The Bank has decided to replace the BCs with brick and mortar branches at every location.

With a strategic imperative to expand on its customer base and area of operations, the Bank intends on expanding its network with 23 additional brick and mortar branches during Q4 FY 2023-24 out of which 12 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 577 biometric

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

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

[3] North eastern states

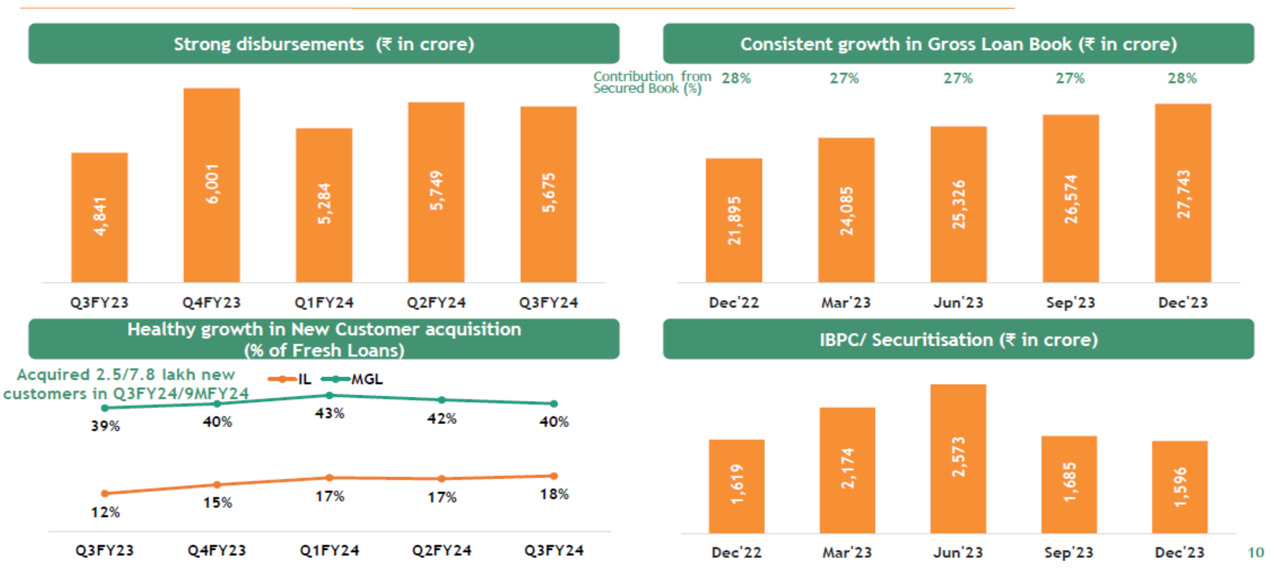
[4] Districts with active Left-Wing Extremism (LWE)

enabled Automated Teller Machines (ATM) including 62 Automated Cash Recycler (ACR) machines across the country as at December 31, 2023.

B. Financial highlights for Q3 FY 2023-24

Some of the key achievements made for quarter ended December 31, 2023, were as follows:

Rs. in crores



Customer base	• Total customer outreach was 82 lakhs as at December 31, 2023 (79 lakhs as at September 2023, 76 lakhs as at June 30, 2023; 77 lakhs as at March 31, 2023)
Loan Portfolio	• Gross Loan Book (GLB) (without netting off IBPC/Securitization/Direct Assignment): Rs.27,74,323.29 lakhs as at December 31, 2023 (Rs.26,57,415 lakhs as at September 30, 2023, Rs. 25,32,619 lakhs as at June 30, 2023; Rs. 24,08,502 lakhs as at March 31, 2023). • Gross Advances (GA) (after netting off IBPC/Securitisation/Direct Assignment): Rs. 26,14,767.83 lakhs[5] as at December 31 2023 (Rs. 24,88,850 lakhs[6] as at September 30, 2023, Rs. 22,75,272 lakhs[7] as at June 30, 2023; Rs. 21,91,083 lakhs as at March 31 ,2023). • Non-Microfinance book was 28.3% as at December 31, 2023 on Gross Advances (28.5% as on September 2023, 28.38% as at June 30, 2023; 29.16% as at March 31, 2023).

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

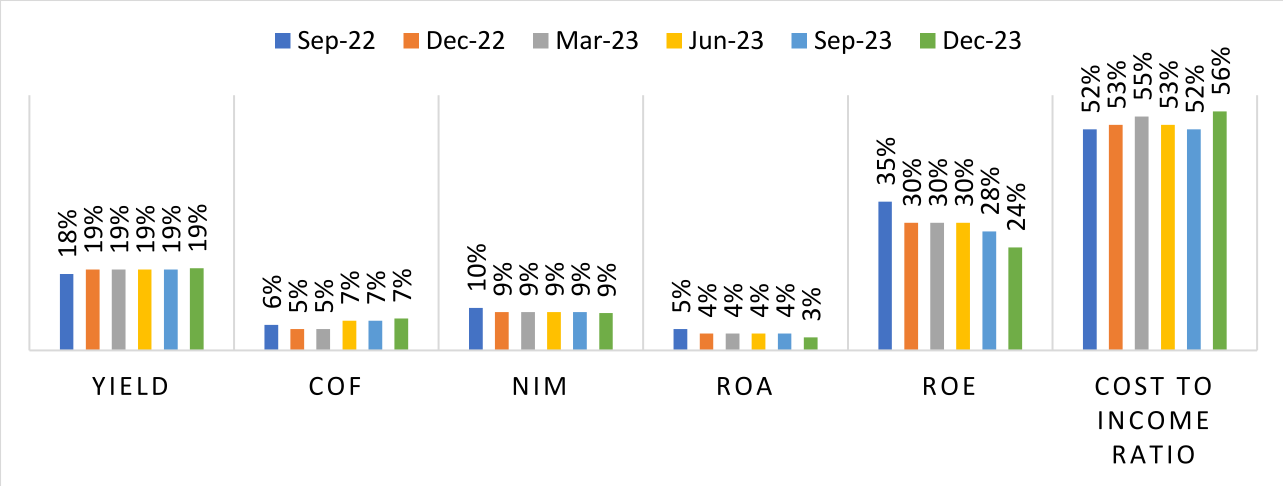
[6] Outstanding balance in IBPC/Securitisation/ Direct Assignment as on Sept' 30, 2023 was Rs 1,68,564.42 lakh

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

Deposit Portfolio	• Total Deposits (Retail plus Institutional): Rs.29,66,900 lakhs as at December 31, 2023 (Rs.29,13,900 lakhs as at September 30, 2023, Rs.26,66,000 lakhs as at June 30, 2023; 25,53,800 lakhs as at March 31, 2023). • CASA: 25.5% as at December 31, 2023 (24.1% as at September 30, 2023, 24.6% as at June 30, 2023; 26.4% as at March 31, 2023).
Asset Quality	• Gross Non-Performing Assets (GNPA): 2.18% as at December 31, 2023[8] (2.35% as at September 30, 2023, 2.62% as at June 30, 2023; 2.88% as at March 31, 2023) • Net Non-Performing Assets (NNPA): 0.167% as at December 31, 2023[9] (0.090% as at September 30, 2023, 0.0569% as at June 30, 2023; 0.042% as at March 31,2023)
Capital Adequacy	• CRAR ratio of the Bank as at December 31, 2023 was 24.37%, well above the mandated norms (25.19% as at September 2023, 26.69% as at June 30, 2023; 25.81% as at March 31, 2023)
Employee strength	• 21,796 as at December 31, 2023 (21,040 as at September 30, 2023, 19,294 as at June 30, 2023; 17,870 as at March 31, 2023)
Provisions and Credit costs	• Total provisions including Floating Provision as at December 31, 2023 was Rs. 66,992.29 lakhs (Rs. 69,196 lakhs as at September 2023, Rs. 70,134 lakhs as at June 30, 2023; 73,530 lakhs as at March 31, 2023) • Total NPA provision (excluding floating provision) held was Rs.40799.19 lakhs as at December 31, 2023 (Rs.44,398 lakhs as at September 30, 2023, Rs.46,391 lakhs as at June 30, 2023; 50,157 lakhs as at March 31,2023). • Total NPA provision reduced by Rs. 3598.81 lakhs during quarter ended December 31, 2023.

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

[8] Computed as a percentage to Gross advances. GNPA% on GLB basis was 2.07%
[9] Computed as a percentage to Net advances. NNPA% as a ratio to Net GLB was 0.165%



The Bank recorded good performance across all parameters during the Quarter 3 of FY 2023-24. A summary of the key highlights of the Bank as at December 31, 2023 is given below:

- Pre-Provision Operating Profit (PPoP) for 9 months ended December 31 2023 was Rs.1,39,900 lakhs up 30% Y-o-Y; PAT for 9 months ended was Rs.95,200 lakhs up 20% Y-o-Y.
- Disbursements were at Rs.16,70,800 lakhs for 9M ended FY24; Gross loan book at Rs.27,74,300[10] lakhs up 27%/4% Y-o-Y/Q-o-Q.
- Total Deposits registered a growth of 28%/2% on Q-o-Q/Y-o-Y basis. Retail Term Deposit registered a growth of 40%/9% on Y-o-Y/Q-o-Q basis.
- Continued traction on Collections with ~99% efficiency in December 2023 ; NDA collection consistently at ~100%. Portfolio at risk was stable at 3.6% as of December 2023[11]. GNPA on GLB basis, declined to 2.1% as of December 2023 as against 2.2% as at September 2023; NNPA continues to be negligible at 0.16% as at December 23. Total of Rs.9300 lakhs written-off in Q3FY24; Provision coverage ratio as at September 2023 was 92%[12].

C. Macro-Economic Outlook:

The global economy faces multiple challenges: prospects of slowing growth, large public debt, increasing economic fragmentation, and prolonging geopolitical conflicts. The following are some of the key developments during the quarter.

Global Economic Outlook[13]

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[10] Without adjusting IBPC & Securitization of ₹ 1,596/ ₹ 1,685/ ₹ 1,619 crores as on Dec 2023/ Sep 2023/ Dec 2022

[11] Without adjusting IBPC & Securitization of ₹ 1,596/ ₹ 1,685/ ₹ 1,619 crores as on Dec 2023/ Sep 2023/ Dec 2022

[12] 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 ₹ 30 Cr was moved to Tier II capital in Jun'22 while ₹ 60 Cr, ₹ 10 Cr and ₹ 30 Cr were moved to other provision in Sep'22, Dec'22 and Mar'23 respectively

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

1) https://pib.gov.in/PressReleasePage.aspx?PRID=1894932

2) OECD ECONOMIC OUTLOOK

- The global economy and the financial system, despite displaying resilience in the face of unprecedented monetary tightening and acute banking system stress, are facing difficult challenges. Multiple geopolitical conflicts, growing geo-economic fragmentation, elevated debt levels, and uncertainty about the global economic outlook are some of the key vulnerabilities that pose threat to financial stability. Emerging market economies (EMEs) remain vulnerable to global spill overs and volatile capital flows.
- Global economy has been in high flux as market expectations shifted from possible recession to 'higher for longer' interest rate to soft landing, amidst heightened geopolitical tensions and volatility in commodity prices. Economic activity is taking divergent paths and has turned uneven across regions. The moderation in inflation from its mid-2022 peak has been interrupted by successive shocks, with core inflation staying elevated across economies. More recently, market expectations have shifted towards an imminent turn in the monetary policy tightening and hawkish pauses are increasingly being expected to give way to rate cuts. Nonetheless, elevated levels of stock of both public and private sector debt and rising servicing costs pose debt sustainability and fiscal risks, and global banks face potential valuation losses in their bond portfolios.
- Overall, global financial stability risks remain elevated as market participants recalibrate their outlook based on incoming data, with sharp realignment in expectations and resultant repricing of financial assets.
- The International Monetary Fund (IMF) has projected that global growth would decline to 3.0 per cent in 2023 and 2.9 per cent in 2024, below the pre-pandemic (2000–2019) average of 3.8 per cent. This moderation in growth momentum is expected to be accompanied by a sharp deceleration in world trade growth, which is projected to fall from 5.1 per cent in 2022 to 0.9 per cent in 2023. Although it is projected to recover to 3.5 per cent in 2024, it would still be below its average growth of 4.9 per cent during 2000-2019.
- The effects of relatively tighter financial conditions are increasingly being felt in rising debt servicing costs and falling savings of households and small businesses. In some AE's (Advanced Economies), banks have large exposure to commercial real estate (CRE), which is showing signs of impairment in view of higher interest cost co-existent with falling prices, especially for office space. Tight monetary conditions have also affected the profitability of (a) non-bank financial intermediaries (NBFIs) that use leverage to profit from arbitrage opportunities and (b) funds that offer daily liquidity.
- At the close of 2023, the global economy is negotiating formidable headwinds from (a) geopolitical conflicts in the world's biggest grain and oil supplying regions; (b) geo-

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4) World bank website
5) IMF World economic outlook April 2023
6) RBI Financial Stability Report
7) RBI Bulletin
8) India Brand Equity Foundation (IBEF)

economic fragmentation; (c) relatively tighter financial conditions; (d) large fiscal imbalances and elevated public debt and (e) heightened uncertainty on the evolving economic outlook. Consequently, volatility has risen in certain segments of financial markets

- In the wake of the aggressive and synchronised monetary tightening that has dominated 2022 and 2023, multiple sources of macro financial vulnerabilities have surfaced that tilt the balance of global financial stability risks to the downside. Going forward, interest rate risk exposures, large public debt, bond market vulnerabilities, financing of climate transition in emerging markets and developing economies (EMDEs), geo-economic fragmentation and realignment of supply chains are the key near-term and medium-term challenges.
- According to the IMF's enhanced global stress tests, the global banking system remains resilient on an aggregate level but there is a substantial tail of weak banks that is expected to experience large valuation losses in investments and debilitation of loan loss provisions. Under this stress testing framework, an adverse scenario that assumes persistent inflation and more monetary tightening may cause 215 banks representing 42 per cent of global bank assets, especially from AEs and China, to remain weak

Indian Economic Outlook[14]

- The Indian economy has been successfully navigating the challenge of balancing macro-financial stability and growth in a period of turbulent global spill overs, new shocks and heightened uncertainties. Strong macroeconomic fundamentals and buffers have supported the resumption of growth alongside price and financial stability. Domestic tailwinds such as easing inflation, improvements in demand conditions, moderation in fiscal and current account deficits, stable financial markets and sound buffers in the form of sizeable forex reserves, high capital and liquidity ratio in financial institutions, healthy corporate balance sheets, and a robust financial system are helping the economy to deal with global. Overall, domestic macro financial risks have declined and proactive and prudent policies have improved macro-economic resilience.
- Despite facing successive shocks and large global spill overs, India remains one of the fastest growing major economies in the world, underpinned by sound macroeconomic fundamentals and buffers. The growth momentum remains strong on the back of robust domestic consumption, high public capital expenditure, a recent upturn in

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

private investment and strong exports of services. Real GDP increased by 7.7 per cent in H1:2023-24 and remains on track to expand by 7.0 per cent in FY:2023-24. High frequency indicators support this forecast: despite some recent moderation, Purchasing Managers' Indices (PMIs) for both manufacturing and services sectors remain in expansion terrain and prospects for future activity remain bright. Equity markets are rallying supported by improved valuations and have generally outperformed those in other major peers. Balance sheets of non-financial private corporate entities remain healthy with strong profit margins, as savings on input costs compensated for subdued sales.

- Banks and NBFCs, bolstered by improved balance sheets, are catalysing economic growth and meeting the productive needs of the economy. Overall, domestic macro financial risks have declined and proactive and prudent policies have improved macroeconomic resilience.

- While decline in global commodity prices and effective domestic supply management could help moderate food inflation, the impact of higher rural inflation relative to the urban sector, as witnessed in the recent months, could have more pronounced impact on rural demand.

- Headline inflation, which peaked at 7.4 per cent in July 2023 on the back of volatile food prices, is progressively aligning with the medium-term target of 4 per cent. It has eased to 5.6 per cent in November 2023 but remains susceptible to food price shocks. Meanwhile, core inflation (i.e., consumer price Index (CPI) excluding food and fuel) is exhibiting a sustained disinflation, easing to 4.1 per cent in November 2023 – its lowest level since March 2020.
- The Indian basket of crude oil prices which was moderating for more than a year, trended upwards during July-October 2023 before a decline in recent months. Continuation of production cuts by OPEC+[15] alongside mounting uncertainties stemming from the conflict in West Asia could keep prices volatile in the near term and pose risk to the inflation outlook. An oil price surge of 10 per cent from the baseline of US$ 85 per barrel could weaken domestic growth by 15 basis points and increase inflation by 30 basis points. The declining oil intensity of GDP (i.e., the volume of oil consumed per unit of GDP) could, however, offset the impact of the oil price shock.
- In a volatile global economic environment, India continued to attract steady capital inflows. During the current fiscal year so far (upto December 20, 2023), net inflows of foreign portfolio investments (FPI) were US$ 30.6 billion as against net outflows of US$ 3.3 billion during the same period last year. The inclusion of Indian government securities in the JP Morgan Global Bond Index - Emerging Markets from June 2024

[15] In 2016, the Organization of the Petroleum Exporting Countries signed an agreement with 10 other oil-producing countries to create what is now known as OPEC+.

could augur well for the outlook for capital flows to India. External commercial borrowings (ECB) and non-resident deposits have also registered net inflows in 2023-24. Foreign direct investment (FDI), however, remained subdued, reflecting the global retrenchment of these flows as well as an uptick in repatriations of FDI from India.

Indian Banking industry Outlook:

- The banking stability indicator (BSI), which provides an overall assessment of the health of the domestic banking system, remained robust during H1:2023-24. Aided by declining levels of NPAs and restructured assets, the asset quality indicator improved further, and record return-on-assets (RoA) and healthy net interest margin (NIM) enhanced the profitability indicator. Efficiency indicator weakened due to increase in cost to income ratio. Although there was a marginal weakening of soundness and liquidity indicators due to increase in risk-weighted assets and a decline in the liquidity coverage ratio (LCR) respectively, the banking system has adequate capital and liquidity relative to the regulatory minimum.

- The domestic banking system remains resilient, bolstered by strong buffers, robust earnings and the ongoing strengthening of balance sheets. The capital to risk-weighted asset ratio (CRAR) at end-September 2023 remained high at 16.8 per cent vis-à-vis the regulatory minimum of 11.5 per cent (including capital conservation buffer) while the common equity tier 1 (CET1) ratio, which represents the highest quality of regulatory capital, stood at 13.7 per cent as against the regulatory requirement of 8 per cent (including capital conservation buffer).

- Both coincident and leading indicators of asset quality, i.e., the gross non-performing assets (GNPA) ratio and the special mention accounts - 2 (SMA-2) ratio, respectively, have fallen to multiyear lows of 3.2 per cent and 0.9 per cent, even as improved provisioning drove the net non-performing assets (NNPA) ratio to a multi-decadal low of 0.8 per cent.

- Healthy interest margins, strong credit demand and lower impairments have boosted net interest income (NII) of the banking system through the course of the current monetary policy tightening cycle, and strengthened earnings as reflected in RoA and RoE, which rose to 1.2 per cent and 12.9 per cent, respectively, in September 2023 from historical lows of (-) 0.2 per cent and (-) 2.2 per cent, respectively, in March 2018.

- Further gains in earnings could, however, be moderated by rising cost of funds for banks - the average cost of funds of SCBs (Scheduled Commercial Banks) have risen by 80 basis points (bps) - from 4.4 per cent during Q4:2022-23 to 5.2 per cent in Q2:2023-24. Healthier balance sheets have facilitated broad-based expansion in lending by banks. Bank credit growth continues to outpace deposit growth on the back of sustained momentum of demand.

- Recent quarters have witnessed some moderation in the build-up of excessive credit momentum as measured by the credit-to-GDP gap (i.e., the difference between the credit-to-GDP ratio and its long-term trend) to (-) 8.8 per cent in Q4:2022- 23 from (-) 12.4 per cent in Q1:2022-23. The quarterly average credit growth at 15.5 per cent is still below the threshold level of 16-18 per cent.

- A related development, which has facilitated rapid growth in retail loans, is bank lending to NBFCs, which constituted 9.9 per cent of total bank credit (end-June 2023). Bank lending to NBFCs increased at a CAGR of 26.3 per cent during the past two years (i.e., from June 2021 to June 2023), well above the growth of 14.8 per cent in overall bank credit (Chart 1.84 a and b). Such lending is, however, mostly limited to top-rated NBFCs with close to 80 per cent of credit given to those with AA-rating and above.

- As banks and NBFCs have entered into various co-lending models with divergent underwriting practices and banks have been the major lender to NBFCs, rising interconnectedness raises risks emanating from cross-sectional dimensions. Furthermore, there are few outlier banks that have substantial SMA (1+2) ratios even as retail portfolios are witnessing rapid growth. Accordingly, the Reserve Bank took proactive regulatory measures, such as increase in risk weights on certain segments of consumer credit by banks and NBFCs as well as bank credit to NBFCs, along with a strengthening of credit standards in respect of various sub-segments under consumer credit, to prevent build-up of risks and spill over to the wider financial system. The decision to increase risk weights is both, stability-enhancing and credit positive. First, banks and NBFCs will be required to allocate higher capital for unsecured retail loans, which will improve their loss-absorbing buffers; and second, it will dampen growth exuberance among lenders and improve credit quality. Adjusting for increase in risk weights, the CRAR of the banking system (PSBs (Public Sector Banks) + PVBs (Private Sector Banks)) is estimated to decline by 71 bps to 16.0 per cent and CET1 may fall by 58 bps to 13.2 per cent. The impact, however, varies among banks.

- Historically, movements in bank lending to agricultural activity are found to be strongly related with performance of the sector. Weak growth in agriculture is associated with a rise in nonperforming assets (NPAs) in agricultural loans with a lag of 4-6 quarters. NPAs in the agriculture sector remain at elevated levels despite the recent decline.

- Credit to the microfinance sector grew rapidly at 33.7 per cent (y-o-y) in quarter-ended September 2023, with both banks and non-bank lenders recording double digit growth. NBFC-MFIs continue to dominate the sector, followed by banks, which together account for 71.5 per cent of total lending to the microfinance segment since the review of microfinance regulatory norms in March 2022. NBFC-MFIs and other NBFCs continue to see robust credit expansion, with their combined lending increasing by 43.8 per cent in the last one year. Alongside, SFBs' lending to the sector also recorded over 50 per cent growth. Delinquency in the microfinance segment, measured in terms of 90+ days past due (dpd), presents a mixed picture. While delinquency levels rose for banks, they fell for other lenders.

- The systemic risk survey conducted among financial sector professionals and academicians in November 2023 showed that risk perceptions across major categories of risk have either receded or remained unchanged, except macroeconomic risks. Risks from global spill-overs receded but continued to remain in the 'high' risk category. The major drivers of global risks such as global growth, banking turmoil and risk emanating from monetary tightening in advanced economies were perceived to have moderated, except commodity price risk. Macroeconomic risks witnessed a marginal uptick but remained in the 'medium' risk category. Among drivers of financial market risks, interest rate risk was gauged to have moderated. Cyber risk, a key component of institutional risk, increased marginally and moved up to the 'high' risk category.

D. Key developments within the Bank

- The Bank intends on ramping up its business mix in line with its 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 29 branches in Q3 FY24. The Bank also intends on opening 23 branches in Q4 FY 2023-24.
- The Bank launched a nationwide Brand Campaign, is a prominent step towards establishing a mass market bank and building trust.
- The Bank has also activated loan acknowledgment on the Hello Ujjivan app, which saves the customer time of visiting branches for signing disbursement documents. This also reduces the pressure on our branches. The application has seen 5.9 lacs downloads and ~Rs.100 crores of collections since its launch. Going ahead, the Bank plans to introduce repeat loan facility on the app that will bring a significant cost saving, as more than 60% of disbursements are actually repeat loans. As the application gains usage and acceptance, it will provide field staff greater bandwidth to cross-sell to existing customers and also acquire new customers.
- Digital fixed deposits provide smooth onboarding of digitally savvy and new to bank customers. Jointly, these efforts yielded strong results.
- The Bank has tied up with two Fintech Partners for Supply Chain financing and has commenced disbursements. It is expected that this business shall contribute significantly towards second half of the year. The Bank continues to evaluate more such fintech partnerships on an ongoing basis.
- As on December 2023, the Individual Lending achieved a milestone of reaching Rs.4,00,000 Lakhs of OSP.

- In a significant development, CARE Ratings has upgraded the Rating of the Bank to CARE AA- Stable (revised from CARE A+ positive, reflecting the considerable enhancement made by the Bank, both in terms of performance and overall governance.

E. Digital Banking Highlights :

- **Hello Ujjivan Application**: 1.6 lakh customers acknowledged loan @ Hello Ujjivan 5.7 Lakh customers have registered for Hello Ujjivan with 6 Lakhs+ downloads. Digital Loan Repayments – Rs. 12,000 lakhs (YTD). 4000 Term Deposits of value Rs. 3.5 Crore (YTD).

- **Robotic Process Automation :** 26 processes are are live via the robotic process saving Outsourcing cost for reconciliation Rs 431 lakhs. Process Load equalling to 60 Headcount savings of Rs.181 lakhs.

- **Digital FD and Savings :** Digitally servicing 121 New locations without branch infrastructure. 2026 New Customers to the Bank with initial Deposits of Rs 36.69 Crore. 2986 Existing Customers booked Deposits worth Rs 1481 lakhs. 319 Savings account Customers with initial funding of Rs 31 Lakh. Book value – 87 lakhs.

- **Digimitra :** Launched 'DigiMitra' team/initiative at Phone Banking on 16th August 2023. The DigiMitra Team will handle end-to-end resolution of technical issues regarding Internet Banking, Mobile Banking, BNB, UPI services, by liaising with internal departments, to ensure timely and complete resolution for customers. This shall deliver better digital experience to customers, by enabling proactive connect with the customer before and after the issue is raised and resolved.

Climate Risk Management and ESG– developments on capacity building:

- **Climate Finance global outlook**

  - Financing needs for climate change mitigation are large: The International Energy Agency (IEA) estimates that around US$ 5 trillion in yearly global gross investments will be required by 2030 to achieve net zero greenhouse gas emissions by 2050. EMDEs (Emerging Market and Developing Economies), which face important challenges in attracting private capital and have limited fiscal space, need about 40 per cent of these investments so that climate mitigation investments increase to 12 per cent of total investments by 2030 from the 2020 level of 3 per cent.

  - Private finance is critical for EMDEs to meet their climate investment requirements for both mitigation and adaptation. Estimates show that public investments will not be sufficient to meet climate investment needs and the share of private capital has to more than double from the current level of 40 per cent by 2030. Risk-return profile of climate projects, however, are not amenable to private capital at scale and public sector participation can help de-risk such projects. Therefore, public-private partnership is essential to mobilize finance to meet the growing climate investment needs.

- In order to build an attractive private investment climate and generate private capital flows to EMDEs, public-private collaboration and sound financial sector policies are vital. Taxonomies, disclosure requirements and suitability and appropriateness standards for GSS financial instruments are critical in this regard. The G-20 Independent Expert Group has suggested an increase in annual spending by multilateral development banks (MDBs) by US$ 3 trillion by 2030, including US$ 1.8 trillion for additional climate action, and US$ 1.2 trillion for achieving other sustainable development goals (SDGs).

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

- **The Bank has launched its maiden TCFD (Task Force on Climate related Financial Disclosure) compliant** disclosures during the Q3 FY 2023-24 to become the first Small Finance Bank to disclose the TCFD.
- On the ESG front, **the Bank has launched its maiden Sustainability Report (SR),** in compliance to Global Reporting Initiatives (GRI) standards. The report summarizes the Bank's progress and plans in furthering UN SDG goals and ESG pillars.
- Conducted stress tests on climate induced physical risks in the short term (1 to 3 years). Based on the impact assessed, risk mitigation measures were deliberated internally. A policy in this regard is expected to be finalized in the ensuing quarter.
- During Q3 FY 2023-24, the Bank's policy on investment/financing to coal entities and unconventional oil and gas was approved at a Board meeting. The policy is also updated on the Bank's Website.
- The Bank's principles on approaching sustainability, corporate climate goals, ESG and climate risk management finalized for adoption.
- The Bank's ESG journey is bifurcated into short term, mid-term and long-term goals. Some of the key initiatives undertaken to further ESG goals were as below:
  - Process to measure waste at Corporate & South RO in place; have been measuring wet & dry wastes diligently. Shall be replicating it to all ROs by March 1st.
  - 179868+ agreements e-signed contributing to paper saving.
  - Reached 23.92 Lakhs+ unique digitally registered customers – a step ahead in digital transformation
  - Approx. 3000 plantations done across pan- India towards increasing the green cover

3. *Table DF- 1: Scope of Application*

3.1 Qualitative Disclosures

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

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

3.1.1 List of group entities considered for consolidation

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

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

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

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

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

4. *Table DF-2: Capital Structure*

4.1 Qualitative Disclosures

4.1.1 Tier I capital

The Bank has an authorized capital of Rs. 2,50,000 lakhs in the form of Common Equity of Rs. 2,30,000 lakhs qualifying as Tier 1 capital and Perpetual Non-Cumulative Preference Shares (PNCPS) of Rs. 20,000 lakhs qualifying as Additional Tier 1 Capital under the guidelines of RBI. As on December 31, 2023, the Bank had an issued, subscribed and paid-up equity capital of Rs. 1,95,565.42 Lakh, having 1,95,65,42,854 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 4.62% comprising of (a) Foreign Portfolio investors (FPI), (b) Non-Residential Indians (NRI) and (c) Non-Resident Indian Non Repatriable as at December 31, 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[16]:

As at December 31, 2023, the promoter contribution in the Bank was 73.60% 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 December 31, 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

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

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-observation letters from the Stock Exchanges, basis which a joint application has been filed with the National Company Law Tribunal (NCLT) on March 29, 2023, by the Bank and the Holding Company. Hon'ble NCLT pronounced its order on September 08, 2023 for convening the general meeting on November 03, 2023 for shareholders' approval for the reverse merger of the holding company, Ujjivan Financial Services Limited (UFSL) with and into Ujjivan Small Finance Bank Limited and the resolution for the approval of the scheme of amalgamation was approved by the shareholders of both the Bank and UFSL.

As per the NCLT order dated December 07, 2023, Joint Petition for sanctioning of the scheme has been listed for hearing on January 30, 2024.

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

The shareholding pattern of the Bank as at December 31, 2023 was as follows:

Category of the Shareholder	**No. of shares held**	**%age of shareholding**
Promoter	1,44,00,36,800	73.60
Mutual Funds	2,62,68,116	1.34
Alternate Investment Funds (AIF)	2,62,52,213	1.34
Foreign Portfolio Investors (FPI)	7,23,51,118	3.70
Resident Individuals/Hindu Undivided Family (HUF)	33,45,12,913	17.10
Others	5,71,21,694	2.92
Total	**1,95,65,42,854**	**100**

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[17]	Common Equity Tier 1 (CET 1)	1,95,654.29

[17]Issued and Paid up equity capital

2	PNCPS[18]	Additional Tier I	20,000.00
3	Subordinated Debt Instruments	Tier II	30,000.00
	Total		**2,45,654.29**

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[19]. A key characteristic of PNCPS is that there can be no maturity date and no step ups or other incentives to redeem with an exception to call option exercisable by the Bank not earlier than the fifth anniversary of the date of allotment which was completed on February 10, 2022. The rate of dividend as agreed with the investor is 11 percent per annum or at a rate as specified in terms of Basel Master Circular and / or any other applicable law.

The claims of the investors in the instruments are:

a Superior to the claims of investors in equity shares;

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

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

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

4.1.2. Subordinated Debt Instrument

As per specific directions received from the Regulator[20], the Bank can issue Tier II capital instruments in compliance to either NCAF or Basel III guidelines of RBI. As on December 31, 2023 following are the Tier II Instruments raised by the Bank.

[18] Perpetual Non-Cumulative Preference Shares (PNCPS)
19 RBI/2022-23/12 DOR.CAP.REC.3/21.06.201/2022-23 dated April 1, 2022

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

Capital	Description of the Security	Issue Amount (Rs. in Lakhs)	Issue date	Date of Redemption	Contractual Dividend rate (% p.a.) (on a fixed rate basis)
Tier II – Subordinated Debt	Subordinated, rated, unlisted, unsecured, transferable, redeemable, fully paid up, non-convertible debentures	22,500	August 26, 2022	April 26, 2028	11.95% p.a.
		7,500	September 09, 2022[21]	April 26, 2028	11.95% p.a.
Total		30,000	-	-	-

4.1.3. Dividend policy

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

5. Table DF- 3: Capital Adequacy

5.1 Qualitative Disclosures

The Bank has been well capitalized since inception and its capital position has been further augmented after equity raise through a QIP in Q2 FY 2022-23. As required by RBI in its operating guidelines to SFBs[22], the Bank is required to adopt the Standardized approach for Credit Risk and maintain a minimum Capital to Risk Weighted Assets Ratio (CRAR) of

[21] Deemed Allotment Date: August 26, 2022

[22] 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.

15% segregated as under:

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

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

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

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

The disclosures pertaining to capital adequacy are as per the Generally Accepted Accounting Practices (GAAP). Preparation of Financial statements under Ind-AS regime by banks have been deferred by RBI until further notice and hence a comparison of capital adequacy under both the regimes will be made part of disclosures after the same is made applicable to banks. There are indications from the recent Monetary Policy announcements, that the Regulator may consider adopting a dynamic loan loss provisioning under IFRS9/Ind-AS framework. To this effect, a Discussion Paper was released by the Regulator on January 16,2023 and formal guidelines in the matter are awaited. From the readiness standpoint, the Bank has put in place the necessary processes to compute Expected Credit Loss (ECL) and Ind-AS compliant financial statements. While the Bank has utilized internal capabilities in automating ECL components, the preparation of Ind-AS compliant financial statements continues to be manual. A final guidelines from the Regulator is awaited to commence engagement with technology partners in developing necessary systems.

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

Credit Risk	Underestimation of Credit Risk (Under ICAAP framework)
Operational Risk	Reputational Risk
Market Risk	Strategic Risk
Interest Rate Risk in Banking Book (IRRBB)	Compliance Risk
Liquidity Risk	People Risk
Concentration Risk	Information Technology and Information Security Risk
Outsourcing Risk	Group Risk[23]
Securitization Risk	Fintech Risks
Climate induced financial risks	ESG risks

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

[23] 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

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 December 31st, 2023 was as follows:

Rs. in lakhs

	Description	Amount
	Core Equity Tier 1 Capital - Instruments and Reserves	
	Directly issued qualifying common share capital plus related stock surplus (share premium)	1,95,654.29
	Retained earnings	2,82,737.22
A	CET1 capital before regulatory adjustments	4,78,391.51
	Core Equity Tier 1 Capital - Regulatory Adjustments	
	Deferred tax assets arising from temporary differences	23,599.18
	Intangibles (Prepaid Expenses & Computer Software)	13,121.29
	Credit Enhancements	2,020.71
	Regulatory Adjustments applied to CET1 Capital due to insufficient funds in Tier 2 to cover deductions	0.00
B	Total regulatory adjustments to CET1 Capital	38,741.18
C	**CET1 capital (A-B)**	4,39,650.33
	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)**	4,59,650.33
	Tier 2 Capital - Instruments and Provisions	
	Sub - debt eligible as Tier 2 capital	24,000.00
	General Provisions on Std. Assets admissible as Tier 2	16,393.01
	Investment Fluctuation Reserve	9,861.95
	Investment Reserve Account	34.04
I	Tier 2 Capital before regulatory adjustments	50,289.00

	Tier 2 Capital - Regulatory Adjustments	
J	Total Regulatory Adjustments to Tier 2 Capital	-
K	**Tier 2 Capital (I - J)**	50,289.00
L	**Total Regulatory Capital (H + K)**	5,09,939.33

5.2.2. Credit Risk RWA

The detailed break up of Credit RWA is as follows:

Rs. in lakhs

Asset Description	RWA
Cash and Balances with Reserve Bank of India	0.00
Balances with Banks and Money at Call and Short Notice	7,579.86
Investments	30,827.78
Advances	19,54,153.20
Fixed Assets	26,358.38
Other Assets	60,256.95
Off Balance Sheet	13,272.20
Total Credit RWA	**20,92,448.37**

A significant regulatory guideline impacting the RWA on consumer loans was issued by the Regulator on November 16th 2023 vide its Circular RBI/2023-24/85 dated November 16 2023.

The Bank has evaluated the impact of the revised guidelines on its book, especially that small component of unsecured loans that do not satisfy the PSL criteria or the criteria for regulatory retail. There are also some loans in its FIG book where based on the rating a higher risk weight will apply. The net impact of the revised application of RWA is 0.8%, and the Bank is adequately capitalised to weather this impact.

5.2.3. Operational Risk RWA

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

The detailed computation is as follows:

Rs. in lakhs

Particulars	T	T-1	T-2
	FY'23	FY'22	FY' 21
Total amount of operational losses net of recoveries (no exclusion)	527.35	906.96	657.28
Total number of operational risk losses	1416	1,253	1,247
Total amount of excluded operational risk losses#	474.69	807.83	566.09

Total number of exclusions	1255	990	986
Total amount of operational losses net of recoveries and net of excluded losses	52.66	99.13	91.19

Rs. in lakhs

Sr. No.	Business Indicator (BI) and its sub components	T	T-1	T-2
1	**Interest, lease, and dividend component**			
1a	Interest and lease income	4,16,499.47	2,81,279.91	2,80,606.56
1b	Interest and lease expenses	1,46,709.26	1,03,920.70	1,07,751.40
1c	Interest earning assets	30,42,153.98	21,64,058.57	17,65,639.88
1d	Dividend Income	0.00	0.00	0.00
2	**Services component**	0.00	0.00	0.00
2a	Fee and commission income	31,737.78	21,874.86	13,640.34
2b	**Fee and commission expense**	1417.61	1932.24	1289.10
2c	Other operating income	22822.14	9894.91	9938.88
2d	Other operating expense	51036.29	39523.94	24606.37
3	**Financial Component**	0.00	0.00	0.00
3a	Net P&L on the trading book	178.40	1,575.63	1,716.17
3b	Net P&L on the banking book	0.00	185.34	3,878.45
4	BI	1,15,606.75	92,414.17	-
5	Business Indicator Components (BIC)	13,872.81	11,089.70	-

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

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

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

5.2.4. Market Risk RWA

As at December 31, 2023, the AFS[24] book consisted of Government of India Securities, Treasury Bills and unquoted equity and the HFT[25] book consisted of Government Securities , Commercial Paper, Certificate of Deposits and Mutual Funds. On the basis of SDA[26], the

[24] Available for Sale

[25] Held for Trading

[26] Standardized Duration Approach

capital requirement for market risk reported to the Board from a governance perspective was as under:

Rs. in lakhs

Capital Requirement for Market Risk	**Amount**
Interest Rate Risk	2,077.55
Equity Position Risk	2.76
Foreign Exchange Risk	--
Total	2080.31
Total Market Risk RWA	26,003.92

5.2.5. Basel II CRAR (with only Credit RWA)

Rs. in lakhs

Particulars	**RBI thresholds**	**Amount/Ratio (Only Credit RWA)**
Tier I Capital	--	4,59,650.33
Tier II Capital	--	50,289.00
Total Capital	**--**	5,09,939.33
Total RWA	**--**	20,92,448.37
CET Ratio	Minimum 6%	21.01% (Complied)
Tier I Ratio	Minimum 7.5%	21.97% (Complied)
Tier II Ratio	Maximum cap at 7.5% of CRWA	2.40% (Complied)
CRAR	**Minimum 15%**	**24.37% (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 **24.37%** 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	4,59,650.33
Tier II Capital	50,289.00
Total Capital	5,09,939.33
Total RWA	**22,91,862.42**
CET Ratio	19.18%
Tier I Ratio	20.06%
Tier II Ratio	2.19%
CRAR	**22.25%**

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

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

6.1. Qualitative disclosures

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

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

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

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

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

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

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

Definitions of past due and impaired loans

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

- Interest and/or instalment remains overdue for a period of more than 90 days in respect of a Term Loan;
- The account remains out of order with respect to CC/ OD for 90 days on a continuous basis;
- The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted.
- In case of advances granted for Agricultural purposes
  - The instalment or interest thereon remains overdue for two crop seasons for short duration crops;
  - The instalment or interest thereon remains overdue for one crop season for long duration crops;
- The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitisation transaction undertaken in terms of the Reserve Bank of India (Securitisation of Standard Assets) Directions, 2021.
- In respect of derivative transactions, the overdue receivables representing positive mark to- market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment. The Bank had no derivative transaction on its books.

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

Provisioning norms of the Bank

1) The Board reviews the provisioning norms of the Bank at regular intervals to determine if any enhanced provisioning is required based on credit performance. Despite a history of low Portfolio at Risk (PAR) and delinquencies, the microfinance portfolio of the Bank (the Bank's flagship offering) is unsecured where adverse and acute events (such as demonetization and the Pandemic) can impact the portfolio quality. To enhance the coverage on MB-RB portfolio, the Bank continuously identifies incipient stress in specific accounts and geographies where accelerated provisions may be required on an on-going basis.
2) The Bank's NPA Management Policy, on the directions of the Board, has adopted an accelerated provisioning regime which is higher than the RBI mandated provisioning norms since inception. The Bank's Risk Management Department undertakes a proactive assessment of the likely GNPAs, NNPA, Provision Coverage Ratio (PCR) and incremental credit/provisioning costs by studying historical delinquency trends and external developments which can have a bearing on the asset quality and credit costs. During the financial year FY 21-22, as a one-time measure, the Bank had created a Floating Provision amounting to Rs. 25,000 lakhs to address the risk of any recurrence of pandemic associated mobility restrictions. The decision to create a floating provision was made as

there was no scientific consensus on the severity and frequency of future pandemic waves. While the chances of a fresh wave with similar levels of severity are low, the presence of the floating provision acts as a strong bulwark to protect against unexpected losses of any kind.

3) As on December 31, 2023, out of Rs. 25,000 lakhs, Rs. 12,000 lakhs are allocated for netting off Gross NPA for the purpose of computing NNPA/ PCR, while Rs. 3,000 lakhs have been factored as part of Tier II capital. The residual balance of Rs. 10,000 lakhs have been grouped as part of other provisions without utilising the same towards Tier II capital. This amount continues to be earmarked for netting off GNPA as and when warranted.
4) During the quarter, RBI released **Regulatory Measures towards Consumer Credit and Bank Credit to NBFCs** wherein the regulator raised the risk weights on consumer credit exposure of commercial banks and NBFCs, and also on bank credit to NBFCs. The risk weights have been increased to 125 per cent from 100 per cent for consumer credit exposure (outstanding as well as new) of commercial banks and NBFCs, including personal loans, but excluding housing loans, education loans, vehicle loans, and loans secured by gold and gold jewellery. Additionally, microfinance/ SHG loans provided by NBFCs have also been excluded. The risk weights on credit card receivables of SCBs and NBFCs were also increased by 25 percentage points to 125 and 150 per cent, respectively. The risk weight on exposure of SCBs to NBFCs, excluding loans to HFCs and loans to NBFCs which are eligible for classification as priority sector, were also increased by 25 percentage points (over and above the risk weight associated with the given external rating) in all cases where the extant risk weight as per external rating of NBFCs is below 100 per cent. Furthermore, regulated entities (REs) have been asked to review their extant sectoral exposure limits for consumer credit and put in place Board-approved limits in respect of various sub-segments under consumer credit. The Bank has complied with the regulatory measures released.
5) RBI released a discussion paper on **Expected Credit Loss (Loss) framework for provisioning** by banks. Currently, banks are mandated to set aside provisions as per the IRAC guidelines which follows the **'incurred loss'** approach. The proposed approach aims to recognize Significant Increase in Credit Risk (SICR) on a forward-looking basis which is expected to strengthen the banking system. The discussion paper has provided the following directions:
    - ECL amount is expected to be over and above IGAAP.
    - To avoid the capital shocks in banks, incremental provision required under ECL (ECL minus IGAAP) can be added back to Common Equity (Tier 1). This benefit to be phased out in 5 years.
    - A bank may choose to phase it out on a shorter period as per their own plan.

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

<u>Micro finance Portfolio:</u>

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

Rs. in lakh

MBRB	Mar-23	Jun-23	Sep-23	Dec-23
Gross Advances*	15,52,066.34	16,06,863.74	17,78,964.36	18,50,651.41
GNPA(Value)	37,028.49	33,950.89	33,565.45	35,370.16
GNPA%	2.39%	2.11%	1.89%	1.91%

**Excluding IBPC/ Securitization/DA transactions.*

The GL vertical registered total disbursements of Rs.3,29,400 lakhs in Q3 FY 2023-24. The IL vertical registered total disbursements of Rs.1,02,900 lakhs in Q3 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 99% in the month of December 2023. The efforts of enhanced monitoring and collections enabled the Bank to arrest fresh slippages (incremental overdues) and also increase the recovery rates in delinquency buckets.

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

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

Affordable Housing Loans

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

Amt in Rs. Lakhs.

Housing Loans	Mar-23	Jun-23	Sep-23	Dec-23
Gross Advances*	3,11,398.13	3,39,651.29	3,77,513.17	4,17,144.14
GNPA(Value)	8,877.83	8,623.02	8,691.87	7,353.06
GNPA%	2.85%	2.54%	2.30%	1.76%

**Excluding IBPC/ Securitization/DA transactions*

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

During Q2 FY 2023-24, affordable housing unit comprised of 16% of the total gross loan book. The vertical disbursed Rs. 5,95,00 lakhs in this quarter. SARFAESI initiations were accelerated which led to faster recoveries from NPA accounts. The Bank has recovered Rs.3,955.46 lakhs through SARFAESI recoveries in Housing Accounts in 9M ended FY 2023-24.

MSME (Micro and Small and Medium Enterprise)

A comprehensive review of the MSME Portfolio given below:

Rs. in lakh

MSME	Mar-23	Jun-23	Sep-23	Dec-23
Gross Advances*	1,59,335.80	1,50,787.08	1,44,170.48	1,39,650.74
GNPA(Value)	14,013.74	14,745.42	14,161.17	12,354.84
GNPA%	8.80%	9.78%	9.82%	8.85%

**Excluding IBPC/ Securitization/DA transactions*

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

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

Institutional Lending

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

Rs. in lakh

FIG	Sep-22	Mar-22	Jun-23	Sep-23	Dec-23
Gross Advances	93,882.35	1,12,752.62	1,21,795.79	1,30,369.79	1,43,522.40
GNPA(Value)	441.68	441.68	441.68	441.68	441.68
GNPA%	0.47%	0.39%	0.36%	0.34%	0.31%

During Q3 FY 2023-24, FIG vertical disbursed Rs.37,900 lakhs. The share of the institutional lending book of the Bank continued to be ~5 % of the overall lending book and registered a collection rate at 100%. As part of monitoring, the Bank regularly reviews compliance to financial covenants (Capital Adequacy Ratio, GNPA, NNPA, Debt/Equity ratio as stipulated in sanction letter), collection of CA certified receivables statement and potential Early Warning Signals (EWS) alerts.

Vehicle Loans

A comprehensive review of the Vehicle loan Portfolio given below:

Rs. in lakh

VF	Mar-23	Jun-23	Sep-23	Dec-23
Gross Advances*	14,032.81	13,339.37	14,252.23	16,491.45
GNPA(Value)	875.12	769.87	737.41	704.29
GNPA%	6.24%	5.77%	5.17%	4.27%

**Excluding IBPC/ Securitization/DA transactions*

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

Gold Loans and Micro LAP:

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

In the current FY (9 months ended), the Bank is active in 55 branches (Disbursed Gold Loan). By FY23-24 by the end of Q4, Gold Loan presence will be there in 63 branches covering 4 states and 1 UT i.e. Karnataka, Tamil Nadu, Kerala, Assam and Pondicherry.

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

Rs. in lakh

Particulars	Q1	Q2	Q3
Disbursement-MLAP Actuals	1762.00	3639.00	5556.00

<u>Credit Risk Monitoring Unit (CRMU)</u>

As per management directives, CRMU was created during FY2023 within the Credit Risk Department under the supervision of the Bank's Chief Risk Officer. Some of the key activities undertaken by CRMU during Q3 FY2024:

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

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

- Given the effectiveness of the Health Council in providing the required oversight on this portfolio, RMCB has also directed that a similar Health Council be instituted for an oversight on the MB book. This is expected to be commissioned in the first quarter of the next financial year.

Other Credit Risk management initiatives:

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

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

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

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

6.2. Quantitative Disclosures

The overall distribution of Gross advances and Gross Loan Book as at December 31, 2023 was as under:

Rs. in lakhs

Vertical	Gross Advances	%	Gross Loan Book	%
MB&RB	18,50,651.41	70.78%	19,85,651.41	71.57%
FIG Lending	1,43,522.40	5.49%	1,43,522.40	5.17%
Housing	4,17,144.14	15.95%	4,41,689.40	15.92%
MSME	1,39,650.74	5.34%	1,39,650.74	5.03%
Personal Loans	8,185.29	0.31%	8,185.29	0.30%
Staff Loan	15,789.00	0.60%	15,799.21	0.57%
Vehicle Finance	16,491.45	0.63%	16,491.45	0.59%
Loan/OD Against Deposit/Gold loan	23,333.40	0.89%	23,333.40	0.84%
Total	26,14,767.83	100.00%	27,74,323.29	100.00%

Exposure summary: Facility type

Exposure Type	Domestic (Rs. in Lakhs)	Overseas
Fund- Based exposure[27]	39,14,258.47	--
Non- Fund Based Exposure*	29,346.63	--
LESS: CRM DEDUCTIONS	(40,799.19)	

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

(GNPA Provisions held)		
Total	39,02,832.91	--

*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)[28] (Rs in lakhs)

State	OSB (including. IBPC/Securitization/DA)	% Share
Andhra Pradesh	0.00	0.00%
Assam	27,291.98	0.98%
Bihar	1,91,419.22	6.90%
Chandigarh(UT)	5,168.96	0.19%
Chhattisgarh	12,356.95	0.45%
Goa	1,471.52	0.05%
Gujarat	2,18,524.70	7.88%
Haryana	1,59,784.11	5.76%
Himachal Pradesh	3,613.14	0.13%
Jharkhand	66,805.63	2.41%
Karnataka	3,63,588.19	13.11%
Kerala	64,943.13	2.34%
Madhya Pradesh	43,279.75	1.56%
Maharashtra	2,53,778.57	9.15%
Meghalaya	3,304.74	0.12%
New Delhi	1,20,384.48	4.34%
Odisha	66,000.42	2.38%
Pondicherry	13,922.53	0.50%
Punjab	70,058.66	2.53%
Rajasthan	1,22,419.72	4.41%
Tamil Nadu	3,92,135.60	14.13%
Telangana	3,199.94	0.12%
Tripura	29,767.05	1.07%
Uttar Pradesh	1,93,125.54	6.96%
Uttarakhand	15,563.34	0.56%
West Bengal	3,32,415.42	11.98%
Grand Total	27,74,323.29	100.00%

Maturity pattern of assets and liabilities

Rs. in lakhs

Buckets	Net Advances after netting off	Investments	Deposits	Borrowings

[28] Geography wise loans and advances is Including IBPC, Securitization and DA

	IBPC/Securitisation/Direct assignment			
Day - 1	256	4,19,011	5,406	1,59,688
2-7 Days	20,154	8,994	37,550	30,000
8-14 Days	42,052	13,944	61,841	0
15-30 Days	47,338	37,248	72,020	5,000
31 Days and up to 2 months	1,27,130	50,722	1,35,042	0
Over 2 months and up to 3 months	1,19,343	47,148	1,09,114	14,050
Over 3 Months and up to 6 months	3,53,792	1,11,506	4,77,508	18,570
Over 6 Months and up to 1 year	6,20,495	1,90,748	10,78,767	47,140
Over 1 Year and up to 3 years	7,91,464	1,46,943	9,60,913	44,810
Over 3 Year and up to 5 years	85,699	31,457	24,560	44,160
Over 5 years	3,54,245	22,244	4,201	7,786
Total	**25,61,968**	**10,79,966**	**29,66,923**	**3,71,204**

Gross Non-performing assets (NPA)

Rs. In Lakh

Category of Gross NPA	Dec-22	Mar-23	Jun-23	Sept-23	Dec-23
Sub-standard	29,983.09	23,604.11	25,496.61	27,395.28	31,310.04
Doubtful	43,566.93	39,239.83	33,965.53	30,265.28	24,843.83
Loss	204.87	217.00	191.62	919.22	920.39
Total	**73,754.89**	**63,060.94**	**59,653.76**	**58,579.78**	**57,074.26**

Rs. In Lakh

NNPA	Sep-22	Dec-22	Mar-23	Jun-23	Sept-23	Dec-23
Net NPA	16,733.34	15,948.09	12,903.83	13,262.39	14,181.34	12,042.75
NNPA after factoring Floating Provisions	733.34	948.09	903.83	1,262.39	2,181.34	4275.07

NPA Ratios	September 2022	December 2022	March 2023	June 2023	Sept-23	Dec-23
Gross NPA to Gross Advances (excluding	5.06%	3.64%	2.88%	2.62%	2.35%	2.18%

IBPC/Securitisation/DA)[29]						
Net NPA to Net Advances (excluding IBPC/Securitisation/ DA)[30]	0.04%	0.049%	0.042%	0.057%	0.0897%	0.1669%

Movement of Net NPAs (Quarterly basis)

Rs. In lakh

Particulars	Sep-22	Dec-22	Mar-2023	June 2023	Sept 2023	Dec-23
Opening Balance is Year Opening Balance	9,959.79	9,959.79	9,959.79	903.83	903.83	903.83
Additions during the period	11,042.04	14,802.89	14,805.19	7,052.85	12,819.62	19,015.71
Reductions during the period	20,268.48	33,814.59	36,861.14	6,694.29	11,542.12	15,644.48
Closing Balance	**733.34**	**948.09**	**903.83**	**1,262.39**	**2,181.34**	**4,275.07**

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

Rs. in lakh

Particulars	Sep-22	Dec-22	Mar-23	June- 2023	Sept-2023	Dec-23
Opening Balance	93,447.94	93,447.94	93,447.94	50,157.11	50,157.11	50,157.11
Provisions made during the period	21,413.52	24,008.36	25,255.03	6,811.00	13,729.98	19,732.02
Write back of excess provisions	38,707.06	59,649.49	68,545.86	10,576.75	19,488.65	29,089.94
Closing Balance	**76,154.40**	**57,806.81**	**50,157.11**	**46,391.37**	**44,398.44**	**40,799.19**

Provision Coverage Ratio (PCR)

Rs. in lakh

[29] Gross NPA to Gross Loan Book (including IBPC/Securitisation/Direct Assignment) was 2.63% as on March 31, 2023
[30] Net NPA to Net Loan Book (including IBPC/Securitisation/Direct Assignment) was 0.04% as March 31, 2023

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	18,50,651.41	35,370.16	25,601.73	10,500.00	102.1%
FIG Lending	1,43,522.40	441.68	441.68	-	100.0%
Housing	4,17,144.14	7,353.06	4,820.32	-	65.6%
MSME	1,39,650.74	12,354.84	8,781.92	1,500.00	83.2%
Personal Loans	8,185.29	835.37	577.81	-	69.2%
Staff Loan	15,789.00	14.86	10.13	-	68.2%
Vehicle Finance	16,491.45	704.29	565.60	-	80.3%
Loan/OD Against Deposit	23,333.40	0.00	0.00	-	
Grand Total	**26,14,767.83**	**57,074.26**	**40,799.19**	**12,000.00**	**92.51%**

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

Write off:[31]

Rs. in lakh

Particulars	Total Write off undertaken
Q1 FY 2023-24	6000.00
Q2 FY 2023-24	5600.00
Q3 FY 2023-24	9300.00

Non-performing Investments (NPI)

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

Movement of provisions for depreciation on investments

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

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

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 December 31, 2023		
Sl. No.	**Risk Weight**	**Rs. in lakh**
1	Below 100% Risk Weight	33,14,043.40
2	100% Risk Weight	4,34,631.48
3	More than 100% Risk Weight	1,94,957.23
4	Deductions (GNPA PROVISION)	(40,799.19)
5	**Total**	**39,02,832.91**

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

8.1. Qualitative Disclosure

The Group Loan and Individual Loan portfolio, under microfinance is unsecured. Loans to the Affordable Housing segment are collateralized by a mortgage over the property financed. There are primarily secured product variants under MSME loans. Loans to Financial Institutions are secured by a charge over book debts which are registered with CERSAI. Vehicle loans are collateralised by a charge over the vehicle financed.

The Bank accepts Eligible Financial Collateral[32] 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[33] 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.

[32] 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

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

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

9.1. Qualitative Disclosure

9.1.1. Securitisation Objectives

The Bank undertakes Securitisation transactions to increase the efficiency of capital and enhance the return on capital employed by diversifying sources of funds, managing liquidity and maximising yield on asset opportunities.
The RBI issued 'Updated Securitisation Guidelines' on December 5th 2022 (hereinafter, the 'revised securitisation guidelines') covering Securitisation of Standard Assets. The said guidelines define minimum holding period, minimum retention requirements, due diligence, credit monitoring, stress testing requirements etc. The Regulator has also revised "Master Direction – Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021' dated September 24, 2021 (updated on December 5, 2022) covering transfer of loan exposures (herein after, the 'transfer of loan exposure guidelines'). In compliance to the guidelines, the Bank has put in place appropriate policies for undertaking these transactions.

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

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

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

Market Risk:

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

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

Operational Risk

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

Reputational Risk:

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

Prepayment Risk:

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

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

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

Monitoring credit risk

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

Monitoring market risk

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

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

Originator / Seller

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

Servicer

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

Provider of Liquidity Facilities

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

Credit Enhancement provider

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

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

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

The Bank transfers advances through inter-bank participation with risk. In the case of participation with risk, the aggregate amount of the participation issued by the Bank is reduced from advances.

9.1.5 Rating of Securitisation Transaction

During FY 2023-24, the Bank used the ratings provided by CARE Ratings limited for the securitisation of retail pools. There has been no change to this rating.

9.2. Quantitative Disclosures

Details of Securitisation exposures in the Banking Book

Rs.in Lakh

Total Exposures Securitised by the Bank*	-

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

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

Rs.in Lakh

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

*PTC- Pass Through Certificate

Assets to be securitised within a year as on December 31, 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)	16,595.77	-
Direct Assignment	7,949.48	
Total	**24,545.26**	**-**

*The amount represents the total outstanding for Securitization and Direct Assignment as on December 31, 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	891.06		891.06
Total	**4,123.22**	**-**	**4,123.22**

* Represents total principal amount of investment in Equity Tranche, Overcollateralization and Direct Assignment outstanding under risk sharing as at December 31, 2023

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

Rs. In lakh

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

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

Securitisation exposures deducted from capital –

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

Details of Securitisation Exposures in the Trading Book

- NIL

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

10.1. <u>Qualitative Disclosures</u>

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

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

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

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

Investments: The Bank has a Board approved policy to make investments in both SLR and Non SLR securities. The Bank had investments in the following instruments: Government of India Securities (G Sec), Treasury Bills (T Bills), State Development Loans (SDL), Certificate of Deposits (CD), Commercial Papers (CP), Debt Mutual Funds (MF) and one legacy investment in an unquoted equity. The Bank had also made a token investment in a New Umbrella Entity (NUE) in association with National Payment Corporation of India (NPCI) and investment of Rs. 1,263 lakhs as Pass through Certificates as part of the Securitisation deal executed during FY 2022. The Bank resumed investments in non SLR securities such as certificate of deposits, commercial papers and Mutual Funds during Q2 FY 2024 after successfully completing the automation of NPI module. As on December 31, 2023, the investment holdings in various SLR and Non SLR instruments were as under:

Rs. in lakh

	AFS		HFT		HTM	
Instruments	**BV**	**MV**	**BV**	**MV**	**BV**	**MV**
<u>SLR</u>						
G Sec	4,490.60	4,491.23	3,988.32	3,994.30	422,706.84	414,784.80
SDL	0.00	0.00	0.00	0.00	164,161.86	161,568.53
STRIPS	0	0	0	0	0	0
T Bill	301,469.67	301,469.67	0.00	0.00	0.00	0.00
Total SLR	**305,960.27**	**305,960.90**	**3,988.32**	**3,994.30**	**586,868.70**	**576,353.33**
<u>NON-SLR</u>						
PTC	1,262.94	1,365.60	0.00	0.00	0.00	0.00
Equity	10.02	11.50	0.00	0.00	0.00	0.00
CP	22,059.10	22,059.10	0.00	0.00	0.00	0.00
CD	124,818.40	124,818.40	0.00	0.00	0.00	0.00
MF	34,998.25	35,611.32	0.00	0.00	0.00	0.00
Total NSLR	**183,148.71**	**183,865.92**	**0.00**	**0.00**	**0.00**	**0.00**
Total Investment	**489,108.98**	**489,826.82**	**3,988.32**	**3,994.30**	**586,868.70**	**576,353.33**

During the quarter, the Bank had added ~Rs. 34,370 lakhs of securities in its HTM portfolio. There was no transfer of securities from HTM to AFS portfolio in the current quarter.

As at Dec 31 ,2023, there was no negative MTM from positions held in HFT and AFS. As the rate has stabilised, the Bank started purchasing securities of higher duration in HTM portfolio in order to capture the benefit of falling rate as and when it happens. The HTM duration stood at 4.24 years. The Bank continued to operate under the HTM limit of 23% applicable until March 31 ,2024. The HTM% of the investment portfolio was ~20.57% as at reporting date. Presently, the Regulator has paused the rate for fifth consecutive time and will assess the future trajectory based on domestic inflation and global factors. The Bank monitors the market signals and yield curve for any investment opportunity which can maximise yield. The current investment mix of the HTM portfolio is well poised to generate a positive MTM in the event of interest rate reduction. From risk management standpoint, the duration mix of the investment portfolio is also strategically maintained in a manner to limit incremental negative MTM in the event of recommencement of rate hikes.

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

Rs. in lakh

Month	Average SLR requirement	Average SLR maintenance	Average SLR requirement maintained as a % of NDTL
Oct-23	519,619	810,781	28.09%
Nov-23	517,616	803,724	27.95%
Dec-23	520,747	767,981	26.55%

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

Reserve Bank of India has issued revised guidelines for investments vide its Circular number

RBI/DOR/2023-24/104 dated September 12th 2023. This will be a major change affecting both accounting of all investments and also classification, with the introduction of the separate category called Fair Value Through Profit and Loss (FVTPL). The circular will be effective from 1st April 2024. The Bank has already commenced enhancement of its systems to make the transition to the new regime and is poised to implement the framework from the effective date.

Trading: The Bank is actively trading in G-sec market on intraday basis and also carries overnight position in HFT portfolio, the trading positions are governed by stop loss limits to minimise the loss should there be a volatility in the market. The trading limits in the form of duration limits, PV01 limits, trading book limit, exposure limits and Value at Risk (VaR) are monitored regularly by the Middle Office. Any instance of breach in limits is brought to the notice of stakeholders and remedial measures taken.

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

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 funds, Front Office undertakes money market borrowing and lending activity. The source of borrowing and lending amongst Call money, Repo, TREPS and CROMS is decided based on the most favourable rate. The regulatory limit on Call/Notice money borrowing and lending is monitored on a daily basis by Middle office and reported to all stakeholders.

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

Liquidity Risk Management is governed as per the provisions of the ALM policy. The ALM position for the Bank was well managed and regulatory thresholds complied with in Q3FY24. 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 Q3 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, funding concertation including deposits from cooperative banks, 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	**Q3 Quarterly Average**		**Rs. in lakh**
A	**High Quality Liquid Assets**	**Amount**	**Adjusted Amount**
	Level 1 Assets	7,79,520.49	**7,79,520.49**
B	Total Stock of HQLAs	-	**7,79,520.49**
C	Cash Outflows	23,94,983.64	**5,53,011.16**
D	Cash Inflows	1,88,360.89	**1,02,718.34**
E	Net Cash flow	-	**4,50,292.82**
F	25% of Total Cash Outflow	-	**1,38,252.79**
G	Higher of E or F	-	**4,50,292.82**
Liquidity Coverage Ratio		**173.11%**	

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

The Bank's NSFR as at December 31st ,2023 was 132.33% as against RBI minimum requirement of 100%.

Rs. In Lakh

NSFR	Weighted Amount
Total Available Stable Funding (ASF)	24,85,208.50
Total Required Stable Funding (RSF)	18,77,981.38
NSFR	**132.33%**

11. Table DF- 9: Operational Risk

11.1. Qualitative Disclosures

11.1.1. Operational Risk Management Policy and Governance Structure

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

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

In the post pandemic era, the Bank has largely been successful in mitigating the risks of credit quality deterioration, collection risks, liquidity risks and interest rate risks which were largely triggered on account of external dynamics. The Bank has taken concerted efforts in reviewing the operational risk framework to identify and mitigate idiosyncratic risks in processes and systems. For instance, the Bank has identified various deficiencies in branch level operations which can exacerbate internal and external frauds.

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 55 processes as on December 31, 2023. Few of them to note are process note on account transfer through Phone Banking, process note on Demat & Trading, process note on Reset of Floating Interest Rates in Floating Regime, SOP – Trade Advance and process note on E-Sign for GL etc.

UAT Testing (including BRD and FSD): For any change management/ automation of products and processes, the respective department owners prepare a Business Requirement Document (BRD). The BRD is reviewed by key personnel from control and business functions for further improvements. Subsequently, the same is provided to the IT department within the Bank. The IT department then prepares a Functional Specification Document (FSD) detailing the scope of the project. Once the project is moved to testing stage, ORMD performs the User Acceptance Testing (UAT) along with other key stake holders to identify gaps in the actual deliverable versus that which was proposed in the BRD. These gaps are further addressed and closed before moving to production. As on December 31, 2023, 46 BRD's and FSD's were reviewed and UAT was undertaken for 58 new developments/changes/fix provided by IT covering Dealer Trade Advance VF - Finacle Integration, Housing LOS, Video Banking, ADF application for Housing Loan Bounce & Penal Charges, Blocking charges for inactive account, Beneficiary name check IMPS etc.

RCSA: RCSA (Risk and Control Self-Assessment) is a forward-looking tool to identify and assess the level of risk inherent in any activity / process, the causes responsible for that risk and the status of existing controls to minimize the risk. The outcome of RCSA provides insight into known as well as potential Operational Risk areas in various process / business lines. Business teams, being the first line of defence, are responsible for carrying out RCSA activity. ORMD, being second line of defence is responsible for providing necessary guidance, training and inputs to the First Line of Defence (FLOD) for carrying out the RCSA. To create a Risk culture in FLOD and assume ownership for this activity, a Special Point of Contact (SPOC) is identified in each department who is designated as Business Risk and Compliance Officer (BRACO) with whom ORMD shall engage. RCSA framework was approved in April 2021. Based on directions from the Board, in FY'23, RCSA is implemented in 5 identified departments of the Bank through BRACOs of the vertical who will ensure that RCSA is done on an ongoing basis by First line of defense. In FY’24, RCSA is planned to be performed in 10 identified departments through BRACOs of the vertical. Departments identified viz., Admin & Infra, Branch Banking, Credit, Digital Banking, Housing, Information Technology, Micro & Small Enterprises, Phone Banking, Service Quality & Treasury and walk through is provided in Q3 FY’24 to respective department BRACO’s by ORM. Departments already initiated the RCSA for their departments.

Key Risk Indicators: In FY’24, 40 KRIs continue to be monitored at Organization level. At functional level, 14 KRI’s are monitored for Branch Banking vertical, 14 KRI’s are monitored for Micro Banking vertical, 9 KRI’s for Secured Housing Loans, 25 KRI’s for Digital Banking as part of the ORM framework. The thresholds for the KRIs have been set in consultation with the respective stakeholders. These KRIs are analysed on a monthly basis and wherever breached observed those KRI’s are shared with the respective stakeholders for their action plan. The KRI’s across all the 5 functions (Organisation, Branch Banking, Micro Banking, Secured Housing Loans & Digital Banking) were computed till Q3 FY’24. Operational Risk team has presented the KRIs along with the action plan provided by the department to ORMC held in the month of December 23 for data analysed till November 23.
In Q2 FY’24, ORM has developed an Operational risk index for Micro banking vertical which covers key aspects from Operational risk perspective that can be monitored centrally, and which will also support the business vertical as trigger for initiating required actions. Breaches observed till November 23 were presented in ORMC held in the month of December 23.
In Q4 FY’24, ORM has planned to identify the KRIs for other departments viz., Vehicle Finance, Rural Banking, MSME and Operations which will commence post obtaining the concurrence for the threshold from the respective departments.

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

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

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

- Quarterly loss data submission to Board;

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

Loss Dashboard for YTD FY 23-24 (as on Dec'23):

Event Type	Count		Loss in lakhs			
	YTD Dec'22	YTD Dec'23	YTD Dec'23			YTD Dec'22
	Total	Total	Gross	Net	Ops Loss	Ops Loss
Business Disruption and Systems Failures	332	288	₹ 28.01	₹ 21.15	₹ 9.60	₹ 3.97
Clients, Products, and Business Practice	15	3	₹ 0.03	₹ 0.03	₹ 0.03	₹ 0.00
Damage to Physical Assets	5	4*	₹ 0.00	₹ 0.00	₹ 0.00	₹ 0.00
Employment Practices and Workplace Safety	1	1	₹ 0.00	₹ 0.00	₹ 0.00	₹ 0.00
Execution, Delivery, and Process Management	268	1,302^	₹ 59.18	₹ 55.16	₹ 18.74	₹ 6.49
External Fraud	194	183	₹ 141.24	₹ 53.62	₹ 18.93	₹ 12.10
Internal Fraud	243	192	₹ 351.43	₹ 237.60	₹ 0.08	₹ 8.83
Total	1058	1,973	₹ 579.90	₹ 367.56	₹ 47.38	₹ 31.39

>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.

**Though the incident is reported to Opsrisk, complete details of loss incurred is yet to be confirmed by Finance team. We are also in process of discussion with Admin & Finance team to mandate SAS ID for all these incidents and for appropriate GL monitoring.*

^ Out of the 1,302 incidents reported in YTD Dec'23, 948 (~72%) are from "Cash Excess" and "Cash Shortage", owing to inclusion of all incidents reported, irrespective of amount, whereas, till last FY, incidents amounting to less than Rs. 5,000 /- were not considered for cash shortage & excess.

The Ops Loss Recovery done as on date (31st Dec'23) pertaining to last FY 22-23 is Rs. 6.75 Lakhs out of the total Ops Loss booked of Rs. 52.66 Lakhs (12.81%).

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 Q3 FY 23-24, ORMD team performed a gap analysis on Business Continuity Plan (BCP) for Corporate functions. Key gaps identified during the review were highlighted and discussed in RMCB held in the month of January 24.

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 which are used with the Bank. The Bank has completed the review in 6 applications namely Finacle Treasury, Finacle, Br. Net, Oracle, Crismac (IRAC) and E-Kuber in H1 FY'24 as a part of Half yearly review and findings were shared with respective stake holders for initiating corrective action. The Bank has a process for user access review covering all the critical aspects of user life cycle starting from activation to de-activation of ID's, Review frequency, process to be followed for managing vendor ID's, process to be followed for user de-activation on exit from organisation which is under review.

Exceptions Handling Mechanism is an initiative, which was initiated from July 2020 as guided by the National Controls and Compliance Committee. A list of 32 exception reports was identified and tagged to Operational Risk department of the Bank for initiating the review. In Q3 FY'24, 32 exception reports reviewed for the period of Q2 FY'24, exceptions identified were taken up with respective stakeholders for discussing the gaps observed to undertake appropriate corrective actions.

Branch Assurance: Branches across regions are reviewed against a checklist devised by ORMD of the Bank to ensure adherence to branch processes. The checklist is reviewed and enhanced as and when required to strengthen monitoring of branches. Critical and repeat observations are shared with the leadership team for remedial /corrective actions. Checklist was reviewed and enhanced further which is implemented with effect from November 2023. In Q3 FY'24, ORM team had reviewed 97 branches PAN India. A monthly connect is also called for with leadership team at Regional level 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 ORMD has developed the revised Outsourcing Policy based on the Master Directions on IT Outsourcing released in April '23. This has been approved by all relevant stakeholders and been vetted by the Board as well. Outsourcing undertaken by the Bank is also subject to an annual audit by the Internal Audit team who provide the required compliance certificate to RBI. Key activities undertaken during Outsourcing are as follows:

Pre - on boarding risk assessment: All outsourcing vendors, deemed as material, are subjected to a rigorous pre-on boarding risk assessment which is done by both Operational Risk team and the Information Security team and this is repeated at annual intervals. Observations from these risk assessments are then shared with concerned functions for resolution. In Q3 FY'24, pre-on boarding risk assessment was carried out for 9 vendors as on December 31, 2023.

Post – on boarding risk assessment: All material vendors are also subjected to a periodic post on boarding risk assessment. This assessment is carried out by the respective unit that has outsourced the activity.
Annual review of material vendors: ORMD of the Bank along with Information security team of the Bank carries out annual risk review of material vendors. In FY '24, ORMD is in process of performing annual review for 35 identified vendors which includes Financial, IT and Bulk category. 25 vendor assessment were completed as on December 31, 2023.

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 Q3 FY'24, 47 planned and 5 unplanned BCP's were conducted across branches in Regions. Also 5 planned BCP exercises were conducted by Payments & Settlements, Transaction Banking & Treasury Operations.

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 Q3 FY'24, RCM sign off has been received from the respective HOD for the enhancements made except from Information technology where RCM enhancement is in progress and ORMD is in the process of testing the controls for all the 20 departments as per the plan.

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[34], 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)

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

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.

- 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	**-1,006.68**	**(1,006.68)**
2	Overseas	-	-
	Total	**-1,006.68**	**(1,006.68)**

12.2.2. Economic Value Perspective (MDG Approach)

Rs. in Lakh

Category	Items	Amount
A	Computation of Aggregate RSA	37,02,983.50
B	Computation of Aggregate RSL	33,58,127.18
C	Weighted Avg. MD of RSL across all currencies	0.97
D	Weighted Avg. MD of RSA across all currencies	1.82
E	Modified Duration Gap (MDG)	0.94
F	Change in MVE as % of equity for 200 bps change in interest rate	15.63%
G	**Change in MVE in absolute terms**	**69,657.25**

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.29,561.32 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. 5,456.91 lakh).

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

Rs. in lakh

Summary comparison of accounting assets versus leverage ratio exposure measure		
	Item	**Amount**
1	Total consolidated assets as per published financial statements	39,53,027
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)	32,220
7	Other Adjustments	-38,741
8	**Leverage ratio exposure**	39,46,506

17. Table DF 18: Leverage ratio common disclosure template

Rs. in lakh

	Table DF-18: Leverage ratio common disclosure template	
	Item	**Amount**
	On-balance sheet exposures	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	39,53,026.63
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	-38,741.18

3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	3914285.45
	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	45,669.93
18	(Adjustments for conversion to credit equivalent amounts)	13,449.56
19	**Off-balance sheet items (sum of lines 17 and 18)**	32,220.37
	Capital and total exposures	
20	**Tier 1 capital**	4,59,650.33
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	39,46,505.83
	Leverage ratio	
22	**Basel III leverage ratio**	**11.65%**

Presently the contribution of Tier I capital to Total Basel II capital is 90.14%. The business model of the Bank is relatively simple with a significant portion as fund-based assets. Gross advances were primarily in the nature of term loans. Since the exposure to Off Balance Items is presently low, the Leverage ratio is well above the benchmark of 4.5%.

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