UJJIVAN SMALL FINANCE BANK
Build a Better Life

Pillar III Disclosures for year ended September 30, 2024

2024-2025

[Ujjivan Small Finance Bank (hereinafter called "the Bank") is primarily subject to the BASEL II {New Capital Adequacy Framework (NCAF)} framework with some elements of Basel III regulations made applicable and has prepared this disclosure document in compliance with the directions of Reserve Bank of India (hereinafter referred to as "the Regulator" or "RBI") vide its circular RBI/2015-16/58; DBR.No.BP.BC.1/21.06.201/2015-16 dated 1st July 2015. The document provides a review of key observations pertaining to the Bank's capital adequacy, credit quality, key business highlights and a review of its key risks as at September 30, 2024.]

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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 September30, 2024. All exposure related figures quoted in the document are 'Rs. in lakh', unless otherwise specifically stated.

A. Branch network and distribution reach

The branch position of the Bank as at September 30, 2024 was as follows:

Particulars	Count
Total Banking outlets, of which	752
Banking outlets[1] (Non-URC)	562
Banking outlets (URC)[2], *of which*	190
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 September 24, the Bank had opened no new branch. With 25.26% of Banking outlets in URC, the Bank is fully compliant with RBI guidelines in this regard.

With a strategic imperative to expand on its customer base and area of operations, the Bank intends on expanding its network with 50 additional branches proposed to be launched in FY 2024-25, of which 15 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 610

[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

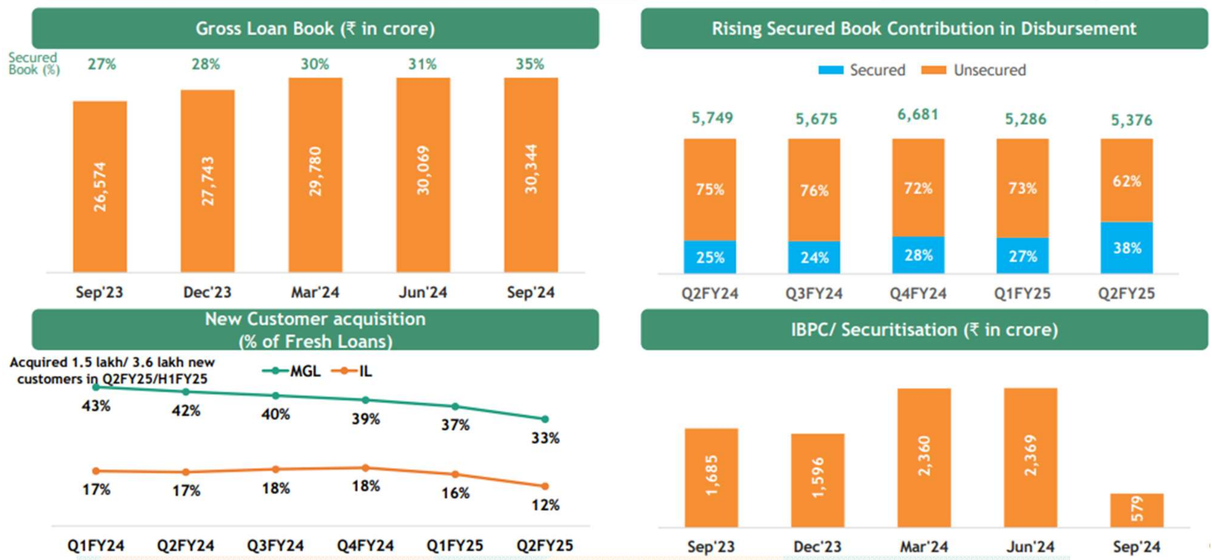
[4] Districts with active Left-Wing Extremism (LWE)

Automated Teller Machines (ATM) including 62 Automated Cash Recycler (ACR) machines across the country as at September 30, 2024.

B. Financial highlights for Q2 FY 2024-25

Some of the key achievements made for period ended September 30, 2024, were as follows:

Rs. in crores



Customer base	• Total customer outreach was 91 lakh customer through 752 branches as at September 30, 2024 (86 lakh as at March 31, 2024; 77 lakh as at March 31, 2023)
Loan Portfolio	• Gross Loan Book (GLB) (without netting off IBPC/Securitization/Direct Assignment): Rs. 30,34,326lakh as at September 30, 2024 (Rs. 29,77,954 lakh as at March 31, 2024, Rs. 24,08,512 lakh as at March 31, 2023). • Gross Advances (GA) (after netting off IBPC/Securitisation/Direct Assignment): Rs.29,76,513[5] lakh as at September 30, 2024, (Rs.27,41,915[6] lakh as at March 31, 2024, Rs. 21,91,123 lakh as at March 31 ,2023). • Non-Microfinance book was 33.91% as at September 30, 2024 (31.49% as at March 31, 2024, 29.16% as at March 31, 2023).

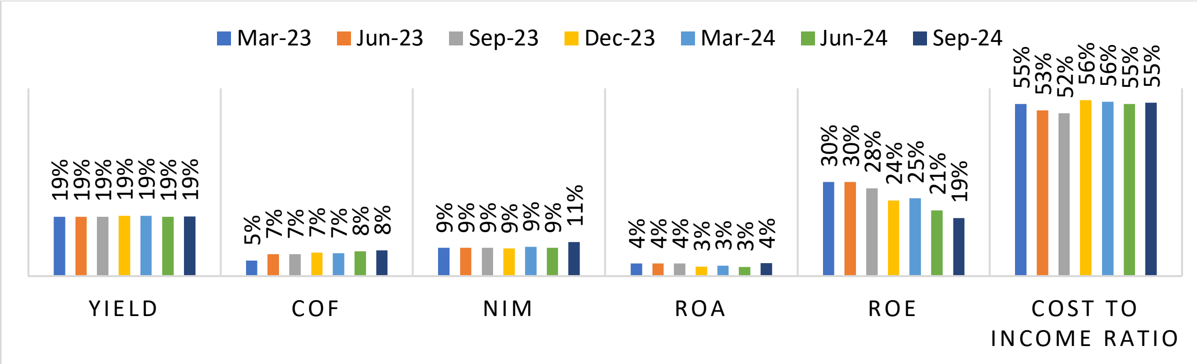
[5] Outstanding balance in IBPC/Securitisation/ Direct Assignment as on Sept 30, 2024 was Rs 57,813 lakh

[6] Outstanding balance in IBPC/Securitisation/ Direct Assignment as on March 31, 2024 was Rs 2,36,006 lakh

Deposit Portfolio	• Total Deposits (Retail plus Institutional): Rs.34,06,984 lakh as at Sept 30, 2024. (Rs. 31,46,216 lakh as at March 31, 2024, Rs. 25,53,768 lakh as at March 31, 2023). • CASA: 25.9% as at September 30, 2024 (26.7% as at March 31, 2024; 26.4% as at March 31, 2023).
Asset Quality	• Gross Non-Performing Assets (GNPA): 2.52[7]% as of September 30, 2024 (2.23%[8] as at March 31, 2024; 2.88% as at March 31, 2023) • Net Non-Performing Assets (NNPA): 0.56% as at September 30, 2024, (0.28% as at March 31, 2024[9], 0.04% as at March 31,2023)
Capital Adequacy	• CRAR ratio of the Bank as at September 2024 was 23.38% (, March 31, 2024 was 24.69%, 25.81% as at March 31, 2023)
Employee strength	• 23,746 as at September 30, 2024 (22,566 as at March 31, 2024; 17,870 as at March 31, 2023)
Provisions and Credit costs	• Total provisions including Floating Provision as at September 30, 2024 was Rs.73,772.67 lakh (Rs.67,637 lakh as at March 31, 2024; Rs. 73,530 lakh as at March 31, 2023) • Total NPA provision (excluding floating provision) held was Rs 46,588 (Rs.41,623 lakh as at March 31, 2024, Rs.50,157 lakh as at March 31,2023). • Total NPA provision increased by Rs. 4,965 lakh during quarter ended September 30, 2024 as compared to March 31, 2024 due to industry level issues faced in the Microfinance industry.

[7] Computed as a percentage to Gross advances. GNPA% on GLB basis was 2.49%
[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 0.56%

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



A persistent high cost borrowing environment, coupled with continuing industry level stress in the Bank's flagship business (Microfinance sector) has resulted in a marginal reduction to disbursements and profitability in Q2FY 2025. A summary of the key highlights of the Bank as at Sept 30, 2024 is given below:

- Pre-Provision Operating Profit (PPoP) for Q2 FY 2024-25 was Rs. 46,080lakh down by 5% Y-o-Y;
- Disbursements were at Rs.5,37,600 lakh in Q2 FY 2024-25 down 6% on YoY basis but up by 2% QoQ basis.
- Deposits at Rs. 34,06,984 lakh as at September 2024 up by 17%/5% YoY/QoQ, CASA at Rs 8,83,204lakh up 26% YoY; CASA ratio at 25.9% as of September 2024. Retail TD (Retail TDs are TDs less than Rs. 3 crores) increased 35%/2% YoY/QoQ.
- **Other Key performance metrics**: Continued traction on collections with ~97% efficiency in September 2024; NDA collection at ~99%. Portfolio at risk was at 5.1% as at September 2024[10]. GNPA on GLB basis at 2.5% as of Sept 2024; NNPA continued to be negligible at 0.6% as at Sept 2024. Total of Rs.14,000 lakh written-off in Q2 FY25; Provision coverage ratio as at Sept 2024 was 78%[11].

C. Macro-Economic Outlook

The global economic outlook reflects a mix scenario of challenges and resilience. Global GDP growth is projected to stabilize at approximately 3% for CY2024, reflecting moderate recovery but still below pre-pandemic averages. Growth in advanced economies, particularly the U.S., has seen upward momemtum due to resilient consumer demand, while other developed regions like Europe face slower momentum amid weaker industrial output and inflation pressures. Emerging economies in Asia, led by India and China, continue to grow robustly, driven by investments in technology. Inflation has moderated globally but remains elevated in certain regions, particularly in services. Geopolitical tensions, including

[10] Without adjusting IBPC & Securitization of ₹ 579 / ₹ 2,369/ ₹ 1,685 crores as on Sep 2024/ Jun 2024/ Sep 2023

[11] 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

conflicts in the Middle East, and adverse weather events are key downside risks, as are challenges in China's property sector and global trade disruption.

India's growth story remains intact as its fundamental drivers – consumption and investment demand – are gaining momentum. Prospects of private consumption, the mainstay of aggregate demand, look bright on the back of improved agricultural outlook and rural demand. India's inflation based on the consumer price index reached a 14-month high of 6.2 per cent in October 2024 after moderating. High CPI inflation has largely been led by a surge in vegetable prices and it is expected to be cooling in the coming months. The government's reduced capital expenditures during the election will likely to be made up in the latter half of the year boosting the overall economy.

Key macroeconomic risks/imperatives for the Bank:

- A persistent high cost borrowing environment, coupled with continuing stress in the Bank's flagship business can impact Net Interest Margins (NIMs) profitability forecast for FY 2024-25. The Bank took cognisance of the prevailing interest rate outlook and after reviewing its liquidity position, had optimized its deposit interest rates during the quarter.
- With MFIN guardrails implemented in July 2024, there is now a broad consensus that the stress is likely to peak by Q4FY2025. The stress may however exacerbate over the next 2-3 months on account of the recent *cease and desist* imposed on two microfinance institutions. This direction by RBI, coupled with MFIN guardrails is likely to restrict the financing channels available to customers, leading to spurt in default rates. Presence of floating provisions in the Bank, however, provides comfort in reporting lower Net NPAs during the year. The Bank has comprehensively reviewed the portfolio performance in its flagship segment during the quarter. While there is some comfort that the Bank's internal performance is better than industry trends, the Bank plans to review its state wise credit policies after incorporating the idiosyncratic risk factors prevalent in each state.

3. Table DF- 1: Scope of Application

3.1 Qualitative Disclosures

Parent Organization/Holding Company: NIL

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

3. Table DF-2: Capital Structure

4.1 Qualitative Disclosures

4.1.1 Tier I capital

The Bank has an authorized capital of Rs. 2,62,500 lakh in the form of Common Equity qualifying as Tier I capital.

As at September 30, 2024, the Bank had an issued, subscribed and paid-up equity capital of Rs. 1,93,418 lakh, having 1,93,41,84,243 shares of face value 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 25.11% comprising of (a) Foreign Portfolio investors (FPI), (b) Non-Residential Indians (NRI) and (c) Foreign Direct Investments (FDI) as at September 30, 2024, the Bank was compliant with RBI guidelines on SFBs.

4.1.1.1. Promoter contribution[12]:

The Bank is a 100% publicly held entity with no identified Promoter as at reporting date.

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

The shareholding pattern of the Bank as at September 30, 2024is as under:

Category of the Shareholder	No. of shares held	%age of shareholding
Mutual Funds	7,10,88,488	3.68
Alternate Investment Funds (AIF)	3,71,50,467	1.92
Foreign Portfolio Investors (FPIs)	29,87,21,118	15.44
Foreign Direct Investments (FDIs)	10,02,56,456	5.18
Resident Individuals/Hindu Undivided Family (HUF)	1,15,61,90,127	59.78
Others*	27,07,77,587	14.00
Total	**1,93,41,84,243**	**100**

**Since Directors and Key Managerial Personnel are other categories, the same are included in Others and not in Resident Individuals.*

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

Sl. No.	Instrument	Whether Tier I or II	Amount (Rs. in Lakh)
1	Equity[13]	Common Equity Tier 1 (CET 1)	1,93,418
2	Subordinated Debt Instruments	Tier II	30,000
	Total		**2,23,418**

<u>4.1.2. Subordinated Debt Instrument</u>

As per specific directions received from the Regulator[14], the Bank can issue Tier II capital instruments in compliance to either NCAF or Basel III guidelines of RBI. As on September 30, 2024 following are the Tier II Instruments raised by the Bank.

Capital	Description of the Security	Issue Amount (Rs. in Lakh)	Issue date	Date of Redemption	Contractual Dividend rate (% p.a.) (on a fixed rate basis)
Tier II – Subordinated Debt	Subordinated, rated, unlisted, unsecured,	22,500	August 26, 2022	April 26, 2028	11.95% p.a.
		7,500	September	April 26, 2028	11.95% p.a.

[13]Issued and Paid up equity capital

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

	transferable, redeemable, fully paid up, non-convertible debentures		09, 2022[15]		
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 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 was further augmented after equity raise through a QIP in Q2 FY 2022-23. In FY 2024 and as at reporting date, the internal capital generated through business operations was found to be adequate to maintain minimum capital requirements. As required by RBI in its operating guidelines to SFBs[16], the Bank is required to adopt the Standardized approach for Credit Risk and maintain a minimum Capital to Risk Weighted Assets Ratio (CRAR) of 15% segregated as under:

Requirement	**Threshold**
Minimum Capital Requirement	15%
Minimum Common Equity Tier 1	6%
Additional Tier I	1.5%
Minimum Tier I capital	7.5%
Tier II Capital	7.5%
Capital Conservation Buffer	Not applicable
Counter- cyclical capital buffer	Not Applicable

[15] Deemed Allotment Date: August 26, 2022

[16] 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.

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, and in anticipation of an eventual transition to a Universal Commercial Bank, 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. The Bank is also in the process of automating the CRAR computation using technology capabilities in a bid to improve efficiency and accuracy in reporting. The automation is expected to be completed by FY 2024-25.

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 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 guideline 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[17]
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), for their review and guidance. The Bank periodically assesses and refines its stress tests in an effort to ensure that the stress scenarios capture material risks as well as reflect possible extreme market moves that could arise as a result of business environment conditions. The stress tests are used in conjunction with the Bank's business plans for the purpose of capital planning in the ICAAP.

5.2 Quantitative Disclosures

5.2.1. Basel II capital calculation

The break-up of Basel II capital funds as September 30, 2024 was as follows:

Rs. in lakh

	Description	Amount
	Core Equity Tier 1 Capital - Instruments and Reserves	
	Directly issued qualifying common share capital plus related stock surplus (share premium)	1,93,418

[17] 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

	Retained earnings	3,86,600
A	CET1 capital before regulatory adjustments	5,80,081
	Core Equity Tier 1 Capital - Regulatory Adjustments	
	Deferred tax assets arising from temporary differences	23,805
	Intangibles (Prepaid Expenses & Computer Software)	15,193
	Credit Enhancements	2,021
	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	41,018
C	**CET1 capital (A-B)**	5,39,000
	Additional Tier 1 Capital - Instruments and Reserves	
	Preference Shares	
E	AT1 capital before regulatory adjustments	
	Additional Tier 1 Capital - Regulatory Adjustments	
F	Total regulatory adjustments to AT1 Capital	-
G	AT1 Capital	
H	**Tier 1 Capital (C + G)**	5,39,000
	Tier 2 Capital - Instruments and Provisions	
	Sub - debt eligible as Tier 2 capital	18,000
	General Provisions on Std. Assets admissible as Tier 2	18,184
	Investment Fluctuation Reserve	8,128
	Investment Reserve Account	
I	Tier 2 Capital before regulatory adjustments	44,313
	Tier 2 Capital - Regulatory Adjustments	
J	Total Regulatory Adjustments to Tier 2 Capital	-
K	**Tier 2 Capital (I - J)**	44,313
L	**Total Regulatory Capital (H + K)**	5,83,313

5.2.2. Credit Risk RWA

The detailed break up of Credit RWA is as follows:

Rs. in lakh

Asset Description	RWA
Cash and Balances with Reserve Bank of India	0.00
Balances with Banks and Money at Call and Short Notice	20,201
Investments	1,452
Advances	23,65,079
Fixed Assets	32,807
Other Assets	60,515

Off Balance Sheet	15,385
Total Credit RWA	**24,95,439**

5.2.3. Operational Risk RWA

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

The detailed computation is as follows:

Rs. in lakh

Particulars	**T**	**T-1**	**T-2**
	FY'24	**FY'23**	**FY'22**
Total amount of operational losses net of recoveries (no exclusion)	1,264	527	907
Total number of operational risk losses	1,322	1,416	1,253
Total amount of excluded operational risk losses#	867	475	809
Total number of exclusions	1,152	1,255	990
Total amount of operational losses net of recoveries and net of excluded losses	397	53	99

Rs. in lakh

Sr. No.	**Business Indicator (BI) and its sub components**	**T**	**T-1**	**T-2**
1	**Interest, lease, and dividend component**			
1a	Interest and lease income	5,67,715	4,16,499	2,81,280
1b	Interest and lease expenses	2,26,770	1,46,709	1,03,921
1c	Interest earning assets	36,64,893	30,42,154	21,64,059
1d	Dividend Income	0	0	0
2	**Services component**	0	0	0
2a	Fee and commission income	39,631	31,737	21,875
2b	**Fee and commission expense**	1,851	1,418	1,393
2c	Other operating income	27,811	22,822	11,466
2d	Other operating expense	63,573	51036	40,062
3	**Financial Component**			
3a	Net P&L on the trading book	2,076	178	1,576

3b	Net P&L on the banking book	326	0	185
4	BI	1,50,619.52	1,15,607	92,414
5	Business Indicator Components (BIC)	18,074.34	13,873	11,090

6a	BI gross of excluded divested activities	**1,50,620**
6b	Reduction in BI due to excluded divested activities	-

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

1	Business indicator component (BIC)	**18,074**
2	Internal loss multiplier (ILM)	0.60
3	Minimum required operational risk capital (ORC)	18,074
4	**Operational risk RWA**	**2,25,929**

<u>5.2.4. Market Risk RWA</u>

On September 12, 2023, the Regulator issued revised guideline for computation of Market Risk RWA which was effective from April 1, 2024. The computation of the Market risk RWA is performed basis the revised guidelines. As at September 30 2024, the AFS book consisted of Government of India Securities and Treasury Bills for which no market risk capital charge is applicable since AFS book is classified as Banking Book as per said revised guidelines. HFT book consisted of Government Securities, Commercial Paper, Treasury Bills, Certificate of Deposits, Non-Convertible Debentures, unlisted equity and PTC investments. The Market Risk capital charge has been computed for HFT portfolio both for specific charge and general market risk charge.:

Rs. in lakh

Capital Requirement for Market Risk	Amount
Interest Rate Risk	4,936
Equity Position Risk	14
Foreign Exchange Risk	-
Total	**4,950**
Total Market Risk RWA	**61,879**

<u>5.2.5. Basel II CRAR (with only Credit RWA)</u>

Rs. in lakh

Particulars	RBI thresholds	Amount/Ratio (Only Credit RWA)
Tier I Capital	--	5,39,000
Tier II Capital	--	44,313
Total Capital	**--**	5,83,313
Total RWA	**--**	24,95,439

CET Ratio	Minimum 6%	21.60% (Complied)
Tier I Ratio	Minimum 7.5%	21.60% (Complied)
Tier II Ratio	Maximum cap at 7.5% of CRWA	1.78% (Complied)
CRAR	**Minimum 15%**	**23.38% (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 **23.38%** 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	5,39,000
Tier II Capital	44,312
Total Capital	5,83,313
Total RWA	**27,83,247**
CET Ratio	19.37%
Tier I Ratio	19.37%
Tier II Ratio	1.59%
CRAR	**20.96%**

It may be noted that the Bank's CRAR is assessed at 20.96% 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 of growth on midterm basis, 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 on both internal and external contexts, their impact on the Bank's portfolio and directs 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 monitoring the risk strategy approved by the Board, developing procedures and systems for oversight on risk management by the first line, carrying out an independent assessment of various risks, providing guidance on 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 monitoring. 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 2, 2024 as amended from time to time.

Provisioning and Regulatory norms applicable to 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, especially for the portfolio which tend to exhibit cyclicality in risk behaviour. The Bank continuously identifies incipient stress in specific accounts and geographies where accelerated provisions may be required on an on-going basis.
2) The Bank's NPA Management Policy, on the directions of the Board, has adopted an accelerated provisioning regime which is higher than the RBI mandated provisioning norms since inception. The Bank's Risk Management Department undertakes a proactive assessment of the likely GNPAs, NNPA, Provision Coverage Ratio (PCR) and incremental credit/provisioning costs by studying historical delinquency trends and external developments which can have a bearing on the asset quality and credit costs. During the financial year FY 21-22, as a one-time measure, the Bank had created a Floating Provision amounting to Rs. 25,000 lakh to address the risk of any recurrence of pandemic associated mobility restrictions. While the decision to create a floating provision was made then as there was no scientific consensus on the severity and frequency of future pandemic waves, the presence of the floating provision acts as a strong bulwark to protect against unexpected losses of any kind. For instance, the microfinance sector in FY 2024-25 is currently under stress on account of over lending/overleveraging of customers, resulting in build up of stress. The presence of floating provisions continues to provide comfort since it helps in netting off GNPAs.
3) As on September 30, 2024, out of Rs. 25,000 lakh, Rs. 12,000 lakh is allocated for netting off Gross NPA for the purpose of computing NNPA/ PCR, while Rs. 3,000 lakh has been factored as part of Tier II capital. The residual balance of Rs. 10,000 lakh has been grouped as part of other provisions without utilising the same towards Tier II capital. This amount continues to be earmarked for netting off GNPA as and when warranted.
4) The RBI circular on Consumer Credit dated November 16, 2023, directs banks to review their extant sectoral exposure limits for consumer credit and put in place, if not already there, Board approved limits in respect of various subsegments under consumer credit as may be considered necessary by the Boards as part of prudent risk management. In view of the same the Bank has set exposure limits on subsegments under consumer credit.
5) During the quarter, RBI has issued Master Directions on Fraud Risk Management in Commercial Banks dated July 15, 2024. These Directions were issued with a view to providing a framework to banks for prevention, early detection and timely reporting of incidents of fraud to Law Enforcement Agencies (LEAs), Reserve Bank of India (RBI) and NABARD and dissemination of information by RBI and matters connected therewith or incidental thereto. More specifically, chapter III of the guidelines as stipulated specific

guidance on the Bank’s Early Warning Systems (EWS) for both credit and non-credit related transactions. The Bank has taken note of the requirements and is in the process of updating its Credit Risk Management policy and the underlying Standard Operating Procedures (SOPs) to give effect to the same. This is expected to be made applicable sometime in Q3FY2025.

<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	Mar-24	Jun-24	Sep-24
Gross Advances*	15,52,066	18,78,573	18,70,883	19,67,283
GNPA(Value)	37,028	40,707	48,307	52,905
GNPA%	2.39%	2.17%	2.58%	2.69%

**Excluding IBPC/ Securitization/DA transactions.*

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 97% in the month of September 2024. The efforts of enhanced monitoring and collections enabled the Bank to arrest fresh slippages (incremental overdue) and also improve the recovery rates in delinquency buckets. In Q2 FY 2024-25, at an industry level the Microfinance portfolio continued to face higher delinquency levels in a few pockets of the country arising mainly from over leveraging by customers. The Bank’s book has also been affected with an increase in GNPA on a quarter-on-quarter basis. However, the M-FIN (Microfinance Institutions Network India) has released guardrails for lending to microfinance sector. The Bank has adopted the guardrails laid down by M-FIN and adopted restrictive credit policies in pockets that are worst affected and in branches where the portfolio is under stress

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, in the GL and IL vertical there would be increased focus on staff productivity and additional oversight on restricting fresh slippages. During the quarter, the Bank has also reviewed its internal frequency in conducting Loan Utilization Checks (LUCs) and made necessary changes to improve the same. With effect from September 1, 2024, LUC checks in the Micro banking loans would be completed within an outer limit of 180 days in lieu of the current practice of undertaking the same at the time of loan cycle promotion/repeat loan offering. Likewise, a review of the frequency in undertaking LUC checks in all credit products was undertaken. LUC failures/pendency beyond outer limits would now be considered as consumer credit and would warrant a higher risk weight at 125%.

Affordable Housing Loans (including M-LAP)

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

Amt in Rs. Lakh

Housing Loans	Mar-23	Mar-24	Jun-24	Sep-24
Gross Advances*	3,11,398	4,69,357	4,97,953	5,57,541
GNPA(Value)	8,878	6,889	7,109	7,390
GNPA%	2.85%	1.47%	1.43%	1.33%

**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 2024-25, the vertical registered 43% year on year growth and 11% quarter on quarter growth on Gross Loan Book. This is the fastest growing SBU in the Bank and internally classified as a ‘unicorn’.

MSME (Micro and Small and Medium Enterprise)

A comprehensive review of the MSME Portfolio given below:

Rs. in lakh

MSME	Mar-23	Mar-24	Jun-24	Sep-24

Gross Advances*	1,59,336	1,41,413	1,41,507	1,51,416
GNPA(Value)	14,014	11,838	12,518	12,983
GNPA%	8.80%	8.37%	8.85%	8.57%

**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 vertical has also commenced to 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. The disbursements have started to scale up. Much of the GNPA has arisen from what was booked previously. The repackaged semiformal LAP product that has now run for a period marginally in excess of 12 months, continues to perform well with no apparent signs of stress. However, cognizant of the fact that stress tends to build up as the portfolio ages, the Bank now has an independent monitoring unit within the MSME unit, which leverages on the EWS triggers to take proactive corrective action at the first sign of stress.

In a bid to improve credit risk monitoring, the Bank has set up a **Health council** under the aegis 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. It is also envisaged to increase the scope of Health council.

Institutional Lending

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

Rs. in lakh

FIG	Mar-23	Mar-24	Jun-24	Sep-24
Gross Advances	1,12,753	1,73,054	1,79,974	2,04,234
GNPA(Value)	442	442	442	442
GNPA%	0.39%	0.26%	0.25%	0.22%

As on September 30, 2024, FIG vertical OSB had increased by 13% on a quarter on quarter. The share of the institutional lending book of the Bank increased to 6.8 % 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) .

Vehicle Loans

The Vehicle Loans vertical was also considerably revamped and sought to focus only on two-wheeler financing during the year. As a step towards the relaunch, a new LOS was adopted, and the Bank has also embedded a scorecard in the LOS to facilitate decision making. New locations for the business were identified and locations where business was suspended were revived. A comprehensive review of the Vehicle loan Portfolio is given below:

Rs. in lakh

VF	Mar-23	Mar-24	Jun-24	Sep-24
Gross Advances*	14,033	19,590	23,945	28,540
GNPA(Value)	875	643	630	628
GNPA%	6.24%	3.28%	2.63%	2.20%

**Excluding IBPC/ Securitization/DA transactions*

As on September 30, 2024, the vertical had registered a 19% quarter on quarter increase in its OSB. Functionality to collect repayments through third party payment aggregators and other online portals was also enabled to provide ease of transaction. The vertical also propelled new dealerships for Two-wheeler financing. The business model is focused on sourcing new loans through tie-ups with direct dealerships. The Bank has also developed a trade advance facility to dealers which is now active.

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 on 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.
The Gold Loan product is now being offered in **161** branches covering **14** states with a plan to expand to **200** branches in the ensuing financial year.

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 Tamil Nadu, Karnataka and also in Maharashtra and Gujarat. The disbursement trends (in value) of the Product are given below:

Rs. in lakh

Particulars	Q2 FY 2023-24	Q3 FY 2023-24	Q4 FY 2023-24	Q1 FY 2024-25	Q2 FY 2024-25
Disbursement-MLAP Actuals	3,639	5,556	7,965	7,762	12,902

<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:

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

- Quarterly Quick Mortality analysis is being done by the CRMU and a report on the findings is placed at CRMC.

- File review of new products Elite LAP and Woking capital loans on sample basis was started in March 2024.

- Files originating from the Housing vertical are reviewed on a sample basis every month and aberrations, if any, from credit process and policy are reported to CRMC.

- All large value credit proposals that are approved by the Credit Approval Committee, where CRO is a member, are first reviewed by the CRMU and their observations shared with the Business Unit, so that a comprehensive proposal is submitted to the Committee for consideration.

- Developed a Dashboard internally to monitor the Bank's portfolio at a snap shot which includes IOD'S, NPA, Bucket Movements, Roll Rates, etc.

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.

- Collection productivity analysis for Micro-banking was developed during the year to analyse the performance of the In-house Collections officers, Off roll collections officers and Agencies.

- The Bank performed PDD and OTC documents analysis for Retail verticals on a timely basis.

- During the year, the Bank's board approved the Quick Mortality framework for all the loans in the Bank.

- 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 now live in production..

- 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).

- The credit risk models are intended to aid banks in quantifying, aggregating and managing risk across geographical and product lines. The output of these models also play increasingly important roles in Banks' risk management and performance measurement processes, customer profitability analysis, risk-based pricing, active portfolio management and capital structure decisions. Credit risk modelling will aid in better internal risk management and has the potential to be used in the supervisory oversight of banking operations. The Bank has commenced development of scorecards in GL. IL and VF scorecard are directly used in pricing models warranting regular review. As part of ECL preparedness, Bank has developed PD and LGD models using historical data and statistical techniques. **Therefore, the Bank's Board has approved a policy to govern Model development, validation and ongoing monitoring. The Credit risk model validation essentially has qualitative as well as quantitative components.**

RBI guidelines on loan pricing mandates delineation of spread components and assignment of benchmarks (MCLR or EBLR) to loan pricing. The Bank undertook an internal exercise to evaluate the reasonableness and effectiveness in pricing of loans to meet strategic imperatives. The Bank developed customised pricing models using internal data estimates and external benchmarking, wherever applicable. Further, these pricing models were carefully evaluated for alignment to business strategy, budgets, system feasibility, adherence to prudential risk management norms and also ensure compliance to RBI guidelines on interest rate management on advances. A salient feature in these pricing models includes adoption of a differential pricing matrix, in that, pricing of loans to borrowers would be risk adjusted to reflect the borrower's creditworthiness. The Bank believes that the introduction of Risk Based Pricing (RBP) will aide in encouraging and incentivising borrower/s to maintain a long-term relationship.

6.2. Quantitative Disclosures

The overall distribution of Gross advances and Gross Loan Book as at Sept 30, 2024 was as under:

Rs. in lakh

Vertical	Gross Advances	%	Gross Loan Book	%
MB&RB	19,67,283	66.09%	20,04,283	66.05%
FIG Lending	2,04,234	6.86%	2,04,234	6.73%
Housing	5,57,541	18.73%	5,78,334	19.06%
MSE	1,51,416	5.09%	1,51,416	4.99%
Personal Loans	4,420	0.15%	4,420	0.15%
Staff Loan	20,497	0.69%	20,517	0.68%
Vehicle Finance	28,540	0.96%	28,540	0.94%
Loan/OD Against Deposit/Gold loan	42,582	1.43%	42,582	1.40%
Total	29,76,513	100.00%	30,34,326	100.00%

Exposure summary: Facility type

Exposure Type	Domestic (Rs. in Lakh)	Overseas
Fund- Based exposure[18]	43,20,815	--
Non- Fund Based Exposure*	51,211	--
LESS: CRM DEDUCTIONS (GNPA Provisions held)	(46,588)	
Total	43,25,438	**--**

*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)[19] (Rs in lakh)

Tamil Nadu	4,10,907	13.54%
Karnataka	4,03,626	13.30%
West Bengal	3,63,198	11.97%
Maharashtra	2,86,946	9.46%

[18] Fund Based exposure is computed as per Basel II guidelines
[19] Geography wise loans and advances is Including IBPC, Securitization and DA

Gujarat	2,44,008	8.04%
Uttar Pradesh	2,08,891	6.88%
Bihar	1,99,798	6.58%
Haryana	1,66,039	5.47%
New Delhi	1,63,957	5.40%
Rajasthan	1,37,634	4.54%
Jharkhand	71,400	2.35%
Punjab	70,098	2.31%
Kerala	69,747	2.30%
Odisha	58,262	1.92%
Madhya Pradesh	48,203	1.59%
Tripura	33,836	1.12%
Assam	28,019	0.92%
Uttarakhand	16,776	0.55%
Chhattisgarh	13,748	0.45%
Pondicherry	13,138	0.43%
Chandigarh(UT)	10,271	0.34%
Telangana	7,387	0.24%
Himachal Pradesh	3,654	0.12%
Meghalaya	3,556	0.12%
Goa	1,226	0.04%
Andhra Pradesh	0.00	0.00%

Maturity pattern of assets and liabilities

Rs. in lakh

Buckets	**Net Advances**	**Investments**	**Deposits**	**Borrowings**
Day - 1	1,536	3,36,139	8,427	106,944
2-7 Days	27,994	11,753	80,616	-
8-14 Days	53,318	19,473	83,165	-
15-30 Days	57,149	19,617	1,02,782	-
31 Days and up to 2 months	1,45,008	32,663	1,61,747	-
Over 2 months and up to 3 months	1,48,856	21,276	1,31,509	9,050
Over 3 Months and up to 6 months	4,23,119	1,22,620	4,51,757	10,936
Over 6 Months and up to 1 year	6,88,808	2,88,791	14,22,82 9	16,327

Over 1 Year and up to 3 years	7,94,690	1,74,659	9,40,196	39,908
Over 3 Year and up to 5 years	90,278	13,315	21,788	47,908
Over 5 years	4,87,168	18,853	2,168	31,106
Total	29,17,924	10,59,159	34,06,984	2,62,179

Gross Non-performing assets (NPA)

Rs. In Lakh

Category of Gross NPA	Sept-23	Dec-23	Mar -24	June-24	Sept-24
Sub-standard	27,395	31,310	37,994	47,781	58,677
Doubtful	30,265	24,844	21,852	20,752	15,151
Loss	919	920	1,407	1,187	1,168
Total	**58,580**	**57,074**	**61,252**	**69,724**	**74,996**

Rs. In Lakh

NNPA	**Sep-23**	**Dec-23**	**Mar-24**	**Jun-24**	**Sep-24**
Net NPA	14,181	16,275	19,629	23,124	28,408
NNPA after factoring Floating Provisions	2,181	4,275	7,629	11,124	16,408

NPA Ratios	**Sep-23**	**Dec-23**	**Mar-24**	**Jun-24**	**Sep-24**
Gross NPA to Gross Advances (excluding IBPC/Securitisation/DA) [20]	2.35%	2.18%	2.23%	2.52%	2.52%
Net NPA to Net Advances (excluding IBPC/Securitisation/ DA)[21]	0.09%	0.17%	0.28%	0.41%	0.56%

Movement of Net NPAs (Quarterly basis)

Rs. In lakh

Particulars	Sept 2023	Dec-23	Mar-24	June-24	Sept-24

[20] Gross NPA to Gross Loan Book (including IBPC/Securitisation/Direct Assignment) was 2.49% as on September 30, 2024

[21] Net NPA to Net Loan Book (including IBPC/Securitisation/Direct Assignment) was 0.56% as September 30, 2024

Opening Balance is Year Opening Balance	904	904	904	7,629	7,629
Additions during the period	12,820	19,016	25,846	13,358	23,906
Reductions during the period	11,542	15,644	19,120	9863	15,127
Closing Balance	**2,181**	**4,275**	**7,629**	**11,124**	**16,408**

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

Rs. in lakh

Particulars	Sept-2023	Dec-23	Mar-24	June-24	Sept-24
Opening Balance	50,157	50,157	50,157	41,623	41,623
Provisions made during the period	13,730	19,732	25,578	12,449	26,301
Write back of excess provisions	19,489	29,090	34,112	7,473	21,336
Closing Balance	**44,398**	**40,799**	**41,623**	**46,600**	**46,588**

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

Rs. in lakh

Category	**Gross Advances after netting off IBPC, Securitization & Direct Assignment**	**GNPA on gross advances**	**GNPA Provisions on gross advances**	**Floating Provisions Considered for NNPA***	**PCR% on gross advances**	**PCR% on gross Loan Book**
MB-RB	19,67,283	52,904	32,263	10,500	80.83%	80.83%
FIG Lending	2,04,234	442	442	0	100.00%	100.00%
Housing	5,57,541	7,390	4,464	0	60.40%	59.72%
MSME	1,51,416	12,983	8,495	1,500	76.99%	76.99%
Personal Loans	4,420	498	353	0	70.81%	70.81%
Staff Loan	20,497	26	19	0	74.08%	74.08%
Vehicle Finance	28,540	628	479	0	76.20%	76.20%
Loan/OD Against Deposit	42,582	123	74	0	60.35%	60.35%
Grand Total	29,76,513	74,996	46,588	**12,000**	**78.12%**	**77.94%**

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

Write off:[22]

Rs. in lakh

Particulars	Total Write off undertaken
Q1 FY 2024-25	5887
Q2 FY 2024-25	14,017

Non-performing Investments (NPI)

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

Movement of provisions for depreciation on investments

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

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

7.1. Qualitative Disclosures

a. The Bank has adopted Standardized Approach for computation of capital charge for Credit Risk as per RBI guidelines. These guidelines envisage different risk weights for different asset classes, which have been duly applied.
b. The loan book of the Bank predominantly comprises retail category loans. Therefore, the risk weights as applicable to Regulatory Retail, claims under Residential Mortgage and staff loans are applied. For consumer loans within its microfinance portfolio, the applicable risk weight is applied.
c. Institutional lending is risk-weighted as per ratings assigned by Eligible Credit Rating Agencies (ECRA) as prescribed by RBI. During the year, the Regulator had issued specific guidelines with respect to treatment of exposures with instances of rating withdrawal 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

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

individual housing loans is assigned differential risk weights based on the size of the loan as well as the loan to value ratio (LTV). As a countercyclical measure, RBI has decided to rationalise the risk weights, irrespective of the amount and only on the basis of LTV vide a notification on October 16, 2020. The Bank has taken cognizance of the same and these were incorporated for all loans sanctioned after the date of issuance of this circular. The Bank has factored the directions of RBI circular dated April 8, 2022 wherein, it was directed to continue with risk weights contained in the circular ibid for all new individual housing loans sanctioned up to March 31 ,2023.

7.2. Quantitative Disclosures

Details of Gross Credit Risk Exposure (Fund based and Non-fund based) based on Risk Weight – Position as on September 30, 2024		
Sl. No.	**Risk Weight**	**Rs. in lakh**
1	Below 100% Risk Weight	33,74,813
2	100% Risk Weight	2,78,498
3	More than 100% Risk Weight	7,18,714
4	Deductions (GNPA PROVISION)	(46,588)
5	**Total**	**43,25,438**

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[23] 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[24] 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.

[23] 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

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

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

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

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

9.1. Qualitative Disclosure

9.1.1. Securitisation Objectives

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

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

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

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

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

9.1.5 Rating of Securitisation Transaction

The Bank used the ratings provided by CARE Ratings limited for the securitisation of retail pools and there has been no change to this rating since origination.

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 Q2 FY 2024-25

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 Sept 30, 2024

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)	14,178	-

Direct Assignment	6,688	
Total	**21,912**	**-**

*The amount represents the total outstanding for Securitization and Direct Assignment as on Sept 30, 2024.

Securitisation exposures retained or purchased

Rs.in Lakh

Exposure Type	On Balance Sheet*	Off Balance Sheet	Total
Equity Tranche	1,263	-	1,263
Overcollateralization	758	-	758
Direct Assignment	761	-	761
Total	**2,781**	**-**	**2,781**

* Represents total principal amount of investment in Equity Tranche, Overcollateralization and Direct Assignment outstanding under risk sharing as at September 30, 2024.

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)			1,263		1,263
Total			**1,263**		**1,263**

* 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	758	-	-
First Loss Credit Enhancement	1263	-	-
Total	**2021**	**-**	**-**

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), Non-Convertible Debentures (NCD) 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 lakh as Pass through Certificates as part of the Securitisation deal executed during FY 2022. During the year the Bank also secured necessary approvals to commence investments in select IPOs as a way to deploy short term surpluses and generate the alpha. This aspect of the investment business is at a nascent stage and limited investments were made during the period. As on September 30, 2024, the investment holdings in various SLR and Non SLR instruments were as under:

Rs. in lakh

	AFS		HFT+FVTPL		HTM	
Instruments	**BV**	**MV**	**BV**	**MV**	**BV**	**MV**
<u>SLR</u>						

G Sec	5,070	5,085	17,903	17,911	4,53,650	4,54,195
SDL	-	-	-	-	1,98,956	2,01,251
STRIPS	-	-	-	-	-	-
T Bill	1,67,739	1,67,739	2,442	2,442	-	-
Total SLR	**1,72,810**	**1,72,824**	**20,345**	**20,353**	**6,52,606**	**6,55,446**
NON-SLR						
PTC	-	-	1,263	1,409	-	-
Equity	-	-	10	42	-	-
CP	-	-	19,054	19,054	-	-
CD	-	-	1,55,532	1,55,532	-	-
NCD	-	-	37,411	37,485	-	-
MF	-	-	-	-	-	-
Total NSLR	-	-	2,13,269	2,13,522	-	-
Total Investment	**1,72,810**	**1,72,824**	**2,33,615**	**2,33,875**	**6,52,606**	**6,55,446**

During the quarter, the Bank had added ~Rs. 12,445 lakh of securities in its HTM portfolio. There was no transfer of securities from HTM to AFS portfolio in the current quarter. As at September 30, 2024, there was positive MTM of ~Rs. 96.34 lakh from positions held in HFT and AFS. As the rate has stabilised, the Bank started purchasing securities of slightly higher duration in HTM portfolio in order to capture the benefit of reduction in interest rate during H2 of FY 2025. The HTM duration stood at 4.45 years. 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
July-24	31,28,538	5,63,137	8,17,235
August-24	31,35,214	5,64,339	7,12,340
September-24	31,26,118	5,62,701	7,82,265

The maintenance of SLR was higher than the minimum requirement which is in line with the 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 had issued revised guidelines for investments vide its Circular number RBI/DOR/2023-24/104 dated September 12th 2023. The circular has become effective from 1st April 2024. The Bank took various steps to implement and comply with the Master Direction such as revised investment policy incorporating the provisions of the Direction was put in place with the approval of Board of Directors, necessary system enhancements were made to create new portfolios and accounting step up and also existing book was transitioned to new regime and appropriate reserve was created for revised carrying value of the investment portfolio. Also, it was necessitated by the provisions of the Master Direction to align the existing risk and loss limits on Treasury such as Trading Limits, M-duration and PV01 limits, exposure limits and stop loss limit to operate under the new framework. Further, during October 2024, the RMCB and Board accorded in-principle approval to commence Overnight Index Swap (IRS) and Corporate Bond Repo products.

Trading: The Bank is actively trading in G-sec market on an 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, NCD 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 during the quarter. 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 average liquidity position of the Bank is at comfortable levels with LCR hovering above 129.73% during Q2 FY 24-25 (average for the quarter).

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			
	Q1 Quarterly Average		**Rs. in lakh**
		Amount	**Adjusted Amount**
A	**High Quality Liquid Assets**		
	Level 1 Assets	**7,68,410**	**7,68,410**
B	Total Stock of HQLAs	-	**7,68,410**
C	Cash Outflows	**27,67,364**	**7,53,290**
D	Cash Inflows	**2,48,269**	**1,60,974**
E	Net Cash flow	-	**5,92,316**
F	25% of Total Cash Outflow	-	1,88,322
G	Higher of E or F	**-**	**5,92,316**

Liquidity Coverage Ratio	129.73%

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

The Bank’s NSFR as at September 30, 2024 was 132.98% as against RBI minimum requirement of 100%.

NSFR	Weighted Amount
Total Available Stable Funding (ASF)	28,78,750
Total Required Stable Funding (RSF)	21,64,839
NSFR	**132.98%**

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 Risk Management Committee Board (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. Operational Risk Team enhanced the existing Operational Risk Management Policy based on the Guidance note on Operational Risk Management and Operational Resilience published by RBI issued on 30th April 24 and approved by ORMC & RMCB held in the month of July'24. 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.

Process reviews: All new 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) had reviewed 56 processes in Q2 FY'25. Few of them to record are process note on Individual loan through Money mitra, Process Note on ICCW – Acquirer, Current Account Opening via. Handheld Device (HHD) and Process Note on Restructuring of Group Loans (GL) and Individual Loans (IL) Due to other than Natural Calamity & Natural Calamity.

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 to be approved by the Department's Head, post which it is reviewed by the control functions (namely Compliance and Operational Risk) for further improvements (if any). Subsequently, the same is sent to the IT department who then prepare a Functional Specification Document (FSD) detailing the scope of the project. Once the project is moved to the testing stage, the Business and IT teams are to sign-off on the requirements developed in the User Acceptance Testing UAT environment. With these sign-offs, the ORMD performs UAT along with other key stake holders (wherever needed) to identify gaps (if any) in the actual deliverable versus changes proposed in the BRD. These gaps are further addressed and closed by the Business and IT team before moving the development to production. As on September 30, 2024, 100 BRDs and 18 FSDs were reviewed and UAT was undertaken for 115 new developments/changes/fixes provided by IT. A few key projects undertaken were New Role Creation (Video Banking), SR category to enable/Disable AePS service, Cash Deposit Charge in ODTD, Self-Disposable Short Lived Email Account - DFD & DSA, Accounts dormant tagging irrespective of DBT linked, Housing Loan - Credit Life Insurance integration with Insurenest, Lead page enablement in existing DFD/DSA platform 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. In FY’25, RCSA will be commenced for 21 identified departments through BRACOs of the vertical and completed by Mar 2025, It has also been advised to the departments to ensure that RCSA is done on an ongoing basis by them as a First line of defense.

Key Risk Indicators: In FY’25, 40 KRIs continue to be monitored at an 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, 7 KRI’s for Agricultural Banking, 7 KRI’s for MSME, 9 KRI’s for Vehicle Loan as part of the ORM framework.
ORM has identified 25 KRIs for Operations department and published the KRIs in Q2 FY’25 for the period Apr’24 to Sep’24. For Gold Loan department, 11 KRIs were identified and monitoring commenced from Jul’24 to Sep’24. The thresholds for the KRIs have been set in consultation with the respective stakeholders. These KRIs are analysed on the monthly basis and wherever breached those KRI’s are shared with the respective stakeholders for their action plan. The KRI’s across all the 10 functions (Organisation, Branch Banking, Micro Banking, Secured Housing Loans, Digital Banking, Agricultural, MSME & Vehicle Loan, Operations & Gold Loan) were computed till Q2’25. Ops Risk has presented the KRIs along with the action plan provided by the department to ORMC held in the month of Oct’24.

Risk Review Unit (RRU) Score Card: RRU Scorecard for MSME and SHL verticals were published on monthly basis. Scorecards for both the verticals were published till the month of

Sep’24 and wherever breaches were observed, details were shared with respective department for action plan with a timeline to mitigate the risk.

Operational Risk Index (ORI): ORMD developed an Operational Risk Index for the Micro Banking business unit, which monitors 22 parameters pertaining to People and Process risk. The index is monitored on a monthly basis and the output classifies the branches into High, Medium and Low risk basis the branch’s performance against the parameters. The output is shared with the OR regional team, the Audit team and the Micro Banking Business Unit to better plan their branch visits and closely monitor the breached parameters in order to identify the root cause of the lapses.

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 from 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 regular intervals. The Bank encourages its personnel to report incidents in an unbiased manner without fear of any retribution.

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

- Reconciliation of General Ledgers (GL) to operational loss as recorded by ORMD;
- 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 24-25 (as on Sep’24):

Event Type	Count		Loss in lakhs			
	YTD Sep’23	YTD Sep’24	YTD Sep’24			YTD Sep’23
	Total	Total	Gross	Net	Ops Loss	Ops Loss
Business Disruption and Systems Failures	201	126	₹ 5.03	₹ 1.52	₹ 0.84	₹ 5.64
Clients, Products, and Business Practice	3	9	₹ 2.22	₹ 1.22	₹ 0.73	₹ 0.03
Damage to Physical Assets	4	13	₹ 0.00	₹ 0.00	₹ 0.00	₹ 0.00
Employment Practices and Workplace Safety	1	13	₹ 0.00	₹ 0.00	₹ 0.00	₹ 0.00
Execution, Delivery, and Process Management	773	965	₹ 22.41	₹ 82.14	₹ 65.08	₹ 14.53
External Fraud	138	116	₹ 129.46	₹ 69.58	₹ 11.29	₹ 15.40
Internal Fraud	135	273	₹ 268.37	₹ 145.26	₹ 81.12	₹ 0.00
Total	**1,255**	**1,515**	**₹ 427.49**	**₹ 299.72**	**₹ 159.07**	**₹ 35.60**

>Gross loss refers to total amount involved in the reported incidents, Net loss refer to loss which got netted off post recoveries and Operational loss refer to the actual loss booked in Operational loss GL (Fraud & Non-fraud) in case of unsuccessful recovery efforts.
> Out of the 1,515 incidents reported in YTD Sep'24, 770 (~51%) were from "Cash Excess" and "Cash Shortage", owing to inclusion of all incidents reported, irrespective of amount.

The Ops Loss Recovery done as on date (30th Sep'24) pertaining to Operational Losses booked in previous financial years is Rs. 19.43 Lakh.

Thematic reviews: While carrying out RCSA, KRIs, UAT testing, incident reporting etc., Operational Risk team identifies few risk indicators warranting a special thematic review of the entire process. This enables the Bank to identify issues and gaps at minute level which are then taken up for rectification. These thematic reviews do not follow standardized risk identification techniques and therefore provide wider scope for a deeper and customized study of issues and gaps. Such thematic studies have enabled the Bank to further refine its existing processes and plug gaps that had been identified. In Q2 FY'25, ORMD team performed an analysis on freeze marked on Accounts and narration captured for digital transactions in passbook to identify the gaps and to recommend measures to mitigate the risk if any. Key gaps identified during the review were highlighted with the respective stake holders and discussed in ORMC and RMCB held in the month of Oct'24 & Nov'24 respectively.

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'24, user access review was performed for 20 applications which are used by the Bank as a part of yearly review and findings & recommendations 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, contractor's ID's, generic ID's and system ID's. Role Based Access provision reviews and process to be followed for user de-activation on exit from organisation is under review.

Exceptions Handling Mechanism is an initiative, which was initiated from July 2020 as guided by the National Controls and Compliance Committee. A list of 32 exception reports was identified and tagged to Operational Risk department of the Bank for initiating the review. In Q1 FY'25, the existing list of exception reports was revamped with a change in frequency of monitoring from Quarterly to Daily/Monthly which will help to take action on a priority basis. A list of 30 exception reports was identified post revamp and ORM started monitoring from Q1 FY'25. A total of 28 exception reports was revised for monitoring on a daily frequency. Observations identified in exception reports during the monitoring activity till the month of September 2024 have been 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. In Q2 FY'25, ORM team had reviewed 154 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. These critical observations were presented in ORMC meeting in the month of Sep'24.

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. ORMD has developed the Outsourcing Policy which includes directions from the "Guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Nov 3, 2006" as well as "Master Direction on Outsourcing of Information Technology Services April 10, 2023". This has been approved by all relevant stakeholders and by the Board. Outsourcing undertaken by the Bank is also subject to an annual audit by the Internal Audit team who provide the required compliance certificate to RBI. Key activities undertaken during Outsourcing are as follows:

Pre-onboarding 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 Q2 FY'25, pre-on boarding risk assessment was carried out for 9 vendors as on September 30, 2024.

Post-onboarding 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, and it is monitored by the Alliance & Electronic Payments team.

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 the FY'25, the assessment is to be carried out for 38 vendors out of which 10 are bulk vendors and 28, non-bulk.

Business Continuity Planning (BCP): Business Continuity Management is a requirement for a Bank to minimize the adverse effect on critical areas of Operational Risk with respect to High-Impact and Low-Probability Disruptions. Through this, the 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. In H1 FY'25, the bank performed the Planned Dr drill for all Critical applications as per the calendar and unplanned drill for NACH application for the period between 1st Sept to 23rd Sept 2024 to check the efficiency of the business continuity and operational resilience. The Bank also has a Board approved Cyber Crisis Management Plan for tackling cyber threats/ attacks.

The Bank reviews BCM policy and plan documents annually and enhances the documents as per the changes made in the Bank's critical processes and activities. Bank also conducts periodic BCP testing considering various disruptive scenarios which helps identify the gaps in ensuring smooth recovery and resumption of the processes. On an ongoing basis, BCP testing for randomly selected branches is also conducted to ensure that the recovery process becomes more robust and efficient to recover from any disaster / crisis situation. Learnings are documented in the Business Continuity Plan for corrective action. In Q2 FY'24-25, 58 planned and 27 unplanned BCPs were conducted across branches in regions. Also 5 planned BCP exercises were conducted by corporate functions viz., Treasury Front Office and Payments & Settlements, Phone banking, Video banking, and Clearing operations and one unplanned BCP for Phone banking in the month of September 2024. As part of annual review of Critical Processes and defining the BIA to achieve a robust operational resilience at Bank level, ORM is coordinating with 27 Critical business/functional units in Bank for reviewing and updating the Critical/Essential/Desirable processes in place. ORM added 7 new verticals as well to the review process, where BIA need to be conducted and formalized.

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, RMCB & ACB 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. ORMD started enhancing the RCMs from Q2 FY'25, post the enhancement testing will be initiated from Q3 FY'25.

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 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	**-2,404**	**2,404**
2	Overseas	-	-
	Total	**-2,404**	**2,404**

12.2.2. Economic Value Perspective (MDG Approach)

Rs. in Lakh

Category	Items	Amount
A	Computation of Aggregate RSA	40,78,124

B	Computation of Aggregate RSL	36,69,163
C	Weighted Avg. MD of RSL across all currencies	0.89
D	Weighted Avg. MD of RSA across all currencies	1.73
E	Modified Duration Gap (MDG)	0.93
F	Change in MVE as % of equity for 200 bps change in interest rate	13.94%
G	**Change in MVE in absolute terms**	**75,783**

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.30,994 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.2,101 lakh).

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

Equity shares

Disclosure template for main features of regulatory capital instruments – Equity Shares		
Sr. No.	**Particulars**	**Details**
1	Issuer	Ujjivan Small Finance Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	ISIN: INE551W01018
3	Governing law(s) of the instrument	Applicable Indian Statutes and regulatory requirements
	Regulatory treatment	
4	Transitional Basel III rules	Common equity Tier 1
5	Post-transitional Basel III rules	Common equity Tier 1
6	Eligible at solo/group/ group & solo	Solo
7	Instrument type	Common Shares
8	Amount recognised in regulatory capital (Rs. in lakh, as of most recent reporting date)	Rs. 1,93,418.42 Lakh
9	Par value of instrument	Rs 10/-
10	Accounting classification	Capital

11	Original date of issuance	• Rs. 5 lakh – July 4, 2016 • Rs. 10,998.68 lakh –July 30, 2016 • Rs 1,33,000 Lakh – February 10, 2017 • Rs. 1,405.5 Lakh- November 11, 2019 • Rs. 7,142.9 Lakh- November 13, 2019 • Rs. 20,270.3 lakh- December 10, 2019 • Rs. 0.3 Lakh- November 7, 2020 • Rs. 0.2 Lakh- January 19, 2021 • Rs. 0.4 Lakh- February 15, 2021 • Rs. 0.04 Lakh- March 15, 2021 • Rs. 22,619.05 Lakh – September 15, 2022 • Rs. 8.78 Lakh – February 09, 2023 • Rs. 11.41 Lakh – March 14, 2023 • Rs. 4.12 Lakh – April 12, 2023 • Rs. 4.45 Lakh – May 08, 2023 • Rs. 5.15 Lakh – June 09, 2023 • Rs. 18.52 Lakh- July 03, 2023 • Rs. 55.98 Lakh- August 04, 2023 • Rs. 161.48 Lakh – September 15, 2023
12	Perpetual or dated	Perpetual
13	Original maturity date	No Maturity date
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable	NA
	Coupons / dividends	Dividend
17	Fixed or floating dividend/coupon	NA
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No

22	Noncumulative or cumulative	Non-Cumulative
23	Convertible or non-convertible	NA
24	If convertible, conversion trigger(s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	No
31	If write-down, write-down trigger(s)	NA
32	If write-down, full or partial	NA
34	If temporary write-down, description of write-up mechanism	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinate to the claims of all depositors, general creditors, borrowings and all capital instruments qualifying Tier II Capital instruments, perpetual debt instruments and Perpetual non-cumulative preference shares
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	NA

During the First Half of FY 24-25, the Bank has made following allotments:

<table>
<tr><th>Date of issue and allotment</th><th>Method of allotment</th><th>Face value (Rs.)</th><th colspan="2">Issue price (Rs.)</th><th>Number of equity shares allotted</th></tr>
<tr><td rowspan="5">April 04, 2024</td><td rowspan="5">ESOP</td><td rowspan="5">10</td><td>No. of Shares</td><td>Issue Price</td><td rowspan="5">3,66,608</td></tr>
<tr><td>1,23,013</td><td>19.95</td></tr>
<tr><td>88,329</td><td>35</td></tr>
<tr><td>7,624</td><td>16.6</td></tr>
<tr><td>1,47,642</td><td>27.5</td></tr>
<tr><td rowspan="2">June 11, 2024</td><td rowspan="2">ESOP</td><td rowspan="2">10</td><td>No. of Shares</td><td>Issue Price</td><td rowspan="2">7,73,567</td></tr>
<tr><td>2,19,575</td><td>19.95</td></tr>
</table>

			1,99,540	35	
			94,241	33.2	
			2,60,211	27.5	
July 09, 2024	ESOP	10	No. of Shares	Issue Price	12,66,134
			1,21,070	19.95	
			78,500	35	
			9,22,987	33.2	
			1,43,577	27.5	
August 08, 2024	ESOP	10	No. of Shares	Issue Price	1,54,454
			56,335	19.95	
			5,670	27.4	
			70,517	27.5	
			21,932	35	
September 09, 2024	ESOP	10	No. of Shares	Issue Price	1,94,971
			45,027	19.95	
			14,763	26.39	
			78,493	27.5	
			56,688	35	

Non-Convertible Debentures (NCD)

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

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

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

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

Full Terms and Conditions of Equity Shares of the Bank		
Sr. No.	**Particulars**	**Full Terms and Conditions**
1	Voting shares	Equity Shares of the Bank are Voting Shares

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

Subordinated Debt Instruments:

Terms and Conditions of NCDs of the Bank		
Sr. No.	**Particulars**	**Full Terms and Conditions**
1.	Type of Instrument	Non-Convertible Debentures (Subordinated debt instruments)

2.	Seniority	The Bond shall be: (a) senior to the claims of the investors in instruments eligible for inclusion in Tier I capital and Upper Tier II Capital of the Bank; and (b) subject to paragraph (a) above, subordinated to the claims of the other creditors of the Bank but shall rank pari passu with the other Lower Tier II instruments of the Bank (whether present or future).
3.	Maturity	Bullet redemption at par, at maturity, date of maturity is April 26, 2028
4.	Listing	Unlisted
5.	Accounting Classification	The paid-up amount is classified as Borrowings in Bank's Balance Sheet.
6.	Approval for Issuance	Once the shareholders' approval is received for issue of capital, NCDs are issued only with approval given by Board of Directors/ Board Approved Committee
7.	Coupon Type	Fixed
8.	Coupon Rate	11.95% p.a.
9.	Coupon Payment Frequency	Monthly with the final Coupon Payment Date being the Maturity Date

15. Table DF-15: Disclosure on Remuneration

15.1. <u>Remuneration - Qualitative disclosures</u>

A. Information relating to the bodies that oversee remuneration.

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

Name: Nomination and Remuneration Committee (NRC)

Composition of Nomination and Remuneration Committee as on September 30, 2024:

Sr. No.	Name of director	Designation/Category
1.	Ms. Anita Ramachandran	Chairperson -Independent Director
2.	Mr. Banavar Anantharamaiah Prabhakar	Member-Independent Director
3.	Mr. Ravichandran Venkataraman	Member -Independent Director

4.	Mr. Rajesh Kumar Jogi	Member - Independent Director
5.	Mr. Samit Kumar Ghosh	Member- Director (Non-Executive, Non-Independent)

Following are the main terms of reference of the Committee:

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

  The NRC, while formulating the above policy, ensures that:

  a. the level and composition of remuneration be reasonable and sufficient to attract, retain and motivate talented directors required to run the Bank successfully;
  b. relationship of remuneration to performance is clear and meets appropriate performance benchmarks; and
  c. Remuneration to directors, Key Management Personnel (KMP) and senior management involving a balance between fixed and incentive pay reflecting short- and long-term performance objectives appropriate to the working of the Bank and its goals.
- Formulating criteria for evaluation of performance of independent directors and the Board of Directors.
- To ensure 'fit and proper' status of proposed/ existing Directors.
- Devising a policy on diversity of Board of Directors
- Ensure that level and composition of remuneration is reasonable and sufficient, relationship of remuneration to performance is clear and meets appropriate performance benchmarks.
- Identifying persons who are qualified to become directors and who may be appointed in senior management in accordance with the criteria laid down, and recommend to the Board of directors their appointment and removal and shall specify the manner for effective evaluation of performance of the Board, its committees and individual directors to be carried out either by the Board, by the NRC or by an independent external agency and review its implementation and compliance.
- Make appropriate disclosures of the remuneration policy and the evaluation criteria in the annual report.
- Analysing, monitoring and reviewing various human resource and compensation matters.
- Determining the Bank's policy on specific remuneration packages for executive directors including pension rights and any compensation payment and determining remuneration packages of such directors.
- Determining compensation levels payable to the senior management personnel and other staff (as deemed necessary), which shall be market-related, usually consisting of a fixed and variable component.
- Determining whether to extend or continue the term of appointment of the independent

director, on the basis of the report of performance evaluation of independent directors.

- Recommending to the Board, all remuneration, in whatever form, payable to senior management.
- Administering, monitoring and formulating detailed terms and conditions of the Employees' Stock Option Scheme (ESOP) of the Bank, inter-alia, including the following:
- Determining the eligibility of employees;
- The quantum of option to be granted under the Employees' Stock Option Scheme per Employee and in aggregate;
- The exercise price of the option granted;
- The conditions under which option may vest in employee and may lapse in case of termination of employment for misconduct;
- The exercise period within which the employee should exercise the option and that option would lapse on failure to exercise the option within the exercise period;
- The specified time period within which the employee shall exercise the vested option in the event of termination or resignation of an Employee;
- The right of an employee to exercise all the options vested in him at one time or at various points of time within the exercise period;
- Re-pricing of the options which are not exercised, whether or not they have been vested if stock option rendered unattractive due to fall in the Market Price of the Shares;
- Formulating and implementing the procedure for making a fair and reasonable adjustment to the number of options and to the exercise price in case of corporate actions such as rights issues, bonus issues, merger, sale of division and others. In this regard following shall be taken into consideration by the Compensation Committee:
- The number and the price of stock option shall be adjusted in a manner such that total value of the Option to the Employee remains the same after the Corporate Action;
- For this purpose, global best practices in this area including the procedures followed by the derivative markets in India and abroad may be considered;
- The Vesting Period and the life of the option shall be left unaltered as far as possible to protect the rights of the Employee who is granted such option;
- The grant, vest and exercise of option in case of Employees who are on long leave;
- Allow exercise of unvested options on such terms and conditions as it may deem fit;
- The procedure for cashless exercise of options;
- Forfeiture/ cancellation of options granted;
- Framing of suitable policies and procedures to ensure that there is no violation of securities laws, as amended from time to time, by the ESOP trust, the Bank and its employees, as applicable;
- All other issues incidental to the implementation of Employees' Stock Option Scheme; and
- Construing and interpreting the Plan and any agreements defining the rights and obligations of the Bank and eligible employees under the Plan, and prescribing, amending and/or rescinding rules and regulations relating to the administration of the Plan.

- Administering, monitoring and formulating detailed terms and conditions of the Employee Stock Purchase Scheme of the Bank.
- Conducting due diligence as to the credentials of any director before his or her appointment/ re-appointment, and making appropriate recommendations to the Board, in consonance with the Dr. Ganguly Committee recommendations and the requirements of RBI.
- To make recommendations to the Board concerning any matters relating to the continuation in office of any Director at any time including the suspension or termination of service of an Executive Director as an employee of the Bank subject to the provision of the law and their service contract.
- Ensure that level and composition of remuneration is reasonable and sufficient, relationship of remuneration to performance is clear and meets appropriate performance benchmarks.
- To develop a succession plan for the Board and to regularly review the plan.
- To approve Job descriptions and Key Responsibility Areas (KRAs) of Senior Managers and Business Line Managers on an annual basis.
- To review Performance of the senior/business line managers by NRC on an annual basis.
- Overseeing the framing, review and implementation of the Bank's Compensation Policy for Whole Time Directors/ Chief Executive Officers / Risk Takers and Control function staff for ensuring effective alignment between remuneration and risks.
- To recommend to the board, all remuneration, in whatever form, payable to senior management.
- Framing suitable policies and systems to ensure that there is no violation, as amended from time to time, of any securities laws or any other applicable laws in India or overseas, including:
- The Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015; and
- The Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulations, 2003.
- Carrying out any other function as is mandated by the Board from time to time and / or enforced/mandated by any statutory notification, amendment or modification, as may be applicable.
- Review regularly and approve the Bank's program for executive and employee development.
- Review and implement the various HR policies and manual of the Bank.
- Develop, review and approve the principles guiding the Bank's executive compensation philosophies.
- Assure that the bonus plan is administered in a manner consistent with Bank's compensation principles and strategies including Bank's policies relating to executive management succession and executive organization development.

- Performing such other functions as may be necessary or appropriate for the performance of its duties.

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

Not Applicable

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

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

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

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

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

- All employees of the Bank are governed by the Compensation Policy. The total number of permanent employees in the Bank as on Sept 30, 2024 was 23,746.

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

- ➢ An overview of the key features and objectives of remuneration policy.

  The Compensation Policy and Nomination & Remuneration Policy has been laid out keeping the following perspectives into considerations.
- ➢ Compensation principles support the Bank in achieving its mission of providing a full range of financial services to the economically active poor who are not adequately served (unserved and underserved) by financial institutions. This policy also supports the Bank to attract and retain talent and skills required to consolidate the organization's purpose and ideology.
- ➢ The pay structure and amounts always conform to applicable Income Tax and other similar statutes.
- ➢ All practices of the Bank comply with applicable labour laws.
- ➢ The pay structure should be standardized for a level of employees.
- ➢ Elements eligible for tax exemption may be introduced at appropriate levels to enable employees take applicable tax breaks. Amounts related to certain benefits may undergo change due to change in grade/ roles/ function/ state/ region in the organization.

- The compensation structure shall be easy to understand for all levels of employees.
- The compensation policy is designed to promote meritocracy in the organization i.e. other things being equal, performers in a given role are expected to earn more than his/her peer group.
- The Bank pays the Independent Directors remuneration by way of sitting fees for attending meetings of the Board and its Committees as may be decided by the Board and, if required, approved by the Shareholders from time to time.

- Whether the remuneration committee reviewed the firm's remuneration policy during the past year, and if so, an overview of any changes that were made.

  The following were the changes made to the remuneration policy

  Variable Pay

  - Instead of a separate Bonus Scheme, the key principles shall be embedded into the compensation policy:
  - The Bank shall announce the payment of bonus, as suitable. Payment of variable pay is not guaranteed.
  - The pay-out will be made as a lump-sum amount and not deferred over 3 years for all employees, except the employees identified as Material Risk Takers who will be paid 1/3rd in each year over 3 years.
  - Management Discretion - If there are significant developments in the year of payment (internal or external), management shall have leeway to announce a decision about bonus payment.

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

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

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

- Structurally, the Control functions such as Credit, Risk and Vigilance are independent of the business functions and each other, thereby ensuring independent oversight from various aspects on the business functions.

- The Bank ensures that staff engaged in financial and risk control are independent, have appropriate authority, and are compensated in a manner that is independent of the business areas they oversee and commensurate with their key role in the firm.

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

- A discussion of how amounts of individual remuneration are linked to the Bank wide and individual performance.
- The compensation policy is designed to promote meritocracy within the Bank i.e. other things being equal, performers in a given role are expected to earn more than his/her peer group.
  - The Bank shall, from time to time benchmark its compensation practices against identified market participants to define its pay structure and pay levels.
  - The merit and increments are finalized and approved by the National Human Resources Committee (NHRC) at annual intervals, basis organization's budgets and accomplishments as well as market reality.
  - The Bank believes in paying its employees in an equitable and fair manner basis the incumbent's Role, Personal Profile (Education/Experience etc.) as well as Performance on the Job.
  - Employees rated "Below Expectations" shall not be provided any increments, unless statutorily required.

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

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

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

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

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

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

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

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

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

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

Variable Compensation at the Bank has the following distinct forms:

<u>Cash Variable Pay</u>

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

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

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

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

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

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

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

Rewards & Recognition: The Bank shall design schemes and practices from time to time to celebrate employees / departmental / organizational success. These celebrations may include offering tokens of appreciation to employees as defined in specific schemes. Fairness of application and transparency of communication shall be the hallmark of all such schemes. These will be subject to income tax laws, as applicable. Examples of such schemes may include: Long Service Awards (currently at one, three, five, seven and ten yrs. of completion of service with the Bank), Functional R&R Schemes; Organizational Rewards Schemes such as: Service Champion; Process Excellence; Customer Connect Awards; Above and Beyond; etc. The EDGE (Executive Development for Growth and Excellence) programme is aimed at identifying high performers and assessing their potential for future leadership roles at Ujjivan. A mix of behavioural assessments, blended training & development journey and IDPs are deployed to make the identified individuals (EDGE selects) ready for future leadership roles.

Non-cash Variable Pay

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

15.2. Quantitative Disclosures

Sl. No	Quantitative Disclosures (Covers only Whole Time Directors/ CEO/Other Risk Takers[25])	Numbers
1	Number of meetings held by the Nomination and Remuneration Committee during the second quarter and remuneration paid to its members.	**Total Meetings Held in Q2 FY 2024-25:** 2 **Total sitting fee paid:** Rs. 10,00,000
2	Number of employees having received a variable remuneration award during the year.	4 employees: COO, CBO, CCO and Business Head-Micro Banking
3	Number and total amount of sign-on awards made during the financial year.	NIL

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

4	Details of guaranteed bonus, if any, paid as joining / sign on bonus.	NIL
5	Details of severance pay, in addition to accrued benefits, if any.	NIL
6	Total amount of outstanding **deferred remuneration**, split into cash, shares and share-linked instruments and other forms.	Cash: Rs. 4.82 Lakh (2nd and 3rd year pay-outs) ESOP Grants FY22-23: Submitted for RBI Approval ESOP Granted for FY21-22 - 1st vesting due in Nov'23 – Rs. 4.82 Lakh
7	Total amount of deferred remuneration paid out in the financial year.	Cash- Rs. 59.39 lakh
8	Breakdown of amount of remuneration awards for the financial year to show fixed and variable, deferred and non-deferred.	Fixed gross paid: Rs. 275.25 lakh (As of Sep-23) Variable Provisioned deferred – Rs. 184.66 lakh (As of Sep-23) Fixed gross of the following employees: MD & CEO, Chief Credit Officer (CCO), Chief Business officer (CBO), Chief Operating officer (COO) and Business Head-Micro Banking
9	Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and / or implicit adjustments.	Variable Provisioned – Rs. 184.66 lakh (As of Sep-23)
10	Total amount of reductions during the financial year due to ex- post explicit adjustments.	NIL
11	Total amount of reductions during the financial year due to ex- post implicit adjustments.	NIL

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

Rs. in lakh

Summary comparison of accounting assets versus leverage ratio exposure measure		
	Item	**Amount**

1	Total consolidated assets as per published financial statements	43,61,866
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	
4	Adjustments for derivative financial instruments	
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off- balance sheet exposures)	40,730
7	Other Adjustments	-41,018
8	**Leverage ratio exposure**	43,61,577

17. Table DF 18: Leverage ratio common disclosure

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)	43,61,866
	Domestic Sovereign	8,45,618
	Banks in India	24,925
	Corporates	2,05,498
	Exposure to default fund contribution of CCPs	172
	Other Exposure to CCPs	
	Others	32,85,653
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	-41,018
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	43,20,848
	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	64,978
18	(Adjustments for conversion to credit equivalent amounts)	24,249
19	**Off-balance sheet items (sum of lines 17 and 18)**	40,730
	Capital and total exposures	
20	**Tier 1 capital**	5,39,000
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	43,61,577
	Leverage ratio	
22	**Basel III leverage ratio**	**12.36%**

Presently the contribution of Tier I capital to Total Basel II capital is 92.40%. 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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