Pillar III Disclosures for year ended March 31, 2023 | FY 2022-23

[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 July 1, 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 March 31, 2023.]

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1. LIST OF KEY ABBREVIATIONS

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

Abbreviation	Full form
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	MicroBanking
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

Abbreviation	Full form
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

Abbreviation	Full form
RWA	Risk Weighted Assets
SA	Standardised Approach
SDA	Standardised Duration Approach
SEBI	Securities and Exchange Board of India
SEL	Secured Enterprise Loan
SFB	Small Finance Bank
SLOD	Second Line of Defence
SLR	Statutory Liquidity Ratio
SMA	Special Mention Accounts
TVR	Tele verification report
UAT	User Acceptance Testing
UFSL	Ujjivan Financial Services Limited
UPI	Unified Payments Interface
URC	Unbanked Rural Centre
USD	United States Dollar
VaR	Value at Risk
YTD	Year till Date

2. KEY PERFORMANCE HIGHLIGHTS OF THE BANK

Ujjivan Small Finance Bank (hereinafter referred to as “the Bank”) is required to publish disclosures under the Pillar III framework as required in terms of RBI guidelines on New Capital Adequacy Framework issued vide RBI/2015-16/58; DBR.No.BP.BC.1/21.06.201/2015-16 dated July 1, 2015. This document provides a review of key observations pertaining to the Bank’s capital adequacy, credit quality, key business highlights and a review of its key risks as at March 31, 2023. All exposure related figures quoted in the document are ‘₹ in Lakhs’, unless otherwise specifically stated.

A. Branch network and distribution reach

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

Particulars	Count
Total Banking outlets, of which	629
Banking outlets (Non-URC)	468
Banking outlets (URC) , of which	161
i Qualifying URC Branches (Branches situated in tier 3-6 locations in NE states and LWE[4] districts)	35
ii Business Correspondents (BC)	7

During the quarter ended Q4FY23, the Bank had opened 31 new branches across regions (South- 9, North -8, East – 8 and West- 6). With 25.60% of Banking outlets in URC, the Bank is fully compliant with RBI guidelines in this regard.

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

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

[3] North eastern states

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

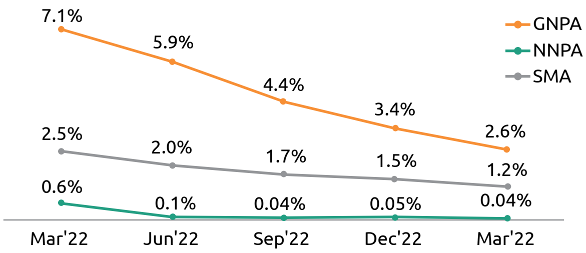
The post pandemic growth in the Banking sector has been robust with system-level non-food credit growth at 15.3% on y-o-y basis which continued to outpace deposit growth of 9.5%[5] . While the growth rates within the Bank were significantly higher at 33% (Credit) and 40% (deposits) as at March 31, 2023 on y-o-y basis, the Bank intends on further expanding its physical presence across the country to augment business volumes to keep in line with the pre-pandemic strategic imperatives. To this effect, the Bank has reviewed and chalked out a detailed branch expansion plan with 104 branches proposed for launch in FY 2023-24 out of which 28 branches will be MicroBanking 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 517 Automated Teller Machines (ATM) including 60 Automated Cash Recycler (ACR) machines across the country as on March 31, 2023.

B. Financial highlights for Q4 and FY 2022-23

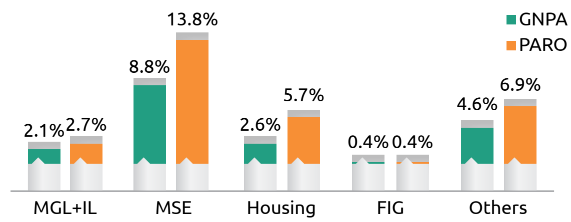
Some of the key achievements made for quarter ended March 31, 2023 were as follows:

₹ in Crores

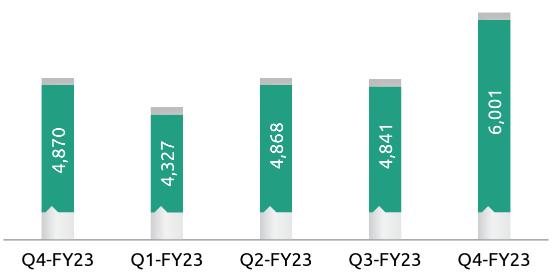
NAP & SMA have shrunk significantly



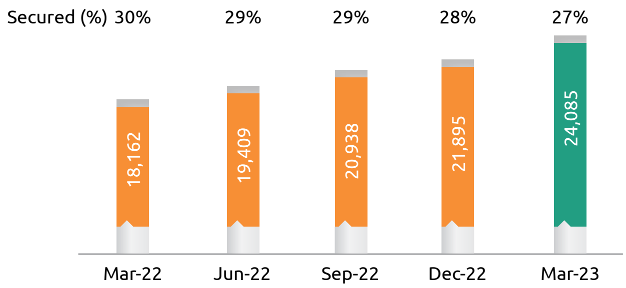
PARO and GNPA (segment wise)



Strong disbursements (₹ in crore)



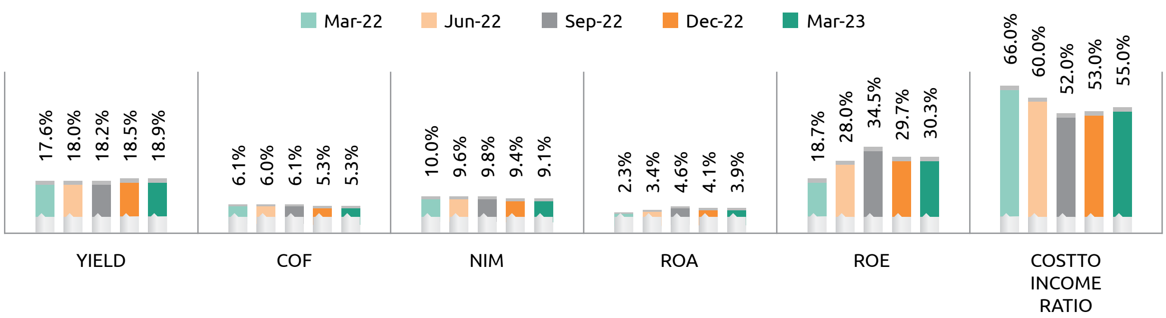
Consistent growth in Gross Lone Book (₹ in crore)



Key Highlights	Description
Customer base	• Total customer outreach was 77 Lakhs as at March 31, 2023 (73 Lakhs as at December 31, 2022; 64.8 Lakhs as at March 31, 2022)
Loan Portfolio	• Gross Loan Book (GLB) (without netting off IBPC/Securitisation/Direct Assignment): ₹ 2,408,501 Lakhs as at March 31, 2023 (₹ 2,189,542 Lakhs as at December 31, 2022; ₹ 1,816,197 Lakhs as at March 31, 2022). • Gross Advances (GA) (after netting off IBPC/Securitisation/Direct Assignment): ₹ 2,191,083 Lakhs[6] as at March 31, 2023 (₹ 2,027,588 Lakhs[7] as at December 31, 2022; ₹ 1,748,765 Lakhs as at March 31, 2022). • Non-Microfinance book was 29.16% as at March 31, 2023 on Gross Advances (27.92% as at December 31, 2022; 32.03 % as at March 31, 2022)
Deposit Portfolio	• Total Deposits (Retail plus Institutional): ₹ 2,553,800 Lakhs as at March 2023 (₹ 2,320,300 Lakhs as on December 31, 2022; 1,829,222 Lakhs as at March 31, 2022). • CASA: 26.4% as at March 31, 2023 (26.2% as at December 31, 2022; 27% as at March 31, 2022)
Asset Quality	• Gross Non-Performing Assets (GNPA): 2.88% as at March 31, 2023[8] (3.64% as at December 31, 2022; 7.1% as at March 31, 2022) • Net Non-Performing Assets (NNPA): 0.042% as at March 31, 2023[9] (0.049% as at December 31, 2022; 0.6% as at March 31,2022)

Key Highlights	Description
Capital Adequacy	• CRAR ratio of the Bank as at March 31, 2023 was 25.81%; well above the RBI prescribed CRAR (26.02% as at December 31, 2022; 18.99% as at March 31, 2022)
Employee strength	• 17,870 as at March 31, 2023 (16,764 as at December 30, 2022; 16,895 as at March 31, 2022)
Provisions and Credit costs	• Total provisions including Floating Provision as at March 31, 2023 was ₹ 73,530 Lakhs (₹ 83,383 Lakhs as December 31, 2022; 133,044 Lakhs as at March 31, 2022) • Total NPA provision (excluding floating provision) held was ₹ 50,157 Lakhs as at March 31, 2023 (₹ 57,807 Lakhs as at December 31, 2022; 93,448 Lakhs as at March 31, 2022). • Total NPA provision reduced by ₹ 7,650 Lakhs during quarter ended March 31, 2023. The NPA provision reduced by 43,288 Lakhs as compared to March 2022. Y-O-Y reduction in NPA provision of 46.32%.

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



The Bank recorded its best ever performance across all parameters during the year. A summary of the key highlights of the Bank in Q4 and year – on-year growth is given below:

- Q4 PPoP at ₹ 41,100 Lakhs up 70% Y-o-Y; PAT of ₹ 31,000 Lakhs up 145% Y-o-Y; FY23 PPoP at ₹ 148,500 Lakhs up 133% Y-o-Y; PAT of ₹ 1,10,000 Lakhs versus loss of ₹ 41,500 Lakhs in FY22.
- Disbursements were at ₹ 600,100 Lakhs / ₹ 2,003,700 Lakhs for Q4FY23/ FY23; crossing major milestones. Gross loan book at ₹ 2,408,500[10] Lakhs up 33%/10% Y-o-Y/Q-o-Q.
- The Bank maintained a steady NIM in excess of nine percent on a YTD basis, with a marginal decline in Q4FY23 which could be attributed to increase in the treasury investments due to good inflows in the liability book.
- Continued traction achieved on collections with ~100% efficiency in Mar'23; NDA collection consistently at ~100%; share of restructured loans was below 1% (0.9%) of gross loan book with a provision cover of ~100% and collection efficiency of 111% in Mar'23. The collection efficiency is computed after factoring advance EMI collections.
- Retail Term Deposit registered a growth of 69%/10% on Q-o-Q/Y-o-Y basis. CASA deposits registered a growth of 35%/11% on Q-o-Q/Y-o-Y basis with share of CASA ratio at 26.4% as on March 31, 2023.

B. Macro-Economic Outlook and way forward:

Global challenges on account of the ongoing war, debt fragility, inflationary trends, currency volatility and capital outflows continued to affect the performance of the global economy. The following are some of the key developments during the quarter.

[5] CMIE Economic Outlook report dated January 23, 2023

[6] Outstanding balance in IBPC/Securitisation/ Direct Assignment as on March 31, 2023 was Rs 2,17,417.90 Lakhs

[7] Outstanding balance in IBPC/Securitisation/ Direct Assignment as on December 31, 2022 was Rs 1,61,953.39 Lakhs

[8] Computed as a percentage to Gross advances. GNPA% on GLB basis was 2.63%

[9] Computed as a percentage to Net advances. NNPA% as a ratio to Net GLB was 0.0429%

[10] Without adjusting IBPC & Securitisation of ₹ 2,174/ ₹ 1,619/₹ 2,580 Crores as on Mar 2023/ Dec 2022 / Sep 2022

Global Economic Outlook[11]

- Resilience in global economic activity has been partially restored amidst the persistence of inflation at elevated levels, turmoil in the banking system in some advanced economies (AEs), tight financial conditions and lingering geopolitical hostilities. Recent financial stability concerns have triggered risk aversion, flights to safety and heightened financial market volatility.
- Weakening external demand, spill overs from the banking crisis in some AEs, volatile capital flows and debt distress in certain vulnerable economies weigh on growth prospects.
- Global inflation is expected to decrease, although more slowly than initially anticipated, from 8.7% in 2022 to 7.0% this year and 4.9% in 2024.
- As of early 2023, however, financial markets anticipated that less policy tightening would be needed than central banks suggested, leading to a divergence that raised the risks for a significant market repricing.
- Most commodity prices have eased, to varying degrees, largely due to the slowdown in global growth and concerns about the possibility of a global recession. By historical standards, however, they remain elevated, prolonging challenges associated with energy and food insecurity. Crude oil prices have steadily declined from their mid 2022 peak; meanwhile, natural gas prices in Europe soared to an all-time high in August but have since fallen back toward pre-invasion levels.
- Reaching net zero emissions by 2050 will require an 80% reduction in global fossil fuel extraction compared with 2021 levels, according to the International Energy Agency (2022).
- The shock of Russia's invasion of Ukraine in February 2022 continues to reverberate around the world. Economic activity in Europe in FY 2022 was more resilient than expected given the large negative terms-of-trade fallout from the war and associated economic sanctions.
- Global financial conditions have tightened sharply, with risk appetite dampened by slowing global growth, persistently elevated inflation, and faster-than-expected monetary tightening.
- The sharp rise in interest rates has exposed fragilities in segments that had benefitted from ultra-low rates and surplus liquidity in the past decade. Any crises in these segments can hit global risk sentiment and capital flows. There have been several such instances in the past six months, such as the UK pension fund crisis in October 2022, collapse of Silicon Valley Bank and Signature Bank, along with takeovers of Credit Suisse and First Republic Bank in 2023.

Indian Economic Outlook[12]

- **The World Bank has revised its FY23/24 GDP forecast to 6.3%** from 6.6% (December 2022). Growth is expected to be constrained by slower consumption growth and challenging external conditions. Rising borrowing costs and slower income growth will weigh on private consumption growth, and government consumption is projected to grow at a slower pace due to the withdrawal of pandemic-related fiscal support measures.
- **Although headline inflation is elevated, it is projected to decline** to an average of 5.2% in FY23/24, amid easing global commodity prices and some moderation in domestic demand.
- The Reserve Bank of India has withdrawn accommodative measures to rein in inflation by hiking the policy interest rate. India's financial sector also remains strong, buoyed by improvements in asset quality and robust private-sector credit growth.

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

1) https://pib.gov.in/PressReleasePage.aspx?PRID=1894932
2) OECD ECONOMIC OUTLOOK
3) Crisil Insight report May 2023
4) World bank website
5) IMF World economic outlook April 2023

[12] Source :

1) https://pib.gov.in/PressReleasePage.aspx?PRID=1894932
2) OECD ECONOMIC OUTLOOK
3) Crisil Insight report May 2023
4) World bank website
5) IMF World economic outlook April 2023

- **The central government is likely to meet its fiscal deficit target of 5.9% of GDP** in FY23/24 and combined with consolidation in state government deficits, the general government deficit is also projected to decline. As a result, the debt-to-GDP ratio is projected to stabilise. On the external front, the Current Account deficit is projected to narrow to 2.1% of GDP from an estimated 3% in FY22/23 on the back of robust service exports and a narrowing merchandise trade deficit.
- On April 6, 2023, RBI's six-member Monetary Policy Committee decided to keep the repo rate unchanged at 6.5%. This came as a surprise to market participants, who were anticipating a hike of 25 basis points. While the Monetary Policy Committee has decided to keep the repo rate unchanged at 6.50% in its meeting in April 2023, the decision was largely taken to assess the percolation levels of previous rate hikes on the inflation trend. While recent readings on economic parameters indicate ease in inflation and peaking of policy rates, sustenance of the same can only be evidenced by HY23-24.
- The urban unemployment rate has fallen from its peak of 20.8% in 2020 to below pre-pandemic level.
- Since September 2022, the bourses have bounced back, driven by better-than-expected corporate earnings in the first half of FY22/23, moderation in domestic inflation and easing global commodity prices, and a reversal in foreign portfolio flows back into India
- Investment activity in India is exhibiting buoyancy on the back of strong composite purchasing managers indices (PMIs) – India has the highest PMI among comparators – the fiscal thrust on infrastructure spending, and revival in corporate investment in certain key sectors. The total flow of resources to the commercial sector, including bank credit, has increased by 37% up to March 2023.

<u>Indian Banking industry Outlook:</u>

- Asset quality of commercial banks continued to improve over the first half of FY22/23 and capital adequacy remained well above regulatory requirement.
- Credit growth accelerated to 17.5% in September 2022 compared to 6.7% in September 2021, mainly driven by retail credit.
- During the year, the Central bank issued guidelines on digital lending, applicable to all banks and non-banking companies, to improve transparency and privacy in fintech engagements. Other sector regulations focused on strengthening and addressing vulnerabilities in the financial sector by improving resilience, easing compliance, and reducing the cost of financial intermediaries.
- During the year, the Central bank had also issued draft guidelines on outsourcing of Information Technology services and also a discussion paper on climate risk and sustainable finance. It is expected that the Regulator will issue specific guidelines on these subjects in the ensuing year and on an ongoing basis. .
- Impact of US banking turmoil on India's banking and lending conditions is expected to be limited. India's dependence on external loans remains low. The domestic banking system is better positioned to tackle rising interest rates.

<u>Way forward for the Bank</u>

- With the impact of the pandemic waning, the Bank intends on ramping up its business mix in line with its pre-pandemic strategic imperatives. While digital and digital enabled banking services encompassing paperless banking, repayments, leveraging analytical tools and deployment of best-in-industry payment solutions shall remain a mainstay, the Bank, as part of its intent on spreading its geographical coverage and aid in brand recognition and recall, had opened 31 branches in Q4 FY23. The Bank also intends on opening 104 branches in the ensuing financial year.
- The Bank continues to remain steadfast in improving in technological environment in a bid to improve customer service. To this effect, "Hello Ujjivan", a mobile based application was launched in Q3 FY 2022-23, has garnered more than 97,000+ downloads within 6 months. The app has already received several industry accolades including Aegis Graham Bell Awards 2022 for Innovation in Consumer Tech. The app will navigate the customer through voice, visuals and made available in vernacular languages to aid unserved and underserved customer segments on digital platform.
- The Bank has started "Chalta Phirta Bank" a door step banking service through its 13,000+ field staff.
- The Bank is building a stable and granular liability base by adopting multi-channel approach, expanding branch-reach, relationship banking, digital offerings, video banking, enhancements in Phone Banking services, state-of-the-art IBMB, BNB, Hello Ujjivan.
- The Bank aims at strengthening its analytics infrastructure encompassing

systems, processes, skill-set, advanced data modelling, look alike targeting and digital lead generation. These steps are increasingly being taken in line with evolving technological advancements to leverage in business development and process improvements.

- The Bank has around 29% customers repaying their credit dues through digital mode; an improvement by 3% as compared to December 2022.
- To provide seamless integration in retail loans and to augment turnaround time, the Bank has partnered with a vendor in providing a state-of-the-art Loan Origination System (LOS). This new LOS, an upgraded version of the current software is intended to provide enhanced flexibility and customisation options to meet the ever-changing business requirements.
- The Bank envisages a deposit mobilisation growth of ~30% with focus on CASA to support the ~25% growth target in Gross Loan book for FY 2023-24. These business plans and strategies are drawn after detailed internal deliberations and future macro-economic environment.
- The Bank is poised to make its entry in Andhra Pradesh for FY 2024 which will mark the 26th state of operation.
- Digital strategies like video banking, phone banking and digital deposits will continue to support business development in FY 2024.

Climate Risk Management - a precursor to TCFD compliant disclosures:

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

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

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

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

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

Environment, Social and Governance (ESG) and ESG risks:

As one of India's newest entrant to the Banking industry, the Bank has, since inception integrated Responsible Banking as one of its key differentiators. This Credo has seen considerable traction in the space of financial inclusion and economic justice. Thought leadership on sustainability issues has been one of the key philosophies which includes research culminating into policy advocacy. While much of the Bank's business operations is skewed towards meeting and enhancing social goals and justice today, it is imperative that the Bank

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

also makes its small contribution in the areas of environment management and climate change adaptation/mitigation. To that effect, the Bank welcomes India's commitment to Panchamrit for climate action and also adopts the mantra of LIFE- Lifestyle for Environment to combat climate change. The Bank is internally deliberating on ways to make meaningful contribution to these marathon goals through its products, policies and processes within the contours of the triple bottom line. Here again, the Bank shall be guided under the CBDR principle in its ESG journey.

The Bank has onboarded a knowledge partner in assisting the Bank with the ESG project. The partner will assist in Materiality/ gap assessment, ESG strategy and roadmap, data management, reporting and disclosures and communication strategy.

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

3. TABLE DF- 1: SCOPE OF APPLICATION

3.1 Qualitative Disclosures

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

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

3.1.1 List of group entities considered for consolidation

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

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

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

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

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

4. Table DF-2: Capital Structure

4.1 Qualitative Disclosures

4.1.1 Tier I capital

The Bank has an authorised capital of ₹ 250,000 Lakhs in the form of Common Equity of ₹ 2,30,000 Lakhs qualifying as Tier 1 capital and Perpetual Non-Cumulative Preference Shares (PNCPS) of ₹ 20,000 Lakhs qualifying as Additional Tier 1 Capital under the guidelines of RBI. As on March 31, 2023, the Bank had an issued, subscribed and paid up equity capital of ₹ 195,470.66 Lakhs, having 19,547,06,625 shares of face value ₹ 10 each and 20,000 Lakhs PNCPS having 200,000,000 preference shares of face value of ₹ 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 2.85% comprising of (a) Foreign Portfolio investors (FPI), (b) Non-Residential Indians (NRI) and (c) Non-Resident Indian Non Repatriable as at March 31, 2023, the Bank was compliant with RBI guidelines on SFBs. Further, in compliance with the licensing guidelines, UFSL, the Holding Company, is registered as an NBFC-Non-Deposit-Taking Systemically Important - Core Investment Company – (NBFC-ND-SI-CIC) with RBI and is the non-operating holding company.

4.1.1.1. Promoter contribution[14] :

As at March 31, 2023, the promoter contribution in the Bank was 73.67% with the holding company being the largest shareholder. As per licensing guidelines to SFBs, the promoter shareholding was required to be brought down to 40% within a period of five years from the date of commencement of business. However, as per the recommendations of an Internal Working Group (IWG) which was mandated to review extant ownership guidelines and corporate Structure for Indian Private Sector Banks dated November 26, 2021, the RBI has accepted the IWG recommendation of 'No intermediate sub-targets between 5-15 years may be required' without any modification, except subject to a submission of the dilution schedule by the Bank. The Bank understands that the RBI has dispensed with this immediate dilution of promoter shareholding in the Bank to 40%.

Further, the promoter's minimum contribution which was subject to a lock-in for a period of five years starting from February 01, 2017 (date of commencement of business operations) stands complied and as on March 31, 2023, no lock-in exists on the promoter shareholding in the Bank.

The Bank has initiated the process of reverse-merger with its Holding Company, Ujjivan Financial Services Limited to meet the above-mentioned criteria. As directed by SEBI, the Bank has achieved its minimum public shareholding of 25%, through allotment of additional equity shares vide Qualified Institutions Placement (QIP) on September 15, 2022. Subsequently, the Boards of both the Bank and Holding Company have approved the scheme for amalgamation in its meeting dated October 14, 2022. Further the scheme of amalgamation has been filed with the stock exchanges and RBI for their respective approvals/ sanctions. RBI vide its letter dated February 01, 2023, has conveyed its "no-objection" to the proposal for voluntary amalgamation of Holding Company with the Bank subject to the fulfilment of certain conditions as stipulated by RBI which includes inter alia obtaining approval from the NCLT, requisite majority of shareholders and creditors of both transferor and transferee companies and in ensuring compliance with all applicable statutory and regulatory requirements.

The Bank on March 09, 2023 has received the no-objection letters from the Stock Exchanges, basis which a joint application has been filed with the National Company Law Tribunal (NCLT) on March 29, 2023, by the Bank and the Holding Company. The Bank is now awaiting the orders from the NCLT on convening the meetings of the shareholders and creditors. Post receipt of all regulatory approvals, the Bank will initiate processes relating to finalisation of record date, approval from Registrar of Companies (ROC), issue of shares etc. to affect the reverse - merger. The entire process is expected to be completed within a time-frame of 7-8 months i.e. by October-November 2023.

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

Category of the Shareholder	No. of shares held	%age of shareholding
Promoter	1,440,036,800	73.67
Mutual Funds	32,070,102	1.64
Alternate Investment Funds (AIF)	36,700,350	1.88
Foreign Portfolio Investors (FPI)	38,480,445	1.97
Resident Individuals/Hindu Undivided Family (HUF)	285,723,392	14.62
Others	121,695,536	6.23
Total	1,954,706,625	100.00

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

Capital Structure- Summary of Tier I & Tier II Capital

Sl. No.	Instrument	Whether Tier I or II	Amount (₹ in Lakhs)
1	Equity[15]	Common Equity Tier 1 (CET 1)	195,470.66
2	PNCPS[16]	Additional Tier I	20,000
3	Subordinated Debt Instruments	Tier II	30,000
	Total		**245,470.66**

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

[15] Issued and Paid up equity capital

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

4.1.1.2. Additional Details on PNCPS instruments

Perpetual Non-Cumulative Preference Shares (PNCPS) can be issued by Indian banks, subject to the legal provisions, in Indian rupees and in compliance with the terms and conditions issued by RBI for qualification. The Bank's PNCPS complies with the requirements prescribed under Basel III capital regulation[17]. A key characteristic of PNCPS is that there can be no maturity date and no step ups or other incentives to redeem with an exception to call option exercisable by the Bank not earlier than the fifth anniversary of the date of allotment which was completed on February 10, 2022. The rate of dividend as agreed with the investor is 11% per annum or at a rate as specified in terms of Basel Master Circular and / or any other applicable law.

The claims of the investors in the instruments are:

a Superior to the claims of investors in equity shares;

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

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

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

4.1.2. Subordinated Debt Instrument

As per specific directions received from the Regulator[18], the Bank can issue Tier II capital instruments in compliance to either NCAF or Basel III guidelines of RBI. As on March 31, 2023 following are the Tier II Instruments raised by the Bank.

Capital	Description of the Security	Issue Amount (₹ in Lakhs)	Issue date	Date of Redemption	Contractual Dividend rate (% p.a.) (on a fixed rate basis)
Tier II – Subordinated Debt	Subordinated, rated, unlisted, unsecured, transferable, redeemable, fully paid up, non-convertible debentures	22,500	August 26, 2022	April 26, 2028	11.95% p.a.
		7,500	September 09, 2022[19]	April 26, 2028	11.95% p.a.
Total		30,000	-	-	-

4.1.3. Dividend policy

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

Due to the setbacks from the second wave and potential threats from other unusual external events, the Bank had not declared any equity dividend until FY 2021-22 to conserve capital. However, on account of improving business and economic environment, the Bank had shown remarkable profit of ₹ 790 Crores during the nine months ended December 31, 2022. The Board in its meeting held on February 21, 2023, considered the management recommendation and declared an Interim Dividend at 7.5% (₹ 0.75) on its equity shares and 5.5% (₹ 0.55) on its preference shares. For year ended March 31, 2023, the Bank's Board had recommended a final dividend of 5% over and above the interim dividend. This is pending for approval at the Annual General Meeting.

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

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

[19] Deemed Allotment Date: August 26, 2022

5. Table DF- 3: Capital Adequacy

5.1 Qualitative Disclosures

The Bank has been well capitalised since inception and its capital position has been further augmented after equity raise through a QIP in Q2 FY 2022-23. As required by RBI in its operating guidelines to SFBs[20] , the Bank is required to adopt the Standardised approach for Credit Risk and maintain a minimum Capital to Risk Weighted Assets Ratio (CRAR) of 15% segregated as under:

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

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

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

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

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

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

Credit Risk	Underestimation of Credit Risk (Under ICAAP framework)
Operational Risk	Reputational Risk
Market Risk	Strategic Risk
Interest Rate Risk in Banking Book (IRRBB)	Compliance Risk
Liquidity Risk	People Risk
Concentration Risk	Information Technology and Information Security Risk
Outsourcing Risk	Group Risk[21]
Securitisation Risk	Fintech Risks

[20] 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.

[21] 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 February 11, 2014

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

5.2 Quantitative Disclosures

5.2.1. Basel II capital calculation

The break-up of Basel II capital funds as at March 31, 2023 was as follows:

₹ in Lakhs

	Description	Amount
	Core Equity Tier 1 Capital - Instruments and Reserves	
	Directly issued qualifying common share capital plus related stock surplus (share premium)	195,470.66
	Retained earnings	198,676.18
A	CET1 capital before regulatory adjustments	394,146.84
	Core Equity Tier 1 Capital - Regulatory Adjustments	
	Deferred tax assets arising from temporary differences	26,967.55
	Intangibles (Prepaid Expenses & Computer Software)	12,081.08
	Credit Enhancements	3,959.03
	Regulatory Adjustments applied to CET1 Capital due to insufficient funds in Tier 2 to cover deductions	0.00
B	Total regulatory adjustments to CET1 Capital	43,007.66
C	**CET1 capital (A-B)**	351,139.18
	Additional Tier 1 Capital - Instruments and Reserves	
	Preference Shares	20,000.00
E	AT1 capital before regulatory adjustments	20,000.00
	Additional Tier 1 Capital - Regulatory Adjustments	
F	Total regulatory adjustments to AT1 Capital	-
G	AT1 Capital	20,000.00
H	**Tier 1 Capital (C + G)**	371,139.18
	Tier 2 Capital - Instruments and Provisions	
	Sub - debt eligible as Tier 2 capital	30,000.00
	General Provisions on Std. Assets admissible as Tier 2	14,372.56
	Investment Fluctuation Reserve	6,729.83
	Investment Reserve Account	34.04
I	Tier 2 Capital before regulatory adjustments	51,136.43
	Tier 2 Capital - Regulatory Adjustments	
J	Total Regulatory Adjustments to Tier 2 Capital	-
K	**Tier 2 Capital (I - J)**	51,136.43
L	**Total Regulatory Capital (H + K)**	422,275.61

5.2.2. Credit Risk RWA

The detailed break up of Credit RWA is as follows:

₹ in Lakhs

Asset Description	RWA
Cash and Balances with Reserve Bank of India	0.00
Balances with Banks and Money at Call and Short Notice	3,168.47
Investments	1,452.28
Advances	1,546,379.58
Fixed Assets	16,206.90
Other Assets	45,865.87
Off Balance Sheet	23,020.81
Total Credit RWA	**1,636,093.91**

5.2.3. Operational Risk RWA

The Regulator has issued Master Directions on Minimum Capital Requirements for Operational Risk under the New Standardised 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:

₹ in Lakhs

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

₹ in Lakhs

Sr. No.	Business Indicator (BI) and its sub components	T	T-1	T-2
1	**Interest, lease, and dividend component**			
1a	Interest and lease income	416,499.47	281,279.91	,80,606.56
1b	Interest and lease expenses	146,709.26	103,920.70	107,751.40
1c	Interest earning assets	3,042,153.98	2,164,058.57	1,765,639.88
1d	Dividend Income	0.00	0.00	0.00
2	**Services component**	0.00	0.00	0.00
2a	Fee and commission income	31,737.78	21,874.86	13,640.34
2b	**Fee and commission expense**	1,417.61	1,932.24	1,289.10
2c	Other operating income	22,822.14	9,894.91	9,938.88
2d	Other operating expense	51,036.29	39,523.94	24,606.37
3	**Financial Component**	0.00	0.00	0.00
3a	Net P&L on the trading book	178.40	1,575.63	1,716.17
3b	Net P&L on the banking book	0.00	185.34	3,878.45
4	BI	115,606.75	92,414.17	-
5	Business Indicator Components (BIC)	13,872.81	11,089.70	-

6a	BI gross of excluded divested activities	**115,606.75**
6b	Reduction in BI due to excluded divested activities	-

Disclosure on the BI ₹ in Lakhs

1	Business indicator component (BIC)	**13,872.81**
2	Internal loss multiplier (ILM)	0.58
3	Minimum required operational risk capital (ORC)	13872.81
4	**Operational risk RWA**	**173,410.13**

5.2.4. Market Risk RWA

As at March 31, 2023, the AFS[22] book consisted of Government of India Securities, Treasury Bills and unquoted equity and the HFT[23] book consisted of Government Securities only. On the basis of SDA[24] , the capital requirement for market risk reported to the Board from a governance perspective was as under:

₹ in Lakhs

Capital Requirement for Market Risk	Amount
Interest Rate Risk	1,025.41
Equity Position Risk	2.72
Foreign Exchange Risk	--
Total	1,028.12
Total Market Risk RWA	12,851.53

[22] Available for Sale

[23] Held for Trading

[24] Standardised Duration Approach

5.2.5. Basel II CRAR (with only Credit RWA)

₹ in Lakhs

Particulars	RBI thresholds	Amount/Ratio (Only Credit RWA)
Tier I Capital	--	371,139.18
Tier II Capital	--	51,136.43
Total Capital	--	422,275.61
Total RWA	--	1,636,093.92
CET Ratio	Minimum 6%	21.46% (Complied)
Tier I Ratio	Minimum 7.5%	22.68% (Complied)
Tier II Ratio	Maximum cap at 7.5% of CRWA	3.13% (Complied)
CRAR	**Minimum 15%**	**25.81% (Complied)**

Presently, the operating guidelines for SFBs mandate that the minimum CRAR be computed in relation to only the Credit Risk Weighted Assets (CRWA). The CRAR of the Bank at 25.81% 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	371,139.18
Tier II Capital	51,136.43
Total Capital	422,275.61
Total RWA	**1,822,511.21**
CET Ratio	19.27%
Tier I Ratio	20.36%
Tier II Ratio	2.81%
CRAR	**23.17%**

It may be noted that the Bank's CRAR is assessed at 23.17% after inclusion of Credit RWA, Operational RWA and Market Risk RWA. The capital adequacy, is higher than the mandated SFB requirement of 15%, which is solely on the basis of CRWA. While the Regulator is yet to notify the applicability of the other two pillar 1 risks, there is a possibility to align the minimum capital adequacy norms with that of Universal Commercial Banks for SFBs. Hence, not only from a governance perspective but also to meet its future projections in growth, the Bank has always been well capitalised, when taking into consideration capital charges for Credit Risk, Market Risk and Operational Risk.

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

6.1. Qualitative disclosures

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

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

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

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

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

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

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

Definitions of past due and impaired loans

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

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

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

Provisioning norms of the Bank

1) The Board reviews the provisioning norms of the Bank at regular intervals to determine if any enhanced provisioning is required based on credit performance. Despite a history of low Portfolio at Risk (PAR) and delinquencies, the microfinance portfolio of the Bank (the Bank's flagship offering) is unsecured where adverse and acute events (such as demonetisation and the Pandemic) can impact the portfolio quality. To enhance the coverage on MB-RB portfolio, the Bank continuously identifies incipient stress in specific accounts and geographies where accelerated provisions may be required on an on-going basis.
2) The Bank's NPA Management Policy, on the directions of the Board, has adopted an accelerated provisioning regime which is higher than the RBI mandated provisioning norms since inception. The Bank's Risk Management Department undertakes a proactive assessment of the likely GNPAs, NNPA, Provision Coverage Ratio (PCR) and incremental credit/provisioning costs by studying historical delinquency trends and external developments which can have a bearing on the asset quality and

credit costs. During the last financial year (FY 2021-22), as a one-time measure, the Bank had created a Floating Provision amounting to ₹ 25,000 Lakhs to address the risk of any recurrence of pandemic associated mobility restrictions. The decision to create a floating provision was made as there was no scientific consensus on the severity and frequency of future pandemic waves. While the chances of a fresh wave with similar levels of severity are low, the presence of the floating provision acts as a strong bulwark to protect against unexpected losses of any kind.

3) As on March 31, 2023, out of ₹ 25,000 Lakhs, ₹ 12,000 Lakhs are allocated for netting off Gross NPA for the purpose of computing NNPA/ PCR, while the ₹ 3,000 Lakhs has been factored as part of Tier II capital. The residual balance of ₹ 10,000 Lakhs has been grouped as part of other provisions without utilising the same towards Tier II capital, this amount continues to be earmarked for netting off GNPA as and when warranted.

4) RBI released a discussion paper on **Expected Credit Loss (Loss) framework for provisioning** by banks. Currently, banks are mandated to set aside provisions as per the IRAC guidelines which follows the **'incurred loss'** approach. The proposed approach aims to recognise Significant Increase in Credit Risk (SICR) on a forward-looking basis which is expected to strengthen the banking system. The discussion paper has provided the following directions: :

- ECL amount is expected to be over and above IGAAP.
- To avoid the capital shocks in banks, incremental provision required under ECL (ECL minus IGAAP) can be added back to Common Equity (Tier 1). This benefit to be phased out in 5 years.
- A bank may choose to phase it out on a shorter period as per their own plan.

Credit Risk Portfolio review and Monitoring:

Micro finance Portfolio:

A comprehensive review of the MBRB Portfolio for past 3 quarters is given below:

Amt in ₹ Crores.

MBRB	Jun-22	Sep-22	Dec-22	March-23
Gross Advances*	12433.34	12800.27	14614.09	15,520.66
GNPA(Value)	797.51	632.97	441.49	370.28
GNPA%	6.41%	4.94%	3.02%	2.39%

*Excluding IBPC/ Securitisation/DA transactions.

The MicroBanking (GL + IL) vertical registered total disbursements of ₹ 4,92,900 Lakhs in Q4 FY 2022-23 which is a 30% growth on Quarter-on-Quarter basis. The Bank undertakes portfolio monitoring on a periodic basis with specific focus on key portfolio triggers. Continuous review of portfolio enables the Bank to identify incipient stress at cluster/region/state/branch level. Breach in the internal thresholds for default is the starting point for identifying risk in the portfolio. Risk indicators such as PAR30+, PAR90+, early delinquencies, quick mortality, non-starters, On Time Repayment Rates (OTRR), Collection Efficiency (CoE), Stressed assets percentage and lagged PAR estimates provide useful insights in risk identification.

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

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

Effective April 1, 2022 the Bank has adopted Master Direction – Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022. To this effect, the Bank has revised its existing policies to ensure adherence to the same. During H1 FY 2022-23, the Bank continued to implement further enhancements to its policy to enable standardisation in key appraisal parameters such as Fixed Obligation to Income Ratio (FOIR) and Household Income (HHI). Further the Bank is also reviewing its business expansion strategy by exploring opportunities to provide unsecured loans to those customers who do not fit into the contours of the aforesaid directions.

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

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

Affordable Housing Loans

A comprehensive review of the Housing Portfolio for past 3 quarters is given below:

Amt in ₹ Crores.

HL	Jun-22	Sep-22	Dec-22	March-23
Gross Advances*	2153.78	2257.50	2435.99	3113.98
GNPA(Value)	127.96	107.59	101.34	88.78
GNPA%	5.94%	4.77%	4.16%	2.85%

*Excluding IBPC/ Securitisation/DA transactions

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

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

During Q4 FY 2022-23, Housing vertical crossed a milestone of ₹ 40,000 Lakhs quarterly disbursement disbursing ₹ 43,900 Lakhs in value. In Q4 FY 2022-23, there was increased focus on recoveries in NPAs through legal mechanisms. SARFAESI initiations were accelerated which led to faster recoveries from NPA accounts. The housing book also recorded 31% reduction in GNPA value in March 2023 as compared to March 2022.

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

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

MSME (Micro and Small and Medium Enterprise)

A comprehensive review of the MSME Portfolio for FY 2022-23 is given below:

Amt in ₹ Crores.

MSME	Jun-22	Sep-22	Dec-22	March-2023
Gross Advances*	1,653.75	1,819.47	1,705.41	1,593.36
GNPA(Value)	191.45	154.31	163.11	140.14
GNPA%	11.58%	8.48%	9.56%	8.80%

*Excluding IBPC/ Securitisation/DA transactions

During Q4 of FY 2022-23, the Bank's MSME vertical was subject to a comprehensive business process re-engineering in the wake of the closure of a fintech engagement. As a part of the strategy, the customer segment will now focus exclusively on secured loans targeted at semi-formal and formal set of customers. To this effect, a new product "Prime LAP" (Loan against property) was launched during Q3 FY 2022-23 on a pilot basis aimed at targeting High net worth borrowers against acceptable property collateral and is availed by Self-employed Professionals (SEP), Self-employed Non-Professionals (SENP) and Business owners to meet their credit needs. The MSME vertical has also undertaken comprehensive revisions to its existing products/schemes and is in the process of introducing a new LOS for working capital variants. The MSME vertical is also exploring new Fintech Partnerships while being compliant to RBI guidelines on Digital Lending. This vertical also intends to leverage digital analytics for MIS/reporting automation.

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

Institutional Lending

A comprehensive review of the Institutional Lending Portfolio for FY 2022-23 is given below:

Amt in ₹ Crores.

FIG	Jun-22	Sep-22	Dec-22	March-2023
Gross Advances	871.58	938.82	1,009.62	1,127.53
GNPA(Value)	4.42	4.42	4.42	4.42
GNPA%	0.51%	0.47%	0.44%	0.39%

During Q4 FY 2022-23, FIG vertical crossed the milestone of ₹ 30,000 Lakhs quarterly disbursement by disbursing ₹ 31,800 Lakhs disbursement which is the highest ever disbursement in this vertical. In Q4, FY 22-23, the Institutional lending book of the Bank continued to be ~5 % of the overall lending book and registered a collection rate at 100%. As part of monitoring, the Bank regularly reviews compliance to financial covenants (Capital Adequacy Ratio, GNPA, NNPA, Debt/Equity ratio as stipulated in sanction letter), collection of CA certified receivables statement and potential Early Warning Signals (EWS) alerts. During the Q3 FY 2022-23, the Bank has enhanced its EWS[25] ,AUW[26] and RFA[27] framework and workflow. RBI issued Circular - Review of Prudential Norms – Risk Weights for Exposures to Corporates and NBFCs which draws reference regarding publication of bank loan ratings by External Credit Assessment Institutions (ECAIs). RBI observed that on the Press Releases (PRs) issued by ECAIs are devoid of the lenders ₹ details, wherein RBI had advised ECAIs to disclose the name of the banks and the corresponding credit facilities rated by them in the PRs issued on rating actions. Considering the above fact, all the FIG borrowers of the Bank have rating from ECAI which discloses the Bank's name.

Vehicle Loans

A comprehensive review of the Vehicle loan Portfolio for FY 2022-23 given below:

Amt in ₹ Crores.

VF	Jun-22	Sep-22	Dec-22	March-23
Gross Advances*	152.75	153.16	147.80	140.33
GNPA(Value)	12.58	14.40	10.06	8.75
GNPA%	8.24%	9.40%	6.81%	6.24%

*Excluding IBPC/ Securitisation/DA transactions

During Q2 FY 22-23, the Bank restarted its lending in the two-wheeler segment, albeit on a cautious note. Functionality to collect repayments through third party payment aggregators and other online portals was also enabled to provide ease of transaction. The Bank has engaged with a vendor for introducing a Loan Origination System (LOS) to aid in digital onboarding. The project has gone live though on a pilot basis pending all India launch. The business unit is progressing towards sourcing of new loans through direct dealership model and also implement a trade advance model for its dealers.

Personal loans:

The Bank has temporarily put on hold any lending to this segment as part of its strategic plan to reduce potential concentration in unsecured loans for FY 2022-23.

Credit Risk Monitoring Unit (CRMU)

As per management directives, CRMU was created within the Credit Risk Department under the supervision of the Bank's CRO. He has direct control and monitoring over the unit and under his supervision the unit has been able to vastly enhance its scope of work over the last 3 quarters.

Initially CRMU was created with the primary objective to review loans having ticket size of ₹ 1 Crores. and above to ensure that special loan terms and conditions mentioned during the sanction were adhered to. As at reporting date, the scope has been widened to include the following, but not limited to:

- In-depth loan file review of retail loans like MSME and Housing to detect inconsistencies and highlight lapses in the credit underwriting mechanism on case-level as well as portfolio-level
- To track deviations as well as check whether the approval has been taken as per respective product and credit policy
- Conducting Health Council every month with CRO, CBO and CCrO as council members. The idea of these health councils was to provide an insight of ongoing concerns in the MSME portfolio and get case specific feedbacks directly from the field which includes Regional Credit Managers, Business as well Collection Team. Based on the received feedbacks, case-specific actionable are provided to the council to improve the portfolio quality. Since inception of CRMU, a total of 11 MSME Health Councils were conducted during FY 2023

[25] Early Warning Signals

[26] Account under watch

[27] Red Flagged Accounts

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

Based on the analysis conducted by CRMU, the Bank declared its first RFA case in the month of January 2023. Also, members of CRMU conduct periodic visits to different regions to understand business practices, conduct file review on a sample basis and submit their findings to the top management for better portfolio quality and monitoring.

Risk Score cards:

Risk scorecards are developed and implemented for introducing objective based lending. These application scorecards have been integrated with Loan Operating Systems (LOS) where every application will have a score generated from LOS which shall be reviewed as part of credit appraisal. For non- LOS variants, the scoring is undertaken manually through spreadsheets. The scores generated for IL Housing and MSME are being used in decision making delegation and linked to Risk Based Pricing with effect from October 1, 2021. The IL and MSME scorecards were validated during the year and were observed to be acceptable for objective based decisioning. The Bank has however adopted a transition approach wherein, credit gating norms and scorecard inputs will be jointly be factored in credit decisioning. In an endeavour for continuous improvement, the Bank is in process of revamping Housing and MSME Scorecards and also in development of a GL scorecard which is in the initial stages.

Identification of High-Risk branches:

The Credit risk unit has developed a framework for identification of High-Risk branches. The objective behind the analysis was to identify branches that are disbursing higher than Pan India average despite having higher NPAs. Methodology used is as follows:

- Branches disbursing more than Pan India average;
- Branches having NPA % more than Pan India average;

Such branches are further reviewed in terms of collection infrastructure, presence of quick mortality cases and concentration risk thereof.

ECL (Expected Credit Loss):

As part of risk measurement, the Bank has designed behavioural models to compute Probability of Default (PD) and Loss Given Default (LGD) estimates. The Bank measures ECL as the product of PD, LGD and EAD (Exposure at default) estimates for its Ind AS 109 specified financial obligations.

Probability of default (PD): The PD is an estimate of the likelihood of default over a given time horizon (12 Month). It is estimated as at a point in time. To compute Expected Credit Loss (ECL) the portfolio is segregated into 3 stages viz. Stage 1, Stage 2 and Stage 3 on the basis of Days Past Dues. The Bank uses 12-month PD for the stage 1 borrowers and lifetime PD for stage 2 and 3 to compute the ECL. The Bank has used differentiated PD computation techniques in each portfolio with respect to nature, size and complexity.

- **Probability of Default: MSME Loans**

  When the Bank had commenced the MSME portfolio, the Bank had bifurcated the portfolio into two pools i.e. Secured and Unsecured, for estimation of Expected Credit Loss (ECL) as per Ind AS 109. However, as the business has expanded with diverse set of offerings and diverse set of borrower base, the Bank Bank how now segmented the MSME portfolio into a total of 16 pools. The MSME pools were then analysed to arrive at the default rates for each of the pools. To arrive at pool-wise PD, 'Roll Rate Analysis' was done.

- **Probability of Default: Housing Loans**

  When the Bank had commenced its housing business, the Bank had considered the entire portfolio as a single pool for estimation of Expected Credit Loss (ECL). However, as the business has grown with diverse set of offerings and diverse set of borrower base, the Bank has segmented the portfolio into a total of 18 pools. The Housing pools were then analysed to arrive at the default rates for each of the pools. To arrive at pool-wise PD, 'Roll Rate Analysis' was done.

- **Probability of Default: MicroBanking Loans**

  MicroBanking Loans cover about 85% of the Bank's loan portfolio. The Bank has redeveloped a statistical segmentation for GL and IL. Given the average ticket size and tenor of each loan in this segment, and the resultant large number of individual borrowers in this portfolio, the portfolio was segregated into 20 pools based on State, Product (Scheme level) and Loan cycle of the customers; the borrowers in each pool are homogeneous based on inherent risks. The MicroBanking pools were then analysed to arrive at the default rates for each of the pools. To arrive at pool-wise PD, 'Vintage Analysis' was done.

- **Probability of Default: Personal Loans, Two-Wheeler Loans, Staff Loans, Agri Loans and FIG Loans**

  The Bank has computed Default Rate (DR) based on migration analysis for Personal loans, Two-Wheeler Loans and Agri Loans. The DR is higher than RBI suggested PD on account of long-term historical time series data. For the purpose of ECL computation, the Bank has taken an average of RBI suggested PDs, and the historical DR rates in the portfolio. PD for FIG loans is benchmarked to CRISIL Default Study paper based on the rating of the corporate. Minimum PD of 0.03% was factored for Staff Loans Gold Loan.

Loss Given Default: MicroBanking Loans, MSME Loans and Housing Loans

LGD was calculated using monthly NPA data and recovery from the same. Recovery data was mapped to the subsequent months from the respective default month. The recovery made over a period of time was discounted to reflect the present value of recovery. Marginal Recovery rates were computed for each month. Subsequently, the cumulated recovery rates were calculated. Loss Given Default was computed as 1 minus recovery rate. This exercise has been undertaken in all microfinance pools.

Loss Given Default: Personal Loans, Two-Wheeler Loans, Staff Loans, Agri Loans and FIG

LGD for all other loan portfolios, except MicroBanking, MSME and Housing Loans are benchmarked to RBI guidelines. The benchmarking of LGD is an acceptable approach under the FIRB approach to capital calculation.

Exposure at Default:

EAD is the total outstanding balance at the reporting date including principal and accrued interests at the reporting date. For Stage 3 assets, arrear interests are added. Future interest receivables up to the date of default i.e. 90DPD has been computed for Stage 1 and Stage 2 assets to reflect actual EAD. Undrawn commitments, if any, are duly converted into its Credit Equivalent Amount using Credit Conversion Factors (CCF) as prescribed in RBI guidelines.

Early Warning System framework:

The Bank has an Early Warning System (EWS) framework for enhanced monitoring at various levels viz. macroeconomic, portfolio and account level triggers for all its business segments. The EWS framework and triggers are regularly enhanced and are in line with the regulatory requirements. This framework enables the Bank to monitor signs of incipient stress and provide early warnings on an on-going basis.

To that effect, the Bank has identified critical EWS triggers applicable to its retail/MFI segments and has automated the same. These triggers were also back tested to establish correlation between the signals and propensity to default. Triggers were back tested to check propensity to defaults. Combination triggers were identified to increase explanatory power. This framework is presently being further enhanced, in that, a workflow to enable capture of feedback from select group of customers and in taking suitable actions against the identified problematic accounts is being taken up internally. To this effect, the Bank has onboarded a vendor to provide the requisite technical support. The solution is expected to go-live by Q3FY24

6.2. Quantitative Disclosures

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

₹ in Lakhs

Vertical	Gross Advances	%	Gross Loan Book	%
MB-RB	1,552,066.34	70.84%	1,740,776.15	72.28%
FIG Lending	112,752.62	5.15%	112,752.62	4.68%
Housing	311,398.13	14.21%	340,106.21	14.12%
MSME	159,335.80	7.27%	159,335.80	6.62%
Personal Loans	14,754.49	0.67%	14,754.49	0.61%
Staff Loan	9,456.04	0.43%	9,456.04	0.39%
Vehicle Finance	14,032.81	0.64%	14,032.81	0.58%
Loan/OD Against Deposit/ Gold loan	17,287.23	0.79%	17,287.23	0.72%
Total	2,191,083.45	100.00%	2,408,501.35	100.00%

Exposure summary: Facility type

Exposure Type	Domestic (₹ in Lakhs)	Overseas
Fund- Based exposure[28]	3,288,680.08	--
Non- Fund Based Exposure*	92,779.03	--
LESS: CRM DEDUCTIONS (GNPA Provisions held)	(50,157.11)	
Total	3,331,302.01	--

*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.

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

Geographic Distribution of advances (State-wise)

States	Gross Advances excluding IBPC/ Securitisation/ Direct Assignment)	% Share
Tamil Nadu	340,496.18	15.54%
West Bengal	262,854.66	12.00%
Karnataka	297,691.94	13.59%
Maharashtra	210,815.77	9.62%
Bihar	135,459.50	6.18%
Gujarat	183,650.77	8.38%
Haryana	113,547.42	5.18%
Uttar Pradesh	141,830.38	6.47%
Rajasthan	88,605.84	4.04%
Odisha	54,549.21	2.49%
Punjab	54,509.23	2.49%
Assam	21,102.94	0.96%
Jharkhand	50,866.12	2.32%
Kerala	41,415.10	1.89%
New Delhi	90,704.04	4.14%
Madhya Pradesh	32,647.08	1.49%
Tripura	23,565.45	1.08%
Pondicherry	13,399.34	0.61%
Chhattisgarh	10,232.65	0.47%
Uttarakhand	11,682.30	0.53%
Chandigarh (UT)	4,984.14	0.23%
Meghalaya	2,505.55	0.11%
Himachal Pradesh	2,398.51	0.11%
Goa	1,473.09	0.07%
Telangana	96.25	0.00%
Ujjivan	2,191,083.45	100.00%

Maturity pattern of assets and liabilities

₹ in Lakhs

Buckets	Net Advances after netting off IBPC/ Securitisation/Direct assignment	Investments	Deposits	Borrowings
Day - 1	60.08	0.00	569.04	0.00
2-7 Days	2,649.84	499.56	8,500.56	4,247.64
8-14 Days	3,764.61	0.00	6,004.56	0.00
15-30 Days	3,932.73	1,444.45	6,538.55	0.00
31 Days and up to 2 months	10,486.65	4,616.20	16,326.69	0.00
Over 2 months and up to 3 months	10,730.19	9,869.45	14,960.35	100.00
Over 3 Months and up to 6 months	13,280.08	12,736.08	24,176.63	932.00
Over 6 Months and up to 1 year	58,273.57	8,402.41	46,489.55	3,544.00
Over 1 Year and up to 3 years	74,339.15	1,800.81	128,170.30	11,106.00
Over 3 Year and up to 5 years	7,600.45	18,716.78	1,589.95	2,256.00
Over 5 years	27,779.25	27,017.33	2,050.64	4,229.00
Total	212,896.61	85,103.08	255,376.82	26,414.64

Gross Non-performing assets (NPA)

₹ in Lakhs

Category of Gross NPA	March 2022	June 2022	September 2022	December 2022	March 2023
Sub-standard	77,989.36	34,924.26	33,843.51	29,983.09	23,604.11
Doubtful	50,135.55	55,680.41	58,833.04	43,566.93	39,239.83
Loss	282.82	284.08	209.73	204.87	217.00
Total	**128,407.73**	**90,888.75**	**92,886.28**	**73,754.89**	**63,060.94**

₹ in Lakhs

NNPA	March 2022	June 2022	September 2022	December 2022	March 2023
Net NPA	34,959.79	23,774.95	16,733.34	15,948.09	12,903.83
NNPA after factoring Floating Provisions	9,959.78	1,774.95	733.34	948.09	903.83

NPA Ratios	March 2022	June 2022	September 2022	December 2022	March 2023
Gross NPA to Gross Advances (excluding IBPC/ Securitisation/DA)[29]	7.34%	6.51%	5.06%	3.64%	2.88%
Net NPA to Net Advances (excluding IBPC/ Securitisation/ DA)[30]	0.59%	0.11%	0.04%	0.049%	0.042%

Movement of Net NPAs (Quarterly basis)

₹ in Lakhs

Particulars	Mar-22	Jun-22	Sep-22	Dec-22	Mar-2023
Opening Balance	42,458.39	9,959.79	9,959.79	9,959.79	9,959.79
Additions during the period	75,949.86	8,149.63	11,042.04	14,802.89	14,805.19
Reductions during the period	83,448.46	19,334.47	20,268.48	33,814.59	36,861.14
Closing Balance	**9,959.79**	**1,774.95**	**733.34**	**948.09**	**903.83**

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

₹ in Lakhs

Particulars	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Opening Balance	64,601.36	93,447.94	93,447.94	93,447.94	93,447.94
Provisions made during the period	135,576.32	16,140.23	21,413.52	24,008.36	25,255.03
Write back of excess provisions	106,729.74	18,699.43	38,707.06	59,649.49	68,545.86
Closing Balance	**93,447.94**	**90,888.75**	**76,154.40**	**57,806.81**	**50,157.11**

Provision Coverage Ratio (PCR)

₹ in Lakhs

CATEGORY	Gross Advances after netting off IBPC, Securitisation & Direct Assignment	GNPA on gross advances	GNPA Provisions on gross advances	Floating Provisions Considered for NNPA*	PCR% on gross advances
MB-RB	1,552,066.34	37,028.49	31,616.45	10,500.00	113.74%
FIG Lending	112,752.62	441.68	441.68	-	100.00%
Housing	311,398.13	8,877.83	6,226.68	-	70.14%
MSME	159,335.80	14,013.74	9,744.53	1,500.00	80.24%
Personal Loans	14,754.49	1,821.20	1,461.24	-	80.24%
Staff Loan	9,456.04	0.91	0.50	-	54.48%
Vehicle Finance	14,032.81	875.12	664.06	-	75.88%
Loan/OD Against Deposit	17,287.23	1.98	1.98	-	100.00%
Grand Total	2,191,083.45	63,060.94	50,157.11	**12,000.00**	**98.57%**

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

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

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

Write off: [31]

	₹ in Lakhs
Particulars	**Total Write off undertaken**
Q1 FY 2022-23	7,936.65
Q2 FY 2022-23	15,750.60
Q3 FY 2022-23	17,914.00
Q4 FY 2022-23	6,670.26
TOTAL	**48,271.51**

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 Standardised Approach for computation of capital charge for Credit Risk as per RBI guidelines. These guidelines envisage different risk weights for different asset classes, which have been duly applied.

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

c. Institutional lending is risk-weighted as per ratings assigned by Eligible Credit Rating Agencies (ECRA) as prescribed by RBI. During the year, the Regulator had issued specific guidelines with respect to treatment of exposures with instances of rating withdrawal and unrated exposures in relation to total borrowings from industry. The Bank has taken cognizance of the same.

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

7.2. Quantitative Disclosures

Details of Gross Credit Risk Exposure (Fund based and Non-fund based) based on Risk Weight – Position as on March 31, 2023

Sl. No.	**Risk Weight**	**₹ in Lakhs**
1	Below 100% Risk Weight	2,977,270.19
2	100% Risk Weight	400,915.97
3	More than 100% Risk Weight	3,272.96
4	Deductions (GNPA PROVISION)	(50157.11)
5	**Total**	**331,302.01**

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

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 collateralised by a mortgage over the property financed. There are primarily secured product variants under MSME loans.Loans to Financial Institutions are secured by a charge over book debts which are registered with CERSAI. All Personal Loans are extended on a clean basis. Vehicle loans are collateralised by a charge over the vehicle financed.

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

The Bank accepts Eligible Financial Collateral[32] in a few instances for risk mitigation under secured Institutional lending and MSME loans. These financial collaterals are netted off for its collateralised transactions under comprehensive approach[33] while computing its Risk Weighted Assets (RWA). The Bank regularly reviews the health of the portfolio/ borrowers and works on mitigation of any risk associated with the portfolio or borrower in particular through a combination of limits and restrictions.

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

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

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 'Revised Securitisation Guidelines' on September 24, 2021 (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 issued "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 FY 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.

[32] Refer section 7.3.5 of Master Circular - Prudential Guidelines on Capital Adequacy and Market Discipline New Capital Adequacy Framework (NCAF) dated July 1, 2015

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

Conflict between the provisions of the transaction documents and those of the underlying financial facility agreement.

Operational Risk

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

Reputational Risk:

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

Prepayment Risk:

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

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

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

Monitoring credit risk

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

Note: During the Quarter ended March 31, 2023 the Bank did not use credit risk mitigants to mitigate credit risks.

Monitoring market risk

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

9.1.3 Roles Played by the Bank

Originator / Seller

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

Servicer

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

Provider of Liquidity Facilities

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

Credit Enhancement provider

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

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

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

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

9.1.5 Rating of Securitisation Transaction

During FY 2022-23, the Bank used the ratings provided by CARE Ratings limited for the securitisation of retail pools.

9.2. Quantitative Disclosures

Details of Securitisation exposures in the Banking Book

₹ in Lakhs

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

*Represents total exposure of loans securitised and sell-downs via Direct Assignment during Q 4 FY 22-23.

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

₹ in Lakhs

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

*PTC- Pass Through Certificate

Assets to be securitised within a year as on March 31, 2023

₹ in Lakhs

Exposure type	Amount
Amount of assets intended to be securitised within a year	-
Of which amount of assets originated within a year before Securitisation	-

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

₹ in Lakhs

Exposure Type	Amount*	Unrecognised gains / (losses)
PTC (underlying assets being Loan against property and Micro finance loans)	22,300.80	-
Direct Assignment	9,117.10	
Total	31,417.90	-

*The amount represents the total outstanding for Securitisation and Direct Assignment as on March 31, 2023.

Securitisation exposures retained or purchased

₹ in Lakhs

Exposure Type	On Balance Sheet*	Off Balance Sheet	Total
Equity Tranche	1,262.94	-	1,262.94
Overcollateralisation	1,969.22		1,969.22
Direct Assignment	1,014.69		1,014.69
Total	**4,246.85**	**-**	**4,246.85**

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

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

₹ in Lakhs

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

* Calculated as per formula prescribed in Master Direction – Reserve Bank of India (Securitisation of Standard Assets) Directions, 2021

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
Overcollateralisation	1,969.22	-	-
First Loss Credit Enhancement	1,989.81	-	-
Total	**3,959.03**	**-**	**-**

Details of Securitisation Exposures in the Trading Book

- NIL

10. TABLE DF- 8: MARKET RISK AND LIQUIDITY RISK

10.1. Qualitative Disclosures

10.1.1. Overview of Market Risk Management

The Bank defines Market Risk as the risk of loss in on-balance sheet and off-balance sheet positions arising from movements in market process, in particular, changes in interest rates, exchange rates and equity and commodity prices. The Bank has adopted the Standardised 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 risks i.e. Credit, Market and Operational Risk from a governance perspective.

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

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

Investments: The Bank has a Board approved policy to make investments in both SLR and Non SLR securities. The Bank had investments in the following instruments: Government of India Securities (G Sec), Treasury Bills (T Bills), State Development Loans (SDL), Separate Trading of Registered Interest and Principal of Securities (STRIPS) and one legacy investment in an unquoted equity. The Bank had also made a token investment in a New Umbrella Entity (NUE) in association with National Payment Corporation of India (NPCI) and investment of ₹ 1,263 Lakhs as Pass through Certificates as part of the Securitisation deal executed during FY 2022. As on Mar 31, 2023, the investment holdings in various SLR and Non SLR instruments were as under:

₹ in Lakhs

Instrument	AFS		HFT		HTM	
SLR	**BV**	**MV**	**BV**	**MV**	**BV**	**MV**
G Sec (CG)	7,940.18	7,969.24	19,197.64	19,245.14	394,233.09	383,686.41
SDL	0.00	0.00	0.00	0.00	120,306.56	117,428.92
STRIPS	0.00	0.00	0.00	0.00	0.00	0.00
T Bills	308,080.32	308,080.32	0.00	0.00	0.00	0.00
TOTAL SLR	**316,020.50**	**316,049.56**	**19,197.64**	**19,245.14**	**514,539.65**	**501,115.33**
Non SLR						
PTC	1,262.94	1,344.59	-	-	-	-
Legacy investment (unquoted Equity)	10.02	11.32	-	-	-	-
TOTAL NSLR	**1,272.96**	**1,355.91**	**-**	**-**	**-**	**-**
TOTAL Investment	**317,293.46**	**317,405.47**	**19,197.64**	**19,245.14**	**514,539.65**	**501,115.33**

During the year, the Bank had added ~214,600 Lakhs of securities in its HTM portfolio. The increase in policy rates by the Regulator during the year had impacted the notional Mark to Market (MTM) position of these investments. As at March 31, 2023, the negative MTM was ₹ 13,400 Lakhs. As a prudent risk management early on, the Bank commenced corrective actions by augmenting the incremental portfolio with shorter duration instruments. The effect of this strategy resulted in reduction of duration from 5.1 to ~4 years. The Bank continued to operate under the HTM limit of 23% applicable until March 31, 2024. The HTM% of the investment portfolio was ~20.4% as at reporting date. This provides the required headroom in the ensuing year to continue with a short term investment build-up strategy, in the event of recommencement of rate hikes. Presently, the Regulator has paused the rate hike to assess the percolation levels of the previous rate hikes and its resultant impact on inflation. It is assuring to note that the recent readings of the economy do indicate a positive trend on inflation which can result in a trend reversal of policy interest rates. The Bank is continuously monitoring the market signals and yield curve for opportune investment opportunities which can maximise yield. The current investment mix of the HTM portfolio is well poised to generate a positive MTM in the event of interest rate reduction. From risk management standpoint, the duration mix of the investment portfolio is also strategically maintained in a manner to limit incremental negative MTM in the event of recommencement of rate hikes. Internal simulations of notional unexpected losses, in that, crystallisation of HTM losses under extreme hypothetical scenarios also indicate that the impact on capital adequacy is well below 1%.

The investment into SLR securities is undertaken for the purpose of regulatory compliance i.e. SLR maintenance and for Asset Liability Management (ALM). Investment in SLR securities is held as both HTM and AFS, majority of Investments in AFS is in the form of Treasury Bills with small part of the AFS portfolio held in Central Government securities and STRIPS. 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:

₹ in Lakhs

Month	Average SLR requirement	Average SLR maintenance	Average SLR requirement maintained as a % of NDTL
Apr-22	329,946	525,968	28.69%
May-22	340,631	554,966	29.33%
Jun-22	337,758	530,898	28.29%
Jul-22	339,745	532,242	28.20%
Aug-22	344,434	518,143	27.07%
Sep-22	356,681	559,199	28.21%
Oct-22	367,111	617,361	30.28%
Nov-22	386,306	658,798	30.68%
Dec-22	400,894	735,079	33.01%
Jan-23	415,636	778,378	33.71%
Feb-23	433,805	810,342	33.64%
Mar-23	446,110	808,028	32.60%

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

Trading: The Bank had commenced trading in Government of India security in FY 2020-21, in a calibrated manner through its HFT portfolio. While the Bank had initially commenced trading on an intraday basis only, it has now graduated to keeping open positions on an overnight basis as well. The trading limits in the form of duration limits, PV01 limits, trading book limit, exposure limits and Value at Risk (VaR) are monitored regularly by the Middle Office. Any instance of breach in limits is brought to the notice of stakeholders and remedial measures taken. In a significant development, the Bank was successful in rolling out the infrastructure to commence non-SLR investments during the quarter. To that effect, automated systems for identification and recognition of non-performing investments (NPIs) were tested and deployed in compliance to RBI guidelines. The Bank intends to cautiously build its Non- SLR book for meeting strategic goals.

10.1.2. Liquidity and Liquidity Risk Management:

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

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

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

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

Liquidity Risk Management is governed as per the provisions of the ALM policy. The ALM position for the Bank was well managed and regulatory thresholds complied with during Q 4 FY 2022-23. The Bank has various avenues to leverage upon in mitigating any future liquidity shortfalls. Some of the measures include securitisation, Direct Assignment, IBPC transactions, refinance and term loan facilities from Bank. The Bank is prioritising long-term funding through deposit mobilisation.

It is pertinent to mention that the additional risk controls deployed in Q4FY22 for liquidity management stood validated by Q4FY23. The build-up in excess SLR, disbursements calibrated to LCR position, de-bunching of deposit maturities and increased oversight through weekly liquidity meetings during the year resulted in a comfortable liquidity position with LCR in excess of 150% throughout the year.

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

During FY 2022-23, in the wake of rising interest rates, global financial volatility and collapse of international banks the Bank undertook comprehensive stress tests on its entire cash flow distribution in addition to the LCR based stress tests by simulating various scenario analysis to assess resiliency in the event of any financial distress and liquidity crunch. the Bank remained resilient under baseline and medium stress events.

10.2. Quantitative Disclosures

Liquidity Coverage Ratio (LCR)

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

Liquidity Coverage Ratio

₹ in Lakhs

Date	Q4 Quarterly Average	Amount	Adjusted Amount
A	**High Quality Liquid Assets**		
	Level 1 Assets	784,150.51	784,150.51
	Level 2 A Assets	-	-
	Level 2 B Assets	-	-
B	Total Stock of HQLAs (Adjusted for Capital)		784,150.51
C	Cash Outflows	1,936,081.35	534,945.60
D	Cash Inflows	167,390.86	100,335.56
E	Net Cash flow	-	434,610.04
F	25% of Total Cash Outflow	-	133,736.40
G	Higher of E or F	-	434,610.04
	Liquidity Coverage Ratio	**180.43%**	

Net Stable Funding Ratio (NSFR): The objective of the NSFR is to require banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities over a one-year horizon. The Bank's NSFR as at March 31, 2023 is 133.27% as against RBI minimum requirement of 100%.

₹ in Lakhs

NSFR	Weighted Amount
Total Available Stable Funding (ASF)	2,103,983.00
Total Required Stable Funding (RSF)	1,578,739.81
NSFR	**133.27%**

11. TABLE DF- 9: OPERATIONAL RISK

11.1. Qualitative Disclosures

11.1.1. Operational Risk Management Policy and Governance Structure

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

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

11.1.2. Risk identification, measurement, monitoring and reporting

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

- Product and Process reviews: All new products and processes (including enhancements) are subject to a mandatory comprehensive review by the Operational Risk department. For process related approvals, PrAC (Process Approval Committee) has been constituted with effect from February 2021 and meetings are held at defined frequency. The Bank's Operational Risk team reviews and provides their observations for including additional controls for the risks identified during the assessment, if warranted. Subsequent to closure, the new/enhanced processes are placed at the PrAC for approval. The Bank continuously reviews and enhances its key processes to adapt to industry best practices. Operational Risk Management Department (ORMD) has approved 142 processes as on March 31, 2023. Few of them to note are Business Net Banking Operating Manuals V1.2, Geo-Tagging of Payment system touch Points, Annual review of Internal office accounts framework for review and monitoring, Digital Fixed Deposit Operating Manual v1.1 and UPI User Manual Version 2.0.
- UAT Testing (including BRD and FSD): For any change management/ automation of products and processes, the respective department owners prepare a Business Requirement Document (BRD). The BRD is reviewed by key personnel from control and business functions for further improvements. Subsequently, the same is provided to the IT department within the Bank. The IT department then prepares a Functional Specification Document (FSD) detailing the scope of the project. Once the project is moved to testing stage, ORMD performs the User Acceptance Testing (UAT) along with other key stake holders to identify gaps in the actual deliverable versus that which was proposed in the BRD. These gaps are further addressed and closed before moving to production. As on March 31, 2023, 43 BRD's and FSD's were reviewed and UAT was undertaken for 192 new developments/changes/fix deployed by IT covering NR service request, GL repayment through Mobile Banking, IDAM integration with Darwin box, Key system changes for digital customer acquisition transaction limited related, BR.Net single flow Glow project, RPA OD recovery, leap year interest calculation, multifactor authentication without debit card, staff vehicle loans two wheeler and four wheeler, adjustment of advance EMI payment in Br.Net, masking of Aadhaar Number, Interoperable card less cash withdrawal, Prime Lap products in MSME and Staff vehicle loans, MSME CGTMSE Term Loan & Overdraft Facility, CRM Build upgrade, UPI PSP App, QDE AML Compass, 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 minimise the risk. The outcome of RCSA provides insight into known as well as potential Operational Risk areas in various process / business lines. Business teams, being the first line of defence, are responsible for carrying out RCSA activity. ORMD, being second line of defence is responsible for providing necessary guidance, training and inputs to the First Line of Defence (FLOD) for carrying out the RCSA. To create a Risk culture in FLOD and assume ownership for this activity, a Special Point of Contact (SPOC) is identified in each department who is designated as Business Risk and Compliance Officer (BRACO) with whom ORMD shall engage. RCSA framework was approved in April 2021. Based on directions from the Board, in FY'23, RCSA is implemented in 5 identified departments of the Bank through BRACOs of the vertical who will ensure that RCSA is done on an ongoing basis by First line of defense. ORMD also attempted implementation of RCSA at branches which will provide an insight of Operational risk index at individual branches. As on 31st March'23, RCSA has been done in 62 branches PAN India and outcome of which is discussed with supervisory team to ensure controls are strengthened appropriately. RCSA for Information Technology is performed by external consultant for FY23.
- Key Risk Indicators: In FY 2022-23, 40 KRIs continue to be monitored at organisation level. At functional level, 14 KRI's are monitored for Branch Banking vertical, 14 KRI's are monitored for MicroBanking vertical from April'2022 and 9 KRI's had been identified and monitored for Housing vertical since December'2022 as part of the ORM framework. The thresholds for the KRIs have been set in consultation with the respective stakeholders. These KRIs are analysed on a monthly basis and findings are placed at ORMC and RMCB at regular intervals with action plan for closure of open issues. With emerging trends of increased usage of digital platform by customers, it is pertinent to identify KRIs for digital payment products, The Bank has identified 25 parameters and commenced monitoring from April 2022 onwards.
- Loss Data Management is in place to record material incidents and learn from errors and strengthening existing controls. Incidents are recorded as operational loss and near miss events. This is followed by a Root Cause Analysis (RCA) for critical incidents. EGRC module in SAS is implemented to record all loss events across the Bank. Significantly, the efforts of the Operational Risk team have resulted in greater reporting of operational risk incidents from the branches. The Bank has created a separate General Ledger Code (GLC) to record losses (separate for fraud and non-fraud) on account of these incidents and these are reported to the Board at quarterly intervals. The Bank encourages its personnel to report incidents in an unbiased manner without fear 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 in SAS;
    - Root Cause Analysis (RCA) of critical events;
    - Quarterly loss data submission to Board;

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

Loss Dashboard for YTD FY 22-23 (as on Mar'23):

Event Type	Count		Loss in Lakhs			
	YTD Mar'22	YTD Mar'23	YTD Mar'23			YTD Mar'22
	Total	Total	Gross#	Net#	Ops Loss#	Ops Loss
Business Disruption and Systems Failures	155	471	₹ 39.57	₹ 25.03	₹ 6.32	**₹ 2.36**
Clients, Products, and Business Practice	18	16	₹ 2.93	₹ 0.07	₹ 0.07	**₹ 3.68**
Damage to Physical Assets	43	8	₹ 0.00	₹ 0.00	₹ 0.00	**₹ 0.01**
Employment Practices and Workplace Safety	8	1	₹ 0.00	₹ 0.00	₹ 0.00	**₹ 0.00**
Execution, Delivery, and Process Management	312	377	₹ 63.15	₹ 31.47	₹ 16.07	**₹ 14.92**
External Fraud	615	283	₹ 104.70	₹ 45.06	₹ 20.90	**₹ 43.58**
Internal Fraud	332	293	₹ 310.52	₹ 192.09	₹ 9.29	**₹ 34.51**
Total	**1,493**	**1,449**	**₹ 520.87**	**₹ 293.73**	**₹ 52.66**	**₹ 99.13**

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

- **Thematic reviews:** While carrying out RCSA, KRIs, UAT testing, incident reporting etc., Operational Risk team identifies few risk indicators warranting a special thematic review of the entire process. This enables the Bank to identify issues and gaps at minute level which are then taken up for rectification. These thematic reviews do not follow standardised risk identification techniques and therefore provide wider scope for a deeper and customised 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 Q4 FY 2022-23, ORMD team performed a thematic review on Non-Resident Product portfolio. Key gaps from these reviews were highlighted and discussed in ORMC held in the month of April'2023.
- **User Access reviews** are conducted for critical applications to ensure that access and role matrix are well defined and that access is commensurate with the responsibility assigned. In FY 2022-23, user access review has been completed for 16 applications including Active directory, Cermo, Posidex, Rupee power, SAS, TeamViewer, Glow, Smelo, Trucell, CRM Next, Finacle Treasury, Finacle, Br. Net, Oracle, Crismac and E kuber. The Bank has process for User access review covering all the critical aspects of User life cycle starting from activation to de-activation of ID's, Review frequency, Process to be followed for managing vendor ID's, Process to be followed for user de-activation on exit from organisation which is under review.
- **Exceptions Handling Mechanism** is an initiative, which was initiated from July 2020 as guided by the National Controls and Compliance Committee. A list of 32 exception reports was identified and tagged to Operational Risk department of the Bank for initiating the review. Out of which, 30 exception reports were selected for review and ORM is in process of discussing the gaps identified with relevant stake holders to undertake appropriate corrective actions.
- **Branch Assurance:** Branches across regions are reviewed against a checklist devised by ORMD of the Bank to ensure adherence to branch processes. The checklist is reviewed and enhanced as and when required to strengthen monitoring of branches. Critical and repeat observations are shared with the leadership team for remedial /corrective actions. Checklist was reviewed and enhanced further which is implemented with effect from December 2022. In FY'23, ORM team had reviewed 336 branches PAN India against an annual plan to cover 240 branches. A monthly connect is also called for with leadership team at Regions to discuss on critical and key observations made by ORM team as part of their branch visit.
- **Outsourcing Risk:** 'Outsourcing' is defined as the Bank's use of a third party (either an affiliated entity within the corporate group or an entity that is external to the corporate group) to perform certain activities on a continuing basis that would normally be undertaken by the Bank itself, now or in the future. The Bank has in place an outsourcing policy which provides guidance on outsourcing certain functions to specialised agencies for increasing efficiency and lower costs. The outsourcing policy is framed in compliance to various RBI guidelines on outsourcing issued from time to time. Key activities undertaken during Outsourcing are as follows:

  Pre - on boarding risk assessment: All vendors, deemed as material, are subjected to a rigorous pre-on boarding risk assessment which is done by both Operational Risk team and the Information Security team and this is repeated at annual intervals. Observations from these risk assessments are then shared with concerned functions for resolution. In FY 2022-23, pre-on boarding risk assessment for 18 vendors was carried out.

  Post – on boarding risk assessment: All material vendors are also subjected to a periodic post on boarding risk assessment. This assessment is carried out by ORMD and Information Security team, if required. Observations/gaps are shared with concerned function for rectification and response. These key observations along with department response are placed at ORMC and RMCB on completion.

  Annual review of material vendors: ORMD of the Bank along with Information security team of the Bank carries out annual risk review of material vendors especially for IT, Fintech and Technical vendors. In FY 2022-23, annual review was completed for 39 material vendors as on March 31, 2023. Outsourcing undertaken by the Bank is also subject to an annual audit by the Internal Audit team who provide the required compliance certificate to RBI.
- **Business Continuity Planning (BCP):** Business Continuity Management Policy is a prerequisite for a Bank in minimising the adverse effect on critical areas of Operational Risk with respect to High-Impact and Low-Probability Disruptions, through which Bank maintains confidence levels of its shareholders and satisfies relevant compliance requirements. The plans and procedures are in line with the guidelines issued by the RBI and these are reviewed at regular intervals.

  The Business Continuity Management Policy (BCMP) of the Bank provides guidance to ensure continuity of Business through implementation of contingency plans to restore normal business functioning of

Branches, if disrupted during any type of disaster / crisis situation to provide continuous and reliable services and delivery of key products to customers.

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

The Bank reviews BCM policy and plan documents annually and enhances the documents as per the changes made in the Bank's critical processes and activities. Bank also conducts periodic BCP testing considering various disruptive scenarios which helps identify the gaps in ensuring smooth recovery and resumption of the processes. On an ongoing basis, BCP testing for randomly selected branches is also conducted to ensure that the recovery process becomes more robust and efficient to recover from any disaster / crisis situation. Learnings are documented in the Business Continuity Plan for corrective action. In FY 2022-23, 132 planned and 46 unplanned BCP's were conducted across branches in Regions. A vendor is on-boarded for completing BIA and RA for all the departments of the Bank and to review existing policies and enhance the same according to international standards. As on date, BIA is completed for all functions of the Bank.

- **Thematic review of Fraud Risk management:** During the quarter, the Bank's ORM vertical conducted a detailed review of instances of cash misappropriation in certain branches of East region. The outcome of the review was internally deliberated at management and Board level Committees. A review of Modus Operandi covering incident summary, impact, role of staff, process deviations, action taken and current status in recovery at branch level was undertaken. The thematic review helped the Bank in plugging the inherent gaps in processes. The review of such incidents reiterated the criticality in upholding fundamental operational risk mitigation measures, in that, continuous oversight on branches, supervisory visits, customer interactions and house visits and job rotation are irreplaceable in the microfinance context.
- **Internal Financial Control (IFC) testing:** This is an annual exercise and carried out by ORMD of the Bank. The team along with concerned stakeholders prepares and enhances Risk and Control Matrices (RCMs) for activities performed by process owners. The financial and operational controls in these RCMs are then tested by collecting samples from across the review period covering different regions, which are then evaluated for success or failure of the control effectiveness. The critical gaps observed during such testing are discussed with concerned functions for upgrading controls which may include automation of the controls. The results of this evaluation are also presented to ORMC and RMCB to update them on effectiveness of the internal controls of the Bank and take guidance. These results are also shared with the Bank's statutory auditor to provide insight on adequacy and effectiveness of the controls in the Bank. The IFC Framework of the Bank was enhanced and approved in January 2022. Number of controls that were tested in FY'23 was increased by ~10% from FY'22. Outcome of IFC to be presented in Audit Committee of the Board (ACB) proposed to be held in the month of April'23.

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

Information Technology and Security Risk

With the rapid changes in the technological landscape, threat landscape is also rapidly evolving and to be resilient in such scenarios, the Bank recognises the significance of robust Information security structures and has implemented defense in depth technologies to safeguard customer's interest. The Bank has deployed state-of-the art technologies to ensure malicious intrusion is minimised. The key elements and the teams working in a chain fashion for managing information security risks are as follows: -

- **Risk assessment and Management: -** The Bank conducts regular risk assessments to identify potential vulnerabilities and threats to the Bank.
- **Policies and procedures: -** The Bank has put in place robust information security policies and procedures which are fully compliant with the regulatory guidelines and ISO27001 framework.
- **Security awareness and training: -** One of the fundamental tenets of Information Security is that the employees play a critical role in maintaining information security. Therefore, at an organisation level, the Bank invests in regular training and awareness programs to educate its workforce about emerging threats, phishing attacks, social engineering techniques and other security best practices. The average phishing rate for the recent exercises conducted was measured at **2.99 %** which is lower than the industry rate.
- **Red team: -** The Bank has put in place an independent group who simulate real world attacks and attempt to exploit vulnerabilities. These simulations provide

valuable insights to enhance the security posture of the organisation and initiate prompt corrective actions.

- **Cyber defense center: -** The Bank has established a 24*7 Cyber defense center to detect, analyze the potential incidents and take requisite actions to respond to the incidents.
- **GRC team (Governance, Risk and Compliance): -** The Bank is having a dedicated GRC team to ensure effective management of regulatory requirements, risks and operational controls.
- The Bank regularly participates in Cyber drills conducted by the Institute of Development and Research on Banking technology (IDRBT) and conducts periodic Disaster Recovery Drills for its technology infrastructure to ensure the availability of critical services in the event of a disaster. The Bank follows a proactive approach instead of reactive approach and the same can be showcased with the Bank's past record.

Indian Banking Association (IBA)-Best IT risk management

The Indian Banking Association (IBA) celebrates Excellence Awards in various categories of Information Security. Prominent banks, organisations, law enforcement agencies, and products are evaluated as part of this award exercise. The Bank was awarded for **'Best IT risk management'** under the category of Small finance Banks (SFB)'. The award was presented to the Bank after a detailed evaluation by a team of prominent jury members (Deputy Governor RBI, Professors from IIT Bombay, IBA chief).

12. TABLE DF- 10: INTEREST RATE RISK IN BANKING BOOK (IRRBB)

12.1. Qualitative Disclosures

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

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

- Earnings at risk (Traditional Gap Analysis): The impact of change in interest rates on net interest income is analysed under this approach and calculated under yield curve approach. Under this approach a parallel shift of 200 basis points is assumed both in assets and liabilities.
- Economic Value of Equity (Duration Gap Approach): Modified duration of assets and liabilities is computed separately to arrive at modified duration gap. A parallel shift in yield curve by 200 basis points is assumed for calculating the impact on economic value of equity. Additionally, the Bank has also performed steepening of yield curve wherein a change in 100 basis points was considered linearly between 15-day and over 25-year maturities and using an inversion of the yield curve wherein One -year rates were increased by 250 basis points and 10-year rates were decreased by 100 basis points. Such shocks are monitored regularly in order to assess the impact of interest risk on the Bank's book and its potential impact on the Bank's business projections. These scenarios are as per the RBI guidelines on stress testing dated 02 Dec 2013.
- The cumulative hikes to the RBI repo rate in FY 2022-23 had also increased Interest Rate Risks (IRR) in the Bank, especially in the long-term floating rate loans. With increasing share of floating rate loans[34] , the rate hikes of the past are likely to increase the tenor of loans, upon conversion to floating regime. The Bank took cognizance that, parallel shifts in pricing, if not passed on to customers, can squeeze profitability (Business risk) or any increase in EMI to counter extension in tenor might exacerbate defaults (Credit Risk) especially in the Affordable Housing segment. To address the same, the Bank has introduced a panoply of measures to counter the impact. The Bank has developed simulators to estimate impact on EMI/tenor increase. Using a combination of caps and floors on tenor/EMI/borrower age, systems are being reconfigured to provide the ideal rescheduling which mitigates loss of income and default risk on best effort basis.
- The Bank has also undertaken various simulations to understand the impact of reduction in the valuation of Housing portfolio on account of rate hikes.
- As a risk measurement tool, the Bank has developed an IRRVaR model to aid in applying a pillar II capital charge under ICAAP under pre-specified breaches to internal limits.

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

12.2. Quantitative Disclosures

12.2.1. Earnings at Risk (Earnings Perspective)

Interest Rate Risk in the Banking Book (IRRBB)

₹ in Lakhs

Sl. No.	Country	Interest Rate Shock	
		+200 bps shock	-200 bps shock
1	India	(9,224.57)	9,224.57
2	Overseas	-	-
	Total	**(9,224.57)**	**9,224.57**

12.2.2. Economic Value Perspective (MDG Approach)

₹ in Lakhs

Category	Items	Amount
A	Computation of Aggregate RSA	3,230,982.73
B	Computation of Aggregate RSL	2,967,220.72
C	Weighted Avg. MD of RSL across all currencies	1.22
D	Weighted Avg. MD of RSA across all currencies	1.58
E	Modified Duration Gap (MDG)	0.46
F	Change in MVE as % of equity for 200 bps change in interest rate	(8.31%)
G	**Change in MVE in absolute terms**	**(29,712.36)**

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 (₹12,024.23 Lakhs).

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 (₹ 998.95 Lakhs).

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 (₹ in Lakhs, as of most recent reporting date)	₹ 195,470.66 Lakhs
9	Par value of instrument	₹ 10/-
10	Accounting classification	Capital

Sr. No.	Particulars	Details
11	Original date of issuance	• ₹ 5 Lakhs – July 4, 2016 • ₹ 10,998.68 Lakhs –July 30, 2016 • ₹ 133,000 Lakhs – February 10, 2017 • ₹ 1,405.5 Lakhs- November 11, 2019 • ₹ 7,142.9 Lakhs- November 13, 2019 • ₹ 20,270.3 Lakhs- December 10, 2019 • ₹ 0.3 Lakhs- November 7, 2020 • ₹ 0.2 Lakhs- January 19, 2021 • ₹ 0.4 Lakhs- February 15, 2021 • ₹ 0.04 Lakhs- March 15, 2021 • ₹ 22,619.05 Lakhs – September 15, 2022 • ₹ 8.78 Lakhs – February 09, 2023 • ₹ 11.41 Lakhs – March 14, 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 Q4, March 31, 2023, the Bank has made following allotments:

Date of issue and allotment	Method of allotment	Face value (₹)	Issue price	Average SLR requirement maintained as a % of NDTL
February 09, 2023	ESOP	10	19.95	87,814
March 14, 2023	ESOP	10	19.95 for 101, 467 shares 19.05 for 12,663 shares	1,14,130

Perpetual Non-Cumulative Preference Shares (PNCPS)

Disclosure template for main features of regulatory capital instruments – Preference Shares

Sr. No.	Particulars	Details
1	Issuer	Ujjivan Small Finance Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	INE551W04012
3	Governing law(s) of the instrument	Applicable Indian Statutes & Regulatory requirements and RBI Basel III Guidelines.
	Regulatory treatment	
4	Transitional Basel III rules	Addition Tier 1 Capital (AT1)
5	Post-transitional Basel III rules	Addition Tier 1 Capital (AT1)
6	Eligible at solo/group/ group & solo	Solo
7	Instrument type	Perpetual Non-Cumulative Preference shares
8	Amount recognised in regulatory capital (₹ in Lakhs, as of most recent reporting date)	₹ 20,000 Lakhs
9	Par value of instrument	₹ 10/-
10	Accounting classification	Capital
11	Original date of issuance	February 10, 2017
12	Perpetual or dated	Perpetual
13	Original maturity date	No Maturity date
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	February 10, 2022
16	Subsequent call dates, if applicable	NIL
	Coupons / dividends	Dividend
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	11.0% (Dividend Rate)
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	NIL
22	Noncumulative or cumulative	Non-Cumulative
23	Convertible or non-convertible	Non-Convertible
24	If convertible, conversion trigger(s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	Yes
31	If write-down, write-down trigger(s)	PONV trigger & CET1 trigger
32	If write-down, full or partial	Full and Partial
34	If temporary write-down, description of write-up mechanism	The Issuer shall: 1. Notify holders of preference Shares. 2. Cancel any dividend which is scheduled to be paid on Dividend payment date. 3. Without the need for the consent of holders of the PNCPS, write down the face value of the PNCPS by such amount as the Issuer may in its absolute discretion decide. Provided that, in no event shall such amount of write down be less than the amount required to immediately return the Issuer's Common Equity Tier 1 Ratio to above the CET1 Trigger Event Threshold , nor shall such amount of write down exceed the amount which would be required to be written down to ensure that the Common Equity Tier 1 Ratio is equal to the aggregate of the CET1 Trigger Event Threshold and 2.5%, or such other percentage as may be prescribed by the RBI (the "CET1 Write Down Amount").

Sr. No.	Particulars	Details
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinate to the claims of all depositors, general creditors, borrowings and all capital instruments qualifying Tier II Capital instruments and perpetual debt instruments. Only Superior to Equity Shares.
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	NA

Non-Convertible Debentures (NCD)

Disclosure template for main features of regulatory capital instruments - NCD

Sr. No.	Particulars	Details
1	Issuer	Ujjivan Small Finance Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	INE551W08013
3	Governing law(s) of the instrument	Applicable Indian Statutes & Regulatory requirements Reserve Bank of India's circular on "Master Circular - Prudential Guidelines on Capital Adequacy and Market Discipline-New Capital Adequacy Framework (NCAF)" dated July 1, 2015
	Regulatory treatment	
4	Transitional Basel III rules	Tier II Capital
5	Post-transitional Basel III rules	Tier II Capital
6	Eligible at solo/group/ group & solo	Solo
7	Instrument type	Subordinated, rated, unlisted, unsecured, transferable, redeemable, fully paid up, non-convertible debentures
8	Amount recognised in regulatory capital (₹ in Lakhs, as of most recent reporting date)	₹ 30,000 Lakhs
9	Par value of instrument	₹ 100,000/-
10	Accounting classification	Capital
11	Original date of issuance	• August 26, 2022- ₹22,500 Lakhs • September 09, 2022 – ₹7,500 Lakhs
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

Sr. No.	Particulars	Details
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	The Debentures shall be: (a) senior to the claims of the investors in instruments eligible for inclusion in Tier I capital and Upper Tier II Capital of the Bank; and (b) subject to paragraph (a) above, subordinated to the claims of the other creditors of the Bank but shall rank pari-passu with the other Lower Tier II instruments of the Bank (whether present or future).
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	NA

14. TABLE DF-14: TERMS AND CONDITIONS OF REGULATORY CAPITAL INSTRUMENTS EQUITY SHARES

Full Terms and Conditions of Equity Shares of the Bank

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

PNCPS

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

Sr. No.	Particulars	Full Terms and Conditions
7	Dividend Rate	11% per annum
8	Dividend Stopper	In the event that the Preference shareholders are not paid dividend at the Dividend Rate, there shall be no payment of discretionary dividend on equity shares until the Dividend payments to the shareholders are made in accordance with terms hereof.
9	Put Option	Not Applicable.
10	Call Option	Issuer call: The Issuer may at its sole discretion, subject to conditions for Call and Repurchase and exercise of such call option (with a notification to the holders of the PNCPS which shall specify the date fixed for exercise of the call option), exercise a call option on the PNCPS ("Issuer Call"). The Issuer Call may be exercised at the option of the Issuer no earlier than on the fifth anniversary of the Deemed Date of Allotment.
		Tax Call: If a Tax Event has occurred and is continuing, the Issuer may at its sole discretion, subject to Conditions for Call and Repurchase and notification to the holders of PNCPS of not less than 21 calendar days prior to the date of exercise of such call option (which notification shall specify the date fixed for exercise of the call option), exercise a call option on the PNCPS ("Tax Call"). Provided further that, subject to conditions for Call and Repurchase the Issuer may substitute the PNCPS with capital instruments that are in accordance with the RBI Master Circular on Basel III capital regulations and any other applicable law
		Regulatory Call: If a Regulatory Event has occurred and is continuing, the Issuer may at its sole discretion, subject to Conditions for Call and Repurchase and notification to the holders of PNCPS of not less than 21 calendar days prior to the date of exercise of such call option (which notification shall specify the date fixed for exercise of the call option), exercise a call option on the outstanding PNCPS ("Regulatory Call"). Provided further that, subject to Condition 27 (Conditions for Call and Repurchase) the Issuer may substitute the PNCPS with capital instruments that are in accordance with the RBI Master Circular on Basel III capital regulations and any other applicable law.
11	Repurchase/ Redemption/ Buy-back	The Issuer may subject to Conditions for Call and Repurchase having been satisfied and such repayment being permitted by the RBI Master Circular on Basel III capital regulations, repay the PNCPS by way of repurchase, buy-back or redemption.
12	Loss Absorption	PNCPS should have principal loss absorption through a write-down mechanism which allocates losses to the instrument at a pre-specified trigger point. The write-down will have the following effects: 1. Reduce the claim of the PNCPS in case of liquidation; 2. Reduce the amount re-paid when a call over the PNCPS is exercised by the Issuer; and 3. Partially or fully reduce dividend payments on the PNCPS. The specific criteria for such loss absorption through conversion/write-down/ write-off on breach of pre-specified trigger and the Point of Non-Viability (PONV) will be in accordance with the applicable RBI guidelines. The relevant terms of Annex 16 in Master Circular of Basel III capital regulations shall be deemed to be incorporated herein.
13	Permanent Principal Write-down on PONV Trigger Event	If a PONV Trigger Event occurs, the Issuer shall: 1. Notify the holders of the PNCPS; 2. Cancel any dividend which is scheduled to be paid on Dividend payment date; and 3. Without the need for the consent of the holders of the PNCPS, write down the outstanding principal of the PNCPS by such amount as may be prescribed by RBI **("PONV Write Down Amount")** and subject as is otherwise required by the RBI at the relevant time. The Issuer will affect a write-down within 30 (thirty) days (or such other time as may be prescribed by applicable law) of the PONV Write-Down Amount being determined by the RBI.A Permanent Principal Write-down on PONV Trigger Event may occur on more than one occasion. Unless specifically permitted by applicable law, once the face value of the PNCPS has been written down pursuant to PONV Trigger Event, the PONV Write-Down Amount will not be restored in any circumstances, including where the PONV Trigger Event has ceased to continue.

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

Subordinated Debt Instruments:

Terms and Conditions of NCDs of the Bank

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

15. TABLE DF-15: DISCLOSURE ON REMUNERATION

15.1. Remuneration - Qualitative disclosures

A. Information relating to the bodies that oversee remuneration.

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

Name: Nomination and Remuneration Committee (NRC)

Composition of Nomination and Remuneration Committee as on March 31, 2023:

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

Following are the main terms of reference of the Committee:

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

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

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

  a) Determining the eligibility of employees;

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

  c) The exercise price of the option granted;

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

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

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

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

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

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

  - The number and the price of stock option shall be adjusted in a manner such that total value of the Option to the Employee remains the same after the Corporate Action;
  - For this purpose, global best practices in this area including the procedures

followed by the derivative markets in India and abroad may be considered;

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

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

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

l) The procedure for cashless exercise of options;

m) Forfeiture/ cancellation of options granted;

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

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

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

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

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 March 31, 2023 was 17,870.

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 organisation'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 standardised 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 organisation.
- The compensation structure shall be easy to understand for all levels of employees.
- The compensation policy is designed to promote meritocracy in the organisation 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 finalised and approved by the National Human Resources Committee (NHRC) at annual intervals, basis organisation'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 vests 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 utilises and the rationale for using the same

Variable Compensation at the Bank has the following distinct forms:

Cash Variable Pay

- 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 organisation 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: Ujjivan shall design schemes and practices from time to time to celebrate employees / departmental / organisational 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, ten and fifteen yrs. of completion of service with Ujjivan), Portfolio Improvement Reward Scheme; Functional R&R Schemes; Organisational Rewards Schemes such as: Service Champion; Recognition program for Liabilities Branches for Retail Deposits; Recognition program for Asset growth in Branches, Recognition programme for support and Control verticals.

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[35])	Numbers
1	Number of meetings held by the Nomination and Remuneration Committee during the first quarter and remuneration paid to its members.	Total Meetings Held in H2 FY 2022-23: 03 Total sitting fee paid: ₹ 15 Lakhs
2	Number of employees having received a variable remuneration award during the year.	Chief Executive Officer & Managing Director, Business Head-Housing Loans, Business Head-MicroBanking, Chief Operating Officer, Chief Risk Officer, Head of Branch Banking, TASC&TPP, Head Of Treasury, Chief Credit Officer, Chief Business Officer, Chief Information Officer. No. of Employees 10
3	Number and total amount of sign-on awards made during the financial year.	NIL
4	Details of guaranteed bonus, if any, paid as joining / sign on bonus.	NIL
5	Details of severance pay, in addition to accrued benefits, if any.	NIL

Sl. No	Quantitative Disclosures (Covers only Whole Time Directors/ CEO/Other Risk Takers[35])	Numbers
6	Total amount of outstanding **deferred remuneration**, split into cash, shares and share-linked instruments and other forms.	Cash: 14 Lakhs ESOP grants: Nil Chief Executive Officer Managing Director, Business Head-Housing Loans, Business Head-MicroBanking, Chief Operating Officer, Chief Risk Officer, Head of Branch Banking, TASC&TPP, Head of Treasury, Chief Credit Officer, Chief Business Officer, Chief Information Officer, Chief Financial Officer-SFB
7	Total amount of deferred remuneration paid out in the financial year.	Cash- ₹ 88.7 Lakhs
8	Breakdown of amount of remuneration awards for the financial year to show fixed and variable, deferred and non-deferred.	Fixed gross: ₹ 1094 Lakhs * Variable deferred Cash: ₹ 88.7 Lakhs **Variable non-cash (ESOP): ₹ 393 Lakhs (ESOP No. of Shares 19,63,190 granted) Fixed gross of the following employees: 'Chief Executive Officer & Managing Director, Business Head-Housing Loans, Business Head-MicroBanking, Chief Operating Officer, Chief Risk Officer, Head of Branch Banking, TASC&TPP, Head of Treasury, Chief Credit Officer, Chief Business Officer, Chief Information Officer, Chief Financial Officer-SFB.
9	Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and / or implicit adjustments.	Variable Provisioned – ₹191.37 Lakhs (As of Mar-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

Summary comparison of accounting assets versus leverage ratio exposure measure

₹ in Lakhs

	Item	Amount
1	Total consolidated assets as per published financial statements	3,331,687.75
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)	50,676.61
7	Other Adjustments	-43,007.66
8	**Leverage ratio exposure**	3,339,356.70

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

17. TABLE DF 18: LEVERAGE RATIO COMMON DISCLOSURE TEMPLATE

Table DF-18: Leverage ratio common disclosure template

₹ in Lakhs

	Item	Amount
	On-balance sheet exposures	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	3,331,687.75
	Domestic Sovereign	8,49,627.79
	Banks in India	15,842.36
	Corporates	114,151.66
	Exposure to default fund contribution of CCPs	136.00
	Other Exposure to CCPs	
	Others	2,351,929.94
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	-43,007.66
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	3,288,680.09
	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	114,911.23
18	(Adjustments for conversion to credit equivalent amounts)	64,234.62
19	**Off-balance sheet items (sum of lines 17 and 18)**	50,676.61
	Capital and total exposures	
20	**Tier 1 capital**	371,139.18
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	3,339,356.71
	Leverage ratio	
22	**Basel III leverage ratio**	**11.11%**

Presently the contribution of Tier I capital to Total Basel II capital is 87.89%. 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%.