Basel – Pillar 3 Disclosures - March 31, 2017

Ujjivan Small Finance Bank Limited (hereinafter referred to as the 'Bank' or 'USFB') is a private sector bank domiciled in India and incorporated on July 4, 2016 under the provisions of the Companies Act, 2013. It is licensed by the Reserve Bank of India to operate as a Small Finance Bank under the Banking Regulation Act, 1949 in terms of its letter marked DBR.NBD. (SFB-UFSL) NO.5443/16.13.216/2016-17 dated November 11, 2016. Formal banking operations commenced from 6th February, 2017 with the opening of five bank branches in Bangalore. The Bank has plans to progressively convert its existing Asset Centres into bank branches. It provides retail banking services and a wide range of financial services to economically active poor in urban and semi urban areas. The Bank is headquartered in Bangalore and has regional offices in New Delhi, Kolkata and Pune. There are no foreign operations of the Bank.

As per the Agreement to Transfer Business Undertaking (hereinafter referred to as 'BTA') dated January 12, 2017 Ujjivan Financial Services Limited (UFSL), the parent holding company of the Bank, transferred its business undertaking by way of a slump sale on a going concern basis to USFB with effect from February 01, 2017. In terms of the operating guidelines issued by the Reserve Bank of India (RBI) for Small Finance Banks (SFBs), all SFBs are required to follow the Basel II Standardized Approach for Credit Risk. Guidelines with regard to capital charge by SFBs for Operations Risk and Market Risk are awaited from RBI.

As per the capital adequacy framework, SFBs are required to maintain a minimum capital adequacy of 15 per cent of their Risk Weighted Assets (RWA). USFB has, in computing its capital adequacy, applied the more stringent principles applicable to Basel III and as stipulated by RBI in its Master Circular RBI/2015-16/58 DBR.No.BP.BC.1/21.06.201/2015-16 dated 1st July 2015. However, for its mandatory disclosures in the Balance Sheet as at 31.3.2017, the Bank has provided for capital computation under both Basel II and Basel III. The Bank has also provided capital charge for Market Risk and Operational Risk, using the Standardized Approach and Basic Indicator Approach (BIA) respectively, like all other Scheduled Commercial Banks.

In compliance with the Pillar 3 disclosures required by the Basel Committee for Banking Supervision, this document covers the capital adequacy status of USFB as at 31 March 2017. It also describes the risk process and governance at the Bank to effectively on-board, monitor, measure and report risk.

I. Scope of Application – Parent and Subsidiary Companies

USFB is a domestic company as required by the RBI and is wholly owned by USFL, its parent holding company, which is registered as an NBFC. An application for registration of the parent as a CIC-NBFC is pending the approval of RBI. The Bank does not have any subsidiary nor does it have any interest in any insurance entity. All the disclosures in this document pertain to that of USFB as a standalone entity.

II. Capital Adequacy

Credit Risk and Operational Risk are the two major risks that the Bank faces in its operation. In its transition from an NBFC-MFI to an SFB, management of Market Risk and Liquidity Risk assumes great importance.

The business of the Bank, as transferred from its parent under a BTA dated January 12, 2017 and as approved by the Board of Directors, comprises assets including Joint Liability Group (JLG) loans under the group guarantee scheme, a small individual lending portfolio and loans to Micro and Small Industries (MSE) and to the affordable housing sector. Newer retail banking and liability processes have been introduced upon commencement of its banking operation. The Bank is also exploring the introduction of select retail lending products in the market.

The robust risk governance and risk management structure of the parent NBFC, which was evidenced by the consistently excellent credit quality of its portfolio, has been transitioned and enhanced as an SFB to address the diverse risks in the new processes in the changed scenario.

At the apex is the Board of Directors and Risk Management Committee of the Board. Policy measures relating to risk management emanate from the Board.
The Bank identifies, assesses and manages comprehensively all risks that it is exposed to through sound governance and control practices, robust risk management framework and an elaborate process for capital calculation and planning.

In line with the directions of the RBI for capital charge under the Basel III framework, the Bank has used Risk Weighted Assets (RWA) as defined by RBI on all applicable balance sheet assets and off balance sheet assets and contingents, and on its AFS portfolio. In the absence of any guidelines, capital charge for Operational Risk has been calculated on the basis of Gross Income for the period of operation only.

The Bank had an authorised capital of Rs 1,70,000 Lacs and a total capital of Rs. 1,70,182.09 Lacs, out of which Tier- I capital was Rs. 1,57,054.04 Lacs, as on March 31, 2017.

Based on RBI guidelines on capital adequacy, the CRAR of the Bank as on March 31, 2017 using the Basel III principles and including capital charge for both Operational Risk and Market Risk was 18.24% against the minimum regulatory requirement of 15%. When the RBI guidelines applicable to Basel II framework are applied, the Bank had a capital adequacy of 19.53%.The Bank is therefore well capitalised.

Break up of capital funds (using Basel III disclosures only):-

Capital Funds		(In Lacs)
S. No	**Position as on 31st March 2017**	**Amount**
A	**Tier I Capital**	
A.1	Paid-up Share Capital	1,44,003.68
A.2	Reserves	3.51
A.3	Innovative Tier 1 Capital instruments	20,000.00
A.4	Minority Interest	-
B	**Deductions**	
B,1	Investments in instruments eligible for regulatory capital of financial subsidiaries/associates	-
B,2	Securitisation exposures including credit enhancements	-
B,3	Deferred Tax Assets	-
B,4	Good will and Adjustments for less liquid position.	6,378.47
B,5	Prepaid Expenses	574.68
C	**Net Tier 1 Capital**	1,57,054.04
D	**Tier II Capital**	
D.1	General Provisions	10,961.39
D.2	Upper Tier 2 capital instruments	2,166.67
D.3	Lower Tier 2 capital instruments	-
E	**Deductions**	
E.1	Investments in instruments eligible for regulatory capital of financial subsidiaries/associates	-
E.2	Securitisation exposures including credit enhancements	-
F	**Net Tier 2 Capital**	13,128.05
F	Total Eligible Capital	1,70,182.09

Break up of Capital Requirements:-

Capital Requirements for Various Risks		(In Lacs)
SN	**Capital Requirements for various Risks**	**Amount**
A	**Credit Risk**	
A.1	For non-sec portfolio	1,23,911.69
A.2	For Securitized portfolio	7,624.95
B	**Market Risk**	
B.1	For Interest Rate Risk	2,116.47
B.2	For Equity Risk	-
B.3	For Forex Risk (including gold)	-
B.4	For Commodities Risk	-
B.5	For Options risk	-
C	**Operational Risk**	6,359.14

D	**Total Capital Requirement**	1,40,012.25
E	**Total Risk Weighted Assets**	9,33,415.00
F	**Total Capital Funds of the Bank**	1,70,182.09
Capital Adequacy Ratios		
A	Common Equity Tier - 1	14.68%
B	Tier – 1	16.83%
C	Tier - 2	1.41%
D	Total CRAR	18.24%

The Bank is in the process of developing an Internal Capital Adequacy Assessment Process (ICAAP) to cover risks over and beyond what is envisaged under Pillar 1 of the Basel Committee guidelines. This will cover the full year operation for the ensuing financial year.

For its capital adequacy calculation as at 31.3. 2017 under Basel III guidelines the Bank has also taken into cognizance assets under lien for its "grandfathered" portfolio of legacy borrowings and applied an additional RWA of 25% to these assets. This portfolio is progressively being paid down and will not be replaced. The capital adequacy position will therefore improve commensurately. Likewise, the securitized portfolio which was transferred under the BTA, was treated as an on balance sheet asset because of the implicit support and RWA applied accordingly. This will fall away with consequential improvement in capital adequacy. The Bank has no plans for the present to originate any further securitisation transactions.

As earlier stated, pending guidelines for the RBI, the Bank has computed RWA for Operational Risk using the BIA principles. The additional capital charge on account of this process totalled Rs. 6359.14 Lakhs. Likewise, capital charge on account of the small AFS portfolio that the Bank had on its books as at 31.3.2017 amounted to Rs. 2116.47 Lakhs.

III. Risk Management at Ujjivan Small Finance Bank

A. Risk Culture

The Bank has embedded a strong risk culture throughout the organization. A strong risk culture is designed to help reinforce the Bank's efforts by encouraging a holistic approach to the management of risk and return throughout the organization as well as the effective management of the Bank's risk, capital and reputation. The Bank is involved in risks in connection with its businesses and the following principles underpin the risk culture within the organization:

- Every risk taken is approved within the risk appetite of the Bank;
- Risk is taken within a defined risk limit. These are constantly refined at periodic intervals;
- Risk is continuously monitored and managed at a granular level, both for the Bank's credit portfolio and the operational risk that it is exposed to;

Employees at all levels are responsible for the management and escalation of risks. This is within a framework of risk limits and risk strategy as approved by the Board and communicated by the Bank's senior management. There are clear and defined roles and responsibilities in this regard.

B. Risk Infrastructure

USFB has a comprehensive infrastructure of Board approved policies, procedures, people and technology to actively measure, monitor and report risk to the senior management and to the Board. As it has transitioned from an NBFC- MFI to an SFB, the Bank has invested considerably in technology. Under implementation as at the yearend were the Asset Liability Management (ALM) and Enterprise Governance Risk and Compliance (EGRC) modules procured from SAS. UAT on both processes are to commence from June this year. Once implemented, the reporting of liquidity risk and operational risk parameters will be automated from data derived from the Bank's core banking system. This will aid in the automatic generation of daily liquidity reports and cash flows for management purposes and also in submission of regulatory returns. To address the risks in on boarding liability customers, the Bank has implemented the Regulated Entity (RE) module from Posidex. This has included the scan of its existing data base of asset customers and all new on boarding. The Bank has a separate Anti Money Laundering (AML) cell for transaction monitoring. Here again, the SAS AML tool provides the required technology infrastructure.

This risk infrastructure is reviewed on a periodic basis for completeness, appropriateness and alignment to changing risk within the economy and the business. The robust review mechanism of the Bank that results in policy initiatives and increased control measures where appropriate is evidenced by the collection efficiency of its JLG portfolio, following the effects of demonetization.

C. Risk Governance

The Bank has set up a robust risk governance framework based on the following key principles:

- While the Board of Directors is responsible for overall governance and oversight of core risk management activities, execution strategy is delegated to the Risk Management Committee of the Board (RMCB). At a management level, there are separate committees for Credit Risk, Operations and IT Risk and ALCO. All these committees meet at monthly intervals;
- Segregation of duties across the 'three lines of defence' model, whereby front-office functions, risk management and oversight and Internal audit roles are played by functions independent of one another;
- Risk strategy is approved by the Board and reviewed on an annual basis;
- All major risk classes are managed through focused and specific risk management processes. These risks include credit risk, market risk, operational risk and liquidity risk;
- Policies and processes are in place and regularly enhanced to enable the risk management capability;
- All new processes and products introduced in the Bank have a rigorous due diligence process that includes a risk review before these are formally introduced.

IV. Credit Risk

A. Credit Risk Management

A significant part of USFB's business is based on the JLG lending model for providing collateral free, small ticket-size loans to economically active poor women. The Bank has adopted an integrated approach to lending, which combines a high customer touch-point typical of microfinance, with the technology infrastructure and related back-end support functions similar to that of a retail bank.

In addition to the microfinance portfolio, the Bank has a small and growing portfolio of small ticket individual loans granted mainly to its erstwhile microfinance customers. These are customers who have had a good track record with the Bank and whose business requirements have grown such that these cannot be catered to within the parameters of microfinance loans. The Bank also has a small portfolio of loans to the affordable housing sector and to Micro and Small Enterprises (MSE). A majority of the credit portfolio of the Bank is unsecured.

B. Credit Risk Monitoring and Reporting

Credit risk is managed through a framework that sets out policies and procedures covering the measurement and management of credit risk. There is a clear segregation of duties between transaction originators in the business function and approvers in the credit risk function. Board approved credit policies and procedures mitigate the Bank's prime risk - default risk.

The Unsecured Credit function specifically manages and monitors the microfinance business (JLG) and Individual Loans through an independent loan underwriting and approval process. Credit risk monitoring for the unsecured lending portfolio is undertaken in the following way:

- Field credit teams ensure implementation of various policies and processes through random customer visits and assessment, training of branch staff on application errors, liaison with other institutions to obtain necessary information/loan closure documents, as the case may be, and highlight early warning signals and industry developments enabling pro-active field risk management. The efforts of the field credit team are supplemented by that of the strong Internal Audit framework of the Bank. This is primarily audit of field and branch banking processes, including the credit sanction and disbursement process. Any breach is highlighted and corrective measures initiated;

- Branch specific credit limits for JLG business have been formulated that define credit limits for various occupations thereby addressing exposure and concentration risks. The limits so drawn ensure approvals in accordance with customer's maturity in the lending system, vintage with USFB, primary occupation of the family and their locale. The entire policy suite thus enables robust customer selection and assessment;

- Portfolio analysis and reporting is used to identify and manage credit quality and concentration risks. Monthly branch credit performance score cards have been implemented to ascertain the health of the branch portfolio. These score cards capture critical portfolio quality parameters such as loan application error rates, arrears, collections and write offs. The lending limits for branches are adjusted based on these scores.

Credit risk monitoring for the Bank for MSE and the affordable housing sector is broadly done at two levels – account level and portfolio level. Account monitoring aims to identify weak accounts at an incipient stage to facilitate corrective action. Portfolio monitoring aims towards managing risk concentration in the portfolio as well as identifying stress in certain occupations, markets and states.

The Bank has also established an Early Warning System (EWS) to identify and act on signs of early sickness in the loan accounts and take necessary corrective action. Such accounts, where potential distress has been identified, are included and maintained in a watch list and reviewed on a periodic basis by the business and underwriting units so that suitable steps can be taken for mitigation of risk. The Bank also actively monitors its credit portfolio on non-stress related factors, such as concentration risk and program limits.

C. Special Mention Accounts

A system of early recognition with timely and adequate intervention forms the focus of the approach in dealing with slippage of NPAs. In this context, the RBI has suggested introduction of an asset category between 'standard' and 'sub-standard' for internal monitoring and follow up. This asset category is known as 'Special Mention Accounts (SMA). The SMA has potential weakness and hence deserves close management attention which can be resolved through timely remedial action. If left uncorrected, the potential weaknesses in the said asset may result in deterioration in the asset classification.

In conformity with the prudential norms of the RBI, and its Board approved policy, the Bank makes provisions on its Special Mention Accounts. The provisioning norms are applied on a time bucket basis. Time bucket is determined from the date the account becomes overdue.

D. Classification of Non-Performing Assets (NPA) and Provisions on Loans

The Bank classifies its advances into performing and non-performing asset in accordance with the extant RBI guidelines and its Board approved policies. The Bank makes general provisions on all standard advances based on the rates approved by its Board. The provision on standard asset is not reckoned with for arriving at net NPAs and is not netted off from gross advance.

Specific loan loss provisions in respect of non-performing advances are made based on management's assessment of the microfinance business (JLG), Individual loans and MSE and the affordable housing sector subject to the minimum provisioning level prescribed by the RBI.

E. Exposure Summary

The following section provides details of all risk exposures held at USFB as at 31.3.2017.

By Facility Type

(In Lacs)

Credit Risk Exposure			
SN	**Exposure type**	**Domestic (Outstanding)**	**Overseas (Outstanding)**
1	Fund Based*	5,87,564.73	-
2	Non Fund Based	-	-
Total		**5,87,564.73**	-

* Fund based facilities include Loans & Advances (customer & Staff)

By Geographic Distribution (excluding staff loans)

(In Lacs)

Exposure Distribution by Geography			
SN	**Exposure type**	**Domestic (Outstanding)**	**Overseas (Outstanding)**
1	Assam	23,205.70	-
2	Bihar	26,927.46	-
3	Chandigarh(UT)	1,255.80	-
4	Chhattisgarh	3,090.22	-
5	GOA	517.67	-
6	Gujarat	31,522.84	-
7	Haryana	27,224.54	-
8	Himachal Pradesh	572.50	-
9	Jharkhand	18,444.71	-
10	Karnataka	90,621.14	-
11	Kerala	13,146.45	-
12	Madhya Pradesh	7,626.21	-
13	Maharashtra	65,697.08	-
14	Meghalaya	1,719.16	-
15	New Delhi	11,696.25	-
16	Orissa	16,299.73	-
17	Pondicherry	4,533.04	-
18	Punjab	16,350.10	-
19	Rajasthan	19,176.82	-
20	Tamil Nadu	86,060.14	-
21	Tripura	7,584.79	-
22	Uttar Pradesh	22,969.31	-
23	Uttarakhand	3,878.25	-

24	West Bengal	86,996.11	-
Total		**5,87,116.04**	-

By Industry (excluding staff loans)

(In Lacs)

Exposure distribution by Activity			
SN	**Industry Classification**	**Fund Based (Outstanding)**	**Non-Fund Based (Outstanding)**
1	Agriculture & Allied Activities	913.77	-
2	Agriculture - Small & Marginal Farmers	77,314.95	-
3	Education Loan	11,324.20	-
4	Housing Loan	9,783.64	-
5	MSE – Services	4,903.12	-
6	MSE – Manufacturing	732.09	
7	Other PSL Loans	4,82,144.26	-
Total		**5,87,116.04**	-

As on 31 March 2017, Bank's exposure to the segments stated below was more than 5% of the total gross credit exposure (outstanding):

Exposure distribution by Activity		
SN	**Industry Classification**	**Percentage of total gross credit exposure**
1	Agriculture – Small & Marginal Farmers	13.17%
2	Other PSL Loans #	82.12%

Other PSL loans constitute loans which have been provided to the economically weaker section.

Maturity Pattern

(In Lacs)

Residual Contractual Maturity breakdowns of Assets- Position as on 31st March 2017							
Maturity Bucket	**Cash**	**Balances with RBI**	**Balances with Banks #**	**Investments**	**Loans & Advances**	**Fixed Assets**	**Other Assets**
Day 1	4020.18	0.08	1058.29	26,956.77	13,180.06		6.57
2 to 7 Days		32.91	41,500	175.50	11,854.92		0.01
8 to 14 Days		443.99		2,367.55	17,259.13		0.02
15 to 30 Days		600.53		3,202.14	17,819.36		6,552.73

31 Days to 2 Months		959.87		5,118.45	47,127.45		441.12
Over 2 Months and up to 3 Months		1,223.68		6,525.20	45,486.22		363.05
Over 3 Months and up to 6 Months		3,054.51	1,658.66	16,287.98	1,24,383.63		605.67
Over 6 Months and up to 1 Year		6,122.13	2,190.19	32,645.85	1,69,885.13		7,136.86
Over 1 Year and up to 3 Years		9,409.45	3,782.08	50,175.28	1,31,558.95		169.22
Over 3 Years and up to 5 Years		195.02		1,039.96	3,057.90		0.23
Above 5 Years		30.57		173.02	4,491.75	13,976.86	7,253.44
Total	**4,020.18**	**22,072.74**	**50189.22**	**1,44,667.70**	**5,86,104.49**	**13,976.86**	**22,528.92**

including money at call and short notice

NPA

(In Lacs)

Movement of NPAs and Provision for NPAs (including NPIs)		**31st Mar 2017**
SN	**Category**	**Amount**
A	**Amount of NPAs (Gross)**	1,639.95
A.1	Substandard	1,468.92
A.2	Doubtful1	171.03
A.3	Doubtful2	-
A.4	Doubtful3	-
A.5	Loss	-
B	**Net NPAs**	179.71
C	**Advances**	
C.1	**Gross Advances**	5,87,564.73
C.2	**Net Advances**	5,86,104.50
C	**NPA Ratios**	

C.1	Gross NPAs (including NPIs) to gross advances (%)	0.28%
C.2	Net NPAs (including NPIs) to net advances (%)	0.03%
D	**Movement of NPAs (Gross)**	
D.1	Opening balance as on 01.02.2017	-
D.2	Additions	1,888.53
D.3	Reductions	248.58
D.4	Closing balance as on 31.03.2017	1,639.95
E	**Movement of Provision for NPAs**	
E.1	Opening balance as on 01.02.2017	-
E.2	Provision made during Financial year	1,664.79
E.3	Write offs/Write back excess provision	204.56
E.4	Closing balance as on 31.03.2017	1,460.23

V. Credit Risk- Disclosures for Portfolios Subject to Standardized Approach

Credit Risk Exposure by Risk Weight

Details of Gross Credit Risk Exposure (Fund based and Non-fund based) based on Risk-Weight – Position as on 31 March, 2017 (In Lacs)		
SN	**Risk Weight**	**Amount**
1	Below 100% risk weight	69,661.52
2	100% risk weight	4,00,405.79
3	More than 100% risk weight	1,17,497.42
Total		**5,87,564.73**

VI. Credit Risk Mitigation- Disclosures for Standardized Approaches

Credit function has a certification process for all business and credit staff involved in the field level customer assessment for all its asset products. This training is also used to delegate role based credit approval authority to the credit team at regional and central level. A well-defined approval and deviation matrix authorizes personnel in the hierarchy to approve loans categorized on various risk elements.

The JLG and Individual Loan portfolio of the Bank is unsecured. Loans to the affordable housing segment are collateralized by a mortgage over the property financed. The Bank is in the process of developing a score card model which would facilitate operational decision making. There is a Credit Approval committee comprising senior officials of the Bank which sanctions only the credit proposals above Rs 20 lakh.

Credit Risk Mitigant

Credit risk mitigation refers to the use of methods to reduce the risk of lending to a borrower. The Bank has put in place a detailed credit appraisal process which is captured in separate product manuals and product programs. The mitigants used in the unsecured lending portfolio are as follows:

- Life insurance is mandatory for all the borrowers in the JLG segment.
- Bank works with 4 credit bureaus and ensures 100% application screening through the bureaus. State of the art paperless approval process, through the document management system enables a quick and uniform approval process.
- Customers with emerging credit problems are identified at an early stage through the tele-calling team and classified accordingly. Remedial actions are implemented promptly to minimize the potential loss to the company.
- A robust process for end use monitoring of funds post disbursement.
- An effective use of the centre meeting platform for its JLG portfolio to determine incipient problems and introduce risk mitigants as appropriate.

The Bank currently holds physical collateral for credit risk mitigation purposes for its affordable housing portfolio, but has no holdings in eligible financial collateral. Hence no allowance for eligible collateral has been made in the computation of capital charge.

VII. Operational Risk

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It is inherent in all activities arising out of a bank's business and operations and could result in financial losses, litigation, regulatory fines or other damage to the bank. The severity of impact on the bank, its employee and customers is dependent on the efficacy with which operational risk is managed by the bank. The goal is to keep operational risk at appropriate levels, in light of the bank's financial strength, the characteristics of its businesses, the markets in which it operates, and the competitive and regulatory environment in which it operates.

Governance and organization structure for managing operational risk

Consistent with these objectives the Board has approved an Operational Risk Management policy of USFB to achieve the following:

- Provide a comprehensive view of operational risks across business for proactively assessing key risks and initiating mitigating measures;

- Reduce 'Impact' and 'Probability' of risk events through introduction of sound practices for operational risk, embedding right sized controls in a proactive manner to minimize losses from operational failures;
- Create awareness by developing a common understanding and taxonomy of risks across the Bank and embed risk ownership by business;
- Manage capital optimally by moving to more advanced approaches.

The Bank has put in place Board approved governance and organisational structure that specifies roles and responsibilities of employees, business, operational risk management department and other stakeholders towards operational risk management.

Risk identification, measurement, monitoring and reporting

Responsibility of identification and management of operational risk on a day –to-day basis lies with business. Operational Risk Department is responsible for designing and implementing framework and tools that help identify, manage operational risk and for assessing the design and operating effectiveness of controls. Key initiatives taken by the Bank to ensure timely identification and management of operational risks include–

- Conducting a thorough due diligence requiring input from business and all control functions before opening any new branch. This process is also followed for identification of centres for the JLG business. The field credit staffs complement these efforts through periodic update so that this does not remain a one off exercise. The robustness of this process is evidenced by the absence of USFB in pockets that were severely affected post demonetisation;
- Monthly risk scoring through an internally developed model to measure risk of each branch operation with resultant scores determining the action plan which is devised in consultation with business to ensure quick turnaround of branch operations from high/medium risk to low risk;
- Operational Risk checklist for assessment of controls in existing and new asset products and liability processes. This is used to raise awareness amongst users of associated operational risks in case of controls being compromised.
- Operational Risk Incident reporting process involving a detailed risk analysis for material incidents and to learn from errors for strengthening controls through loss and near miss data. Incident reporting is used to capture operational risk incidents in a systematic manner. This is followed by a Root Cause Analysis (RCA) of each reported incident and to book losses on identified operational risk events;
- All new products are rolled out post assessment of critical operational and compliance risks and with approval of the Product Approval Committee (PAC);
- Risk and Control Self-Assessment (RCSA) methodology that supports identification and mitigation of key risks using a bottoms-up approach. Every process is reviewed for identifying 'inherent risks' on the basis of probability of occurrence & severity of impact. Related controls are assessed for design efficiency and control effectiveness to arrive at 'residual risk'. Depending on the severity of residual risks, risk acceptances are obtained from appropriate authorities;

- Internal control testing framework that assesses design and operating effectiveness of controls. This is an on-going exercise;
- Framework for on-going monitoring of risks through Key Risk Indicators (KRIs). This includes defining and monitoring Bank level KRIs followed by process level KRIs;
- Tracking of actions for timely closure of open Issues from RCSAs, control testing, risk incidents and audit;
- Periodic reporting of material risk exposures to senior management to facilitate timely mitigation.

Information Technology and Security Risk

The Chief Information Technology Officer (CISO) oversees risks related to Information Technology. The CISO reports to the Chief Risk Officer. Information Security Risk Team operates under Information Security Management System framework (ISMS) framework and cyber security framework that is aligned with RBI guidelines. In the Bank, this group guides and supports implementation of strong information security principles in the areas of technology solutions, the related processes and people.

Business Continuity

The Bank has adopted robust policies on Business Continuity Management and Disaster Recovery. The Bank has formulated processes for identification of IT BCP and non-IT BCP teams, training and awareness sessions, identifying alternative premises, and coordination of contingency plans at the business unit levels and at the Bank level.

Information Security and Cyber Security

There is an independent information security group which addresses information and cyber security related risks. A well-documented, Board approved information security and cyber security policies are put in place. Periodical awareness exercise is ensured to update employees on information security practices.

Bank operates in a highly automated environment and makes use of latest technological framework for supporting various operations. Use of technology brings in newer kind of risks like business disruption, risks related to information assets, data security etc. Bank has put in a governance framework, information security practices to mitigate information technology and information system related risks which ensures preservation of Confidentiality, Integrity and Availability (CIA) of all Information assets.

IX. Interest Rate Risk in Banking Book

Interest Rate Risk in Banking Book (IRRBB) refers to the risk of loss in earnings and economic value of the Bank's banking Book as a consequence of movement in interest rates.

The Bank has identified the risks associated with the changing interest rates on its exposures in the banking book from both a short-term and long-term perspective.

The main components of the approach for identification and measurement are as under:

- The assessment takes into account both the earnings perspective and economic value perspective of interest rate risk.
- The impact on income or the economic value of equity is calculated by applying a notional interest rate shock of 200 basis points as required by RBI.
- The methods followed in measuring the interest rate risk are:
    - Earnings perspective: Earnings At Risk (EaR) combined with gap analysis.
    - Economic perspective: Gap analysis combined with duration gap analysis.

Earnings Perspective

Interest Rate Risk in the Banking Book (IRRBB)			(In Lacs)
SN	**Country**	**Interest Rate Shock**	
		+200bps	**-200bps**
1	India	1,268.51	(1,268.51)
2	Overseas	-	-
Total		**1,268.51**	**(1,268.51)**

Economic Value Perspective

Interest Rate Risk in the Banking Book (IRRBB)			(In Lacs)
SN	**Country**	**Interest Rate Shock**	
		+200bps	**-200bps**
1	India	(2,707.27)	2,707.27
2	Overseas	-	-
Total		**(2,707.27)**	**2,707.27**

X. Exposure related to Counterparty Credit Risk

USFB does not deal in derivatives. As at 31.3.2017 the investible surplus was placed in the Call Money Market with a select few banks. The counterparty credit risk exposure as on reporting date is as follows:

Counterparty Credit Risk Exposure		**(In Lacs)**
SN	**Counterparty**	**Amount**
1	HDFC Bank Ltd.	10,000.00
2	State Bank of India	26,500.00
3	ICICI Securities Primary Dealership Ltd.	5,000.00
	Total	**41,500.00**

X1. Capital Adequacy as per Basel II framework

Report on Capital Adequacy	**(In Lacs)**
Description	**Amount**
Tier - 1 capital	146,007.16
Tier - 2 capital	4,823.27
Total capital	150,830.42
Total Risk Weighted Assets	772,257.07
Tier - 1 ratio	18.91%
Tier - 2 ratio	0.62%
Total capital ratio	**19.53%**