Pillar III Disclosures as at June 30th, 2022

2022

[Ujjivan Small Finance Bank (hereinafter called “the Bank”) is primarily subject to the BASEL II {New Capital Adequacy Framework (NCAF)} framework with some elements of Basel III regulations made applicable and has prepared this disclosure document in compliance with the directions of Reserve Bank of India (hereinafter referred to as “the Regulator” or “RBI”) vide its circular RBI/2015-16/58; DBR.No.BP.BC.1/21.06.201/2015-16 dated 1st July 2015. The document provides a review of key observations pertaining to the Bank’s capital adequacy, credit quality, key business highlights and a review of its key risks as at June 30, 2022.]

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1. List of key abbreviations

Abbreviation	Full form
AFS	Available for Sale
ALCO	Asset Liability Committee
ANBC	Adjusted Net Bank Credit
ATM	Automated Teller Machine
AUM	Asset Under Management
AIF	Alternate Investment Fund
BC	Business Correspondent
BIA	Basic Indicator Approach
BRACO	Business Risk and Compliance Officer
BV	Book Value
CC	Cash Credit
CASA	Current Account Savings Account
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
EWS	Early Warning System
FIG	Financial Institutions Group
FLOD	First line of Defence
FP	Floating provision
FPI	Foreign Portfolio Investor
GLC	General Ledger Code
GNPA	Gross Non-Performing Asset
GVA	Gross Value Added
HFT	Held for Trading
HTM	Held to Maturity
HQLA	High Quality Liquid Assets
HUF	Hindu Undivided Family
IBPC	Inter Bank Participation Certificate

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

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

2. Key Performance highlights of the Bank

Ujjivan Small Finance Bank (hereinafter called "the Bank") has been making quarterly disclosures under the Pillar 3 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 1st July 2015. This document provides a review of key observations pertaining to the Bank's capital adequacy, credit quality, key business highlights and a review of its key risks as at June 30, 2022.

A. Branch network and distribution reach

The branch position of the Bank as at June 30, 2022 was as follows:

Particulars	Count
Total Banking outlets, of which	575
Banking outlets[1] (Non-URC)	431
Banking outlets (URC)[2], *of which*	144
i Qualifying URC Branches (Branches situated in tier 3-6 locations in NE[3] states and LWE[4] districts)	33
ii Business Correspondents (BC)	7

There were no additions to the network during the year. The Bank is fully compliant with the RBI guidelines on having 25% (25.04% as at June 30, 2022) of its Banking Outlets in the URCs.

This year the Bank is seeking to restart expanding its physical presence across the country with a modest beginning by opening around 27(7 URC's and 20 other branches) branches, largely focused on the liability-rich catchment areas. Physical reach would be supplemented by a strong and focused investment in digital platforms to grow the business volumes, both assets and liabilities.

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[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.

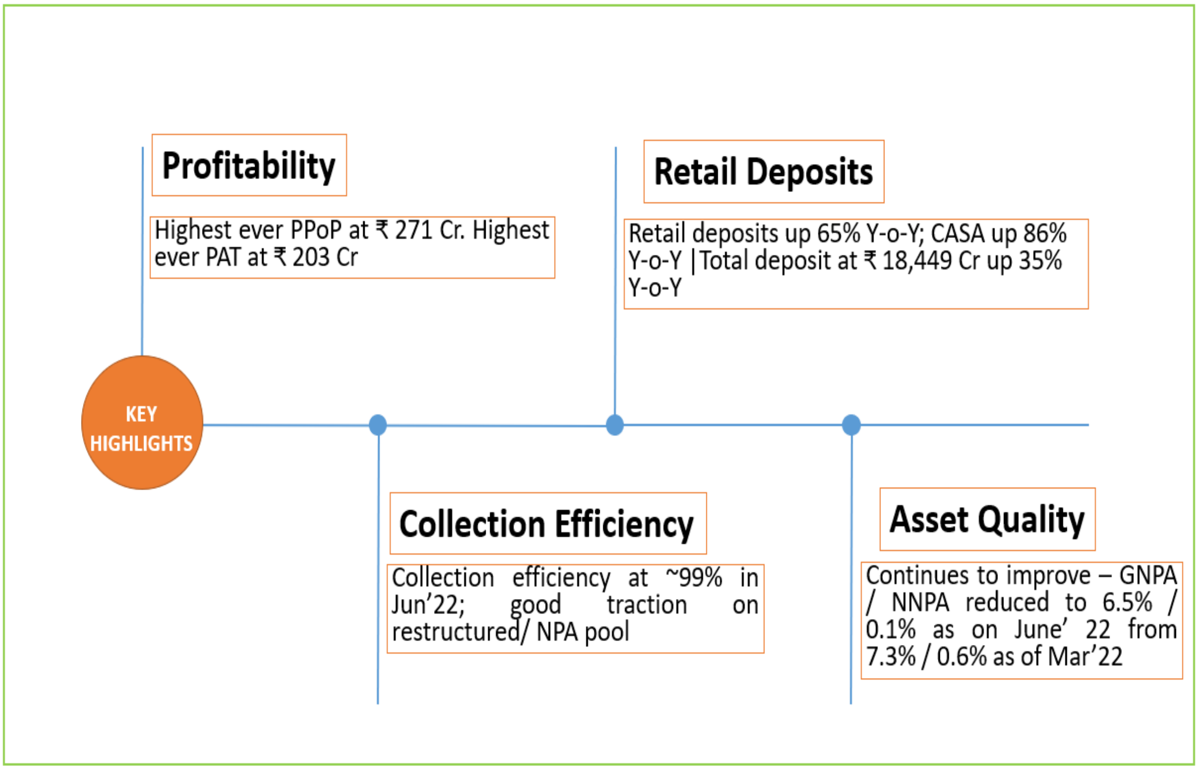
' [2] An unbanked rural centre (URC) is defined as a rural (Tier 5 and 6) centre that does not have a CBS-enabled 'Banking Outlet' of a Scheduled Commercial Bank, a Payment Banks or an SFB or a Regional Rural Bank nor a branch of a Local Area Bank or licensed Co-operative Bank for carrying out customer-based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

[3] North eastern states

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

B. Financial highlights for Q1 FY 2022-23

Some of the key achievements made for quarter ended June 30 2022 were as follows:



Key Highlights	Description
Customer base	• Total outreach was 66 lakh as at June 30, 2022 (64 lakh as on March 31, 2022)
Loan Portfolio	• Asset Under Management (AUM)[5] : Rs.1,94,08,99.12 lakh as at June 30, 2022 (Rs. 18,16,197.10 lakh as at March 31, 2022) • Gross Advances: Rs. 1,76,14,55,15 lakh[6] as at June 30, 2022 (Rs. 17,48,765 lakh as at March 31, 2022) • Non-Microfinance book was 29.41% as at June 30, 2022 on Gross Advances basis (29.41% as at March 31, 2022)
Deposit Portfolio	• Total Deposits (Retail plus Institutional): Rs.18,44,900 lakh as on June 30, 2022 (Rs. 18,29,222 lakh as at March 31, 2022) • CASA: 28% as at June 30, 2022 (27% as at March 31, 2022)
Asset Quality	• Gross Non-Performing Assets (GNPA): 6.51% as at June 30, 2022[7]

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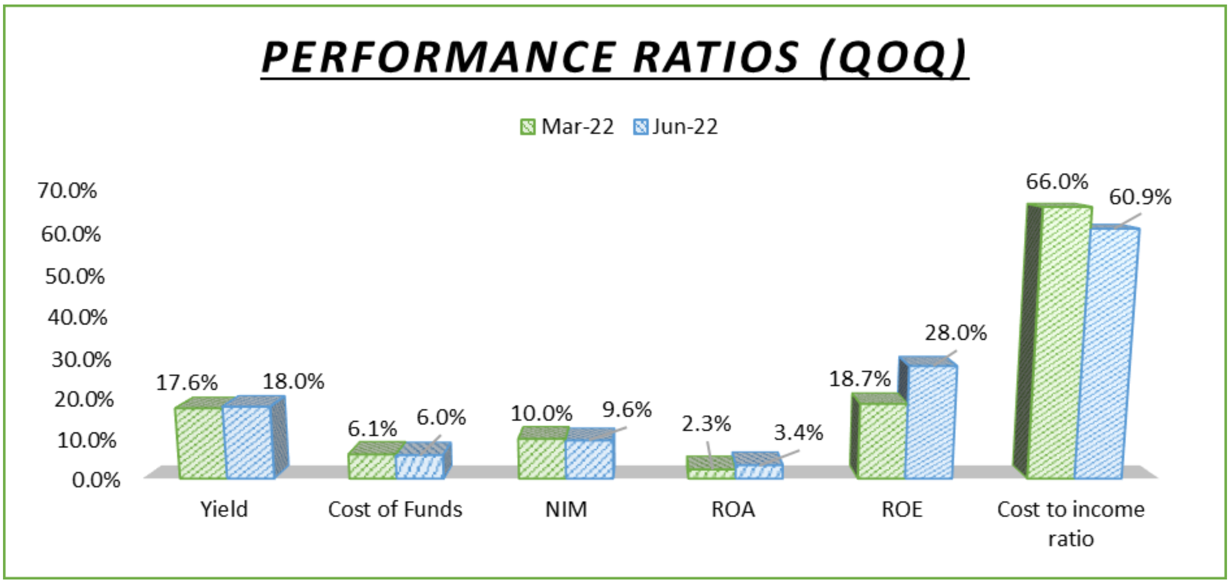
[6] After adjusting for Rs 1,79,443.97 lakh of IBPC/ Securitization / Direct assignment 3

[7] Computed as a percentage to Gross advances. GNPA% as a ratio to AUM was 5.91%

	(7.34% as at March 31, 2022) • Net Non-Performing Assets (NNPA):0.11% as at June 30, 2022[8] (0.59% as at March 31, 2022)
Employee strength	• 16,664 as at June 30, 2022 (16,895 as at March 31, 2022)
NPA Provision	• Overall NPA provision (excluding floating provision) stood at Rs.90,888.75 lakh (Rs. 93,444.75 lakh as at March 31, 2022). • Total NPA provision reduced Rs. 2,556.99 lakh during quarter ended June 30, 2022

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



Q 1 FY 22-23 was a historical quarter for the Bank with the Bank reporting a highest ever pre-provision operating profit (PPOP) of Rs. 27,106 lakhs and profit after tax of Rs. 20,293 lakhs for a quarter. As indicated in the chart above all the performance ratios of the Bank showed an improving trend in June 2022 when compared to March 2022, expect for NIM which declined by 40 bps due change in the mix of interest yielding assets of the Bank during the quarter.

Bank's performance this quarter is another milestone on the recovery path which the Bank had undertaken 9 months ago with a fourfold objective of strengthening the leadership team, growing business volumes, increasing collections and improving asset quality. The Bank stabilised its business in Q 3 FY 21-22, turned it around in Q 4 FY 21-22 and this quarter (Q 1 FY 22-23) marked growth and profitability . Q 1 FY 22-23 business volume kept pace with Q 4 FY 21-22, both in terms of assets and deposits. The Bank achieved its highest ever

[8] Computed as a percentage to Gross advances NNPA% as a ratio to AUM was 0.10%

Q 1 disbursement in Q 1 FY 22-23 which was Rs. 4,326 crores. As on June 30, 2022 Bank's asset under management was Rs. 19,409 crores which was higher by 38 % YoY from asset under management as on June 30, 2021 (Rs. 14,037 crores). The Banks deposits grew by 35% YoY to Rs. 18,449 crore as on June 30, 2022 as against 13,673 crores as on June 30, 2021, with retail deposits growing 65% YoY to Rs. 10,671 crore as against Rs. 6,515 crores as on June 30, 2021.

C. Macro-Economic Outlook and way forward:

Global Economic Outlook

- The International Monetary Fund (IMF) in the July update of its World Economic Outlook has slashed its forecast for global growth this year to 3.2 per cent, down from its earlier expectations of 3.6 per cent. These latest projections imply that world economic growth, after rebounding to 6.1 per cent in 2021, will slow down sharply to 3.2 per cent in 2022. Equally worrying is the even more severe revision in growth expectations for next year, the IMF now expects growth at 2.9 per cent, down 0.7 percentage points from its April forecast
- In large part, the lowering of growth projections is driven by expectations of a sharp slowdown in developed economies, the United States of America (US) in particular, as central banks tighten policy to fight surging inflation. Inflation is a global phenomenon; the Fund has upped its forecasts on the back of higher food and energy prices. It now expects inflation at 6.6 per cent in advanced economies and 9.5 per cent in emerging market and developing economies. The tightening of monetary conditions will impact output. The US Federal Reserve has hiked its policy rate by 75 basis points for the second time in July, raising the rate to range of 2.25-2.5 per cent, as inflation rate was at a 4 decade high in the US at 9.1% in June 2022
- The US economy contracted in the quarter ended July by 0.9%, this is second quarter in a row in which the US economy has contracted increasing the fears of recession in US. A recession in the US along with a sharp slowdown in China is expected to have grave consequences for the world economy.

Indian Economic Outlook

- IMF has lowered its expectation of growth during FY 22-23 from 8.2 % to 7.4 %. This is in line with RBI's forecast for GDP growth in FY 22-23 which was at 7.2% in April 2022 lower from the earlier projection of 7.8% which was made by RBI in February.
- RBI has projected India's GDP growth to be 4.1% in Q 3 and 4 % in Q 4 of FY 22-23 against a projection of GDP growth of 16.2% in Q 1 and 6.3 % in Q 2 of Fy 22-23.
- In the calendar year 2022 the Rupee has declined ~ 7 % against USD as a consequnce of slowing economic growth, energy crisis casued due to Russia-Ukraine conflict and tightening of global financial conditions. Depreciation pressure on the Rupee is expected to increase with the US Fed Reserve hiking rates.
- India's retail inflation represented by Consumer Price Index (CPI) has shown a downward trend with provisional CPI for June being at 7.1% down from 7.79% reported during April 2022. RBI has projected CPI for FY 22-23 at 6.7% on the basis of

assumption of a normal monsoon in 2022 and average crude oil price (Indian basket) of USD 105 per barrel.

Bank's Way forward

- The focus of the Bank this year is to consolidate its business and make it profitable, invest in new avenues of growth. The economy is recovering and the credit demand has picked up as evident from the Bank's performance over the last 3 quarters. The Bank looks to grow its gross advances by around 30% this year with deposits growing faster than advances. The Bank is monitoring its costs very closely and aims to bring in efficiency through process improvement and productivity enhancement.

- On Credit cost, the Bank intends to restrict it to 1% on account of a declining trend in NPA and PAR projected for the balance of the FY 22 - 23. Return on Assets is expected to be ~ 2.3% with the down side risk being the inflationary pressure that is brewing in the economy and the resultant rate hikes. The Bank also continues to monitor the global geopolitical scenario.

- Going forward as part of its key growth strategies the Bank would focus on:

  - Building a retail deposit base and improve its share of CASA ratio;
  - Focus on the un-served and underserved segments and educate customers to develop improved financial behaviour;
  - Build a dynamic and strong collection network with focus on digital repayments;
  - Introduce new products and services and focus on cross selling to existing customers

3. Table DF- 1: Scope of Application

3.1 Qualitative Disclosures

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

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

3.1.1 List of group entities considered for consolidation

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

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

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

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

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

4. Table DF-2: Capital Structure

4.1 Qualitative Disclosures

4.1.1 Tier I capital

The Bank has an authorized capital of Rs. 2,50,000 lakh in the form of Common Equity of Rs. 2,30,000 lakh qualifying as Tier 1 capital and Perpetual Non-Cumulative Preference Shares (PNCPS) of Rs. 20,000 lakh qualifying as Additional Tier 1 Capital under the guidelines of RBI. As on June 30, 2022, the Bank had an issued, subscribed and paid up equity capital of Rs.1,72,831.42 lakh, having 1,72,83,14,205 shares of face value Rs.10 each and 20,000 lakh PNCPS having 200,000,000 preference shares of face value of Rs. 10 each.

The licensing guidelines for SFBs permit the aggregate foreign investment in a private sector bank from all sources up to a maximum of 74% of the paid-up capital (automatic up to 49% and approval route beyond 49% to 74%). As foreign shareholding in the Bank was 0.80% comprising of (a) Foreign Portfolio investors (FPI), (b) Non-Residential Indians (NRI) and (c) Non-Resident Indian Non Repatriable as at June 30, 2022, 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[9]:

As at June 30, 2022, the promoter contribution in the Bank was 83.32% with the holding company being the largest shareholder. As per RBI guidelines, the promoter shareholding is 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 RBI has dispensed 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 as at January 31, 2022.

The Bank has initiated the process of reverse-merger with its Holding Company to meet the

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

above-mentioned criteria. To this effect, the Boards of both the Bank and Holding Company have approved the scheme for amalgamation in its meeting dated October 30, 2021. As directed by RBI, the scheme for amalgamation was also submitted to the Regulator three months prior to completing the five years' timeline. However, as directed by SEBI, the Bank has to bring its promoter holding down to 75% or below before initiating the merger application with the stock exchanges. The Bank is in the process of raising capital through a Qualified Institutions Placement (QIP) which will help achieve the dilution of its promoter holding to below 75%.

Subsequent to the successful completion of the QIP, the Bank will seek various regulatory approvals from RBI, SEBI and stock exchanges, National Company Law Tribunal (NCLT), shareholders and creditors in the next few months. Post receipt of all regulatory approvals, the Bank will initiate processes relating to finalization of record date, approval from Registrar of Companies (ROC), issue of shares etc. to effect the merger. The entire process is expected to be completed within a time-frame of 12-14 months from the date of completion of QIP.

The shareholding pattern of the Bank as at June 30, 2022 was as follows:

Category of the Shareholder	No. of shares held	%age of shareholding
Promoter	1,44,00,36,800[10]	83.32%
Mutual Funds	17,874	0.001%
Alternate Investment Funds (AIF)	92,86,215	0.54%
Foreign Portfolio Investors (FPI)	25,04,002	0.14%
Resident Individuals/Hindu Undivided Family (HUF)	25,36,03,554	14.67%
Others	2,28,65,760	1.32%
Total	**1,72,83,14,205**	**100%**

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

Capital Structure- Summary of Tier I & Tier II Capital			
Sl. No.	**Instrument**	**Whether Tier I or II**	**Amount (Rs. in Lakh)**
1	Equity[11]	Tier 1	1,72,831
2	PNCPS[12]	Additional Tier I	20,000
	Total		**1,92,831**

[10] One Equity Share each is held by 6 individuals, as nominees, on behalf of Ujjivan Financial Services Limited (Promoter),

[11] Issued and Paid up equity capital

[12] Perpetual Non-cumulative Preference Shares

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 is in compliance to the requirements prescribed under Basel III capital regulations[13]. 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. The rate of dividend payable to the investors may be either a fixed rate or a floating rate referenced to a market determined rupee interest benchmark rate.

The claims of the investors in the instruments are:

a Superior to the claims of investors in equity shares;

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

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

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

4.1.2. Subordinated Debt Instrument

The Bank has fully repaid its subordinated debt obligations. There are no capital instruments in the nature of Subordinated Debt warranting inclusion in Tier II capital as at the reporting date. As per directions received from the Regulator[14], Tier II capital instruments can be issued in compliance to Basel II or Basel III guidelines of RBI. The Bank is however in the process of making an issuance of sub-debt and this is expected to be completed in the forthcoming quarter.

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.

[13] RBI/2015-16/58 DBR.No.BP.BC.1/21.06.201/2015-16 dated July 1, 2015

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

The payment of dividend to equity and PNCPS shareholders is also subject to conditions as prescribed by RBI issued vide RBI/2004-05/451 DBOD.NO.BP.BC. 88 / 21.02.067 / 2004-05 dated May 4, 2005.

5. Table DF- 3: Capital Adequacy

5.1 Qualitative Disclosures

The Bank has been well capitalized since inception and was further augmented after its IPO. As required by RBI in its operating guidelines to SFBs[15], the Bank is required to adopt the Standardized approach for Credit Risk and maintain a minimum Capital to Risk Weighted Assets Ratio (CRAR) of 15% segregated as under:

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

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

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

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

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

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 for banks.

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

Credit Risk	Underestimation of Credit Risk (Under ICAAP framework)
Operational Risk	Reputational Risk
Market Risk	Strategic Risk
Interest Rate Risk in Banking Book (IRRBB)	Compliance Risk
Liquidity Risk	People Risk
Concentration Risk	Information Technology and Information Security Risk
Outsourcing Risk	Group Risk[16]
Securitization Risk	Fintech Risks

The Bank has implemented a Board approved Stress Testing policy and framework which forms an integral part of the Bank's ICAAP. Stress Testing involves the use of various techniques to assess the Bank's potential vulnerability to extreme but plausible stressed business conditions. The changes in the levels of credit risk, market risk, liquidity risk, IRRBB, operational risk and reputational risk are assessed 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.

[16] As per RBI guidelines on Guidelines on Management of Intra-Group Transactions and Exposures issued vide RBI/2013-14/487DBOD.No.BP.BC.96/21.06.102/2013-14 dated 11th February 2014

5.2 Quantitative Disclosures

5.2.1. Basel II capital calculation

The break-up of Basel II capital funds as at June 30, 2022 was as follows:

Rs. in lakh

	Description	Amount
	Core Equity Tier 1 Capital - Instruments and Reserves	
	Directly issued qualifying common share capital plus related stock surplus (share premium)	1,72,831.42
	Retained earnings	1,05,818.58
A	CET1 capital before regulatory adjustments	2,78,650.00
	Core Equity Tier 1 Capital - Regulatory Adjustments	
	Deferred tax assets arising from temporary differences	3,56,48.96
	Intangibles (Prepaid Expenses & Computer Software)	1,67,64.64
	Credit Enhancements	3,959.03
	Regulatory Adjustments applied to CET1 Capital due to insufficient funds in Tier 2 to cover deductions	0
B	Total regulatory adjustments to CET1 Capital	56,372.63
C	**CET1 capital (A-B)**	**2,22,277.37**
	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)**	**2,42,277.37**
	Tier 2 Capital - Instruments and Provisions	
	Sub - debt eligible as Tier 2 capital	-
	General Provisions on Std. Assets admissible as Tier 2	15,182.67
	Investment Fluctuation Reserve	2,051.31
I	Tier 2 Capital before regulatory adjustments	17,233.98
	Tier 2 Capital - Regulatory Adjustments	
J	Total Regulatory Adjustments to Tier 2 Capital	-
K	**Tier 2 Capital (I - J)**	**17,233.98**
L	**Total Regulatory Capital (H + K)**	**2,59,511.35**

5.2.2. Credit Risk RWA

The detailed break up of Credit RWA is as follows:

Rs. in lakh

Asset Description	RWA
Cash and Balances with Reserve Bank of India	0.00
Balances with Banks and Money at Call and Short Notice	19,973.76
Investments	1,452.28
Advances	12,08,902.80
Fixed Assets	13,498.19
Other Assets	30,116.62
Off Balance Sheet	21,682.71
Total Credit RWA	**12,95,626.36**

5.2.3. Operational Risk RWA

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

The detailed computation is as follows:

Rs. in lakh

Particulars	T	T-1
	FY'22	**FY'21**
Total amount of operational losses net of recoveries (no exclusion) *	906.96	657.28
Total number of operational risk losses*	1253	1247
Total amount of excluded operational risk losses#	807.83	566.09
Total number of exclusions	990	986
Total amount of operational losses net of recoveries and net of excluded losses	99.13	91.19

Rs. in lakh

Sr. NO.	Business Indicator (BI) and its sub components	T	T-1	T-2
1	**Interest, lease, and dividend component**			
1a	Interest and lease income	281.28	280.61	270.36
1b	Interest and lease expenses	103.92	107.75	107.00
1c	Interest earning assets	21,64,058.57	17,65,639.88	16,54,943.28
1d	Dividend Income	0.00	0.00	0.00
2	**Services component**	0.00	0.00	0.00
2a	Fee and commission income	21.87	13.64	19.24
2b	**Fee and commission expense**	1.93	1.29	2.05

2c	Other operating income	5.23	9.94	10.42
2d	Other operating expense	39.52	24.61	24.75
3	**Financial Component**	0.00	0.00	0.00
3a	Net P&L on the trading book	1,619.63	1,716.17	553.23
3b	Net P&L on the banking book	185.34	3,878.45	0.00
4	BI	92,414.17	-	-
5	Business Indicator Components (BIC)	11,089.70	-	-

Rs. in lakh

6a	BI gross of excluded divested activities	**92,414.17**
6b	Reduction in BI due to excluded divested activities	-

Disclosure on the BI

Rs. in lakh

1	Business indicator component (BIC)	**11,089.70**
2	Internal loss multiplier (ILM)	0.58
3	Minimum required operational risk capital (ORC)	11,089.70
4	**Operational risk RWA**	**1,38,621.26**

5.2.4. Market Risk RWA

As at June 30 2022, the AFS[17] book consisted of Government of India Securities, Treasury Bills and unquoted equity and the HFT[18] book consisted of only T-bills. On the basis of SDA[19], the capital requirement for market risk reported to the Board from a governance perspective was as under:

Rs. in lakh

Capital Requirement for Market Risk	Amount
Interest Rate Risk	535.08
Equity Position Risk	15.11
Foreign Exchange Risk	--
Total	**550.19**
Total Market Risk RWA	**6,877.42**

[17] Available for Sale

[18] Held for Trading

[19] Standardized Duration Approach

5.2.5. Basel II CRAR (with only Credit RWA)

Rs. in lakh

Particulars	RBI thresholds	Amount/Ratio (Only Credit RWA)
Tier I Capital	--	2,42,277.37
Tier II Capital	--	17,233.98
Total Capital	**--**	**2,59,511.35**
Total RWA	**--**	**12,95,626.36**
CET Ratio	Minimum 6%	17.16% (Complied)
Tier I Ratio	Minimum 7.5%	18.70% (Complied)
Tier II Ratio	Maximum cap at 7.5% of CRWA	1.33% (Complied)
CRAR	**Minimum 15%**	**20.03% (Complied)**

The RWA was at Rs. 12,95,626.36 lakh, a level similar to March 31, 2022, primarily on account of Inter Bank Participation Certificates (IBPC), Securitization transactions and Direct Assignment executed in Q1 FY 22-23. 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 20.03% is well above the minimum ratio of 15% as applicable for SFBs. Based on projected capital requirements under the ICAAP scenario tests, the Bank's Board has approved to augment its capital position through an issue of equity shares through Qualified Institutional Placement (QIP) route. This is expected to be completed in the current financial year.

5.2.6. Capital Adequacy under Pillar I Risk (Credit, Market and Operational risks)

Particulars	Amount/ Ratio (all Pillar 1 risks)
Tier I Capital	2,42,277.37
Tier II Capital	17,233.98
Total Capital	2,59,511.35
Total RWA	**14,41,125.04**
CET Ratio	15.42%
Tier I Ratio	16.81%
Tier II Ratio	1.20%
CRAR	**18.01%**

It may be noted that the Bank's CRAR is assessed at 18.01% 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 soley on the basis of CRWA. While the Regulator is yet to notify the applicability of the other two pillar risks, there is a possibility to align the minimum capital adequacy norms with that of UCBs for allSFBs. Hence, not only from a governance persepcitve but also to meets its future projections in growth, the Bank has always been well capitalized, when taking into consideration capital charges for Credit Risk, Market Risk and Operational Risk.

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

6.1. Qualitative disclosures

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

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

The Bank's Risk Management department drives credit risk management centrally 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 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 suggest 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). In the backdrop of the pandemic, the Bank is currently enhancing its occupation/industry wise exposure tracker and limits thereof. The enhanced framework is expected to go live in the current financial year.

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. These concentration ceilings and exposure levels 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, 2022 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 and adverse events (such as demonetization and the COVID pandemic) have impacted the portfolio quality. To enhance the coverage on MB-RB portfolio, the Bank continuously identifies stress in specific accounts and geographies where accelerated provisions may be required on an on-going basis. 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 21-22), as a one-time measure, the Bank had created a Floating Provision amounting to Rs. 25,000 lakh to address 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. In the Q1 of FY 22-23, the Bank, with approval from the RMCB, and in accordance with the RBI guidelines, decided to continue to utilize Rs. 22,000 lakh for netting off against GNPA and balance Rs. 3,000 lakh of floating provision was considered as part of Tier II capital. The Bank amended its existing internal policy to the effect that the floating provisions to the extent not considered for netting off from gross NPA will be used as part of Tier II capital when there is a headroom available in lots of Rs. 1,000 lakh from an earlier threshold of R. 5,000 lakh. The floating provision to the extent reckoned in Tier II capital will not be used for netting off Gross NPAs and augmenting PCR. The entire floating provision continues to be on the books and can be utilised in the future for making specific provisions in extraordinary circumstances with prior approval of RBI.

Credit Risk Portfolio review and Monitoring:

Micro finance portfolio

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 separately for the restructured (under RF 1.0 and RF 2.0) and non-restructured book on a daily basis and findings are reported to top management. There has been a significant reduction in the RF stressed pool which was driven by improved collections and reduction of slippages. This was aided by a strong dedicated collection team, analytics and digital tools. Digital collection continues to scale up through existing and new channels like Fintech, Payment Banks, Money Mitra outlets (BC outlets). During Q1 FY22- 23 cashless collections were at 20% vs 19% in Q4 FY22. The composite collection efficiency (CE%) has reached nearly 99.50% in the month of June 2022. 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 1st , 2022 the Bank has adopted Master Direction – Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022. The Bank has implemented the new regulatory framework in Q1 FY 22-23 with necessary approvals from the Board. The major changes amongst others include implementing revised definition of micro finance, revision to assessment of household income, limit on repayment obligation of the household, changes to pricing of loans etc. Bank is in the process of making few system changes to implement standard household income assessment model and use of CIR for household members and this would be completed by October 1st, 2022.

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.

As part of risk measurement, the Bank has designed behavioural models to compute Probability of Default (PD) and Loss Given Default (LGD) estimates. These inputs are primarily used in Expected Credit Loss (ECL) estimations and are also factored in providing a forward guidance to incremental credit costs. The Bank regularly conducts tests to test the homogeneity of the pools created for the purpose of computation of PD and LGD.

Affordable Housing Loans and MSE portfolio

Credit risk monitoring for MSE and 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.
In the Q1 FY 2022-23, in Housing and MSE Secured vertical, there was increased focus on recoveries in NPA through the legal channel. The Sarfaesi initiations were accelerated which led to faster recoveries from NPA accounts.

During the quarter the Bank set up a Health council for MSE vertical specifically to improve the asset quality of this portfolio. The Health Council meets every month to discuss case level issues and address them for corrective action .

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 are being used in decision making delegation and linked to Risk Based Pricing with effect from October 1, 2021.

Institutional Lending

In Q 1 FY 22-23 the Institutional lending book of the Bank continued to be in range of 5 % of the overall lending book of the Bank and continued to have a Collection efficiency at 100% during Q 1 FY 22-23. As part of monitoring, the Bank analyses compliance to financial covenants (Capital Adequacy Ratio, GNPA, NNPA, Debt/Equity ratio as stipulated in sanction letter), monitoring of CA certified receivables statement received from borrowers and EWS alerts.

Vehicle Loans

In the current year the Bank plans to restart lending in this segment on cautious note targeting with clear focus on two wheeler and used car business. Collection will be through Airtel payments, online portals for ease of transaction for customer. 70% cases are moving digitally, wherein the TAT has reduced from 6-7 days to 2-3 days. This is expected to improve considerably and be comparable to industry as the Bank completes the implementation of its LOS for this product.

Key Risk Indicators are defined and monitored at portfolio level while EWS triggers are analysed at account level. Expert judgement scorecards are developed on the basis of customer track record. Two variants viz. thick (with rich credit history), thin (with low credit history) are developed and deployed for the two-wheeler variants. Customers are categorized on a four-point scale viz. green, yellow, amber and red. The delegation of authority is linked to the rating outcome of the borrower. Pricing is however not linked to these scorecards as per the dispensation received from RBI. These scorecards are deployed primarily to collate data which can be further analysed to develop statistical scorecards.

Personal loans:

The Bank has temporarily put on hold lending in this segment as part of the strategic plan to reduce concentration in unsecured lending and also as part of the capital optimization plan. The Bank will revisit its PL business plan post augmentation of capital in the current financial year.

The Bank has Early Warning System (EWS) framework at an account level for enhanced monitoring for all the portfolios. This framework enables the Bank to monitor a borrower's internal/external repayment record and changes in accessibility of the customer efficiently on an on-going basis. The EWS is thus designed to track customers who might transition from a non-default status to default status. This transition needs to be arrested so that a better repayment discipline can be established within the Bank.

6.2. Quantitative Disclosures

The overall distribution of gross advances and Asset Under Management (AUM) as at June 30, 2022 was as under:

Rs. in lakh

Vertical	Gross Advances	%	AUM	%
MB-RB	12,43,333.81	70.59%	13,36,355.59	68.85%
FIG Lending	87,158.28	4.95%	87,158.28	4.49%
Housing	2,15,377.69	12.23%	2,90,462.81	14.97%
MSE	1,65,374.83	9.39%	1,76,711.90	9.10%
Personal Loans	21,993.40	1.25%	21,993.40	1.13%
Staff Loan	4,983.08	0.28%	4,983.08	0.26%
Vehicle Finance	15,274.60	0.87%	15,274.60	0.79%
Loan/OD Against Deposit	7,959.46	0.45%	7,959.46	0.41%
Total	**17,61,455.15**	**100%**	**19,40,899.12**	**100%**

Exposure summary: Facility type

Exposure Type	Domestic (Rs. in Lakh)	Overseas
Fund- Based exposure[20]	23,67,179.11	--
Non- Fund Based Exposure*	66,487.38	--
Total	**24,33,666.49**	**--**

*Non-fund-based exposure for purpose of computation of CRAR includes undrawn limits of MSE Overdrafts and

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

KPC, yet to be disbursed portion of Secured Housing, MSE and FIG customers and Contingent liabilities.

Geographic Distribution of advances (State-wise)

Rs. in lakh

States	Asset Under Management[21]	% Share
Tamil Nadu	3,01,940.25	15.56%
West Bengal	2,36,696.92	12.20%
Karnataka	2,74,596.43	14.15%
Maharashtra	1,82,858.89	9.42%
Bihar	1,32,704.64	6.84%
Gujarat	1,62,642.69	8.38%
Haryana	1,04,642.64	5.39%
Uttar Pradesh	1,10,474.74	5.69%
Rajasthan	80,769.86	4.16%
Odisha	48,076.96	2.48%
Punjab	47,876.90	2.47%
Assam	18,486.65	0.95%
Jharkhand	43,033.42	2.22%
Kerala	34,456.62	1.78%
New Delhi	69,444.58	3.58%
Madhya Pradesh	28,754.71	1.48%
Tripura	23,534.43	1.21%
Pondicherry	12,185.78	0.63%
Chhattisgarh	9,182.06	0.47%
Uttarakhand	9,243.90	0.48%
Chandigarh (UT)	3,607.43	0.19%
Meghalaya	1,904.89	0.10%
Himachal Pradesh	2,472.40	0.13%
Goa	1,311.35	0.07%
Total	**19,40,899.12**	**100.00%**

Maturity pattern of assets and liabilities

Rs. in lakh

Buckets	Net Advances	Investments	Deposits	Borrowings
Day - 1	190.25	0	4,701.65	770
2-7 Days	17,613.46	999.36	40,573.74	0
8-14 Days	29,384.78	0	35,960.38	114
15-30 Days	12,498.44	0	68,400.58	9,973.50
31 Days and up to 2 months	59,872.68	10,949.11	65,200.78	11,356.16

[21] Interest accrued portion on NPA is reduced on a pro-rata basis to tally with Gross Advances

Over 2 months and up to 3 months	83,210.16	2,482.22	87,690.45	20,780.00
Over 3 Months and up to 6 months	1,49,396.06	64,018.70	1,68,279.38	15,568.00
Over 6 Months and up to 1 year	4,22,647.43	29,903.23	5,30,388.57	40,090.00
Over 1 Year and up to 3 years	5,72,388.89	18,634.49	8,20,460.34	74,910.00
Over 3 Year and up to 5 years	67,982.73	1,20,042.64	22,084.27	6,160.00
Over 5 years	2,33,402.61	2,36,774.14	1,145.71	14,600.00
Total	**16,48,587.49**	**4,83,803.89**	**18,44,885.85**	**1,94,321.66**

Gross Non-performing assets (NPA)

Rs. In Lakh

Category of Gross NPA	**March 2022**	**June 2022**
Sub-standard	77,989.36	34,924.26
Doubtful	50,135.55	55,680.41
Loss	282.82	284.08
Total	**1,28,407.73**	**90,888.75**

Rs. In Lakh

NNPA	**March 2022**	**June 2022**
Net NPA	34,959.79	23,774.95
NNPA after factoring Floating Provisions	9,959.78	1,774.95

NPA Ratios	**March 2022**	**June 2022**
Gross NPA to Gross Advances	7.34%	6.51%[22]
Net NPA to Net Advances	0.59%	0.11%[23]

Movement of Net NPAs (Quarterly basis)

Rs. In lakh

Particulars	**Mar-22**	**June-22**
Opening Balance	42,458.39	9,959.79
Additions during the period	75,949.86	8,149.63
Reductions during the period	83,448.46	19,334.47
Closing Balance	**9,959.79**	**1,774.95**

[22] GNPA on AUM basis was 5.91% (March 2022 GNPA on AUM basis was 7.07%)
[23] NNPA on AUM basis was 0.10% (March 2022 NNPA on AUM basis was 0.55%)

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

Rs. in lakh

Particulars	Mar-22	June-22
Opening Balance	64,601.36	93,447.94
Provisions made during the period	1,35,576.32	16,140.23
Write back of excess provisions	1,06,729.74	18,699.43
Closing Balance	**93,447.94**	**90,888.75**

Provision Coverage Ratio (PCR)

Rs. in lakh

Category	AUM	GNPA on gross advances	GNPA Provisions on gross advances	Floating Provisions held	PCR% on gross advances
MB-RB	13,36,355.59	79,751.18	69,066.69	20,500.00	112.31%
FIG Lending	87,158.28	441.68	441.68	-	100.00%
Housing	2,90,462.81	12,796.46	7,657.05	-	59.84%
MSE	1,76,711.90	19,145.26	11,849.11	1,500.00	69.73%
Personal Loans	21,993.40	1,263.35	932.38	-	73.80%
Staff Loan	4,983.08	0.91	0.40	-	43.11%
Vehicle Finance	15,274.60	1,258.17	938.16	-	74.57%
Loan/OD Against Deposit	7,959.46	6.69	3.28	-	49.01%
Grand Total	**19,40,899.12**	**1,14,663.70**	**90,888.75**	**22,000.00**	**98.45%**

In the Q1 of FY 22-23, the Bank, with approval from the RMCB, and in accordance with the RBI guidelines, decided to continue to utilize Rs. 22,000 lakh of floating provision for netting off against GNPA and balance Rs. 3,000 lakh of floating provision was considered as part of Tier II capital. The floating provision to the extent reckoned in Tier II capital will not be used for netting off Gross NPAs and augmenting PCR.

Write off:[24]

Rs. in lakh

Particulars	Total Write off undertaken
Q1 FY 2022-23	7,936.66

Non-performing Investments (NPI)

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

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

Movement of provisions for depreciation on investments

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

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

7.1. Qualitative Disclosures

a. The Bank has adopted Standardized Approach for computation of capital charge for Credit Risk as per RBI guidelines. These guidelines envisage different risk weights for different asset classes, which have been duly applied.

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

c. Institutional lending is risk-weighted as per ratings assigned by Eligible Credit Rating Agencies (ECRA) as prescribed by RBI.

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 takes cognizance of the same and these were incorporated for all loans sanctioned after the date of issuance of this circular. The Bank has applied the RBI circular dated April 8, 2022 where it has decided 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, 2022		
Sl. No.	**Risk Weight**	**Rs. in lakh**
1	Below 100% Risk Weight	21,54,509.52
2	100% Risk Weight	2,77,884.01
3	More than 100% Risk Weight	1,272.96
4	Deductions from CRM[25] (NPA PROVISION)	(90,888.75)
5	**Total**	**23,42,777.74**

[25] Credit Risk Mitigants (Provision against NPA)

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

8.1. Qualitative Disclosure

- The Group Loan and Individual Loan portfolio, under microfinance is unsecured. Loans to the Affordable Housing segment are collateralized by a mortgage over the property financed. There are primarily secured product variants under MSE loans with one unsecured variant offered in collaboration with a Direct Selling Agent (DSA). The residual book of erstwhile unsecured loans[26] is being run down and is expected to be fully repaid in the current financial year. 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. The small portfolio of Gold Loans, temporarily suspended, is secured with the maximum Loan to Value (LTV) being offered at 70% on the value of the ornaments/jewel proposed to be pledged.

- The Bank accepts Eligible Financial Collateral[27] in a few instances for risk mitigation under secured Institutional lending and MSE loans. These financial collaterals are netted off for its collateralized transactions under comprehensive approach[28] 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, personal loans borrowers 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

[26] Unsecured Business Loans and Unsecured Enterprise Loans

[27] 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

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

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 covering transfer of loan exposures (herein after, the 'transfer of loan exposure'). 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 financial year 2022-23 the Bank had undertaken 'sale' transactions through securitisation route and Direct assignment.

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

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

Market Risk:

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

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

Operational Risk

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

Reputational Risk:

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

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

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

Monitoring credit risk

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

Note: During the Quarter ended June 30, 2022 the Bank did not use credit risk mitigants to mitigate credit risks.

Monitoring market risk

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

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

Originator / Seller

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

Servicer

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

Provider of Liquidity Facilities

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

Credit Enhancement provider

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

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 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 the Q1 of 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

Rs.in Lakh

Total Exposures Securitised by the Bank*	**24,355.41**

*Represents total exposure of loans securitised and sell-downs via Direct Assignment during Q 1 FY 22-23.

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

Rs.in Lakh

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

*PTC- Pass Through Certificate

Assets to be securitised within a year as on June 30, 2022

Rs.in Lakh

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

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

Rs.in Lakh

Exposure Type	Amount*	Unrecognised gains / (losses)
PTC (underlying assets being Loan against property and Micro finance loans)	34,401.49	-
Direct Assignment	12,046.92	
Total	**46,448.41**	**-**

*The amount represents the total outstanding for Securitisaton and Direct Assignment as on June 30, 2022

Securitisation exposures retained or purchased

Rs.in Lakh

Exposure Type	On Balance Sheet*	Off Balance Sheet	Total
Equity Tranche	1,262.94	-	1,262.94
Overcollateralization	1,969.22		1,969.22
Direct Assignment	1,204.69		1,204.69
Total	**4,436.85**	**-**	**4,436.85**

* Represents total principal amount of investment in Equity Tranche, Overcollateralization and Direct Assignement outstanding under risk sharing as at June 30, 2022

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

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

Details of Securitisation Exposures in the Trading Book

- NIL

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

10.1. Qualitative Disclosures

10.1.1. Market Risk

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

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

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

Investments: The Bank has a Board approved policy to make investments in both SLR and Non SLR securities. The Bank had investments in the following instruments: Government of India Securities (G Sec), Treasury Bills (T Bills), State Development Loans (SDL), Separate Trading of Registered Interest and Principal of Securities (STRIPS) and one legacy investment in an unquoted equity. The Bank had also made a token investment in a New Umbrella Entity (NUE) in association with National Payment Corporation of India (NPCI) and investment of Rs. 1,263 lakh as Pass through Certificates as part of the Securitisation deal executed during the year. As on June 30, 2022, the investment holdings in various SLR and Non SLR instruments were as under:

Rs. in lakh

Instrument	AFS		HFT		HTM	
SLR						
	BV	**MV**	**BV**	**MV**	**BV**	**MV**
G Sec (CG)	4,000.83	3,979.20	496.90	497.40	2,97,757.03	2,83,153.91
SDL	-	-	-	-	86,073.39	82,031.44
STRIPS	4,932.10	4,901.53	-	-	-	-

T Bills	86,862.97	86,862.97	2,459.93	2,459.93	-	-
TOTAL SLR	**95,795.90**	**95,743.70**	**2,956.83**	**2,957.33**	**3,83,830.41**	**3,65,185.35**
Non SLR						
PTC	1,262.94	1,407.25	-	-	-	-
Legacy investment (unquoted Equity)	10.02	11.28	-	-	-	-
TOTAL NSLR	**1,272.96**	**1,418.53**	**-**	**-**	**-**	**-**
TOTAL Investment	**97,068.86**	**97,162.22**	**2,956.83**	**2,957.33**	**3,83,830.41**	**3,65,185.35**

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:

Rs. in lakh

Month	**Average SLR requirement**	**Average SLR maintenance**	**Average SLR requirement maintained as a % of NDTL**
Apr-22	3,29,946.31	5,25,967.67	28.69%
May-22	3,40,630.93	5,54,965.55	29.33%
Jun-22	3,37,758.42	5,30,897.70	28.29%

The maintenance of SLR was higher than the mandated requirement in line with its Board directive. In the first instance, this buffer is intended to provide the required cushion for a contingency and forms the basis for Level 1 contingency fund planning. Second, the excess SLR is also intended to provide the cushion to maintain 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. Effective management of LCR, through calibrated disbursements and maintaining sufficient liquid buffer to provide the necessary support to HQLA, ensured that the Bank ended the financial year with LCR at 171.91% which was in excess of the mandated regulatory minimum of 100% and also the internal tolerance limit set by the Board. Further, the Bank had also complied with the HTM holding limit for all the days for the period during the quarter.

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. However, instances of overnight positions held are rare, with the Bank relying mainly on intraday trading in its HFT book. 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.

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.

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 does an analysis on Duration Gap, its related impact on the capital planning of the Bank and presents its view/recommendations 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 1 FY 22-23 . The Bank has various avenues to leverage upon in mitigating any future liquidity shortfalls. Some of the measures include securitization, Direct Assignment, IBPC transactions and term loan facilities from Bank. The Bank is prioritizing the long term funding through deposit mobilization. IBPC amounting to Rs. 91,700 lakh and securitization / Direct assignment amounting to Rs.24,355.41 lakh were undertaken in Q1 of FY 2022-23 have also provided additional liquidity buffer.

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			
Date	**Q1 Quarterly Average**		**Rs. in lakh**
A	**High Quality Liquid Assets**	**Amount**	**Adjusted Amount**
	Level 1 Assets	4,45,767.35	4,45,767.35
	Level 2 A Assets	-	-
	Level 2 B Assets	-	-
B	Total Stock of HQLAs (Adjusted for Capital)		4,45,767.35
C	Cash Outflows	13,64,897.14	3,94,205.90
D	Cash Inflows	2,31,224.65	1,34,900.61
E	Net Cash flow		2,59,305.29
F	25% of Total Cash Outflow		98,551.48
G	Higher of E or F		2,59,305.29
Liquidity Coverage Ratio		**171.91%**	

Net Stable Funding Ratio (NSFR): The objective of the NSFR is to require banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities over a one-year horizon. The Bank's NSFR as at June 30,2022 is 104.19% as against RBI minimum requirement of 100%.

Rs. In Lakh

NSFR	Unweighted Amount	Weighted Amount
Total Available Stable Funding (ASF)	24,31,957.41	15,10,059.43
Total Required Stable Funding (RSF)	24,54,557.09	14,49,384.76
NSFR	**99.08%**	**104.19%**

11. Table DF- 9: Operational Risk

11.1. Qualitative Disclosures

11.1.1. Operational Risk Management Policy and Governance Structure

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

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

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. Operating Risk Management Department (ORMD) has reviewed 36 processes in Q 1 FY 22-23. Few of them are Term deposit booking at Phone banking, Udyam registration process, Treasury department related processes like SLR and Non SLR securities, Money market operations, MSE balance transfer note, Staff Vehicle loan balance transfer and Variable pay automation.
- **UAT Testing** (including BRD and FSD): For any change management/ automation of products and processes, the department owners prepare the Business Requirement Document (BRD). The BRD is reviewed by key control and business functions for

further improvements. Subsequently, the same is provided to the IT department within the Bank. The IT department then prepares the 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 others 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. In Q 1 FY 2022-23, 4 BRD's and FSD's were reviewed and UAT was undertaken for 47 activities 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, etc.

- **RCSA**: RCSA (Risk and Control Self-Assessment) is a forward-looking tool to identify and assess the level of risk inherent in any activity / process, the causes responsible for that risk and the status of existing controls to minimize the risk. The outcome of RCSA provides insight into known as well as potential Operational Risk areas in various process / business lines. Business teams, being the first line of defence, are responsible for carrying out RCSA activity. ORMD, being second line of defence is responsible for providing necessary guidance, training and inputs to the First Line of Defence (FLOD) for carrying out the RCSA. To create a Risk culture in FLOD and assume ownership for this activity, a Special Point of Contact (SPOC) is identified in each department who is designated as Business Risk and Compliance Officer (BRACO) with whom ORMD shall engage. RCSA framework was approved in April 2021 and as on date RCSA was completed for all 21 functions of the Bank including Information Technology department. ORMD team of the Bank has also initiated RCSA for branches which will provide an insight of Operational risk index at individual branches. It is proposed to conduct this activity in a phased manner and aimed to implement it at 54 branches in FY'23.
- **Key Risk Indicators**: In Q 1 FY 22-23, 40 KRIs are continued to be monitored at an organization level and 14 parameters for Branch Banking vertical i.e., Functional KRIs which are part of the ORM framework. In addition to the same, the Bank is also developing KRI's for Micro Banking and Housing vertical. The thresholds for the KRIs have been decided in consultation with the respective stakeholders. These KRIs are analysed on a monthly basis and findings are placed at ORMC and Board at regular intervals with action plan for closure of open issues. In addition to Organizational KRIs and Functional KRIs, with emerging trend in usage of digital platform by customers, it is felt to identify key risk indicators to be monitored for digital payment products and ORMD of the Bank has identified 25 parameters and started monitoring effective April'22.
- **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 Jun'22):

	Count				Loss in lakh			
Event Type	**YTD Jun'21**	**YTD Jun'22**			**YTD Jun'22**			**YTD Jun'21**
	Total	**Loss**	**Total**		**Gross**	**Net**	**Ops Loss**	**Ops Loss**
Business Disruption and Systems Failures	41	82	92		2.68	2.67	0.07	0.09
Clients, Products, and Business Practice	8	7	8		0.86	0.00	0.00	0.22
Damage to Physical Assets	20	0	3		0.00	0.00	0.00	0.00
Employment Practices and Workplace Safety	4	0	0		0.00	0.00	0.00	0.00
Execution, Delivery, and Process Management	66	63	83		15.15	10.12	2.79	6.20
External Fraud	132	49	49		31.35	25.21	0.93	8.30
Internal Fraud	62	93	93		38.71	22.12	9.03	1.56
Total	**333**	**294**	**328**		**88.75**	**60.02**	**12.82**	**16.37**

Thematic reviews: While carrying out RCSA, KRIs, UAT testing, incident reporting etc., Operational Risk team identifies few risk indicators warranting a special thematic review of the entire process. This enables the Bank to identify issues and gaps at minute level which are then taken up for rectification. These thematic reviews do not follow standardized risk identification techniques and therefore provide wider scope for a deeper and customized study of issues and gaps. Such thematic studies have enabled the Bank to further refine its existing processes and plug gaps that had been identified. In Q 1 FY 22-23, ORMD of the Bank performed a thematic review of losses incurred due to technical issues and key gaps were highlighted and discussed in RMCB held in the month of July'22.

- **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'22, User access review was completed for 19 applications including

Finacle Treasury, Br.Net, Finacle CBS and CRM Next. During Q 1 FY 22-23 user access review for 2 more applications viz., CTS and Team viewer which was pertaining to FY 21 - 22. The Bank has policy on 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. During FY 21-22 User access review of Internal office accounts was also undertaken, basis the review the challenges faced in present architecture were identified and corrective actions required to be undertaken are being formalised.

- **Exceptions Handling Mechanism** is an initiative, which started from July 2020 as guided by the Compliance and Control Functions Committee. A list of 32 exception reports were identified and tagged to Operational Risk department of the Bank for initiating the review. Out of which, 17 exception reports were reviewed in Q1 FY 22 - 23 and gaps identified were discussed with relevant stake holders and corrective action have been initiated.
- **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. Critical and repeat observations are shared with the leadership team for remedial /corrective actions. Revised checklist was implemented with effect from April 2022. As at Jun 30, 2022, ORMD of the Bank has reviewed 74 branches against an annual plan to cover 240 branches PAN India.
- **Outsourcing Risk:** 'Outsourcing' is defined as the Bank's use of a third party (either an affiliated entity within the corporate group or an entity that is external to the corporate group) to perform certain activities on a continuing basis that would normally be undertaken by the Bank itself, now or in the future. The Bank has in place an outsourcing policy which provides guidance on outsourcing certain functions to specialized agencies for increasing efficiency and lower costs. The outsourcing policy is framed in compliance to various RBI guidelines on outsourcing issued from time to time. Key activities undertaken during Outsourcing are as follows:

  Pre - on boarding risk assessment: All vendors, deemed as material, are subjected to a rigorous pre-on boarding risk assessment which is done by both Operational Risk team and the Information Security team and this is repeated at annual intervals. Observations from these risk assessments are then shared with concerned functions for resolution. In FY 22 - 23, pre-on boarding risk assessment for 5 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 Information Security team and ORMD. 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 a quarterly basis.

Master tracker maintenance: The Bank maintains a master tracker of all the outsourcing agreements. Details of agreement renewals are tracked and followed up with the concerned functions for renewal within timelines.

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, risk assessment was completed for 82 material vendors including 7 empanelled BC's. Outsourcing undertaken by the Bank is also subject to an annual audit by the Internal Audit team who provide the required compliance certificate to RBI.

- **Business Continuity Planning (BCP):** Business Continuity Management Policy is a prerequisite for a Bank in minimizing the adverse effect on critical areas of Operational Risk with respect to High-Impact and Low-Probability Disruptions, through which Bank maintains confidence levels of its shareholders and satisfies relevant compliance requirements. The plans and procedures are in line with the guidelines issued by the RBI and these are reviewed at regular intervals.

  The Business Continuity Management Policy (BCMP) of the Bank provides guidance to ensure continuity of Business through implementation of contingency plans to restore normal business functioning of Branches, if disrupted during any type of disaster / crisis situation to provide continuous and reliable services and delivery of key products to customers.

  The Bank has established a Business Continuity Management Committee at apex level to monitor the business continuity preparedness of the Bank on an on-going basis. Further, 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 Q 1 FY 22 - 23, 37 planned BCPs and 11 unplanned BCPs 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 19 functions of the Bank.

- **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 external 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 July 2021. IFC testing for FY 22-23 has commenced in the month of July 2022 and testing will be completed for 21 functions of the Bank in a phased manner including testing of Entity level controls.

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.

12.2. Quantitative Disclosures

12.2.1. Earnings at Risk (Earnings Perspective)

(Rs. in Lakh)

Interest Rate Risk in the Banking Book (IRRBB)			
Sl. No.	**Country**	**Interest Rate Shock**	
		+200 bps shock	**-200 bps shock**
1	India	(13,192.56)	13,192.56
2	Overseas	-	-
	Total	**(13,192.56)**	**13,192.56**

12.2.2. Economic Value Perspective (MDG Approach)

Rs. in Lakh

Category	Items	Amount
A	Computation of Aggregate RSA	23,44,224.37
B	Computation of Aggregate RSL	21,50,562.08
C	Weighted Avg. MD of RSL across all currencies	1.15
D	Weighted Avg. MD of RSA across all currencies	1.86
E	Modified Duration Gap (MDG)	0.81
F	Change in MVE as % of equity for 200bps change in interest rate	(16.84%)
G	**Change in MVE in absolute terms**	**(37,931.64)**

12.2.3. Economic Value Perspective (Steeping of Yield Curve)

Bank calculated the change in MVE using steepening of yield curve wherein a change of 100 basis points was considered linearly between 15-day and over 25-year maturities. Change in MVE under this scenario was (Rs. 14,397.36 lakh).

12.2.4. Economic Value Perspective (Inversion of Yield Curve)

Bank calculated the change in MVE using Inversion of yield curve wherein one -year rate was increased by 250 basis points and 10-year rate was decreased by 100 basis points. Change in MVE under this scenario was (Rs. 6,708.48 lakh).

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

Rs. in lakh

Summary comparison of accounting assets versus leverage ratio exposure measure		
	Item	**Amount**
1	Total consolidated assets as per published financial statements	24,03,515.71
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)	20,000.00
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off- balance sheet exposures)	62,840.86
7	Other Adjustments	(52,413.60)
8	**Leverage ratio exposure**	**24,33,942.97**

14. Table DF 18: Leverage ratio common disclosure template

Rs. in lakh

	Table DF-18: Leverage ratio common disclosure template	
	Item	**Amount**
	On-balance sheet exposures	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	24,03,515.71
	Domestic Sovereign	4,82,468.14
	Banks in India	99,868.81
	Corporates	87,407.08
	Exposure to default fund contribution of CCPs	121.00
	Other Exposure to CCPs	
	Others	17,33,650.68
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(52,413.60)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	23,51,102.11
	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	20,000.00
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0.00
14	CCR exposure for SFT assets	0.00
15	Agent transaction exposures	0.00
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	20,000.00

	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	1,00,888.87
18	(Adjustments for conversion to credit equivalent amounts)	38,048.00
19	**Off-balance sheet items (sum of lines 17 and 18)**	62,840.86
	Capital and total exposures	
20	**Tier 1 capital**	2,42,277.37
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	24,33,942.97
	Leverage ratio	
22	**Basel III leverage ratio**	**9.95%**

Presently the contribution of Tier I capital to Total Basel II capital is 93.19%. The business model of the Bank is relatively simple with a significant portion as fund-based assets. Gross advances were primarily in the nature of term loans. Since the exposure to Off Balance Items is presently low, the Leverage ratio is well above the benchmark of 4.5%.

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