## PILLAR III DISCLOSURES- 31st December 2018

Ujjivan Small Finance Bank (hereinafter called "the Bank") has prepared this disclosure document in compliance with the directions of Reserve Bank of India (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 31st December 2018.

The Bank has completed nine months into its second full year of business operations. The branch position as at 31st December 2018 is as follows:

| Particulars | URC outlets[1] | SFB[2] outlets | Total Bank Branches | Asset centres | Total Banking Outlets (BO) |
|---|---|---|---|---|---|
| **South** | 28 | 119 | 147 | 14 | 161 |
| **North** | 14 | 81 | 95 | 24 | 119 |
| **East** | 64 | 90 | 154 | 12 | 166 |
| **West** | 11 | 57 | 68 | 8 | 76 |
| **Bank as a whole** | **117** | **347** | **464** | **58[3]** | **522** |

The Bank has enrolled seven Business Correspondents (BCs) who are compliant with the requirements as laid out by Reserve Bank of India (RBI). These are all located at Unbanked Rural Centres. These BCs perform essential banking services such as acceptance/withdrawal of small value deposits, balance enquiry, mini statement and undertake activities pertaining to updating Know Your Customer (KYC) requirements.

The Bank operated a network of 371 Automated Teller Machines (ATMS) as at 31st December 2018

The Bank provides retail banking services (which include para- banking activities, selling life insurance and general insurance products of third party service providers, with an approval from Reserve Bank of India) to economically active poor in urban and semi urban areas. In line with the objective to further financial inclusion, the Bank has also started lending to agriculture and rural businesses.The focus during the third quarter of the financial year was

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[1] Unbanked Rural Centre

[2] Small Finance Bank

[3] The erstwhile microfinance branches continued to operate as asset centres, most of which are slated for conversion into Bank branches in this financial year.

more towards enhancing the various product offerings on the liabilities side. Some of the key product offerings introduced during the quarter were as follows:

1) Customized offerings for Savings Accounts (SA) customers through cashbacks, discounts and other promotional offers under RuPay;
2) Launched RuPay platinum debit card for Business and Current Account (CA) customers
3) Bill payment facility on online platform;
4) Non Resident External (NRE) and Non Resident Ordinary Rupee (NRO) deposits products were piloted in December 2018 wherein mobilization was to the tune of Rs. 150 lakhs in the first month.
5) Corporate Internet Banking was in advanced stages of completion.

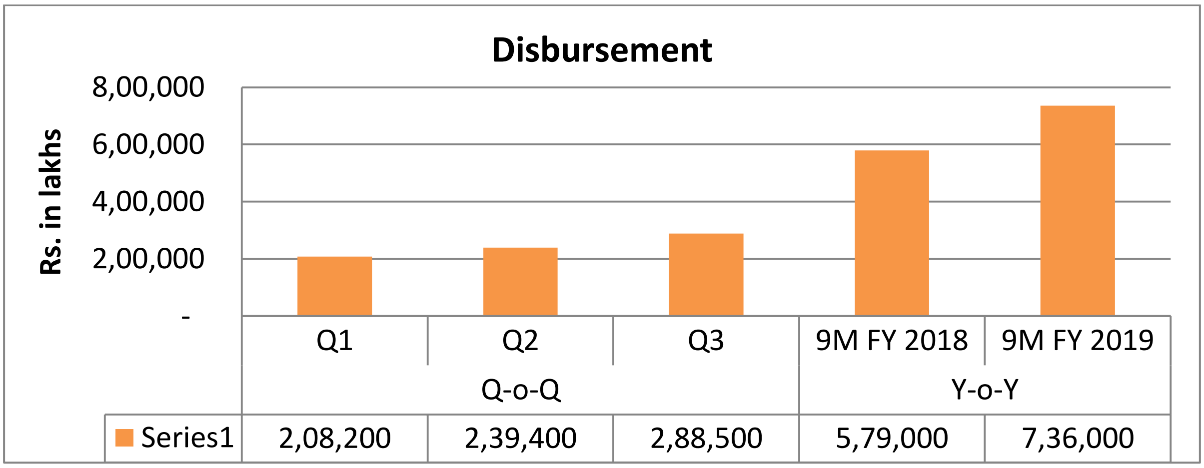
On the technology front, the Bank has finalized the scope and technology architecture for Enterprise Data Platform. Vendor finalization for the same is in progress and is expected to be completed by the end of financial year. System readiness was completed for configuration of new products for NRE/NRO deposits. Customer Relationship Management (CRMnext) capabilities have been leveraged to facilitate account opening of financial institutional loans and implementation of institutional savings account. Capabilities have been built in CRMnext to link Aadhar for LPG subsidy. The recent Supreme Court (SC) ruling which prohibited mandatory linkage of Aadhar number to bank accounts had marginally affected the Turnaround time (TAT) in on boarding clients as the Bank's tab based banking relied heavily on e-verification of Aadhar. Post SC verdict, the Bank has made Aadhar based account opening process as voluntary. If a customer wishes to link Direct Benefit Transfer (DBT) subsidy to his/her Savings Account, the Bank accepts a declaration in writing from the customer in the format prescribed by Unique Identification Authority of India (UIDAI) and initiates Aadhar based account opening.

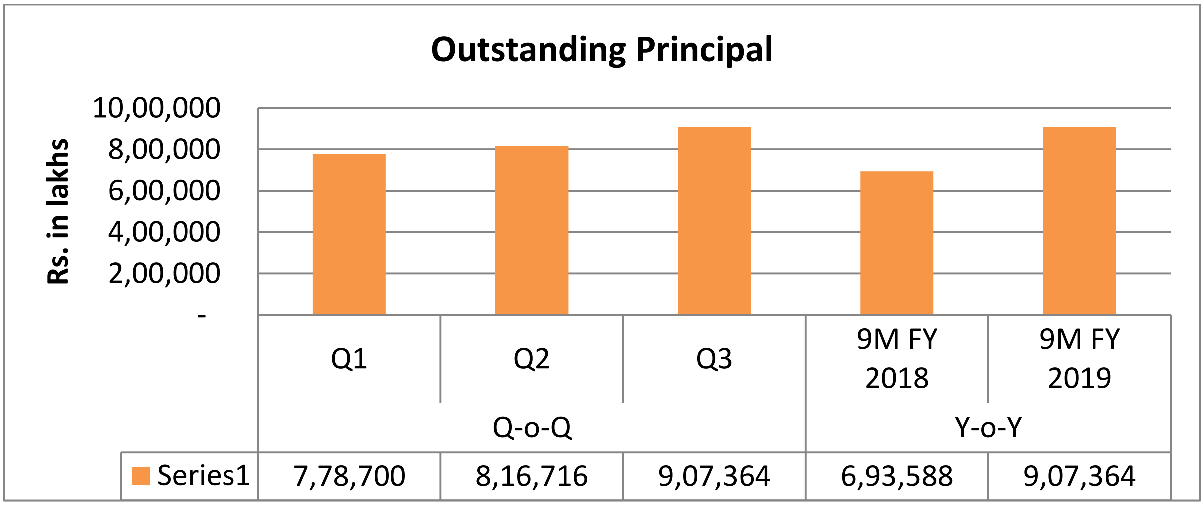
During the quarter, the Bank was awarded the 6th ASSOCHAM SMEs Excellence Award – 2018 for 'Excellent Service' and NASSCOM Data Security Council of India- Corporate Segment Special Jury Recognition Award

**Key performance highlights of the Bank as at 31st December 2018:**

| Key Highlights | Description |
|---|---|
| **Loan Portfolio** | • Outstanding Principal (OSP) at Rs 9,07,364 lakhs (Rs 8,16,716 lakhs in September 2018)<br>• Non-Microfinance book at 13% (11% in March 2018). |
| **Deposit Balance** | • Total Deposits (Retail plus Institutional) Rs. 5, 37,565 lakhs (Rs 4, 18,812 lakhs in September 2018).<br>• CASA: 10% (9% in September 2018)<br>• Retail: 37% (30 % in September 2018) |
| **Customer base** | • 44 lakhs unique customers and 16 lakhs liability customers |

| | |
|---|---|
| **Portfolio Quality** | • Gross Non-Performing Assets (GNPA): 1.41% (1.88% in September 2018)<br>• Net Non-Performing Assets (NNPA): 0.26% (0.29% in September 2018)<br>• Write offs (9M 2018-19): Rs. 13,873 lakhs (Rs.10,993 lakhs for H.Y 2018-19) |
| **Employee strength** | • 14,305 employees with 82% in front-end. |
| **Profitability** | • Profit after Tax (PAT for HY 2018-19): Rs. 13,544 lakhs<br>• Return on Assets (ROA): 1.8% |
| **Funding** | • Cost of funds: 8.5% |



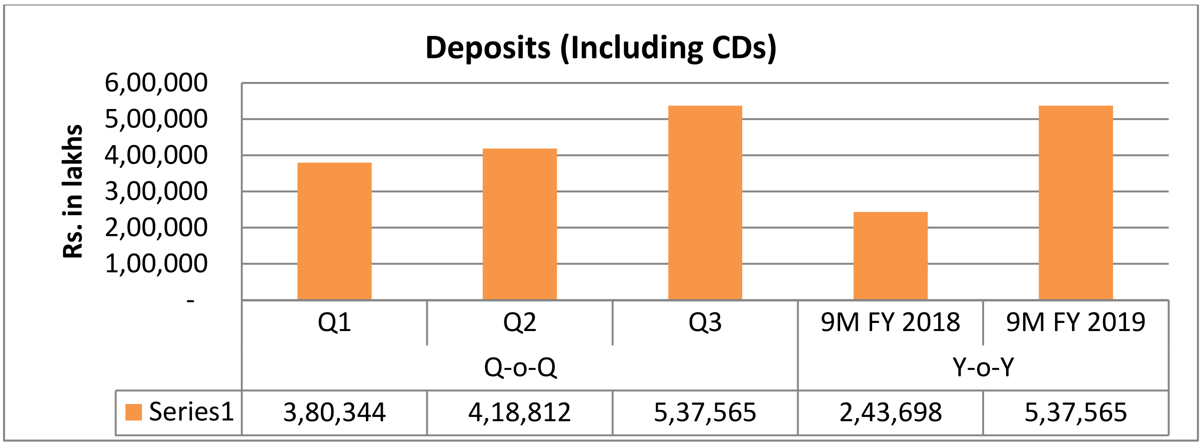



**Table DF- 1: Scope of Application**

**1.1 Qualitative Disclosures**

Parent Organization: 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 do not permit Small Finance Banks (SFBs) to have subsidiaries, nor does the Bank have any interest in any insurance entity.

**1.1.1 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 |

**1.1.2 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 |

**1.1.3 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 |

## DF-2- Capital Structure

### 2.1 Qualitative Disclosures

#### 2.1.1 Equity capital

The Bank has an authorized capital of Rs.1, 50,000 lakhs in the form of Common Equity qualifying as Tier 1 capital under the guidelines of RBI. The Bank has issued, subscribed and paid up equity capital of Rs.1, 44,003 Lakhs, having 1,44,00,36,800 shares of face value Rs.10 each.

The Licensing guidelines for SFBs permit the aggregate foreign investment in a private sector bank from all sources up to a maximum of 74% of the paid-up capital (automatic up to 49% and approval route beyond 49% to 74%). By limiting foreign shareholding in the holding company to 37.09% (including NRI holdings) as at the quarter end, the Bank was compliant with RBI guidelines on SFBs. Further, in compliance with the licensing guidelines, UFSL 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. The shares of the holding company are listed and are actively traded with a closing market price of Rs 277.35 as at 31st December 2018.

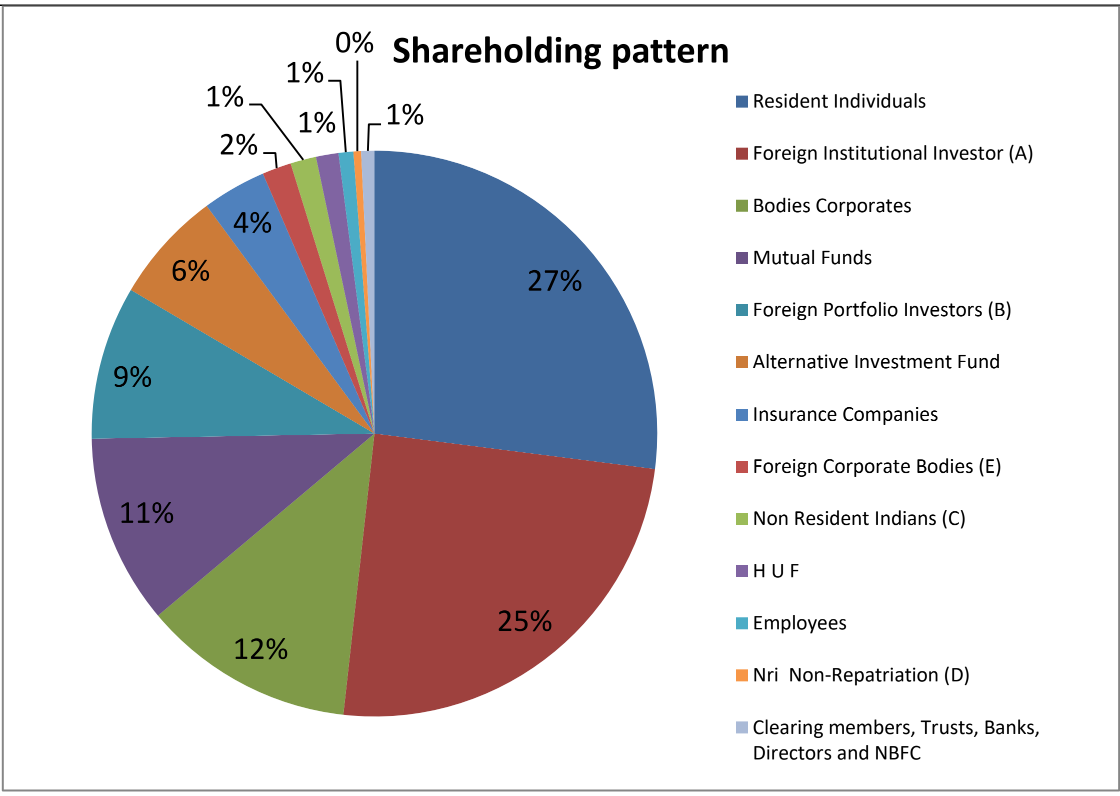
The licensing guidelines require the Bank to list its shares within three years of reaching a net worth of Rs 50,000 lakhs. While the net worth of the Bank is in excess of this mandated figure, it is currently only in its second complete year of operation. In compliance with the guidelines of RBI, the Bank proposes to list its shares by January 2020.

**2.1.1.1. Promoter contribution[4]:**

The Bank is a fully owned subsidiary of Ujjivan Financial Services Limited. As per RBI guidelines, if the initial shareholding by promoter in the Bank is in excess of 40%, it should be brought down to 40% within a period of five years. Additionally, the promoter's minimum contribution of 40% of paid-up equity capital shall be locked in for a period of five years from the date of commencement of business of the bank. Further, the promoter’s stake should be brought down to 30% of the paid-up equity capital of the bank within a period of ten years, and to 26% within twelve years from the date of commencement of business of the bank.

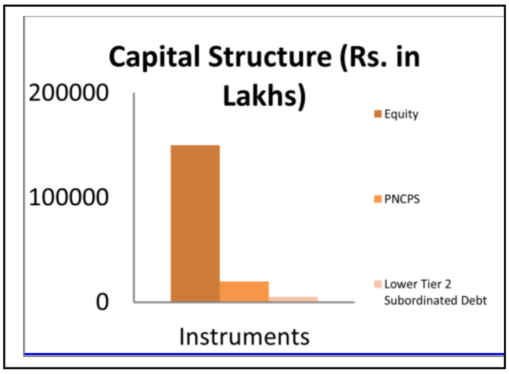
The Bank takes cognizance of the same and compliance to the above guidelines will be undertaken as per the timelines prescribed.

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




The Capital Structure of the Bank is provided below:

| Capital Structure- Summary of Tier I & Tier II Capital | | | |
|---|---|---|---|
| **S. No.** | **Instrument** | **Whether Tier I or II** | **Amount (Rs. in Lakhs)** |
| **1** | Equity[5] | Tier 1 | 1,50,000 |
| **2** | PNCPS[6] | Tier 1 | 20,000 |
| **3** | Lower Tier II Subordinated Debt | Tier 2 | 5,000 |




**2.1.2 Details of 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. A key characteristic to 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 deemed 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:

[5] Authorized capital

[6] Perpetual Non-cumulative Preference Shares

- Superior to the claims of investors in equity shares;
- Subordinated to the claims of Perpetual Debt Instruments (PDIs), all Tier 2 regulatory capital instruments, depositors and general creditors of the Bank; and
- 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 II Series name | Issue Amount (Rs. in Lakhs) | Issue date | Date of Redemption | Basel III complaint ( Y/N) | Interest rate (% p.a.) (on a fixed rate basis) |
|---|---|---|---|---|---|
| **PNCPS** | 20,000 | 9th Feb 2017 | Perpetual | Yes | 11% p.a. |

In HY 2018-19, no dividend was paid by the Bank for PNCPS. During the quarter, the Bank has modified the terms and conditions of PNCPS. As per the existing Terms & Conditions (T&C), dividend for PNCPS can be paid by the Bank annually in arrears, which means that the Bank can declare preference dividend in the Board meeting that will be convened only in the next financial year (in the month of April/May-2019). The Holding Company can book dividends as income only after it is declared by the Bank's Board. To enable the Holding Company to book preference dividends during FY 2018-19, there is a need to modify the terms and conditions of the issue under intimation to RBI. The changes will now enable the Bank to declare dividend as per the discretion of the Board considering the profits of the Bank in the given financial year. The Board is now empowered to:

(i) Declare Interim Dividend during FY 2018-19
(ii) Declare for subsequent financial years (including interim dividends) or
(iii) Declare dividend during the period between the end of the financial year and before conducting the AGM.

**2.1.3.Debt Capital instruments (qualifying as Tier II capital)**

**2.1.3.1 Details of Subordinated debt instruments (in Lakhs)**

The subordinated debt capital instruments are issued as bonds / debentures by the Bank and meet the terms and conditions to qualify for inclusion as Tier II Capital for capital adequacy purposes.

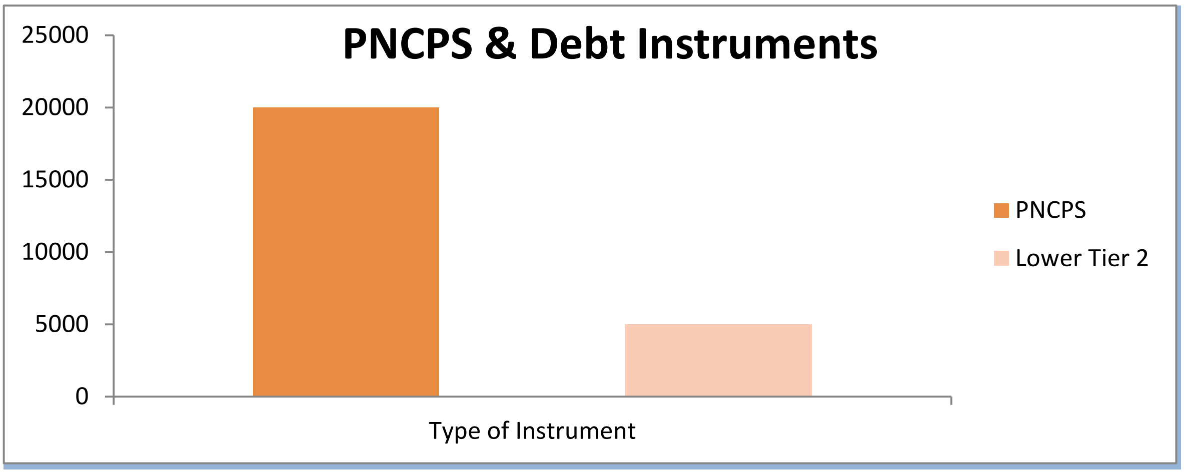
These debt instruments are subjected to a progressive discount for capital adequacy purposes as they approach maturity. The interest payable to the investors can either be at a fixed rate or at a floating rate referenced to a market determined rupee interest benchmark rate.

The claims of the investors in instruments are:

- senior to the claims of investors in instruments eligible for inclusion in Tier 1 capital;
- subordinate to the claims of all depositors and general creditors of the Bank; and
- neither secured nor covered by a guarantee of the issuer or related entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-

vis Bank creditors.

| Tier II Series name | Issue Amount (Rs. in Lakhs) | Issue date | Date of Redemption | Basel III complaint ( Y/N) | Interest rate (% p.a.) (at a fixed rate) |
|---|---|---|---|---|---|
| **SIDBI Sub debt-US** | 5,000 | 29th September 2014 | 10th April 2020 | No | 15% |




There has been no change to the capital structure of the Bank and the Bank has not issued any Debt instrument qualifying as Upper Tier II bonds.

**Table DF- 3: Capital Adequacy**

**3.1 <u>Qualitative Disclosures</u>**

The Bank has been well capitalized since inception. As required by RBI in its operating guidelines to SFBs[7], 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:

| | |
|---|---|
| **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 |

[7] 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

| | |
|---|---|
| **Counter- cyclical capital buffer** | Not Applicable |
| **Pre-specified Trigger for conversion of AT I** | CET1 at 6% up to March 31, 2019 , and 7% thereafter |

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 8th November 2017 marked 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 Basic Indicator Approach(BIA) for Operational Risk. In computing capital charge for Operational Risk, the Bank has used Gross Income for the first completed year of operation, progressively increasing it each quarter, till it has a record of three completed years of operation. This necessarily implies increasing Operational Risk RWA on a quarter on quarter basis, which is cushioned by improved profitability to minimise any impact on the overall capital adequacy position of the Bank.

Although, the Bank follows the Basel II guidelines for computing its capital adequacy, for its internal and regulatory reporting, it also complies with certain aspects of Basel III requirement, such as computation and maintenance of RBI prescribed minimum Liquidity Coverage Ratio (LCR) and Leverage Ratio (LR). Some aspects of Capital Adequacy computation also have elements of Basel III norms, in particular the classification of equity into Common Equity and Additional Tier 1 capital.

The Bank is in advanced stages of discussions with International Finance Corporation (IFC) for a USD 50 million Tier II capital raise, tentatively aimed at completion within the first quarter of the next financial year, after complying with various RBI guidelines and due diligence requirements of IFC. The aim of the capital raise is two- fold. First, to continue to provide the capital buffer that is required as the Bank embarks on its ambitious plan to grow its business substantially. And more importantly, to also provide for long term funding and minimise any potential asset/ liability mismatch as the Bank builds its Housing and Micro and Small Enterprises (MSE) portfolio, which have long dated tenors.

**3.2 Quantitative Disclosures**

The break-up of Basel II capital funds as at 31st December 2018 is as follows:

| **Capital Funds** | | |
|---|---|---|
| | **Position as on 31st December 2018** | **Amount(Rs. in Lakhs)** |
| **A** | **Tier I Capital** | |
| **A.1** | Paid-up Share Capital | 1,44,004 |
| **A.2** | Reserves | 12,908 |
| **A.3** | Perpetual Non-Cumulative Preference Shares | 20,000 |

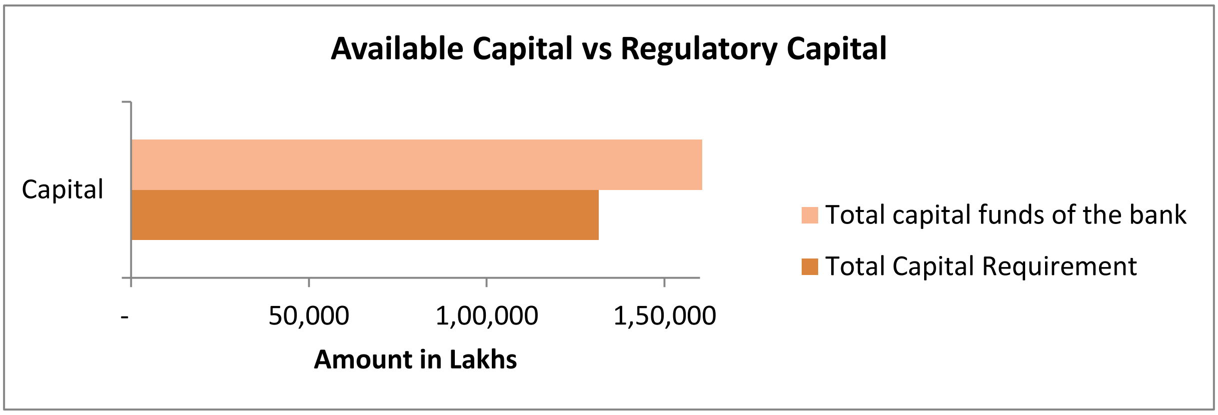
| | | |
|---|---|---|
| **A.4** | Minority Interest | - |
| **B** | **Deductions** | |
| **B.1** | Investments in instruments eligible for regulatory capital of financial subsidiaries/associates | - |
| **B.2** | Securitisation exposures including credit enhancements | 1,383 |
| **B.3** | Deferred Tax Assets | 4,288 |
| **B.4** | Good will and Adjustments for less liquid position/intangibles | 8,047 |
| **C** | **Net Tier 1 Capital** | 1,63,193 |
| **D** | **Tier II Capital** | |
| **D.1** | General Provisions | 4,639 |
| **D.2** | Upper Tier 2 capital instruments | - |
| **D.3** | Lower Tier 2 capital instruments | 667 |
| **E** | **Deductions** | |
| **E.1** | Investments in instruments eligible for regulatory capital of financial subsidiaries/associates | - |
| **E.2** | Securitisation exposures including credit enhancements | 1,383 |
| **F** | **Net Tier 2 Capital** | 3,923 |
| **F** | Total Eligible Capital | 1,67,116 |

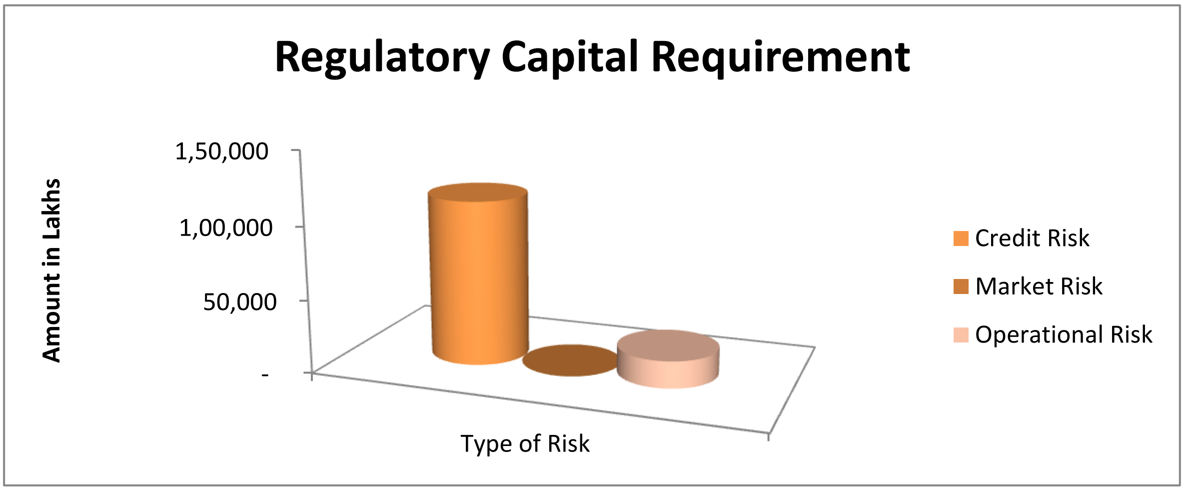
| **Capital Requirements for Various Risks** | | |
|---|---|---|
| **Sl.No** | **Capital Requirements for various Risks** | **Amount(Rs. in Lakhs)** |
| **A** | **Credit Risk** | 1,13,104 |
| **A.1** | For non-sec portfolio | 1,13,104 |
| **A.2** | For Securitized portfolio* | - |
| **B** | **Market Risk** | 16 |
| **B.1** | For Interest Rate Risk | 16 |
| **B.2** | For Equity Risk | NIL |
| **B.3** | For Forex Risk (including gold) | NIL |
| **B.4** | For Commodities Risk | NIL |
| **B.5** | For Options risk | NIL |
| **C** | **Operational Risk** | 18,477 |
| **D** | **Total Capital Requirement** | 1,31,597 |
| **E** | **Total Risk Weighted Assets** | 9,85,190 |
| **F** | **Total capital funds of the bank** | 1,67,116 |
| **G** | Capital Adequacy Ratio of the Bank (%) | 16.96% |

Basel II Ratios as at 31st December 2018 (Rs.in Lakhs)

| Particulars | Amount/Ratio(Only Credit RWA) | Amount/ Ratio (all Pillar 1 risks) |
|---|---|---|
| Tier I Capital | 1,63,193 | 1,63,193 |
| Tier II Capital | 3,923 | 3,923 |
| **Total Capital** | **1,67,116** | **1,67,116** |
| **Total RWA** | **7,54,030** | **9,85,190** |
| Tier I Ratio | 21.64% | 16.56% |
| Tier II Ratio | 0.52% | 0.40% |
| **CRAR** | **22.16%** | **16.96%** |

Graphical representation of capital position by reckoning *all three risks* is as below:




The movement of regulatory ratios on Credit RWA is shown as below:

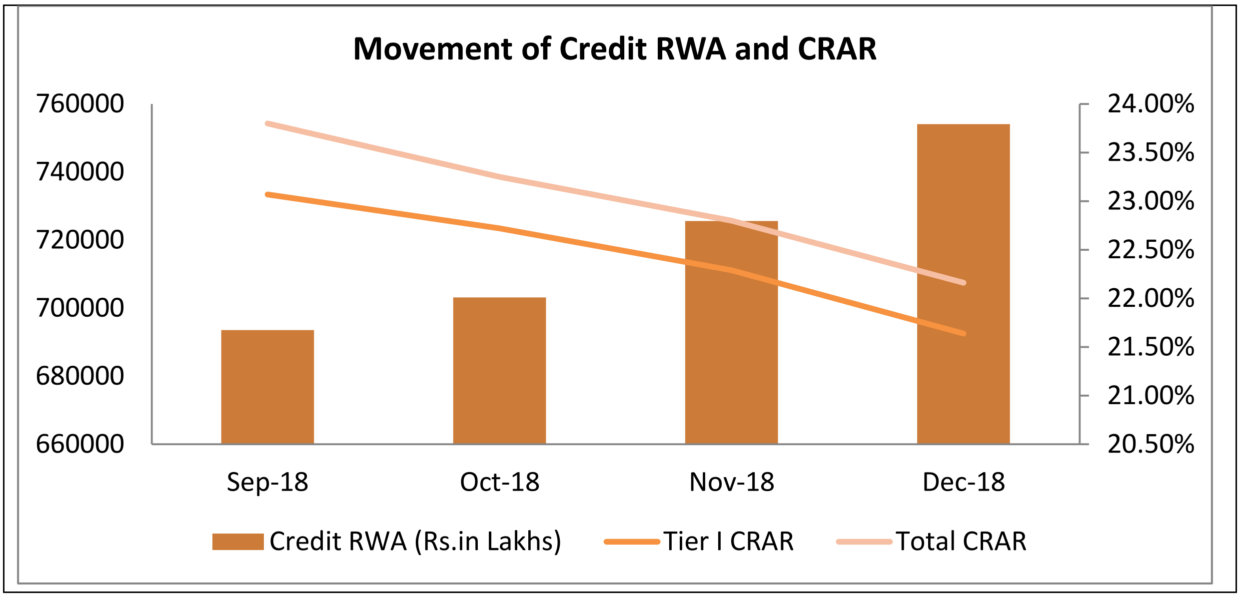



**Table DF- 4: Credit Risk: General Disclosures**

**4.1. Qualitative disclosures**

**4.1.1. Definitions of past due and impaired loans**

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 for 90 days
- The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted. The Bank does not offer Bill Discounting as a product.
- 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 Bank had no crop loans outstanding as at 31st December 2018
- The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitization transaction undertaken in terms of guidelines on securitization dated February 1, 2006.
- 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.

**4.1.2. Provisioning norms of the Bank**

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 is unsecured and at times of extraneous events, as at the time of demonetization, it can have a debilitating impact on the portfolio. Taking cognizance of this and especially since the microfinance portfolio comprised 87% of the loan book as at 31st December 2018, the Bank has deemed it appropriate to follow a conservative approach in its provisioning policy. This is reflected in the higher than mandated provisions in each overdue bucket.

| Asset Class | Outstanding Principal (OSP) | Provision | %Provision |
|---|---|---|---|
| **Standard** | 8,94,587 | 4,639 | 0.52% |
| **Sub-standard** | 6,224 | 3,864 | 62.08% |
| **Doubtful** | 4,809 | 4,794 | 99.69% |
| **Loss** | 1,744 | 1,744 | 100.00% |
| **Total** | **9,07,364** | **15,041** | **1.66%** |

While the Bank provides 0.50% on its standard asset portfolio against the RBI mandated figure of 0.40%, the Bank, under the direction of its Board, is looking to progressively increase the provision on standard assets to 1% starting from 1st April 2019. The provisioning norms are automated and subjected to periodic audit.

#### 4.1.2.1. Provisions as per Expected Credit Loss (ECL) under Ind-AS

With the beginning of accounting year 2018, the Non-Banking Financial Companies (NBFCs) adopted Indian Accounting Standard (Ind-AS) for the first time. As per the Ind AS implementation road map issued by the Ministry of Corporate Affairs (MCA) on 30th March 2016, NBFCs were required to adopt Ind-AS in a phased manner from accounting periods beginning on or after 1st April 2018 (with comparatives for the periods ending on or after 31st March 2018). The initial plan of MCA was to implement Ind-AS for banks, insurance companies and NBFCs from 1 April 2018 onwards. Earlier this year, the Ind-AS implementation date has been deferred for banks by one year and for insurance entities by two years. To summarize, the Bank is expected to switch to Ind-AS regime w.e.f 1st April 2019 while its holding company (an NBFC-ND-SI-CIC as defined by RBI) is required to switch to the same w.e.f 1st April 2018.

Ind-AS 109 (framework for Expected Credit Loss (ECL) ushers in a new provisioning approach different from the current incurred loss model (the present Income Recognition and Asset Classification (IRAC) norms issued by RBI) to expected loss model which is fully data driven. ECL models would ensure

- Timely recognition of losses;
- Assessment of Significant Increase in Credit Risk (SICR) which will provide better disclosures; and
- Ascertainment of better business ratios.

As the accounts of the Bank are consolidated with that of its Holding Company, during the quarter, the Bank was required to compute key risk factors under ECL i.e. Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) to compute its ECL for defining the staging criteria. The Bank has incorporated the 30 days rebuttable presumption as allowed under Ind-AS guidelines which is as follows:

| Particulars | Stage-1(Zero DPD and 1-30 DPD) | Stage-2( 31 – 89 DPD) | Stage-3(90 DPD & BEYOND) |
|---|---|---|---|
| Name | Performing | Under performing | Non-Performing |
| Credit Quality | Slight deterioration since onboarding | Significant deterioration since onboarding | Objective evidence of impairment |
| Credit risk | Low | Moderate to High | Very High |
| **PD used** | **Point in Time PD** | **Life time PD** | **Life time PD** |
| Interest | On gross basis | On gross basis | On net basis(gross carrying value minus loss allowance) |

In line with the guidelines, the Bank has applied Point In Time (PIT) PD for stage 1 assets and lifetime PD for Stage 2 and 3 assets. Since retail loans are higher in number and exhibit similar behavioral characteristics, the Bank has computed pooled PD on the basis of homogenous groups. The Bank has internally assessed its LGD for micro banking loans while LGD is reckoned as per Foundation Internal Rating Based (FIRB)[8] guidelines for all other loan portfolios.

The results of ECL computed as at 30th September 2018 are as follows:

**Rs. in lakhs**

| Stages | Ind–AS | Indian GAAP | Difference |
|---|---|---|---|
| Stage 1 | 4,821 | 4,213 | **608** |
| Stage 2 | 26 | 14 | **12** |
| Stage 3 | 12,853 | 13,054 | **(201)** |
| **Total** | **17,700** | **17,281** | **419** |

It is noteworthy to state that the difference between IND-AS provisioning and IRAC based provisioning (also called as GAAP[9]) is minimal; as the Bank had already implemented an accelerated provisioning regime on its loan and advances.

During the quarter, the calculations were also shared with Reserve Bank of India in the form of Proforma statements.

**4.1.3. Rescheduled loans**

All loans, where the repayment terms of existing advances have been revised in order to extend the repayment period and/or decrease the instalment amount as per the borrower's

[8] Refer RBI guidelines on Implementation of the Internal Rating Based (IRB) Approaches for Calculation of Capital Charge for Credit Risk issued vide RBI/2011-12/311; DBOD.No.BP.BC.67/21.06.202/2011-12 dated December 22, 2011

[9] Generally Accepted Accounting Principles

request are marked as rescheduled loans. Loan rescheduling is done for genuine cases and not for technical reasons.

- Rescheduling results in immediate downgrading of the loan, i.e. a standard loan becomes sub-standard and immediately attracts provision as per the asset classification and subsequent provisioning norms.
- If the account continues to deteriorate post rescheduling, it slips into further lower asset classification with reference to pre-rescheduling repayment schedule and attracts provisioning as per the policy.
- If a non-performing asset is rescheduled, it continues to have the same classification as prior to rescheduling and slips into further lower asset classification as per asset classification norms with reference to the pre-rescheduling repayment schedule and attracts provisioning as per policy. If the account performs regularly, it is upgraded after one year of satisfactory performance of the loan.
- As required by RBI guidelines, in each case of rescheduled loans for its MSE and Housing vertical, the Bank makes an additional provision by computing comparable NPVs for the “before” and “after” restructuring scenarios[10]. For the microfinance book, this is provided for as a percentage of the overall restructured book. These additional provisions are aimed to capture the loss due to diminution in the fair value of advances due to restructuring.
- On 1st January 2019, RBI issued guidelines[11] allowing one-time restructuring of existing loans to MSMEs classified as ‘standard’ without a downgrade in the asset classification (subject to certain conditions). This dispensation was made with a view to facilitate meaningful restructuring of MSME accounts that have become stressed on account of Goods and Service Tax (GST) imposition. The key conditions (among others) were
  a) The borrower’s account must be in default but is a ‘standard asset’ as on January 1, 2019, i.e. <90 Days Past Due
  b) The borrowing entity is GST-registered on the date of implementation of the restructuring

The Bank took cognizance of these guidelines and found that borrowers eligible for restructuring who meet these dual conditions were few in number. However, the Bank will be required to make an additional provisioning of 5% in addition to the provisions already held, if such a borrower wishes to avail restructuring under this scheme.

### 4.1.4. Rescheduling of Loans to flood affected areas in Tamilnadu

Cyclone Gaja hit the states of Tamilnadu and Pondicherry in November 2018 and caused

[10] Refer clause 17.4.2 of RBI guidelines on Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances dated July 1, 2015.

[11] Refer RBI guidelines on Micro; Small and Medium Enterprises (MSME) sector – Restructuring of Advances issued vide RBI/2018-19/100;DBR.No.BP.BC.18/21.04.048/2018-19 dated 1st January 2019.

widespread disruption in the coastal areas. The branches of Mannargudi and Thiruvarur were affected in terms of repayment rate. The Bank has undertaken various relief measures in the form of distribution of groceries and offering small loans to all customers as part of distress relief. The impact of Gaja on the Bank is summarized as follows :

| Branch Name | Accounts due in Dec | Repayment Collected Accounts | Not Paid accounts | % Collection |
|---|---|---|---|---|
| **Mannargudi** | 14,755 | 13,104 | 1,651 | 88.81% |
| **Thiruvarur** | 11,961 | 11,276 | 685 | 94.27% |
| **Total** | 26,716 | 24,380 | 2,336 | 91.26% |

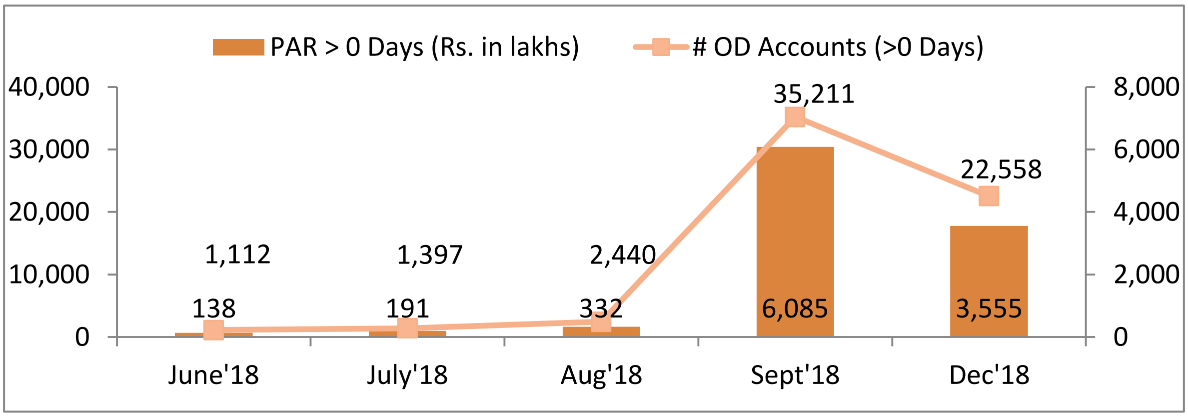
The Bank had temporarily discontinued collection in the affected areas and payments will be collected from willing customers during the month of January 2019.

**4.1.5. Kerala portfolio update post floods**

Following the devastating floods in Kerala, and in compliance with the directives of the State Level Bankers Committee (SLBC) (Kerala SLBC/61/104/GN/208), the Bank extended a repayment holiday to all the affected branches. The repayment behaviour of affected customers during Q3 was as follows :

| Particular | Normalized | Paid 3 EMIs | Missed 1 EMI | Missed 2 EMIs | Missed all 3 EMIs |
|---|---|---|---|---|---|
| % Accounts | 36.1% | 55.7% | 4.0% | 0.7% | 3.4% |
| # Accounts | 11,622 | 17,925 | 1,289 | 230 | 1,103 |
| OSP (September 2018) | 1600 | 3619 | 212 | 37 | 138 |
| OSP (December 2018) | - | 2941 | 175 | 33 | 130 |

36% customers have regularized their loan and 56% customers are paying EMIs with a lag in Q3. 4.7% customers are irregular payers and 3.4% have become NPA. The portfolio performance of Kerala was as follows :



#### 4.1.6. Write-offs

Technical/prudential write-offs refer to the amount of non-performing assets which are outstanding in the books of branches, but have been written off (fully or partially) at head office level. An asset (which has been fully provided for) is considered for write-off only after all recovery efforts have been exhausted  The write-off policy in brief is furnished as below:

| Category of loans | Write off Policy |
|---|---|
| Unsecured loans (Post Nov'16) | Can be written off after 365 days, when it is classified as doubtful |
| Unsecured loans (Prior demonetization) | Can be written off after 180 days. These are cases largely where the borrower is an intentional defaulter or is an abscond case or is a sub lending case and all have been fully provided for. |
| Benami loan[12]/Sub-lending/Abscond cases | Unsecured loans after 180 days<br>Secured loans after 365 days |
| Secured loans | Can be written off after 545 days |
| Fraud Cases *(As confirmed by the Risk and Fraud Management committee and reviewed by the Risk Committee)* | Unsecured loans after 180 days<br>Secured loans after 365 days<br>Any account over and above Rs. 1 lac is written off by the Managing Director (MD) and Chief Executive Officer (CEO) as defined in the Recovery Policy. All write offs are duly ratified by the Risk Management Committee of the Board. |
| Loss assets | Loss Assets can be written off after 180 days from the date of such classification, if approved by Credit Risk Management Committee of the Bank. |

For Q3 of FY 2018-19, the Risk Management Committee has approved write-offs to the tune of Rs. 2,937 Lakhs. These are advances where no recoveries have been made in the recent past. Further, the Bank is of the opinion that these advances have low probability of recovery. The trend of the last 5 quarters is given below:

| Period | Amount (Rs. in Lakhs) |
|---|---|
| **FY 2017-19** | 17,650 |
| **Q1 (YTD)** | 5,603 |
| **Q2 (YTD)** | 10,993 |

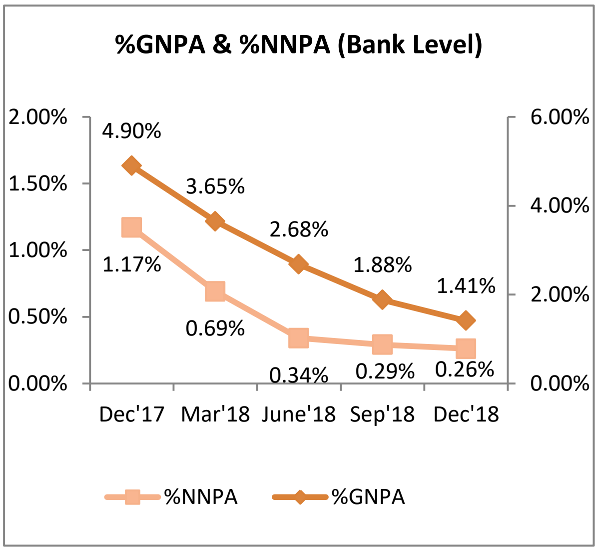
[12] Benami transactions would be one where a person's own name is not used but the name of another person or a fictitious person is used instead.

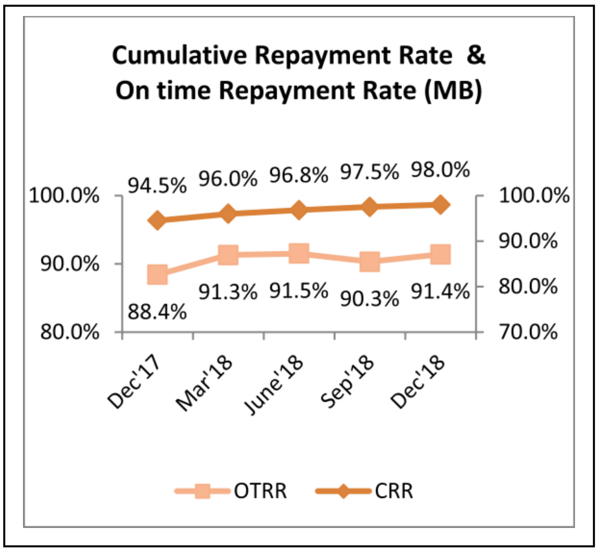
| Q3 (YTD) | 13,930 |
|---|---|

The Bank had effectively written off almost the total portfolio affected by demonetisation. This was a decision made by the Board after careful evaluation of the residual portfolio. With the increased write off, Gross Non-Performing Assets (GNPA) as a percentage to the overall book had reduced to 1.41% (Rs. 12,777 lakhs) as at 31st December 2018 when compared to 1.88% (Rs. 15,389 lakhs) as at 30th September 2018.

**4.1.7. Credit Risk Management**

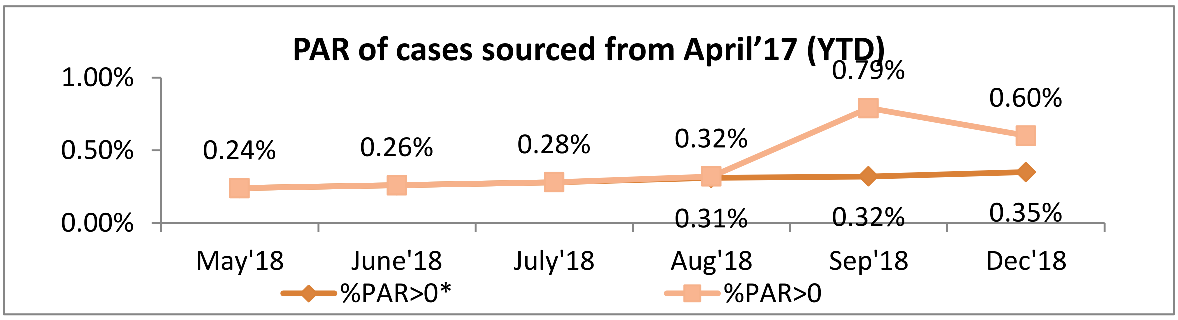
As at 31st December 2018, Portfolio at Risk (PAR) %> 0 days had improved from 3.27% to 2.43% on account of Non-Performing Assets (NPA) recovery of ~Rs 8,550 lakhs (on YTD basis). The Gross NPA (GNPA) had reduced to 1.41% in Q3 from 1.88% in Q2 FY 2018-19. Key risk indicators such as On Time Repayment Rate (OTRR) and Cumulative Repayment Rate (CRR) had shown encouraging trends reflecting that the overall health of the credit portfolio was very close to pre- demonetization levels.




Incremental overdue accounts have reduced marginally to monthly average of 6500 cases (monthly average of 7,000 cases in previous quarter) on account floods and heavy rains.

Newly disbursed loans (9 months book) continued to exhibit steady performance (% PAR >0 days at 0.35% (without the impact of Kerala floods and Gaja cyclone) as at December 2018 versus 0.32% at September 2018. The newly disbursed book experienced a spike in PAR mainly on account of the flood in Kerala and Gaja cyclone.



* Excluding flood affected Kerala OD and cyclone affected Tamilnadu cases

Changes to the credit policies were undertaken to further improve operational efficiency and risk management practices during Q3. This included various reviews at operational level in areas of loan utilization checks, deviation approvals etc.

**4.1.7.1 Recovery Trend**

Recovery efforts across multiple channels exhibited an encouraging trend. Recovery from delinquent accounts are undertaken through various channels including direct contact by the collections team, tele calling reminders, collection through legal notices and settlement recoveries. As at 31st December 2018, the Bank had recovered Rs.8,550 lakhs as against Rs. 3,688 lakhs as at 30th September 2018, a jump of nearly 132% in total recovery
Write off recovery is increasing quarter-on-quarter and was Rs. 530 lakhs in Q3 as against a recovery of Rs. 339 lakhs in Q2.

**4.1.7.2. Use of Collection Agents**

In an effort to boost collection of dues that had been written off post demonetisation, the Bank, with the approval of Board, appointed outside collection agents in the last quarter of FY 2017-18. These were all agents that are accredited and conform to the guidelines of RBI. These agents are currently deployed in Bangalore, Nashik and Northern Uttar Pradesh. As at 31st December 2018, there were 3 agencies with 7 agents active. The Bank had collected Rs. 28.0 lacs in 3rd quarter through the use of Collection Agents.

**4.1.7.3. Non-Microfinance Portfolio**

The non-microfinance portfolio i.e. Secured Housing and MSE loans exhibited strong growth during the quarter. The portfolio OSP increased by 60% and 61% respectively from June 2018. From a risk management perspective, the Bank has put in place early warning triggers at the portfolio level for Secured Housing and MSE Loans. The intended purpose is to monitor the health of the portfolio in accordance with its maturity. These triggers would help the Bank to identify incipient stress in the portfolio and any breaches in combination of triggers are checked bi-monthly and warrant an independent review by the Credit risk team.

A growth in performance of portfolio is furnished below:

**4.1.7.3.1. Secured Housing**

**Rs. in lakhs**

| Housing Loans | OSP as at June 2018 | OSP as at Sept 2018 | OSP as at 31st December 2018 | Growth % |
|---|---|---|---|---|
| **South** | 12,577 | 16,502 | 20,617 | 64% |
| **North** | 10,939 | 12,602 | 13,959 | 28% |
| **East** | 3,928 | 5,271 | 7,058 | 80% |
| **West** | 14,260 | 18,879 | 25,132 | 76% |
| **Grand Total** | **41,704** | **53,254** | **66,767** | **60%** |

The performance of Secured housing loans has largely been satisfactory with an exception to a few states/clusters where there are signs of early warnings. Root cause analysis is continuously undertaken to plan risk mitigation strategies. Based on internal review, the Bank has undertaken policy and process level changes in sync with industry practices during the quarter.

#### 4.1.7.3.2. Micro and Small Enterprises (MSE):

**Rs. in lakhs**

| Region | OSP as at June 2018 | OSP as at Sept 2018 | OSP as at 31st December 2018 | Growth% |
|---|---|---|---|---|
| **South** | 8,405 | 10,518 | 13,614 | 62% |
| **North** | 8,443 | 10,318 | 12,931 | 53% |
| **East** | 6,941 | 9,134 | 12,014 | 73% |
| **West** | 4,238 | 5,322 | 6,478 | 53% |
| **Grand Total** | **28,028** | **35,293** | **45,037** | 61% |

The performance of unsecured MSE variants has been affected due to increasing rates of delinquencies. During the quarter, the Bank undertook a comprehensive study on competitor performance. The delinquency levels in the Bank's portfolio are at par with industry data. The increasing rates of delinquencies in MSE are largely systemic and not idiosyncratic. Post internal review, the Bank has undertaken policy and process level changes in sync with industry practices during the quarter.

The Bank has increased its focus on secured lending to cater to established businesses with higher funding requirement and better credit profile. The Bank is also in the process of exploring ways to leverage the refinance benefits made available through MUDRA and SIDBI RMSE. On the credit appraisal front, the new/existing product offerings will now target enterprises in micro and small segment with established vintage with good credit track and banking habits. These borrowers will be appraised through various formal balance sheet assessment methods.

CGTMSE Trust provides credit guarantee for MSME units against finance availed from Banks. Small Finance Banks are also covered as per a resolution passed in March 2018 for loans up to Rs. 200 lakhs. The Bank has initiated for empanelment for the same in December 2018. This will also allow us to cater to customers with better credit profile who do not have collateral availability. The CGTMSE guaranteed loans are expected to commence during the first quarter of the next financial year.

#### 4.1.7.3.2. Agriculture and Rural Business

The newly commenced business vertical for Agriculture and Rural Business had performed well and a summary of their key indicators is given below:

Rs. in lakhs

| Particulars | Position as at 30th Sept 2018* | Position as at 31st December 2018* |
|---|---|---|
| QTD Disbursement | 3,300 | 4,600 |
| YTD Disbursement | 5,100 | 9,800 |
| Outstanding Principal | 6,600 | 9,900 |
| Ticket Size | 30,588 | 32,056 (GL) and 77,109 (IL) |
| Productivity | 11.50 | 14 (GL) and 9 (IL) |
| Deposit Balance | 1,550 | 2100 |

*rounded to nearest 100

As at 31st December 2018, there were 117 Unbanked Rural Centres (URCs) These branches provided loans and garnered deposits from its rural clientele. The composition of deposit balance as at 31st December 2018 in these rural branches was CASA (44%), and Term Deposits (56%). The Bank is in the process of fully operationalizing 54 new URCs by the end of the financial year. Agriculture Group loans and Kisan Suvidha products are poised to be launched in Haryana.

**4.1.7.3.3 Loans to Financial Institutions**

As at 31st December, 2018 the Bank had built a small portfolio of loans to Financial Institutions with an aggregate outstanding of Rs 10,000 lakhs. The Bank has been selective in building this portfolio, which requires separate due diligence by the Business and Risk Management teams addressing business and the risk parameters, based on which loans are approved by the Credit Approval Committee.

**4.1.7.3.4: Personal Loans (PL)**

The Bank has recently launched personal loans in select markets and primarily targets the underserved segment of salaried individuals. The plan is to roll out PL in a phased manner from Tier 1 & 2 cities and gradually expand to other locations. The unique differentiator of the program is the ability of customers to self-apply end to end on the platform over and above applying through the branch or sales team. PL is stated to be a very important product offering in the bouquet of the Bank's product suite and will also be bundled with the corporate salary program.

As at 31st December 2018, the total disbursements made were ~Rs. 100 lakhs.

**4.1.8. Credit Risk Monitoring**

**4.1.8.1. Micro finance portfolio**

Credit limits are set for occupation categories under each branch. No new credit application is allowed across occupations breaching the limits. These limits are monitored and revised at regular intervals based on the area survey reports, ticket size analysis and repeat loan portfolio performance of last 12 months.

In order to make informed decisions on lending, the Bank has introduced usage of Combo

Credit Bureau Reports (CCR). CCR is a comprehensive credit information report which carries details of all loans taken by a borrower inclusive of microfinance loans and other retail loans. It provides a combined view of the customer's overall credit exposure and repayment behavior across all type of loans thereby helping the Bank make more informed credit decisions. With the implementation of CCR, the following changes to number of lender rule and indebtedness cap were made applicable:

| Type of Customer | Indebtedness cap | Number of lender rule |
|---|---|---|
| **Fresh Loans** | Rs. 1,00,000/Rs. 80,000 as applicable | 3 lender rule (Including the Bank) applicable for MFI loans only |
| | **Repeat Loans** | |
| **Only MFI or Only Retail Match** | Rs. 1,00,000 | Lender rule not applicable |
| **Both MFI + Retail Match** | Rs. 1,50,000 | Lender rule not applicable |

**4.1.8.2. Housing and Micro and Small Enterprises (MSE) portfolios**

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 has also assessed inter-linkages of risks especially legal risk induced credit risk during the quarter. Collateral related processes and procedures were reviewed to ascertain various gaps in the process. The Bank seeks to address these gaps during the financial year which will help in reduction of errors and associated risks.

**4.1.9. Internal Audit**

The Internal Audit process of the Bank complements the risk management function as the third line of defence. Traditionally, the focus was on audit of branch processes, with each microfinance branch being audited thrice a year. However, with its transformation into a Bank, there are newer audit processes that have been introduced with Risk Based Internal Audit proposed to commence from next financial year. The Bank commenced ISO 27001 certification processes for its IT applications in this quarter and had completed IS Audit in the last financial year.

## 4.2. Quantitative Disclosures

### 4.2.1. Exposure summary: Facility type

| Exposure Type | Domestic (Rs. in Lakhs) | Overseas |
|---|---|---|
| **Fund- Based exposure** | 11,03,578 | -- |
| **Non- Fund Based Exposure*** | 3,316 | -- |
| **Total** | 11,06,894 | **--** |

***Non fund based exposure includes undrawn limit to Overdraft customers and Contingent liabilities.**

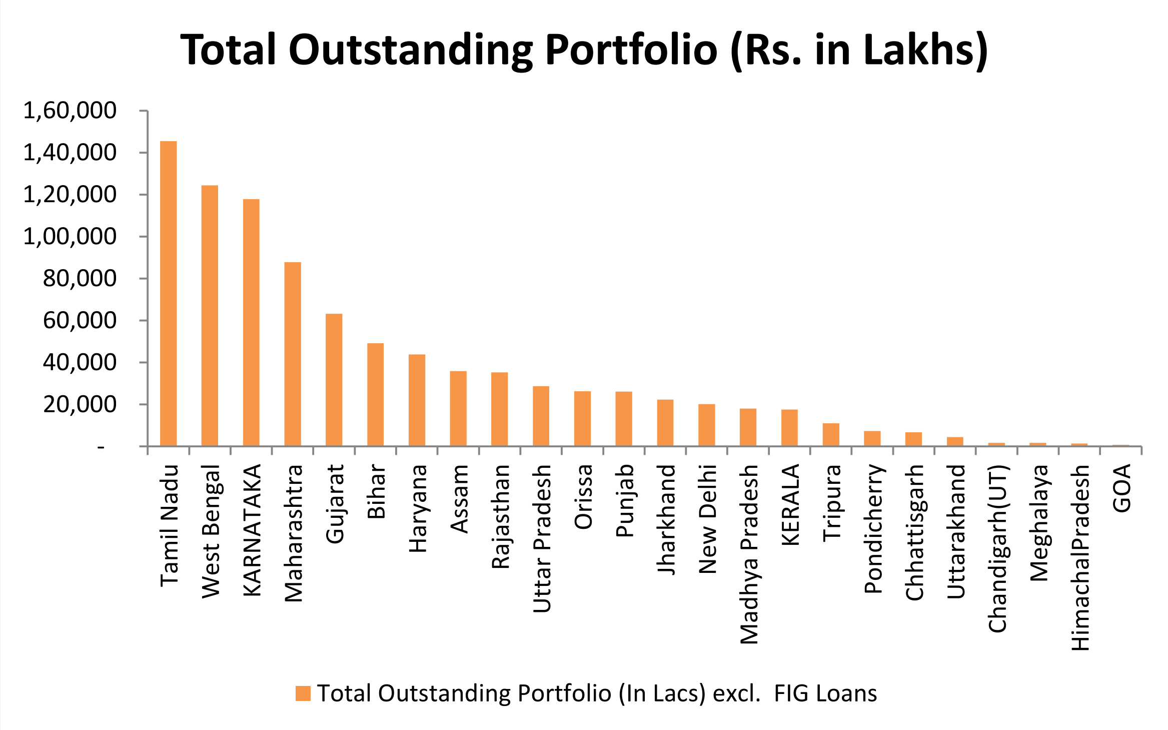
### 4.2.2. Geographic Distribution of advances (State-wise)

| State | Total Outstanding Portfolio (Rs. in lakhs)* | % Share |
|---|---|---|
| **Tamil Nadu** | 1,45,417 | 16.20% |
| **West Bengal** | 1,24,470 | 13.87% |
| **Karnataka** | 1,17,863 | 13.13% |
| **Maharashtra** | 87,722 | 9.78% |
| **Gujarat** | 63,207 | 7.04% |
| **Bihar** | 49,189 | 5.48% |
| **Haryana** | 43,831 | 4.88% |
| **Assam** | 35,866 | 4.00% |
| **Rajasthan** | 35,323 | 3.94% |
| **Uttar Pradesh** | 28,783 | 3.21% |
| **Orissa** | 26,306 | 2.93% |
| **Punjab** | 26,177 | 2.92% |
| **Jharkhand** | 22,300 | 2.49% |
| **New Delhi** | 20,131 | 2.24% |
| **Madhya Pradesh** | 17,987 | 2.00% |
| **Kerala** | 17,603 | 1.96% |
| **Tripura** | 11,094 | 1.24% |
| **Pondicherry** | 7,385 | 0.82% |
| **Chhattisgarh** | 6,696 | 0.75% |
| **Uttarakhand** | 4,483 | 0.50% |
| **Chandigarh(UT)** | 1,770 | 0.20% |
| **Meghalaya** | 1,660 | 0.18% |
| **Himachal Pradesh** | 1,351 | 0.15% |
| **Goa** | 749 | 0.08% |
| **Grand Total** | **8,97,364** | **100.00%** |

***excludes FIG loans of Rs. 10,000 lakhs. Total gross advances including FIG are Rs. 9, 07,364 lakhs.**

The share of microfinance advances constitutes 88.00% (i.e. Rs. 7, 31,500 lakhs) of gross advances; a significant share in the above distribution. In order to contain excess build-up of concentration risk, the Bank has designed and incorporated risk assessment framework under its Internal Capital Adequacy and Assessment Process (ICAAP) to monitor the same. For states with excess concentration, Pillar II capital charge is provided after duly factoring in the expected defaults, expected tractions and expected provisions. It is pertinent to mention that when computing capital requirement and its compliance with capital adequacy, the Bank factors in additional capital charge on account of Pillar 2 risks and also that required for stress tests on its portfolio under normal circumstances.

For MSE and secured housing loans, the Bank monitors the excess build up in concentration through prudential internal limits on higher ticket size loans. These limits are approved by Credit Risk Management Committee (CRMC) and are monitored and reported for corrective action.




### 4.2.3. Advances distribution by activity

| Sl. No | Categories | 31st December 2018 ( Rs. in lakhs) | | | | | |
|---|---|---|---|---|---|---|---|
| | | **No. of A/cs** | **% Share** | **No. of beneficiaries** | **% Share** | **Balance O/s** | **% Share** |
| **I** | Agriculture | 10,22,495 | 26.08% | 10,22,495 | 26.08% | 1,38,040 | 15.21% |
| **II** | MSME | 4,39,460 | 11.21% | 4,39,460 | 11.21% | 61,426 | 6.77% |
| **III** | Export Credit | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% |
| **IV** | Education | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% |
| **V** | Housing | 3,60,760 | 9.20% | 3,60,755 | 9.20% | 1,17,698 | 12.97% |
| **VI** | Renewable Energy | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% |
| **VII** | Social Infrastructure | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% |
| **VIII** | 'Others' category under Priority Sector | 15,56,998 | 39.72% | 15,56,998 | 39.72% | 3,00,294 | 33.10% |
| **IX** | Net PSLC - General | -- | -- | -- | -- | -60,000 | -6.61% |
| **1** | **Priority Sector (I+II+III+IV+V+VI+VII+VIII+IX)** | **33,79,713** | **86.21%** | **33,79,708** | **86.21%** | **5,57,458** | **61.44%** |
| **I** | Agriculture | 48,227 | 1.23% | 48,227 | 1.23% | 1,06,867 | 11.78% |
| **II** | Education Loans | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% |
| **III** | Housing Loans | 36,170 | 0.92% | 36,159 | 0.92% | 26,003 | 2.87% |
| **IV** | Personal Loans under Non-Priority Sector | 946 | 0.02% | 946 | 0.02% | 603 | 0.07% |
| **V** | Other Non-Priority | 4,55,288 | 11.61% | 4,55,279 | 11.61% | 2,16,433 | 23.85% |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | Sector Loans | | | | | | |
| **2** | **Non-Priority Sector Loans (I+II+III+IV+V)** | **5,40,631** | **13.79%** | **5,40,611** | **13.79%** | **3,49,906** | **38.56%** |
| **3** | **Total Loans (1+2)** | **39,20,344** | **100.00%** | **39,20,319** | **100.00%** | **9,07,364** | **100.00%** |

### 4.2.4. Priority Sector Lending (PSL) Compliance

The licensing conditions for SFBs require that PSL composition of a bank's asset book is a minimum of 75% of the total portfolio.

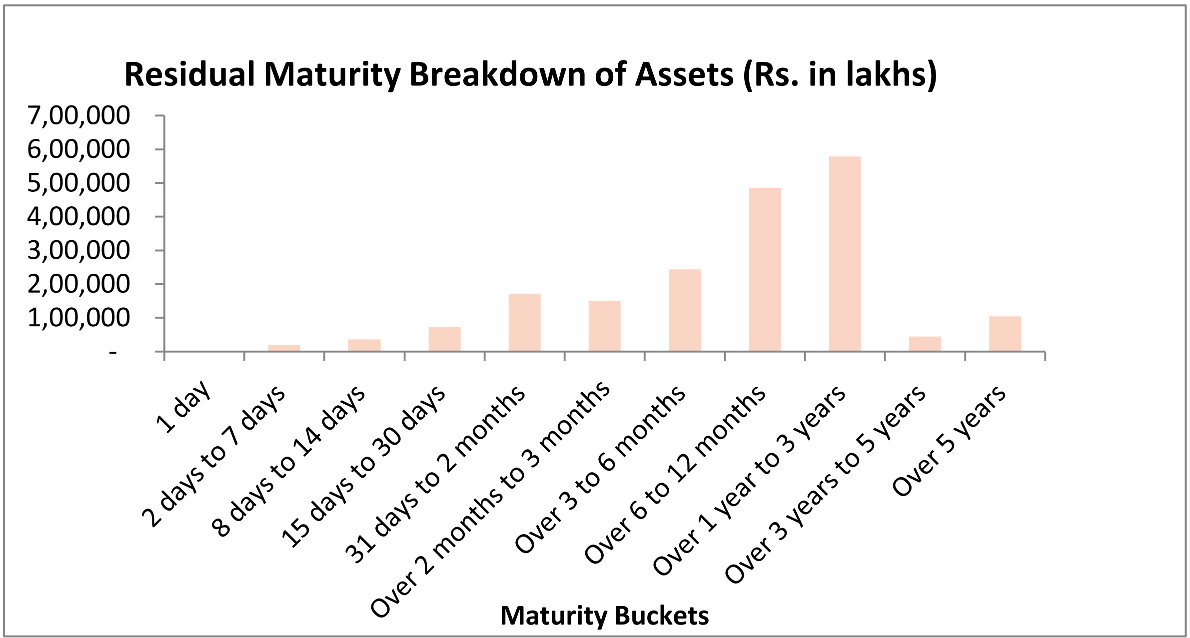
The Adjusted Net Bank Credit (ANBC) as on the corresponding date of the preceding year i.e. 31st December 2017 was Rs. 5, 97,265 Lakhs. The Priority Sector lending was above the minimum requirement of 75% i.e. 93.34% (Rs. 5, 57, 458 Lakhs as a percentage to ANBC). The PSL portfolio available in excess of the Bank's target was sold as Priority Sector Lending Certificate (PSLC).

### 4.2.5. Maturity pattern of assets and liabilities (Rs. in lakhs)

The liquidity crisis arising from default in commercial paper by a large NBFC, though largely reduced due to various efforts by the regulator, had shut out several available funding avenues for NBFCs and resulted in widespread speculation of imminent liquidity crisis within the NBFC industry. The Bank, by virtue of its holding company structure was mistakenly perceived to be an NBFC. In addition, the crisis within the NBFC industry impacted the share price of USFL, where the only asset is the investment in the Bank's shares. The liquidity situation of the Bank was not impacted, though in the short run there was an impact on the marginal cost of funds cost. Even during Q3, the Bank remained well-matched in case of the ALM position. A brief summary of Structural Liquidity Statement is furnished as below:

| **Residual Contractual Maturity breakdowns of Assets- Position as on 31st December 2018** | | | | | |
|---|---|---|---|---|---|
| **Maturity Bucket** | **Loans & Advances** | **Investment** | **Deposits** | **Borrowings** | **Total** |
| **1 day** | 1 | - | 1,084 | - | 1,084 |
| **2 days to 7 days** | 8,504 | 6,498 | 3,973 | - | 18,974 |
| **8 days to 14 days** | 18,462 | 7,177 | 5,201 | 4,667 | 35,507 |
| **15 days to 30 days** | 21,112 | 2,330 | 40,112 | 9,284 | 72,839 |
| **31 days to 2 months** | 50,196 | 5,674 | 76,626 | 39,074 | 1,71,570 |
| **Over 2 months to 3 months** | 59,735 | - | 76,004 | 14,667 | 1,50,406 |
| **Over 3 to 6 months** | 1,67,012 | 2,458 | 47,818 | 26,001 | 2,43,290 |
| **Over 6 to 12 months** | 2,77,446 | 4,011 | 1,30,537 | 73,375 | 4,85,368 |

| | | | | | |
|---|---|---|---|---|---|
| **Over 1 year to 3 years** | 2,27,515 | 22,719 | 1,55,627 | 1,73,061 | 5,78,922 |
| **Over 3 years to 5 years** | 21,520 | 3,011 | 403 | 19,172 | 44,106 |
| **Over 5 years** | 45,458 | 58,632 | 180 | - | 1,04,270 |




**SLS Mismatch:**

| SLS | 1D | 2-7D | 8-14D | 15-30D | 31D to 2M | 2M to 3M | 3M to 6M | 6M to 1Y | 1Y to 3Y | 3Y+ |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Outflows | 13,757 | 4,134 | 11,803 | 51,627 | 1,22,818 | 91,762 | 76,660 | 2,05,998 | 3,32,261 | 1,97,551 |
| Cumulative Outflows | 13,757 | 17,891 | 29,695 | 81,322 | 2,04,139 | 2,95,902 | 3,72,562 | 5,78,560 | 9,10,821 | 11,08,372 |
| Total Inflows | 28,428 | 9,895 | 22,359 | 46,741 | 67,408 | 77,644 | 1,78,702 | 3,10,505 | 2,63,390 | 1,03,300 |
| Cumulative Inflows | 28,428 | 38,324 | 60,683 | 1,07,424 | 1,74,831 | 2,52,475 | 4,31,177 | 7,41,682 | 10,05,072 | 11,08,372 |
| Mismatch | 14,671 | 5,761 | 10,556 | -4,886 | -55,410 | -14,119 | 1,02,042 | 1,04,507 | -68,871 | -94,251 |
| **Cumulative Mismatch** | 14,671 | 20,432 | 30,988 | 26,102 | -29,308 | -43,427 | 58,615 | 1,63,122 | 94,251 | - |
| **Mismatch %** | 106.64% | 114.20% | 104.36% | 32.10% | -14.36% | -14.68% | 15.73% | 28.19% | 10.35% | 0.00% |
| **RBI Limits** | -5.00% | -10.00% | -15.00% | -20.00% | | | | | | |

As shown above, the Bank is positively matched (the cumulative inflow is greater than cumulative outflows).

It is also pertinent to mention that simulated stress situations undertaken by the Bank by applying the RBI mandated increase in the run off factors, showed that the ALM situation remained comfortable in normal stress scenarios, with only marginal mismatch in medium and severe stress situations.

#### 4.2.6. Non-performing assets (NPA) (Rs. in Lakhs)

| Category of Gross NPA | 31st December 2018 |
|---|---|
| Sub-standard | 6,224 |
| Doubtful | 4,809 |
| Loss | 1,744 |
| **Total** | **12,777** |

| | |
|---|---|
| **Net NPA** | **2,374** |

| NPA Ratios | Percentage |
|---|---|
| **Gross NPA to Gross Advances** | 1.41% |
| **Net NPA to Net Advances** | 0.26% |

#### 4.2.7. Movement of Gross NPA's

| Particulars | Amount (Rs. In lakhs) |
|---|---|
| Opening Balance | 27,592 |
| Additions during the period | 6,024 |
| Reductions during the period | 20,839 |
| **Closing Balance** | **12,777** |

#### 4.2.8. Movement of Provisions for NPA's (excluding provisions on standard assets)

| Particulars | Amount (Rs. in lakhs) |
|---|---|
| Opening Balance | 22,499 |
| Provisions made during the period | 4,056 |
| Write back of excess provisions | 16,152 |
| **Closing Balance** | **10,403** |

#### 4.2.9. Non-performing Investments (NPI)

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

#### 4.2.10. 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** | **--** |

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

### 5.1. 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 comprised retail category loans. Therefore, the risk weights as applicable to Regulatory Retail, Claims under Residential Mortgage and staff loans were applied. For consumer loans within its microfinance portfolio, the applicable risk weight is applied

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

d) The Bank has also taken into cognizance assets under lien for its "grandfathered" portfolio of legacy borrowings and applied an additional risk weight of 25% to these assets as per the specific directives by RBI to SFBs. These loans are being paid off and as at 31st December 2018, they comprised less than 3% of the funding sources for the Bank.

### 5.2. Quantitative Disclosures

| Details of Gross Credit Risk Exposure (Fund based and Non-fund based) based on Risk Weight – Position as on 31st Dec 2018 | | |
|---|---|---|
| **Sl.No** | **Risk Weight** | **Amount in Lacs** |
| **1** | Below 100% Risk Weight | 9,17,091 |
| **2** | 100% Risk Weight | 1,06,807 |
| **3** | More than 100% Risk Weight | 82,996 |
| **4** | Deductions from CRM | -- |
| **5** | Total | 11,06,894 |

**Details of Gross Credit Risk Exposure (Fund based and Non-fund based) based on Risk Weight – Position as on 31st Dec 2018**

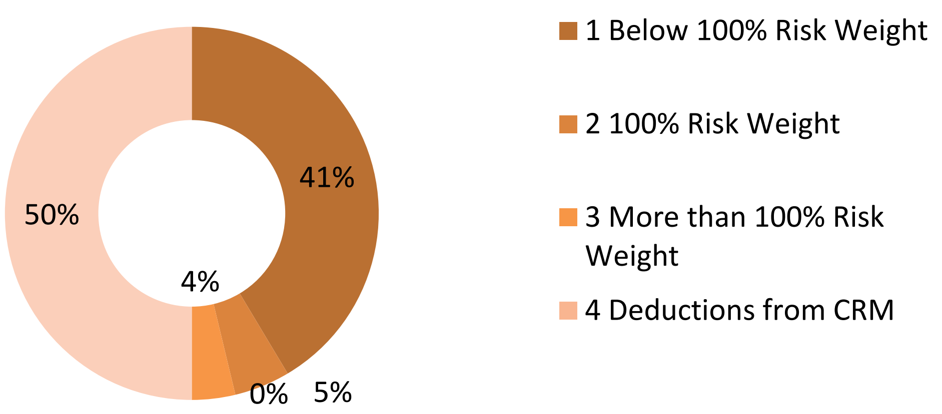



**Table DF-6: Credit Risk Mitigation: Disclosures for Standardised Approach**

**6.1. <u>Qualitative Disclosure</u>**

- The GL and IL portfolio, under microfinance is unsecured. Loans to the affordable housing segment are collateralized by a mortgage over the property financed. There are unsecured and secured product variants under MSE loans.
- The Bank does not accept any eligible financial collateral[13] for risk mitigation. Therefore, the Bank does not take any netting off benefit for its collateralized transactions under comprehensive approach[14] while computing its Risk Weighted Assets (RWA).
- However, 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, two wheeler and personal loans.
    - The Bank works with 4 Credit Information Companies (CICs) and ensures 100% application screening through the bureaus using their comprehensive credit reports.
    - NPA Customers are identified and follow up is undertaken by the tele-calling team. The tele calling team updates the field recovery officer through revised Promise to Pay (PTP) dates from the borrower. Further, the Early Warning System (EWS) tool for Housing and MSE loans also enables the Bank to monitor the repayment behaviour and discipline of the borrower. This tool provides valuable insights which enable the Bank to focus more on customers deemed to

[13] 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

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

be of higher risk.

- 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.

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

**7.1. Qualitative Disclosure**

The Bank had entered into a securitization deal on the sell side to the tune of Rs. 18,211 lakhs on 31st October 2018. The Bank had proposed to sell a pool of receivables through a special purpose vehicle (SPV). The securitization met the 'true sale criterion' prescribed under the securitization guidelines.

As per RBI guidelines on securitization[15], banks are required to hold regulatory capital against all of their securitisation exposures, including those arising from the provision of credit risk mitigants to a securitisation transaction, investments in asset-backed securities, retention of a subordinated tranche, and extension of a liquidity facility or credit enhancement.

Furthermore, when a bank is required to deduct a securitisation exposure from regulatory capital, the deduction must be made 50 per cent from Tier I and 50 per cent from Tier II, except where expressly provided otherwise.

Accordingly, the Bank has deducted the overcollateralization and credit enhancement portion from its regulatory capital in the manner as prescribed above.

**7.2. Quantitative Disclosure**

| Sl. No | Description | Particulars (Rs. in lakhs) |
|---|---|---|
| 1. | Pool Size (Principal+ Interest) | Rs. 18,211 |
| 2. | Pool Principal | Rs. 16,029 |
| 3. | PTC Tranche | 1 |
| 4. | Par/Premium | Par |
| 5. | Amortization of the pool | 19.79 months |
| 6. | Purchased consideration | Rs. 13,945 |
| 7. | Overcollateralization | Rs. 2,084 |
| 8. | First Loss Credit Enhancement Amount | Rs. 681 |

**Table DF- 8: Market Risk and Liquidity Risk**

[15] Refer Clause 5.16 of Master Circular - Prudential Guidelines on Capital Adequacy and Market Discipline- New Capital Adequacy Framework (NCAF) dated 1st July 2015

**8.1. Qualitative Disclosures**

The Bank has a well-defined Investment and Market Risk Management Policy. This policy covers all important areas of market risk measurement. The other policy which also deals with Market Risk Management is the Asset Liability Management (ALM) Policy. The policies set various prudential exposure limits and risk limits for ensuring that the operations are in line with the Bank's expectations of return through proper Market Risk Management and Asset Liability Management.

The Bank defines Market Risk as the risk of loss in on-balance sheet and off-balance sheet positions arising from movements in market process, in particular, changes in interest rates, exchange rates and equity and commodity prices.

There is minimal market risk that the Bank is required to address, given that it does not hold overnight G-Sec trading positions. During the quarter, the Bank had no holding of dated Government Securities in its AFS portfolio and hence did not have to make any provisions for adverse movements in yield.

The Bank has in place an independent Mid-office which monitors the AFS portfolio on a daily basis. Macro-economic indicators including interest rate movement and peer analysis play a vital role in the effective functioning of the Bank. Mid-Office keeps Asset and Liability Committee (ALCO) and senior management informed on the recent developments in the economy and its possible implication on the interest rate movement.

**8.1.1. Liquidity Risk:**

The average tenor of a microfinance loan is 18 months. The Bank has grown its portfolio of Affordable Housing and MSE portfolio, which are of longer tenor. ALM was well managed and regulatory thresholds complied with.

At commencement of operations, the Bank's book was wholly funded by borrowings from other banks. These were availed of as an NBFC- MFI and under dispensation from RBI and were classified as "grandfathered" legacy loans on the Bank's book to be progressively repaid. These legacy loans were not considered while computing the Bank's interbank borrowings, but the assets under lien, provided as book debt to the lending banks, attracted an additional risk weight of 25%. The share of legacy borrowings had reduced sharply to 2% of the borrowing mix as at 31st December 2018. Until there is substantial build-up of the deposit book, the Bank has availed of refinance from SIDBI and NABARD. Other than it being cost effective, since there is no obligation to maintain Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) on these borrowings, these are also long tenor loans, thereby providing the necessary cushion for ALM.

During the quarter, the Bank had also undertaken securitization sale and Inter Bank Participation Certificate (IBPC) for which it received a consideration of Rs. 12, 600 lakhs and Rs. 15,000 lakhs. These transactions were done to further cushion the Bank against any potential funding liquidity risk in the backdrop of default in commercial paper by a large NBFC.

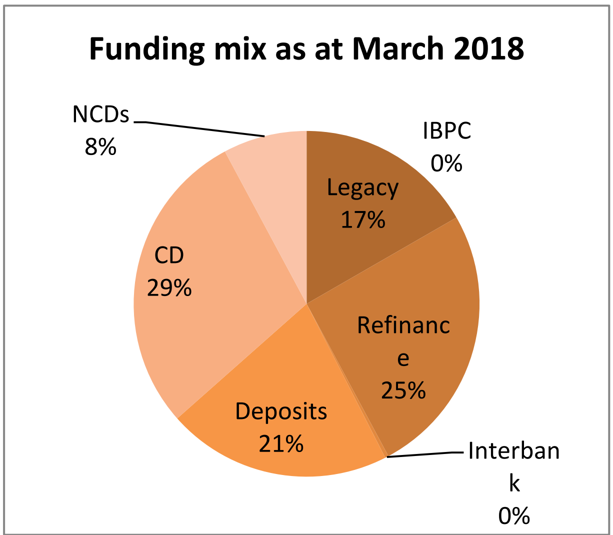
The share of deposits showed an increasing trend during the quarter with a contribution of 44% of the total funding. As part of its Contingency Funding Plan and also to diversify its funding sources, the Bank is in discussions with other banks for committed lines of credit. The accent on retail deposits will continue in the ensuing years but the Bank will simultaneously seek to grow its long term liability as an effective way to manage its Asset/ Liability maturity profile

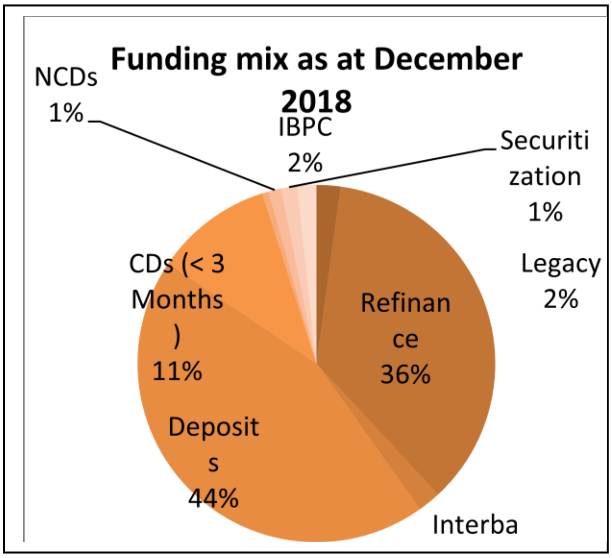
A comparative picture of the funding mix as at the quarter end is given below:

**Rs. in Lakhs**

| Sl.No | Particulars | March 2018 | June 2018 | September 2018 | December 2018 |
|---|---|---|---|---|---|
| 1 | Legacy | 1,27,688 | 91,368 | 44,247 | 18,861 |
| 2 | Refinance | 1,95,097 | 2,40,597 | 3,24,400 | 3,12,440 |
| 3 | Interbank | 2,500 | 2,500 | - | 18,000 |
| 4 | Deposits | 1,60,623 | 2,05,756 | 2,64,883 | 3,85,151 |
| 5 | CDs (< 3 Months) | 1,74,700 | 41,000 | 81,000 | 92,500 |
| 6 | CDs (> 3 Months) | 45,000 | 1,36,500 | 37,500 | 5,000 |
| 7 | NCDs | 60,000 | 60,000 | 50,000 | 10,000 |
| 8 | Securitization | - | - | - | 12,600 |
| 9 | IBPC | - | - | 15,000 | 15,000 |
| **Outstanding** | | **7,65,608** | **7,77,720** | **8,17,030** | **8,69,552** |

The distribution of funding mix is detailed as below:



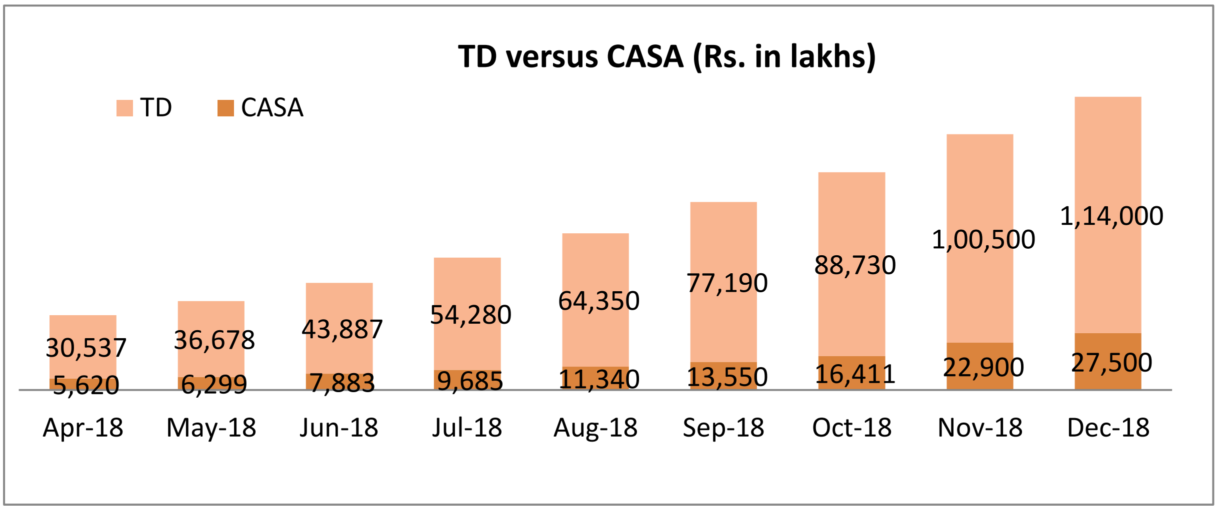

The Bank has increasingly focused on ramping up its retail deposit base. Sales Officer (SO) productivity has increased from Rs. 19 lakhs to Rs. 22 lakhs in three quarters. In the previous quarter, the Bank has also synchronized the Common Application Form for Current Account with MSE loan application forms. This has resulted in an uptick in Current Account (CA) acquisition. Savings Accounts (SA) average balances have increased from Rs. 6,386 in September 2018 to Rs.7, 642 in December 2018.

The key highlights of retail deposits are as follows:

| Particulars | As at 30th September 2018 (Rs. in lakhs) | As at 31st December 2018 (Rs. in lakhs) |
|---|---|---|
| Retail Deposit Balance | 90,800 | 1,45,900 |
| CASA | 13,600 | 21,500 |
| Term Deposits | 77,200 | 1,24,500 |
| No. of Accounts | 2,34,000 | 3,04,000 |
| Mobile/Internet banking usage | 45% | 40% |
| CA TAT (days) | 10 days | 7 days |
| SA TAT (days) | 6 days | 3 days |

As seen from the table above, the Bank has positively grown on key parameters with an exception to Mobile/Internet banking usage. One noteworthy achievement is the reduction in Turnaround Time (TAT) in Current and Savings accounts to 7 days and 3 days respectively.

The trend in deposits growth is shown as below:

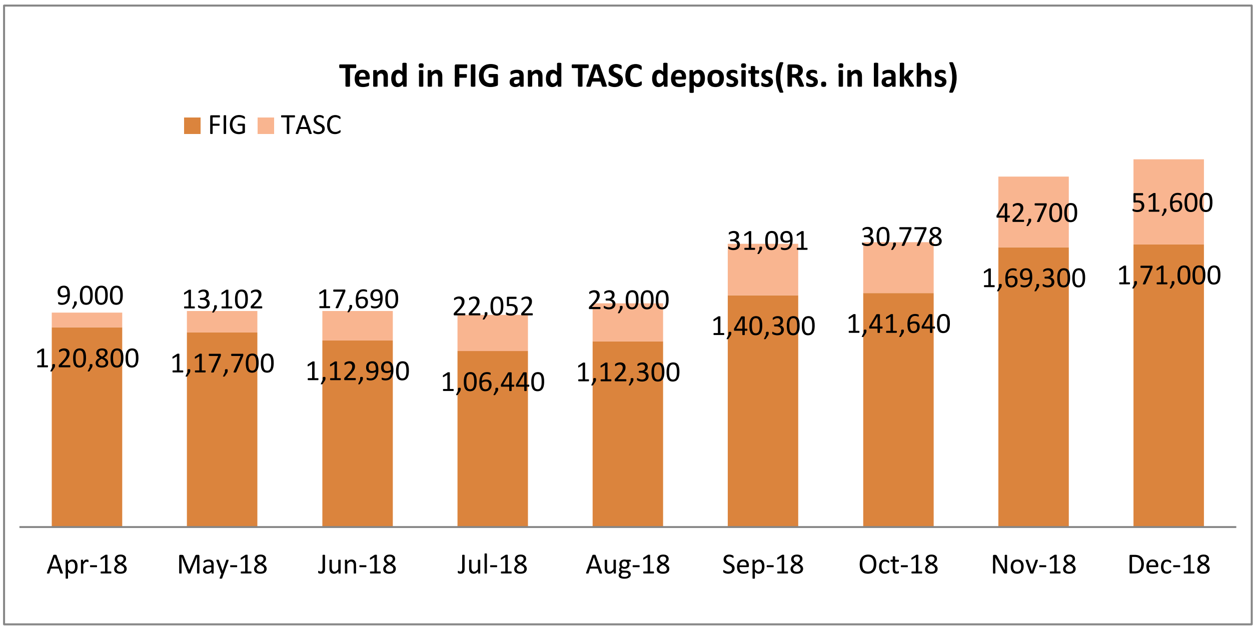



The Bank has also focused on increasing institutional deposits. The key highlights of institutional deposits are as below:

| Particulars | As at 30th September 2018 (Rs. in lakhs) | As at 31st December 2018 (Rs. in lakhs) |
|---|---|---|
| Financial Institutional Group-FD (FIG) | 1,40,300 | 1,83,000 |
| TASC[16]- Branch Channel | 8,500 | 11,500 |
| TASC- Relationship Managers | 22600 | 40,100 |
| Holding company | -- | 1,200 |
| **Total** | **1,71,400** | **2,46,600** |

[16] Trusts, Associations, Societies and Clubs

Under FIG deposits, the Bank has successfully on-boarded 3 state Co-operative Banks, 4 Public Sector Banks, 1 Small Finance Bank, 2 Payment Banks, 1 Mutual Fund and 1 Insurance company. The trend in the growth is as follows:




The Bank adheres to RBI guidelines relating to the Liquidity Coverage Ratio (LCR), Liquidity Risk Monitoring Tools and the LCR Disclosure Standards pursuant to the Basel III Framework on Liquidity Standards that are applicable to banks in India with effect from January 1, 2015.
LCR aims to ensure that a bank maintains an adequate level of unencumbered High Quality Liquid Assets (HQLAs) to meet its liquidity needs, convertible into cash under significantly severe liquidity stress scenario lasting for 30 days horizon period.

The Bank computes LCR in Indian rupees, the only currency it deals with. HQLA of the Bank consists of cash, unencumbered excess SLR eligible investments, a portion of statutory SLR as allowed under the guidelines, cash balance with RBI in excess of statutory CRR, and high rated corporate bonds issued by entities other than financial institutions. The Bank maintains excess SLR securities of Rs 10000 lakhs on a month on month basis. This portion serves as the security that the Bank can fall back on in a contingency.

The LCR position as at 31st December 2018, computed on the basis of daily average of three months, was comfortable and significantly in excess of the mandatory minimum i.e. 70% as applicable for this financial year.

| Liquidity Coverage Ratio (Rs. in lakhs) | | |
|---|---|---|
| **A** | **High Quality Liquid Assets** | **Adjusted Baseline Scenario** |
| | Level 1 Assets | 89,881 |
| | Level 2 A Assets | 0 |
| | Level 2 B Assets | 0 |

| | | |
|---|---|---|
| **B** | Total Stock of HQLAs | 89,881 |
| **C** | Cash Outflows | 1,02,582 |
| **D** | Cash Inflows | 56,986 |
| **E** | Net Cash-flow | 45,596 |
| **F** | 25% of Total Cash Outflow | 25,646 |
| **G** | Higher of E or F | 45,596 |
| | **Liquidity Coverage Ratio** | 197.12% |

**8.2. Quantitative Disclosures**

On the basis of SDA, the capital requirement for market risk reported to the Board from a governance perspective was as under:

| Capital Requirement for Market Risk | Amount (Rs. in Lakhs) |
|---|---|
| Interest Rate Risk | 16.30 |
| Equity Position Risk | -- |
| Foreign Exchange Risk | -- |
| **Total** | 16.30 |
| **Total Market Risk RWA** | 203.74 |

**Table DF- 9: Operational Risk**

**9.1. Qualitative Disclosures**

**9.1.1. Strategy and policy for Operational Risk Management**

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It excludes Strategic and Reputational Risks but includes Legal Risk. Strategic or Reputational risks are second order effect of Operational Risk.

Legal risk includes, however not limited to, exposure to penalties, fines, punitive damages arising out of supervisory action, civil litigation damages, related legal costs and any private settlements.

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 contingency planning. This is a continuing process and the Bank is continuously striving to enhance its processes.

**9.1.2. Governance Structure**

For effective management of Operational Risk, the Bank has constituted an Operational Risk Management Committee (ORMC) consisting of senior management drawn from different functions such as Operations, Finance, Information Technology (IT) and Human Resources

(HR). The ORMC supports the Risk Management Committee (RMC) of the Board and is responsible for implementing the best practices in managing Operational Risk.

**9.1.3. Risk identification, measurement, monitoring and reporting**

Following are some of the key techniques applied to manage operational risks. It involves both a qualitative and quantitative approach.

- **Scorecard approach**: An internal scoring mechanism to capture key risk parameters at a granular level. The scorecard approach to measure risk commenced as an erstwhile NBFC-MFI when the sole product was lending to microfinance customers. This has been recalibrated and now includes all facets of a branch operation: microfinance, housing and MSE loans, and liabilities. Branches are categorized as High, Medium or Low risk based on these assessments on monthly basis. The scores are reviewed at ORMC and actionables to address key risk factors, be they at a branch or in a particular region are evaluated and addressed. Key policy decisions emerge from these scoring and reviews.
- **Risk and Control Self-Assessment (RCSA) framework**: RCSA as an independent exercise will commence from next financial year. Since commencement of operations as a Bank and especially in the past one year, new products and processes have been introduced. The Bank is in the process of consolidating and documenting these from a control perspective. It is expected that this exercise will be completed within the current financial year which will provide the basis for the RCSA framework.
- Thorough due diligence is undertaken prior to opening any new bank branch incorporating inputs from business and all control functions. This includes analysis of PIN CODE data to analyse portfolio quality within the area, including competitor analysis. In addition, inputs from field staff on key risk issues complements this data;
- Operational risk checklist is in place for reviewing controls for liability, MSE and Housing products in SFB branches. The checklist is also used to raise awareness about potential risks in case of controls being compromised.
- Incident reporting process is in place to record material incidents and learn from errors and strengthening existing controls. Incidents recorded as loss and near miss data. This is followed by a Root Cause Analysis (RCA) for each reported incident. EGRC module on 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 on account of these incidents and these are reported to the Board at quarterly intervals.
- All new products are rolled out post assessment of critical operational and compliance risks along with approval of the Product Approval Committee (PAC). The Bank has engaged an external consultant to review and enhance some of the key processes and introduce controls as these have significantly evolved over the past

two years. This exercise is expected to be completed by next quarter.

- Progressive risk assessment of all material outsourced vendors to ensure that these vendors comply with the minimum requirements prescribed by RBI.
- User Access reviews are conducted at regular intervals to ensure that access and role matrix are well defined and that access is commensurate with the responsibility assigned;
- Fraud monitoring and reporting. The Bank has had only minor instances of fraud and these relate to cash related activities on the field. The Bank records instances along the Basel defined lines of Operational Risk events and process enhancements arising from these occurrences are tabled at ORMC.
- During the quarter the Bank tested its Business Continuity at a ground level. Each branch is mapped to a neighbouring branch. Likewise, each regional office of the Bank is mapped to its closest regional office. The testing involved the shutting down of some essential services in the “affected” branches and operating these services from the backup branches. The tests were successful. It is aimed to complete the testing in all branches in the next financial year.
- Significantly for the current financial year, the entire review and testing of Internal Financial Controls (IFC), a mandated requirement for annual financial audit, is being done in house and by the Operational Risk team. In consultation with the external auditors, the Bank has identified 26 key processes for which Risk Control Matrices (RCMs) have been prepared to capture the process flow. The RCMs record the manual and automated controls for each of the processes. These are tested for effectiveness. In addition to the 26 processes, at the apex, there is the recording and testing of Entity Level Controls (ELCs) for the Bank as a whole.

**9.1.4. <u>Information Technology and Security Risk</u>**

The Bank makes use of latest technological framework for supporting various operations. Use of technology brings in newer kind of risks like business disruption, risks related to information assets, data security etc. The Bank has put in a governance framework, information security practices to mitigate information technology related risks which ensures preservation of Confidentiality, Integrity and Availability (CIA) of all Information assets. The Bank is complying with the directives issued by RBI, from time to time in the area of Information/Cyber security standards and follows the best practices.

The Bank has well-documented, Board approved information security and cyber security policies in place. Awareness sessions are carried out through classroom trainings, meetings and discussions, induction programs, awareness mailers and Short Messaging Service (SMS’s) to update employees on information security policies and practices. The Bank has put in place IT Security Policy and has implemented various IT Security related solutions like Anti-Virus, Firewalls, Encryption Technologies, Intrusion Detection Systems, Web Filtering Solution, and Network Security Solutions etc.

The Bank also carries out regular vulnerability assessments and penetration tests for its applications and infrastructure. Third party Information Security Assessment is performed to evaluate third party's information security related practices.
The Bank is actively participating in various meetings and forums organized by the Institute for Development and Research in Banking Technology (IDRBT), RBI and other forums to remain updated in latest security technologies and to continuously upgrade the security posture of the bank.

**9.1.5. <u>Business Continuity</u>**

The Business Continuity Management Policy (BCMP) of the Bank provides guidance for handling emergency situations and to reasonably ensure continuous and reliable delivery of key products and services to customers in the event of a significant business disruption, while maintaining confidence levels of its shareholders and satisfy relevant compliance requirements. The plans and procedures are in line with the guidelines issued by the RBI in this regard and are subject to regular review. A Business Continuity Management Committee and Operational Risk Management Committee at apex level 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 to ensure the capability of the same to handle disastrous situations.

**9.1.6. <u>Capital charge assessment</u>**

Although RBI is in the process of issuing detailed guidelines on Operational Risk Management for SFBs, the Bank has adopted BIA for measuring the capital requirements for Operational risk as applicable to Scheduled Commercial Banks. While the capital charge on operational risk has witnessed an increasing trend in the first year, the same is expected to stabilize with time. BIA directs Banks to allocate capital at 15% of the 3 years average gross income. The Bank has computed its Operational Risk Capital Charge at 15% of gross income as on YTD basis given that it has been operation for one complete year only.

**9.2. <u>Quantitative Disclosure</u>**

| Particulars | Capital Reqd. (Rs. in Lakhs) | RWA (Rs. in Lakhs) |
|---|---|---|
| Operational Risk (BIA Approach) | 18,477 | 2,30,957 |

**Table DF- 10: Interest Rate Risk in Banking Book (IRRBB)**

**10.1. <u>Qualitative Disclosures</u>**

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

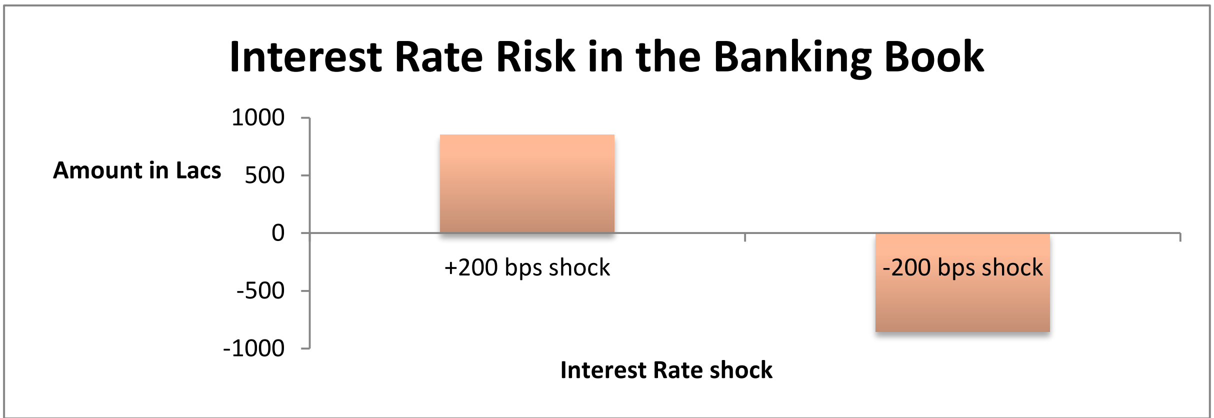
The interest rate risk is measured and monitored through two approaches:

1) Earning 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 2% is assumed both in assets and liabilities.
2) 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.

**10.2. Quantitative Disclosures**

**10.2.1. Earnings at Risk (Earnings Perspective) (Rs. in Lakhs)**

| Interest Rate Risk in the Banking Book (IRRBB) | | | |
|---|---|---|---|
| Sl.No | Country | Interest Rate Shock | |
| | | +200 bps shock | -200 bps shock |
| 1 | India | 386.08 | -386.08 |
| 2 | Overseas | - | - |
| 3 | Total | 386.08 | -386.08 |




**10.2.2. Economic Value Perspective (Rs. in Lakhs)**

| Category | Items | Amount |
|---|---|---|
| A | Equity (i.e., Net Worth ) | 1,48,294.82 |
| B | Computation of Aggregate RSL | 9,19,727.60 |
| C | Computation of Aggregate RSA | 10,30,740.96 |
| D | Weighted Avg. MD of RSL across all currencies | 1.15 |
| E | Weighted Avg. MD of RSA across all currencies | 1.35 |
| F | MDG | 0.32 |
| G | Change in MVE as % of equity for 200bps change in interest rate | -4.48% |
| H | Change in MVE in absolute terms | -6643.61 |

**DF 17: Summary Comparison of Accounting assets vs. Leverage ratio exposure measure**

| Summary comparison of accounting assets vs. leverage ratio exposure measure | | |
|---|---|---|
| | **Item** | **Amount (in INR lakhs)** |
| **1** | Total consolidated assets as per published financial statements | 11,05,510 |
| **2** | Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation | - |
| **3** | Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure | - |
| **4** | Adjustments for derivative financial instruments | - |
| **5** | Adjustment for securities financing transactions (i.e. repos and similar secured lending) | - |
| **6** | Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off- balance sheet exposures) | 2,800 |
| **7** | Other Adjustments | -13,718 |
| **8** | **Leverage ratio exposure** | **10,94,593** |

**DF 18: Leverage ratio common disclosure template**

| | **Item** | **Amount (in INR lakhs)** |
|---|---|---|
| | **On-balance sheet exposures** | |
| **1** | **On-balance sheet items (excluding derivatives and SFTs, but including collateral)** | 11,05,510 |
| | Domestic Sovereign | 1,12,440 |
| | Banks in India | 19,813 |
| | Corporates | 10,000 |
| | Exposure to default fund contribution of CCPs | 60 |
| | Other Exposure to CCPs | - |
| | Others | 9,63,197 |
| | | |
| **2** | (Asset amounts deducted in determining Basel III Tier 1 capital) | -13,718 |
| **3** | Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2) | **10,91,793** |
| | **Derivative exposures** | |

| | | |
|---|---|---|
| **4** | Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin) | - |
| **5** | Add-on amounts for PFE associated with all derivatives transactions | - |
| **6** | Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework | - |
| **7** | (Deductions of receivables assets for cash variation margin provided in derivatives transactions) | - |
| **8** | (Exempted CCP leg of client-cleared trade exposures) | - |
| **9** | Adjusted effective notional amount of written credit derivatives | - |
| **10** | (Adjusted effective notional offsets and add-on deductions for written credit derivatives) | - |
| **11** | **Total derivative exposures (sum of lines 4 to 10)** | **-** |
| | **Securities financing transaction exposures** | |
| **12** | Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions | - |
| **13** | (Netted amounts of cash payables and cash receivables of gross SFT assets) | - |
| **14** | CCR exposure for SFT assets | - |
| **15** | Agent transaction exposures | - |
| **16** | **Total securities financing transaction exposures (sum of lines 12 to 15)** | **-** |
| | **Other off-balance sheet exposures** | |
| **17** | Off-balance sheet exposure at gross notional amount | 3,316 |
| **18** | (Adjustments for conversion to credit equivalent amounts) | 516 |
| **19** | **Off-balance sheet items (sum of lines 17 and 18)** | **2,800.5** |
| | **Capital and total exposures** | |
| **20** | Tier 1 capital | 1,63,194 |
| **21** | Total exposures (sum of lines 3, 11, 16 and 19) | 10,94,593 |
| | **Leverage ratio** | |
| **22** | **Basel III leverage ratio** | **14.91%** |

Presently the contribution of Tier I capital to Total Basel II capital is 97.65%. 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 Securities Financing Transactions (SFT) and Off Balance Items are presently low, the Leverage ratio is well above the benchmark of >4.5%.

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