Pillar III Disclosures as at 30th June 2019

2019

[Ujjivan Small Finance Bank (hereinafter called "the Bank") 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 30th June 2019.]

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1. List of abbreviations

Abbreviation	Full form
ADF	Automated Data Flow
AFI	Annual Financial Inspection
AFS	Available For Sale
ALCO	Asset Liability Committee
ANBC	Adjusted Net Bank Credit
ATM	Automated Teller Machine
BC	Business Correspondent
BCMP	Business Continuity Management Policy
BIA	Basic Indicator Approach
CA	Current Account
CAC	Credit Approval Committee
CAB	College of Agriculture Banking
CASA	Current Account Saving Account
CBO	Chief Business Officer
CBS	Core Banking Solution
CET1	Common Equity Tier 1 Capital
CFO	Chief Financial Officer
CGTMSE	Credit Guarantee Fund Trust For Micro And Small Enterprises
CIC	Core Investment Company
CRAR	Capital to Risk-weighted Assets Ratio
CRMC	Credit Risk Management Committee
CRO	Chief Risk Officer
CRR	Cumulative Repayment Rate
CRR	Cash Reserve Ratio
CS	Company Secretary
DPD	Days Past Due
DSCB	Domestic Scheduled Commercial Bank
EAD	Exposure at Default
ECL	Expected Credit Loss
ECRA	External Credit Rating Agency
EDP	Enterprise Data Platform
ELC	Entity Level Controls
ESOP	Employee Stock Option Scheme
EWS	Early Warning System
FALLCR	Facility to Avail Liquidity for LCR
FIG	Financial Institutions Group

FIRB	Foundation Internal Rating Based Approach
GLC	General Ledger Code
GNPA	Gross Non Performing Asset
GPTW	Great Place to Work
GST	Goods and Service Tax
HQLA	High Quality Liquid Assets
IBA	Indian Banks' Association
IBPC	Inter Bank Participation Certification
ICAAP	Internal Capital Adequacy and Assessment Process
IIBF	Indian Institute of Banking and Finance
IFC	International Finance Corporation
IGAAP	Indian Generally Accepted Accounting Principles
IMF	International Monetary Fund
Ind-AS	Indian Accounting Standards
IRAC	Income Recognition and Asset Classification
IRRBB	Interest Rate Risk in Banking Book
KRA	Key Responsibility Area
KRI	Key Risk Indicator
KYC	Know Your Customer
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LMS	Loan Management System
LR	Leverage Ratio
LWE	Left Wing Extremism
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
NBFC-ND-SI-CIC	Non-Banking Financial Company-Non Deposit-taking-Systemically Important- Core Investment Company
NE	North Eastern
NIBM	National Institute of Bank Management
NI Act	Negotiable Instruments Act
NNPA	Net Non-Performing Asset
NPI	Non Performing Investment
NPV	Net Present Value
NRI	Non Resident India
NSFR	Net Stable Funding Ratio
NTB	New to Bank
NURC	Non Unbanked Rural Centre
ORMC	Operational Risk Management Committee
OSP	Outstanding Principal

OTRR	On Time Repayment Rate
OTS	One Time Settlement
PAC	Product Approval Committee
PAR	Portfolio at Risk
PAT	Profit After Tax
PB	Payment Bank
PD	Probability of Default
PMAY	Prime Minister Awas Yojana
PNCPS	Perpetual Non-Cumulative Preference Shares
PONV	Point of Non Viability
PSL	Priority Sector Lending
PTP	Promise to Pay
QC	Quality Check
RBI	Reserve Bank of India
RCA	Root Cause Analysis
RCSA	Risk and Control Self-Assessment
ROA	Return on Asset
RPA	Robotic Process Automation
RSA	Risk Sensitive Assets
RSL	Risk Sensitive Liabilities
RWA	Risk Weighted Assets
SA	Standardized Approach
SDA	Standardized Duration Approach
SFB	Small Finance Bank
SLBC	State Level Bankers' Committee
SLR	Statutory Liquidity Ratio
SLS	Structural Liquidity Statement
SMA	Special Mention Accounts
SPV	Special Purpose Vehicle
TAT	Turnaround Time
UAT	User Acceptance Testing
UFSL	Ujjivan Financial Services Limited
UPI	Unified Payment Interface
URC	Unbanked Rural Centre
VaR	Value at Risk
YTD	Year Till Date

2. Introduction

Ujjivan Small Finance Bank (hereinafter called "the Bank") 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 30th June 2019.

3. About the Bank

3.1. Branch network and distribution reach

The Bank commenced operations on 1st February, 2017 and as at 30th June, 2019 had completed 2 years of business operations. The Bank ended Q1 of FY 2019-20 on a positive note. The branch position as at 30th June 2019 was as follows:

Particulars	Position as on 30th June 2019
Total Banking outlets, of which	474
Banking outlets[1] (Non URC[2])	354
Banking outlets (URC)	96
Qualifying URC Branches (Branches situated in tier 3-6 locations in NE[3] states and LWE[4] districts)	17
Business Correspondents (BC)	7

The Bank is fully compliant with the RBI guidelines on having 25% (25.30% as at 30th June 2019) of its Banking Outlets in the URCs.

The Bank has enrolled seven BCs who are compliant with the requirements as laid out by RBI. These qualify as URCs being located in unbanked locations. These BCs perform essential banking services such as acceptance/withdrawal of small value deposits, balance enquiry, mini statement of accounts and undertake activities pertaining to updating Know Your Customer (KYC) requirements. Personnel managing each BC are duly certified by the Indian Institute of Banking and Finance (IIBF) as required by RBI.

[1] A 'Banking Outlet' for a Domestic Scheduled Commercial Bank (DSCB), a Small Finance Bank (SFB) and a Payment 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] Unbanked Rural Centre (URC)

[3] North eastern states

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

The Bank operated a network of 378 Automated Teller Machines (ATMs) and 9 Automated Cash Recyclers as at 30th June 2019.

3.2. New products and initiatives

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 RBI) to economically active poor in urban and semi urban areas. In line with the objective to further financial inclusion, the Bank has also enhanced its product offerings to agriculture and rural businesses. During the quarter, the Bank has modified/enhanced its offerings to accommodate finance for poultry (country breed), indigenous varieties of various milch cattle, sericulture, goat rearing, piggery, poly nursery, additional coverage of vegetables and floriculture. The Bank has also reviewed its policy on minimum land requirements, collateral requirements, utilization checks and repayment mode/period to align with market practices/RBI guidelines.

During the quarter, the Bank has tied-up with 'Max Bupa Health Insurance' and 'Apollo Munich Health insurance' to provide Hospi-Cash for the its customers. Under this scheme, the Bank's customers are eligible for fixed payout for each day of hospitalization ranging from Rs. 1000 to Rs. 5000 on payment of annual premium and a waiting period of 30 days. The daily cash benefit can be availed for a maximum of 30 days. This offering is provided by the Bank after carefully studying the key trend in expenses of an average customer. Medical emergencies were found to affect the repayment pattern and through this offering, the customer can be provided relief from strain in financial outflow.

During the quarter, the Bank has introduced property insurance for its Secured Housing portfolio in association with Bajaj Allianz General Insurance Limited and is in the process of extending the same to Secured MSE loans (including stock insurance).

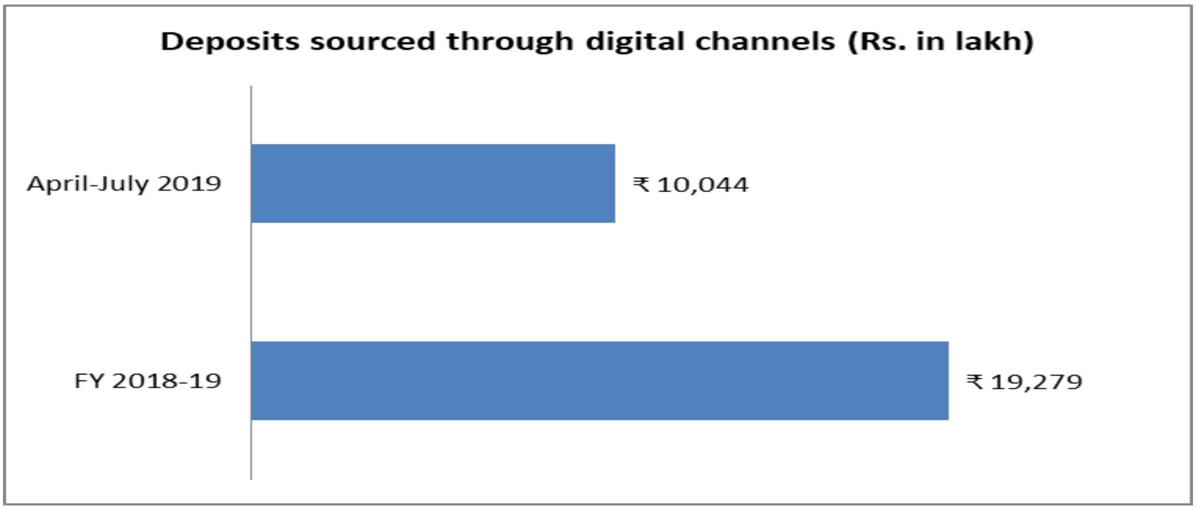
3.3. Progress in IT and Digital banking

On the technology front, vendor evaluation for data platform infrastructure and services implementation was undertaken. Systems and processes were readied for providing internet banking facilities to the Bank's NRE customers. Review has been initiated with different vendors to put in place the API Gateway. E-mandate based NACH registration for customers was enabled. Source code management with external provider (Escrow arrangements) for all critical applications viz. Finacle, IB/MB[5], BR.Net and CRMnext was completed. The Bank's HRMS[6] system was integrated with CRMnext to enable automation of account opening for employees. Corporate Salary account opening process was enabled through HHD platform. Systems were readied for roll out of privileged saving product variant targeted at middle income group customers.

[5] Internet Banking and Mobile Banking
[6] Human Resource Management System

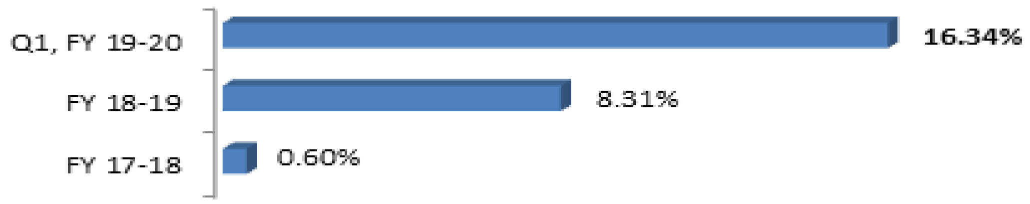
In the pursuit to "Go Digital", the Bank compares and benchmarks its existing digital services over time and thrives towards continuous improvement. The Bank has witnessed extensive growth in terms of Digital Adoption by the customers majorly in the areas of digital on-boarding, digital payments and banking through "Self Service". During the quarter, the Bank has sourced up to ~Rs. 10,000 lakh deposits on self-service mode, which is 50% more than the deposits sourced through self-service mode during the entire previous financial year.

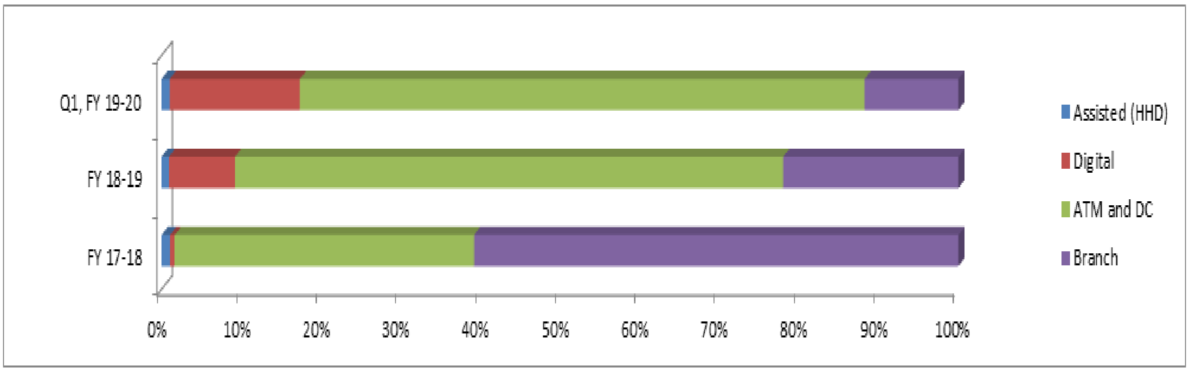
Self-service digital deposits:



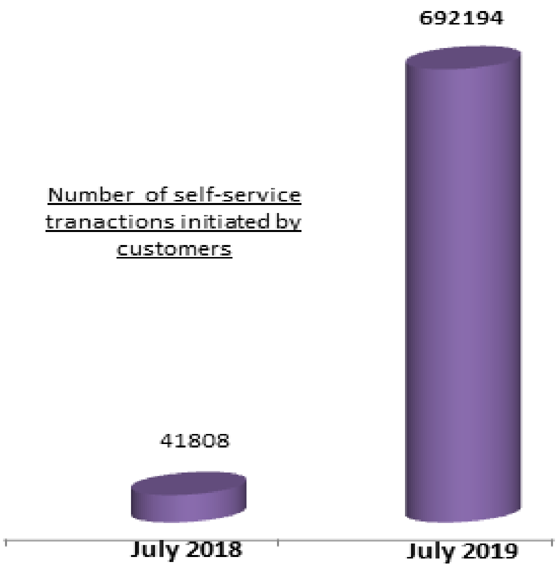
The Bank has witnessed substantial increase in terms of the digital transactions through completely self-service options. The Digital Platforms were launched after careful selection of features and functionalities which adds to the usability and enhances user interface. The adoption trends over the years are as follows:

Percentage of bank transactions on digital platform:





The Bank has also witnessed an increase in the number of customer initiating self-service transactions by over 16 times in the last 1 year. The details of such transactions (July to July basis) are as under:



The total amount of self-service payments and remittances made during April-July 2019 was Rs. 1, 06, 749 lakh, which was 94% of the total payments and remittance made during the entire previous financial year. The increase in adoption is a result of robust payment platforms, business push and customer convenience. Out of 302 banks in India, the Bank ranks at 40th position in terms of retail mobile transactions.

3.4. Awards and recognitions

During the quarter, the Bank was ranked 6th among India's Best Companies to Work For in FY 2019. The Bank received this prestigious award at the awards function conducted by Great Place to Work Institute (GPTW) and The Economic Times. The Bank has consistently featured among the top 25 Companies to Work For in India for nearly a decade now. The Bank was also recognized as the Best in Small Finance Banks category and Best among all organizations in excess of 10,000 employees.

The Bank also won the 'ERM strategy of the year' award at the ERM World Summit and Awards conceptualized by Transformance Business media and RSA Security LLC in recognition of the research paper submitted on 'Enterprise Risk Management and its application in the Bank'.

4. Key performance highlights of the Bank:

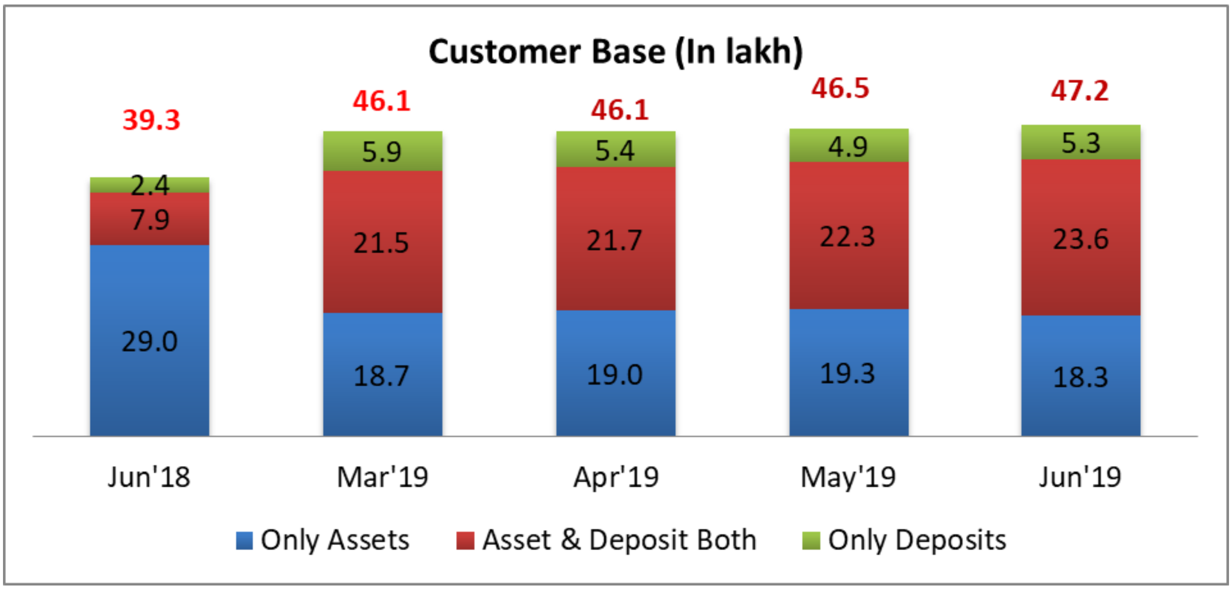
Some of the key achievements made during the financial year were as follows:

Key Highlights	Description

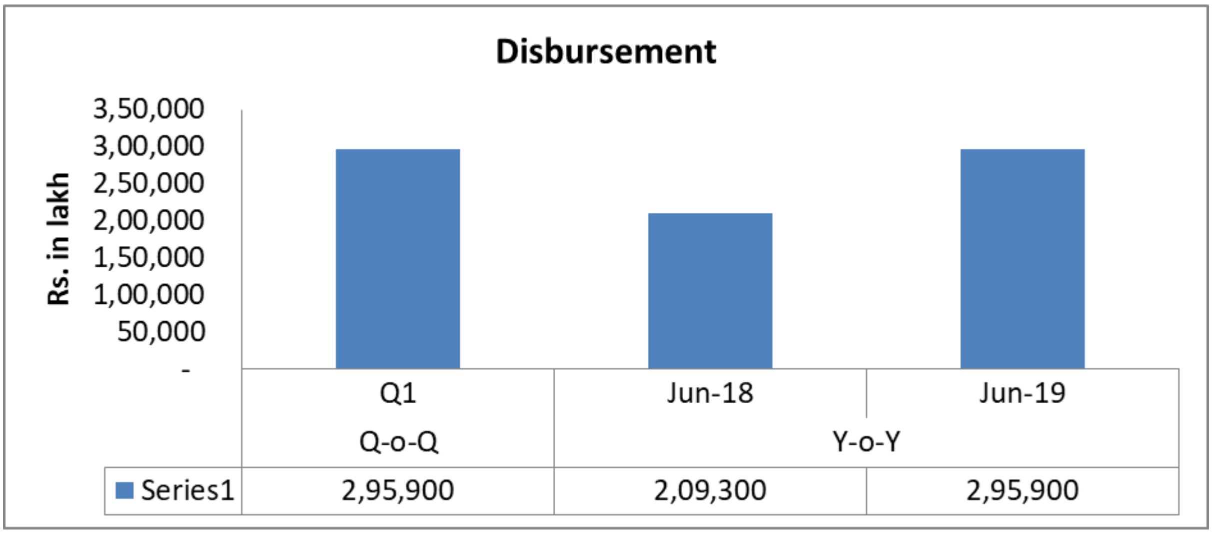
Customer base	• Total outreach: >47.20 lakh unique customers (46.10 lakh unique customers in March 2019)
Loan Portfolio	• Gross Advances at Rs. 11,39,416 lakh (Rs. 10,62,276 lakhs in March 2019) • Non-Microfinance book at 18% (15% in March 2019)
Deposit Balance	• Total Deposits (Retail plus Institutional): Rs. 7,95,630 lakh (Rs. 7, 37,944 lakh in March 2019) • CASA: 10.40% (10.60% in March 2019) • Retail: 43% (37% in March 2019)
Portfolio Quality	• Gross Non-Performing Assets (GNPA): 0.84% (0.92% in March 2019) • Net Non-Performing Assets (NNPA): 0.26% (0.26% in March 2019) • Write offs during Q1 : Rs. 1,570 lakh (Rs. 5,603 lakh during Q1 of FY 2018-19)
Employee strength	• 15,626 (14,752 as at March 2019)
Profitability	• Profit after Tax: Rs. 9,449 lakh (Rs. 4,613 lakh in Q1 for FY 2018-19) • Return on Assets (ROA): 2.71% (1.88% in March 2019)
Funding	• Cost of funds: 8.50% (8.58% in March 2019)

The performance ratios of the Bank as at 30th June 2019 are as follows:

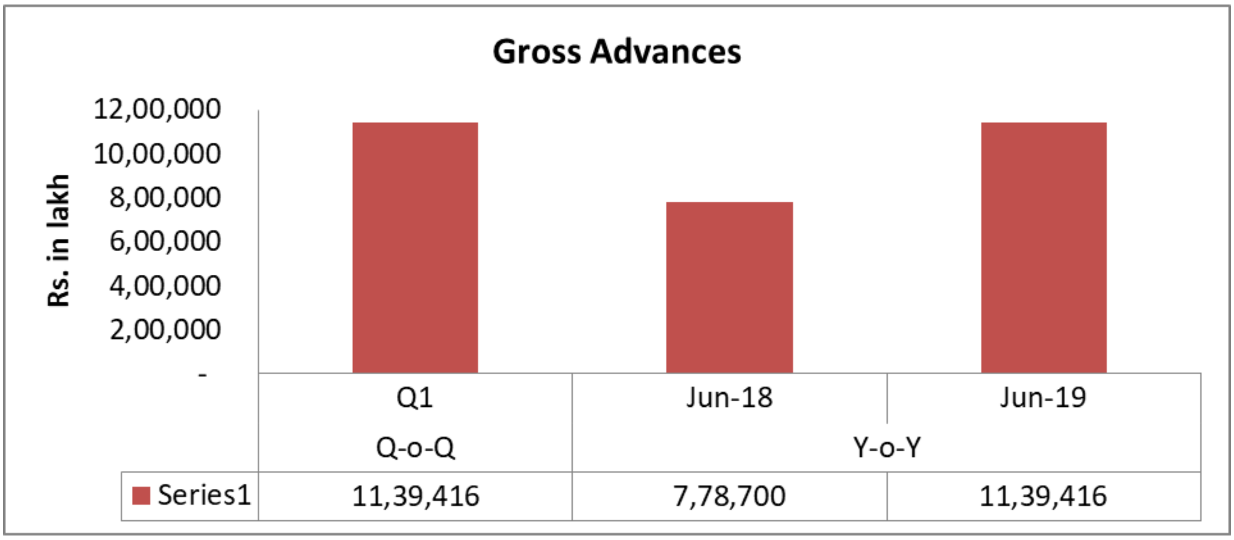
Particulars	**As at June 30, 2019**	**As at June 30, 2018**
Interest income as a percentage to working funds	17.37%	17.20%
Non-interest income as a percentage to working funds	2.87%	2.26%
Operating profit as a percentage to working funds	4.63%	3.59%
Return on assets	2.71%	1.97%
Business (deposits plus gross advances) per employee (Rs. in lakh)	107.12	75.60



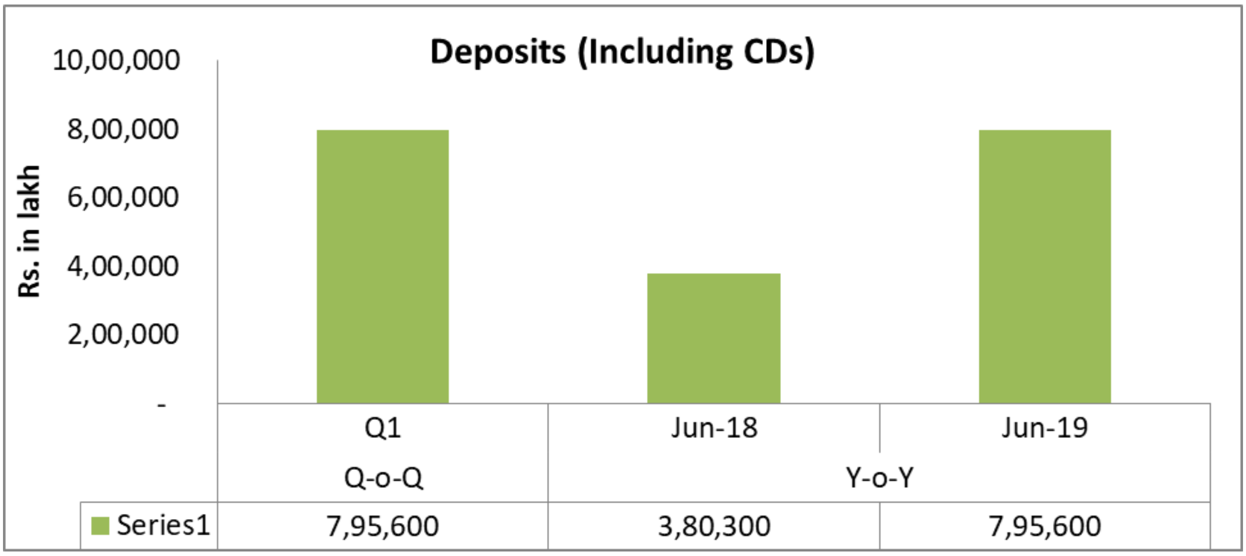
Customer Base (In lakh)
39.3
46.1
46.1
46.5
47.2
2.4
7.9
29.0
5.9
21.5
18.7
5.4
21.7
19.0
4.9
22.3
19.3
5.3
23.6
18.3
Jun'18
Mar'19
Apr'19
May'19
Jun'19
Only Assets
Asset & Deposit Both
Only Deposits



Disbursement
Rs. in lakh
3,50,000
3,00,000
2,50,000
2,00,000
1,50,000
1,00,000
50,000
-
Q1
Jun-18
Jun-19
Q-o-Q
Y-o-Y
Series1
2,95,900
2,09,300
2,95,900



Gross Advances
Rs. in lakh
12,00,000
10,00,000
8,00,000
6,00,000
4,00,000
2,00,000
-
Q1
Jun-18
Jun-19
Q-o-Q
Y-o-Y
Series1
11,39,416
7,78,700
11,39,416



5. Table DF- 1: Scope of Application

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

5.1.1 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

5.1.2 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

5.1.3 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	Quantitative impact of regulatory capital using risk weighting methods versus using

			voting power	**the full deduction method**
Nil	Nil	Nil	Nil	Nil

6. Table DF-2- Capital Structure

6.1 Qualitative Disclosures

6.1.1 Equity capital

The Bank has an authorized capital of Rs.1, 50,000 lakh 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 lakh, 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 39.13% (including NRI holdings) as at 30th June 2019, 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. The shares of the Holding Company are listed and are actively traded with a closing market price of Rs 296.55 as at 30th June 2019.

6.1.1.1. Update on listing of the Bank

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 since its inception is in excess of this mandated figure, the Bank has completed its second full year of operation. In compliance with the guidelines of RBI, the Bank proposes to list its shares by January 2020 for which discussions are at an advanced stage.

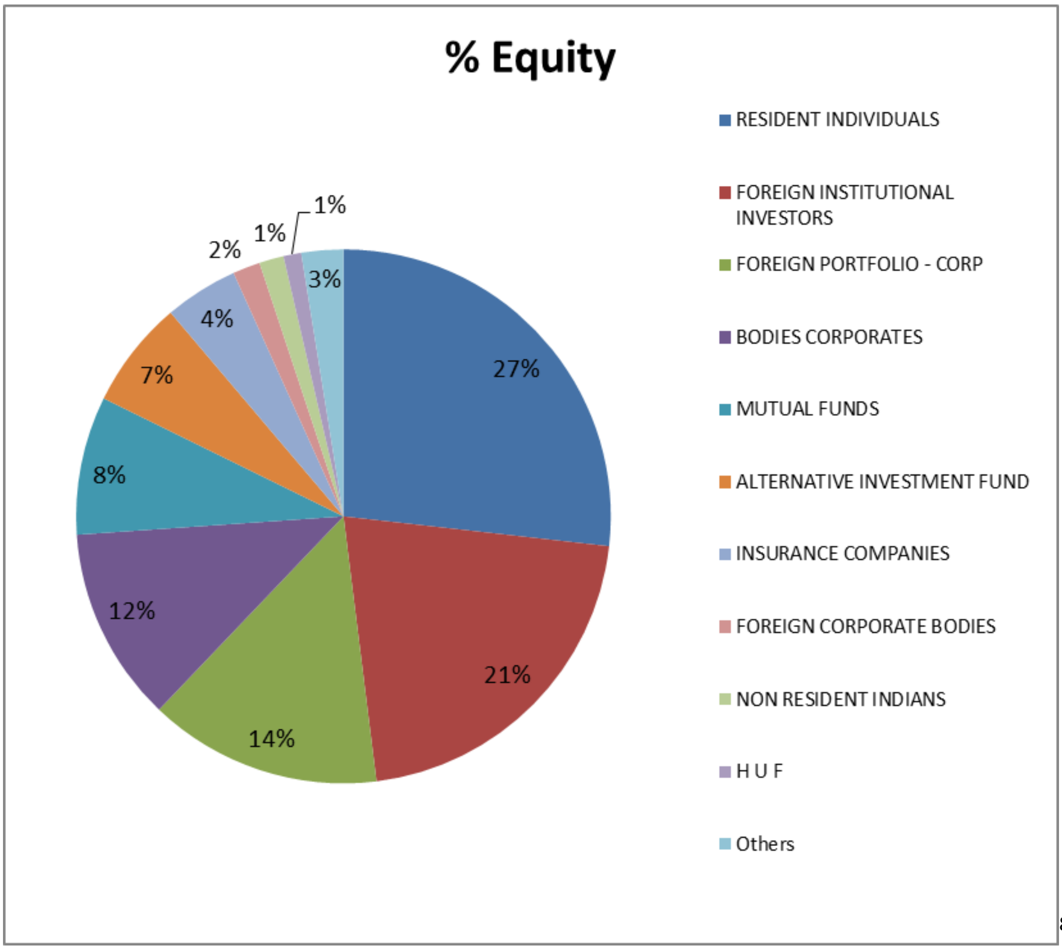
6.1.1.2. Promoter contribution[7]:

The Bank is a fully owned subsidiary of UFSL. 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

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

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.

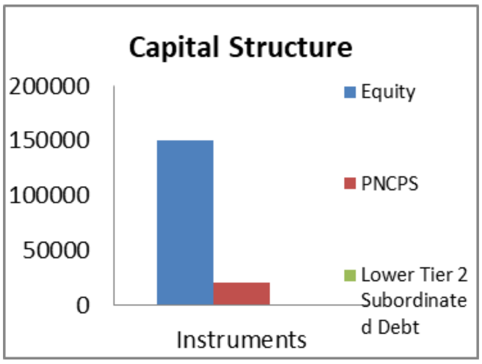
The Bank takes cognizance of the same and compliance to the above guidelines will be undertaken as per the timelines prescribed.



[8]

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[9]	Tier 1	1,50,000
2	PNCPS[10]	Tier 1	20,000
3	Lower Tier II Subordinated Debt	Tier 2	-NIL-[11]



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[8] 'Others' include Employees, NRI (Non repatriation), Clearing members, Banks, Trusts, Directors and NBFCs

[9] Authorized capital

[10] Perpetual Non-cumulative Preference Shares

[11] The existing subordinated debt instrument of Rs. 5,000 lakhs has been reclassified as Borrowings post RBI AFI audit

6.1.2 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 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 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:

- 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)	Contractual Dividend rate (% p.a.) (on a fixed rate basis)
PNCPS	20,000	9th Feb 2017	Perpetual	Yes	11% p.a.

6.1.3. Subordinated Debt Instrument

The Reserve Bank of India, during its annual inspection had observed that the existing subordinated debt in the nature of Non-Convertible Debentures (NCD) issued by the Bank to SIDBI had restrictive clauses on end-use and deployment in geographical locations. The same was proposed to be reclassified as 'borrowings' and not in the nature of Tier II capital. The Bank has accordingly complied with this direction. The Bank intends on paying off the erstwhile Subordinated debt instrument in July 2019.

The Tier II Capital raise through IFC which had been planned for the current financial year has been deferred pending a decision to be made by IFC on the categorization of the bonds which can have an impact on the overall pricing.

7. Table DF- 3: Capital Adequacy

7.1 Qualitative Disclosures

The Bank has been well capitalized since inception. As required by RBI in its operating guidelines to SFBs[12], the Bank is required to adopt the Standardized approach for Credit

[12] 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

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, as would be noted from the table above, some elements of the capital structure, such as Common Equity and Additional Tier 1 requirement, are from 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 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 two completed years 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.

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) and Leverage Ratio (LR).

The disclosures pertaining to capital adequacy are as per the Generally Accepted Accounting Practices (GAAP). Financial statements under Ind-AS regime have been deferred by RBI until further notice and hence a comparison of capital adequacy under both the regimes will be presented after the same is made applicable for the Bank.

7.2 Quantitative Disclosures

The break-up of Basel II capital funds as at 30th June 2019 is as follows:

Rs. in lakh

Capital Funds		
	Position as on 30th June 2019	**Amount**
A	**Tier I Capital**	
A.1	Paid-up Share Capital	1,44,004
A.2	Reserves	26,120
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	10,892
B.3	Deferred Tax Assets	4,514
B.4	Good will and Adjustments for less liquid position/intangibles	1,383
C	**Net Tier 1 Capital**	1,73,335
D	**Tier II Capital**	
D.1	General Provisions	6,029
D.2	Investment Fluctuation Reserve	1,288
D.3	Lower Tier 2 capital instruments	-
E	**Deductions**	
E.1	Investments in instruments eligible for regulatory capital of financial subsidiaries/associates	-
E.2	Securitisation exposures including credit enhancements	1,383
F	**Net Tier 2 Capital**	5,934
F	**Total Eligible Capital**	**1,79,269**

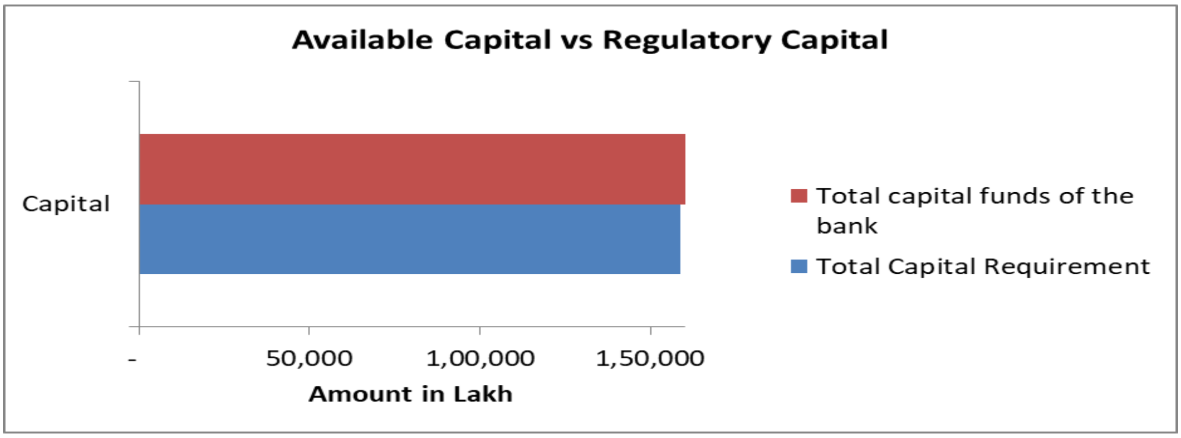
Capital Requirements for Various Risks		
Sl.No.	**Capital Requirements for various Risks**	**Amount (Rs. in lakh)**
A	**Credit Risk**	**1,41,508**
A.1	For non-securitized portfolio	1,41,508
A.2	For Securitized portfolio	NIL
B	**Market Risk**	**160**
B.1	For Interest Rate Risk	160
B.2	For Equity Risk	NIL
B.3	For Forex Risk (including gold)	NIL
B.4	For Commodities Risk	NIL
B.5	For Options risk	NIL

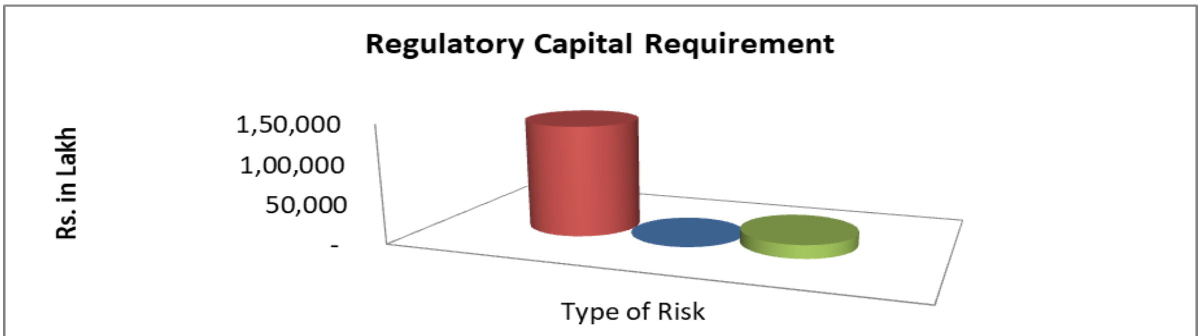
C	**Operational Risk**	**17,136**
D	**Total Capital Requirement**	**1,58,804**
E	**Total Risk Weighted Assets**	**11,59,587**
F	**Total capital funds of the bank**	**1,79,269**

Basel II Ratios as at 30th June 2019 (Rs.in Lakh)

Particulars	Amount/Ratio(Only Credit RWA)	Amount/ Ratio (all Pillar 1 risks)
Tier I Capital	1,73,335	1,73,335
Tier II Capital	5,934	5,934
Total Capital	**1,79,269**	**1,79,269**
Total RWA	**9,43,385**	**11,59,587**
Tier I Ratio	18.37%	14.95%
Tier II Ratio	0.63%	0.51%
CRAR	**19.00%**	**15.46%**

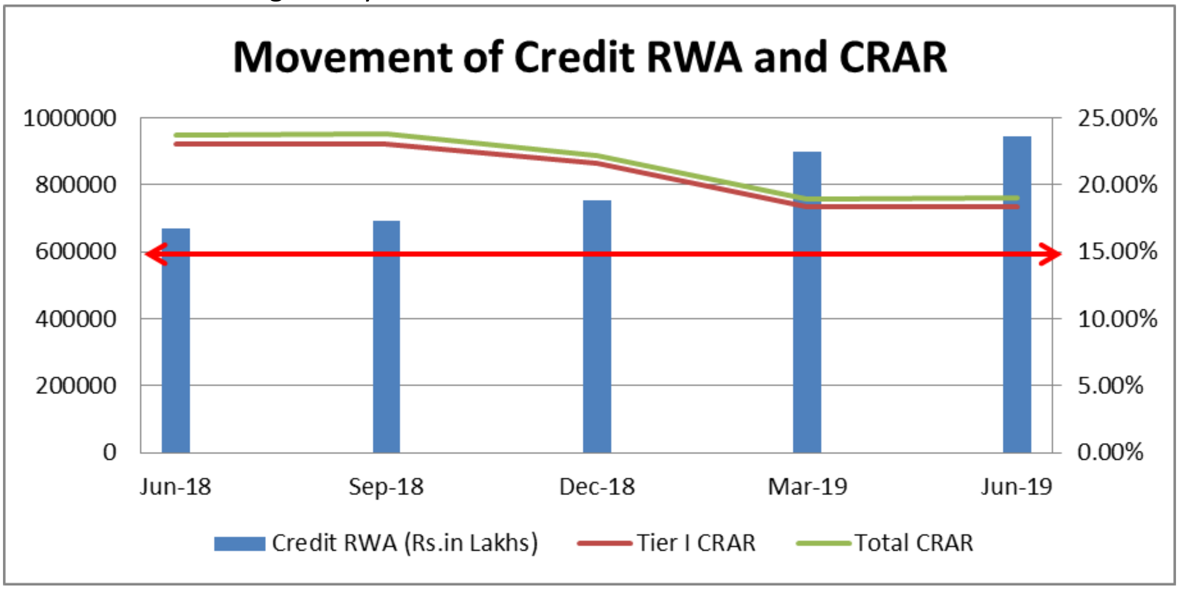
Graphical representation of capital position by reckoning *all three risks* is as below:





	Type of Risk
Credit Risk	1,41,508
Market Risk	160
Operational Risk	17,136

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



*The red line indicates minimum CRAR requirements

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

8.1. Qualitative disclosures

8.1.1. 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 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.

8.1.2. 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 80.85% of the loan book as at 30th June 2019, the Bank has deemed it appropriate to follow a conservative approach in its provisioning policy. The provision particulars at the quarter end are provided below:

Rs. in lakh

Asset Class	Gross Advances	RBI mandated provisions[13]	Actual Provision made	%Provision
Standard	11,29,838	5,649	6,028	0.53%
Sub-standard	7,636	1,909	4,742	62.10%
Doubtful	1,565	1,548	1,548	98.91%[13]
Loss	376	376	376	100.00%
Total	**11,39,416**	**9,482**	**12,694**	--

Presently, the Bank provides 0.50% on its standard asset portfolio against the RBI mandated figure of 0.40%. The Bank has received the approval of its Board to increase the standard asset provisioning on its unsecured book to 0.6%, but this will be effective from next financial year.

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

During FY 2018-19, RBI had issued a notification[14] that the legislative amendments recommended by the RBI were under consideration of the Government of India. Accordingly, it has been decided to defer the implementation of Ind AS till further notice. However, this deferral is applicable only to Scheduled Commercial Banks (SCBs).

The Ind AS transition continues to be applicable to Non-Banking Financial Services Companies (NBFC). Inasmuch as the financial accounts of the Bank are consolidated with that of the Holding Company, a NBFC, the Bank has also recast its financials using the Ind AS standards, including the computation of Expected Credit Loss (ECL). This is in addition to financial statements under Generally Accepted Accounting Principles (GAAP).

As the accounts of the Bank are consolidated with that of its Holding Company at the year end, 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). The consolidated accounts take into consideration the impact of ECL.

[13] Rough estimate. Standard assets are provided at 0.5%, sub-standard at 25% and Doubtful reckoned at 100%, (Secured loans with DPD 456-545 at 75% and 100% thereafter as per policy) and loss at 100%

[14] Refer RBI notification on Deferral of Implementation of Indian Accounting Standards (Ind AS) issued vide RBI/2018-2019/146 DBR.BP.BC.No.29/21.07.001/2018-19 dated 22nd March 2019.

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

- Rescheduling results in an 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 upon non-performance 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.

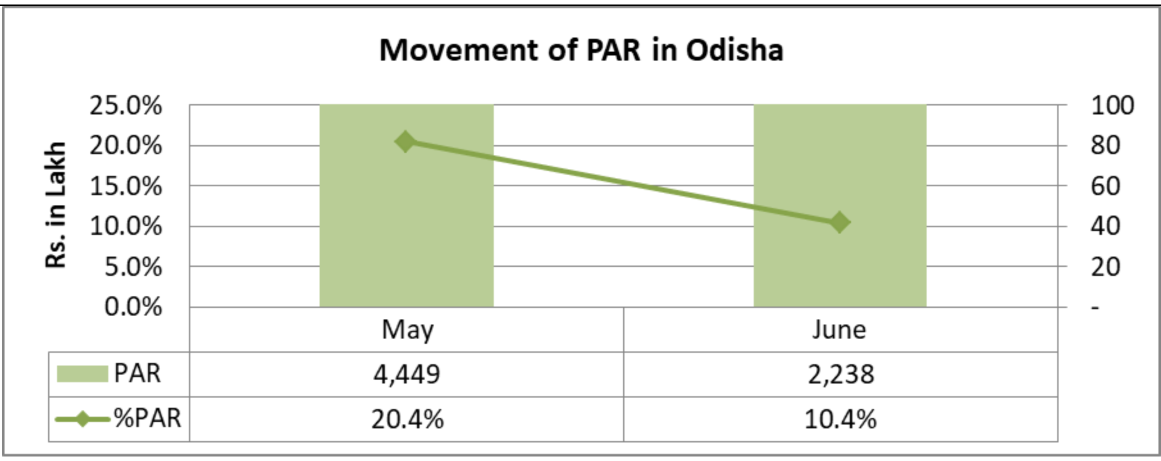
- As required by RBI guidelines, in each case of rescheduled loans for its MSE and Housing vertical, the Bank makes an additional provision by computing comparable NPVs for the "before" and "after" restructuring scenarios[15]. For the microfinance book, this is provided for as a percentage of the overall restructured book. These additional provisions are aimed to capture the loss due to diminution in the fair value of advances due to restructuring.

8.1.4. Rescheduling of Loans in flood affected areas in Odisha (Fani cyclone)

The Bank operates 16 branches in Odisha state with 3% share to the Bank's total advances. 11 branches with a loan book of Rs. 200 crores were impacted with 5 branches being classified as severe and the rest as moderate. Customers involved in Agriculture and Fishery were largely affected by the cyclone. Collections were not enforced wherever client's repayment capacity was impacted. The Bank had complied with all the directives issued by the SLBC[16] of Odisha. The portfolio had exhibited improvement in repayment with PAR reducing from Rs. 44.49 crores as at May 2019 to Rs. 22.38 crores as at June 2019. The portfolio performance in these branches was as follows:

[15] 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.

[16] State Level Bankers' Committee (SLBC)



Incremental Overdues (IOD) have reduced to ~450 cases in June 2019 from 19,763 cases in May 2019. 59% of May 2019 defaults have been normalized in June 2019.

8.1.5. Write-offs

The following table provides the criteria for writing off loans for the different category of loans. The Bank, however continue its efforts on recovery even after writing off:

Category of loans	Trigger point
Unsecured loans	a) Doubtful and Loss assets can be written off after 180 Days Past Due (DPD) which are fully provided for b) Loss assets identified earlier based on specific reasons or circumstances can be written off after 180 DPD with Credit Risk Management Committee (CRMC) approval
Secured Loans	Can be written off after 545 DPD
Loss Assets classified as Benami loan/Sub lending/Abscond cases	a) Unsecured loans after 180 DPD b) Secured loans after 365 DPD c) Benami/Sub-lending cases may be written off earlier basis the report from Risk and Fraud Management Committee.
Fraud Cases (As confirmed by the Risk and Fraud Management Committed and reviewed by the Risk Committee)	a) Unsecured loans after 180 DPD or immediately after the fraud have been established and full provision is made on the Bank’s books. b) Secured loans after 365 DPD or immediately after the fraud have been identified and full provision made on the books. c) Any fraud account over and above Rs. 1 lakh can only be written off by the MD and CEO

For Q1 of FY 2019-20, the Risk Management Committee had approved write-offs to the tune of Rs. 1,570 Lakh. These were advances which were provided for in full and where no recoveries had been made in the recent past. Further, the Bank is of the opinion that these advances have low probability of recovery. The details of write off is given as under:

Period	Amount (Rs. in Lakh)
Q1 (YTD)	1,570

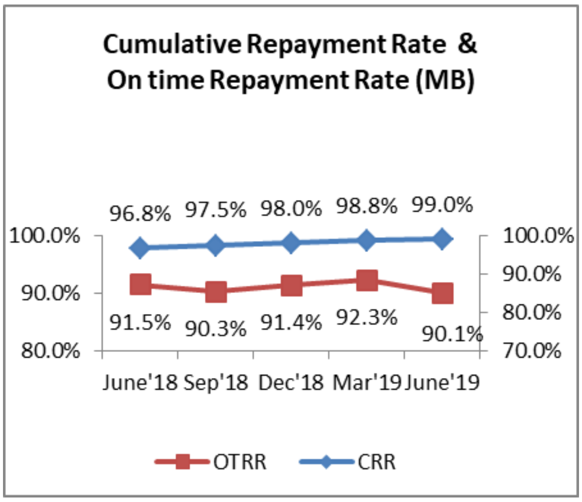
8.1.6. Credit Risk Management

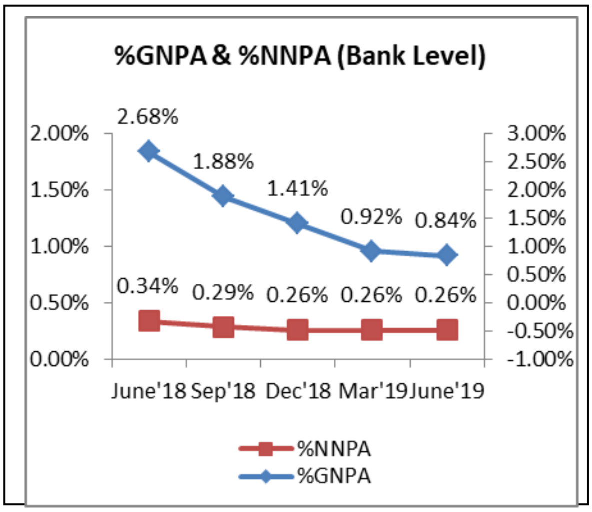
The overall distribution of gross advances as at 30th June 2019 was as under:

Rs. in lakh

Particulars	Gross Advances	% Share
Micro Banking	9,21,235	80.85%
Housing	1,00,733	8.84%
MSE Loans	68,584	6.02%
Institutional Lending	35,835	3.15%
Agriculture Loans[17]	5,767	0.51%
Loan Against Deposits	3,424	0.30%
Personal Loans	2,785	0.24%
Staff	1,018	0.09%
Two Wheeler	34	0.003%
Total	**11,39,416**	

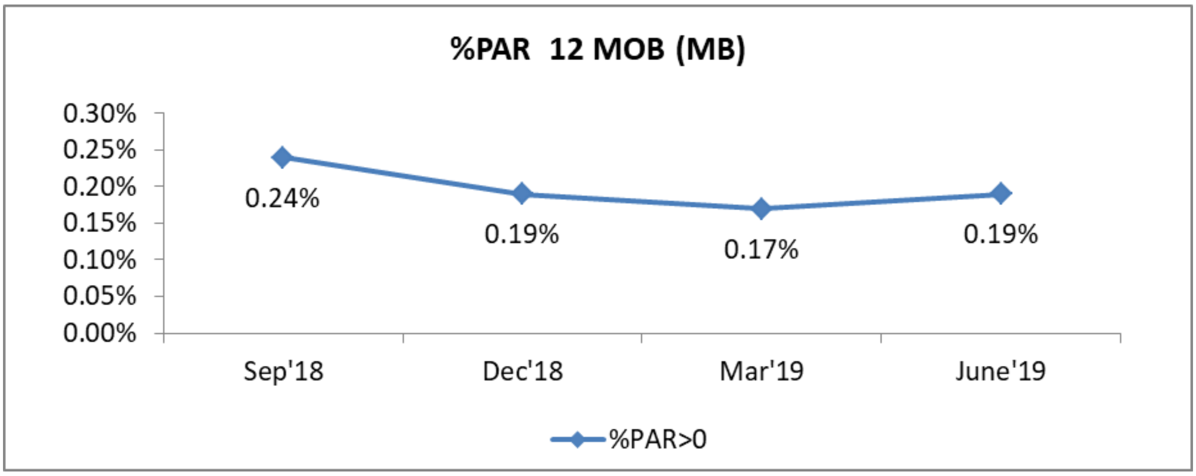
The Gross NPA (GNPA) had reduced to 0.84% as at June 2019 from 0.92% as at March 2019. Key risk indicators such as Cumulative Repayment Rate (CRR) had shown encouraging trends affirming that the overall health of the credit portfolio was very close to pre-demonetization levels. On Time Repayment Rate (OTRR) has dropped during the quarter due to unavailability of customers during summer holidays, school fees commitments for children and impact of Fani cyclone. The OTRR is expected to improve in the ensuing quarter.





[17] Including Corporate Agriculture Loan

The 12 Month on Books (MOB) advances continued to exhibit steady performance (% PAR >0 days at 0.20%.



8.1.6.1 Recovery Trend and Collections

Recovery efforts are undertaken across multiple channels including direct contact by the collections team, tele calling reminders, collection through legal notices and settlement recoveries. During the quarter, the Bank has on-boarded 31 collection agencies with over 200 on-field agents to increase its outreach for collections from retail portfolios. The Bank has also mobilized 43 in-house officers dedicated solely for collections from retail portfolio. The Bank has outsourced tele-calling agencies w.e.f May 2019 for generating pre-emptive reminders and overdue calling. During the quarter, the Bank was able to resolve 97% of bucket X Overdues (1-30 DPD) and 73% from 31-60 DPD buckets. Out of 73%, 37% of the overdue cases were normalized.

During the quarter, the Bank had recovered Rs. 1,660 lakh from its overdue portfolio. NPA recovery during the quarter was Rs. 897 lakh and recovery was written off accounts was Rs. 763 lakh.

8.1.6.2. Non-Microfinance Portfolio

The non-microfinance portfolio includes advances for secured Housing, MSE loans, Agriculture Loans, Personal loans and Institutional lending. The entire non-microfinance loans contributed to 19.25% i.e. Rs. 2, 18, 181 lakh of the total advances. From a risk management perspective, the Bank has put in place various frameworks for risk identification, risk measurement, risk mitigation and risk monitoring. The intended purpose was to establish a robust governance, risk and compliance framework for the newer portfolios. These frameworks would help the Bank to identify incipient stress and provide early warning signals of stress.

A brief description of the performance in each category is furnished as below:

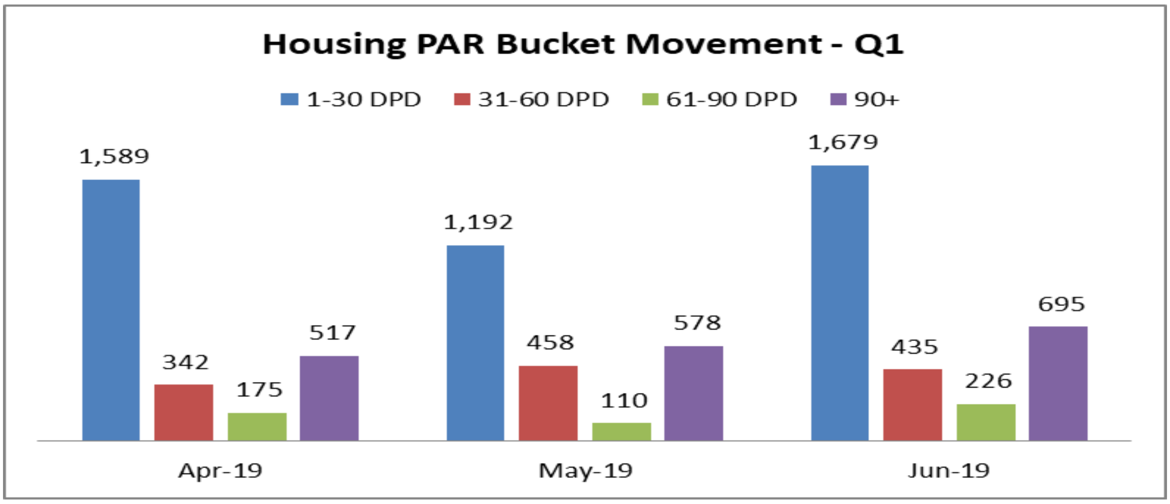
8.1.6.2.1. Secured Housing

Rs. in lakh

Housing Loans	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Y-o-Y Growth%
South	12,577	16,502	20,617	25,660	30,618	143%
North	10,939	12,602	13,959	15,509	16,892	54%
East	3,928	5,271	7,058	9,325	11,563	194%
West	14,260	18,879	25,132	32,505	41,534	191%
Grand Total	**41,704**	**53,254**	**66,767**	**82,998**	**1,00,607**	**141%**

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. The quarter witnessed the secured housing portfolio crossing the Rs. 1000 crores + benchmark. The Bank has established an independent collection team during the quarter to arrest slippages. A number of collection agencies and dedicated collection officers have been deployed to handle follow up and collections. The Bank has fine-tuned its processes which resulted in reduction of turnaround time to 10 days for sanction and 16 days for end to end (Login to disbursement).

The movement in PAR is as below:



On the technology front, the Bank is in advanced stages of completion w.r.t migration of Housing loans from the legacy Loan Management System (LMS) to the new Core Banking System (CBS). The Bank has tested the migration in 5 branches and the open points are expected to the closed during the second quarter. Based on the report findings, the Bank will initiate a full scale migration. The Bank is in the process of exploring various mobility solutions by leveraging its technology platforms. System configuration for benchmark rate of interest for all accounts in Finacle is currently under progress. User Acceptance Testing (UAT) for risk scorecards is in advanced stages of completion and is expected to be made available in production by August 2019.

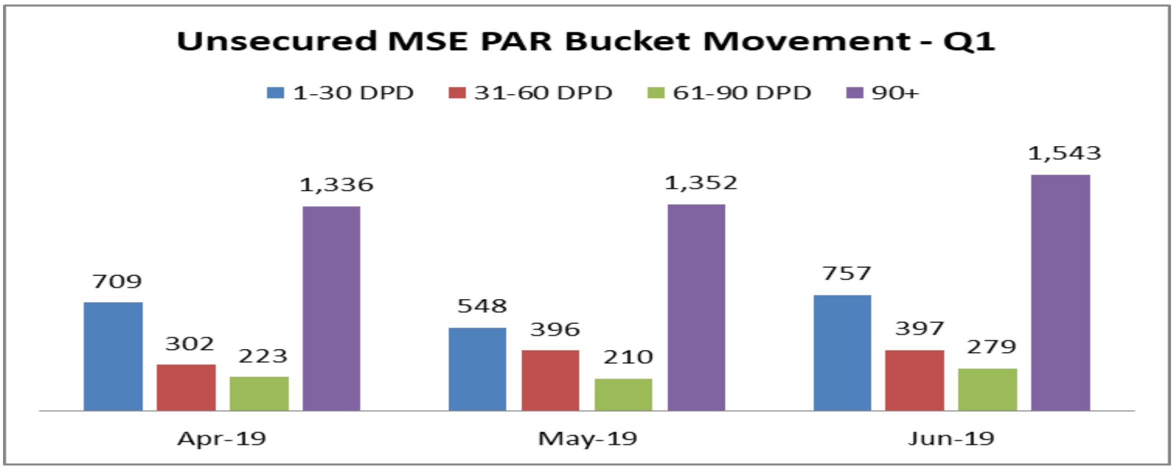
8.1.6.2.2. Micro and Small Enterprises (MSE):

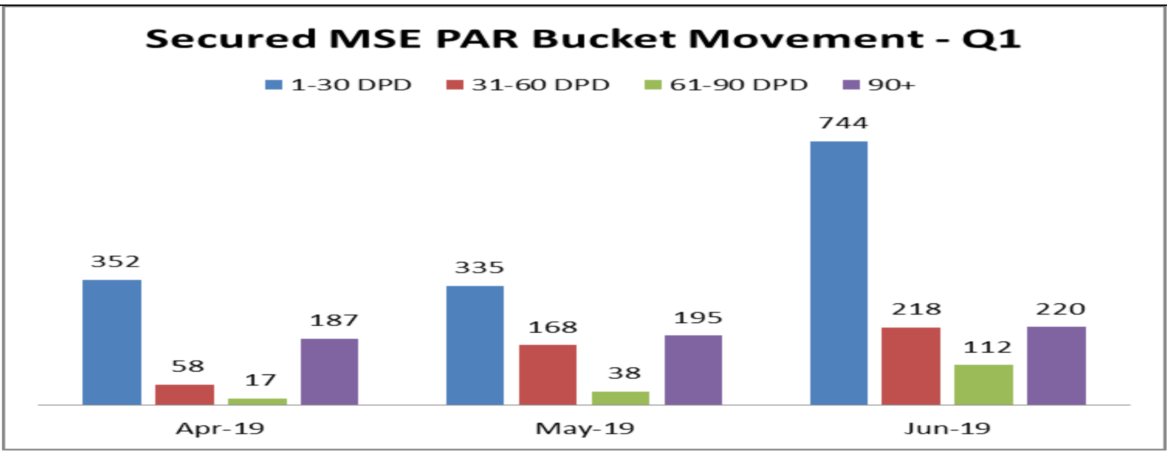
Rs. in lakh

Region	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Y-o-Y Growth%
South	8,405	10,518	13,614	17,695	19,985	138%
North	8,443	10,318	12,931	16,209	18,481	119%
East	6,941	9,134	12,014	16,874	20,218	191%
West	4,238	5,322	6,478	8,307	9,830	132%
Grand Total	**28,028**	**35,293**	**45,037**	**59,084**	**68,514**	**144%**

During the quarter, the Bank has forayed into the formal segment with the launch of 'Business Edge' program with loan ticket size up to Rs. 200 lakh with an option to avail the same either in the form of Term Loan or as an Overdraft facility. It is positioned to be a holistic offering with the best-in-class features of Business Edge Current Account and the transaction ease of Corporate Internet Banking service. With this offering, the MSE vertical caters to the entire spectrum of Micro and Small businesses- Informal, Semi-Formal and Formal.

The MSE advances registered a robust growth of 144% over the corresponding previous quarter with 13000+ customers and a total advances book of Rs. 68,514 lakh as at 30th June 2019. The Bank's focus is on secured lending and the total share of secured advances to total MSE is at 75%. The movement in PAR is as follows:





The Bank has initiated the process of establishing an independent collection team during the quarter to arrest slippages. A number of collection agencies and dedicated collection officers have been deployed to handle follow up and collections. The number of accounts allocated per collection officer for 1-30 DPD collections is also being reduced in order to ensure more rigour in follow-ups and control Incremental Overdues.

Credit Guarantee Fund Trust For Micro And Small Enterprises (CGTMSE) 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. During the quarter, the Bank was empanelled by the CGTMSE trust. This will now allow the Bank to cater to customers with better credit profile who do not have collateral availability. The CGTMSE guaranteed loans are expected to commence during the third quarter of this financial year.

8.1.6.2.3. <u>Agriculture and Rural Business</u>

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 lakh

Particulars	Sept 2018*	December 2018*	March 2019*	June 2019*
QTD Disbursement	3,300	4,600	10,400	11,540
YTD Disbursement	5,100	9,800	20,500	11,540
Outstanding Principal	6,600	9,900	18,500	28,740
Ticket Size	30,588	32,056 (GL) and 77,109 (IL)	30,543 (GL) and 78,830 (IL)	28,832 (GL) and 90719 (IL)

*rounded to nearest 100

As at 30th June 2019, total URC borrower base was 1, 11,817 of which agriculture loans constituted 16% of total portfolio (Rs. 4,390 Crs) with 8,075 borrower base. During the quarter, the Bank launched Kisan Pragati Farmer Club, an engagement activity with farmers in the presence of experts on topics like increasing crop production and animal health camp etc. The Bank has also added more variants to its Kisan Suvidha Loan. The Bank undertakes continuous improvements to its offerings under Kisan Suvidha Loan after consultation with regional teams and market analysis.

8.1.6.2.4. Loans to Financial Institutions

As at 30th June 2019, the Bank had built a portfolio of loans to Financial Institutions with an aggregate sanctioned limit of Rs 38,750 lakh and an outstanding balance of Rs. 35,835 lakhs. The Bank has been selective in building this portfolio given the present upheaval in the NBFC sector. In appraising requirement, the Bank lays equal emphasis on governance and financial parameters of the borrowing company, with the portfolio heavily skewed towards NBFC- MFI, a segment where the Bank has considerable expertise and historical association.

8.1.6.2.4. Personal Loans (PL)

The Bank has rolled out its PL loans in select cities and has garnered tremendous interest across these locations. This is evidenced by the large influx of online applications and significant share of business from the online platform. A key development is the revision in the PL policy which is slated to improve approval rates from current levels and also help build operational efficiency. The priorities for the first two quarters would be to launch in new markets, scale distribution across all channels and also explore partnerships with select Fintech companies on a dynamic lending program.

As at 30th June 2019, the total disbursements made were ~Rs. 2,785 lakhs.

8.1.6.2.6. Vehicle Finance

The Bank intends on foraying into financing two wheelers and three wheelers in this financial year. The various policies, processes and agreements were fine-tuned and approved during the quarter. The Bank has signed a Memorandum of Understanding (MOU) with Kinetic Green and Green Shuttle Technologies for financing electric rickshaws (E-rickshaws). The Bank is currently testing various functionalities in LOS. It is expected to launch financing of E-rickshaws on a pilot basis in the next quarter.

8.1.7. Credit Risk Monitoring

8.1.7.1. Micro finance portfolio

The Bank undertakes portfolio monitoring on a periodic basis with specific focus on key portfolio triggers. Decisions w.r.t. business continuity and new customer acquisition at branch level/state level are taken by the Credit Risk Management Committee. The Bank has defined quantitative trigger limits w.r.t early delinquency rates, On-time repayment rates and spurt in business growth. Any exception to the internally defined thresholds is reviewed by the Head of Credit and Collections- Micro banking. The Bank monitors the health of its micro banking portfolio at branch level through its branch scorecards. These scorecards assess the performance on various parameters such as Incremental Overdues, error rates, Non-starter cases, collection performance etc. The Bank undertakes its portfolio monitoring separately for Group Loans (GL) and Individual Loans (IL) within the micro banking segment.

8.1.7.2. 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. 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. The Bank has designed monitoring mechanisms at process level encompassing credit deviations, collateral management, documentation etc., Regular reports are placed to the CRMC for direction.

During the last quarter, the Bank had designed risk rating scorecards at product level and customer segment level for its MSE and Housing loan portfolio respectively. These scorecards are designed on expert judgement basis and will be back tested and validated with data. The scorecards are designed to provide an objective and unbiased assessment on potential customers duly factoring their personal, income, repayment track records and collateral aspects. The Bank has initiated the necessary changes and modifications at system level for implementation of the same and are presently in advanced stages of completion. The same is expected to be in place during the second quarter of FY 2019-20.

8.1.8. Audit

The Bank is subject to **statutory audit** as per the provisions of section 29 of the Banking Regulation Act, 1949, accounting standards issued by ICAI[18], circulars and guidelines issued by RBI as applicable to banks and other matters which are required to be included in the audit report.

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 having commenced. The Bank has built a strong team for various audit verticals at HO and ROs, the aim being to ensure that there are no policy deviations and that due processes are followed to assess the operational risk environment and as it seeks to diversify its asset book and build its asset and liability portfolio.

The Internal Audit Department of Bank has five audit verticals covering Branches, Central Functions, IS Audit, Credit Audit and Concurrent Audit of Branches. Annual audit encompassing all the audit areas is prepared and submitted to Audit Committee of Board

[18] Institute of Chartered Accountants of India

and quarterly progress is also presented.

As per RBI guidelines on **Concurrent Audit** System in Commercial Banks[19], Concurrent audit at branches should cover at least 50% of the advances and 50% of deposits of a bank. In addition to these, there are specific branches/verticals which fall under the ambit of concurrent audit as per the RBI guidelines.

Accordingly the Bank has identified 180 branches that contributed to 50% of advances and 50% of deposits of the bank as per 31st March 2019 balance sheet figures to be covered under concurrent audit. Similarly, few critical processes / functions at Head Office are also covered under concurrent audit. The Bank has put in place a Board approved Concurrent Audit Policy. The audit reports along with gaps identified are regularly placed to the Audit Committee of the Board for further action.

8.2. Quantitative Disclosures

8.2.1. Exposure summary: Facility type

Exposure Type	Domestic (Rs. in Lakh)	Overseas
Fund- Based exposure	14,20,520	--
Non- Fund Based Exposure*	19,029	--
Total	14,39,549	--

*Non fund based exposure includes undrawn limit to Overdrafts, Secured Housing and MSE customers and Contingent liabilities.

8.2.2. Geographic Distribution of advances (State-wise)

Rs. in lakh

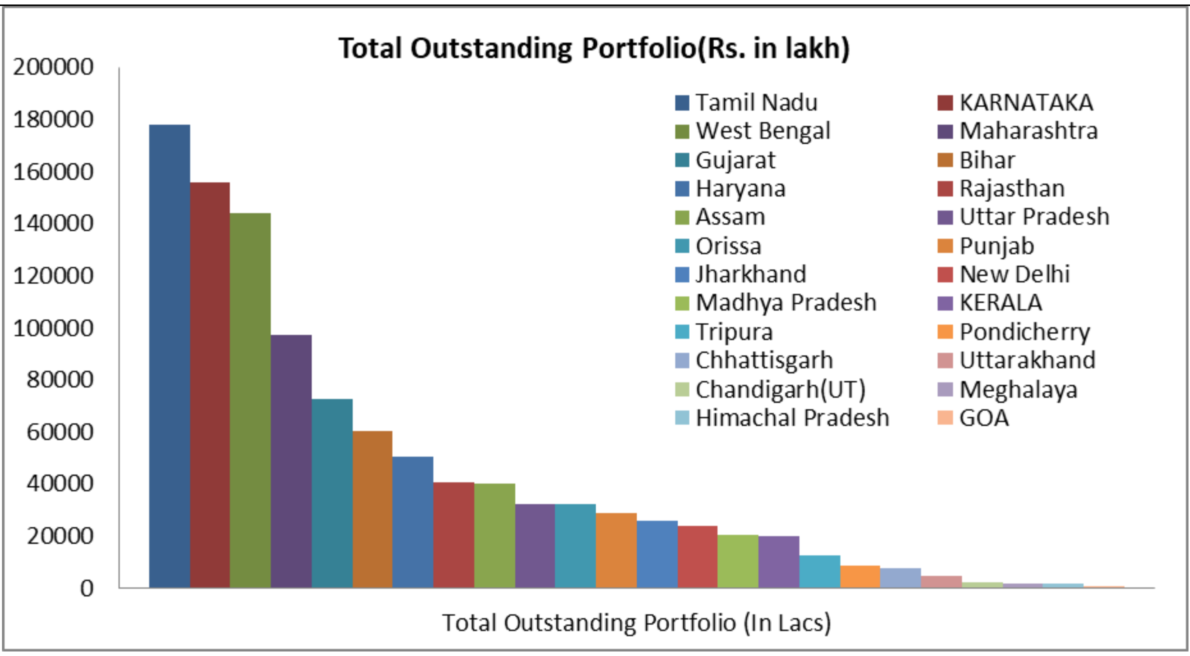
State	Total Outstanding Portfolio	%
Tamil Nadu	1,88,448	16.54%
Karnataka	1,72,473	15.14%
West Bengal	1,53,700	13.49%
Maharashtra	1,02,415	8.99%
Gujarat	82,373	7.23%
Bihar	65,092	5.71%
Haryana	54,535	4.79%
Rajasthan	44,122	3.87%
Assam	43,177	3.79%
Uttar Pradesh	35,002	3.07%
Odisha	31,896	2.80%

[19] Refer RBI guidelines on Concurrent Audit System in Commercial Banks - Revision of RBI's Guidelines issued vide RBI/2015-16/133 DBS.CO.ARS.No. BC. 2/08.91.021/2015-16 dated 16th July 2015

Punjab	31,461	2.76%
Jharkhand	26,395	2.32%
New Delhi	24,424	2.14%
Madhya Pradesh	21,528	1.89%
Kerala	20,459	1.80%
Tripura	13,199	1.16%
Pondicherry	9,335	0.82%
Chhattisgarh	8,050	0.71%
Uttarakhand	5,026	0.44%
Chandigarh(UT)	2,160	0.19%
Meghalaya	1,916	0.17%
Himachal Pradesh	1,470	0.13%
Goa	759	0.07%
Grand Total	**11,39,416**	**100%**

The share of microfinance advances constituted 80.85% (i.e. Rs. 9, 21, 235 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.



8.2.3. Advances distribution by activity

Rs. in lakh

Sector	Outstanding total advances	Gross NPAs	% of Gross NPAs to Total Advances
Priority sector:			
Agriculture and Allied activities	1,31,335	1,235	0.94%
Advances to industries eligible as priority sector lending	26,993	119	0.44%
Services	39,780	478	1.20%
Personal loans	3,51,446	3,795	1.08%
-of which Housing	1,46,412	1,198	0.82%
Sub-Total (A)	**5,49,554**	**5,628**	**1.02%**
Non-Priority sector:			
Agriculture and Allied activities	1,85,054	38	0.02%
Industry	18,919	82	0.43%
Services	46,000	-	0.00%

Personal loans	3,39,889	3,830	1.13%
-of which Housing	37,723	375	0.99%
Sub-Total (B)	**5,89,862**	**3,949**	**0.67%**
Total (A) + (B)	**11,39,416**	**9,578**	**0.84%**

8.2.4. 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 March 2019 was Rs. 7, 32, 500 Lakh. The Priority Sector lending was above the minimum requirement at 75.01% (Rs. 5, 49,459 Lakh) as a percentage to ANBC. The PSL portfolio available in excess of the Bank's target was sold as Priority Sector Lending Certificate (PSLC).

Rs. in lakh

Particulars		**Year ended 30th June 2019**
		PSLC Sold
1)	PSLC Agriculture	-
2)	PSLC Small Farmers / Marginal Farmers	1,85,000
3)	PSLC Micro Enterprises	46,000
4)	PSLC General	1,40,000
		3,71,000

8.2.5. Maturity pattern of assets and liabilities (Rs. in lakh)

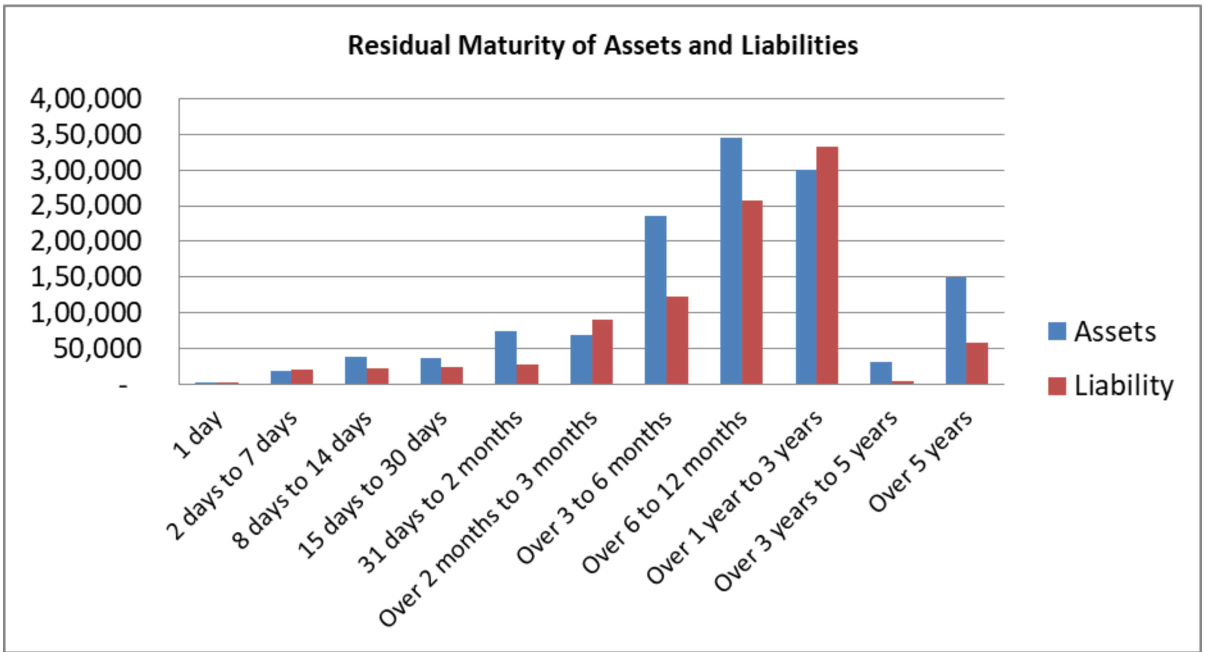
The liquidity crisis arising from default in commercial paper by a large NBFC in June 2018 had shut out several available funding avenues for NBFCs and resulted in widespread speculation of imminent liquidity crisis within the NBFC industry. The situation was further exacerbated during the month of April 2019 and May 2019 where large NBFCs and Housing Finance Companies defaulted on their debt commitments.

The Bank, by virtue of its holding company structure was mistakenly perceived to be an NBFC and therefore 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 a temporary impact on the marginal cost of funds. During the quarter, the Bank remained well-matched in case of the ALM position on a cumulative basis.

Rs. in lakh

Maturity Buckets	Loans & Advances	Investment	Deposits	Borrowings
1 day	3	-	1,234	3,999

2 days to 7 days	11,873	6,005	14,127	-
8 days to 14 days	23,803	14,975	6,991	6,667
15 days to 30 days	28,411	8,465	16,042	4,000
31 days to 2 months	66,235	7,172	20,075	41,157
Over 2 months to 3 months	60,384	7,807	82,551	2,927
Over 3 to 6 months	2,12,518	23,829	99,449	38,624
Over 6 to 12 months	3,27,601	18,206	2,38,392	89,130
Over 1 year to 3 years	2,81,968	18,089	3,15,202	1,54,453
Over 3 years to 5 years	28,621	3,010	1,421	53,650
Over 5 years	91,334	58,410	194	-
Total	**11,32,751**	**1,65,968**	**7,95,676**	**3,94,607**



SLS Mismatch:

Rs. in lakh

SLS	1 Day	2-7 Days	8-14 Days	15-30 Days
Total Outflows	35,868	16,352	16,043	23,770
Cumulative Outflows	35,868	52,220	68,263	92,033
Total Inflows	69,950	14,523	27,020	44,965
Cumulative Inflows	69,950	84,473	1,11,494	1,56,459
Mismatch	34,083	-1,830	10,978	21,195
Cumulative Mismatch	34,083	32,253	43,230	64,425
Mismatch %	95%	-11%	68%	89%

Cumulative Mismatch%	95%	62%	63%	70%

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

The Bank has commenced a behavioural analysis of cash flows, especially for its Current Accounts and Savings Account balances using Value at Risk (VaR) based approaches to identify potential mismatches. The analysis is done on the basis of two years data and is expected to be repeated at regular intervals so as to form a constructive basis when the Bank has three years data. Aside from providing critical input on the churn and the likely impact that such churn can have on the liquidity mismatch, the analysis is intended to be the basis for devising strategy to stave off any flight of short term deposits, as the Bank focuses on building its CASA volumes.

The Bank continues to monitor impact on liquidity under simulated stress situations by applying the RBI mandated increase in the run off factors. The analysis has shown that the ALM situation remained comfortable in normal stress scenarios, with only marginal mismatch in medium and severe stress situations.

8.2.6. Non-performing assets (NPA) (Rs. in Lakh)

Category of Gross NPA	30th June 2019
Sub-standard	7,636
Doubtful	1,565
Loss	376
Total	**9,577**

Net NPA	2,912

NPA Ratios	Percentage
Gross NPA to Gross Advances	0.84%
Net NPA to Net Advances	0.26%

8.2.7. Movement of Gross NPA's

Particulars	Amount (Rs. In lakh)
Opening Balance	9,785
Additions during the period	2431
Reductions during the period	2638
Closing Balance	9,577

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

Particulars	Amount (Rs. in lakh)

Opening Balance	7,030
Provisions made during the period	1,854
Write back of excess provisions	2,219
Closing Balance	**6,665**

8.2.9. Non-performing Investments (NPI)

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

8.2.10. 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	**--**

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

9.1. 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.

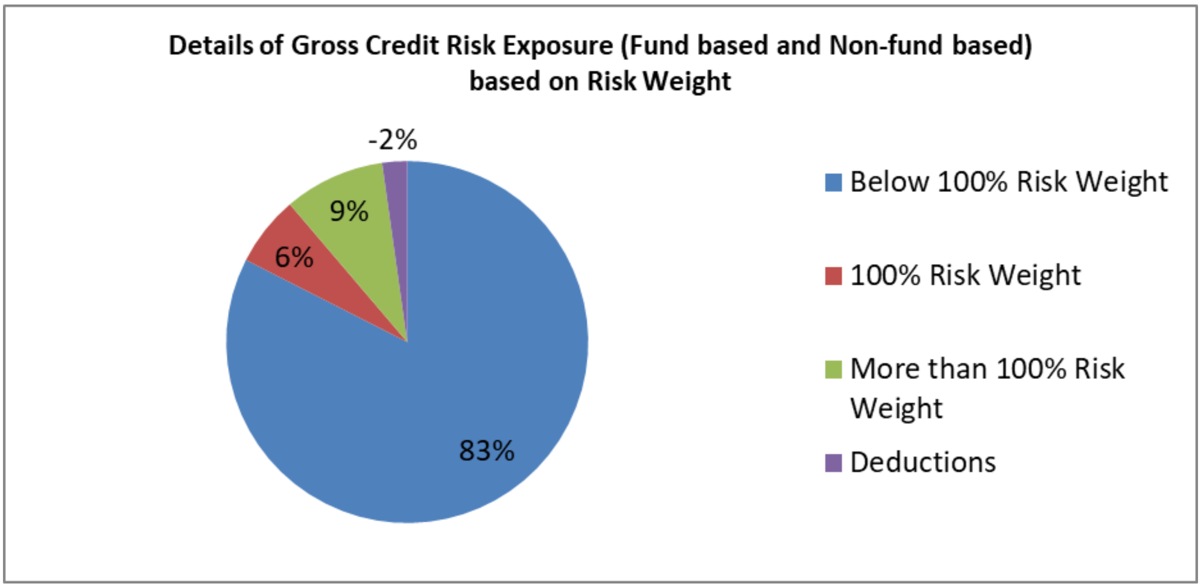
b) The loan book of the Bank predominantly comprised retail category loans. There was a small book comprising loans to Financial Institutions and a growing portfolio of loans to Affordable Housing sector and to MSE. Therefore, the risk weights as applicable to Regulatory Retail, Claims under Residential Mortgage and staff loans were applied. For consumer loans within its microfinance portfolio, the applicable risk weight is applied.

c) Institutional lending is 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. All legacy loans are expected to be fully repaid in this financial year as directed by RBI. As legacy loans comprise now an insignificant portion of the Bank's borrowing book, the impact of the additional RWA on Capital Adequacy is minimal.

9.2. Quantitative Disclosures

Details of Gross Credit Risk Exposure (Fund based and Non-fund based) based on Risk Weight – Position as on 31st March 2019		
Sl.No	**Risk Weight**	**Rs. in lakh**
1	Below 100% Risk Weight	12,42,731
2	100% Risk Weight	94,618
3	More than 100% Risk Weight	1,35,703
4	Deductions from CRM	(33,500)
5	**Total**	**14,39,552**



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

10.1. 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 unsecured and secured product variants under MSE loans. Loans to Financial Institutions are secured by a charge over book debts which are registered with CERSAI.
- The Bank does not accept any eligible financial collateral[20] for risk mitigation. Therefore, the Bank does not take any netting off benefit for its collateralized

[20] 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

transactions under comprehensive approach[21] 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 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.

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

11.1. <u>Qualitative Disclosure</u>

The Bank had entered into a securitization deal on the sell side for Rs. 18,211 lakh 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[22], 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 of 50% from Tier I and 50% from Tier II, except where expressly provided otherwise.

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

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

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

11.2. Quantitative Disclosure

Sl. No	Description	Particulars (Rs. in lakh)
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

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

12.1. 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 had no trading book during the quarter. The Bank also had no holding of dated Government Securities in its AFS portfolio and hence did not book any profit from the yield movement during the quarter.

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.

12.1.1. 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. Personal loans are for short dated tenors and the average tenor for loans to Financial Institutions did not exceed 24 months. The ALM position for the Bank was well managed and regulatory thresholds complied with.

The share of legacy borrowings had reduced sharply to 2.33% of the borrowing mix as at 30th June 2019 from 11.75% as at 30th June 2018. To effectively manage its ALM and also to diversify its funding sources, the Bank has also 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.

The Bank had also issued Inter Bank Participation Certificate (IBPC) for which it received a consideration of Rs. 33,500 lakhs. These transactions were done to further cushion the Bank against any potential liquidity risk against 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 60% of the total funding. As part of its Contingency Funding Plan and also to diversify its funding sources, the Bank has been sanctioned a committed line of credit from a large private sector bank to the tune of Rs. 5,000 lakhs. 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.

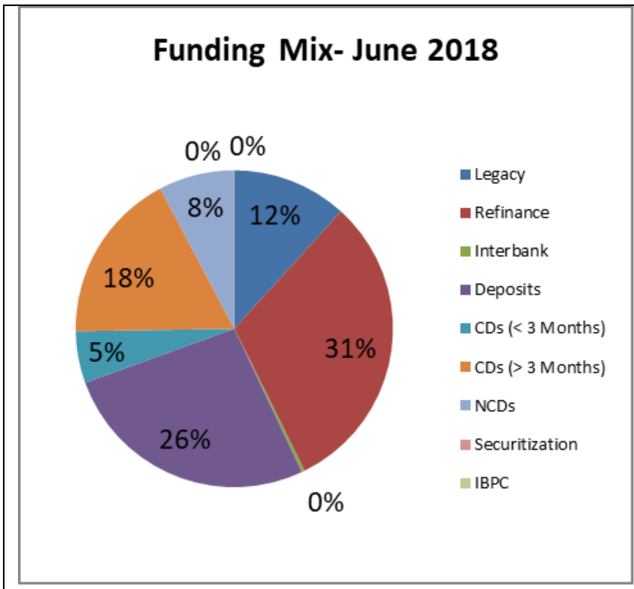
A comparative picture of the funding mix is given below:

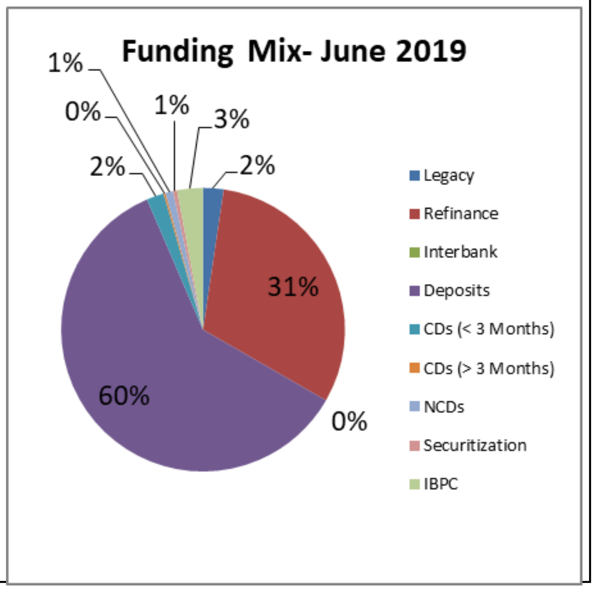
Rs. in Lakh

Sl.No	Particulars	June 2018	September 2018	December 2018	March 2019[23]	June 2019
1	Legacy	91,368	44,247	18,861	34,700	26,658
2	Refinance	2,40,597	3,24,400	3,12,440	3,72,000	3,53,950
3	Interbank	2,500	-	18,000	0	0
4	Deposits	2,05,756	2,64,883	3,85,151	5,61,300	6,88,268
5	CDs (< 3 Months)	41,000	81,000	92,500	77,500	22,500
6	CDs (> 3 Months)	1,36,500	37,500	5,000	22,500	2,500
7	NCDs	60,000	50,000	10,000	10,000	10,000
8	Securitization	-	-	12,600	9,100	5,378
9	IBPC	-	15,000	15,000	33,500	33,500
Outstanding		**7,77,720**	**8,17,030**	**8,69,552**	**11,20,600**	**11,42,754**

The distribution of funding mix is detailed as below:

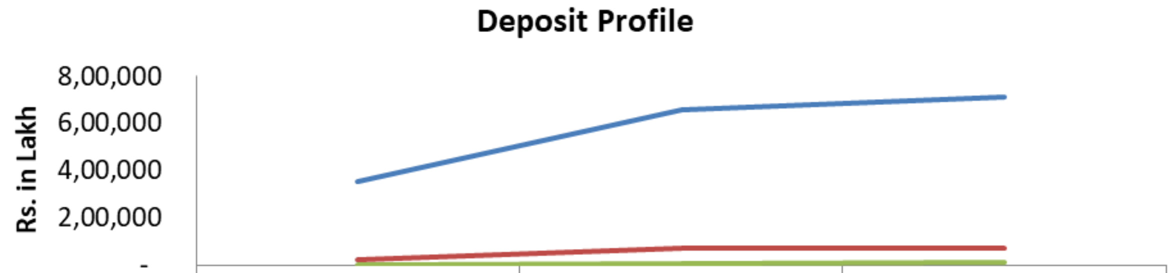
[23] Rounded to nearest hundred





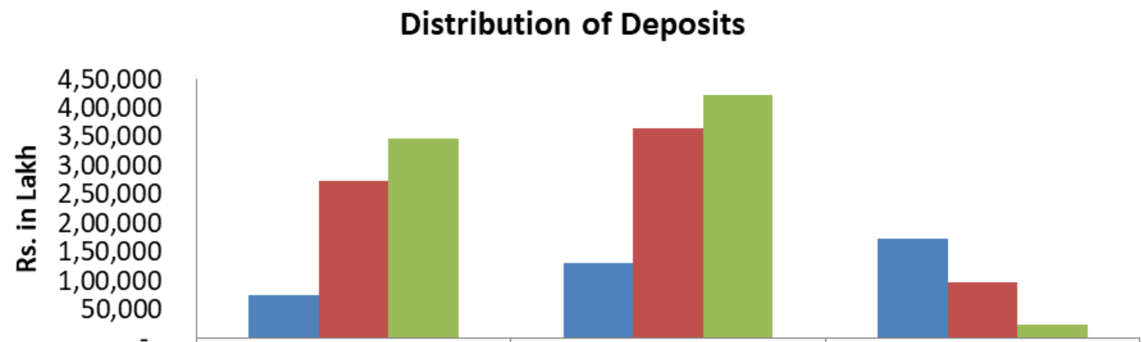
12.1.2. Deposit profile of the bank

The comparative position of deposit profile is furnished as below :



	June'18	Mar'19	June'19
TD	3,56,500	6,59,500	7,12,980
SA	22,658	70,341	70,900
CA	1,183	8,055	11,750

The distribution of deposits on the basis of type is furnished as below:



	Retail	Institutional	CD
June'18	75,100	1,30,600	1,74,590
Mar'19	2,73,900	3,65,800	98,200
June'19	3,47,956	4,22,977	24,700

The Bank has increased its share of Retail and Institutional deposits and has reduced the share of Certificate of Deposits (CDs) to a large extent.

12.1.3. CASA and Retail deposit Strategy:

The focus of the Bank is to accelerate salary account mobilization which shall aide in increasing its CASA base. While a slew of measures and offerings are continuously designed, the key activities planned for Q2 are as follows:

1) Segment focus product and service proposition
2) Privilege Saving Account with enhanced features and value
3) Launch of digital saving and fixed deposit
4) Third party fixed deposits to be launched for issuance of deposits in the name of government departments/authorities.

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 Small Finance Banks in India. 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 15,000 lakh on the average. This portion serves as the security that the Bank can fall back on in a contingency.

The LCR position as at 30th June 2019, computed on the basis of daily average of three months, was comfortable and significantly in excess of the mandatory minimum i.e. 80% as applicable for this financial year.

Liquidity Coverage Ratio (Rs. in lakh)		
A	**High Quality Liquid Assets**	**Adjusted Baseline Scenario**
	Level 1 Assets	1,39,725
	Level 2 A Assets	-
	Level 2 B Assets	-
B	Total Stock of HQLAs	1,39,725
C	Cash Outflows	94,176
D	Cash Inflows	1,19,287
E	Net Cash-flow	(25,111)

F	25% of Total Cash Outflow	23,544
G	Higher of E or F	23,544
	Liquidity Coverage Ratio	**593.47%**

The Bank also computes it Net Stable Funding Ratio (NSFR). While NSFR will not be applicable till the 2020-21, the exercise is intended to ensure that the Bank develops its stable long term resources on an on-going basis, so that it can be compliant with the regulatory requirement when it becomes applicable.

12.2. 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	159.63
Equity Position Risk	--
Foreign Exchange Risk	--
Total	**159.63**
Total Market Risk RWA	**1,995**

13. Table DF- 9: Operational Risk

13.1. Qualitative Disclosures

13.1.1. 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.

13.1.2. 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 Risk, 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.

13.1.3. 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 is in place to capture key risk parameters at a granular level within the Bank. The scorecard includes all facets of branch operations: micro banking, Housing and MSE loans, liabilities and other branch related parameters. Branches are categorized as High, Medium or Low risk based on these assessments on monthly basis. The scores are reviewed at ORMC and actionable 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. The scorecard is continuously enhanced to include relevant parameters for optimizing the Operational Risk score. The operational risk vertical within the Bank publishes a monthly list of branches and clusters that emanate high risk scores to audit vertical for further analysis (on spot or planned basis).
- The Bank continuously enhances its **Quality Check (QC)** mechanism by enhancing the comprehensive checklist. Loan documents are reviewed on a sample basis across MSE/SHL verticals and key observations are provided to Operations department to enhance/strengthen Quality Check (QC) mechanism. The documentation check is now an on-going activity and review reports will be placed at necessary forums at regular intervals.
- **Risk and Control Self-Assessment (RCSA) framework**: The Bank has completed the process of consolidating and documenting these from a control perspective which will provide the basis for the RCSA framework. The framework will include:
    - Review of new process/products along with UAT testing for availability of controls.
    - Review of Business As Usual (BAU) process, preparing RCSA and walk-through with stakeholders for putting controls to mitigate identified gaps.
    - Develop Risk and Control Matrix to carry out testing.

  As part of the control testing, the Bank undertakes tests on sample basis to evaluate Test of Design and Test of Implementation for the various controls and proposed process enhancements. The Bank intends on completing RCSA for 11 activities in the ensuing quarter.
- The Bank has defined **20 Key Risk Indicators (KRIs)** as part of the Operational Risk Management Framework. The KRIs is monitored on bi monthly basis. The thresholds for the KRIs had been decided upon in consultation with the stakeholders. With the results of RCSA exercise, the thresholds for these KRIs will be revised. The report on the KRIs is shared with stakeholders for necessary action regularly.

- 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.

  The incident reporting process enables creation of loss database as per Basel definitions. The activities broadly include the following:
  - Monitoring of General Ledgers (GL) to operational loss
  - Root Cause Analysis (RCA) of critical events
  - Quarterly loss data submission to Reserve Bank of India.
- 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.
- **Outsourcing Risk:** Progressive risk assessment of all material outsourced vendors to ensure that these vendors comply with the minimum requirements prescribed by RBI. Detailed notes had been recorded on the risk assessment done for each vendor. But more importantly each observation was discussed with the relevant stakeholders when a timeline for closure of gaps was prepared.
- **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.
- On **people risk**, the Bank acknowledges that inadequate employment practices and workmen safety can damage the morale and work-efficiency. The banking industry witnesses an average attrition of 16% to 25% as per various studies available in public domain. The Bank had an annualized attrition rate of 26.51% during this

quarter. This is slightly higher than the industry average. One of the key determinants to successful HR management is to understand and monitor the problems and grievances of employees on a regular basis. The Bank conducts 'BOLO-UJJIVAN', a survey undertaken to evaluate the employee satisfaction with their roles, synergy with team members/ supervisors/organization goals, motivation and morale, key impediments to increased productivity and identify gaps in HR practices. This is an online survey undertaken on annual basis. The Bank has a policy in place to cover various aspects of mandatory leave, group insurance and sexual harassment. The Bank has also established a welfare and relief charitable trust for the purpose of providing relief, promoting and strengthening the social welfare, upliftment of education and upholding the right to life of the employees and customers and/or their surviving legal heirs and representatives/ immediate family members/ bona fide dependents, affected by any exigency, without any distinction or discrimination of gender, race, creed or caste.

- The Bank provides rigorous **training** to its employees in its pursuit to develop bank related skill sets. The Bank has in place a detailed process and guidelines for training programs on a calendar based approach. Newly inducted employees are required to complete assigned induction programs as applicable for their role within 30 days of joining. During the quarter, the Bank has undertaken various employment engagement surveys, feedback from training participants, reaction surveys and other approaches to assess the training needs for its employees. The Bank updates its training content on various topics and areas in its SWAYAM[24] app on a continuous basis. W.e.f. 1st October 2019, completion of training programs will be a mandatory component of Key Responsibility Areas (KRAs) for all business, control and selected support functions. The Bank sponsors training programs for its employees working in critical areas/technically skilled jobs and to participate in programs conducted by renowned organizations such as College of Agriculture Banking (CAB), Indian Institute of Banking and Finance (IIBF), National Institute of Bank Management (NIBM) and others. During the quarter, the Bank has provided training to 3,617 employees.

- The Bank has an independent **Vigilance and Risk Containment Unit (RCU)** for the purpose of prevention, detection, investigation and reporting of frauds. The Bank has established preventive controls to minimize cash losses and frauds, by way of upgrading the security, introducing procedural changes in Bank branches operating structure, training of staff for fraud detection and regular checks across Branches. The Bank disseminates modus operandi reports on various frauds on regular basis to

[24] SWAYAM mobile application is a self-learning platform launched by the Bank in FY 2018-19. The mobile application provides self-certifications related to various products and processes followed in the Bank.

sensitize its staff on the same.

13.1.4. <u>Information Technology and Security Risk</u>

The Bank recognizes that we are living in a world where the threat landscape is constantly changing, cybercrimes and attacks are increasingly sophisticated and to counter these attacks banks have to combine traditional security practices with advanced and next gen security solutions. The Bank's continued efforts in maintaining the security posture and enhancing threat detection capabilities have been rewarded at various forums such as IBA Banking Technology Awards and DSCI Excellence Awards.

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 Board approved information security and cyber security policies in place that have been developed as per ISO 27001:2013 standards and regulatory requirements. Employees are imparted awareness training through various means. Regular sensitization is carried out as well. The Bank has a 24/7 Cyber Security Operations Center which monitors the security posture of the Bank.

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. The Bank also takes part in the quarterly cyber drills conducted by IDRBT.

13.1.5. <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. The Bank also has a Board approved Cyber Crisis Management Plan for tackling crisis level events.

13.1.6. Procurement

The procurement activity in the Bank assumes significant importance as it involves procurement of assets for the purpose of building internal efficiencies and building better infrastructure for ensuring effective customer service. The Bank has in place a board approved procurement policy which defines the guidelines, procedures and responsibilities for various purchases/ expenses related to procurement and provides a framework to ensure that the purchased products/services conform to specified requirements. The Bank follows a committee approach for its procurement of assets and other infrastructure. The governance structure is designed as follows:

1) National Procurement Committee
2) National Procurement Committee for Outsourcing Contracts
3) IT Change Management Committee
4) Regional Purchase Committee

The proposals for acquisition of goods and services are placed and approved by one of the aforementioned committees as per internally defined delegation matrix. The Bank ensures that a minimum of 3 vendors/ service providers are evaluated before making any decision for procurement of goods and services. All contracts and agreements are vetted by Legal department before execution and all service agreements are accompanied by Non-Disclosure Agreements/ Clauses.

13.1.7. Capital charge assessment

Although RBI is in the process of issuing detailed guidelines on Operational Risk Management for SFBs, the Bank has adopted Basic Indicator Approach (BIA) for measuring the capital requirements for Operational risk as applicable to Scheduled Commercial Banks. The capital charge on operational risk is expected to stabilize on completion of 3 years (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 for the past two completed years of operation.

13.2. Quantitative Disclosure

Particulars	Capital Reqd. (Rs. in Lakh)	RWA (Rs. in Lakh)
Operational Risk (BIA Approach)	17,136	2,14,206

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

14.1. 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. 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) Earnings at risk (Traditional Gap Analysis): The impact of change in interest rates on

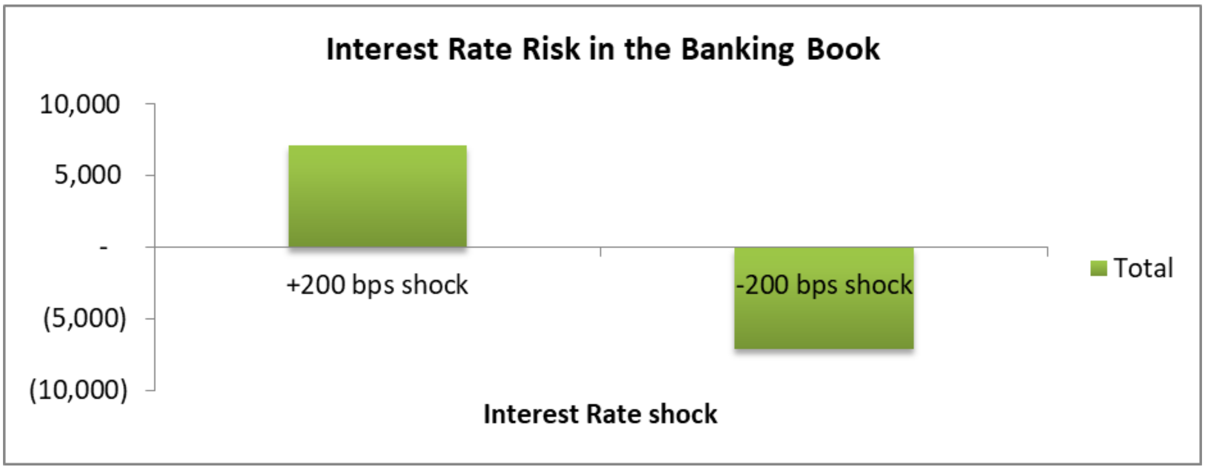
net interest income is analysed under this approach and calculated under yield curve approach. Under this approach a parallel shift of 2% is assumed both in assets and liabilities.

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.

14.2. Quantitative Disclosures

14.2.1. 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	7,110	(7,110)
2	Overseas	-	-
		7,110	(7,110)



14.2.2. Economic Value Perspective (Rs. in Lakh)

Category	**Items**	**Amount**
A	Equity (i.e., Net Worth)	1,53,335
B	Computation of Aggregate RSA	13,57,488
C	Computation of Aggregate RSL	12,21,652
D	Weighted Avg. MD of RSL across all currencies	1.14
E	Weighted Avg. MD of RSA across all currencies	1.32
F	MDG	1,35,835
G	Change in MVE as % of equity for 200bps change in interest rate	-5.27%
H	Change in MVE in absolute terms	(8,082)

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

Rs. in lakh

Summary comparison of accounting assets vs. leverage ratio exposure measure		
	Item	**Amount**
1	Total consolidated assets as per published financial statements	14,21,532
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)	7,729
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off- balance sheet exposures)	4,766
7	Other Adjustments	-16,789
8	**Leverage ratio exposure**	14,17,238

19. Table DF 18: Leverage ratio common disclosure template

Rs. in lakh

	Particulars	**Amount**
	On-balance sheet exposures	
1	**On-balance sheet items (excluding derivatives and SFTs, but including collateral)**	14,21,532
	Domestic Sovereign	1,65,930
	Banks in India	39,447
	Corporates	35,835
	Exposure to default fund contribution of CCPs	28
	Other Exposure to CCPs	
	Others	11,80,292
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	-16,789
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	**14,04,743**
	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	7,729
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)**	**7,729**
	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	19,029
18	(Adjustments for conversion to credit equivalent amounts)	14,263
19	**Off-balance sheet items (sum of lines 17 and 18)**	**4,766.1**
	Capital and total exposures	
20	Tier 1 capital	1,73,335
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	**14,17,238**
	Leverage ratio	
22	**Basel III leverage ratio**	**12.23%**

Presently the contribution of Tier I capital to Total Basel II capital is 96.69%. 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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