Pillar III Disclosures as at 31st March 2019

March 31

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 31st March 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
CASA	Current Account Saving Account
CBO	Chief Business Officer
CBS	Core Banking Solution
CET1	Common Equity Capital
CFO	Chief Financial Officer
CGTMSE	Credit Guarantee Fund Trust For Micro And Small Enterprises
CIC	Core Investment Company
CRAR	Capital Risk Adequacy 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 Institutional 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
ICAI	Institute of Chartered Accountants of India
ICAAP	Internal Capital Adequacy and Assessment Process
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-Systemically Important- Core Investment Company
NE	North Eastern
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
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 31st March 2019. While this disclosure document has been prepared by the Bank for each quarter, this year-end disclosure document summarises the achievements for the whole year so as to provide a comprehensive commentary in one document.

3. About the Bank

The Bank has completed its second full year of business operations. The branch position as at 31st March 2019 was as follows:

Particulars	Position as on 31stMarch 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

During the financial year, the Bank had rolled out 287 Banking Outlets, out of which 73 were URCs. The Bank is fully compliant with the RBI guidelines on having 25% 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,

[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)

mini statement 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.

The Bank operated a network of 382 Automated Teller Machines (ATMS) as at 31st March 2019.

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.

On the technology front, the Bank had finalized the scope and technology architecture for Enterprise Data Platform (EDP) during the year. A Vendor to provide data analysis tool was finalized to strengthen the Bank's data analytics capabilities. Finger print (touch) login in mobile application for android customers moved to production. The Bank is currently exploring the use of Robotic Process Automation (RPA) technology for reconciliation of ATM and Unified Payment Interface (UPI) transactions. The Bank has initiated work for extension of digital solution for doorstep delivery of Micro and Small Enterprises (MSE), Housing and Agriculture loans. The Bank has also begun work on implementing inventory and asset management tool. Systems and processes were readied for issuance of RuPay Platinum card for retail trader Current Account (CA) customers. Systems are also being configured to facilitate the on-boarding of Financial Institution customers on CRMnext.

In line with the vision of the Regulator, the Bank lays high emphasis on providing banking services by leveraging technology and digital platforms. Some of the digital initiatives where the Bank has invested and intends on further enhancing its scope are as follows:

1) Mobile Banking penetration in various languages to improve penetration;
2) Digitized repeat loan process assisted with phone banking and UPI powered loan repayments;
3) Instant deposit account opening on mobile/online platforms;
4) 'Smart statements' to communicate customers total relationship;
5) Leverage 'Smart statements' for cross selling and marketing programs; and
6) Digital acquisition of MSE and Housing customers by providing in principle approvals.

'Brand Awareness' was a key focal point during the year. The Bank had initiated a 4 point program through its marketing vertical for this purpose.

Each 'theme' as mentioned above was substantiated with customer centric strategies.

During the financial year, the Bank received the following awards and recognitions:

- Ranked 16th best place to work by Great Place to Work (GPTW) in Asia;
- "Best Security Practices in Small Finance Bank" award during AISS 2018;
- 6th ASSOCHAM SMEs Excellence Award – 2018 for 'Excellent Service';
- IBA Banking Technology Innovation Awards for 'The Best IT Risk Management and Cyber security Initiative. This was the second consecutive award for the Bank in this category
- Special Jury DSCI Excellence Awards 2018 for 'Security Practices in Small Finance Banks'; and
- Finnoviti Awards, 2019 for 'Best innovation in IT'

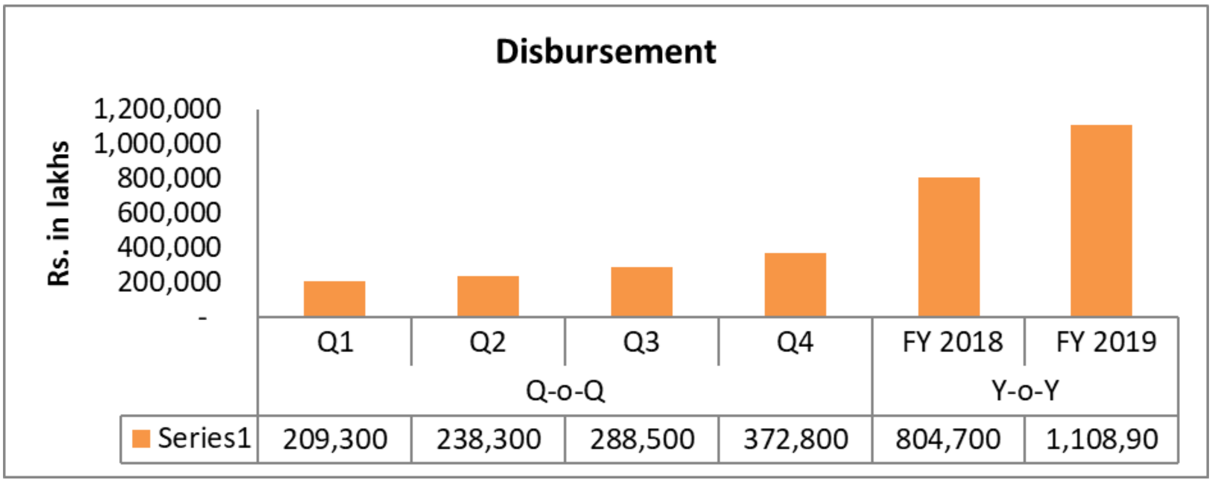
4. Key performance highlights of the Bank:

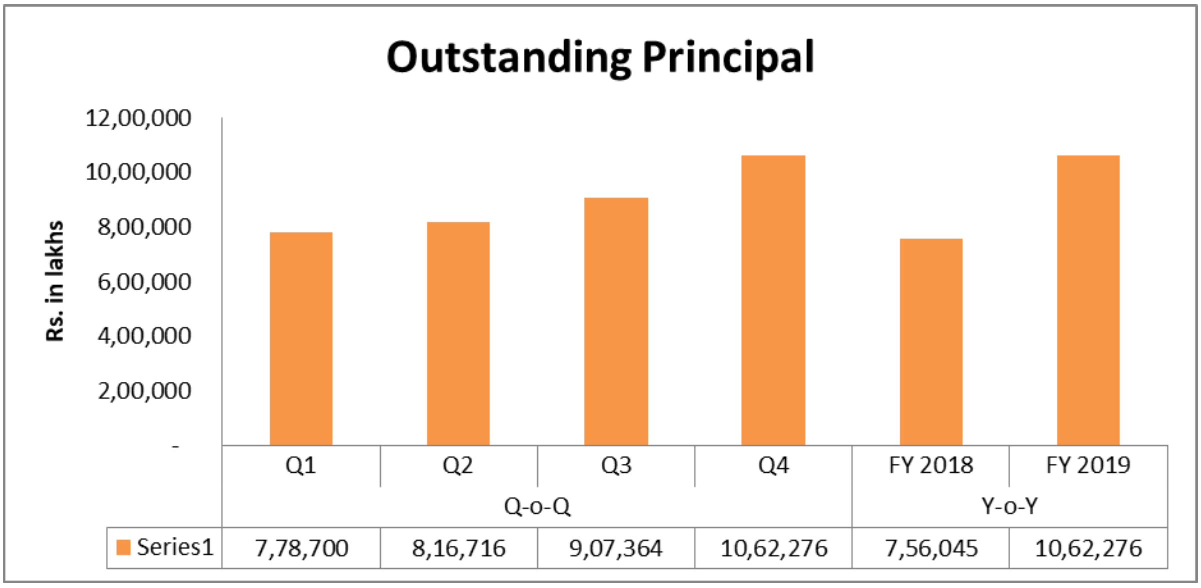
Some of the key achievements made during the financial year were as follows:

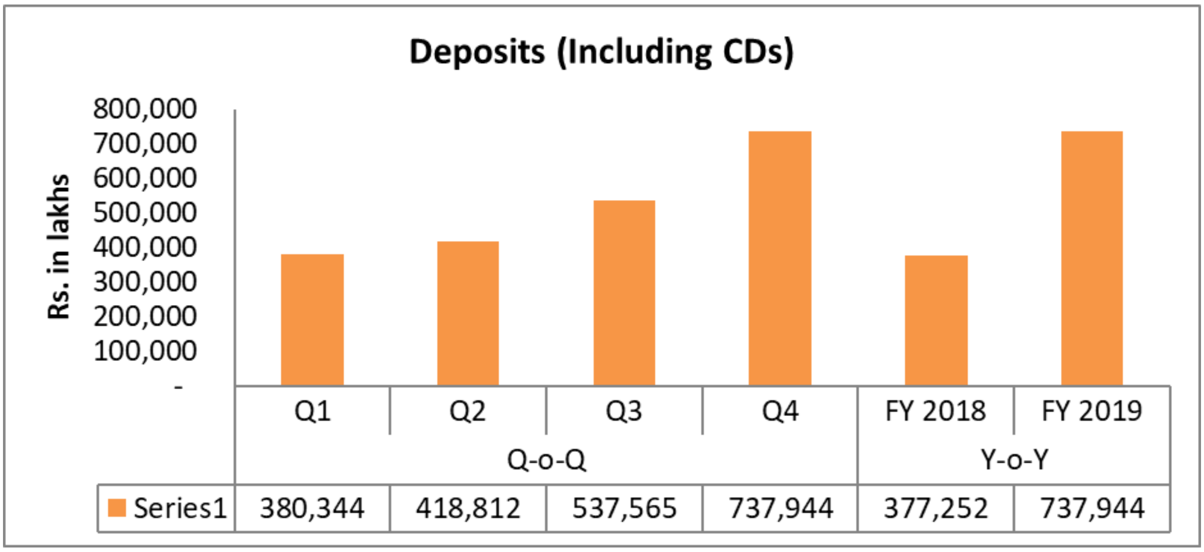
1) Total outreach increased from 35 lakhs to over 46 lakhs customers.
2) Brand campaigns on television and radio in regional languages for brand awareness
3) Mobile Banking was made available in 5 languages
4) Phone Banking capacity was doubled to improve customer service
5) Corporate Internet Banking facility was implemented.
6) 32% growth in Micro banking portfolio and >100% growth in Secured MSE and Secured Housing portfolio

7) The year witnessed the successful launch of rural banking products, Institutional lending and Personal loans.
8) On the liabilities side, 3 lakh plus New to Bank (NTB) customers were on boarded and 17 lakh plus micro banking customers were provided with liability products.
9) The entire deposit book witnessed an 80% growth and CASA share had increased to 11%.
10) RuPay Platinum Card for current accounts was in an advanced stage of completion

Key Highlights	Description
Loan Portfolio	• Outstanding Principal (OSP) at Rs 10,62,276 lakhs (Rs 7,56,045 lakhs in March 2018) • Non-Microfinance book at 15% (7% in March 2018)
Deposit Balance	• Total Deposits (Retail plus Institutional) Rs. 7, 37,944 lakhs (Rs 3, 77,252 lakhs in March 2018). • CASA: 11% (4% in March 2018) • Retail: 37% (11 % in March 2018)
Customer base	• 49 lakhs unique customers and 20 lakhs liability customers
Portfolio Quality	• Gross Non-Performing Assets (GNPA): 0.92% (3.65% in March 2018) • Net Non-Performing Assets (NNPA): 0.26% (0.69% in March 2018) • Write offs: Rs. 17,520 lakhs (Rs. 17,653 lakhs for FY 2017-18)
Employee strength	• 14,752 employees with 82% in front-end.
Profitability	• Profit after Tax (PAT FY 2018-19): Rs. 19,922 lakhs • Return on Assets (ROA): 1.88%
Funding	• Cost of funds: 8.58% (9% in March 2018)







The focus area of the Bank in the next financial year is as follows:

- **CASA mobilization** as part of the endeavour to optimize cost of funds;
- **Accelerated expansion** and diversification of customer base;
- **Customer centric solutions** for the mass market
    - Basket of products and services tailored to identified segments;
    - Enhanced customer convenience;
    - Doorstep Banking, Cash Management, Transaction Points, Fee Management;
    - Collaboration among business verticals to provide total customer solution; and
    - Relationship approach
- Focus on **rural and semi-urban markets**
- **Move towards digital**, less-paper, less-cash and self-service
- Re-establish branches, regions & business verticals as **profit centres**
- Business growth with **cost control** for **sustainable profitability**

During the year, the Regulator had conducted their first formal Annual Financial Inspection (AFI). The inspection was on-site and included a comprehensive review of the Tranche I/II data (the data was submitted prior to their visit) and existing policies and processes followed by the Bank. The Regulator had submitted its report along with their findings on existing gaps and areas for potential improvement. No penalty or stricture was directed by the Regulator against the Bank.

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 voting power	Quantitative impact of regulatory capital using risk weighting methods versus using the full deduction method
Nil	Nil	Nil	Nil	Nil

6. Table DF-2- Capital Structure

6.1 <u>Qualitative Disclosures</u>

6.1.1 <u>Equity capital</u>

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

The Licensing guidelines for SFBs permit the aggregate foreign investment in a private sector bank from all sources up to a maximum of 74% of the paid-up capital (automatic up to 49% and approval route beyond 49% to 74%). By limiting foreign shareholding in the Holding Company to 38.64% (including NRI holdings) as at the year end, 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 347.80 as at 31st March 2019.

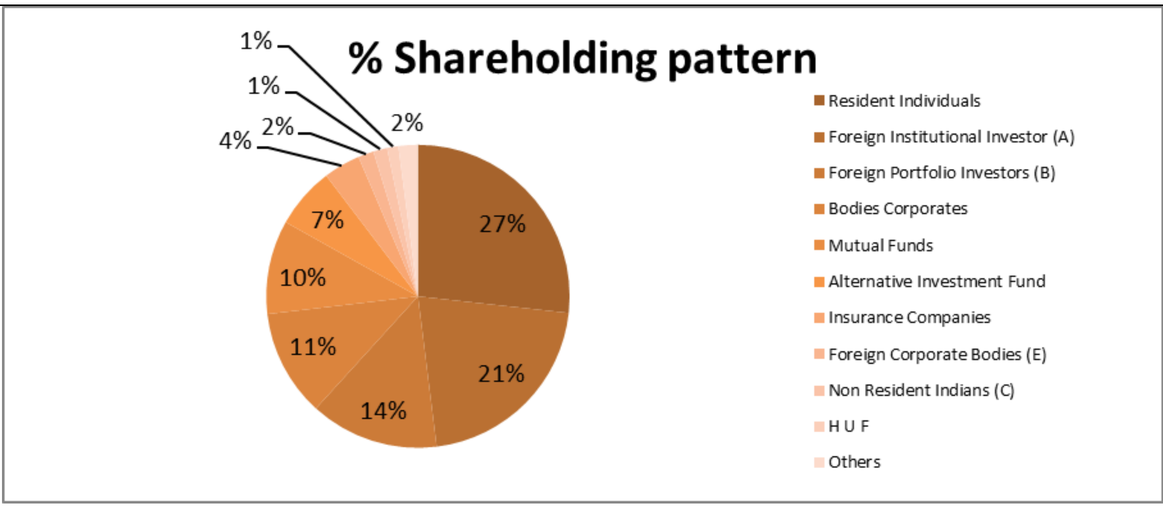
The licensing guidelines require the Bank to list its shares within three years of reaching a net worth of Rs 50,000 lakhs. While the net worth of the Bank is in excess of this mandated figure, the Bank has completed its second full year of operation. In compliance with the guidelines of RBI, the Bank proposes to list its shares by January 2020 for which discussions are at an advanced stage.

6.1.1.1. Promoter contribution[5]:

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 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.

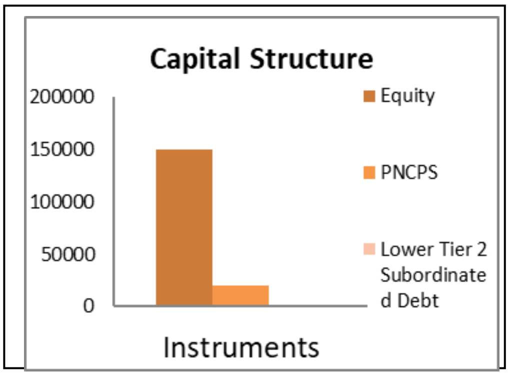
[5] Refer RBI on Guidelines for Licensing of “Small Finance Banks” in the Private Sector dated November 27, 2014.



[6]

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[7]	Tier 1	1,50,000
2	PNCPS[8]	Tier 1	20,000
3	Lower Tier II Subordinated Debt	Tier 2	-NIL-[9]



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

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

[7] Authorized capital

[8] Perpetual Non-cumulative Preference Shares

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

- 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.

During the year, the Bank had modified the terms and conditions of PNCPS. As per the existing Terms & Conditions (T&C), dividend for PNCPS can be paid by the Bank annually in arrears, which means that the Bank can declare preference dividend in the Board meeting that will be convened only in the next financial year (in the month of April/May-2019). The Holding Company can book dividends as income only after it is declared by the Bank's Board. To enable the Holding Company to book preference dividends during FY 2018-19, there was a need to modify the terms and conditions of the issue under intimation to RBI. The changes will now enable the Bank to declare dividend as per the discretion of the Board considering the profits of the Bank in the given financial year. The Board is now empowered to:

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

For FY 2018-19, dividend of Rs. 2200 lakhs was paid by the Bank towards PNCPS.

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 Bank is currently in the process of augmenting additional Tier II capital to the tune of $50 million from IFC. The same is expected to the completed during the first quarter of FY 2019-20

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[10], the Bank is required to adopt the Standardized approach for Credit Risk and maintain a minimum Capital to Risk Weighted Assets Ratio (CRAR) of 15% segregated as under:

Minimum Capital Requirement	15%
Minimum Common Equity Tier 1	6%
Additional Tier I	1.5%
Minimum Tier I capital	7.5%
Tier II Capital	7.5%
Capital Conservation Buffer	Not applicable
Counter- cyclical capital buffer	Not Applicable
Pre-specified Trigger for conversion of AT I	CET1 at 6% up to March 31, 2019 , and 7% thereafter

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).

[10] 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

The Bank is in advanced stages of negotiation with International Finance Corporation (IFC) for a USD 50 million Tier II capital raise, where due diligence has been completed, and submission to IFC Board is expected in June 2019.. The aim of the capital raise is two- fold. First, to continue to provide the capital buffer that is required as the Bank embarks on its ambitious plan to grow its business substantially. And more importantly, to also provide for long term funding and minimise any potential asset/ liability mismatch as the Bank builds its Housing and MSE portfolio, which have long dated tenors.

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 <u>Quantitative Disclosures</u>

The break-up of Basel II capital funds as at 31st March 2019 is as follows:

Rs. in lakhs

Capital Funds		
A	**Tier I Capital**	
A.1	Paid-up Share Capital	1,44,003.68
A.2	Reserves	16,989.14
A.3	Perpetual Non-Cumulative Preference Shares	20,000.00
A.4	Minority Interest	-
B	**Deductions**	
B.1	Investments in instruments eligible for regulatory capital of financial subsidiaries/associates	-
B.2	Securitisation exposures including credit enhancements	1,382.53
B.3	Deferred Tax Assets	4,197.59
B.4	Good will and Adjustments for less liquid position/intangibles	10,075.33
C	**Net Tier 1 Capital**	1,65,337.38
D	**Tier II Capital**	
D.1	General Provisions	5,391.54
D.2	Investment Fluctuation Reserve	970.13
D.3	Lower Tier II capital instruments	-
E	**Deductions**	
E.1	Investments in instruments eligible for regulatory capital of financial subsidiaries/associates	-
E.2	Securitisation exposures including credit enhancements	1,382.53
F	**Net Tier 2 Capital**	4,979.14

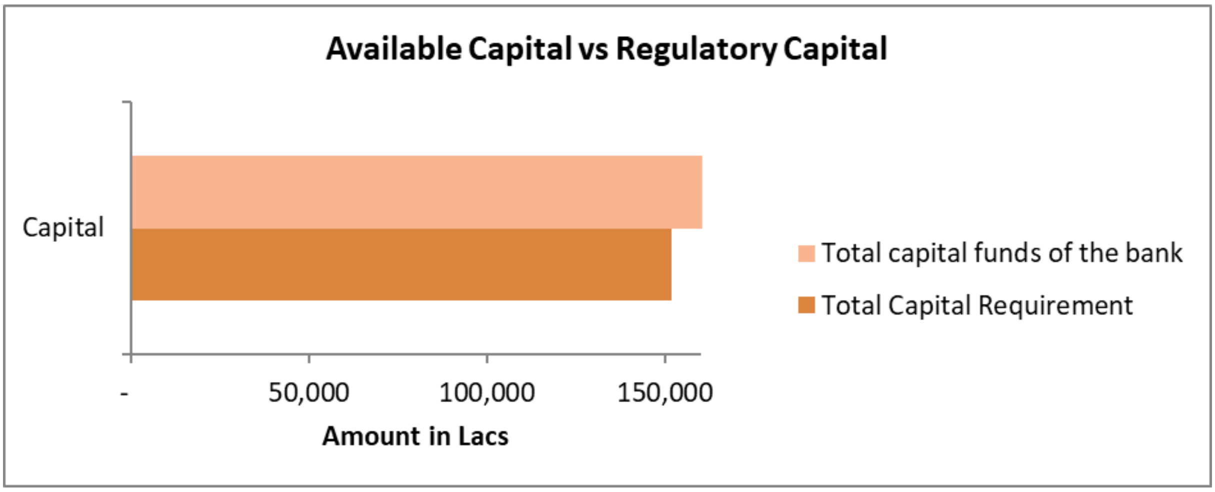
F	Total Eligible Capital	1,70,316.53

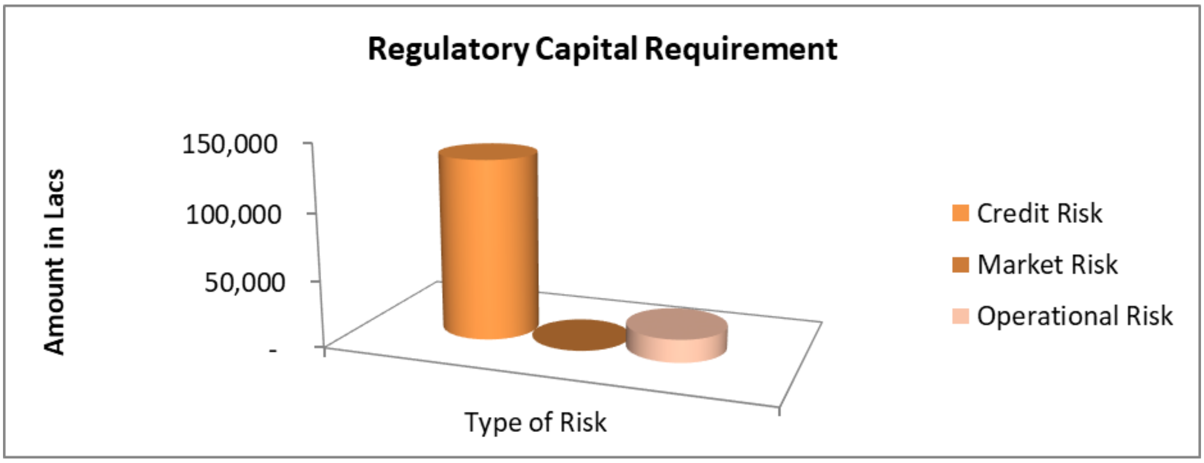
Capital Requirements for Various Risks		
Sl.No	**Capital Requirements for various Risks**	**Amount(Rs. in Lakhs)**
A	**Credit Risk**	1,34,845
A.1	For non-sec portfolio	1,34,845
A.2	For Securitized portfolio	-
B	**Market Risk**	63
B.1	For Interest Rate Risk	63
B.2	For Equity Risk	NIL
B.3	For Forex Risk (including gold)	NIL
B.4	For Commodities Risk	NIL
B.5	For Options risk	NIL
C	**Operational Risk**	17,066
D	**Total Capital Requirement**	1,51,975
E	**Total Risk Weighted Assets**	11,13,086
F	**Total capital funds of the bank**	1,70,317

Basel II Ratios as at 31st March 2019 (Rs.in Lakhs)

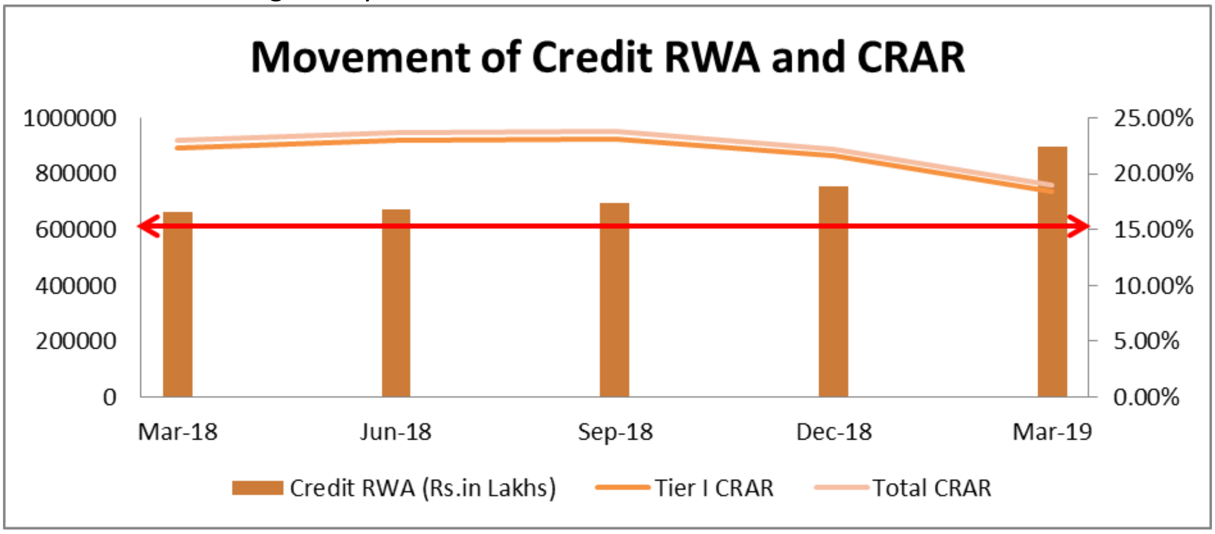
Particulars	**Amount/Ratio(Only Credit RWA)**	**Amount/ Ratio (all Pillar 1 risks)**
Tier I Capital	1,65,337	1,65,337
Tier II Capital	4,979	4,979
Total Capital	**1,70,317**	**1,70,317**
Total RWA	**8,98,968**	**11,13,086**
Tier I Ratio	18.39%	14.85%
Tier II Ratio	0.55%	0.45%
CRAR	**18.95%**	**15.30%**

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





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



*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 85% of the loan book as at 31st March 2019, the Bank has deemed it appropriate to follow a conservative approach in its provisioning policy. This is reflected in the higher than mandated provisions in each overdue bucket.

Asset Class	Outstanding Principal (OSP)	Provision	%Provision
Standard	10,52,491	5,392	0.51%
Sub-standard	6,830	4,082	59.76%
Doubtful	2,208	2,189	99.15%
Loss	760	760	100.00%
Total	**10,62,276**	**12,422**	--

While the Bank provides 0.50% on its standard asset portfolio against the RBI mandated figure of 0.40%, the Bank, under the direction of its Board, is exploring to increase the provision on standard assets to 0.6% from the ensuing financial year. The provisioning norms are automated which were validated at the time of the recent AFI.

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

With the beginning of accounting year 2018, the Non-Banking Financial Companies (NBFCs) adopted Indian Accounting Standard (Ind-AS) for the first time. As per the Ind AS implementation road map issued by the Ministry of Corporate Affairs (MCA) on 30th March 2016, NBFCs were required to adopt Ind-AS in a phased manner from accounting periods beginning on or after 1st April 2018 (with comparatives for the periods ending on or after 31st March 2018). The initial plan of MCA was to implement Ind-AS for banks, insurance companies and NBFCs from 1 April 2018 onwards. Earlier this year, the Ind-AS implementation date was deferred for banks by one year and for insurance entities by two years. To summarize, the Bank was expected to switch to Ind-AS regime w.e.f 1st April 2019 while its Holding Company is required to switch to the same w.e.f 1st April 2018. However, on 22nd March 2019, the Regulator had issued a notification[11] 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, 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 Indian Accounting Standards Board (IASB).

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

- Recognition of expected losses in addition to incurred losses;
- Assessment of Significant Increase in Credit Risk (SICR) which will provide better disclosures; and
- Ascertainment of better business ratios.

As the accounts of the Bank are consolidated with that of its Holding Company 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). To define the staging criteria to compute ECL, the Bank has incorporated the 30 days rebuttable presumption as allowed under Ind-AS guidelines which is as follows:

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

In line with the guidelines, the Bank has applied Point In Time (PIT) PD for stage 1 assets and lifetime PD for Stage 2 and 3 assets. Since micro banking loans constituted a significant portion of the total advances, the Bank has computed PD on pooled basis. The microfinance portfolio was divided into various homogenous pools. MSE loans were pooled on the basis

[11] 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.

of unsecured and secured portfolio while the other retail categories such as Secured housing, Agriculture loans, Personal Loans and Staff loans were considered as individual pools. FIG loans were benchmarked to external PD as published by CRISIL[12]. The Bank has internally assessed its LGD for micro banking loans while LGD was reckoned as per Foundation Internal Rating Based (FIRB)[13] guidelines or Dynamic Loan Loss Provisioning Paper[14] for all other loan portfolios.

One of the key requirements of Ind-AS guidelines was to capture the business cycle dependency of the Bank's default rates. Business cycle dependency can be explained by studying the movement of default rates and changes to macro-economic indicators. The Bank attempted to model its historical default rates as a function of various macroeconomic variables which can statistically explain a relationship. This typically entailed using various forms/types of regression to ascertain if that relationship is statistically significant. If found significant, then historical ECL can be converted to a forward looking estimate by incorporating this relationship aspect. The dataset included the Bank's own trend in defaults and various macro-economic variables, the data for which is publicly available with International Monetary Fund (IMF) and RBI.
The statistical analysis revealed that the trend in default rates within the microfinance portfolio is primarily driven by local events and that the relationship to macro variables is close to very thin/ negligible. Secondly, the customer segments catered to by the Bank are largely outside the formal financial ecosystem and add little value to the broad macroeconomic indicators. Drawing a comparison between the two can be counter intuitive even if the relationship is found to be statistically significant.
To address the requirement of Ind-AS, the Bank had adopted a management overlay approach to define its default cyclicality. Under this approach, the Bank calculated it's forward looking PD estimates by defining the probability of risk factors using historical trends and collective wisdom.

The results of ECL and a comparative position with IGAAP computed as at 31st March 2019 is shown as follows:

Rs. in lakhs

	Ind-AS			**Current GAAP**			**Difference between Ind-AS and IGAAP**
Asset Classification under IND-AS	Gross Carry amount under Ind-AS	Loss Allowance under Ind-AS	Net Carry Amount	Gross Carry amount under Current Framework	Provisions under Current Framework	Net Carry Amount	

12 CRISIL publishes its annual default study paper based on rating transitions

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

14 Refer to the Dynamic Loan Loss Provisioning paper issued by RBI.

Stage 1	11,59,455	8,561	11,50,894	10,49,979	5,368	10,49,979	3,193
Stage 2	2,774	37	2,737	2,512	23	2,512	14
Stage 3	10,741	6,824	3,917	9,786	7,030	2,756	-206
Total	11,72,970	15,422	11,57,548	10,62,277	12,422	10,55,247	3,000

It is noteworthy to state that the difference between IND-AS provisioning and IRAC based provisioning (also called as IGAAP[15]) is minimal and the Bank has reversal on stage 3 assets under IND AS; as the Bank had already implemented an accelerated provisioning regime on its loan and advances.

It is important to note that ECL has only been temporarily deferred for banks. The banking industry is also expected to move to Ind-AS regime in a time bound manner and taking cognizance of this, the Bank is considering an increase in the standard asset provisioning under IGAAP to maintain parity with IND- AS standards once these are made applicable.

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[16]. 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.

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[15] Generally Accepted Accounting Principles

[16] 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.

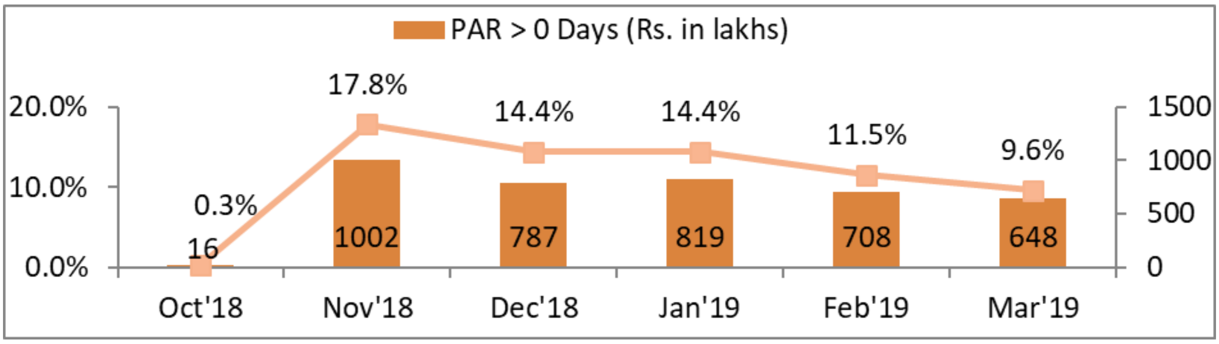
- On 1st January 2019, RBI issued guidelines[17] allowing a one-time restructuring of existing loans to MSMEs classified as 'standard' without a downgrade in the asset classification (subject to certain conditions). This dispensation was made with a view to facilitate meaningful restructuring of MSME accounts that have become stressed on account of Goods and Service Tax (GST) imposition. The key conditions (among others) were

  - The borrower's account must be in default but is a 'standard asset' as on January 1, 2019, i.e. <90 Days Past Due

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

8.1.4. Rescheduling of Loans in flood affected areas in Tamilnadu

Cyclone Gaja hit the state of Tamilnadu in November 2018 and caused widespread disruption in the coastal areas. The branches of Mannargudi and Thiruvarur were affected and repayment pattern of its borrowers was disrupted. The Bank has undertaken various relief measures in the form of distribution of groceries and giving them time to repay. The portfolio performance in these branches was as follows:



As at 31st March 2019, the total number of default accounts was at 3,805 with an outstanding balance of Rs. 648 lakhs. Most borrowers are making repayments with a lag. The branches are showing signs of recovery which can be evidenced in the decline in PAR. The Bank has made an incremental provision of Rs. 35 lakhs against such accounts.

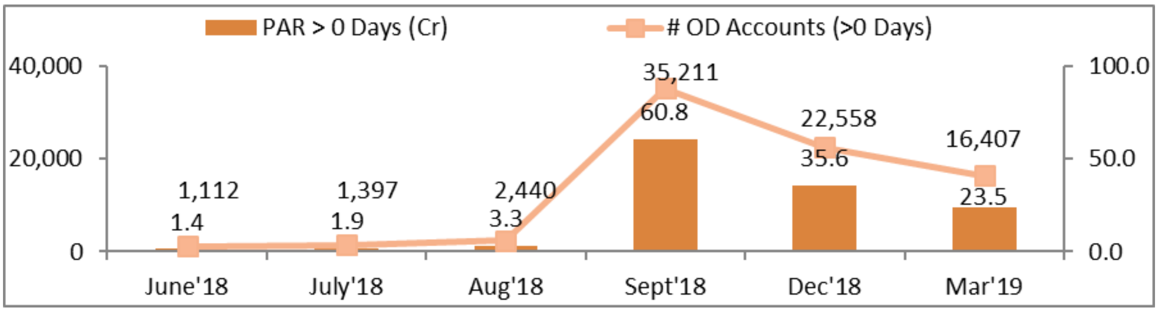
8.1.5. Kerala portfolio update post floods

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

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

Particular	Normalized	Paying Regularly	Missed 1 EMI	Missed 2 EMIs	NPA
# Accounts	17,077	12,253	752	484	1,326
% Accounts	53.5%	38.4%	2.4%	1.5%	4.2%
PAR (Rs. in lakhs)	-	1800	100	80	180

Out of 35,211 overdue cases, 54% customers have regularized their loan and 38% customers are paying EMIs with a lag in Q4. 3.9% customers are irregular payers and 4.2% have become NPA. The portfolio performance of Kerala was as follows :



8.1.6. 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	a) Unsecured loans after 180 DPD or immediately after the fraud have been established and full provision is

Fraud Management Committed and reviewed by the Risk Committee)	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 & CEO

For Q4 of FY 2018-19, the Risk Management Committee had approved write-offs to the tune of Rs. 3,770 Lakhs. These were advances 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 trend of the last 4 quarters is given below:

Period	Amount (Rs. in Lakhs)
Q1 (YTD)	5,603
Q2 (YTD)	10,993
Q3 (YTD)	13,930
Q4 (YTD)	17,520

The Bank has effectively written off almost the total portfolio affected by demonetisation. This was a decision made by the Board after careful evaluation of the residual portfolio. With these write offs and continuous recoveries in NPA, Gross Non-Performing Assets (GNPA) as a percentage to the overall book had reduced to 0.92% (Rs. 9,785 lakhs) as at 31st March 2019 when compared to 3.65% as at 31st March 2018.

8.1.7. Credit Risk Management

The overall distribution of gross advances as at 31st March 2019 was as under:

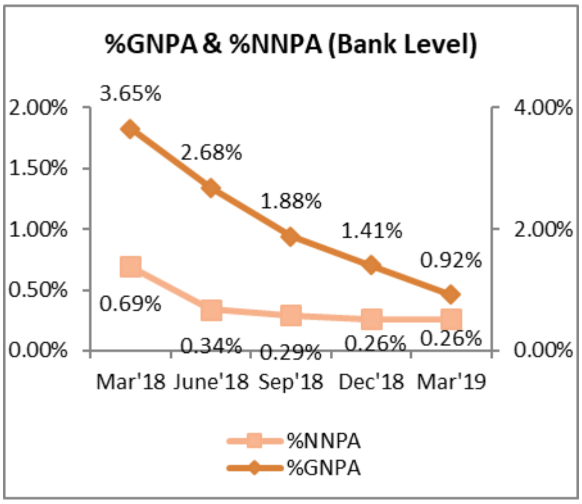
Rs. in lakhs

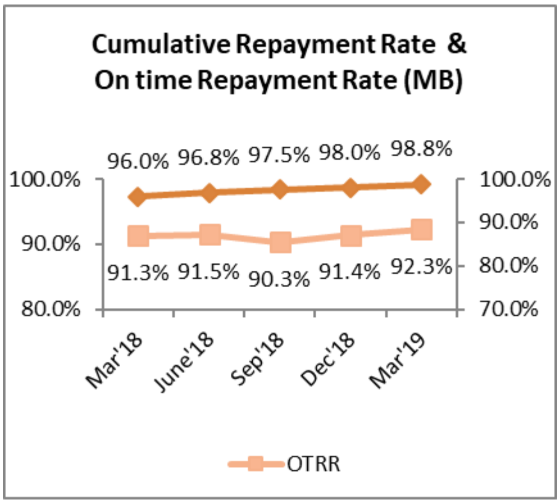
Particulars	Gross Advances	% Share
Micro banking[18]	8,89,448	83.73%
Secured Housing	82,991	7.81%
MSE	59,079	5.56%
Institutional Lending	22,497	2.12%
Agriculture Loans[19]	3,423	0.32%
Advances against deposits	2,743	0.26%
Personal Loans	1,143	0.11%
Staff Loans	913	0.09%
Two Wheeler Loans	39	0.004%
Total Advances	**10,62,276**	**100.00%**

[18] IBPC to the tune of Rs. 33,500 lakhs is excluded

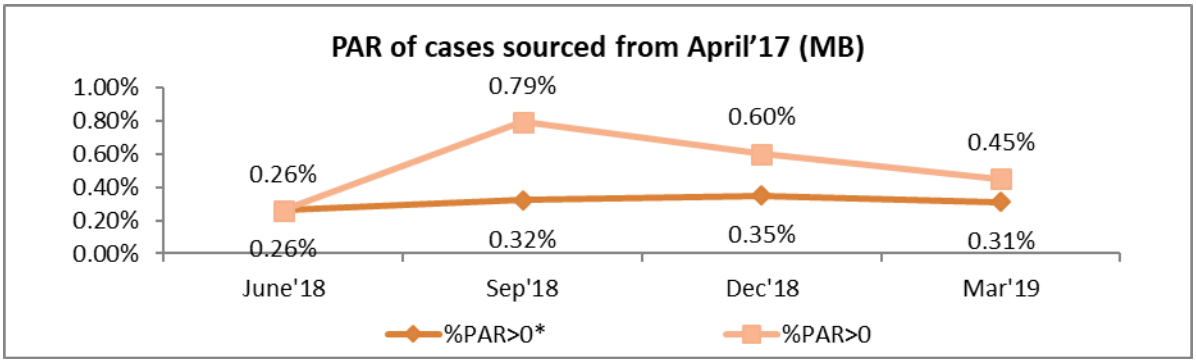
[19] Includes corporate agriculture exposure of Rs. 1,000 lakhs

The Gross NPA (GNPA) had reduced to 0.92% as at March 2019 from 3.65% as at March 2018. Key risk indicators such as On Time Repayment Rate (OTRR) and Cumulative Repayment Rate (CRR) had shown encouraging trends affirming that the overall health of the credit portfolio was very close to pre- demonetization levels.





The Year Till Date (YTD) advances continued to exhibit steady performance (% PAR >0 days at 0.31% (without the impact of Kerala floods and Gaja cyclone) as at March 2019.



* Excluding flood affected Kerala OD and cyclone affected Tamilnadu cases

<u>8.1.7.1 Recovery Trend and Collections</u>

Recovery efforts across multiple channels exhibited an encouraging trend. Recovery from delinquent accounts are undertaken through various channels including direct contact by the collections team, tele calling reminders, collection through legal notices and settlement recoveries. Some of the salient achievements in collections were as follows:

- Achieved Rs. 11,320 lakhs over all collections in Micro Banking from NPA and Write-off pool.
- Achieved Rs. 2,072 lakhs collections from written-off borrowers and Rs. 92.59 lakhs in NPA – Micro banking
- In MSE and Housing, the Bank had recovered physical collection of Rs. 507 lakhs.
- The Bank had clocked its highest ever recovery from written off accounts in March 2019 with Rs. 492 lakhs.

On the various initiatives and executions made during the year, the Bank had entered into OTS[20] settlements with 16,581 borrowers and garnered a total collection of Rs. 1,477 lakhs. Around 56.09% (Rs. 834 lakhs) was through OTS from NPA borrowers while 43.91% (Rs. 653 lakhs) was through OTS from written off NPA borrowers.

The Bank initiated recovery programs such as "Samadhan" during the year which aimed at incremental recoveries, normalization of accounts and negotiation for settlements. Some of the key achievements were as follows :

- **SAMADHAN** – Motive behind Samadhan was to touch base with all delinquent customers to whom the Bank could not reach, those who were highly critical. The aim was to invite delinquent customers to branch and have fruitful negotiation and utilize the Bank's settlement policy. During the year, the Bank had conducted over 200 Samadhan , reached ~59,000 accounts through personal invitation by the field collection team and have collected ~Rs. 432 lac of collection from unpaid and unallocated customers.
- **Legal notices** were sent to 35,000 customers and the Bank could convert and collect ~Rs. 241 lakhs.
- **Executed** 500+ notices as per section 138 of NI Act[21] & 66 notices under SARFAESI[22].
- Conducted Pan India **Lok Adalats**[23] and invited ~16520 customers and collected Rs. 143 lakhs in collection.

Use of Collection Agents

In an effort to boost collection of dues that had been written off post demonetisation, the Bank, with the approval of Board, appointed outside collection agents in the last quarter of FY 2017-18. These were all agents that are accredited and conform to the guidelines of RBI. As at 31st March 2019, there were 6 agencies with 20 agents active. The Bank had collected Rs. 161.70 lakhs in FY 2018-19 through the use of Collection Agents.

On the technology front, the Bank has successfully executed ***e-receipt*** module for micro banking with reverse interface of collection to core system. The module generates ~ 5000 receipts on a daily basis from more than 1500 users. Automation of write off within the internal collections systems is now implemented to reduce manual intervention.

8.1.7.2. Non-Microfinance Portfolio

The non-microfinance portfolio includes advances for secured Housing, MSE loans,

[20] One Time Settlement

[21] Negotiable Instruments Act, 1881

[22] Securitization and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002

[23] Lok Adalats is one of the Alternative dispute resolution mechanisms in India, it is a forum where cases pending or at pre litigation stage in a court of law are settled. They have been given statutory status under the Legal Services Authorities Act, 1987

Agriculture Loans, Personal loans and Institutional lending. The entire non-microfinance loans contributed to 15% 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:

8.1.7.2.1. Secured Housing

Rs. in lakhs

Housing Loans	OSP as at June 2018	OSP as at Sept 2018	OSP as at December 2018	Outstanding balance as at March 2019[24]	Growth%
South	12,577	16,502	20,617	25,660	24%
North	10,939	12,602	13,959	15,509	11%
East	3,928	5,271	7,058	9,325	32%
West	14,260	18,879	25,132	32,505	29%
Grand Total	**41,704**	**53,254**	**66,767**	**82,998**	24%

The performance of Secured housing loans has largely been satisfactory with an exception to a few states/clusters where there are signs of early warnings. Root cause analysis is continuously undertaken to plan risk mitigation strategies. Based on an internal review, the Bank has undertaken policy and process level changes in sync with industry practices during the last quarter. The Bank had on boarded ~6500 new customers during the financial year. The overall portfolio had clocked a growth rate of 156% over March 2018. The Bank had clocked its highest ever disbursal of Rs. 7,272 lakhs in the month of March 2019. More than half of incremental disbursements are self- sourced with the rest sourced through various internal and external referrals. The average ticket size of the portfolio was Rs. 9.59 lakhs during the year.

The Bank has increasingly focused on increasing its share in semi-formal/formal customer segments. The benefit of subsidy received under the aegis of PMAY scheme[25] was transferred to 829 customers amounting to Rs. 1,778 lakhs.

On the technology front, the Bank had initiated migration of Housing loans from the legacy Loan Management System (LMS) to the new Core Banking System (CBS) for purpose of better portfolio management. The Bank is in the process of exploring various mobility solutions by leveraging its technology platforms. The Bank has already increasingly

[24] Outstanding principal plus accrued interest (1-90 days)

[25] Prime Minister Awas Yojana

channelized its efforts towards Automated Data Flow (ADF) with the purpose of reducing Turnaround Time (TAT).

8.1.7.2.2. Micro and Small Enterprises (MSE):

Rs. in lakhs

Region	OSP as at June 2018	OSP as at Sept 2018	OSP as at 31st December 2018	Outstanding Balance as at 31st March 2019	Growth%
South	8,405	10,518	13,614	17,695	30%
North	8,443	10,318	12,931	16,209	25%
East	6,941	9,134	12,014	16,874	40%
West	4,238	5,322	6,478	8,307	28%
Grand Total	**28,028**	**35,293**	**45,037**	**59,084**	31%

The MSE advances registered a robust growth of 142% over the previous year with 13000+ customers and a total advances book of Rs. 59,084 lakhs as at 31st March 2019. The Bank has increased its focus on secured lending to cater to established businesses with higher funding requirement and better credit profile. This is evidenced through introduction of new credit facilities in the nature of overdrafts against property. Furthermore, the share of monthly secured loans disbursements has increased sharply from 50% in April 2018 to 95% in Mar 2019. In absolute terms, secured loans have grown from around Rs. 104 lakhs in April 2018 to Rs. 6,840 lakhs in March 2019. The total share of secured advances to total MSE is at 69.22%.

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 first quarter of the next financial year.

8.1.7.2.3. Agriculture and Rural Business

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

Rs. in lakhs

Particulars	Position as at 30th Sept 2018*	Position as at 31st December 2018*	Position as at 31st March 2019*
QTD Disbursement	3,300	4,600	10400

YTD Disbursement	5,100	9,800	20500
Outstanding Principal	6,600	9,900	18500
Ticket Size	30,588	32,056 (GL) and 77,109 (IL)	30,543 (GL) and 78,830 (IL)
Productivity	11.50	14 (GL) and 9 (IL)	12.5 (GL) and 8 (IL)

*rounded to nearest 100

As at 31st March 2019, the Bank catered to 66,507 borrowers in URC branches. Agriculture and rural banking had disbursed an all-time high of Rs. 5,179 lakhs in the month of March 2019. The first corporate agriculture loan of Rs.1000 lakhs was disbursed during the financial year. The deposits mobilized by Non-URC branches crossed Rs. 100 lakhs since inception. The composition of deposit balance as at 31st March 2019 in these URCs was CASA (49%), and Term Deposits (51%).

8.1.7.2.4. Loans to Financial Institutions

As at 31st March, 2019, the Bank had built a portfolio of loans to Financial Institutions with an aggregate sanctioned limit of Rs 24,000 lakhs. The Bank has been selective in building this portfolio, which requires separate due diligence by the Business and Risk Management teams addressing business and the risk parameters, based on which loans are approved by the Credit Approval Committee (CAC).

8.1.7.2.5. 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 31st March 2019, the total disbursements made were ~Rs. 1213 lakhs.

8.1.8. Credit Risk Monitoring

8.1.8.1. Micro finance portfolio

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

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

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

8.1.8.2. <u>Housing and Micro and Small Enterprises (MSE) portfolios</u>

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 ensuing financial year which will help in reduction of errors and associated risks. During the last quarter, the Bank had formalized the monitoring mechanisms at process level encompassing credit deviations, collateral management, documentation etc.,

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. The same is expected to be in place during the second quarter of FY 2019-20.

8.1.9. <u>Audit</u>

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[26], 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

[26] Institute of Chartered Accountants of India

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 credit audit, the aim being to ensure that there are no policy deviations and that due processes are followed as it seeks to diversify its asset book and build its asset portfolio. The Bank commenced ISO 27001 certification processes for its IT applications during the year and had completed IS Audit.

As per RBI guidelines on **Concurrent Audit** System in Commercial Banks[27], 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 152 branches that contributed to 50% of advances and 50% of deposits of the bank as per 31st March 2018 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.

The Bank was subjected to **Information Technology examination** in the month of February 2019 by the regulator. The focus of the examination was to assess the cyber security risk in the Bank by examining in detail the cyber security and resilience framework as implemented by the Bank in terms of RBI guidelines on 'Cyber Security Framework in Banks'[28]. The assessment covered IT governance, Information Security, IS/IT audit, regulatory reporting systems, BCP/DR aspects, IT operations, Digital products, IT related outsourcing and extent of IT risk in Operational Risk Management. The various observations made by the regulator are being addressed in a time bound manner.

8.2. Quantitative Disclosures

8.2.1. Exposure summary: Facility type

Exposure Type	Domestic (Rs. in Lakhs)	Overseas
Fund- Based exposure	13,66,979	--
Non- Fund Based Exposure*	4,459	--
Total	13,71,438	**--**

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

8.2.2. Geographic Distribution of advances (State-wise)

[27] 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

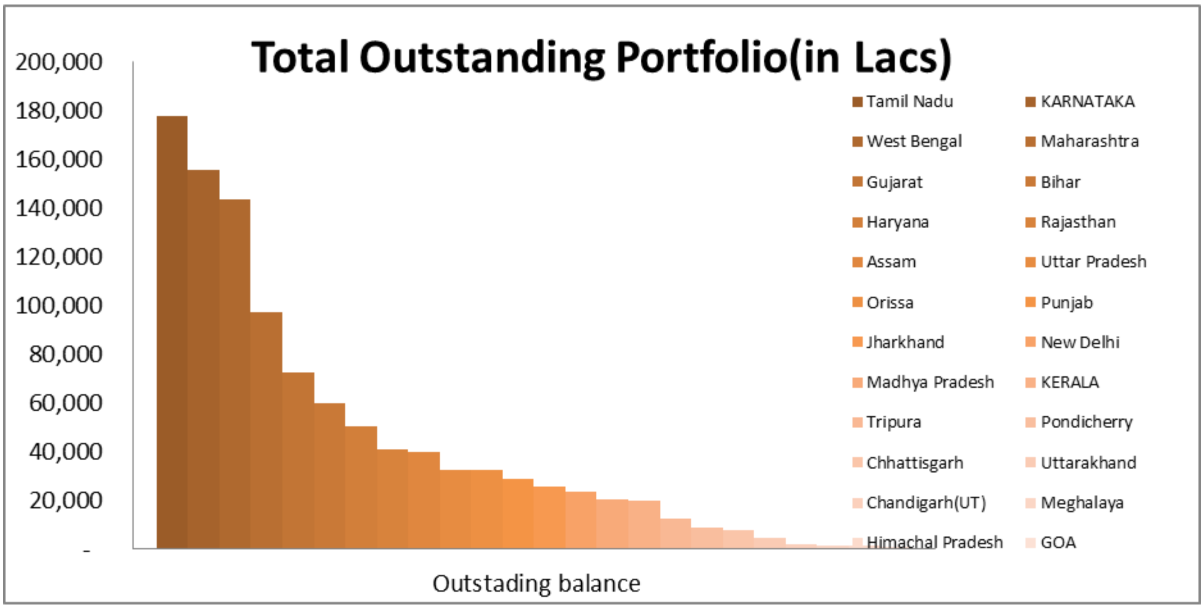
[28] Refer RBI guidelines on Cyber Security Framework in Banks issued vide DBS.CO/CSITE/BC.11/33.01.001/2015-16 dated 2nd June 2016

Rs. in lakhs

State	Outstanding balance	% Share
Tamil Nadu	1,77,873	16.74%
Karnataka	1,55,602	14.65%
West Bengal	1,43,830	13.54%
Maharashtra	97,246	9.15%
Gujarat	72,756	6.85%
Bihar	60,093	5.66%
Haryana	50,479	4.75%
Rajasthan	40,803	3.84%
Assam	39,941	3.76%
Uttar Pradesh	32,460	3.06%
Orissa	32,320	3.04%
Punjab	28,809	2.71%
Jharkhand	25,633	2.41%
New Delhi	23,799	2.24%
Madhya Pradesh	20,574	1.94%
Kerala	20,015	1.88%
Tripura	12,744	1.20%
Pondicherry	8,791	0.83%
Chhattisgarh	7,573	0.71%
Uttarakhand	4,796	0.45%
Chandigarh(UT)	2,090	0.20%
Meghalaya	1,747	0.16%
Himachal Pradesh	1,502	0.14%
Goa	799	0.08%
Grand Total	**10,62,276**	**100.00%**

The share of microfinance advances constituted 85.00% (i.e. Rs. 9, 0 2,935 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 lakhs

Sector	Outstanding total advances	Gross NPAs	% of Gross NPAs to Total Advances in that sector
Priority sector:			
Agriculture and Allied activities	1,41,188	677	0.48%
Advances to industries eligible as priority sector lending	21,480	61	0.28%
Services	58,515	429	0.73%
Personal loans	3,97,105	3,008	0.76%
-of which Housing	1,28,769	646	0.50%
Sub-Total (A)	**6,18,288**	**4,176**	**0.68%**
Non-Priority sector:	-	-	
Agriculture and Allied activities	1,55,294	593	0.38%
Industry	23,832	287	1.20%
Services	96,450	3,421	3.55%
-of which NBFC	22,497	-	0.00%
Personal loans	1,68,412	1,309	0.78%
-of which Housing	39,731	816	2.05%
Sub-Total (B)	**4,43,988**	**5,610**	**1.26%**
Total (A) + (B)	**10,62,276**	**9,785**	**0.92%**

8.2.4. <u>Priority Sector Lending (PSL) Compliance</u>

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 2018 was Rs. 6, 85,592.70 Lakhs. The Priority Sector lending was above the minimum requirement of 75% i.e. 90.18% (Rs. 6, 18,188 Lakhs as a percentage to ANBC). The PSL portfolio available in excess of the Bank's target was sold as Priority Sector Lending Certificate (PSLC).

Rs. in lakhs

Particulars	Year ended March 31, 2019
	PSLC Sold
1) PSLC Agriculture	-
2) PSLC Small Farmers / Marginal Farmers	1,54,400
3) PSLC Micro Enterprises	25,000
4) PSLC General	60,000
	2,39,400

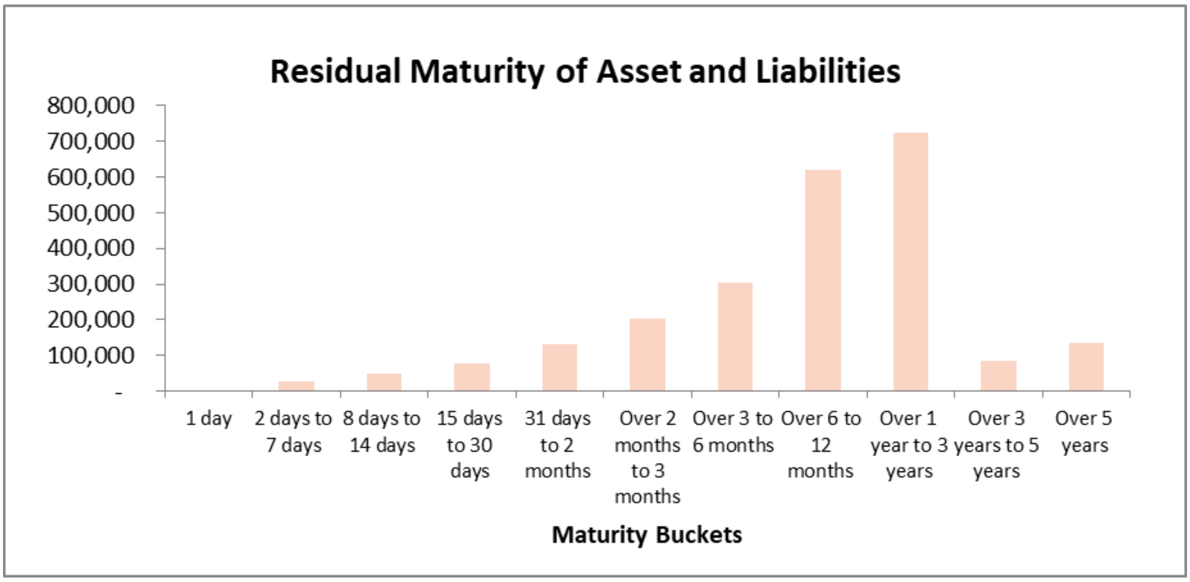
8.2.5. Maturity pattern of assets and liabilities (Rs. in lakhs)

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. RBI, in its part had introduced a slew of measures to contain the liquidity crunch. The measures included increase in Facility to Avail Liquidity for LCR (FALLCR) from 11% to 13% which had the potential to inject ~2.5 lakh crores in the financial system. RBI has also made the appointment of Chief Risk Officer (CRO) mandatory for NBFCs with asset size of more than Rs. 5, 00,000 lakhs. RBI has issued a draft circular on "Liquidity Risk Management Framework for Non-Banking Financial Companies and Core Investment Companies" for public comments. While some of the current regulatory prescriptions applicable to NBFCs on ALM framework have been updated / recast, certain new features have been added. Among others, the draft guidelines cover application of generic ALM principles, granular maturity buckets in the liquidity statements and tolerance limits, liquidity risk monitoring tool and adoption of the "stock" approach to liquidity. In addition, the draft proposes to introduce Liquidity Coverage Ratio (LCR) for all deposit taking NBFCs and non-deposit taking NBFCs with an asset size of Rs. 5, 00,000 lakhs and above. With a view to ensuring a smooth transition to the LCR regime, the proposal is to implement it in a calibrated manner through a glide path over a period of four years commencing from April 2020 and going up to April 2024. The Bank has taken cognizance of the same and has assessed its impact on its ALM position.

The Bank, by virtue of its holding company structure was mistakenly perceived to be an NBFC during the first half of FY 2018-19. In addition, the crisis within the NBFC industry impacted the share price of USFL, where the only asset is the investment in the Bank's shares. The liquidity situation of the Bank was not impacted, though in the short run there was an impact on the marginal cost of funds.. During the year, the Bank remained well-matched in case of the ALM position

Rs. in lakhs

Maturity Buckets	Loans & Advances	Investment	Deposits	Borrowings
1 day	2	0	757	-
2 days to 7 days	10,330	7,089	8,935	-
8 days to 14 days	21,105	9,765	8,979	9,167
15 days to 30 days	32,727	11,082	32,753	-
31 days to 2 months	67,829	13,649	42,923	7,667
Over 2 months to 3 months	70,425	10,372	1,13,747	9,167
Over 3 to 6 months	1,64,363	1,501	83,819	54,751
Over 6 to 12 months	3,17,253	13,175	2,03,611	87,621
Over 1 year to 3 years	2,74,332	24,436	2,40,905	1,85,586
Over 3 years to 5 years	24,166	3,010	984	57,650
Over 5 years	72,714	58,582	531	5,000
Total	**10,55,245**	**1,52,662**	**7,37,944**	**4,16,609**



SLS Mismatch:

Rs. in lakhs

SLS	1 Day	2-7 Days	8-14 Days	15-30 Days
Total Outflows	19,084	9,017	20,985	38,859
Cumulative	19,084	28,101	49,086	87,945

Outflows				
Total Inflows	38,753	94,757	22,835	50,175
Cumulative Inflows	38,753	1,33,509	1,56,344	2,06,519
Mismatch	19,669	85,739	1,850	11,316
Cumulative Mismatch	19,669	1,05,408	1,07,258	1,18,574
Mismatch %	**103%**	**375%**	**219%**	**135%**
RBI Limits	**-5.00%**	**-10.00%**	**-15.00%**	**-20.00%**

As shown above, the Bank is positively matched (the cumulative inflow is greater than cumulative outflows). Further, the Bank is also positively matched for its residual maturity buckets on a cumulative basis.

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 focusses 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. During the year, the Bank also reworked on its Contingency Funding Plan (CFP), and tested it to ensure efficacy in a contingency.

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

Category of Gross NPA	31st March 2019
Sub-standard	6,818
Doubtful	2,207
Loss	7,60
Total	**9,785**

Net NPA	**2,755**

NPA Ratios	Percentage
Gross NPA to Gross Advances	0.92%

Net NPA to Net Advances	0.26%

8.2.7. Movement of Gross NPA's

Particulars	Amount (Rs. In lakhs)
Opening Balance	27,592
Additions during the period	8,354
Reductions during the period	26,161
Closing Balance	**9,785**

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

Particulars	Amount (Rs. in lakhs)
Opening Balance	22,498
Provisions made during the period	5,252
Write back of excess provisions	20,719
Closing Balance	**7030**

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.

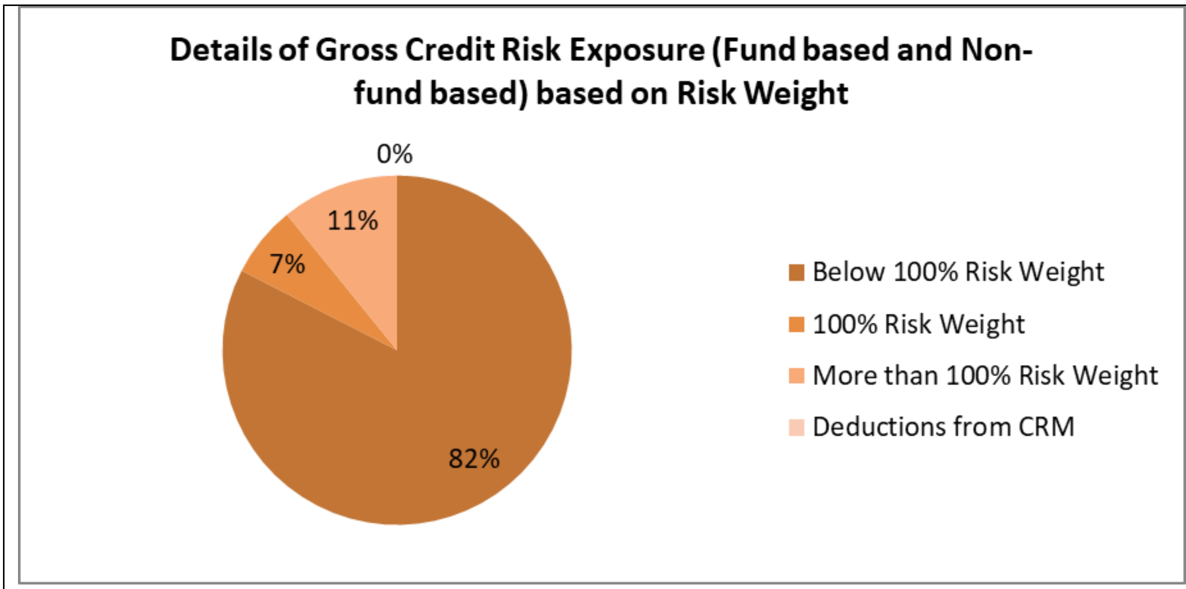
b) The loan book of the Bank predominantly comprised retail category loans. There was a small book comprising loans to Financial Institutions and a growing portfolio loans to Affordable Housing sector. Therefore, the risk weights as applicable to Regulatory Retail, Claims under Residential Mortgage and 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. These loans are being paid off and as at 31st December 2019, they comprised less than 3% of the funding sources for the Bank. All legacy loans will be fully repaid in the ensuing financial year as directed by RBI.

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 lakhs**
1	Below 100% Risk Weight	11,31,784
2	100% Risk Weight	90,647
3	More than 100% Risk Weight	1,49,008
4	Deductions from CRM	0
5	**Total**	**13,71,438**



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[29] for risk mitigation. Therefore, the Bank does not take any netting off benefit for its collateralized transactions under comprehensive approach[30] 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.

[29] 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

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

- 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. Qualitative Disclosure

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

As per RBI guidelines on securitization[31], banks are required to hold regulatory capital against all of their securitisation exposures, including those arising from the provision of credit risk mitigants to a securitisation transaction, investments in asset-backed securities, retention of a subordinated tranche, and extension of a liquidity facility or credit enhancement.

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

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 lakhs)
1.	Pool Size (Principal+ Interest)	Rs. 18,211
2.	Pool Principal	Rs. 16,029
3.	PTC Tranche	1
4.	Par/Premium	Par
5.	Amortization of the pool	19.79 months
6.	Purchased consideration	Rs. 13,945

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

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 did not hold overnight G-Sec trading positions for the limited amount of trading that it conducted during the year. The Bank also had no holding of dated Government Securities in its AFS portfolio and hence did not have to make any provisions for adverse movements in yield.

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

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.

At commencement of operations, the Bank's book was wholly funded by borrowings from other banks. These were availed of as an NBFC- MFI and under dispensation from RBI were classified as "grandfathered" legacy loans on the Bank's book to be progressively repaid. These legacy loans were not considered while computing the Bank's interbank borrowings, but the assets under lien, provided as book debt to the lending banks, attracted an additional risk weight of 25%. The share of legacy borrowings had reduced sharply to 3% of the borrowing mix as at 31st March 2019 from 17% as at 31st March 2018. To effectively manage its ALM and also to diversify its funding sources, during the year the Bank 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.

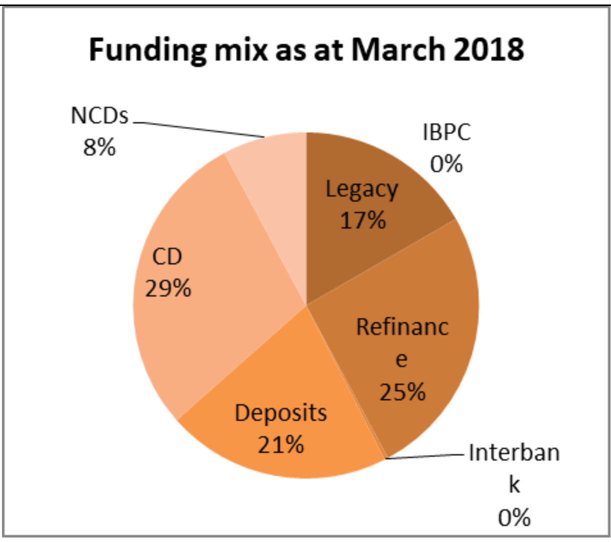
The share of deposits showed an increasing trend during the quarter with a contribution of 50% of the total funding. As part of its Contingency Funding Plan and also to diversify its funding sources, the Bank has been sanctioned a committed line of credit from a large private sector bank to the tune 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 for FY 2018-19 is given below:

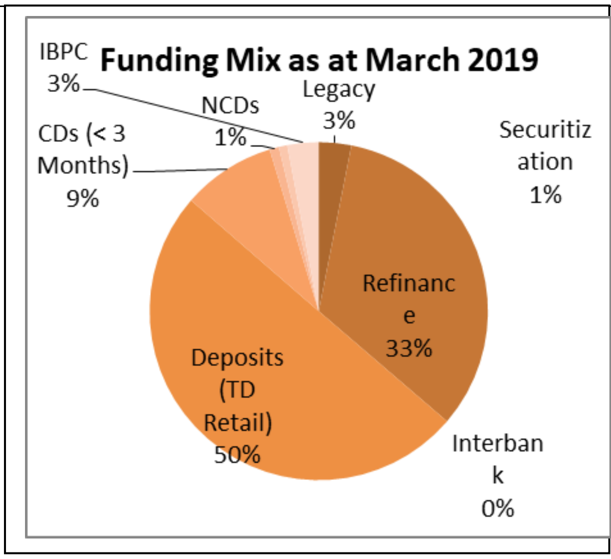
Rs. in Lakhs

Sl.No	Particulars	March 2018	June 2018	September 2018	December 2018	March 2019[32]
1	Legacy	1,27,688	91,368	44,247	18,861	34,700
2	Refinance	1,95,097	2,40,597	3,24,400	3,12,440	3,72,000
3	Interbank	2,500	2,500	-	18,000	0
4	Deposits	1,60,623	2,05,756	2,64,883	3,85,151	5,61,300
5	CDs (< 3 Months)	1,74,700	41,000	81,000	92,500	77,500
6	CDs (> 3 Months)	45,000	1,36,500	37,500	5,000	22,500
7	NCDs	60,000	60,000	50,000	10,000	10,000
8	Securitization	-	-	-	12,600	9,100
9	IBPC	-	-	15,000	15,000	33,500
Outstanding		**7,65,608**	**7,77,720**	**8,17,030**	**8,69,552**	**11,20,600**

The distribution of funding mix is detailed as below:

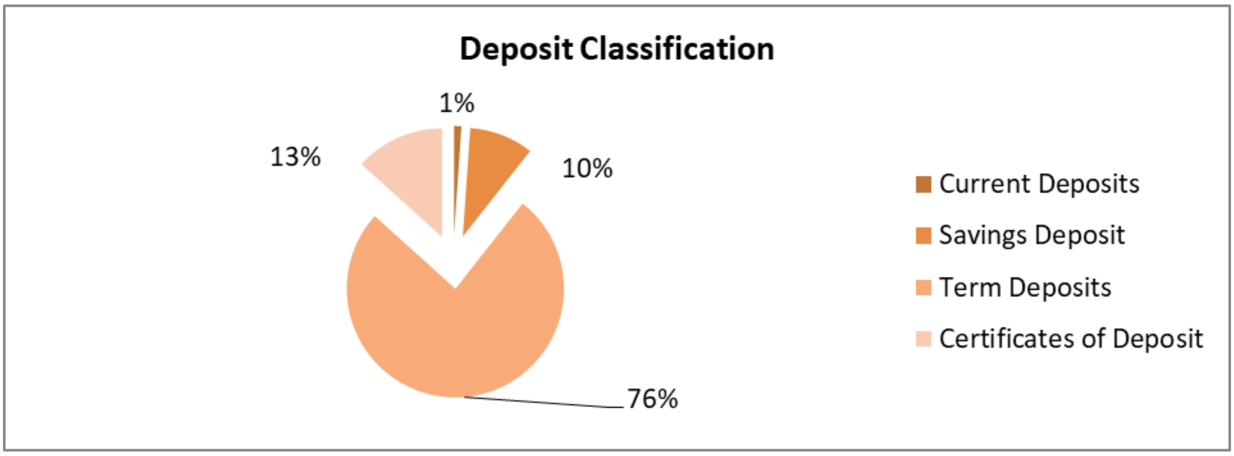
[32] Rounded to nearest hundred

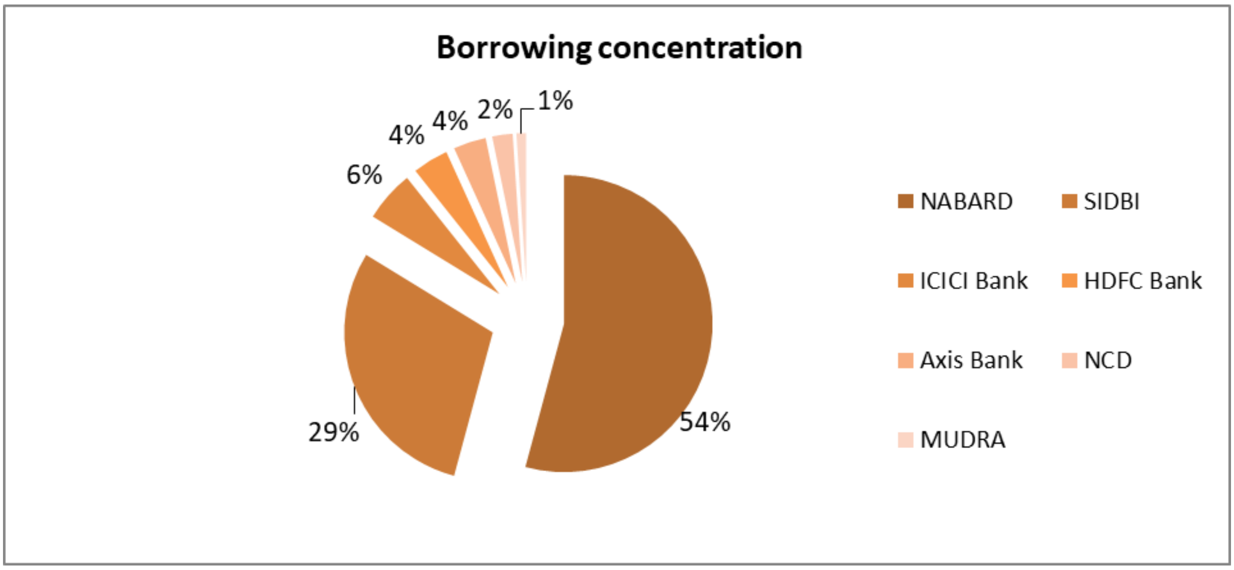




12.1.2. Deposit profile of the bank

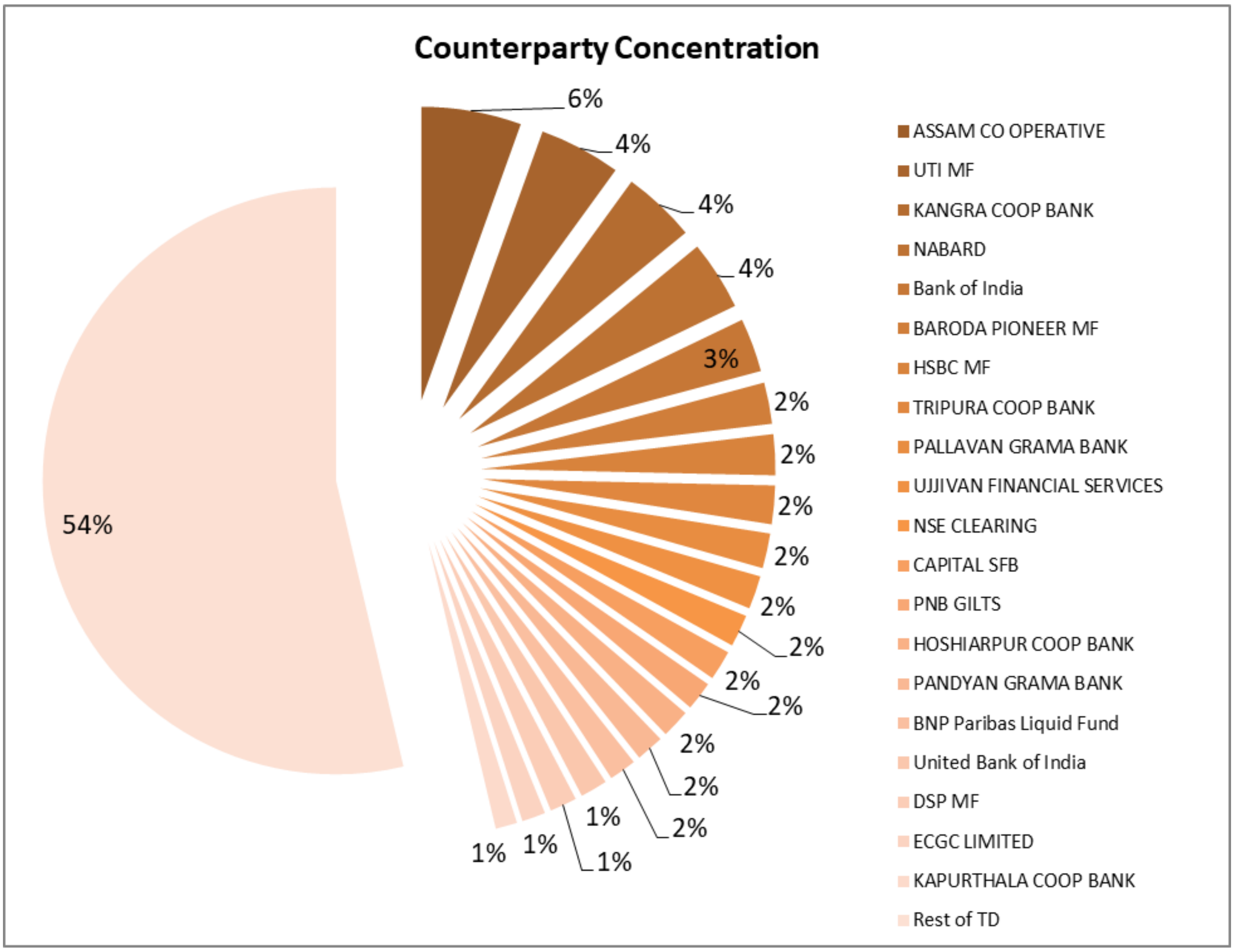
The below mentioned graph shows the deposit concentration (as a source of liability) and deposit bifurcation as at 31st March 2019





Refinance accounted to 83% of the total borrowing with refinance from NABARD accounting for more than half of the borrowing. CASA accounted for 11% (1% in Current Account) of the total deposits with limited contribution from Institutional CASA.

40% of Term Deposits are from Retail accounts. The top 2 depositors held 10% of total deposits in March 2019. As at 31st March 2019, the top 20 depositors held 46% of the total deposits, and the highest depositor held 6% of the total deposits. The share of top 20 depositors is shown below:



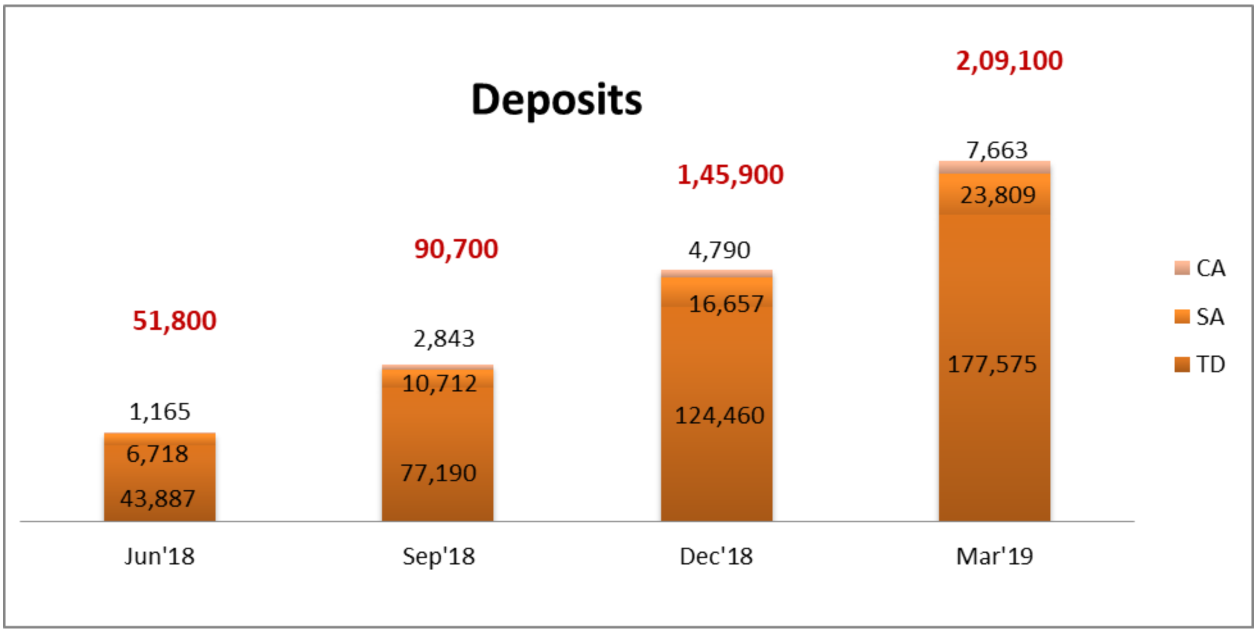
The Bank has increasingly focused on ramping up its retail deposit base. Sales Officer (SO) productivity had increased from Rs. 22 lakhs to Rs. 28 lakhs by year end. The Bank has successfully launched its Senior Citizen Program during the year with state of the art door-step banking service. The Bank has also synchronized the Common Application Form for Current Account with MSE loan application forms. The average bank balance in SA and CA account was Rs. 8500 and Rs. 57,900 respectively.

The key highlights of retail deposits are as follows:

Particulars	As at 30th September 2018 (Rs. in	As at 31st December 2018 (Rs. in lakhs)	As at 31st March 2019 (Rs. in lakhs)

	lakhs)		
Retail Deposit Balance	90,800	1,45,900	2,09,100
CASA	13,600	21,500	31,500
Term Deposits	77,200	1,24,500	1,77,600

The trend in deposits growth is shown as below:



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

Particulars	**As at 30th September 2018 (Rs. in lakhs)**	**As at 31st December 2018 (Rs. in lakhs)**	**As at 31st March 2019 (Rs. in lakhs)**
Financial Institutional Group-FD (FIG)	1,40,300	1,83,000	2,70,000
TASC[33]- Branch Channel	8,500	11,500	84,100

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

[33] Trusts, Associations, Societies and Clubs

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 lakhs on the average. This portion serves as the security that the Bank can fall back on in a contingency.

The LCR position as at 31st March 2019, computed on the basis of daily average of three months, was comfortable and significantly in excess of the mandatory minimum i.e. 70% as applicable for this financial year.

Liquidity Coverage Ratio (Rs. in lakhs)		
A	**High Quality Liquid Assets**	**Adjusted Baseline Scenario**
	Level 1 Assets	1,15,075
	Level 2 A Assets	0
	Level 2 B Assets	0
B	Total Stock of HQLAs	1,15,075
C	Cash Outflows	1,42,592
D	Cash Inflows	80,902
E	Net Cash-flow	61,690
F	25% of Total Cash Outflow	35,648
G	Higher of E or F	61,690
Liquidity Coverage Ratio		186.54%

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 ongoing 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	63.30
Equity Position Risk	--
Foreign Exchange Risk	--
Total	63.30
Total Market Risk RWA	791.25

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 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 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 Bank is in the process of strengthening its existing **Quality Check (QC)** mechanism by enhancing the comprehensive checklist, to address the deficiencies observed in the RBI inspection report for Housing and MSE loans. Bank had a process of couriering the copy of the loan agreements to the borrower. With effect from April 01, 2019, a copy of the loan agreement will now be stored for future reference and verification. A deep dive analysis on the documentation issues was undertaken by the Operational Risk vertical. Loan documents were reviewed on a sample basis across MSE/SHL verticals and key observations were provided to operations department to enhance/strengthen Quality Check (QC) mechanism. 229 loan files

were verified from loans disbursed during November 2018 to February 2019 across all regions. Each sample file was checked on 17 key parameters. The documentation check will now be an on-going activity and review reports will be placed at necessary forums at regular intervals. Loan documents on a sample basis for loans disbursed in April, May and June 2019 is currently under progress.

- **Risk and Control Self-Assessment (RCSA) framework**: RCSA as an independent exercise will commence from next financial year. Since commencement of operations as a Bank and especially in the past one year, new products and processes have been introduced. The Bank has completed the process of consolidating and documenting these from a control perspective which will provide the basis for the RCSA framework.
- 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.
- 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. During the year the Bank had undertaken risk assessment for 13 vendors who are material to the Bank. Vendors where risk assessment was done included Business Correspondents (BC). 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.
- During the year the Bank tested its Business Continuity at a ground level. Each branch is mapped to a neighbouring branch. Likewise, each regional office of the Bank is mapped to its closest regional office. The testing involved the shutting down of some essential services in the “affected” branches and operating these services from the backup branches. The tests were successful. It is aimed to complete the testing in all branches in the next financial year.
- Significantly for the current financial year, the entire review and testing of Internal Financial Controls (IFC), a mandated requirement for annual financial audit was done in house by the Operational Risk team. In consultation with the external auditors, the Bank had identified 26 key processes for which Risk Control Matrices (RCMs) were prepared to capture the process flow. The RCMs record the manual and automated controls for each of the processes. The exercise required the testing of 368 controls both automated and manual. The Board has directed that the number of manual controls be reduced to the extent possible and this is being evaluated. In addition to the 26 processes, at the apex, there was the recording and testing of Entity Level Controls (ELCs) for the Bank as a whole.
- 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 22% as per various studies available in public domain. The Bank had an annualized attrition rate of 20.26% during FY 2018-19. This is in line with 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. During FY 2018-19, the survey was undertaken in 2 slots covering 26 verticals in the Bank. 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 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 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 well-documented, Board approved information security and cyber security policies in place. Awareness sessions are carried out through classroom trainings, meetings and discussions, induction programs, awareness mailers and Short Messaging Service (SMS's) to update employees on information security policies and practices. The Bank has implemented various IT Security related solutions like Anti-Virus, Firewalls, Encryption Technologies, Intrusion Detection Systems, Web Filtering Solution, Network Security Solutions, Anti Advanced Persistent Threats etc.

The Bank carries out regular vulnerability assessments and penetration tests for its applications and infrastructure. Third party Information Security Assessment is performed to evaluate third party's information security related practices. The Bank has a 24/7 Security Operations Center which monitors the security posture of the Bank. The Bank receives threat feeds from various sources and also does in-house threat hunting to keep the Bank safe from cyber-attacks.

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.

13.1.5. Business Continuity

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.

13.1.6. Capital charge assessment

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

13.2. Quantitative Disclosure

Particulars	Capital Reqd. (Rs. in Lakhs)	RWA (Rs. in Lakhs)
Operational Risk (BIA Approach)	17,066	2,13,327

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

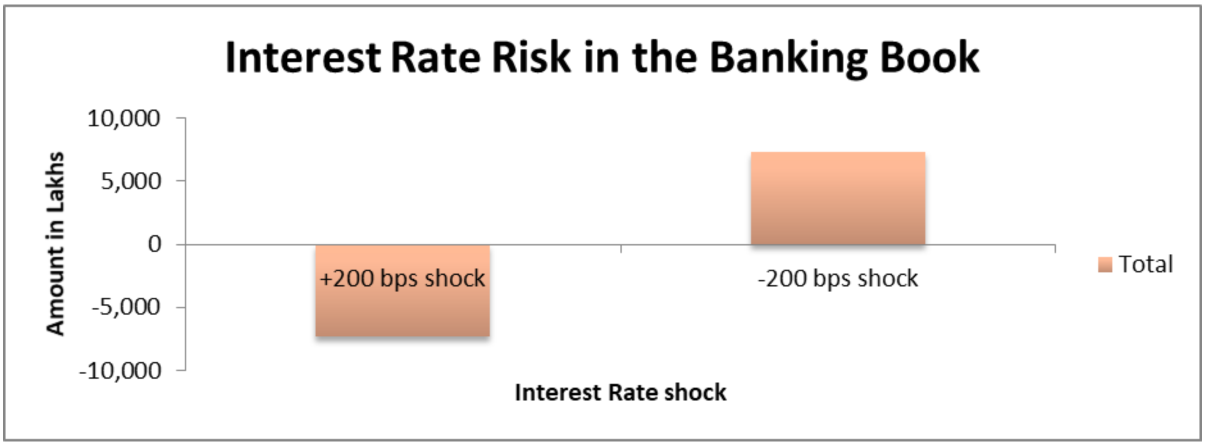
approach. Under this approach a parallel shift of 2% is assumed both in assets and liabilities.

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 Lakhs)

Interest Rate Risk in the Banking Book (IRRBB)			
Sl.No	Country	Interest Rate Shock	
		+200 bps shock	-200 bps shock
1	India	-7,348	7,348
2	Overseas		
3	Total	-7,348	7,348



14.2.2. Economic Value Perspective (Rs. in Lakhs)

Category	Items	Amount
A	Equity (i.e., Net Worth)	1,45,337
B	Computation of Aggregate RSA	12,97,424
C	Computation of Aggregate RSL	11,78,879
D	Weighted Avg. MD of RSL across all currencies	1.28
E	Weighted Avg. MD of RSA across all currencies	1.13
F	MDG	0.25
G	Change in MVE as % of equity for 200bps change in interest rate	-4.45%
H	Change in MVE in absolute terms	-6,465

15. Table DF-13: Main features of Regulatory capital Instruments

Disclosure template for main features of regulatory capital instruments			
		Equity Shares	**Preference Shares**
1	Issuer	Ujjivan Small Finance Bank Limited	Ujjivan Small Finance Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	Not Applicable (NA)	NA
3	Governing law(s) of the instrument	Applicable Indian Statutes and regulatory requirements	Applicable Indian Statutes & Regulatory requirements and RBI Basel III Guidelines dated July 1, 2015
	Regulatory treatment		
4	Transitional Basel III rules	Common equity Tier 1	Addition Tier 1 Capital (AT1)
5	Post-transitional Basel III rules	Common equity Tier 1	Addition Tier 1 Capital (AT1)
6	Eligible at solo/group/ group & solo	Solo	Solo
7	Instrument type	Common Shares	Perpetual Non-Cumulative Preference shares
8	Amount recognised in regulatory capital (Rs. in million, as of most recent reporting date)	Rs 14,400 Million	Rs 2,000 Million
9	Par value of instrument	Rs 10/-	Rs 10/-
10	Accounting classification	Capital	Capital
11	Original date of issuance	Rs 0.50 million – 4^{th} July 2016 Rs 1099.868 Million – 30^{th} July 2016 Rs 13,300 Million - 10^{th} February 2017	10^{th} February 2017

12	Perpetual or dated	Perpetual	Perpetual
13	Original maturity date	No Maturity date	No Maturity date
14	Issuer call subject to prior supervisory approval	No	No
15	Optional call date, contingent call dates and redemption amount	NA	NIL
16	Subsequent call dates, if applicable	NA	NIL
	Coupons / dividends	Dividend	Dividend
17	Fixed or floating dividend/coupon	NA	Fixed
18	Coupon rate and any related index	NA	11.0%
19	Existence of a dividend stopper	NA	Yes
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	No	NIL
22	Noncumulative or cumulative	Non-Cumulative	Non-Cumulative
23	Convertible or non-convertible	NA	Non-Convertible
24	If convertible, conversion trigger(s)	NA	NA
25	If convertible, fully or partially	NA	NA
26	If convertible, conversion rate	NA	NA
27	If convertible, mandatory or optional conversion	NA	NA

28	If convertible, specify instrument type convertible into	NA	NA
29	If convertible, specify issuer of instrument it converts into	NA	NA
30	Write-down feature	No	Yes
31	If write-down, write-down trigger(s)	NA	PONV trigger & CET1 trigger
32	If write-down, full or partial	NA	Full and Partial
34	If temporary write-down, description of write-up mechanism	NA	The Issuer shall: 1. Notify holders of preference Shares 2. Cancel any dividend accrued and un paid to as on write down date 3 Without the need for the consent of holders of the PNCPS, write down the face value of the PNCPS by such amount as the Issuer may in its absolute discretion decide. Provided that, in no event shall such amount of write down be less than the amount required to immediately return the Issuer's Common Equity Tier 1 Ratio (as defined below) to above the CET1 Trigger Event Threshold (as defined below), nor shall such amount of write down exceed the amount which would be required to be written down to ensure that the Common Equity Tier 1 Ratio is equal to the aggregate of the CET1 Trigger Event Threshold and 2.5%, or such other percentage as may be prescribed by the RBI (the "CET1 Write Down Amount").

35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Secured Term Loan Borrowings , NCD's , Creditors of the Bank and Depositors	Subordinate to the claims of all depositors and general creditors and all capital instruments qualifying Tier II Capital instruments and perpetual debt instruments. Only Superior to Equity Shares
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	NA	NA

16. Table DF-14: Terms and conditions of Regulatory Capital Instruments

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

Full Terms and Conditions of Perpetual non-cumulative Preference Shares (PNCPS) of the Bank

SN	Particulars	Full Terms and Conditions
1	Type of Instrument	Perpetual Non-Cumulative Preference Shares
2	Terms for Raising PNCPS	Issue of PNCPS for augmenting the overall capital of the Issuer to strengthen the Issuer's capital adequacy and enhance its long-term resources in compliance with the applicable law.

3	Seniority	The claims in respect of the PNCPS, subject to applicable law, will rank: 1. Superior to claims of holders of equity shares and 2. Subordinate to the claims of all depositors, term loan borrowings, all capital instruments qualifying as tier II capital and all perpetual debt instruments
4	Listing	Unlisted.
5	Tenor	The PNCPS shall be perpetual i.e. there is no maturity date and there are no step-ups or any other incentives to redeem the PNCPS.
6	Dividend Payment Frequency	Subject to Dividend Limitation and Loss Absorption, dividend will be payable as per the discretion of the Bank's Board[34]. The Board is empowered to (i) Declare Interim Dividend during the financial year (ii) Declare for subsequent financial years (including interim dividends) or (iii) Declare dividend during the period between the end of the financial year and before conducting the AGM.
7	Dividend Rate	11% per annum or at a rate as specified in terms of RBI Master Circular on Basel III capital regulations
8	Dividend Stopper	In the event that the Preference shareholders are not paid dividend at the Dividend Rate, there shall be no payment of discretionary dividend on equity shares until the Dividend payments to the shareholders are made in accordance with terms hereof.
9	Put Option	Not Applicable.
10	Call Option	**Issuer call:** The Issuer may at its sole discretion, subject conditions for Call and Repurchase and exercise of such call option (with a notification to the holders of the PNCPS which shall specify the date fixed for exercise of the call option), exercise a call option on the PNCPS ("Issuer Call"). The Issuer Call may be exercised at the

[34] In HY 2018-19, no dividend was paid by the Bank for PNCPS. During the quarter, the Bank had modified the terms and conditions of PNCPS. As per the existing Terms & Conditions (T&C), dividend for PNCPS can be paid by the Bank annually in arrears, which meant that the Bank could declare preference dividend in the Board meeting that will be convened only in the next financial year (i.e. in the month of April/May of subsequent financial year). The Holding Company could book dividends as income only after it is declared by the Bank's Board. To enable the Holding Company to book preference dividends during current financial year itself, there was a need to modify the terms and conditions of the issue under intimation to RBI. The changes made would now enable the Bank to declare dividend as per the discretion of the Board

		option of the Issuer no earlier than on the fifth anniversary of the Deemed Date of Allotment.
		Tax Call: If a Tax Event has occurred and is continuing, the Issuer may at its sole discretion, subject to Conditions for Call and Repurchase and notification to the holders of PNCPS of not less than 21calendar days prior to the date of exercise of such call option (which notification shall specify the date fixed for exercise of the call option), exercise a call option on the PNCPS ("Tax Call").Provided further that, subject to conditions for Call and Repurchase the Issuer may substitute the PNCPS with capital instruments that are in accordance with the RBI Master Circular on Basel III capital regulations and any other applicable law
		Regulatory Call: If a Regulatory Event has occurred and is continuing, the Issuer may at its sole discretion, subject to Conditions for Call and Repurchase and notification to the holders of PNCPS of not less than 21 calendar days prior to the date of exercise of such call option (which notification shall specify the date fixed for exercise of the call option), exercise a call option on the outstanding PNCPS ("Regulatory Call").Provided further that, subject to Condition 27 (Conditions for Call and Repurchase) the Issuer may substitute the PNCPS with capital instruments that are in accordance with the RBI Master Circular on Basel III capital regulations and any other applicable law.
11	Repurchase/ Redemption/ Buy-back	The Issuer may subject to Conditions for Call and Repurchase having been satisfied and such repayment being permitted by the RBI Master Circular on Basel III capital regulations, repay the PNCPS by way of repurchase, buy-back or redemption.
12	Loss Absorption	PNCPS should have principal loss absorption through a write-down mechanism which allocates losses to the instrument at a pre-specified trigger point. The write-down will have the following effects: 1. Reduce the claim of the PNCPS in case of liquidation; 2. Reduce the amount re-paid when a call over the PNCPS is exercised by the Issuer; and 3. Partially or fully reduce dividend payments on the PNCPS. The specific criteria for such loss absorption through conversion/write-down/write-off on breach of pre-specified trigger and the Point of Non-Viability (PONV) will be in accordance with the applicable RBI guidelines The relevant terms of Annex 16

		in Master Circular of Basel III capital regulations shall be deemed to be incorporated herein.
13	Permanent Principal Write-down on PONV Trigger Event	If a PONV Trigger Event occurs, the Issuer shall: 1.Notify the holders of the PNCPS; 2.cancel any dividend which is accrued and unpaid on the PNCPS as on the write-down date; and 3. Without the need for the consent of the holders of the PNCPS, write down the outstanding principal of the PNCPS by such amount as may be prescribed by RBI ("**PONV Write Down Amount**") and subject as is otherwise required by the RBI at the relevant time. The Issuer will affect a write-down within 30 (thirty) days (or such other time as may be prescribed by applicable law) of the PONV Write-Down Amount being determined by the RBI.A Permanent Principal Write-down on PONV Trigger Event may occur on more than one occasion. Unless specifically permitted by applicable law, once the face value of the PNCPS has been written down pursuant to PONV Trigger Event, the PONV Write-Down Amount will not be restored in any circumstances, including where the PONV Trigger Event has ceased to continue.
14	Temporary principal Write-down on CET1 Trigger Event	If a CET1 Trigger Event (as described below) occurs, the Issuer shall: 1.Notify the holders of the PNCPS; 2. Cancel any dividend which is accrued and unpaid to as on the write-down date; 3. Without the need for the consent of holders of the PNCPS, write down the face value of the PNCPS by such amount as the Issuer may in its absolute discretion decide. Provided that, in no event shall such amount of write down be less than the amount required to immediately return the Issuer's Common Equity Tier 1 Ratio to above the CET1 Trigger Event Threshold , nor shall such amount of write down exceed the amount which would be required to be written down to ensure that the Common Equity Tier 1 Ratio is equal to the aggregate of the CET1 Trigger Event Threshold and 2.5%, or such other percentage as may be prescribed by the RBI (the "CET1 Write Down Amount"). A write-down may occur on more than one occasion. Once the value of a PNCPS has been written down pursuant to this temporary Write down, the value of the PNCPS may only be

		restored in accordance with condition of reinstatement.

17. Table DF-15: Disclosure Requirements for Remuneration

<table>
<tr><th colspan="2">17.1. <u>Remuneration - Qualitative disclosures</u></th></tr>
<tr><td>a.</td><td><u>Information relating to the bodies that oversee remuneration. Disclosure should include:</u>
<u>• Name, composition and mandate of the main body overseeing remuneration.</u>
The Bank has constituted the Nomination & Remuneration Committee (NRC) as per the provisions of Section 178 of the Companies Act, 2013. The Functions of the NRC include
1) Overseeing the framing, review and implementation of the compensation policy of the bank on behalf of the Board,
2) Formulation of a criteria for determining qualifications, positive attributes and independence of a Director,
3) To ensure ‘fit and proper’ status of proposed/ existing Directors,
4) Identifying persons who are qualified to become directors and who may be appointed in senior management in accordance with the criteria laid down, and recommend to the board of directors their appointment and removal, whether to extend or continue the term of appointment of the independent director, on the basis of the report of performance evaluation of independent directors,
5) To recommend to the Board the appointment and removal of Senior Management,
6) To carry out evaluation of Director’s performance and recommend to the Board appointment / removal based on his / her performance to recommend to the Board on:
i) Policy relating to remuneration for Directors, Key Managerial Personnel and Senior Management and
ii) Executive Directors remuneration and incentive, conducting due diligence as to the credentials of any director before his or her appointment, and making appropriate recommendations to the Board, in consonance with the Dr. Ganguly Committee recommendations and the requirements of RBI, overseeing the framing, review and implementation of the Bank’s Compensation Policy for Whole Time Directors/ Chief Executive Officers / Risk Takers and Control function staff for ensuring effective alignment between remuneration and risks,
7) To make recommendations to the Board concerning any matters relating to the continuation in office of any Director at any time including the</td></tr>
</table>

suspension or termination of service of an Executive Director as an employee of the Bank subject to the provision of the law and their service contract;

8) Ensure that level and composition of remuneration is reasonable and sufficient, relationship of remuneration to performance is clear and meets appropriate performance benchmarks,
9) To devise a policy on Board diversity and to develop a succession plan for the Board and to regularly review the plan;
10) To approve Job descriptions & KRA's of Senior Managers and Business Line Managers on an annual basis.
11) To review Performance of the senior/business line managers by NRC on an annual basis.
12) Recommend to the board all remuneration, in whatever form, payable to senior management.

The Bank effectively aligns its compensation for all types of risk, symmetric with risk outcomes and sensitive to the time horizon of risks.

The Nomination and Remuneration Committee of the Bank comprises of the following Non-Executive Directors:

1. Ms. Vandana Viswanathan – Chairman of NRC.
2. Mr. Sunil Vinayak Patel
3. Mr. Biswamohan Mahapatra (inducted as a Member of the Committee w.e.f 1st July 2018)
4. Mr. Prabal K Sen
5. Ms. Mona Kachhwaha (moved out as a Member of the Committee w.e.f July 01, 2018).

Sr. No.	Name of Director	Designation	Number of meetings during the financial year 2018-19		% of Attendance
			Held during	Attended	
1.	Ms. Vandana Viswanathan	Committee Chairperson-Non Independent	5	5	100
2.	Mr. Sunil Vinayak	Independent Director	5	5	100
3.	Mr. Biswamohan Mahapatra	Independent Director	4	3	75
4.	Mr. Prabal Kumar Sen	Independent Director	5	5	100

5.	*Ms. Mona Kachhwaha	Independent Director	1**	1	100

**Ms. Mona Kachhwaha moved out of Nomination Committee and Mr. Biswamohan Mahapatra replaced her w.e.f July 01, 2018.*
*** Ms Mona Kachhwaha was eligible to attend only one meeting during the financial year 2018-19.*

External consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process.
Not Applicable

• A description of the scope of the Bank's remuneration policy (eg: by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches.
The purpose of the Compensation Policy is to ensure statutory compliance as well as alignment with the Bank's business policies and practices. The Compensation & Benefits (C & B) Policy document is based upon the principle that a fair and competitive salary is paid for acceptable levels of performance on the job. The compensation policy document is designed to align long-term interest of the employee and the organization.
The policy document covers all employees and Board of Directors of the Bank. This document provides guidance on:

- Compensation Philosophy
- Compensation Structure
- Grades
- Pay Review Process
- Variable Pay Plans
- Salary Pay-out

A description of the type of employees covered and number of such employees.
All employees of the Bank are governed by the Compensation Policy. The total number of permanent employees of the Bank at 31 Mar 2019 was 14,752.

b

Information relating to the design and structure of remuneration processes. Disclosure should include:
• An overview of the key features and objectives of remuneration policy.
The compensation policy has been laid out keeping the following perspectives into considerations:

- Our Compensation principles should support us in achieving our mission of providing a full range of financial services to the economically active poor of India who are not adequately served (unserved and underserved) by financial institutions. Therein, this policy should support us to attract and retain talent and skills required to further the organizations purpose and

	ideology. • The pay structure and amounts shall always conform to applicable Income Tax and other similar statutes. • All practices of Ujjivan SFB shall comply with applicable labour laws. • The pay structure should be standardized for a level of employees. • Elements eligible for tax exemption may be introduced at appropriate levels to enable employees take applicable tax breaks. • The compensation structure shall be easy to understand for all levels of employees. • The compensation policy is designed to promote meritocracy in the organization i.e. other things being equal, performers in a given role are expected to earn more than his/her peer group. • The directors are paid sitting fees as approved by the Board for attending the Board and Board Committee Meetings. ***Whether the remuneration committee reviewed the firm's remuneration policy during the past year, and if so, an overview of any changes that were made.*** Yes: The Compensation policy for the Bank was duly reviewed and approved by the board. ***A discussion of how the Bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee.*** The Bank periodically benchmarks its remuneration practices against the market. Compensation ranges in alignment to market pay are derived and reviewed periodically. Remuneration payable for each function is independent of amounts payable to other function as is the market practice. Further, performance metrics for the Risk and Compliance function are completely unrelated to deliverables of any other business function. The deliverables of the risk function are periodically reviewed by the Risk Committee of the Board ensuring due independence. Thus, the remuneration payable (which is linked to performance) is differentiated as well.
c.	***Description of the ways in which current and future risks are taken into account in the remuneration processes.*** • Structurally, the Control functions such as Credit, Risk and Vigilance are independent of the business functions and each other, thereby ensuring independent oversight from various aspects on the business functions. • On yearly basis, the Bank comprehensively measures and reviews material risks to which Bank is exposed to under its ICAAP. The Bank also complies with Basel II requirements. • The Bank has ensured that significant financial benefits may accrue to employees displaying high levels of individual performance over a 3 year

	period allowing adequate time for risks to completely manifest.
d.	***<u>Description of the ways in which the Bank seeks to link performance during a performance measurement period with levels of remuneration.</u>*** ***<u>• A discussion of how amounts of individual remuneration are linked to the Bank-wide and individual performance.</u>*** • The compensation policy is designed to promote meritocracy in the organization i.e. other things being equal, performers in a given role are expected to earn more than his/her peer group. • Ujjivan shall, from time to time benchmark its compensation against identified market participants to define its pay structure and pay levels. • The merit increments will be finalized and approved by the National Human Resources Committee year on year, basis organization's budgets and accomplishments as well as market reality. • Ujjivan believes in paying its employees in an equitable and fair manner basis the incumbent's Role, Personal Profile (Education/Experience etc.) as well as Performance on the Job. • Employees rated "Below Expectations" shall not be provided any increments, unless statutorily required. ***<u>• A discussion of the measures the Bank will in general implement to adjust remuneration in the event that performance metrics are weak. This should include the bank's criteria for determining 'weak' performance metrics</u>*** The Bank reviews metrics of all business units on a periodic basis and makes necessary changes to metrics to ensure satisfaction with the defined metrics and performance business outcomes across the stakeholder spectrum including investors, customers, regulator and employees. The Bank, particularly at Corporate and senior levels takes a balanced approach to performance management. High performance of an individual/ department is dependant not only on delivery of business metrics but also achievements of control functions. For eg: over achievement of business targets would not translate into a high performance rating if there are significant issues with Portfolio quality. Cost of acquisition, both in short and long term are typically evaluated to ensure healthy bottom-line.
	<u>• A discussion of the Bank's policy and criteria for adjusting deferred remuneration before vesting and (if permitted by national law) after</u> The performance bonus payout shall be Annual. Bonus is to be prorated for employees who have worked for part of the year at the Bank. The target setting is done in a manner that the average pay-out remains between 15% - 25% of fixed pay (excluding benefits) range.

	In case Variable Pay gets capped, the capped amount shall be deferred for a period of three years (including the year it was awarded) and is paid on pro rata basis of 1/3 each year. Incentive pay-out may be done on a monthly or quarterly basis, but a portion of the pay-out is withheld to be paid annually/ semi-annually to ensure retention of performers. The Bank believes in the philosophy of collective ownership by its employees. Thus, Employee Stock Options of the holding company Ujjivan Financial Services Ltd was distributed amongst employees basis their criticality and performance. Typically, all Stock option schemes in the Bank vest in a staggered manner. Besides the statutory requirement of grant and 1 year vesting, the total set of options vest in various tranches for up to a period of 3 years. **Malus/ Clawback**: In the event of negative contributions of the individual towards the achievements of the Bank's objectives in any year, the deferred compensation should be subjected to Malus/Clawback arrangements. Similar provisions shall apply in case the individual is found guilty of any major non-compliance or misconduct issues.
	Description of the different forms of variable remuneration that the bank utilizes and the rationale for using the same Variable Compensation at the Bank has the following distinct forms: 1. Statutory Bonus 2. Performance Pay: a. Performance Bonus b. Sales Awards 3. Rewards & Recognition The policy has been laid out keeping the following perspectives into considerations: o The Variable pay structure and amounts shall always conform to applicable Income Tax statutes, Labour Laws, Regulatory Requirements, any other applicable statutes and prevalent market practice. o It is designed to promote meritocracy in the organization i.e. other things being equal, performers in a given role are expected to earn more than his/her peer group. o **Statutory Bonus**: Statutory Bonus in India is paid as per Payment of Bonus Act, 1965. o **Performance Bonus**: All employees who are not a part of an Incentive/ Sales Award Scheme will be covered under the Performance Bonus Plan of the Bank. However, the actual payout of performance bonus shall only to be to employees based on

	performance. ○ **Sales Awards**: Employees in the Sales function, directly responsible for revenue generation shall be covered under the Sales Award Scheme. Typically some of the entry level roles and upto two levels of supervision thereof shall be covered by sales awards. Individual businesses may devise award schemes for specific roles. There is a provision for Malus / Clawback in case the performance of the individual drops in the interim. ○ **Rewards & Recognition**: The Bank shall design schemes and practices from time to time to celebrate employee / departmental / organizational success. These celebrations may include offering tokens of appreciation to employees as defined in specific schemes. Fairness of application and transparency of communication shall be the hallmark of all such schemes. These will be subject to income tax laws, as applicable. Examples of such schemes may include: Long Service Awards (currently at one, three, five, seven and ten yrs. of completion of service with the Bank), Portfolio Improvement Reward Scheme; Functional R&R Schemes; Organizational Rewards Schemes such as: Service Champion; Process Excellence; Customer Connect Awards; Above and Beyond; Recognition program for Liabilities Branches for Retail Deposits; Recognition program for Asset growth in Branches ○ **Employee Stock Options (ESOPs):** ESOPs are given across the Bank to employees based on tenure and performance. The Bank has approved its ESOP Plan, 2019 in the Shareholders meeting held on March 29, 2019, however no grant has been made to any employees of the Bank or of the Holding Company (Ujjivan Financial Services Limited) under the Banks ESOP Plan -2019. ○ Eligible Bank employees are holding ESOPs of the Holding Company and were also granted fresh ESOPS of the Holding Company during the financial year 2018-19 based on the recommendation of Nomination & Remuneration Committee of the Bank.

17.2. Quantitative Disclosures		
SN	**Quantitative Disclosures (Covers only Whole Time Directors/ CEO/Other Risk Takers[35])**	**Numbers**
1	Number of meetings held by the	5 meetings of Nomination & Remuneration

	Remuneration Committee during the financial year and remuneration paid to its members.	Committee (NRC) were held during the financial year 2018-19. Further, 3 meetings of Human Resource and Compensation Committee (HRC) was also held during the financial year 2018-19. The members of the NRC were paid total sitting fees of Rs.7.60 lakhs for the five meetings while members of HRC were paid total sitting fees of Rs 2.40 lakhs for three meetings.
2[36]	Number of employees having received a variable remuneration award during the year.	5 employees (MD& CEO/ CFO/CRO/Head Treasury/ CS) – Refer to notes
3	Number and total amount of sign-on awards made during the financial year.	Nil
4	Details of guaranteed bonus, if any, paid as joining / sign on bonus.	Nil
5	Details of severance pay, in addition to accrued benefits, if any.	Nil
6[37]	Total amount of outstanding **deferred remuneration**, split into cash, shares and share-linked instruments and other forms.	Rs.15,00,017 - (MD&CEO/CBO/ CFO/CRO/Head Treasury/ CS) – Refer to notes
7[38]	Total amount of deferred remuneration paid out in the financial year.	Rs. 720841 -(MD&CEO/CFO/CRO/Head Treasury/ CS) - refer to notes
8[39]	Breakdown of amount of remuneration awards for the financial year to show fixed and variable, deferred and non-	Annual Fixed Gross - Rs. 3,90,63,396 (MD&CEO/CBO/Head of Treasury/ CFO/CRO/ CS) Variable/deferred - Rs. 720841 -

[36] Variable Remuneration was paid in FY 18-19 only to these risk takers. Key Risk takers are defined as MD& CEO/ CBO/CRO/ CFO/CS/ Head of Treasury. The variable remuneration paid to the MD & CEO is the amount for the period 1 Feb 17 - 31 Mar 18. Date of joining of CBO is 12 Feb 2018. Hence, CBO was not eligible for variable remuneration.

[37] This is the provision amount. Outstanding Deferred Remuneration Cash (Bonus) Rs. 15, 00,017. However the actual pay-out will differ depending upon company performance and the guidance from the NRC. ESOPs are from UFSL therefore they are not disclosed. This includes the provision amount for MD & CEO which will be paid out subject to RBI approval

[38] Since Performance Bonus is paid out deferred in the following financial year, it is being shown as deferred. This includes the bonus paid out to MD & CEO for the period 1 Feb 17 - 31 Mar 18.

[39] The Variable deferred includes the bonus paid out to MD & CEO for the period Feb 17 - Mar 17 and Apr 17- Mar 18.

	deferred.	(MD&CEO/CFO/CRO/Head Treasury/ CS)
9	Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and / or implicit adjustments.	Nil
10	Total amount of reductions during the financial year due to ex- post explicit adjustments.	Nil
11	Total amount of reductions during the financial year due to ex- post implicit adjustments.	Nil

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

Rs. in lakhs

Summary comparison of accounting assets vs. leverage ratio exposure measure		
	Item	**Amount**
1	Total consolidated assets as per published financial statements	13,52,721
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)	21,500
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off- balance sheet exposures)	3,360
7	Other Adjustments	-15,655
8	**Leverage ratio exposure**	**13,61,926**

19. Table DF 18: Leverage ratio common disclosure template

Rs. in lakhs

	Item	**Amount**

	On-balance sheet exposures	
1	**On-balance sheet items (excluding derivatives and SFTs, but including collateral)**	13,52,721
	Domestic Sovereign	1,52,592
	Banks in India	53,807
	Corporates	22,497
	Exposure to default fund contribution of CCPs	60
	Other Exposure to CCPs	
	Others	11,23,766
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	-15,655
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	**13,37,066**
	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	21,500
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)**	**21,500**
	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	4,459
18	(Adjustments for conversion to credit equivalent amounts)	1,099
19	**Off-balance sheet items (sum of lines 17 and 18)**	**3,360.1**
	Capital and total exposures	
20	Tier 1 capital	1,65,337

21	Total exposures (sum of lines 3, 11, 16 and 19)	13,61,926
	Leverage ratio	
22	**Basel III leverage ratio**	**12.14%**

Presently the contribution of Tier I capital to Total Basel II capital is 97.08%. 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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