Pillar III Disclosures as at June 30, 2021

2021

[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 June 30, 2021.]

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1 List of key abbreviations

Abbreviation	Full form
AFS	Available For Sale
ALCO	Asset Liability Committee
ANBC	Adjusted Net Bank Credit
ATM	Automated Teller Machine
BC	Business Correspondent
BIA	Basic Indicator Approach
CET1	Common Equity Tier 1 Capital
CFO	Chief Financial Officer
CIC	Core Investment Company
CRAR	Capital to Risk-weighted Assets Ratio
CRMC	Credit Risk Management Committee
CRO	Chief Risk Officer
DPD	Days Past Due
DSCB	Domestic Scheduled Commercial Bank
ECL	Expected Credit Loss
ECRA	External Credit Rating Agency
EWS	Early Warning System
FIG	Financial Institutions Group
GLC	General Ledger Code
GNPA	Gross Non-Performing Asset
HQLA	High Quality Liquid Assets
ICAAP	Internal Capital Adequacy Assessment Process
IFSC	Indian Financial System Code
ICAI	Institute of Chartered Accountants of India
IIA-SA	Institute of Internal Auditors (United States)
IGAAP	Indian Generally Accepted Accounting Principles
IMPS	Immediate Payment Service
IRAC	Income Recognition and Asset Classification
IRRBB	Interest Rate Risk in Banking Book
KRI	Key Risk Indicator
LCR	Liquidity Coverage Ratio
LMS	Loan Management System
LR	Leverage Ratio
LWE	Left Wing Extremism
LAP-SENP-SEP	Loan Against Property- Self Employed Nonprofessional- Self Employed

	Professional
MCA	Ministry of Corporate Affairs
MD	Modified Duration
MD & CEO	Managing Director and Chief Executive Officer
MDG	Modified Duration Gap
MSE	Micro and Small Enterprises
NBFC-ND-SI-CIC	Non-Banking Financial Company-Non Deposit-taking-Systemically Important-Core Investment Company
NE	North Eastern
NEFT	National Electronic Funds Transfer
NNPA	Net Non-Performing Asset
NPI	Non-Performing Investment
NSFR	Net Stable Funding Ratio
NUE	New Umbrella Entity
NURC	Non-Unbanked Rural Centre
ORMC	Operational Risk Management Committee
OSP	Outstanding Principal
PAT	Profit After Tax
PNCPS	Perpetual Non-Cumulative Preference Shares
PSL	Priority Sector Lending
QR Code	Quick Response Code
RCA	Root Cause Analysis
RCSA	Risk Control and Self-Assessment
ROA	Return on Asset
RSA	Risk Sensitive Assets
RSL	Risk Sensitive Liabilities
RWA	Risk Weighted Assets
SA	Standardized Approach
SDA	Standardized Duration Approach
SFB	Small Finance Bank
SLR	Statutory Liquidity Ratio
SMA	Special Mention Accounts
TVR	Tele verification report
UAT	User Acceptance Testing
UFSL	Ujjivan Financial Services Limited
UPI	Unified Payments Interface
URC	Unbanked Rural Centre
VaR	Value at Risk
YTD	Year till Date

1. 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 June 30, 2021.

2. Key performance highlights of the Bank:

a. Branch network and distribution reach

The branch position of the Bank as at June 30, 2021 was as follows:

Particulars	Count
Total Banking outlets, of which	575
Banking outlets[1] (Non-URC[2])	431
Banking outlets (URC)[3], *of which*	144
i Qualifying URC Branches (Branches situated in tier 3-6 locations in NE[4] states and LWE[5] districts)	33
ii Business Correspondents (BC)	7

The Bank is fully compliant with the RBI guidelines on having 25% (25.04% as at June 30, 2021) of its Banking Outlets in the URCs.

The Bank had seven individual BCs as at June 30, 2021. These individual BCs perform essential banking services such as acceptance/withdrawal of small value deposits, balance enquiry and generation of mini statement of accounts. The Bank also has an arrangement

[1] A 'Banking Outlet' for a Domestic Scheduled Commercial Bank (DSCB), a Small Finance Bank (SFB) and a Payments Bank (PB) is a fixed point service delivery unit, manned by either bank's staff or its Business Correspondent where services of acceptance of deposits, encashment of cheques/cash withdrawal or lending of money are provided for a minimum of 4 hours per day for at least five days a week. It carries uniform signage with name of the bank and authorisation from it, contact details of the controlling authorities and complaint escalation mechanism. The bank should have a regular off-site and on-site monitoring of the 'Banking Outlet' to ensure proper supervision, 'uninterrupted service' except temporary interruptions due to telecom connectivity, etc. and timely addressing of customer grievances. The working hours/days need to be displayed prominently.

[2] Unbanked Rural Centre (URC)

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

[4] North eastern states

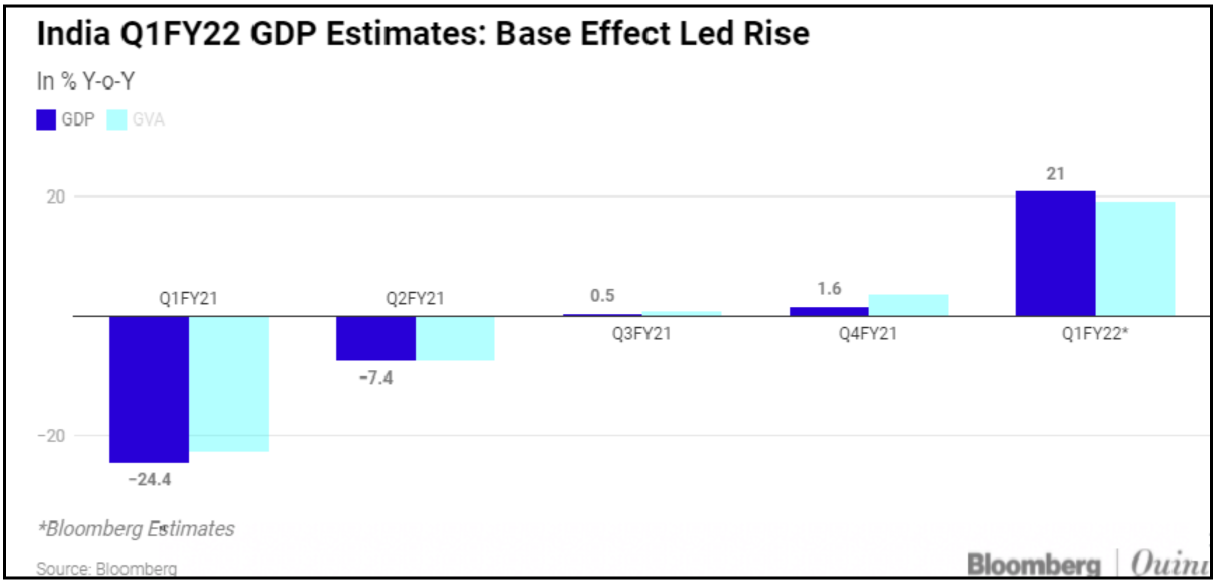
[5] Districts with active Left Wing Extremism (LWE)

with cash collection agencies primarily aimed at facilitating field collection for its microfinance business and other sourcing arrangers (Direct Selling Agents). The Bank will continue to focus on brick and mortar URC branches for providing a wide array of banking services as this has proven to be a profitable and effective model. The Bank operated a network of 491 Automated Teller Machines (ATMs) including 53 Automated Cash Recyclers (ACR) as at June 30, 2021.

b. **COVID 19 Environment and summary of measures taken by the Bank (with updates as at August 6, 2021 wherever applicable)**

Macro-economic outlook:

The month of April- May 2021 saw a fresh disruption in the normal course of business on account of the second wave of COVID-19 pandemic. The period of April-June 2021, had seen calibrated lockdowns and mobility restrictions when compared to the first wave. There were partial lockdowns and concentrated containment zones, which did not leave a strong impact on the economy. The impact of the second-wave was largely felt by the pressure on the health sector with mounting number of positive cases, high mortality rates, shortage of medical equipment and medical aid. While mobility and GDP growth exhibited a direct correlation in the first wave, the second wave showed an asymmetric response, where despite a decline in mobility due to pandemic related curfews, there was low correlation observed on economic impact. The estimation in the SBI Research report Ecowrap observed a growth rate of 18.5%[6] in the first April-June quarter FY 2021-22. The high growth rates in GDP are a reflection of a low base effect and positive developments supported by high Government spending and progressive unlocking. National Council of Applied Economic Research (NCAER), in its Quarterly Review of the Economy (QRE) release, has forecasted the GDP for FY21-22 in constant prices at Rs. 146 trillion.



India's GDP growth range is expected to stay in the range of 7.5%-8% in the September 2021 quarter and 6-6.5% in the December 2021 quarter. The overall GDP growth for FY22 is expected to stay in the range of 9-9.5% which is also in line with RBI predictions.

Sectoral Trends:

Construction activity has benefitted from the healthy Central and the State government Capex spending in Q1 FY22, which exceeded the pre-pandemic levels of Q1 FY20. With a contraction in the Government of India's non-interest non-subsidy revenue expenditure and continued impairment in demand for contact-intensive services, the GVA, in the services sector is expected to post a relatively lower expansion of 12.7% in Q1FY22. GVA growth in agriculture, forestry and fishing is likely to be around 3.0 per cent. Despite the higher incidence of positive COVID cases in rural India during the second wave, healthy crop output and procurement, as well as higher minimum support prices appear to have insulated the farm sector's demand during this challenging period

Private consumption and investments are the two biggest engines of India's economic growth. However, among the four components of GDP i.e. Private Final Consumption Expenditure (PFCE), Government Final Consumption Expenditure (GFCE), Gross Fixed Capital Formation (GFCF) and exports, only GFCE has shown somewhat exhibited a decent growth, averaging 5.7% during FY19-FY21[7].

PFCE, GFCE and exports during this period grew at 1.3%, 1.5% and 1.5% respectively. Real GFCE grew 28.3% in Q4 of FY 2020-21, backed by massive spending by the Centre in the March quarter that included clearing of subsidy arrears. GFCE contraction of 23.5% in Q2 was offset by a sharp pickup in the capital spending of the Government of India.

PFCE growth has turned positive in the March quarter, after a gap of three consecutive quarters, and is expected to maintain momentum. PFCE is expected to grow to and reach at 10.4 percent in FY22 as against its earlier projection of 10.8 percent.

The Nomura India Business Resumption Index (NIBRI) has risen above 100 for the first time since the second wave of the pandemic. It is now higher than both February 2020 and February 2021 levels. The lowest levels were in March-April 2020 at around 46.5 and by February 2021 it was back at 99.3. By mid-May 2021, it was at 60.4 and in August 2021 first week, it was back at 99.6. It has now crossed above 100 to 101.2[8].

Second Wave and impact on the Banking Sector:

A second wave (COVID 2.0) beginning in March 2021 was much larger than the first, with a higher rate of transmission. While there was no imposition of a national lockdown, at the

7 https://www.cnbctv18.com/economy/india-ratings-lowers-gdp-growth-forecast-to-94-for-fy22-10424931.htm

8 https://www.cnbctv18.com/economy/nomura-sees-gdp-growth-stabilising-between-7-8-in-2022-expects-reverse-repo-hike-by-cy21-end-10399791.htm

peak of the second wave, almost all states and union territories had some form of state-wide and localised restrictions in the form of total lockdowns, Section 144, weekend lockdowns, night curfews etc. The states and UTs are slated to commence the unlocking process sometime in Mid- June of FY 2021-22. The following table provides areas of concerns observed to have impacted the performance of the Banking Sector:

Lower concerns	Higher concerns
Job losses: • Unemployment rate (CMIE) fell to 9.17% in June after a spike to 11.9% in May from 7.97% in April due to the second Covid wave.	**Loss of life and medical expenses:** • High pace of spread infection and impact felt across all households (Poor, middle class and affluent) • Increase medical expenses/loss of income due to death
Movement of goods: • Localised and calibrated lockdowns in 2021 • Clear guidelines for factory operations, movement of goods and people • Home deliveries exempted from restrictions • Purchasing Manager Index (PMI) declined to stands at 49.2 in July, 2021; HIS Markit India manufacturing PMI rose to a three-month high of 55.3	**Newer patterns** • Rural areas also impacted in this wave • Fear factor resulting in limited reverse migration, compounding issues • A stronger psychological change in purchasing and consumption behaviour for goods and services and increase savings.
Cash flows: • With business operation timings curtailed, the cash flows have not completely dried up as was the case last year for a wide majority. • Complete reliance on savings no longer required	**Back to back year of stress** • Economy wide shocks have not been seen for 2 years in a row • Bounce back typically happens with one good year
Liquidity and restructuring • Timely intervention by RBI on liquidity measures and restructuring 2.0. • Provision/extension of resolution framework for COVID affected borrowers.	

Consumer sentiments were hit hard during the peak of the second wave. The lack of vaccinations and a fear of a third wave have caused changes in the spending pattern for discretionary items. In per forecasts made by India Ratings, 52 lakh daily doses would have to be administered from August 18, 2021 onwards to fully vaccinate more than 88% of the adult population. The recovery of the economy is now largely dependent on the pace of vaccination completed. While there are various views on the emergence of a third wave, its impact on mortality rates will be a key driver towards imposition of mobility restrictions, which in turn, affects the economy.

Actions taken by the Bank (second wave):

The Bank is continuously monitoring the developments and implementing necessary steps to mitigate the same in light of the second wave. Details of the various initiatives are provided under relevant sections of this disclosure. A summary of the initiatives taken by the Bank is produced below:

- Quick Response Team (QRT), with a cross functional representation was re-constituted for monitoring and supervising banking operations. The QRT continues to stay connected with the field operations, back-end teams and addresses the key areas of concern on an on-going basis. The information of infected employees was tracked near-real time basis, and progress was monitored daily. The QRT issued guidelines and advisories in line with the government and local body rulings.
- Within the Bank, the number of positive cases among employees observed to be increasing with the number of positive cases peaking in the month of May 2021. As of July 5, 2021, 2,548 employees were infected, of which 2,522 had recovered, 14 are under treatment and 12 deceased. 63.4% of the Bank's employees were vaccinated with at least one dose.
- The Bank encouraged its employees to Work from Home (WFH), due to the resurgence of the second wave, with an objective to reduce the number of personnel at office premises especially in Regional and Corporate Offices. The Bank had also issued advisories/guidelines related to work timing and officer capacity for its branches in line with the SLBC guidelines. Roster system was implemented for customer facing roles to ensure staff rotation. The Bank reinforced precautionary measures and strictly enforces pandemic related protocols at offices and branches at all times. The Head Office and Regional Offices operated at minimal capacity, to ensure strict safety measures and proper sanitization. The branches continued to be governed by the SLBC/local civic body guidelines for timing of business operations.
- The Bank arranged for vaccination camps at the HO and RO premises. The Bank continues to arrange and fund for vaccination expenses for all its employees in partnership with local government bodies, NGOs and private hospitals.
- A special COVID Task Force was set up at HO premises with phone banking unit assigned to handle emergency requirements of staff and family members.

- The Bank's doctor-on-call facilities are being actively utilized by the Bank's staff. The Bank continues to offer Employee counseling support on call and 'Doctor on site' and 'Doctor on call' facility for the staff. Regular counselling sessions are being held for the overall well-being of the staff in these trying times.
- During the first wave, the Bank had implemented all the directions provided by RBI vide its circular dated March 27, 2020[9], May 23, 2020[10] and August 6, 2020[11]. The Bank had put in place a Board approved policy on providing moratorium on loan repayments to its customers. The COVID resolution guidelines issued on August 6, 2020 provided a window under the prudential framework to enable banks/lending institutions to implement a resolution plan in respect of eligible loans, while classifying such exposures as standard, subject to specified conditions. To this effect, the Bank had introduced an internal policy/process framework detailing the manner in which such evaluation may be done and the objective criteria that may be applied while considering the resolution plan in each case.
- On May 5, 2021, RBI issued guidelines[12] that accorded PSL status to the fresh credit extended by Small Finance Banks (SFBs) to registered NBFC-MFIs and other MFIs (Societies, trusts etc.) which are members of RBI recognised 'Self-Regulatory Organisation' of the sector and which have a 'Gross Loan Portfolio' of up to Rs. 50,000 lakh as on March 31, 2021, for the purpose of on-lending to individuals. Bank credit as above will be permitted up to 10% of the Bank's total priority sector portfolio as on March 31, 2021. The Bank is formulating a separate policy to cater to this segment of NBFC-MFIs.

- On February 5, 2021, RBI[13] allowed Scheduled Commercial Banks to deduct the amount equivalent to credit disbursed to 'New MSME borrowers' from their Net Demand and Time Liabilities (NDTL) for calculation of the Cash Reserve Ratio (CRR). For the purpose of this exemption, 'New MSME borrowers' were defined as those MSME borrowers who have not availed any credit facilities from the banking system as on January 1, 2021. This exemption will be available only up to Rs. 25 lakh per borrower disbursed up to the fortnight ending October 1, 2021, for a period of one year from the date of origination of the loan or the tenure of the loan, whichever is earlier. On May 5, 2021, the exemption was extended for such credits disbursed up to

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[9] Refer COVID-19 – Regulatory Package issued vide RBI/2019-20/186 DOR.No.BP.BC.47/21.04.048/2019-20 dated 27th March 2020

[10] Refer COVID-19 – Regulatory Package issued vide RBI/2019-20/244 DOR.No.BP.BC.71/21.04.048/2019-20 dated 23rd May 2020.

[11] Refer Resolution Framework for COVID-19-related Stress vide RBI/2020-21/16 OR.No.BP.BC/3/21.04.048/2020-21 dated 6th August 2020

[12] Refer RBI guideline on Priority Sector Lending (PSL) - On-lending by Small Finance Banks (SFBs) to NBFC-MFIs vide RBI/2021-22/27 FIDD.CO.Plan. BC.No.10/04.09.01/2021-22 dated 5th May 2021

[13] Refer RBI guidelines on Credit to MSME Entrepreneurs vide RBI/2020-21/92 DOR.No. Ret.BC.37/12.01.001/2020-21 dated 5th February 2021.

the fortnight ending December 31, 2021. The Bank takes cognizance of the same and has commenced to avail this exemption.

- With the resurgence of pandemic (second wave) in India during March 2021 and the consequent containment measures to check the spread of the pandemic, the RBI has announced two directions[14] (Resolution framework 2.0 for individuals and small businesses and MSMEs) with an objective of alleviating the potential stress. The dispensation for restructuring existing loans would be without a downgrade in the asset classification subject to certain conditions. This dispensation can be allowed for the credit facilities / investment exposure to those borrowers who were classified as Standard by the lending institution as on March 31, 2021. The last date for invocation of resolution permitted under this window is September 30, 2021 and the resolution plan should be finalised and implemented within 90 days from the date of invocation of the resolution process under this window. To ensure compliance to this framework, the Bank has updated its restructuring policy in line with the new directions within the time stipulated. The Bank provides an option to restructure under RF 2.0 as per eligibility.

Progress in IT and Digital banking

The Bank continues to focus on improving its back-end efficiencies by digitizing the processes and automating routine operations.

Digital Marketing Campaigns across various products

The key focus for FY 2020-21 was to set up processes for lead funnel management and arrive at a benchmark Cost per Acquisition (CPA) across various products.

In Q1 of FY 2021-22 the Bank has further leveraged these processes to springboard its acquisition strategy and contribute significantly to its business. A total of 28,000 plus leads were generated in Q1 FY22 across Savings Account/Fixed Deposits, Two-Wheeler Loans, Personal Loans, and Home Loans. In Q1 FY 21-22 the Bank mobilized Rs. 2,295 lakhs of deposits through digital channels team. This quarter, the digital team took over the oversight of Fin-Tech partnerships to drive digital business. Currently there are 3 Fin-Tech partnership that are live across Personal Loan and MSE verticals, through which Rs. 5,709 lakhs of loans have been disbursed through these partnerships at aggregate level.

The Bank, armed with its full-fledged marketing automation suit has made significant strides in Existing to Bank (ETB) campaign strategy. In total, 62 campaigns were executed during Q1 of FY 2022. These campaigns were spread across various categories such as acquisition, activation, and balance build up/win back, collection, cross sell, informative, promotional, regulatory, and usage. Due to campaigns done via the marketing automation, the digital

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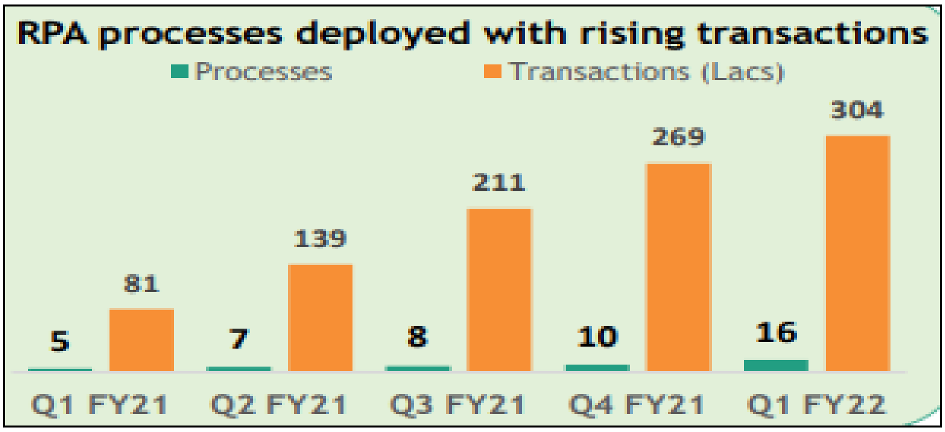
[14] Refer RBI guidelines on Resolution Framework – 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses and Resolution Framework 2.0 – Resolution of Covid-19 related stress of Micro, Small and Medium Enterprises (MSMEs)

marketing team was able to shore up incremental business of Rs. 21,606 lakhs. The collection campaign resulted in Rs. 5,837 lakhs of incremental collection done from assets and micro-banking customer in Q1 of FY 21-22 Q1.

To drive Existing to Bank (ETB) campaigns via digital means, the Bank has embarked on the journey to have a holistic 360-degree strategy to reach its customers via various channels to drive business in FY 2021-22. To achieve this objective, an Automated Customer Engagement (ACE) platform was launched in October 2020.

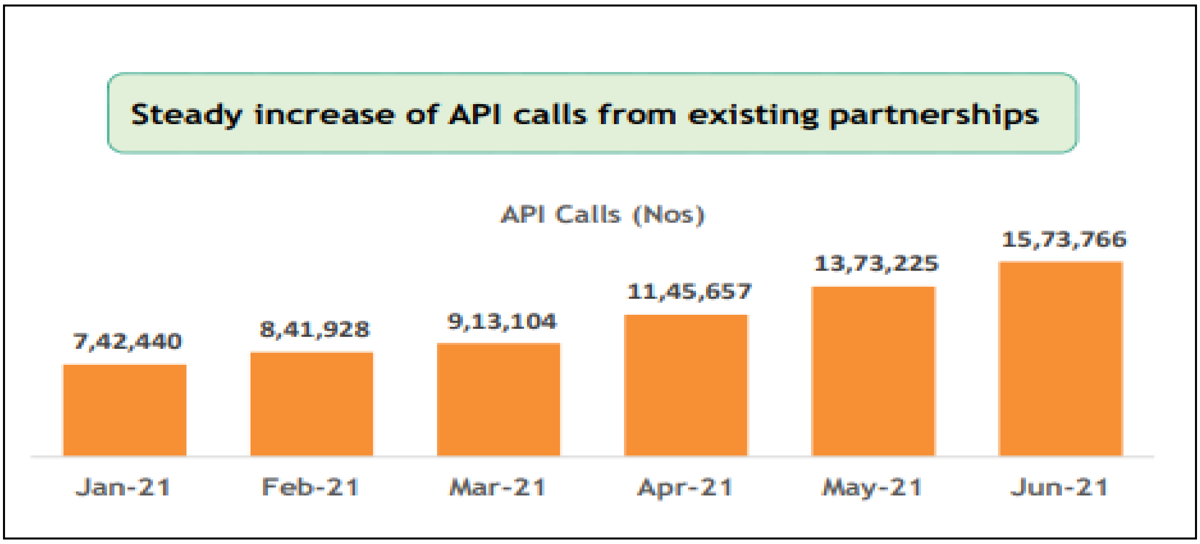
Digital Banking Initiatives

As part of the digital initiatives taken up by the Bank, the on-boarding process of customers has been considerably digitized. Internal processes like statement analysis, document verification, e-agreements, E-mandates have been operationalized in digital mode. The multilingual Chatbot on the Bank's website has been extended to social media platforms like Facebook to improve conversions from digital marketing campaigns. It has achieved a healthy conversion of 9.2%. An enhanced Intelligent Bot for FAQs, lead generation and customer experience is planned to be piloted for launch in Q2-FY22. Automated Customer Engagement platform has been implemented for improved customer engagement and enriching Customer Life Time Value (CLTV) and is now integrated with Website, Mobile Banking, Internet Banking, WhatsApp, SMS & E-mail engines. Machine Learning based customer segmentation models have also been developed which have helped identify and target potential customers for cross selling and up selling opportunities. 16 processes across business verticals are completely automated. The Bank's Robotic Process Automation (RPA) handles over 100 lakh transactions per month; becoming a key driver towards ensuring business continuity during Covid 2.0

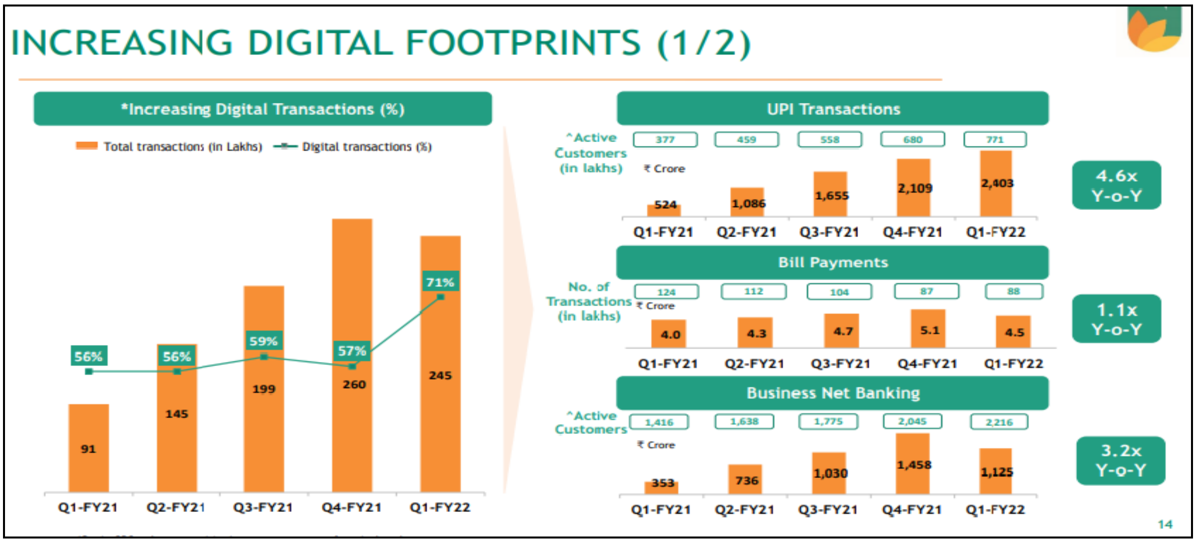


Data Analytics and Insights obtained from them have been used to devise a Customer Profitability Scorecard made for Branch Banking Customers to acquire new, profitable customers, cross-sell to existing customers, provide differentiated service to customers and migration of customers to more profitable products and services. In Q1-FY22, data analytics driven prediction models based on Early Warning triggers and geo-spatial analysis led to 11% incremental digital repayments.

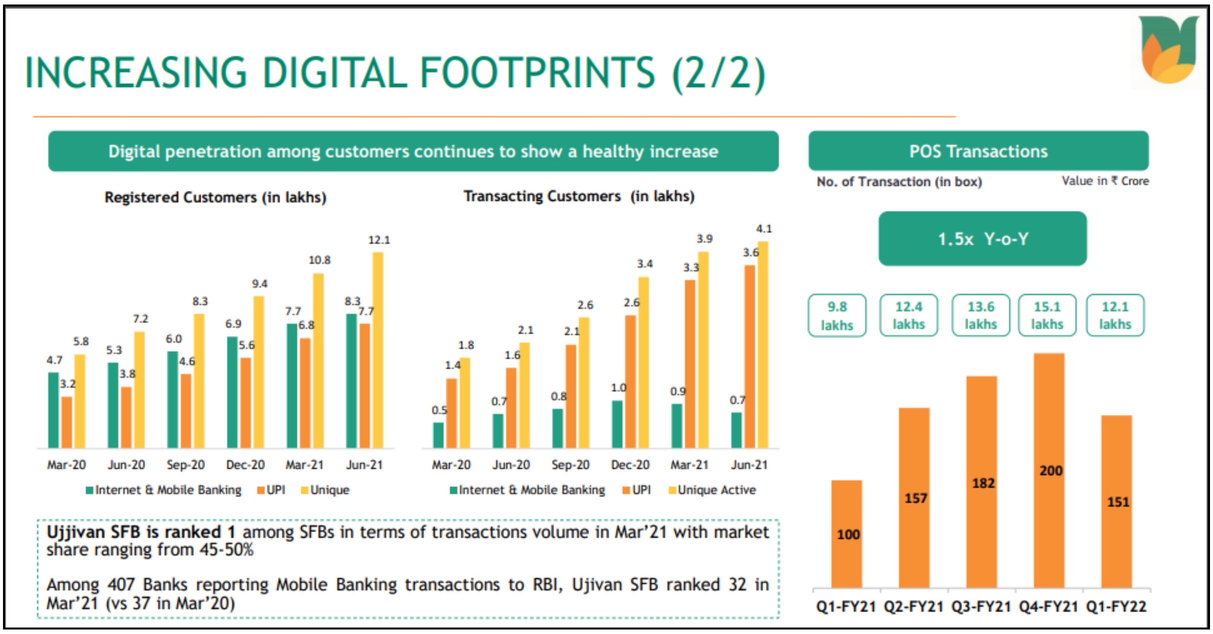
The Bank has listed its APIs[15] in the newly launched NPCI API Accelerator platform and is among the first banks (and the only SFB) to do so. This listing in the financial ecosystem, will help in increasing the API visibility among all financial players and facilitate easier partnership discussions and collaborations targeted at serving the un-banked and under-banked segments. The Bank has undertaken digital campaigns on its Automated Customer Engagement (ACE) platform which was integrated with its website, providing an avenue for digital interaction with its customers at a time when branch turnout is limited due to the pandemic. The Bank went live with its third API banking partnership for business generation with a fin-tech for sourcing Personal Loans while a healthy traction, was seen, in the two existing digital lending partnerships for sourcing MSE and Personal Loans. Focus on digital on-boarding, video based Personal Discussion (PD) with customer, scan based disbursement and online EMI payment have helped in driving better efficiency amidst the restrictions imposed on account of the second wave. The Bank is designing a customized collection campaign to target customers within a radius of 1 km of the payment outlets to drive digital collections for better customer convenience and collection efficiency and activate new payment outlets wherever there are very few outlets in the vicinity of the customer location. The Bank has launched its API Banking portal to showcase its existing API banking capabilities to Fin-Techs, Start-Ups, Developer communities, which in turn will help in attracting more such partners. RPA for Aadhaar seeding and de-seeding process has gone live. As of June 2021, 13 other routine processes have been automated and are currently in UAT while 7 projects are in their development stages.



[15] Application Program Interface



The Bank had witnessed a steady increase in its transaction processing in the form of IMPS, UPI and NEFT etc. In Q1 of FY22, transactions through UPI witnessed 4.6 times year-on-year growth whereas transactions undertaken using Net banking saw a 3.2 times year-on-year growth. In Q1 of FY22, digital transactions constituted 71% of the total payment related transactions, a strong improvement from 56% in the corresponding quarter of FY20.



Digital Innovation:

The Bank has also worked on various digital initiatives by partnering with various solution providers who provide solutions that accelerate asset onboarding: The Bank partnered with 5 Fin-Techs for solutions like automated bank statement analysis, Digital ID verification, Video based KYC, e-Mandate for loan re-payments and Doqfy for e-signing of agreements.

At the end of Q4-FY21, 12 robotic processes have been automated across business verticals, leading to substantial savings of Rs. 168 lakhs. 15 processes have been automated by Q1-FY22, with a focus of automating 10 processes every quarter.

c. Financial highlights for Q1 of FY 2021-22

Some of the key achievements made for quarter ended 31st June 2021 were as follows:

Key Highlights	Description
Customer base	• Total outreach: 58.2 lakh in June 2021 (59.2 lakh in March 2021, 56.6 lakh in December 2020, 55.3 lakh in September 2020, 54.7 lakh in June 2020)
Loan Portfolio	• Gross Advances at Rs. 14,03,708 lakh in June 2021 (Rs. 15,13,996 lakh in March 2021, Rs. 13,63,838 lakh in December 2020, Rs.13,88,970 lakh in September 2020, Rs. 14,36,584 lakh in June 2020) • Non-Microfinance book at: 31.52% in June 2021 (28.21% in March 2021, 26.83% in December 2020, 24.20% in September 2020, 23.30% in June 2020)
Deposit Balance	• Total Deposits (Retail plus Institutional): Rs. 13,67,287 lakh in June 2021 (Rs. 13,13,577 lakh in March 2021, Rs. 11,61,700 lakh in December 2020, Rs. 10,742,77 lakh in September 2020; Rs. 11,05,748 lakh in June 2020) • CASA: 20.30% in June 2021(20.55% in March 2021, 17.69% in December 2020, 16.47% in September 2020; 14.18% in June 2020) • Retail: 48% in June 2021 (47.52% in March 2021, 47.89% in December 2020, 48.91% in September 2020; 44.58% in June 2020; 43.82% in March 2020)
Portfolio Quality	• Gross Non-Performing Assets (GNPA): 9.8% in June, 2021 (7.1% in March 2021, 0.96% in December 2020, 0.97% in June 2020) • Net Non-Performing Assets (NNPA): 2.7% in June, 2021 (2.9% in March 2021, 0.05% in December 2020, 0.18% in June 2020)
Employee strength	• 16,102 in June, 2021 (16,571 in March 2021, 16,733 in December 2020, 17,370 in June 2020)

Profitability	• PAT for Q1 FY 2021-22: Rs. (23,348) lakh; • PAT on YTD basis was Rs 830 lakh for FY 2020-21 and Rs. 34,992 lakh in FY 2019-20.

	June 2020	**September 2020**	**December 2020**	**March 2021**	**June 2021**
Quarterly PAT (Rs. in lakh)	5,465	9,600	(27,900)	13,665	(23,348)

The key performance ratios of the Bank were as follows:

Particulars	**Jun-20**	**Sep-20**	**Dec-20[16]**	**Mar-21 (Qtr. Ended)**	**Jun-21**
Yield	19.7%	19.8%	18.6%	15.7%	16.0%
Cost of Funds	7.7%	7.4%	7.1%	6.8%	6.5%
Net Interest Margin	10.2%	10.2%	9.7%	7.9%	8.0%
Return on Assets (ROA)	1.2%	2.0%	-5.8%	2.7%	-4.7%
Return on Equity (ROE)	6.8%	11.6%	-34.7%	17.3%	-30.1%
Cost to Income ratio	55.9%	56.6%	62.0%	67.3%	64.6%
Other income/ Total Income	3.7%	7.9%	12.7%	16.0%	10.5%

The Cost of Funds has reduced over the quarters largely on account of increased availability of concessional refinance, rising share in retail deposits and fiscal stimulus measures by the government. The reduction is also on account of increase in the share of CASA deposits from 14.18% of total deposits in June 2020 to 20.30% In June 2021 and repayment of high cost refinance.

The Bank was able to generate a flat Net Interest Margin despite a reduction in gross advances (largely on account of reduction in interest expended).

The Bank saw a significant improvement in cost to income ratio during the quarter on account of continuous rationalization of costs, cutting down of non-essentials, cost saving initiatives and process improvements. Q1 FY22 has registered a significant reduction in its cost to income ratio because of reduced operating expenses of Bank, during pandemic imposed restrictions.

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[16] **Figures year ended**

During the quarter ended June 2021, the Bank created a floating provision amounting to Rs. 25,000 lakh. The floating provision was created with an objective to cover for potential slippages in the subsequent quarter/s of this financial year on account of the second wave. Also, the Bank on a prudential basis, had written off loan exposure amounting to Rs. 27,741 lakh[17]. These were mainly those borrowers who had made no repayments since the onset of the pandemic.

The creation of floating provisions and write offs resulted in a loss of Rs. 23,348 lakh for Q1 of FY 2022.

4. Table DF- 1: Scope of Application

4.1 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.

4.1.1 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

4.1.2 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

4.1.3 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

[17] Technical write offs. Total write offs for quarter ended June 2021 was Rs. 27,961 lakh.

Nil	Nil	Nil	Nil	Nil

Table DF-2- Capital Structure

5.1 <u>Qualitative Disclosures</u>

5.1.1 <u>Equity capital</u>

The Bank has an authorized capital of Rs. 2, 50,000 lakh in the form of Common Equity qualifying as Tier 1 capital under the guidelines of RBI. The Bank has an issued, subscribed and paid up equity capital of Rs.1, 72,831.42 lakh, having 1,72,83,14,205 shares of face value Rs.10 each as at June 30, 2021.

The licensing guidelines for SFBs permit the aggregate foreign investment in a private sector bank from all sources up to a maximum of 74% of the paid-up capital (automatic up to 49% and approval route beyond 49% to 74%). As foreign shareholding in the Bank was 4.60% (Foreign Portfolio investors (FPI), Non-Residential Indians (NRI) and Foreign Nationals) at June 30, 2021, 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.

5.1.1.2. Promoter contribution[18]: Subsequent to the IPO in December 2019, the promoter contribution in the Bank had reduced to 83.32% from being a 100% subsidiary of the holding company. 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.

To this effect, the Association of Small Finance Banks of India (ASFBI) had made a representation to the Regulator on April 27, 2021. After examination of ASFBI`s request to grant in-principle approval for reverse merger of holding company with SFB on completion of five years from the date of commencement of business of SFB, it is decided to permit SFBs and respective holding companies to apply for amalgamation of holding company with SFB, in terms of provisions of Master Direction on Amalgamation of

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

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

Private Sector Banks, Directions dated April 21, 2016, three months prior to completing five years from the date of commencement of business of SFB. The Bank intends on making a formal application as per the directions received in Q2 of FY 2022.

The shareholding pattern of the Bank as at June 30, 2021 was as follows:

Rs. in lakh

Category of the Shareholder	No. of shares held	%age of shareholding
Promoter	1,44,00,36,800	83.32
Mutual Funds	1,67,039	0.01
AIFs	2,95,10,690	1.71
Foreign portfolio investors	6,91,05,655	4.00
Resident Individuals/HUF	16,29,91,691	9.43
Others	2,65,02,330	1.53
Total	**1,72,83,14,205**	**100**

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

Capital Structure- Summary of Tier I & Tier II Capital			
Sl. No.	**Instrument**	**Whether Tier I or II**	**Amount (Rs. in Lakh)**
1	Equity[19]	Tier 1	1,72,831
2	PNCPS[20]	Tier 1	20,000
	Total		**1,92,831**

5.1.2 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 date of allotment. The rate of dividend payable to the investors may be either a fixed rate or a floating rate referenced to a market determined rupee interest benchmark rate.

The claims of the investors in the instruments are:

a Superior to the claims of investors in equity shares;

b Subordinated to the claims of Perpetual Debt Instruments (PDIs), all Tier 2

[19] **Issued and Paid up equity capital**

[20] **Perpetual Non-cumulative Preference Shares**

regulatory capital instruments, depositors and general creditors of the Bank; and

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

Tier 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.

5.1.3. Subordinated Debt Instrument

The Bank has fully repaid its subordinated debt obligations and has no immediate plans for any floatation to augment its Tier II capital.

5.1.4. Dividend policy

The Bank has formulated the Dividend Distribution Policy in compliance with the provisions of Banking Regulation Act, 1949 and Guidelines/circulars issued by Reserve Bank of India ("RBI") and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("SEBI Listing Regulations"). The objective of the Policy is to appropriately reward shareholders through dividends for reposing their confidence in Bank while retaining the capital required for supporting future growth.

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

In view of the continuing uncertainty caused by the on-going second wave, it is crucial that the Bank remains resilient and proactively raise and conserve capital as a bulwark against unexpected losses. Therefore, while RBI guidelines[21] allowed certain relaxations on payment of dividend on equity shares, the Bank did not declare any dividends on its equity shares or preference shares as at June 30, 2021 as the Bank posted a loss for the quarter.

[21] Refer RBI guidelines on Declaration of dividends by banks vide RBI/2021-22/23 DOR.ACC.REC.7/21.02.067/2021-22 dated 22nd April 2021.

6. Table DF- 3: Capital Adequacy

6.1 Qualitative Disclosures

The Bank has been well capitalized since inception and was further augmented after its IPO. As required by RBI in its operating guidelines to SFBs[22], the Bank is required to adopt the Standardized approach for Credit Risk and maintain a minimum Capital to Risk Weighted Assets Ratio (CRAR) of 15% segregated as under:

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

While SFBs are required to comply with Basel II norms for Capital Adequacy, 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 November 8, 2017 (DBR. NBD. No. 4502/16.13.218/2017-18). However, as a good governance practice, and as directed by its Board, the Bank separately computes capital charge for all the Pillar 1 risks viz. Credit, Market and Operational Risk following the Standardized Approach (SA) for Credit Risk, Standardized Duration Approach (SDA) for Market Risk and the Basic Indicator Approach (BIA) for Operational Risk.

In addition to the hybrid model for complying with capital adequacy requirement, for its internal and regulatory reporting, the Bank also complies with certain aspects of Basel III requirement, such as computation and maintenance of RBI prescribed minimum Liquidity Coverage Ratio (LCR) at 100% and Leverage Ratio at 4.5%.

The RBI, on March 27, 2020, had decided to defer the implementation of Net Stable Funding Ratio (NSFR) from 1st April 2020 to 1st October 2020, an extension by six months as part of its COVID- 19 regulatory package. Further, the Regulator has decided to defer the implementation of NSFR guidelines[23] by a further period of six months. These guidelines

[22] **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**

[23] **Refer RBI guideline on Basel III Framework on Liquidity Standards – Net Stable Funding Ratio (NSFR) issued**

were to come into effect from April 1, 2021. However, the same has again been deferred by a further period of six months[24]. Accordingly, the NSFR Guidelines shall come into effect from October 1, 2021.

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.

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

Credit Risk	Underestimation of Credit Risk (Under ICAAP framework)
Market Risk	Reputational Risk
Operational Risk	Strategic Risk
Interest Rate Risk in Banking Book (IRRBB)	Compliance Risk
Liquidity Risk	People Risk
Concentration Risk	Digital and Technology Risk
Outsourcing Risk	Group Risk[25]

The Bank has implemented a Board approved Stress Testing Policy and Framework which forms an integral part of the Bank's ICAAP. Stress Testing involves the use of various techniques to assess the Bank's potential vulnerability to extreme but plausible stressed business conditions. The changes in the levels of credit risk, market risk, liquidity risk, IRRBB and operational risk are assessed under assumed "stress" scenarios and sensitivity factors. Typically, these relate, inter alia, to the impact on the Bank's profitability and capital adequacy. The stress test results are put up to the RMCB on a quarterly basis, for their review and guidance. The Bank periodically assesses and refines its stress tests in an effort to ensure that the stress scenarios capture material risks as well as reflect possible extreme market moves that could arise as a result of business environment conditions. The stress

vide RBI/2020-21/43 DOR.BP.BC.No.16/21.04.098/2020-21 dated 29th September 2020

[24] Basel III Framework on Liquidity Standards – Net Stable Funding Ratio (NSFR) issued vide RBI/2020-21/95 DOR.No.LRG.BC.40/21.04.098/2020-21 dated 5th February 2021

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

tests are used in conjunction with the Bank's business plans for the purpose of capital planning in the ICAAP.

6.2 Quantitative Disclosures

6.2.1. Basel II capital calculation

The break-up of Basel II capital funds as at June 30, 2021 was as follows:

Rs. in lakh

	Description	Amount
	Core Equity Tier 1 Capital - Instruments and Reserves	
	Directly issued qualifying common share capital plus related stock surplus (share premium)	1,72,831
	Retained earnings	1,03,832
A	CET1 capital before regulatory adjustments	**2,76,664**
	Core Equity Tier 1 Capital - Regulatory Adjustments	
	Deferred tax assets arising from temporary differences	28,796
	Intangibles (Prepaid Expenses & Computer Software)	13,271
	Credit Enhancements	0
	Regulatory Adjustments applied to CET1 Capital due to insufficient funds in Tier 2 to cover deductions	0
B	Total regulatory adjustments to CET1 Capital	42,067
C	**CET1 capital (A-B)**	**2,34,596**
	Additional Tier 1 Capital - Instruments and Reserves	
	Preference Shares	20,000
E	AT1 capital before regulatory adjustments	20,000
	Additional Tier 1 Capital - Regulatory Adjustments	
F	Total regulatory adjustments to AT1 Capital	-
G	AT1 Capital	20,000
H	**Tier 1 Capital (C + G)**	**2,54,596**
	Tier 2 Capital - Instruments and Provisions	
	Sub - debt eligible as Tier 2 capital	0
	General Provisions on Std. Assets admissible as Tier 2	12,291
	Investment Fluctuation Reserve	2,051

I	Tier 2 Capital before regulatory adjustments	**14,342**
	Tier 2 Capital - Regulatory Adjustments	
J	Total Regulatory Adjustments to Tier 2 Capital	-
K	Tier 2 Capital (I - J)	**14,342**
L	**Total Regulatory Capital (H + K)**	**2,68,938**

Capital Requirements for Various Risks		
Sl. No	**Capital Requirements for various Risks**	**Amount (Rs. in Lakh)**
A	**Credit Risk**	1,55,897
A.1	For non-sec portfolio	1,55,897
A.2	For Securitized portfolio	NIL
B	**Market Risk**	**3190**
B.1	For Interest Rate Risk	3186
B.2	For Equity Risk	4
B.3	For Forex Risk (including gold)	NIL
B.4	For Commodities Risk	NIL
B.5	For Options risk	NIL
C	**Operational Risk**	**26,538**
D	**Total Capital Requirement**	**1,85,625**
E	**Total Risk Weighted Assets**	**14,10,911**
F	**Total capital funds of the bank**	**2,68,938**
G	**Capital Adequacy Ratio of the Bank (%)**	**19.06%**

6.2.2. Credit Risk RWA

The detailed break up of Credit RWA is as follows:

Rs. in lakh

Asset Description	**RWA**
Cash and Balances with Reserve Bank of India	0
Balances with Banks and Money at Call and Short Notice	20,116
Investments	2,712
Advances	9,62,168
Fixed Assets	16,331
Other Assets	30,142
Off Balance Sheet	7,844
Total Credit RWA	**10,39,313**

6.2.3. Operational Risk RWA

Although RBI has not mandated SFBs to maintain capital charge for Operational Risk, the Bank has adopted Basic Indicator Approach (BIA) for measuring the capital requirements for Operational risk as applicable to Scheduled Commercial Banks. The Bank has computed its Operational Risk Capital Charge at 15% of the average of gross income for the past three completed years of operation. Under BIA, the Bank has to consider Gross Income of previous three Financial Years for computation. Therefore, Capital Charge for Operation Risk will remain same as at March 31, 2021 even for subsequent quarters of FY 2021-22.

The detailed computation is as follows:

Rs. in lakh

Particulars	Mar-19	Mar-20	Mar-21
Net Profit	19,922	34,992	830
Operating Expenses	1,00,335	1,31,858	1,23,008
Provisions and Contingencies	10,980	28,731	80,100
Gross Income	1,31,237	1,95,581	2,03,937
Average (3 years)	1,76,918		
Capital Charge	**26,538**		
RWA	**3,31,722**		

6.2.4. Market Risk RWA

As at June 30, 2021, the AFS[26] book comprised of mutual funds and the HFT[27] book comprised of T-bills and Government of India securities. On the basis of SDA[28], the capital requirement for market risk reported to the Board from a governance perspective was as under:

Rs. in lakh

Capital Requirement for Market Risk	Amount
Interest Rate Risk	3,186
Equity Position Risk	4
Foreign Exchange Risk	--
Total	3,190
Total Market Risk RWA	**39,876**

6.2.5. Basel II CRAR (with only Credit RWA and Pillar I risks)

Rs. in lakh

Particulars	Amount/Ratio (Only Credit RWA)	Amount/ Ratio (all Pillar 1 risks)

[26] Available for Sale

[27] Held for Trading

[28] Standardized Duration Approach

Tier I Capital	2,54,596	2,54,596
Tier II Capital	14,342	14,342
Total Capital	**2,68,938**	**2,68,938**
Total RWA	**10,39,313**	**14,10,911**
CET Ratio	22.57%	16.63%
Tier I Ratio	24.50%	18.04%
Tier II Ratio	1.38%	1.02%
CRAR	**25.88%**	**19.06%**

The Bank registered a loss of Rs. 23,348 lakh for Q1 FY 2021-22, which has resulted in a decreased CRAR.

However, it is pertinent to note that the capital adequacy is transitory in nature and is expected to further optimize with higher credit off -take in the ensuing quarters. The Bank is however comfortably placed in meeting its minimum capital requirements of 15% as per Operating Guidelines for Small Finance Banks.

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

7.1. Qualitative disclosures

7.1.1. Credit Risk Management

Credit risk is defined as the possibility of losses associated with diminution in the credit quality of borrowers or counterparties. In a bank's portfolio, losses stem from outright default due to inability or unwillingness of a customer or counterparty to meet commitments in relation to lending, trading, settlement and other financial transactions.

The Bank has implemented comprehensive credit risk management architecture. The Board of Directors of the Bank endorses the credit risk strategy and approves the credit risk policies of the Bank. This is done taking into consideration the Bank's risk appetite, derived from perceived risks in the business, balanced by the targeted profitability level for the risks taken up. The Board oversees the credit risk management functions of the Bank. The Risk Management Committee of the Board (RMCB) guides the development of policies, procedures and systems for managing credit risk, towards implementing the credit risk strategy of the Bank. The RMCB ensures that these are adequate and appropriate to changing business conditions, the structure and needs and the risk appetite of the Bank. The RMCB regularly reviews the Bank's portfolio composition and the status of impaired assets.

The Bank's Risk Management department drives credit risk management centrally in the Bank. It is primarily responsible for implementing the risk strategy approved by the Board, developing procedures and systems for managing risk, carrying out an independent assessment of various risks, providing guidance in individual credit exposures for accepting deviations and monitoring portfolio composition and quality. With regard to the Institutional Lending business, the Bank's Risk Management functions are centralised. In respect to the Bank's Retail Assets business, while the various functions relating to policy, portfolio management and analytics are centralised, the underwriting function is distributed across various geographies within the country. The Risk Management function in the Bank is clearly demarcated and independent from the operations and business units of the Bank. The Risk Management department is not assigned any business targets.

The Bank's Credit Policy, Credit Risk Management Policy, Credit Manuals, Product Programs, NPA Management Policy and Interest Rate Policy, form the core in controlling credit risk in various activities and products. These articulate the credit risk strategy of the Bank and thereby the approach for credit origination, approval and maintenance. These policies define the Bank's overall credit granting criteria, including the general terms and conditions. The policies / programs typically address areas such as target markets / customer segmentation, qualitative and quantitative assessment parameters, portfolio mix, prudential exposure ceilings, concentration limits, price and non-price terms, structure of limits, approval authorities, exception reporting system, prudential accounting and provisioning norms. They take cognizance of prudent and prevalent banking practices, relevant regulatory requirements, nature and complexity of the Bank's activities, market dynamics etc.

Credit concentration risk arises mainly on account of concentration of exposures under various categories including industry, products, geography, underlying collateral nature and single / group borrower exposures. To ensure adequate diversification of risk, concentration ceilings have been set up by the Bank on different risk dimensions, in terms of borrower/ business group, geographic state, unsecured lending ratio and risk grading (for institutional lending). In the backdrop of the pandemic, the Bank is currently enhancing its occupation/industry wise exposure tracker and limits thereof. The enhanced framework is expected to go live by Q4 of this financial year.

The Board sets concentration ceilings which are monitored by the respective credit verticals and by the independent credit risk department. The Risk Management department reviews the exposure level under each dimension and ensures that the portfolio profile meets the approved concentration limits. These concentration ceilings and exposure levels are periodically reported to the Credit Risk Management Committee (CRMC) and the RMCB. The regulatory prudential norms with respect to ceilings on credit exposure to individual borrowers or group of borrowers also ensure that the Bank avoids concentration of exposure.

7.1.2. 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.

7.1.3. 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 events (such as demonetization and the current COVID 19 pandemic) have impacted/are expected to impact the portfolio quality at Bank wide level. Taking cognizance of this and especially since the microfinance portfolio comprised 68.48% of the loan book as at 30th June 2021, the Bank has always deemed it appropriate to follow a conservative approach to its provisioning policy.

In accordance with the RBI guidelines relating to COVID-19 Regulatory Package guidelines dated 27th March 2020 and 17th April 2020, the Bank had granted a moratorium of three months on the payment of all instalments and / or interest, as applicable, due between 1st March 2020 to 31st May 2020 to all eligible borrowers classified as standard, even if overdue up to 1-89 DPD, as on 29th February 2020 (Opt-out basis). In line with the additional Regulatory Package guidelines dated 23rd May 2020, the Bank granted a second three-month moratorium on instalments or interest, as applicable, due between 1st June 2020 and 31st August 2020 to borrowers who opted for this (Opt in basis). For all such accounts where the moratorium is granted, the asset classification remained standard during the moratorium period (i.e. the number of day's past-due shall exclude the moratorium period for the purposes of determining whether an asset is non-performing).

7.1.4. Rescheduled/ Restructured loans under COVID resolution framework

- Considering the impact of COVID-19 pandemic, with the intent to facilitate revival of real sector activities and mitigate the impact on the ultimate borrowers, RBI had decided to provide a window[29] under the Prudential Framework to enable the lenders to implement a resolution plan in respect of eligible corporate exposures without change in ownership, and personal loans, while classifying such exposures as Standard, subject to specified conditions. The lending institutions shall ensure that the resolution under this facility is extended only to borrowers having stress on account of the pandemic. Further, the lending institutions will be required to assess the viability of the resolution plan, subject to the prudential boundaries laid out in these guidelines.
- Further, RBI had issued a separate guideline for 'Micro, Small and Medium Enterprises (MSME) sector – Restructuring of Advances dated August 6, 2020. In view of the continued need to support the viable MSME entities on account of the fallout of pandemic and to align these guidelines with the Resolution Framework for COVID 19 – related Stress[30] announced for other advances, RBI had directed to extend the scheme permitted in terms of the aforesaid circular. Accordingly, existing loans to MSMEs classified as 'standard' may be restructured without a downgrade in the asset classification, subject to certain conditions.
- On October 13, 2020, RBI issued an FAQ on Resolution Framework for COVID-19 related stress. The document provided relevant clarifications such as inclusion of allied agriculture activities, definition of MSME, clarification on microfinance or JLG borrowers etc.

To give effect to these guidelines, the Bank has in place a Board approved policy for restructuring and resolution framework for COVID 19 related stressed assets. The policy includes aspects such as the eligibility criterion, asset classification and provisioning norms, conditions for reversal in provisions and asset classification, approach for restructuring at a vertical level, delegation of power/authority and disclosure requirements.

- With the resurgence of pandemic (second wave) in India during March 2021 and the consequent containment measures to check the spread of the pandemic, RBI has announced two directions[31] (Resolution framework 2.0 for individuals and small businesses and MSMEs) with the objective of alleviating the potential stress. The above dispensation for restructuring existing loans would be without a downgrade in the asset classification subject to certain conditions. This dispensation can be allowed for the credit facilities / investment exposure to the borrower which was

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[29] Resolution Framework for COVID-19-related Stress dated August 6, 2020

[30] Refer RBI guidelines on Resolution Framework for COVID-19-related Stress dated 6th August 2020

[31] Refer RBI guidelines on Resolution Framework – 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses and Resolution Framework 2.0 – Resolution of Covid-19 related stress of Micro, Small and Medium Enterprises (MSMEs)

classified as Standard by the lending institution as on March 31, 2021. The last date for invocation of resolution permitted under this window is September 30, 2021 and the resolution plan should be finalised and implemented within 90 days from the date of invocation of the resolution process under this window. To ensure compliance to this framework, the Bank has updated its restructuring policy in line with the new directions within the time stipulated.

For the Microbanking portfolio, the Bank has completed the restructuring under this framework for 3.73 lakh accounts amounting to Rs. 85,218 lakh under restructuring 1.0, and 16,138 accounts amounting to Rs. 3,863 lakh, under restructuring 2.0. A two-fold approach was taken for the one-time restructuring which was as follows:

- Customers who needed a complete recast of the loan with reduction in EMI and tenor extension.
- Customers who were paying with a lag were provided moratorium to make them current.

Under Restructuring 2.0 out of the total 16,138 accounts that have been restructured, the break up is shown below:

- EMI Reduction and Tenor Extension – 1,165 accounts with an OSP of Rs. 315.87 lakh
- Moratorium – 14,982 accounts with an OSP of Rs. 3,547.45 lakh

For the MSE and Housing loans segment, the Bank has completed the identification exercise that would be subject to restructuring within stipulated timelines. Under RF 1.0, Restructuring undertaken in MSE and Housing verticals was Rs. 1,316.71 lakh (79 accounts) and Rs. 1,372.05 lakh (121 accounts). Under restructuring 2.0, 165 accounts amounting to Rs. 2075.43 lakhs have been restructured in MSE while 133 accounts amounting to Rs. 1,124.64 lakhs have been restructured in Housing.

7.1.5 Credit Risk Monitoring:

7.1.5.1 Micro finance portfolio

The Bank undertakes portfolio monitoring on a periodic basis with specific focus on key portfolio triggers. The Bank has defined quantitative trigger limits with respect to early delinquency rates, On Time Repayment Rates (OTRR) and spurt in business growth. Any exception to the internally defined thresholds is reviewed by the Head of Credit - Microbanking and Rural Banking. The Bank monitors the health of its Microbanking portfolio at branch level through its branch scorecards. These scorecards assess the performance on various parameters such as incremental over-dues, error rates, non-starter cases, collection performance etc. The Bank undertakes its portfolio monitoring separately for Group Loans (GL) and Individual Loans (IL) within the Microbanking segment.

The monitoring framework for Microbanking vertical has been enhanced further in light of the pandemic. The Bank monitors collection trends at a bucket level separately for the restructured and non-restructured book on a daily basis. The collection team strength has been increased for daily follow up with the customers towards repayment of loans.

The Bank has also chalked out a state wise recovery plan to identify problem states with respect to collections. Within the states, the Bank undertakes branch wise analysis to identify outliers in collections and delinquency trends and corrective measures are deployed accordingly.

Considering that many a time the external environment or factors affect the portfolio, the Bank also monitors area specific communal issues, protests, sub-lending/ring leader issues, snatching attempts and others. In addition to the above, industry level information is also collected from the credit bureau/s to compare the performance in states or districts vis a vis the Bank's performance.

The Bank monitors the performance of restructured book (RF 1.0 and RF 2.0) separately to identify trends in restructuring failures.

The Bank has developed risk scorecards for objective based credit appraisal and monitoring. This application score card has been integrated with Business Rule Engine (BRE) where every application will have a score generated from BRE which shall be reviewed as part of credit appraisal. This score will be in addition to present BRE rules. The Bank intends to monitor the performance of these scorecards for further fine-tuning of parameters.

For its IL portfolio, the Bank is in the process of validating application level scorecards. On the basis of the scorecard, rating based Delegation of Authority (DOA) and Risk Based Pricing (RBP) framework will be put in place. This is expected to be completed in the ensuing quarter.

7.1.5.2 Housing and Micro and Small Enterprises (MSE) portfolios

Credit risk monitoring for MSE and Secured Housing loans is broadly done at two levels – account level and portfolio level. While regular portfolio reviews are undertaken to assess the health of the portfolio, the Bank also assesses inter-linkages of risks especially legal risk induced credit risk. Collateral related processes and procedures are reviewed to ascertain various gaps in the process. The Bank has designed monitoring mechanisms at process level encompassing credit deviations, collateral management, documentation etc. Regular reports are placed to the CRMC for further direction and actionable.

The Bank has also introduced an Early Warning System (EWS) at an account level for enhanced monitoring. This framework enables the Bank to monitor a borrower's internal/external repayment record and signs of overleveraging efficiently on an on-going basis. Prior to the pandemic, the Bank had launched this framework on a pilot basis encompassing 1,000 accounts each in MSE and Housing. This framework has however been put on hold on account of the pandemic and the Bank has made changes to its EWS mechanism by solely relying on external bureau-based triggers monitored on a real time basis. The Bank is now in the process of enhancing its EWS framework to provide a comprehensive review (external trends, internal trends, compliance thresholds, regulatory aspects etc.). This framework is expected to be rolled in Q3 of FY 2021-22.

Risk scorecards are developed and implemented for introducing objective based lending. These application scorecards have been integrated with Loan Operating Systems (LOS) where every application will have a score generated from LOS which shall be reviewed as part of credit appraisal. This score will be in addition to present appraisal norms. These scorecards are now statistically validated and the Bank is in the process of utilizing the results in rating based DOA and Risk Based Pricing. Rating based DOA and Risk Based Pricing (RBP) is expected to be rolled-out from Q3 onwards.

7.1.5.3 Other Portfolio- Vehicle Loans, Personal Loans and Rural Banking

The Bank monitors the portfolio performance of other business verticals on a monthly basis. Business, Credit and Risk functions monitor these verticals on key indicators such as logins, turnaround time, ticket size, sanctioned versus disbursement, product performance, PAR and NPA trends etc. Risk department undertakes an independent assessment of the same and submits its findings to the CRMC for further action. As part of EWs assessment, for Personal Loans and Vehicle loans, the Bank has subscribed to various bureau reports to provide data on changes in credit scores, changes in residential and communication details and increase/decrease in leverage as part of monitoring activities. Given the relative vintage and size of the portfolio, the Bank has adopted a conservative approach in sourcing and underwriting norms. Development of rating scorecards for Vehicle Loans and Personal loan segments were completed during the quarter and were also statistically validated.

For Rural Banking (Kisan Pragati Loans and Vikas Loans), the Bank intends to develop internal scorecards for the purpose of data collection and analysis. The Bank has introduced an expert judgement scorecard for Kisan Suvidha Loans (KSL) and data is currently being collated for further analysis.

7.1.5.4. Institutional Lending

The Bank undertakes a regular review on the performance of the institutional lending portfolio. Compliance to loan covenants is monitored independently by Risk vertical and regular updates are placed at various forums. The Bank has also introduced an Early Warning System for monitoring of FIG loans on a regular basis.

7.1.6 <u>Audit</u>

The Bank is subject to have an independent **Internal Audit** department (IAD) under Governance norms mandated by the Reserve Bank of India (RBI). The Audit Department of the Bank complies with the latest RBI circular on Risk Based Internal Audit (RBIA) Framework

– Strengthening Governance arrangements dated 07 January 2021. All the staff having requisite skills to audit all areas of the Bank with areas of knowledge and desired skills in Banking Operation, Accounting, Information Technology, Data Analytics and Forensic Investigation etc. The internal audit function and its functionaries are responsible and:

- Accountable and report only to the Board through the Audit Committee of Board (ACB);
- Independent of auditable activities i.e., have no responsibilities related to the first line of defence, the second line of defence and the vigilance function;
- Audit all activities undertaken by the first line of defence, the second line of defence and the vigilance function;

The IAD has its own Audit Policy and Manual approved by the Board. These are annually reviewed and ensured that Regulatory expectations are met. The Internal Audit process of the Bank complements the risk management and monitoring tool as the third line of defence. The IAD has five Audit verticals where in the Risk Based Internal Audit (RBIA) approach has been established. As a control function always striving for improvements in functional knowledge of its staff and work to support the Bank in strengthening control environment. The audit activities by Department are explained below:

a. **Branch Audit:** The audit is performed at the operational Branches, including Banking Correspondents. IAD now has internally developed Risk Control Matrices and assesses the residual risks at the Branches. The Department follows a quantitative and qualitative risk assessment for each and every Branch audit. This helps the operating and senior management to take appropriate mitigation on the identified risks. Effective 1st October 2020, IAD implemented the Board instructions to provide comprehensive assessment on the control environment in Micro-banking and Branch Banking by way of combined report.
b. **Credit Audit:** The audit of lending activity covers all the assets, products, process and credit risk department, which enumerates the risks in aggregation. This approach assesses the root cause and focused mitigation plan. Apart from these, Loan Review Mechanism of all accounts beyond a threshold limit as approved by the ACB is also part of Credit Audit. The risk identification, measurement and mitigation from sourcing to monitoring and collection of asset accounts results in continuous improvisation.
c. **Central Function:** Largely focus on all HO functions/departments, second line of defence, vigilance function and all liability operations. The RBIA approach is in accordance with ICAI and IIA.US standards. This encompasses the Governance, Risk Management and Control (GRC) approach in each and every audit and internal review.
d. **IS Audit:** Assessment of application level risks, IT infrastructure (Network, Operating systems, Database), IT processes / Operations and IT governance to assure information assets are protected and security risk is mitigated, are covered in this audit

activity and / or Integrated audit activities wherein, the IT controls are reviewed, as part of an end-to-end coverage of business process along with General IS controls.

e. **Concurrent Audit:** As per RBI guidelines on Concurrent Audit System in Commercial Banks, 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.

The Bank has put in place a Board approved separate Concurrent Audit Policy. On September 18, 2019, RBI has revised guidelines on Concurrent Audit and has advised to follow the Risk based approach in Concurrent Audit. IAD revised its policy & process and approved from ACB in January 2020. Effective 1 April 2020, the Branch identification and implementation of Concurrent Audit activity is now in accordance with approach prescribed by RBI. Accordingly, the Bank identified the Branches that contributed more than 50% of advances and 50% of deposits of the bank to be covered under concurrent audit. In FY 2020-21, 137 Branches contributing 60% of Bank's business are covered in Concurrent Audit.

Additionally, few critical processes like Payments and Treasury function are also covered under concurrent audit.

In accordance with the IAD policy, all the auditors adhere to the code of ethics of Institute of Internal Auditors (IIA) Inc. As professionals, members of IAD are additionally subject to the code of ethics of other professional bodies to which they belong like ICAI. IAD members apply and uphold the principles of Integrity, Objectivity, Competency and Confidentiality.

7.1 Quantitative Disclosures

The overall distribution of gross advances as at June 30, 2021 was as under:

Rs. in lakh

Vertical	OSB	Provisions[32]	% Share
Microbanking (includes Rural Banking)	9,61,360	76,640	68.49%
Housing	2,10,149	4,755	14.97%
MSE	1,28,345	6,802	9.14%
Personal Loan	15,363	964	1.09%
Vehicle Loan	8,771	237	0.62%
Institutional Lending	74,480	481	5.31%
Staff Loans	2,561	15	0.18%
Loans against deposit	4,540	22	0.32%
Less adjustments	1861[33]	-	0.13%
Total	**14,03,708**	**89,916**	**100.00%**

The total provision held as at June 30, 2021 was Rs. 89,916 lakh without factoring the floating provisions of Rs. 25,000 lakh which was made in Q1 of FY 2021-22.

[32] **Provisions excludes floating provisions of Rs. 25000 lakh created in Q1 of FY 2021-22**

[33] **Adjustments on account of interest reversals in NPA accounts.**

7.2.1 Exposure summary: Facility type

Exposure Type	Domestic (Rs. in Lakh)	Overseas
Fund- Based exposure	19,56,434	--
Non- Fund Based Exposure*	20,274	--
Total	19,76,708	**--**

*Non-fund-based exposure for purpose of computation of CRAR includes undrawn limits of Overdrafts, Secured Housing and MSE customers and Contingent liabilities.

7.2.2 Geographic Distribution of advances (State-wise)

Rs. in lakh

States	Total Advances (in Lakh)	% Share
Assam	28,873	2.06%
Bihar	83,141	5.92%
Chandigarh	2,166	0.15%
Chhattisgarh	7,153	0.51%
Delhi	51,251	3.65%
Goa	974	0.07%
Gujarat	1,17,689	8.38%
Haryana	64,380	4.59%
Himachal Pradesh	1,455	0.10%
Jharkhand	27,766	1.98%
Karnataka	2,02,449	14.42%
Kerala	23,280	1.66%
Madhya Pradesh	20,253	1.44%
Maharashtra	1,36,270	9.71%
Meghalaya	1,598	0.11%
Odisha	36,045	2.57%
Pondicherry	9,686	0.69%
Punjab	31,566	2.25%
Rajasthan	58,061	4.14%
Tamil Nadu	2,31,063	16.46%
Tripura	15,883	1.13%

Uttar Pradesh	61,796	4.40%
Uttarakhand	6,045	0.43%
West Bengal	1,84,867	13.17%
Grand Total	**14,03,708**	**100.00%**

7.2.3 Advances distribution by activity

Rs. in lakh

Sl. No	Categories	Disbursements during the Quarter		Outstanding at the end of the Quarter		
		No. of A/cs	Amount disbursed	No. of A/cs	No. of beneficiaries	Balance O/s
1	**Priority Sector (I+II+III+IV+V+VI+VII+VIII+IX)**	633	6,196	36,42,596	36,42,596	8,55,008
I	Agriculture (IA+IB+IC+ID)	64	105	14,65,767	14,65,767	2,24,230
II	MSMEs (i)+(ii)+(iii)+(iv)+(v)	27	691	1,118	1,118	17,331
III	Export Credit	-	-	-	-	-
IV	Education	0	-	2	2	1
V	Housing	542	5,401	1,64,975	1,64,975	2,03,738
VI	Renewable Energy	-	-	-	-	-
VII	Social Infrastructure	-	-	-	-	-
VIII	'Others' category under Priority Sector	0	-	20,10,734	20,10,734	4,09,707
IX	Net PSLC		-			0
3	**Non-Priority Sector Loans (I+II+III+IV+V)**	5,449	33,615	5,22,854	5,22,854	4,44,240
I	Agriculture	0	-	121	121	82
	Out of Agriculture, Loans against Negotiable Warehouse Receipts (NWRs)		-			0
II	Education Loans		-			0
III	Housing Loans	398	4,087	14,052	14,052	88,528
IV	Personal Loans under Non-Priority Sector	1,730	3,334	13,064	13,064	17,676
V	Other Non-Priority Sector Loans	3,321	26,193	4,95,617	4,95,617	3,37,954
4	**Total Loans (1+3)**	6082	39811	4165450	4165450	1299248

7.2.1 Priority Sector Lending (PSL) Compliance

The licensing conditions for SFBs require that PSL composition of a bank's asset book is a minimum of 75% of the total portfolio. Further, the overall PSL achievement of 75% should be maintained as at end of the year and not mandatory at the end of every quarter. The Bank calculates surplus/deficit as provided in Annex IV of the circular RBI/FIDD/2020-21/72

Master Directions FIDD.CO.Plan.BC.5/04.09.01/2020-21 dated June 11, 2021

While there is a quarterly monitoring of PSL in total and category-wise, **the final compliance to PSL is reckoned on a yearly basis i.e. at the end of the financial year**.
For computing PSL, the Bank takes the ANBC[34] of corresponding quarter of the previous year. The ANBC as on the corresponding date of the preceding year i.e. 30th June 2020 was Rs. 13, 89, 807.13 lakh. The Priority Sector lending was maintained at 57.64% as a percentage of ANBC for quarter ended March 31, 2021. The summary of compliance to PSL norms is as follows:

Sl. No.	Sector wise achievements	Effective ANBC	Total Outstanding	% Achievement
1	Overall PSL	13,89,807.13	8,55,007.51	61.52
2	Agriculture	13,89,807.13	2,24,229.83	16.13
3	Small and Marginal Farmers	13,89,807.13	3,33,633.19	24.01
4	Non - Corporate Farmers	13,89,807.13	2,24,229.83	16.13
5	Micro Enterprises	13,89,807.13	12,948.91	0.93
6	Weaker Sections	13,89,807.13	3,57,838.04	25.75

For the purpose of calculating PSL lending percentage, the average net PSL maintained in Q1, of FY 2021-22 is ~8,55,007 lakh as against the average ANBC of ~Rs. 10,42,400 lakhs. The average PSL maintained on YTD basis is 61.52%. Alternatively, the average of quarterly achievements (in %) is 61.52%. The details of the calculations are as below:

Rs. in lakh

Particulars	**Q1 of FY 2021-22**
Gross PSL	9,70,007.51
PSLC (as until quarter)	1,15,000
Net PSL - (x)	8,55,007.51
ANBC	13,89,807.13
Target (75% of ANBC) - (y)	10,42,400
Achievement (Net PSL upon ANBC) for the quarter [QPSA]	61.52%[35]
Surplus/Deficit (in lakhs) (x)-(y)	- 1,87,393
Average Surplus (in Lakhs year till date)	- 1,87,393

7.2.4 Maturity pattern of assets and liabilities

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[35]The final compliance to PSL is reckoned on a yearly basis i.e. at the end of the financial year as per RBI guidelines

Rs. in lakh

Buckets	Loans and advances	Investments	Deposits	Borrowings
Day – 1	311	23,999	3,085	14,145
2-7 Days	14,104	-	26,868	-
8-14 Days	26,280	-	26,362	2,214
15-30 Days	37,871	-	62,893	-
31 Days and up to 2 months	74,707	9,968	63,575	12,461
Over 2 months and up to 3 months	69,960	-	61,115	25,780
Over 3 Months and up to 6 months	2,16,265	-	1,81,038	27,675
Over 6 Months and up to 1 year	3,03,172	12,911	5,29,857	37,538
Over 1 Year and up to 3 years	2,45,003	23,964	4,00,203	94,256
Over 3 Year and up to 5 years	1,42,794	20,918	11,647	-
Over 5 years	1,95,617	2,15,148	643	-
Total	**13,26,083**	**3,06,908**	**13,67,287**	**2,14,069**

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

Category of Gross NPA	June 2020	September 2020	December 2020	March 2021	June 2021
Sub-standard	11,144	7,671	3,799	1,01,784	1,36,765
Doubtful	2,651	4,972	8,089	4,947	728
Loss	188	966	1,171	329	6
Total	**13,983**	**13,609**	**13,058**	**1,07,060**	**1,37,498**

	June 2020	September 2020	December 2020	March 2021	June 2021
Net NPA	2,510	1,908	640	42,458	59,873

NPA Ratios	June 2020	September 2020	December 2020	March 2021	June 2021
Gross NPA to Gross Advances	0.97%	0.98%	0.96%	7.07%	9.8%
Net NPA to Net Advances	0.18%	0.14%	0.05%	2.93%	2.7%

The Gross Non-Performing Assets have registered a sharp increase in Q1 of FY 2021-22 largely on account of the adverse effects of the second wave of the pandemic.

7.2.5 Key Risk factors affecting the credit portfolio and strategy

7.2.5.1 Impact of Second wave

The impact of the recent spike in COVID cases (COVID 2.0) has affected the portfolio performance across verticals largely on account of the mobility restrictions placed by various states during the month of May and June 2021 resulting in muted collections for Q1 of FY 2021-22.

The emergence of a second wave led to 1) increased levels of incremental Overdues (IODs) i.e. fresh slippages from regular accounts and 2) the borrowers who were restructured under RF 1.0 were also badly affected again on account of the second wave leading to a rise in delinquencies. With the lifting of mobility restrictions by end of June 2021 (gradual lifting), the Bank expects a resumption in business activities and a reduction in the rate of IODs for the ensuing quarter.

The timely intervention of the Regulator in providing resolution schemes to borrowers (Resolution Framework 2.0) affected by the pandemic should enable reducing distress for affected borrowers. As per the framework, borrowers who had availed relief under RF 1.0 are also eligible for additional relief under RF 2.0. Emergence of a third wave along with associated mobility restrictions is the key downside risk which may further affect the repayment rates within the Bank.

The vertical wise report on the portfolio performance for Q1 is provided hereunder:

7.2.5.2 Microfinance and Rural banking

The Microfinance and Rural banking portfolio was highly affected by the second wave. This was evidenced in a reduction in collection rates:

MB RB	SMA0	SMA1	SMA2	NPA	NDA
April 2021	59%	47%	29%	19%	96%
May 2021	30%	26%	19%	8%	81%
June 2021	59%	41%	46%	21%	91%

Collection Efficiency trends have improved in Jun’21 as compared to May’21 on account of ease in COVID related restrictions. Southern states of Tamil Nadu and Kerala, Maharashtra and West Bengal have witnessed higher impact on collections due to severe restrictions.

The Bank intends to continuously introduce/strengthen its collection practices to address the challenges in the financial year. Some of the actions which are already initiated/further enhanced are as follows:

- **Strengthening Collection Capacity**: Hiring of additional man power to ensure sustained follow up with each customer.
- **Bucket wise collection focus**: Clear bifurcation of default cases of the various SMA accounts and assignment between business and collection staff.
- **Multiple Reminders through SMS and Calling**: Customized SMS and calling in vernacular language. Pre-calling to SMA customers before center meeting date by branch staff.
- **Use of data and analytics**: Use of bureau data to identify customers who are paying to others and focus on them.
- **Improve cashless collection**: Provide multiple options to customers to repay - cashless collections through digital payment apps and Airtel payment points.
- **Simplified overdue tracker** for field functionaries.
- **Enhanced focus on affected geographies**: Prioritization of hiring off role staff in these affected states. Mentorship and Supervisory ownership of least collection branches, Co-ordinate with MFIN to balance political issues.

7.2.5.3 **MSE**[36]

As at June 30, 2021, there were 10,964 secured MSE accounts and 2,305 Unsecured MSE accounts. LAP (informal segment) comprised 50.31% (Rs. 63,994 lakhs) of the total MSE book. SEL (Semi formal segment) constitutes 27.67% (Rs. 35,187 lakhs) of the total MSE book as on 30th June, 2021. The impact of second wave was also felt in this portfolio with GNPA in Secured MSE at 11.8%.

To address the challenges, the Bank now focuses on formal segment for lending and redefined its target customer segment and loan ticket size.

The composite collection rates recorded during the quarter were as below:

Secured MSE	SMA0	SMA1	SMA2	NPA	NDA
April 2021	71%	52%	41%	20%	96%
May 2021	47%	35%	27%	10%	91%
June 2021	63%	55%	71%	23%	96%

Unsecured MSE	SMA0	SMA1	SMA2	NPA	NDA
April 2021	51%	44%	24%	9%	87%
May 2021	31%	20%	18%	4%	81%
June 2021	49%	42%	39%	8%	94%

[36] **All figures are rounded to the nearest hundred wherever applicable**

7.2.5.4 Affordable Housing

As at June 30, 2021, there were 25,514 Secured Housing Loan (SHL) borrowers with a total book of Rs. 2, 09,672 lakh**.** Q1 of FY 2021-22 witnessed a dip in collection efficiency percentage especially in May, owing to pandemic related restrictions. There were however, signs of improvement observed in the months of June 2021.

The composite collection efficiency in Housing borrowers was as follows:

Vertical	April 2021	May 2021	June 2021
Housing Loans	91%	87%	90%

Collections had improved in the month of June 2021 almost across all buckets.

Housing Loans	SMA0	SMA1	SMA2	NPA	NDA
April 2021	70%	52%	38%	21%	96%
May 2021	53%	43%	36%	18%	94%
June 2021	67%	60%	60%	31%	97%

PAR 30+ was 6.88% in April, 9.44% in May and 9.94% in June, 2021. PAR 90+ was 3.60%, 4.53% and 4.47% in April, May and June respectively.

7.2.5.5 Personal loans

There were 9,227 borrowers with a total book of Rs. 15,213 lakh as on 30th June, 2021. PAR30 was Rs. 1,725 lakhs (11.87%), 2,045 lakhs (13.54%) and 1,893 lakhs (12.44%) In April, May and June, 2021 respectively. PAR 90+was Rs. 1,394 lakhs (9.60%), 1,662 lakhs (11.01%) and 1,467 lakhs (9.64%) in April, May and June, 2021 respectively.

The composite collection efficiency in Personal loan borrowers, for the quarter was as follows:

Vertical	April 2021	May 2021	June 2021
Personal Loans	87%	86%	88%

Personal Loans	SMA0	SMA1	SMA2	NPA	NDA
April 2021	63%	48%	27%	16%	98%
May 2021	58%	44%	31%	12%	97%
June 2021	64%	58%	45%	15%	98%

Collections have registered an improvement in Q1 across all buckets in Personal Loans in the months of June 2021. In FY 2020-21, the Bank had revisited its sourcing strategy and strengthened the gating norms. PL portfolio sourced post the policy changes exhibited a relatively better performance as at June 2021 despite the challenges of the second wave.

7.2.5.6 Institutional Lending

As at June 30, 2021, there were 38 borrowers amounting to Rs. 74,480 lakh. The Institutional Lending portfolio was well balanced with individual peak exposure of Rs. 10,000 lakh and average exposure is Rs. 1,960 lakhs per borrower. Except one borrower, the remaining portfolio was standard as at June 30, 2021. Given the continuing stress in the NBFC sector which was exacerbated by the COVID 19 pandemic, the Bank has reviewed its FIG policy and has introduced additional control measures in the areas of exposure caps, monitoring of financial covenants (Capital Adequacy Ratio, GNPA, NNPA, Debt/Equity ratio as stipulated in sanction letter), monitoring of CA certified receivables statement received from borrowers and has enhanced the EWS mechanism. The Bank is also actively monitoring the developments in one case where payment is delayed.

7.2.5.7 Vehicle Loans

There were 12,858 Vehicle Loan borrowers with a total book of Rs. 8,773 lakh. The Bank has launched digital LOS for two-wheeler products in FY 2021, and scaled it to 100% in Q1FY22.
The composite collection efficiency in Vehicle loan borrowers, for the quarter, was as follows:

Vertical	April 2021	May 2021	June 2021
Vehicle Loans	94%	86%	86%

Vehicle Loans	SMA0	SMA1	SMA2	NPA	NDA
April 2021	61%	37%	29%	7%	97%
May 2021	35%	18%	9%	2%	91%
June 2021	45%	30%	19%	12%	94%

Collections have shown improvement across all buckets through the quarter especially in the month of June 2021. Since the majority of the portfolio comprises of Two-Wheeler Loans with 93.5% share to total vehicle loans, as a diversification strategy, the Bank has launched new products like Electric Two-wheeler Loans, which is considered to be an emerging product in the industry. This segment would be processed only for Income based funding cases.
As a business strategy to go green, the Bank has launched Electric Cargo segment as well, considering the on-going demands in supply chain. Till date, the Bank has 36 cases amounting to Rs. 74 lakhs. Electric Three-wheeler passenger segment continues to remains discontinued on account high delinquencies.
Used Car product and policy has been already launched, though there hasn't been any disbursement in this category. Sourcing through Direct Selling Agents (DSA), valuators and RTO agents are under process.

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

Rs. in lakh

Particulars (On YTD basis)	June 2020	September 2020	December 2020	March 2021	June 2021
Opening Balance	10,965	10,965	10,965	10,965	64,601
Provisions made during the period	667	1,532	2,549	61,424	48,818
Write back of excess provisions	159	795	1,096	7,787	28,794
Closing Balance	**11,473**[37]	**11,702**	**12,418**	**64,601**	**77,625**

7.2.7 Provision Coverage Ratio (PCR)

Rs. in lakh

Category	OSB	Provi-sions	% Share	GNPA	GNPA Provi-sions	Floating Provi-sions main-tained	PCR%
MBRB	9,61,360	76,640	68.49%	1,11,286	67,440	23500	81.7%
Housing	2,10,149	4,755	14.97%	9,853	3,358	0	34.1%
MSE	1,28,345	6,802	9.14%	15,919	5,715	1500	45.3%
Personal Loans	15,363	964	1.09%	1,622	894	0	55.1%
Vehicle Loans	8,771	237	0.62%	226	106	0	47.2%
FIG	74,480	481	5.31%	459	110	0	24.0%
Staff Loans	2,561	15	0.18%	2	2	0	86.5%
Loans against deposits	4,540	22	0.32%	0	0	0	NA
Less adjust-ments	-1,861[38]		-0.13%	-1,861[39]	0	0	NA
Total	**14,03,708**	**89,916**	**100.00%**	**1,37,507**	**77,625**	**25,000**	**74.6%**

For quarter ended June 2021, the Bank created a floating provision of Rs. 25,000 lakh to cover for a major portion of stress expected in the ensuing quarter. As per RBI guidelines, after factoring the floating provisions, the Bank maintained a PCR% of 74.6% at Bank level (81.7% for MBRB).

7.2.8 Non-performing Investments (NPI) (March 2020 to March 2021)

Amount of Non-performing investments	NIL

[37] Without additional COVID provisioning

[38] Less adjustments on account of interest suspense account.

Amount of provisions held for non-performing investments	NIL

7.2.9 Movement of provisions for depreciation on investments (March 2020 to March 2021)

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

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

8.1. Qualitative Disclosures

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

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

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

d. As on June 30, 2021, the Bank had a residual outstanding of "grandfathered" loans which comprised 0.11% of its funding book. As per regulatory guidelines, there was an additional risk weight of 25% assigned to this portfolio.

e. In terms of circular No. DBR.BP.BC.No.72/08.12.015/2016-17 dated June 7, 2017; the capital charge for claims secured by residential property falling under the category of individual housing loans is assigned differential risk weights based on the size of the loan as well as the loan to value ratio (LTV). As a countercyclical measure, RBI has decided to rationalise the risk weights, irrespective of the amount vide a notification on October 16, 2020. The Bank takes cognizance of the same and these were incorporated for all loans sanctioned after the date of issuance of this circular.

f. On October 12, 2020[39], RBI issued directions for revision in limit for risk weight under the Regulatory Retail portfolio. RBI has now decided that the limit of Rs. 500 lakh for aggregated retail exposure to counterparty shall stand increased to Rs. 750 lakh from the

[39] Refer RBI guidelines on Regulatory Retail Portfolio – Revised Limit for Risk Weight issued vide RBI/2020-21/53 DOR.No.BP.BC.23/21.06.201/2020-21 dated 12th October 2020

date of this circular. The risk weight of 75 per cent will apply to all fresh exposures and also to existing exposures where incremental exposure may be taken by the banks up to the revised limit of Rs. 750 lakh. The Bank takes cognizance of the same and these were incorporated for all loans sanctioned after the date of issuance of this circular.

8.2. Quantitative Disclosures

Details of Gross Credit Risk Exposure (Fund based and Non-fund based) based on Risk Weight – Position as on 30th June 2021		
Sl. No.	**Risk Weight**	**Rs. in lakh**
1	Below 100% Risk Weight	17,21,776
2	100% Risk Weight	3,32,422
3	More than 100% Risk Weight	135
4	Deductions from CRM[40]	-77,625
5	**Total**	**19,76,708**

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

9.1. Qualitative Disclosure

- The Group Loan and Individual Loan portfolio, under microfinance is unsecured. Loans to the Affordable Housing segment are collateralized by a mortgage over the property financed. There are primarily secured product variants under MSE loans and one performance guarantee backed unsecured loan variant. The residual book of unsecured loans[41] is discontinued and is being run down and is expected to be fully repaid in the current financial year. Loans to Financial Institutions are secured by a charge over book debts which are registered with CERSAI. All Personal Loans are extended on a clean basis; Vehicle loans are collateralised by a charge over the vehicle financed. Gold Loans are secured with the maximum Loan to Value (LTV) being offered at 70%[42] on the value of the ornaments/jewel proposed to be pledged.

- The Bank accepts Eligible Financial Collateral[43] in a few instances for risk mitigation under secured Institutional lending and MSE loans. These financial collaterals are netted off for its collateralized transactions under comprehensive approach[44] while computing its Risk Weighted Assets (RWA).

[40] Credit Risk Mitigants (Provision against NPA)
[41] Unsecured Business Loans and Unsecured Enterprise Loans
[42] Changed from 75% to 70% with effect from April 1, 2021
[43] 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
[44] Refer section 7.3 of Master Circular - Prudential Guidelines on Capital Adequacy and Market Discipline New Capital Adequacy Framework (NCAF) dated July 1, 2015

- The Bank regularly reviews the health of the portfolio/ borrowers and work on mitigation of any risk associated with the portfolio or borrower in particular.

- The Bank has in place the following risk mitigation techniques for its loan portfolio which are as follows:
    - Microfinance, Housing, two-wheeler, personal loans borrowers and gold loans are provided with an option to avail of life insurance, though this is not a bundled offering along with the loan products.
    - The Bank works with 4 Credit Information Companies (CICs) and ensures 100% application screening through the bureaus using their comprehensive credit reports.
    - The Bank also undertakes independent surveys and analysis to identify negative areas/No- go areas based on historical events. These surveys enable the Bank to discourage increasing business from these areas as identified above.
    - The Bank has also set borrower wise limits in compliance to RBI mandated exposure norms and also mitigate any concentration risks building in the portfolio.
    - A negative list/negative area profile is maintained at a branch level to avoid exposure in those categories.

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

10.1. <u>Qualitative Disclosure</u>

There were no securitization exposures in the banking book and trading book as at 30th June 2021.

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

11.1. Qualitative Disclosures

11.1.1. Market Risk

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

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

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

Investments: The Bank has a Board approved policy to make investments in both SLR[45] and Non SLR securities. The Bank had investments in the following instruments: Government of India securities (G Sec), Treasury Bills (T Bills), State Development Loans (SDL), Commercial Paper (CP) and one legacy investment in an unquoted equity. The Bank had also made a token investment of Rs. 0.2 lakh in a New Umbrella Entity (NUE) in association with National Payment Corporation of India (NPCI) As on June 30, 2021, the investment holdings in various SLR and Non SLR instruments were as under:

Rs. in lakh

Instrument	Book Value	Market Value	Appreciation / Depreciation
SLR			
G Sec	1,75,282	1,73,396	(1,886)
SDL	88,314	88,039	(275)
T Bills	19,305	19,305	0
TOTAL	**2,82,901**	**2,77,554**	**(2,161)**
Non SLR			
CP	0	0	0
Legacy investment (unquoted Equity)	1,002	1,802	800
TOTAL	**1,002**	**1,802**	**800**

The investment into SLR securities is undertaken for the purpose of regulatory compliance i.e. SLR maintenance and for Asset Liability Management (ALM). Investment in SLR securities is held as both HTM and AFS, though holding in AFS comprises mainly investments in Treasury Bills only. The mandatory requirement for maintenance of SLR as stipulated by RBI was 18.25% of Net Demand and Time Liabilities (NDTL) up to April 10, 2020 and 18% thereafter. The RBI had earlier announced a staggered reduction in SLR requirement to be held by banks, reducing every quarter till April 11, 2020. The Bank has complied with the

[45] Statutory Liquidity Ratio (SLR)

regulatory SLR requirement and has maintained SLR much above the requirement. During the quarter, the average SLR requirement and maintenance was as below:

Rs. in lakh

Month (in Rs. lakhs)	Average SLR requirement	Average SLR maintenance	Average SLR requirement maintained as a % of NDTL
April 2021	2,19,601	3,24,798	26.62%
May 2021	2,28,085	3,49,955	27.62%
June 2021	2,35,737	3,37,994	25.81%

The maintenance of SLR was higher than the mandated requirement in line with its Board directive. In the first instance, this buffer is intended to provide the required cushion for a contingency and forms the basis for Level 1 contingency fund planning. The Bank has used the buffer to raise funds through Repo and Third-Party Repo (TREPS) in times of contingencies. Second, the excess SLR is also intended to provide the cushion to maintain a healthy Liquidity Coverage Ratio (LCR) at all times, and also to ensure that the regulatory thresholds for the Structural Liquidity Statement (SLS) limits are not breached. Further, the Bank had also complied with the HTM holding limit[46] for all the days for the period during the quarter.

The investment in non SLR securities is mainly for short term cash deployment and for investment income. During the period under review, the Bank had made Non SLR investments in Mutual Funds, unquoted equity and token investment in an NUE. This unquoted equity investment in the share of M/s Alpha Microfinance for Rs 10 lakh, is a legacy investment of the Bank and was acquired from the parent company as per a Business Transfer Agreement (BTA) entered into at the time of launch of the Bank. All the Non SLR investments were categorized as part of the Available for Sale (AFS) portfolio.

Trading: The Bank had commenced trading in Government of India security in Q3 FY 20, in a calibrated manner through its HFT portfolio. While the Bank had initially commenced trading on an intraday basis only, it has now graduated to keeping open positions on an overnight basis as well. Open positions taken by the Bank are progressively being stepped up with the required controls. The trading limits in the form of duration limits, PV01 limits, trading book limit, exposure limits and Value at Risk (VaR) are monitored regularly by the Middle Office. Any instance of breach in limits is brought to the notice of stakeholders and remedial measures taken.

[46] **In terms of RBI circular No. RBI/2017-18/70 dated 4th October 2017, the limit of HTM holding for the Bank, was 19.5% of NDTL till 1st Sep 2020 and 22% of NDTL thereafter.**

11.1.2. Liquidity and Liquidity Risk Management:

Treasury Department is responsible for the day to day liquidity and fund management activity. The day to day fund excess or shortfall is arrived at based on a daily liquidity statement prepared by Front Office in co-ordination with Finance department. Based on the daily shortage or excess of funds, Front Office undertakes money market borrowing and lending activity. The source of borrowing and lending amongst Call money, Repo and TREPS is decided based on the most favourable rate. The Bank has interbank limits with all the major banks. The regulatory limit on Call/Notice money borrowing and lending is monitored on a daily basis by Middle office and reported to all stakeholders.

In line with the prudent risk management practice, the Bank has in place a Board approved Contingency Funding Plan (CFP), which is tested by the Front Office at a quarterly frequency. In all the instances of CFP testing during the quarter, the Bank was successful in generating fund commitment, from various sources, much above the average monthly shortfall.

Liquidity Risk Management is governed as per the provisions of the ALM policy. The ALM position for the Bank was well managed and regulatory thresholds complied with during the quarter. The Bank has various avenues to leverage upon to mitigate any future liquidity shortfalls with measures such as securitization, IBPC transactions and term loan facilities from Bank. The Bank had positive cash flows in the maturity buckets in the 1-30 days' maturity, over and above the regulatory minimum, as at 31st March 2021.

The Bank has deployed a suite of techniques as part of its Liquidity Risk Management. Some of the activities undertaken by the Bank are as follows:

<table>
<tr><th>Risk Measurement</th><th>Description</th><th>Position for Q1 FY 2021-22</th></tr>
<tr><td>Cash Flow measurement and gap limits</td><td>Technique involving a comprehensive tracking of mismatches between outflows and inflows for balance sheet as well as off balance sheet items across different time buckets. The Bank computes the cash flow mismatches using Structural Liquidity Statement ('SLS'). Under SLS, cash flows of assets, liabilities and off-balance sheet items are placed in different time bands based on the residual maturity or based on</td><td>As at June 30, 2021, the Bank maintained a positive cumulative mismatch indicating surplus liquidity. The cumulative mismatch limits were well within the RBI mandated limits and also within the conservative limits as set internally by the Bank. The position for the first four buckets for which the Regulator has mandated minimum thresholds were as follows:
<table>
<tr><th>Bucket</th><th>RBI threshold</th><th>Cumulative Mismatch</th></tr>
<tr><td>Day 1</td><td>-5%</td><td>343.4%</td></tr>
<tr><td>2-7</td><td>-10%</td><td>247.5%</td></tr>
</table></td></tr>
</table>

<table>
<tr><td></td><td>expected behaviour as per RBI / internal guidelines. The difference between cash inflows and outflows in any given time period measures the bank's liquidity surplus or deficit in that time period.</td><td><table><tr><td>days</td><td></td><td></td></tr><tr><td>8-14 days</td><td>-15%</td><td>171.5%</td></tr><tr><td>15.30 days</td><td>-20%</td><td>98.2%</td></tr></table>
The bucketing of cash flows as per the maturity buckets is guided by regulatory guidelines and as per ALCO directives.</td></tr>
<tr><td>Behavioural analysis</td><td>Banks are required to analyse the behavioural maturity profile of various components of on / off-balance sheet items on the basis of assumptions and trend analysis supported by time series analysis.</td><td>Presently, the Bank follows the RBI guidelines on bucketing assumptions until significant historical data is available for conducting behavioural studies. After ensuring the availability of data, the Bank will conduct behavioural studies to appropriately bucket products with non-deterministic cash flows.</td></tr>
<tr><td>Limits on borrowing and lending/investment</td><td>Bank monitors limits prescribed by the Regulator with respect to borrowing and lending in the interbank market.</td><td>During the quarter, the Bank was within the prescribed limits for interbank lending, call money borrowing/lending, SGL limits and HTM holding limit.</td></tr>
<tr><td>Liquidity ratios</td><td>Liquidity ratios under stock approach as prescribed by the Regulator are monitored</td><td>The liquidity ratios under stock approach were computed and placed to ALCO for their noting.</td></tr>
<tr><td>Stress Testing</td><td>The Bank undertakes stress tests on their Liquidity Coverage Ratio (LCR) and Interest rate risks.</td><td>During the quarter, the LCR was above the minimum thresholds under all levels of stress. Further, the impact of interest rate risk and its impact on the market value of equity were also below the regulatory limit of 20%.</td></tr>
<tr><td>Funding gap analysis</td><td>The Bank estimates its short-term liquidity profiles on the basis of business projections and other commitments for planning purposes</td><td>On a monthly basis, the Bank undertakes a detailed analysis on the projected funding requirement for its subsequent month on the basis of business projections and other commitments. This exercise</td></tr>
</table>

		essentially includes inputs on credit and deposit activities encompassing projected disbursements, collections and deposit mobilization. The Bank has ensured adequate liquidity to meet its commitments during the quarter.

The prevalent market conditions (relatively low credit take-off) and the measures taken by RBI (on tap availability of funds under TLTRO/SLTRO) have provided comfort over the liquidity position on an overall basis. The availability of excess liquidity in the system is further evidenced in RBI action on temporarily increasing the HTM holding limit to 22% up to 31st March 2022. The Bank has also maintained higher rates in retail and bulk deposits as compared to its peers to further bolster deposit mobilization.

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

The Bank computes LCR in Indian rupees, the only currency it deals with. HQLA of the Bank consists of cash, unencumbered excess SLR eligible investments, a portion of statutory SLR as allowed under the guidelines, cash balance with RBI in excess of statutory CRR, and high rated corporate bonds issued by entities other than financial institutions.

Net Stable Funding Ratio (NSFR): RBI, on March 27, 2020, had decided to defer the implementation of Net Stable Funding Ratio (NSFR) from 1st April 2020 to 1st October 2020, an extension by six months as part of its COVID- 19 regulatory package. Further, the Regulator has decided to defer the implementation of NSFR guidelines[47] by a further period of six months. These guidelines were to come into effect from April 1, 2021. However, the same has again been deferred by a further period of six months[48]. Accordingly, the NSFR Guidelines shall come into effect from October 1, 2021.

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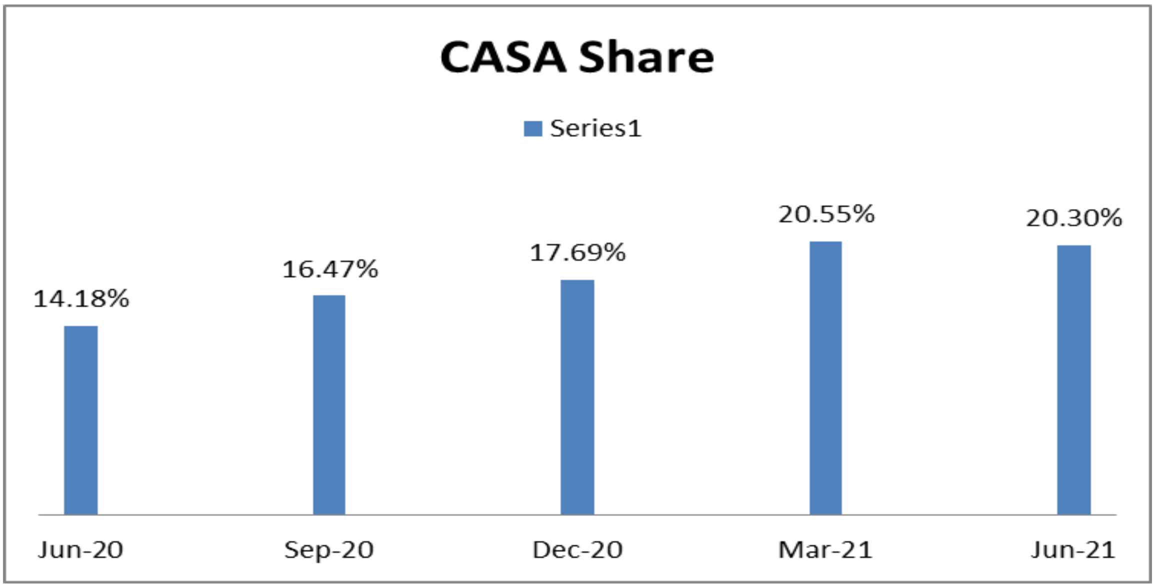
[47] Refer RBI guideline on Basel III Framework on Liquidity Standards – Net Stable Funding Ratio (NSFR) issued vide RBI/2020-21/43 DOR.BP.BC.No.16/21.04.098/2020-21 dated 29th September 2020

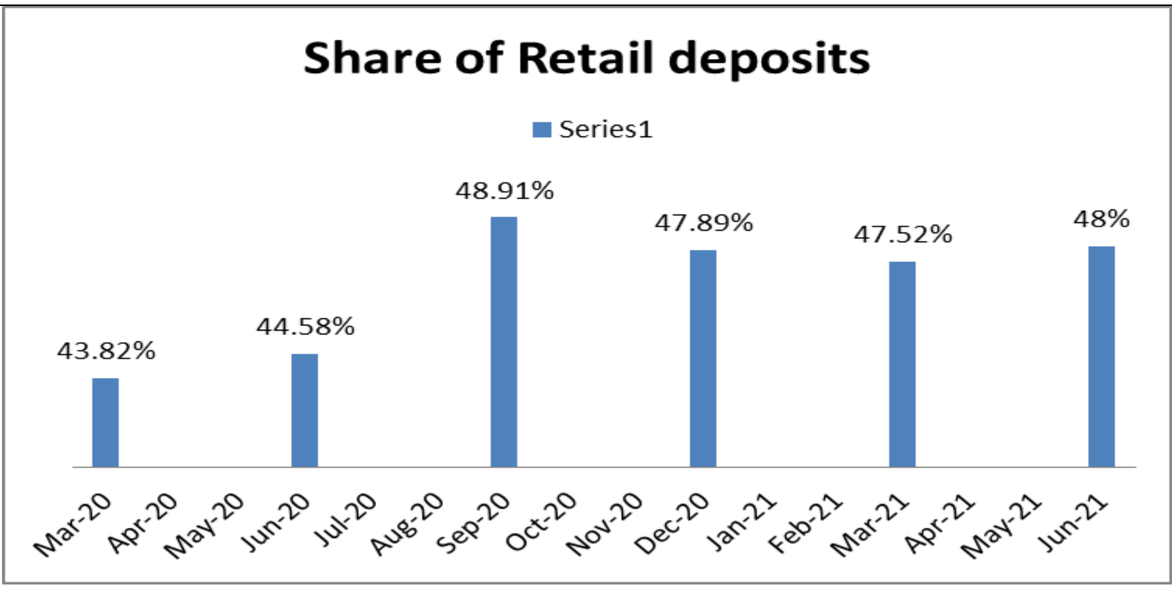
[48] Basel III Framework on Liquidity Standards – Net Stable Funding Ratio (NSFR) issued vide RBI/2020-21/95 DOR.No.LRG.BC.40/21.04.098/2020-21 dated 5th February 2021

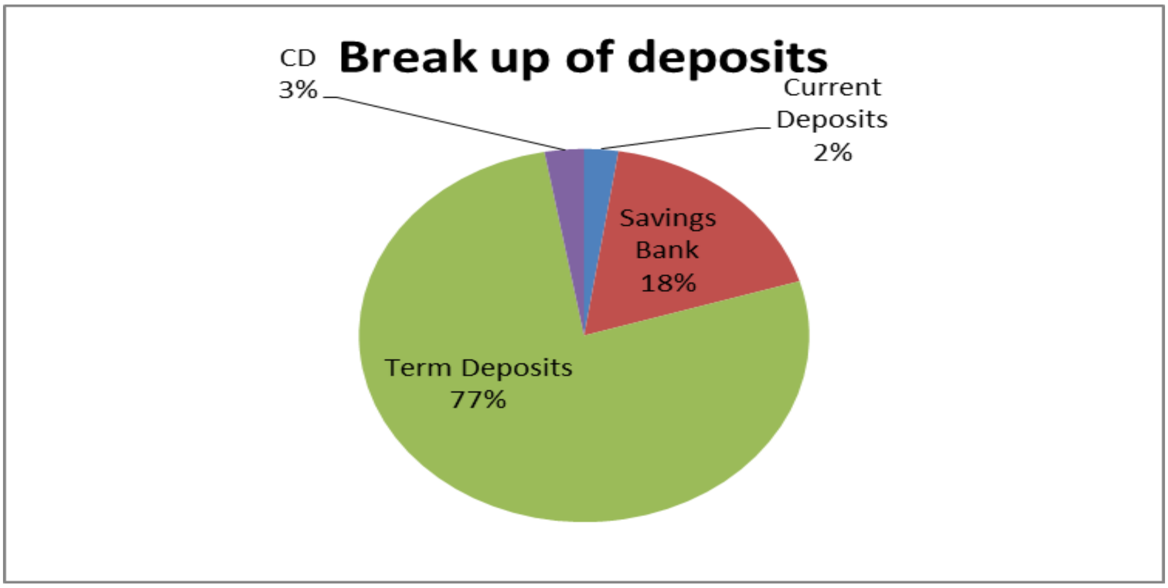
11.2. <u>Quantitative Disclosures</u>

11.2.1. Liquidity Coverage Ratio (LCR)

Date	**Quarterly Average**		***INR lakhs***
A	**High Quality Liquid Assets**	**Amount**	**Adjusted Amount**
	Level 1 Assets	3,39,600	3,39,600
	Level 2 A Assets	-	-
	Level 2 B Assets	-	-
B	**Total Stock of HQLAs (Adjusted for Capital)**		3,39,600
C	**Cash Outflows**	9,46,129	3,30,082
D	**Cash Inflows**	2,23,237	83,663
E	**Net Cash flow**		2,46,419
F	**25% of Total Cash Outflow**		82,521
G	**Higher of E or F**		2,46,419
	Liquidity Coverage Ratio		**137.81%**







12. Table DF- 9: Operational Risk

12.1. Qualitative Disclosures

12.1.1. Operational Risk Management Policy and Governance Structure

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

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

12.1.2. Risk identification, measurement, monitoring and reporting

Following are some of the key techniques applied to manage Operational Risk within the Bank. It involves both a qualitative and quantitative approach.

- **Product and Process reviews**: All new products and processes (including enhancements) are subject to a mandatory comprehensive review by the Operational Risk department. For Process related approvals, PrAC (Process Approval Committee) has been constituted in the month of February 2021 which mandates Operational Risk to convene the meeting at defined frequency. Accordingly, processes which are presented in the Committee are circulated in advance to all the PrAC members for review and approval. From Operational Risk, post review observations are raised to the respective functions for including additional controls for the risks identified during the assessment. Subsequent to closure, the new/enhanced processes are placed at the PrAC for approval. The Bank continuously reviews and enhances its key processes to adapt to industry best practices. ORMD has reviewed 32 process / products, in the period Q1 FY22. Few of them are Credit life SOP for TPP, Framework for review and monitoring of internal office account, Engagement with Spice money, Change in KYC guideline SOP and MOI for NR accounts etc.
- **UAT Testing** (including BRD and FSD): For any change management/ automation of products and processes, the department owners prepare the Business Requirement Document (BRD). The BRD is reviewed by key control and business functions for further improvements. Subsequently, the same is provided to the IT department within the Bank. The IT department then prepares the Functional Specification Document (FSD) detailing the scope of the project. Once the project is moved to testing stage, Operational Risk department performs the User Acceptance Testing (UAT) along with others to identify gaps in the actual deliverable versus that which was proposed in the BRD. These gaps are further addressed and closed before moving to production. During the quarter, 33 BRD's have been reviewed and UAT for 60 various activities such as FIG Collections/ CC account, ORACLE EBIZ - CBS Integration for Payments, Age validation for Privilege Scheme in HHD assisted app, Restructuring of MSE and Housing loan, Escrow account and collection ac-

count etc.

- **RCSA**: RCSA (Risk and Control Self-Assessment) is a forward-looking tool to identify and assess the level of risk inherent in any activity / process, the causes responsible for that risk and the status of existing controls to minimize the risk. Its result provides insight about known as well as potential Operational Risk areas in various process / business lines. Business being the first line of defence is responsible for carrying out RCSA activity as per the plan. Operational Risk being second line of defence is responsible for providing necessary guidance, training and inputs to the first line of defence for carrying out the RCSA. Accordingly, RCSA framework was approved in ORMC Apr'21 and during Q1 FY22, 4 RCSAs have been completed for 4 functions viz., Liabilities, Service Quality, Collections and TPP by conducting a workshop with critical team members of the function. Key areas of concern were presented in July ORMC. It is also planned to further complete RCSAs for 8 functions in the FY22.There is a time bound plan to close the open issues as observed during RCSA and an update is provided to ORMC and RMC-Board at regular intervals.
- **Key Risk Indicators**: During the quarter **29 KRIs** were monitored at an organization level as part of the Operational Risk Management Framework. 11 new KRI's were introduced May'21 onwards. The thresholds for the KRIs have been decided upon in consultation with the stakeholders. These KRIs will be analysed on a monthly basis and a comprehensive report will be submitted to the ORMC and Board at quarterly intervals with action plan for closure of open issues. KRIs for the period March 2021 to June 2021, were presented to the ORMC held in July'21 and were presented to the Board in June'21. In addition to Organizational KRIs, Functional KRIs for Liabilities were monitored for the period April 2021 to June 2021 and presented to ORMC held in July'21. The Bank is also in the process of enhancing the existing risk monitoring framework by defining Functional KRIs for other key Functions for better monitoring. It is planned to Introduce KRIs for 8 functions in FY22. Red KRIs which breached thresholds were discussed with stakeholders and actionable was presented in ORMC.
- **Loss Data Management** is in place to record material incidents and learn from errors and strengthening existing controls. Incidents are recorded as operational loss and near miss events. This is followed by a Root Cause Analysis (RCA) for critical incidents. EGRC module in SAS is implemented to record all loss events across the Bank. Significantly, the efforts of the Operational Risk team have resulted in greater reporting of operational risk incidents from the branches. The Bank has created a separate General Ledger Code (GLC) to record losses (separate for fraud and non-fraud) on account of these incidents and these are reported to the Board at quarterly intervals. The Bank encourages its personnel to report incidents in an unbiased manner without fear for retribution. The incident reporting process enables creation of loss database as per Basel definitions. The activities broadly include the

following:

- Reconciliation of General Ledgers (GL) to operational loss as recorded in SAS
- Root Cause Analysis (RCA) of critical events
- Quarterly loss data submission to Board

The Bank records instances along the Basel defined lines of Operational Risk events and process enhancements arising from these occurrences are tabled at the ORMC.

Loss Dashboard for the YTD 21-22 (as at July' 21 end):

	Count			Loss in Rs. Lakh		
Basel Risk Event Type – I	**Loss**	**Near Miss**	**Total**	**Gross**	**Net**	**Ops Loss**
Business Disruption and Systems Failures	55	2	57	₹ 14.37	₹ 1.25	₹ 0.99
Clients, Products, and Business Practice	18	0	18	₹ 7.37	₹ 4.33	₹ 0.39
Damage to Physical Assets	23	0	23	₹ 5.97	₹ 5.97	₹ 0.00
Employment Practices and Workplace Safety	0	4	4	₹ 0.00	₹ 0.00	₹ 0.00
Execution, Delivery, and Process Management	67	11	90*	₹ 110.45	₹ 24.59	₹ 6.57
External Fraud	194	14	208	₹ 56.20	₹ 40.43	₹ 13.21
Internal Fraud	94	0	94	₹ 167.71	₹ 57.42	₹ 40.87
Total as on July FY21-22	**451**	**31**	**494**	**₹ 362.07**	**₹ 133.99**	**₹ 62.03**

 # Total includes 12 gain events amounting to net gain of ₹ 0.23

- **Thematic reviews:** While carrying out RCSA, KRIs, UAT testing, incident reporting etc., Operational Risk team identifies few risk indicators warranting a special thematic review of the entire process. This enables the Bank to identify issues and gaps at minute level which are then taken up for rectification. These thematic reviews do not follow standardized risk identification techniques and therefore provide wider scope for a deeper and customized study of issues and gaps. Such thematic studies have enabled the Bank to further refine its existing processes and plug gaps that had been identified.

  RRU [49] Scorecard approach: The Bank has developed an internal scoring mechanism to capture all risk parameters at a granular level within the Bank i.e. branch level. The scorecard includes all facets of branch operations: Liabilities, Micro Banking, Housing and MSE loans and other branch related parameters.

[49] **Risk Review Unit**

Branches are categorized as High, Medium or Low risk based on these assessments on monthly basis. Final RRU score includes vertical wise score, dashboard and region wise high risk branches under different business verticals. Once the RRU scoring is done, analysis of high risk Branches and major contributing parameters are shared with respective stakeholders in the regions, for the purpose of taking corrective action. Additionally, Operational Risk team during their visits to such high risk Branches, discusses the parameters that are impacting their performance. Key policy decisions emerge from these scoring and reviews. The scorecard is continuously enhanced to include relevant parameters for optimizing the Operational Risk score. Existing scorecard parameters were reviewed in the current financial year and new parameters were incorporated.

The RRU Scorecard for Micro Banking (MB) was discussed with MB team for taking their inputs and this is presently under discussion for finalization. Similarly, scorecard with the revised parameters was discussed with Liabilities team. Based on their inputs, changes under LAF pendency, AOF pendency parameters was introduced. Revised scorecard is being now regularly presented to Liabilities team.

Also, the RRU Scorecard for MSE and Housing was discussed with the team for taking their inputs. Based on the discussions, few parameters were reviewed and further enhanced. Following modification have been done in MSE score card;

a. MSE RRU scoring methodology has changed from scoring at branch level to scoring at cluster level on decided parameters.
b. Branch wise data available has been converted to cluster data, basis branch to cluster mapping received from MSE product team.
c. Threshold of each parameter have been revisited, basis Sample Standard deviation of mean data.

Following enhancement have been done in Housing score card;

a. Criteria for branch selection: Branches that have minimum 20 live cases and at least 5 cases booked in last 3 months will be considered.
b. Credit score: Credit score for those branches which qualify above mentioned minimum criteria will be considered.
c. Loan disbursed DD cancelled: Due to Business dynamics, all DDs ageing above 45 days to be considered instead of current 10 days.
d. PDD tracker: To consider PDDs which are 45 days overdue from the recorded due date in the system.
e. Additional parameter: Loss of original customer document was proposed as a parameter however as there was no such incidence after September 2020 hence, same has not been included in the scorecard.

Total number of parameters that are being tracked presently has increased to 50 (Micro Banking-13, Liabilities – 19, MSE & Housing - 9 each) from 34 earlier. At present, entire scorecard is being computed manually. The Bank is in the process of automating the scorecard to make it a more effective tool.

- **User Access reviews** are conducted for critical applications to ensure that access and role matrix are well defined and that access is commensurate with the responsibility assigned. In Q1 FY22, User access review has commenced for Br.Net and Finacle system of the Bank. Operational Risk team has drafted a Policy on User access review covering all the critical aspects of User life cycle starting from activation to de-activation of ID's, Review Frequency, Process to be followed for managing vendor ID's, Process to be followed for user de-activation on exit from organisation. Draft note is under review by stake holders and on receipt of the suggestions and inputs, note will be enhanced further and circulated.

  Operational Risk team has initiated a request with individual business teams who manages the applications to have a comprehensive SOP for each of the applications managed by them with role based access given in system and approval matrix to be followed. Final draft note has been circulated to PrAC (Process Approval Committee) members for Trucel, Glow & SMELO and approved for Rupee power application and it is proposed to initiate preparation of SOP for other verticals as well who are managing applications viz., Br.Net, CRM Next etc.
- **Exceptions Handling Mechanism** is a new initiative, which started from July 2020 as guided by NIDM (National Inter Departmental Meeting). List of 27 exception reports were identified and tagged to Operational Risk for initiating the review. 24 exception reports have been extracted so far and reviewed / discussed with relevant stake holders for needful action. All observations have been circulated to relevant stake holders and corrective action has been initiated. Extraction of remaining exception reports is in progress.
- **RCU process:** The Bank has established a monitoring mechanism for identifying and rectifying instances of suspicious customers doing banking business. On a monthly basis, Vigilance department undertakes RCU check from a sampling of liability customers. The outcome of the RCU check provides a commentary on the customer profile. For all cases identified as 'negative', the Operational Risk department undertakes a special review in consultation with branch personnel and recommends corrections. For customers who are found to be negative after the rectification measures, exit strategies from customers are explored. This mechanism has enabled the Bank to avoid undertaking business relationships with potential anti-social members of society. 4254 accounts have been sampled by RCU in FY 21-22 till June'21 out of which 45 accounts have been finally tagged as Negative till the end of July'21. Additionally, 2128 accounts have been reviewed basis undelivered deliverable post account opening in FY 21-22, out of which 689 accounts have been finally tagged as Negative till end of July'21. Account Freeze process has been initiated for all the final Negative cases as per the new RCU Process after serving adequate notices to the customers.
- **Digital Account Monitoring:** The Bank re-launched Digital SA (Savings Accounts) and TD (Term Deposits) in the month of May 2020 with enhanced monitoring

measures around the product. 31369 Digital accounts have been opened till 30th Jun 2021 since the re-launch. Each account is being eyeballed by the Operational Risk team and observations with respect to demographic details have been shared with business for onwards corrective measures. As a process, Operational Risk team has also been monitoring the transactions done in all digital accounts every fortnight, basis certain pre-defined triggers around value, fraud and velocity. All accounts with suspected transaction patterns are referred to Vigilance and Compliance team for onwards investigation and action. Additionally, review around common address, email id, match with accounts where regulatory notices are sent etc. is also performed on a regular basis and triggers if any, gets shared with Vigilance and business for onwards action.

- **Branch Risk assessment:** Branches across regions are reviewed against a checklist devised by the Operational Risk team to ensure adherence to branch processes. The checklist is reviewed and enhanced every quarter to strengthen monitoring. With onset of COVID-19 and lockdown, and physical branch visits curtailed for the time being, the check list has been restructured to ensure that monitoring and review is not eased and can be done on a remote basis, based on reports derived from systems and through remote access and verification of registers. Remote monitoring is the process of checking, verification and identification of process lapse and other operational errors without visiting the Branch, by working from remote locations. Critical and repeat observations are shared with the leadership team for remedial /corrective actions. Revised checklist was implemented from May 2021 post presenting the same in ORMC. Till June 30, 2021, Operational Risk has reviewed 99 branches which is nearly 41.25% of the total branches that is proposed to be covered this financial year. The plan is to cover 240 branches through remote monitoring in the current financial year.
- **Outsourcing Risk: 'Outsourcing'** is defined as the Bank's use of a third party (either an affiliated entity within the corporate group or an entity that is external to the corporate group) to perform certain activities on a continuing basis that would normally be undertaken by the Bank itself, now or in the future. The Bank has in place an outsourcing policy which provides guidance on outsourcing certain functions to specialized agencies for increasing efficiency and lower costs. The outsourcing policy is framed in compliance to various RBI guidelines on outsourcing issued from time to time. Key activities undertaken during Outsourcing are as follows:

  Pre - on boarding risk assessment: All vendors, deemed as material, are subjected to a rigorous pre on boarding risk assessment which is done by both Operational Risk team and the Information Security team and this is repeated at annual intervals. Observations from these risk assessments are then shared with concerned functions for resolution. Post satisfactory responses to the observations raised, CRO approves on boarding of the vendor. In FY21, pre-on boarding risk assessment of 21 vendors was carried out.

Post – on boarding risk assessment: All material vendors are also subjected to a periodic post on boarding risk assessment as defined in the policy. This assessment is carried out by Information Security Risk team and Operational Risk team. Observations/gaps are shared with concerned function for rectification and response. These key observations along with department response are placed at ORMC and RMC-B on a quarterly basis.

Master tracker maintenance: Operational Risk team maintains a master tracker of all the outsourcing agreements. Details of agreement renewals are tracked and followed up with the concerned functions for renewal within timelines. Any overdue arrangements / agreements are escalated to ORMC.

Annual review of material vendors: Operational Risk team along with CISO's team carries out annual risk review of material vendors. Annual review of the applicable vendors will be carried out starting from Aug'21.

Outsourcing done by the Bank is subjected to an annual audit by the Internal Audit team who provide the required compliance certificate to RBI. Annual risk assessment of almost 50 vendors was carried out in FY21.

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

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

  Bank has established a Business Continuity Management Committee at apex level to monitor the business continuity preparedness of the Bank on an on-going basis. Further, the Bank's Business Critical Systems undergo periodical disaster recovery drills/tests in order to make sure that the recovery process becomes more robust and efficient to recover from any disaster / crisis situations. The observations of DR drills along with root cause and learnings are recorded and the same are placed to the IT Strategy Committee of the Board on quarterly basis. The Bank also has a Board approved Cyber Crisis Management Plan for tackling cyber threat / attack.

  Bank reviews BCMP policy and plan documents annually and enhances the documents as per the changes made in the Bank's Business Critical processes and activities. Bank also conducts periodic BCP testing considering various Disruptive scenarios which helps to identify the gaps in recovering and resuming the Business Critical processes after the disruptive events. On an ongoing basis, BCP testing for branches which are selected randomly is conducted to ensure that the recovery process becomes more robust and efficient to recover from any disaster / crisis situations. The BCP test results of branches, IT, CTS, and Payments along with their respective observations and recommendations are placed before the ORMC and Risk Management Committee of the Board at every quarter. These learnings are documented in the respective Business Continuity Plan documents and the same are placed to RMCB. In Q1, FY22 49 Planned BCPs and 68 unplanned BCPs were conducted. BCP testing was done for Treasury department which was successful and for Phone Banking departments which were partially successful due to connectivity issue and work is in progress to fix the issue noticed during BCP and it is proposed to re-initiate BCP for Phone Banking department in this Quarter. Business Impact Analysis is completed for Liabilities, Treasury, Phone Banking, Regional office and HR functions of the Bank.

Internal Financial Control (IFC) testing: This is an annual exercise and done by the Operational Risk team. The team along with concerned stakeholders prepare and enhance Risk and Control Matrixes (RCMs). The financial and operational controls in these RCMs are then put to test by collecting samples from across the review period and from different regions, which are then evaluated for success or failure of the control effectiveness. The critical gaps observed during such testing are discussed with concerned functions for upgrading controls which may include automation of the controls. The result of this evaluation is also presented to ORMC and RMC of Board to update them on effectiveness of the internal controls of the Bank, and take guidance. This result is also shared with the Bank's external auditor to provide insight on adequacy and effectiveness of the controls in the Bank. The IFC testing is also mandatory requirement as per Companies Act, 2013. IFC testing for the previous financial year has been completed and an update on the same was presented to ORMC held in the month of July'21. IFC Framework was also enhanced and approved by ORMC held in the month of July'21. It is proposed to commence IFC testing for this FY22 in the month of Aug'21 by way of enhancing the existing RCM's in consultation with stakeholders.

12.1.3. Information Technology and Security Risk

On a regular basis, the Bank disseminates information for creating awareness among employees on the importance of data-security along with emphasis on the requirements to protect the customer's data. Awareness emails regarding the data loss prevention, Ransomware, Phishing, smart phone security and how the assets given to employees are supposed to be safeguarded by them, are part of cyber security awareness creation. Further periodic awareness simulations are also conducted to check and spread the awareness.

The Bank takes cognizance of the increased importance of Data Security. With Business Continuity Management being a critical aspect, the Bank has adhered to intelligence and best practices suggested from the various regulators, organizations like CERT-IN, DSCI, NIST, etc. to ensure Data Security. During the year, that Bank had focused on:

- Increased awareness of all stakeholders
- Adoption of zero trust solutions
- Enhanced logging and monitoring
- Automation of threat intelligence
- Coordinated incident response

The Bank has also enhanced its Incident Management and Cyber Crisis Management Plan to deal with incidents and potential cyber crisis. There is also a policy governing the acceptable usage of information and system assets and policy to ensure continuity of business operations in the event of a disaster.

Given the dynamic nature of risks that the Bank faces, the Bank periodically assesses the risks and develops strategies to ensure that risks are mitigated to an acceptable level. Being technology-oriented, most of the risks are technological in nature and thus the Bank has invested heavily in security technologies. A 24x7 Cyber Security Operations Centre has been established to detect and contain security anomalies. This Cyber SOC is also responsible to actively monitor emerging threats based on intelligence gathering. The Bank has developed a comprehensive awareness program wherein employees are trained during on-boarding, periodic phishing simulations are carried out and awareness mailers are broadcast to both employees and customers. Recent awareness emails pertaining to frauds based on COVID vaccination, spam COVID calls were circulated intending to spread awareness among the employees and keep them abreast of the pertinent COVID frauds.
Ransomware simulation pretending to offer rewards was also conducted to check the employees' awareness about the frauds.
The Bank has enhanced the monitoring capacity by creating use cases to have better alerting on the SIEM (Security Information Event Management) system and further action taken by the Security Operations Centre (SOC). This is intended to avoid any potential delays in detection and response to the Cyber-Attacks.

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

13.1. 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 200 basis points 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.

13.2. Quantitative Disclosures

13.2.1. Earnings at Risk (Earnings Perspective) (Rs. in Lakh)

Interest Rate Risk in the Banking Book (IRRBB)			
Sl. No.	Country	Interest Rate Shock	
		+200 bps shock	-200 bps shock
1	India	(11,500)	11,500
2	Overseas	-	-
		(11,500)	11,500

13.2.2. Economic Value Perspective (MDG Approach) (Rs. in Lakh)

Category	Items	Amount
A	Equity	2,68,312.69
B	Computation of Aggregate RSA	18,54,764.15
C	Computation of Aggregate RSL	16,37,638.24
D	Weighted Avg. MD of RSL across all currencies	0.93
E	Weighted Avg. MD of RSA across all currencies	2.06
F	MDG	1.24
G	Change in MVE as % of equity for 200bps change in interest rate	(17.18%)
H	**Change in MVE in absolute terms**	(46,096.12)

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

Rs. in lakh

Summary comparison of accounting assets versus leverage ratio exposure measure		
	Item	**Amount**
1	Total consolidated assets as per published financial statements	14,12,823

2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	4,57,506
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)	86,100
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off- balance sheet exposures)	11,164
7	Other Adjustments	-42,067
8	**Leverage ratio exposure**	19,25,526

15. Table DF 18: Leverage ratio common disclosure template

Rs. in lakh

	Table DF-18: Leverage ratio common disclosure template	
	Item	**Amount**
	On-balance sheet exposures	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	18,70,329
	Domestic Sovereign	2,82,847
	Banks in India	1,00,581
	Corporates	74,021
	Exposure to default fund contribution of CCPs	58
	Other Exposure to CCPs	
	Others	14,12,823
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(42,067)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	**18,28,262**
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	0
5	Add-on amounts for PFE associated with all derivatives transactions	0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	0

7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	0
8	(Exempted CCP leg of client-cleared trade exposures)	0
9	Adjusted effective notional amount of written credit derivatives	0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0
11	**Total derivative exposures (sum of lines 4 to 10)**	0
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	86,100
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0
14	CCR exposure for SFT assets	0
15	Agent transaction exposures	0
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	86,100
	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	20,274
18	(Adjustments for conversion to credit equivalent amounts)	9,110
19	**Off-balance sheet items (sum of lines 17 and 18)**	11,164
	Capital and total exposures	
20	**Tier 1 capital**	2,54,596
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	19,25,526
	Leverage ratio	
22	**Basel III leverage ratio**	**13.22%**

Presently the contribution of Tier I capital to Total Basel II capital is 94.67%. 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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