PILLAR III DISCLOSURES- 30th JUNE 2018

Ujjivan Small Finance Bank (hereinafter called "the Bank") has prepared this disclosure report in compliance with the directions of Reserve Bank of India (RBI) vide its circular RBI/2015-16/58; DBR.No.BP.BC.1/21.06.201/2015-16 dated July 1, 2015. The document provides a review on key observations pertaining to its capital adequacy, credit quality and review of its key risks as at 30th June 2018. The Bank has its registered office in New Delhi and is headquartered in Bangalore and has regional offices in New Delhi, Kolkata and Pune. There are no foreign operations of the Bank.

The Bank has entered its second full year of business operations. It was included in the second schedule of the RBI Act, 1934 vide a notification dated 7th September, 2017 and is therefore a Scheduled Commercial Bank. As at 30th June 2018, there were 275 bank branches of which, 227 were full service commercial bank branches and 48 were either bank branches in Unbanked Rural Centres (URCs), or Qualifying URCs (defined as a branch in an unbanked area which provides complete range of banking services including an Automated Teller Machine (ATM) on the branch premise) or Business Correspondents (BCs). The remaining erstwhile 186 microfinance branches continued to operate as asset centres, most of which are slated for conversion into bank branches this financial year.

The Bank provides retail banking services (which include Para- banking activities) to economically active poor in urban and semi urban areas. As at quarter end, the Bank has successfully expanded its offerings by launching two wheeler loans on a pilot basis. The Bank has also completed the implementation of UPI. Digitization of its products and services is a major initiative undertaken by the Bank. The Bank awaits confirmation from RBI for its Authorised Dealer (AD) Category II license before it rolls out product and services to Non Resident Indians (NRI). The Bank has also commenced discussions with a few lending institutions to build a portfolio of loans to Financial Institutions, on a select basis. All applications and services have been configured and tested to commence offer of Personal Loans to open market customers from the next quarter.

The Bank aims at establishing itself as the best in class mass market bank in the country. The customer base is poised to increase multi-fold as Micro Banking will roll out financial solutions for the families of the current 4-million customers. The Bank will offer a wider suite of products and services, based on the needs of the customers in various segments- the financially underserved micro-enterprises, the formal and semi-formal Micro and Small Enterprises (MSEs), the salaried class who aspire for better financial products, senior citizens, the NRIs, the rural population- agrarian and others, and the millennial who expect efficient and easily accessible modern banking. The reach of the Bank will be powered by modern digital and mobile technologies, supplemented by branch expansion in select cities, towns and rural centres. The use of data analytics will enable the Bank to offer better products, to make targeted sales and marketing efforts, deepen the relationship with customers and manage its risks pro-actively. As a Non-Banking Financial Company- Micro Finance Institution (NBFC- MFI), prior to conversion into a Small Finance Bank (SFB), the parent entity had played an important role in industry development by helping set up Microfinance Institutions Network (MFIN) and credit bureaus for microfinance. The Bank would, under overall regulatory framework, take similar initiatives to grow the financial services industry for the mass market. This non-linear growth would entail substantial investment and sustained returns for all stakeholders.

Table DF- 1: Scope of Application

1.1 Qualitative Disclosures

Parent Organization: Ujjivan Financial Services Limited (UFSL)

The disclosures in this document pertain to the Bank as a stand-alone and independent entity. The Bank does not have any subsidiary nor does it have any interest in any insurance entity.

1.1.1 List of group entities considered for consolidation

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

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

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

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

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

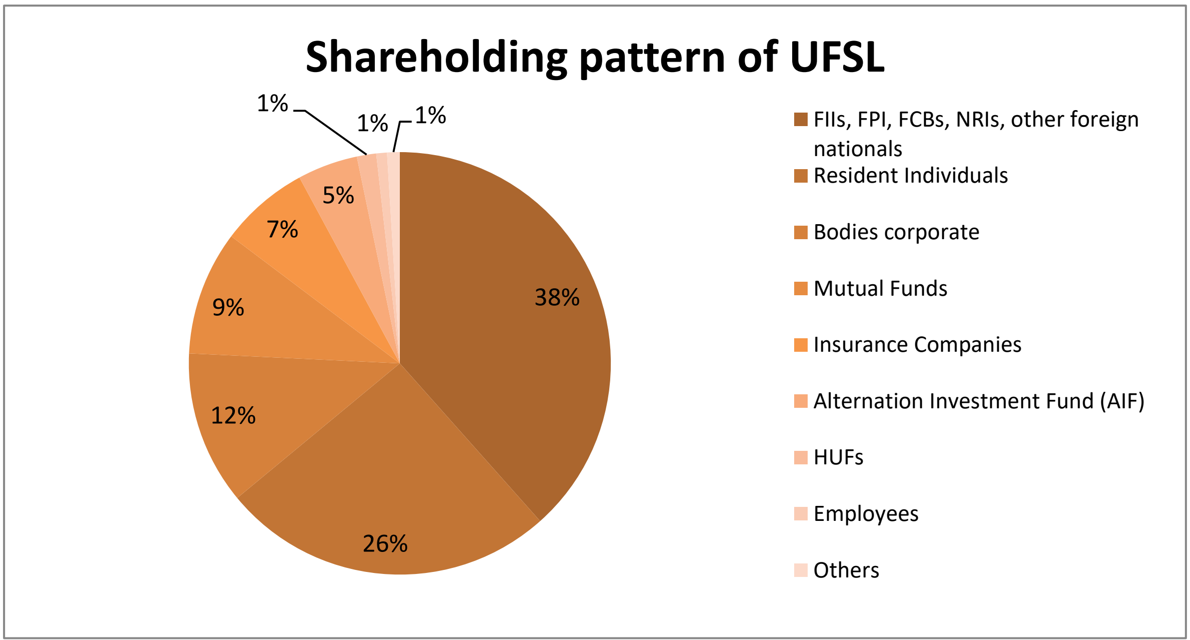
DF-2- Capital Structure

2.1 Qualitative Disclosures

2.1.1 Equity capital

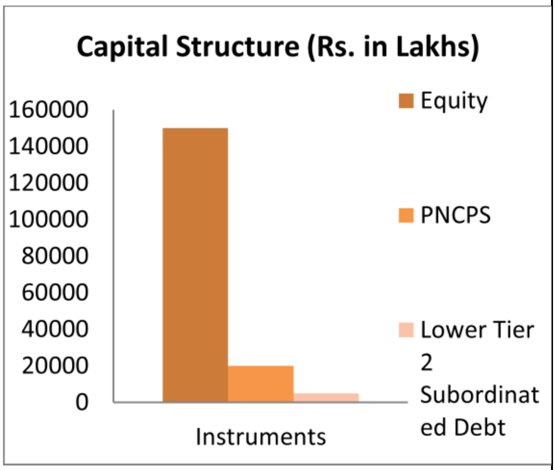
The Bank has an authorized capital of Rs.1, 50,000 Lakhs in the form of Common Equity qualifying as Tier 1 capital under the guidelines of RBI. The Bank has issued, subscribed and paid up equity capital of Rs.1, 44,003 Lakhs, divided into 1,44,00,36,800 shares of Rs.10 each.

As per the Agreement to Transfer Business Undertaking (referred to as 'BTA') dated January 12, 2017, Ujjivan Financial Services Limited (UFSL), the parent holding company of the Bank, transferred its business undertaking by way of a slump sale on a going concern basis to USFB with effect from February 01, 2017. With this transfer 100% shareholding of the Bank was transferred to UFSL, the holding company and this ownership continued as at 30th June 2018. The Licensing guidelines for SFBs permit the aggregate foreign investment in a private sector bank from all sources up to a maximum of 74% of the paid-up capital (automatic up to 49% and approval route beyond 49% to 74%). By limiting foreign shareholding in the holding company to 38% (including NRI holdings) as at the quarter end, the Bank was fully compliant with RBI guidelines on licensing. Further, in compliance with the licensing guidelines, UFSL is registered as an NBFC-Non-Deposit-taking Systemically Important - Core Investment Company – (NBFC-ND-SI-CIC) with RBI and is the non-operating holding Company. The shares of the holding company are listed and are actively traded with a closing market price of Rs 377.25 as at 29th June 2018. The licensing guidelines require the Bank to list its shares within three years of reaching a net worth of Rs 50,000 lakhs. While the net worth of the Bank is in excess of this mandated figure, it is currently only in its second complete year of operation and therefore the shares of the Bank are yet to be listed.



The Capital Structure of the Bank is provided below:

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



2.1.2 Details of PNCPS instruments

Perpetual Non-cumulative preference shares can be issued by Indian banks, subject to the legal provisions, in Indian rupees and in compliance with the terms and conditions issued by RBI for qualification. A key characteristic to PNCPS is that there can be no maturity date and no step ups or other incentives to redeem with an exception to call option exercisable by the Bank not earlier than the fifth anniversary of the deemed date of allotment. The rate of dividend payable to the investors may be either a fixed rate or a floating rate referenced to a market determined rupee interest benchmark rate.

The claims of the investors in the instruments are:

- Superior to the claims of investors in equity shares;
- Subordinated to the claims of Perpetual Debt Instruments (PDIs), all Tier 2 regulatory capital instruments, depositors and general creditors of the Bank; and
- Is neither secured nor covered by a guarantee of the issuer nor related entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis Bank creditors.

Tier II Series name	Issue Amount (Rs. in Lakhs)	Issue date	Date of Redemption	Basel III complaint (Y/N)	Interest rate (% p.a.) (on a fixed rate basis)
PNCPS	20,000	9th Feb 2017	Perpetual	Yes	11% p.a.

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

[1] Authorized capital

[2] Perpetual Non-cumulative Preference Shares

2.1.3.1 Details of Subordinated debt instruments (in Lakhs)

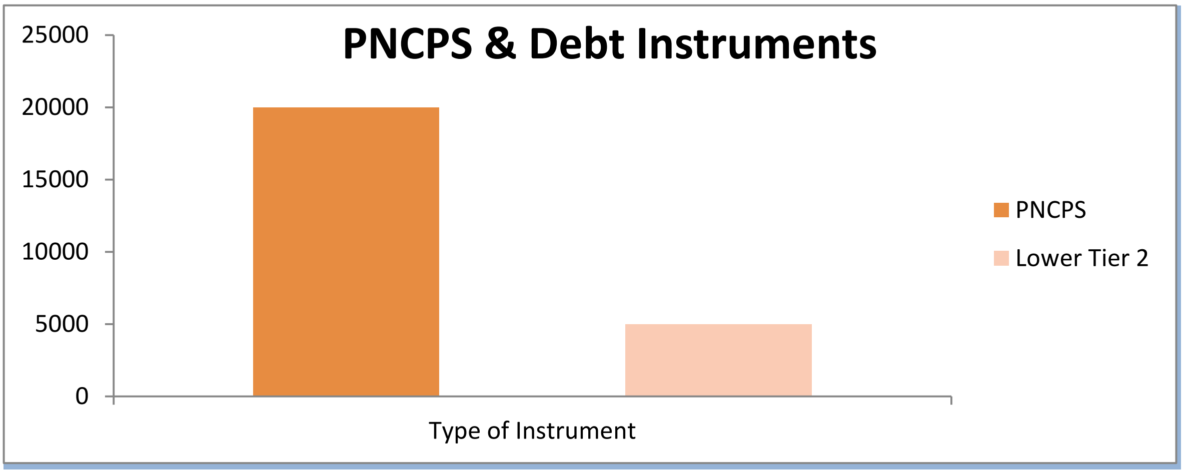
The subordinated debt capital instruments are issued as bonds / debentures by the Bank and meet the terms and conditions to qualify for inclusion as Tier II Capital for capital adequacy purposes.

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

The claims of the investors in instruments are:

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

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



The Bank has not issued any Debt instrument qualifying as Upper Tier II bonds.

Table DF- 3: Capital Adequacy

3.1 Qualitative Disclosures

The Bank has been well capitalized since inception. As required by RBI in its operating guidelines to SFBs[3], the Bank is required to adopt the Standardized approach for Credit Risk and maintain a minimum Capital to Risk Weighted Assets Ratio (CRAR) of 15% segregated as under:

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

In comparison, as at 30th June 2018, the Bank's capital adequacy, when computed purely on the basis of risk weights for its Credit Risk exposures was 23.73% as against 23.04% as at 31st March 2018, despite the increase in Credit Risk Weighted Assets (CRWA). This was enabled by improved profitability as at the quarter end and the progressive repayment of its legacy loans ("grandfathered loans"), which attracted higher risk-weights in view of floating charges/lien created on loans granted out of such borrowings. In terms of RBI directive, the assets under lien for ''grandfathered loans'' attract an additional risk weight of 25%. These are high cost borrowings and the aim is to have these fully repaid or prepaid to the extent feasible within the current financial year.

SFBs are not required to have a separate capital charge for Market Risk and Operational Risk for the time being in terms of an RBI communication dated 8th November 2017 marked DBR. NBD. No. 4502/16.13.218/2017-18. However, as a good governance practice, and as directed by its Board, the Bank separately computes capital charge for all the Pillar 1 risks viz. Credit, Market and Operational Risk following the Standardized Approach (SA) for Credit Risk, Standardized Duration Approach(SDA) for Market Risk and the Basic Indicator Approach(BIA) for Operational Risk. In computing capital charge for Operational Risk, the Bank has used Gross Income for the first completed year of operation, progressively increasing it each quarter, till it has a record of three completed years of operation. This necessarily implies increasing Operational Risk RWA on a quarter on quarter basis, which is cushioned by improved profitability to minimise any impact on the overall capital adequacy position of the Bank.

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

The Bank has recently submitted its first Internal Capital Adequacy Assessment Process (ICAAP) document to RBI which includes an analysis of all Pillar I and Pillar II Risks and an evaluation of capital requirement to support its projected growth in business. Based on the assessment made, Capital adequacy will remain comfortable till mid- 2020, though the Bank is gearing itself to raise Tier 2 capital to maintain a healthy cushion over the mandated regulatory minimum.

Although, the Bank follows the Basel II guidelines for computing its capital adequacy, for its internal and regulatory reporting, it also complies with certain aspects of Basel III requirement, such as computation and maintenance of RBI prescribed minimum Liquidity Coverage Ratio (LCR) and Leverage Ratio (LR).

3.2 Quantitative Disclosures

The break-up of Basel II capital funds (in lakhs) as at 30th June 2018 is as follows:

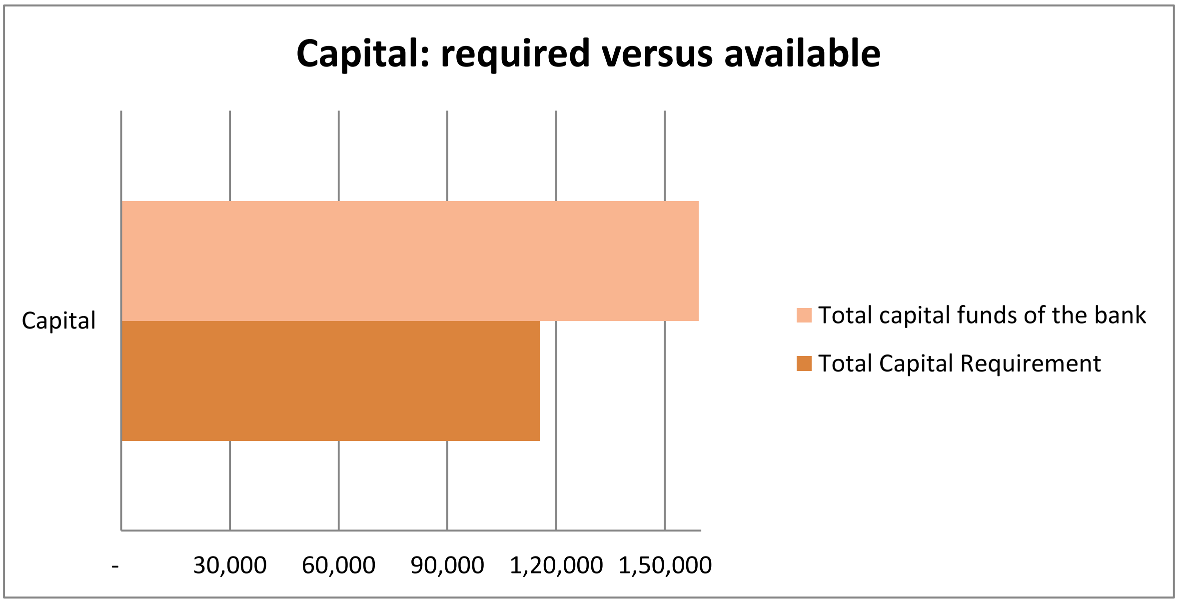
Capital Funds		
	Position as on 30th June 2018	**Amount(Rs. in lakhs)**
A	**Tier I Capital**	
A.1	Paid-up Share Capital	1,44,004
A.2	Reserves	5,303
A.3	Perpetual Non-Cumulative Preference Shares (PNCPS)	20,000
A.4	Minority Interest	-
B	**Deductions**	
B.1	Investments in instruments eligible for regulatory capital of financial subsidiaries/associates	-
B.2	Securitisation exposures including credit enhancements	-
B.3	Deferred Tax Assets	6,112
B.4	Good will and Adjustments for less liquid position/intangibles	8,711
C	**Net Tier 1 Capital**	1,54,484
D	**Tier II Capital**	
D.1	General Provisions	3,824
D.2	Upper Tier 2 capital instruments	-
D.3	Lower Tier 2 capital instruments	1,000
E	**Deductions**	
E.1	Investments in instruments eligible for regulatory capital of financial subsidiaries/associates	-
E.2	Securitisation exposures including credit enhancements	-
F	**Net Tier 2 Capital**	4,824
G	**Total Eligible Capital**	1,59,308

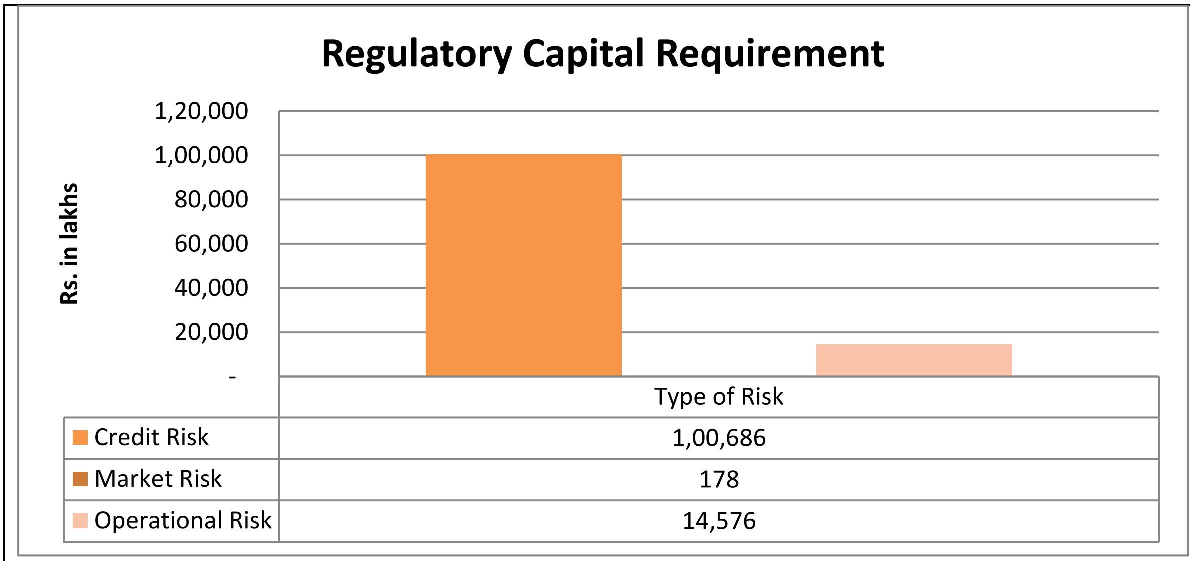
Capital Requirements for Various Risks		
Sl.No	**Capital Requirements for various Risks**	**Amount(Rs. in Lakhs)**
A	**Credit Risk**	**1,00,686**
A.1	For non-securitized portfolio	1,00,686
A.2	For Securitized portfolio	-
B	**Market Risk**	**178**
B.1	For Interest Rate Risk	178
B.2	For Equity Risk	NIL
B.3	For Forex Risk (including gold)	NIL
B.4	For Commodities Risk	NIL
B.5	For Options risk	NIL
C	**Operational Risk**	**14,576**
D	Total Capital Requirement	1,15,440
E	Total Risk Weighted Assets	8,55,662
F	**Total capital funds of the bank**	**1,59,308**

Basel II Ratios as at 30th June 2018 (Rs.in Lakhs)

Particulars	**Amount/Ratio(Only Credit RWA)**	**Amount/ Ratio (all Pillar 1 risks)**
Tier I Capital	1,54,484	1,54,484
Tier II Capital	4,824	4,824
Total Capital	**1,59,308**	**1,59,308**
Total RWA	**6,71,238**	**8,55,662**
Tier I Ratio	23.01%	18.05%
Tier II Ratio	0.72%	0.56%
CRAR	**23.73%**	**18.61%**

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





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

Particulars	April-18	May-18	Jun-18
Credit RWA (Rs.in Lakhs)	6,57,392	6,67,818	671,237.97
Tier I CRAR	22.61%	22.76%	23.01%
Total CRAR	23.39%	23.65%	23.73%

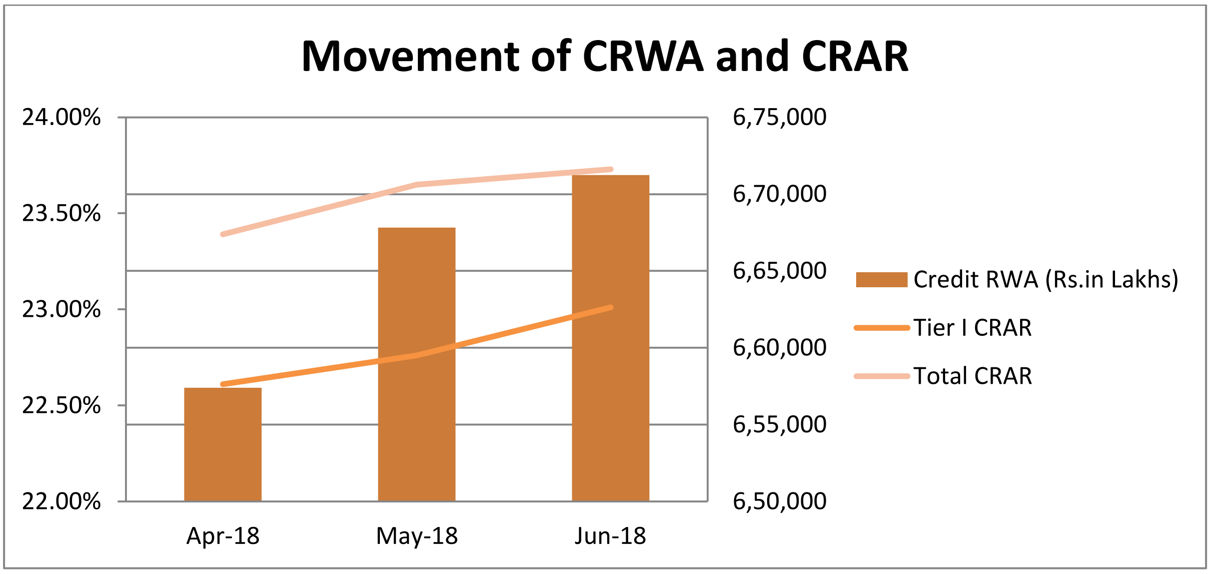


Table DF- 4: Credit Risk: General Disclosures

4.1. Qualitative disclosures

4.1.1. Definitions of past due and impaired

A Non-Performing Asset (NPA), as defined by the RBI, shall be a loan or an advance where-

- Interest and/or instalment of principal 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
- In case of advances granted for Agricultural purposes
    - The instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops
    - The instalment of principal 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.

4.1.2. Provisioning norms of the Bank

The Board reviews the provisioning norms of the Bank at regular intervals to determine if any enhanced provisioning is required based on credit performance. Despite a history of low Portfolio At Risk (PAR) and delinquencies, the microfinance portfolio of the Bank is unsecured and at times of extraneous events, like demonetization or the Andhra crisis, the impact can be severe. Taking cognizance of this, the Bank has deemed it appropriate to follow a conservative approach in its provisioning policy. This is reflected in the higher than mandated provisions in each overdue bucket. Additionally, microfinance loans classified as 'benami loans' and 'sub-lending' are considered as loss asset and fully provided for immediately while 'abscond cases' are considered as loss assets warranting 100% provisions at 91 days past due (DPD).

The comparison between internal provisioning policy vis a vis regulatory norms are furnished as under:

Unsecured Loans: Microfinance loans and other unsecured loans

Rs. in lakhs

DPD Bucket	OSP	Internal Rate	Provisions[4]	RBI Rate	Provisions as per RBI	Difference
91-150	1,485	25%	512	25%	371	141
151-180	773	50%	454	25%	193	261
181-365	7,061	75%	5,879	25%	1,765	4,114
366-455	6,080	100%	6,080	25%	1,520	4,560
>455	5,230	100%	5,230	100%	5,230	-
Grand Total	**20,629**		**18,155**		**9,080**	**9,076**

[4] After factoring provisioning norms as applicable for benami, sub-lending, abscond and other fraud cases.

Secured Loans: All secured loans

Rs. in lakhs

DPD Bucket	OSP	Internal Rate	Provisions[4]	RBI Rate	Provisions as per RBI	Difference
91-180	71	25%	27	15%	11	16
181-455	54	50%	31	15%	8	22
546-720	2	100%	2	25%	1	2
Grand Total	**128**		**60**		**19**	**40**

As would be seen from the table above, the Bank has provided in excess of the mandated minimum in each bucket and had made a total excess provision of Rs 9,116 lakhs. The impaired portfolio is therefore more than adequately provided for, requiring no charge on account of any underestimation of Credit Risk. Provision Coverage Ratio as at 30th June 2018 was 87.76%. Yet, the Board has asked that the Bank to review the possibility of increasing its provision on standard assets progressively, to be compatible with the RBI mandated provisioning norms for a microfinance institution. This is in recognition of the fact that loans to the microfinance sector are unsecured, and while there is an improving trend post demonetisation, the risk factors remain, and as a prudent measure, increased provisioning on standard assets may be required.

4.1.3. <u>Rescheduled loans</u>

All loans, where the repayment terms of existing advances have been revised in order to extend the repayment period and/or decrease the instalment amount as per the borrower's request are marked as rescheduled loans. Loan rescheduling is done for genuine cases and not for technical reasons.

- Rescheduling results in immediate down-gradation of the loan, i.e. a standard loan becomes sub-standard and immediately attracts provision as per the asset classification and subsequent provisioning norms.
- If the account continues to deteriorate post rescheduling, it will slip into further lower asset classification with reference to pre-rescheduling repayment schedule and attract provisioning as per the policy.
- If a non-performing asset is rescheduled, it shall continue to have the same classification as prior to rescheduling and slip into further lower asset classification as per asset classification norms with reference to the pre-rescheduling repayment schedule and attract provisioning as per policy. If the account performs regularly, it will be upgraded after one year of satisfactory performance of the loan.
- As required by RBI guidelines, in each case of rescheduled loans for its MSE and Housing vertical, the Bank makes an additional provision by computing comparable NPVs for the "before" and "after" scenarios. For the microfinance book, this is provided for as a percentage of the overall restructured book.

4.1.4. Write-offs

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

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

For Q1 of FY 2018-19, the Risk Management Committee has approved write-offs to the tune of Rs 5,603 Lakhs. These are advances where no recoveries have been made in the recent past. Further, the Bank is of the opinion that these advances have low probability of recovery. The trend of the last 4 quarters is given below:

Period	Amount (Rs. in Lakhs)
Q2 of 2017-18	8,868
Q3 of 2017-18	3,305
Q4 of 2017-18	4,480
Q1 of 2018-19	5,603

Total write off in the first quarter of the current financial year was higher than that in the preceding two quarters. By doing so, the Bank had effectively written off almost the total portfolio affected by demonetisation. This was a decision made by the Board after careful evaluation of the residual portfolio. With the increased write off, Gross Non Performing Assets (GNPA) as a percentage to the overall book had reduced by June 30th 2018

4.1.5. Credit Risk Management

As at 30th June, 2018, Portfolio at Risk (PAR) %> 0 days had improved from 4.1% to 3.3% on account of continued Non Performing Assets (NPA) collections of Rs. 2,678 lakhs and portfolio clean-up of Rs. 5,603 lakhs. Absolute PAR reduction for the quarter was Rs. 4,807 lakhs, closing at Rs. 25,635 lakhs (March 2018 – Rs. 30,443 lakhs). Incremental overdue accounts were however on an increasing trend (monthly average of 7,000 cases compared to 5,000 cases last quarter) on account of holidays, floods and heavy rains.

Newly disbursed loans (12 months book) continue to exhibit robust performance (% PAR >0 days at 0.39% vs. 0.32% in March 2018). Recovery efforts across multiple channels show an encouraging trend. Provided below are the Q1 figures:

- NPA collections by collections team – Rs. 2,803 lakhs
- Collections Tele calling team conversions – Rs. 612 lakhs
- Collections through legal notices – Rs. 136 lakhs (3,765 notices)
- Settlement recovery by collections team – Rs. 135 lakhs

Significant changes in the field and credit policies are being undertaken in response to changing market conditions. This included an area survey of 170 erstwhile affected branches following which business has resumed in 141 branches. Across these 141 branches new acquisitions are allowed after demarcation of high risk areas and occupations. There has been a revision to the indebtedness cap increased to a maximum of Rs. 1 lakh for all repeat loans. The Bank has also introduced comprehensive bureau reports (Microfinance Institutions (MFI) + consumer loans) for all borrowers.

4.1.5.1. Key Metrics:

A snapshot of the quarter end comparison of key parameters is given below:

Particulars	March'17	Mar'18	June'18	YTD Variance
Outstanding Principal (Rs. in lakhs)	5,87,565	7,56,045	7,78,700	22,655
Cumulative Repayment Rate (CRR)	96.7%	96.0%	96.8%	0.8%
Monthly Repayment Rate (MRR)	88.5%	97.3%	97.9%	0.6%
Total Delinquent Accounts	4,30,376	2,26,076	1,85,136	40,940
Incremental Overdues (IOD)	27,917	2,909	6,633	3,724
PAR>0 Days (Rs. in lakhs)	65,070	30,443	25,635	4,807
%PAR > 0 Days	10.2%	4.1%	3.3%	0.8%
On-time Repayment Rate	82.9%	91.3%	91.5%	0.2%
GNPA	0.28%	3.65%	2.68%	0.98%
YTD Write off Amount (Rs. in lakhs)	550	17,653	5,603	NA

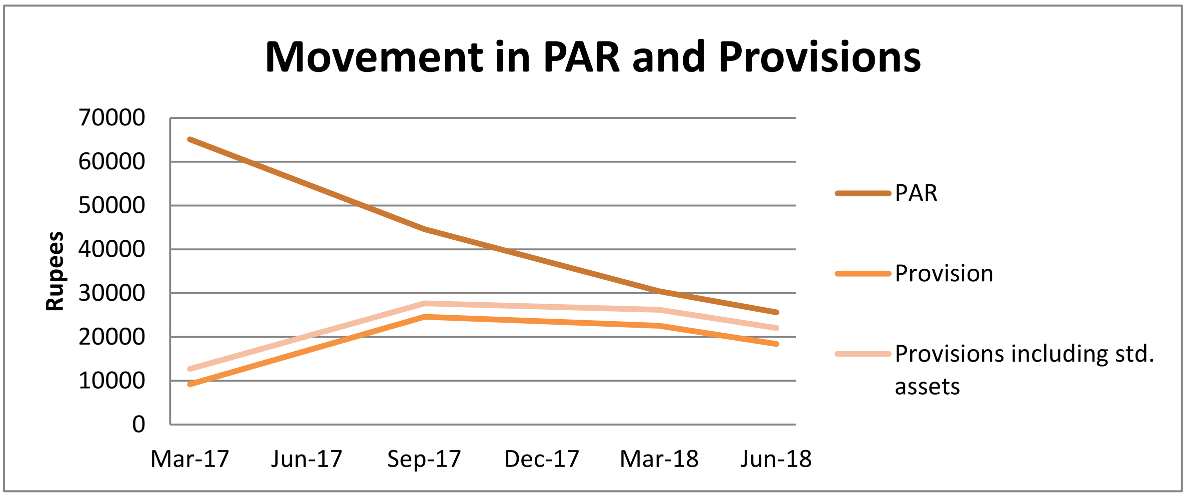
- Overall delinquent accounts had reduced by 40,940 during the year; 37,151 accounts written off and 3,789 accounts normalized
- On time repayment rate continues to improve, stood at 91.5% as at 30th June, 2018. Change of 0.2% from March'18
- Monthly repayment rate on an improving trajectory was 97.9% (+0.6% during the quarter); and, Cumulative Repayment Rate (CRR) has begun to improve and stood at 96.8%

4.1.5.2. <u>Performance of Loans disbursed in FY 2017-2018</u>

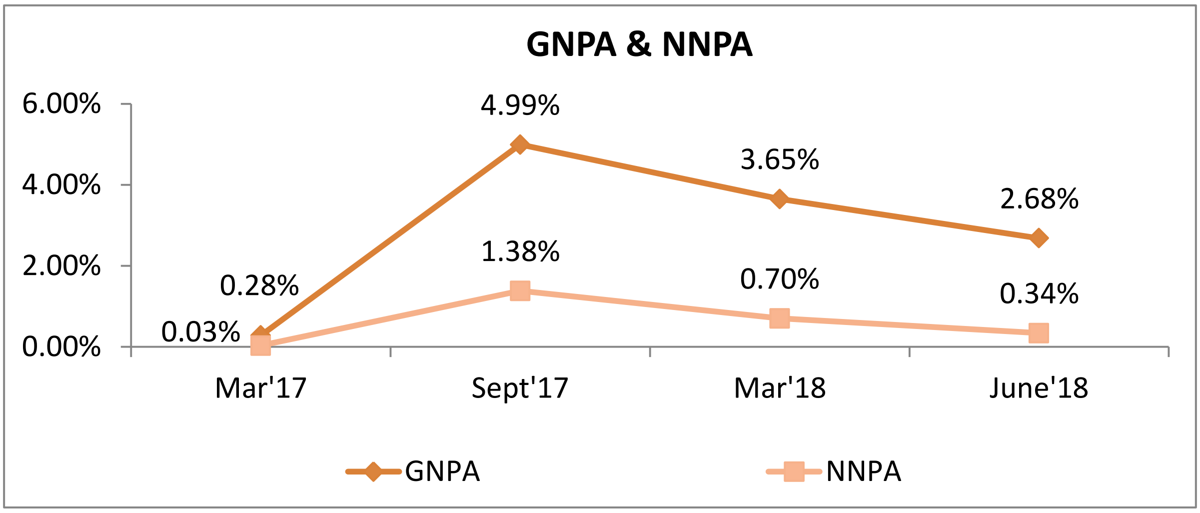
There is rigorous monitoring of the portfolio sourced post demonetization which has ensured that quality remains good. Overall delinquency of this portfolio, disbursed from April 2017 was 0.39% as of June'18, showing a marginal increase of 4 bps from March'18. However, loans disbursed in the first quarter post demonetization had a higher delinquency rate of 0.95% with loans maturing up to 12-14 months, given the prevailing factors of ground level issues that were faced post demonetization and comparatively higher incremental overdue.

4.1.5.3. <u>Portfolio at Risk (PAR) and Provision Movement</u>

The two graphs below show the movement in PAR and Provisions post demonetization:



As will be observed, the pportfolio performance is stable and improving steadily. Total credit provisions were at 2.8% of the book (Rs. 22,040 lakhs) as at 30th June, 2018, while Net Non-Performing Assets (NNPA) had reduced to 0.35% from 0.70% in March'18



Asset Class	Outstanding Principal (OSP)	Provision	%Provision
Standard	7,57,850	3,800	0.5%
Sub-standard	9,130	6,520	71.4%
Doubtful	7,890	7,890	100.0%
Loss	3,830	3,830	100.0%
Total	**7,78,700**	**22,040**	**2.8%**

4.1.5.4. <u>Recovery Trend</u>

NPA recovery continues to be good with a monthly average of Rs.900-1000 lakhs. Effective this FY, it is completely managed by the dedicated collections team of the Bank, hence the movement in value of collections. Write off recovery is increasing quarter-on-quarter and was ~Rs. 200 lakhs for the quarter. There is special focus being paid on recovery of written off accounts.

Based on the experience of demonetization, the Bank is using analytics to develop a model that can provide early triggers of likely delinquency in branches or in specific areas.

4.1.5.5. <u>Use of Collection Agents</u>

In an effort to boost collection of dues that had been written off post demonetisation, the Bank, with the approval of its Board, appointed outside collection agents in the last quarter of FY 2017-2018. These were all agents that are accredited and conform to the guidelines of RBI. Initial appointment was in three cities, Bangalore, Pune and Nashik, being the three cities that felt the maximum impact of demonetisation on the portfolio.

As at 30th June 2018, there were 7 agencies with 45 agents that were active. Given that the segment that these agencies have to deal with is new, the gestation period is usually 3-4 month before the agencies are able to deliver results. On an overall performance Rs. 39 lakhs were collected from 2,101 cases.

4.1.5.6. Performance of Non Microfinance Portfolio

The non-microfinance portfolio i.e. secured housing and MSE loans exhibited strong growth during the quarter. This is evidenced by increase in the portfolio OSP by 29.20% and 24.97% respectively.

A growth in performance of portfolio is furnished below:

4.1.5.6.1. Secured Housing

Rs. in lakhs

Housing Loans	OSP as at March 2018	OSP as at June 2018	Growth
South	9,975	12,577	26.09%
North	8,962	10,939	22.06%
East	3,142	3,928	25.03%
West	10,200	14,260	39.81%
Grand Total	**32,279**	**41,704**	**29.20%**

4.1.5.6.2. Micro and Small Enterprises (MSE):

Rs. in lakhs

Region	OSP as at March 2018	OSP as at June 2018	Growth
South	7,014	8,405	19.83%
North	6,756	8,443	24.97%
East	5,314	6,941	30.62%
West	3,343	4,238	26.79%
Grand Total	**22,427**	**28,028**	**24.97%**

From a risk management perspective, the Bank has put in place certain approved early warning triggers at the portfolio level for Housing Loans and MSE Loans. The intended purpose is to monitor the health of the portfolio in accordance with its maturity. These triggers would help the Bank to identify incipient stress in the portfolio and any breach in combination of triggers on bi-monthly basis would warrant an independent review by the Credit risk team.

4.1.6. Credit Risk Monitoring

4.1.6.1. Microfinance portfolio

A summary of the key policy initiatives made in the first quarter is provided below:

4.1.6.1.1. Area Survey of affected branches

- Area survey of 170 affected branches was undertaken by Business, Credit and Collections teams;
- 141 branches have resumed regular business post demarcation of non-performing areas and occupations;
- No fresh acquisition allowed across affected occupations of the respective branches; and

- Similarly, 159 affected branches were surveyed for Individual loans and 133 branches have resumed business.

4.1.6.1.2. Credit Limit Revisions

- Limits were revised for certain occupation categories based on the branch wise area survey reports; and
- Repeat loan ticket sizes have been enhanced across branches with good portfolio performance of last 12 months.

4.1.6.1.3. Indebtedness cap Revision

- Rs. 80,000 for fresh customers and Rs. 1,00,000 for repeat customers across affected branches; and
- Rs. 1,00,000 for both fresh and repeat customers across other branches

4.1.6.1.4. Combo Bureau Reports Introduced

- In order to make informed decisions on lending, the Bank has initiated usage of reports comprising both MFI and consumer loan details of the borrower;
- It will enable the Bank to filter out customers with very high leverage from multiple institutions; and
- The usage of combo bureau reports is rolled out in a phased manner.

4.1.6.1.5. Portfolio Monitoring

- Branches are now measured on the last 12 month origination quality;
- Branches with high delinquency on last 12 months loans are allowed to service repeat clients only.
- On the processing front, Straight through process of group loans has witnessed significant momentum with 58% of loans processed through the automated rule engine in June'18.
- Credit approval Turnaround Time (TAT) is a maximum of 0.5 days with more accuracy and reduced manual intervention.

4.1.6.2. 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. Account monitoring aims to identify weak accounts at an incipient stage to facilitate corrective action. Portfolio monitoring aims towards managing risk concentration in the portfolio as well as identifying stress in certain age brackets, tenor buckets, clusters and states where the PAR % is out of sync with the Bank's long term vision.

4.1.7. Internal Audit

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

4.2. Quantitative Disclosures

4.2.1. Exposure summary: Facility type

Exposure Type*	Domestic (Rs. in Lakhs)	Overseas
Fund- Based exposure	8,08,804	--
Non- Fund Based Exposure	--	--
Total	8,08,804	--

*Exposure definition as per RBI

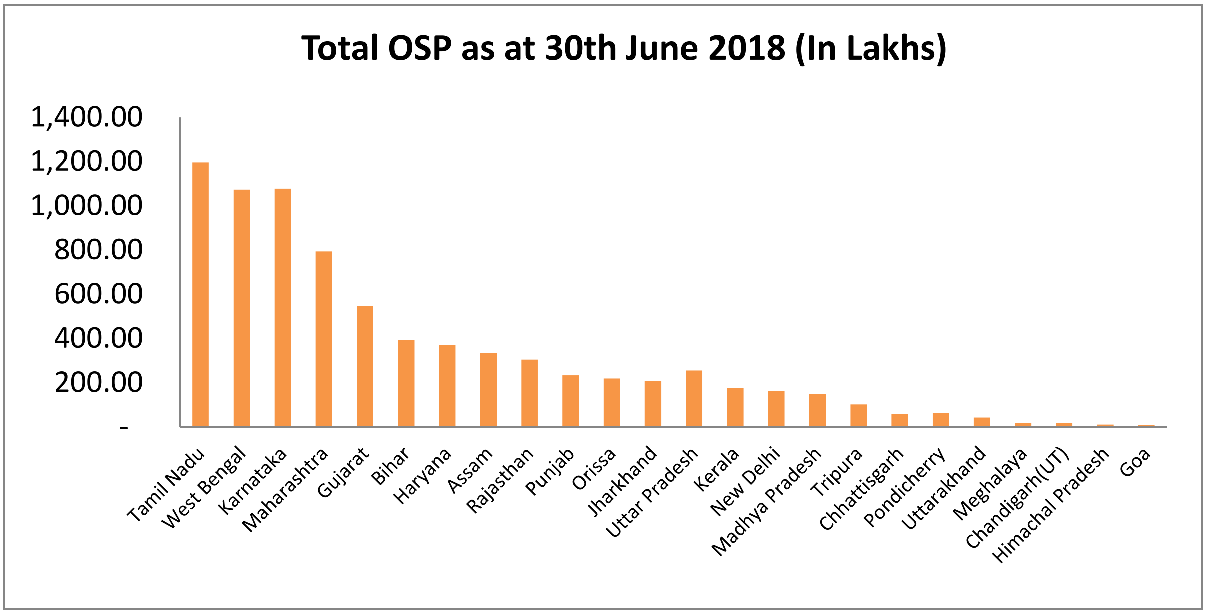
4.2.2. Geographic Distribution of advances (State-wise)

State	Total Outstanding Portfolio (Rs. in Lakhs)	% Share
Tamil Nadu	1,19,500	15.35%
West Bengal	1,07,158	13.76%
Karnataka	1,07,662	13.83%
Maharashtra	79,299	10.19%
Gujarat	54,465	7.00%
Bihar	39,277	5.04%
Haryana	36,863	4.73%
Assam	33,087	4.25%
Rajasthan	30,305	3.89%
Punjab	23,262	2.99%
Orissa	21,779	2.80%
Jharkhand	20,735	2.66%
Uttar Pradesh	25,508	3.28%
Kerala	17,476	2.24%
New Delhi	16,174	2.08%
Madhya Pradesh	15,012	1.91%
Tripura	10,057	1.29%
Chhattisgarh	5,659	0.73%
Pondicherry	6,160	0.79%
Uttarakhand	4,095	0.53%
Meghalaya	1,743	0.22%
Chandigarh(UT)	1,668	0.21%
Himachal Pradesh	1,005	0.13%
Goa	751	0.10%
Grand Total	7,78,700	100.00%

The share of microfinance advances constitutes 90.71% (i.e. Rs. 7,06,222 lakhs); a significant share in the above distribution. In order to contain excess build-up of concentration risk, the

Bank has designed and incorporated risk assessment framework under its Internal Capital Adequacy and Assessment Process (ICAAP) to monitor the same. For states with excess concentration, Pillar II capital charge is provided after duly factoring in the expected defaults, expected tractions and expected provisions.

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



4.2.3. Advances distribution by activity

Advances distribution by Activity		
S. No.	**Industry Classification**	**Fund Based (Rs. in Lakhs)**
1	Agriculture & Allied activities	58,541
2	MSME	65,095
3	Education	-
4	Housing	89,393
5	Other PSL Loans	2,36,277
	LESS: PSLC	-60,000
A)	**Total Priority Sector Loan**	**3,89,306**
6	Agriculture (Non Priority)	1,17,861
7	MSME : Service (non-priority)	-
8	Education (Non Priority)	26,540
9	Housing(Non Priority)	-
10	Personal Loans under Non Priority Sector	8,296
11	Other Non PSL Loans	2,36,696
B)	**Total Non-Priority Sector**	**3,89,394**
C)	**Total Advances**	**7,78,700**

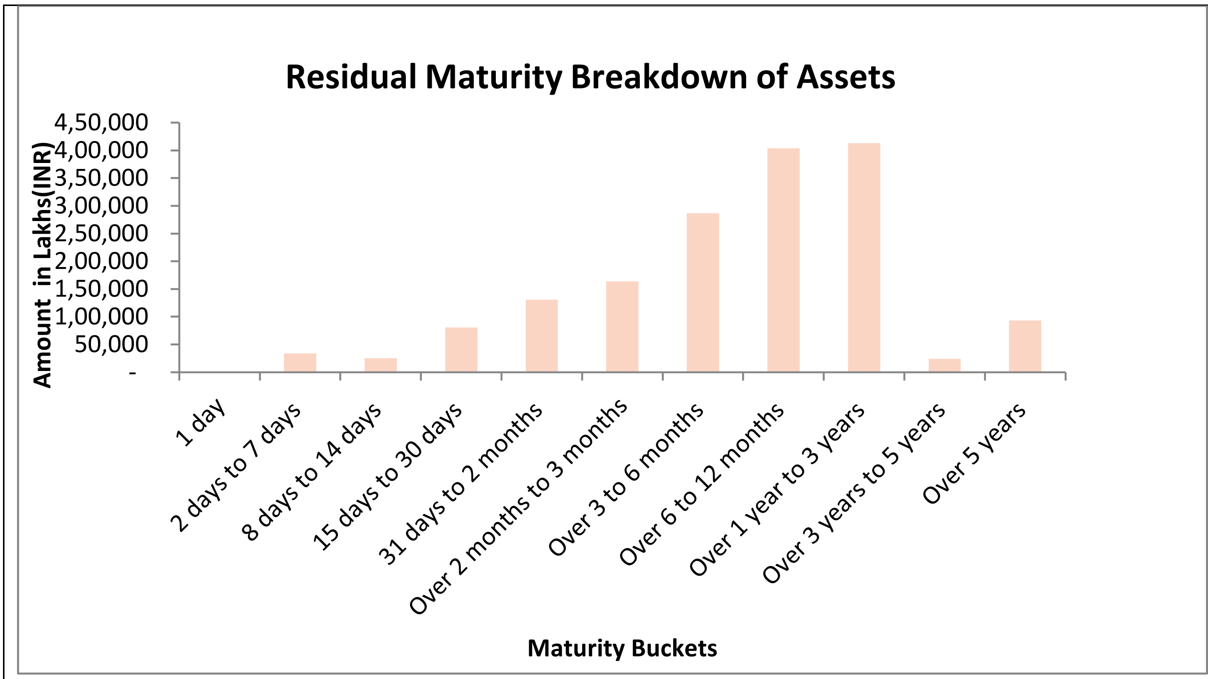
The sector wise achievements of PSL targets is as follows:

Sector wise achievements		Total Outstanding	% Achievement (As per ANBC target)	Minimum PSL req.
1	Overall PSL	3,89,306	158%	75%
2	Agriculture	58,541	24%	18%
3	Small and Marginal Farmers	43,158	18%	8%
4	Micro Enterprises	65,095	26%	8%

The Adjusted Net Bank Credit (ANBC) as on the corresponding date of the preceding year was Rs. 2, 46,093 Lakhs. The Priority Sector lending was above the minimum requirement of 75% i.e. 158% (Rs. 3, 89,306 Lakhs as a percentage to ANBC). The PSL portfolio available in excess of the Bank's target was sold as Priority Sector Lending Certificate (PSLC).

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

Residual contractual maturity breakdowns of assets and liabilities- position as at 30th June 2018					
Maturity Bucket	**Loans & Advances**	**Investment**	**Deposits**	**Borrowings**	**Total**
1 day	1	-	221	-	222
2 days to 7 days	11,307	9,152	13,550	-	34,009
8 days to 14 days	19,496	-	1,721	3,842	25,059
15 days to 30 days	24,390	6,979	37,035	12,114	80,518
31 days to 2 months	54,824	-	31,202	44,783	130,810
Over 2 months to 3 months	53,179	-	99,397	11,040	163,615
Over 3 to 6 months	140,300	16,964	43,160	86,086	286,510
Over 6 to 12 months	215,664	22,521	92,241	73,492	403,918
Over 1 year to 3 years	192,823	3,019	61,495	155,789	413,126
Over 3 years to 5 years	13,733	3,013	269	7,319	24,334
Over 5 years	34,767	58,733	52	-	93,551



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

Category of Gross NPA	30th June 2018
Sub-standard	9,029
Doubtful	7,894
Loss	3,833
Total	**20,756**

Net NPA	**2,647**

NPA Ratios	Percentage
Gross NPA to Gross Advances	2.67%
Net NPA to Net Advances	0.35%

4.2.6. Movement of Gross NPA's

Particulars	Amount (Rs. In lakhs)
Opening Balance	27,592
Additions during the period	1,445
Reductions during the period	8,281
Closing Balance	**20,756**

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

Particulars	Amount (Rs. in lakhs)
Opening Balance	22,499
Provisions made during the period	2,760

Write back of excess provisions	7,044
Closing Balance	**18,215**

4.2.8. Non-performing Investments (NPI)

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

4.2.9. Movement of provisions for depreciation on investments

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

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

5.1. Qualitative Disclosures

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

b) The loan book of the Bank is predominantly comprised of retail category loans. Therefore, the risk weight as applicable to Regulatory Retail, claims under residential mortgage and staff loans is applied.

c) No Borrower is currently risk-weighted as per ratings assigned by Eligible Credit Rating Agencies (ECRA) as prescribed by RBI.

d) The Bank has also taken into cognizance assets under lien for its “grandfathered” portfolio of legacy borrowings and applied an additional risk weight of 25% to these assets as per the specific directives by RBI to SFBs.

5.2. Quantitative Disclosures

Details of Gross Credit Risk Exposure (Fund based and Non-fund based) based on Risk Weight – Position as at 30th June 2018		
Sl.No	**Risk Weight**	**Rs. in lakhs**
1	Below 100% Risk Weight	7,38,384
2	100% Risk Weight	1,55,429
3	More than 100% Risk Weight	86,163
4	Deductions from CRM	-
5	Total	9,79,976

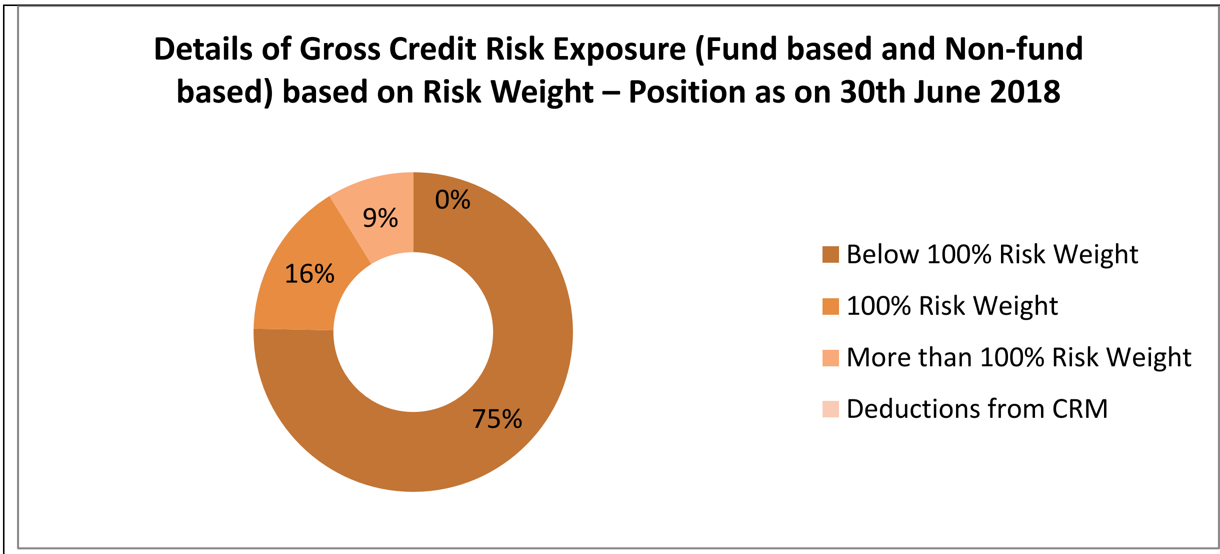


Table DF-6: Credit Risk Mitigation: Disclosures for Standardised Approach

6.1. Qualitative Disclosure

- The GL and IL portfolio, under microfinance is unsecured. Loans to the affordable housing segment are collateralized by a mortgage over the property financed. There are unsecured and secured product variants under MSE loans.
- The Bank does not accept any eligible financial collateral[5] for risk mitigation. Therefore, the Bank does not take any netting benefit for its collateralized transactions under comprehensive approach[6] while computing its Risk Weighted Assets (RWA).
- However, the Bank has in place the following risk mitigation techniques for its loan portfolio which are as follows:
    - Life insurance cover is mandatory for all the borrowers availing any of the Bank's asset products.
    - The Bank works with 4 Credit Information Companies (CICs) and ensures 100% application screening through the bureaus. RBI, vide its notification dated August 2, 2017 had directed CICs to ensure that the Customer Information Reports (CIRs) in respect of a borrower, furnished to the credit institutions, incorporates all the credit information available in all modules, e.g. consumer, commercial and MFI, etc., in respect of the borrower. The Bank is one of the first financial institutions to implement the same.
    - NPA Customers are identified and follow up is undertaken by the tele-calling

[5] 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

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

team. The tele calling team updates the field recovery officer through revised Promise to Pay (PTP) dates from the borrower. Further, the Early Warning System (EWS) tool for Housing and MSE loans also enables the Bank to monitor the repayment behaviour and discipline of the borrower. This tool provides valuable insights which enable the Bank to focus more on customers deemed to be of higher risk.

- The Bank also undertakes independent surveys and analysis to identify negative areas/No- go areas based on historical events. These surveys enable the Bank to discourage increasing business from these areas as identified above.

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

7.1. Qualitative Disclosure

There are no securitization exposures in the banking book and trading book as at 30th June 2018.

Table DF- 8: Market Risk and Liquidity Risk

8.1. Qualitative Disclosures

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

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

There is minimal market risk that the Bank is required to address, given that there was no trading that the Bank's Treasury had undertaken during the quarter. The AFS portfolio is small. During the quarter, the Bank had no holding of dated Government Securities in its AFS portfolio and hence did not have to make any provisions for adverse movements in yield during the year.

The average tenure of a microfinance loan is 18 months. But the Bank has grown its portfolio of Affordable and MSE portfolio. These are of longer tenor. Effective ALM management ensured that there was no breach of regulatory thresholds and that these remained comfortable in all parameters as at quarter end. Moreover, the PNCPS and subordinated debt instruments are issued by the Bank without any Put option (right to sell) exercisable by the investor unless there is a violation in the terms of agreement.

At commencement of operations, the Bank's book was wholly funded by borrowings from other banks. These were availed as an NBFC- MFI (Non-Banking Finance Company-Microfinance Institution) and under dispensation from RBI were classified as "grandfathered" legacy loan to be progressively repaid. These legacy loans were not considered while computing the Bank's interbank borrowings, but the assets under lien, provided as book debt to the lending banks, attracted an additional risk weight of 25%.

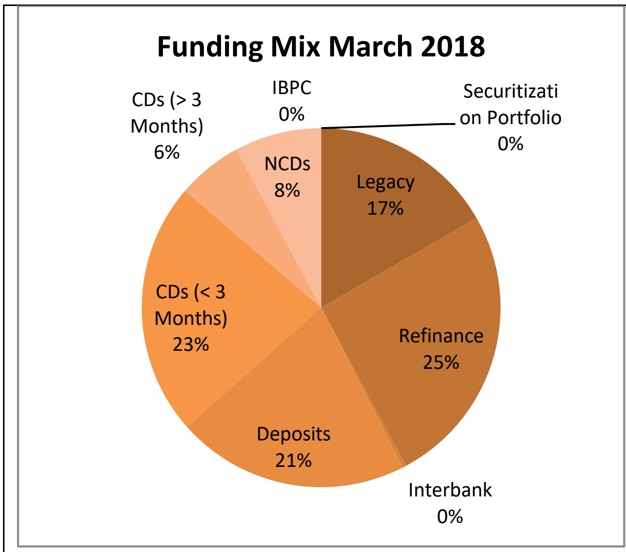
From a position of total reliance on bank funds, as at 30th June 2018, the share of legacy borrowings had reduced to constitute only 11.74% of the total funding. 22.83% of the funding was met through placement of Certificates of Deposits (CDs). However, the share of deposits has shown an increasing trend during the quarter with a contribution of 26.46% of the total funding. The Bank also availed refinance from SIDBI and NABARD with an average tenure of 3 years and is in discussions with banks for committed lines of credit to diversify its funding sources. The accent on retail deposits will continue in the ensuing years but the Bank will simultaneously seek to grow its long term liability as an effective way to manage its Asset/ Liability maturity profile.

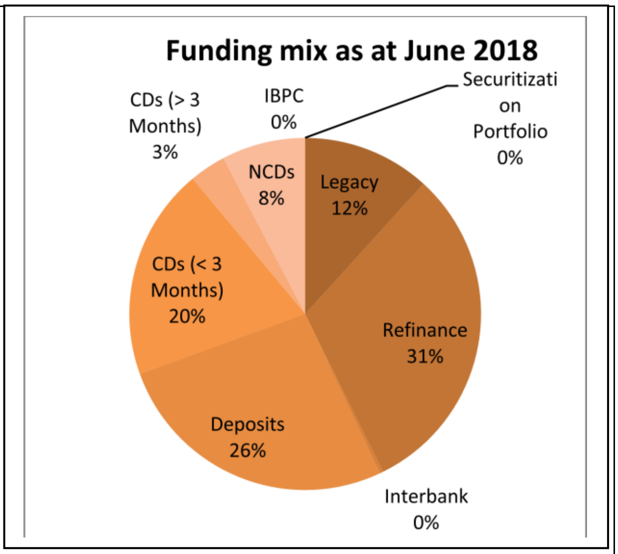
A summary of the funding mix as at the year-end is given below:

Rs. in Lakhs

Sl.No	Particulars	March 2018	April 2018	May 2018	June 2018
1	Legacy	1,27,688	1,11,886	1,02,310	91,368
2	Refinance	1,95,097	1,93,597	2,42,097	2,40,597
3	Interbank	2,500	2,500	2,500	2,500
4	Deposits	1,60,623	1,79,710	1,92,340	2,05,756
5	CDs (< 3 Months)	1,74,700	1,51,700	1,26,500	41,000
6	CDs (> 3 Months)	45,000	57,500	57,500	1,36,500
7	NCDs	60,000	60,000	60,000	60,000
8	Securitization	-	-	-	-
9	IBPC	-	-	-	-
Outstanding		**7,65,608**	**7,56,892**	**7,83,246**	**7,77,720**

The distribution of funding mix is detailed as below:





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

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

The LCR position as at the 30th June 2018, computed on the basis of daily average of three months, was comfortable and significantly in excess of the mandatory minimum i.e. 70% as applicable for this financial year.

Liquidity Coverage Ratio (Rs. in lakhs)		
A	**High Quality Liquid Assets**	**Adjusted Baseline Scenario**
	Level 1 Assets	83,948
	Level 2 A Assets	0
	Level 2 B Assets	0
B	Total Stock of HQLAs	83,948
C	Cash Outflows	157,600
D	Cash Inflows	91,665
E	Net Cash-flow	65,935
F	25% of Total Cash Outflow	39,400
G	Higher of E or F	65,935
Liquidity Coverage Ratio		**187.22%**

While the LCR remained consistently above the mandated minimum through the quarter, there are instances when the ratio dips as it did at the end of the quarter. This is solely on account of large outflows on account of maturing CDs. As the Bank seeks to diversify its funding mix and builds up its base of core deposits, these swings will be contained.

Macro-economic indicators including interest rate movement and peer analysis play a vital role in the effective functioning of the Bank. Mid-Office keeps Asset and Liability Committee (ALCO) and senior management informed on the recent developments in the economy and its possible implication on the interest rate movement.

8.2. Quantitative Disclosures

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

Capital Requirement for Market Risk	Amount (Rs. in Lakhs)
Interest Rate Risk	178
Equity Position Risk	--
Foreign Exchange Risk	--
Total	**178**
Total Market Risk RWA	**2,221**

Table DF- 9: Operational Risk

9.1. Qualitative Disclosures

9.1.1. Strategy and policy for Operational Risk Management

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

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

The Bank has in place a Board approved Operational Risk Management policy to mitigate and manage Operational Risk. The Operational Risk management process is a top-down approach and is driven by strong and sound operating procedures and internal control culture with well-defined reporting and contingency planning. This is a continuing process and the Bank is continuously striving to enhance its processes. Currently several of the processes are under review.

9.1.2. Governance Structure

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

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

9.1.3. Risk identification, measurement, monitoring and reporting

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

- **Scorecard approach**: An internal scoring mechanism to capture key risk parameters at a granular level. Branches are categorized as High, Medium or Low risk based on these assessments on monthly basis. Findings are supplemented with observations from branch visits. The scorecard method has served very well in measuring risks at a granular level from the time the Bank commenced this usage. However, as it scales up its operations and diversifies it product suite, the need is felt to recalibrate this scorecard. At the end of the quarter, key input in recalibrating the scorecard had been received from all stakeholders and the revised scoring will be adopted in the second quarter.
- **Risk and Control Self-Assessment (RCSA) framework**: The Bank had commenced the RCSA process at a granular level, but this is now deferred pending a re-evaluation and enhancement of the existing process. As and when the process for each product is enhanced, the Bank initiates RCSA. RCSA is undertaken at a product level. Under RCSA, each process and sub process for every product is documented and existing controls are tested. Recommendations for change in process and controls, if warranted, are suitably incorporated. Presently, the Bank has developed the same manually and is under the process of automation through Enterprise Governance Risk and Compliance (EGRC) module of SAS.
- Thorough due diligence for opening any new branches which includes inputs from business and all control functions. This includes analysis of PIN CODE data to analyse portfolio quality within the area, including competitor analysis. In addition, inputs from field staff on key risk issues complements this data;
- Operational risk checklist in place for reviewing controls for liability, MSE and Housing products in SFB branches. Checklist is also used to raise awareness about potential risks in case of controls being compromised.
- Incident reporting process is in place to record material incidents and learn from errors and strengthening existing controls. Incidents recorded as loss and near miss data. This is followed by a Root Cause Analysis (RCA) for each reported incident. EGRC module on SAS is implemented to record all loss events across the Bank.
- All new products are rolled out post assessment of critical operational and compliance risks and with approval of the Product Approval Committee (PAC).
- Comprehensive Risk register has been compiled.
- Framework in place for on-going monitoring of risks through Key Risk Indicators (KRIs). This includes defining and monitoring the Bank level KRIs followed by process level KRIs. The EGRC module on SAS for KRI, control testing, issue and action is live.

- Concurrent and Internal Audit also provide independent assessments of the operating and the financial controls available for various processes.
- Progressive risk assessment of all outsourced vendors to ensure that these vendors comply with the minimum requirements prescribed by RBI for all outsourced contracts.

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

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

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

The Bank also carries out regular vulnerability assessments and penetration tests for its applications and infrastructure. Third party Information Security Assessment is performed to evaluate third party's information security related practices.

The Bank is actively participating in various meetings and forums organized by the Institute for Research in Banking Technology (IDRBT), RBI and other forums to remain updated in latest security technologies and to continuously upgrade the security posture of the bank.

9.1.5. <u>Business Continuity</u>

The Business Continuity Management Policy (BCMP) of the Bank provides guidance for handling emergency situations and to reasonably ensure continuous and reliable delivery of key products and services to customers in the event of a significant business disruption, while maintaining confidence levels of its shareholders and satisfy relevant compliance requirements. The plans and procedures are in line with the guidelines issued by the RBI in this regard and are subject to regular review. A Business Continuity Management Committee at apex level monitors the business continuity preparedness of the Bank on an on-going basis. Further, the Bank's critical systems undergo periodical disaster recovery drills/tests to ensure the capability of the same to handle disastrous situations.

9.1.6. Capital charge assessment

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

9.2. Quantitative Disclosure

Particulars	Capital Reqd. (Rs. in Lakhs)	RWA (Rs. in Lakhs)
Operational Risk (BIA Approach)	14,576	1,82,203

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

10.1. 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.

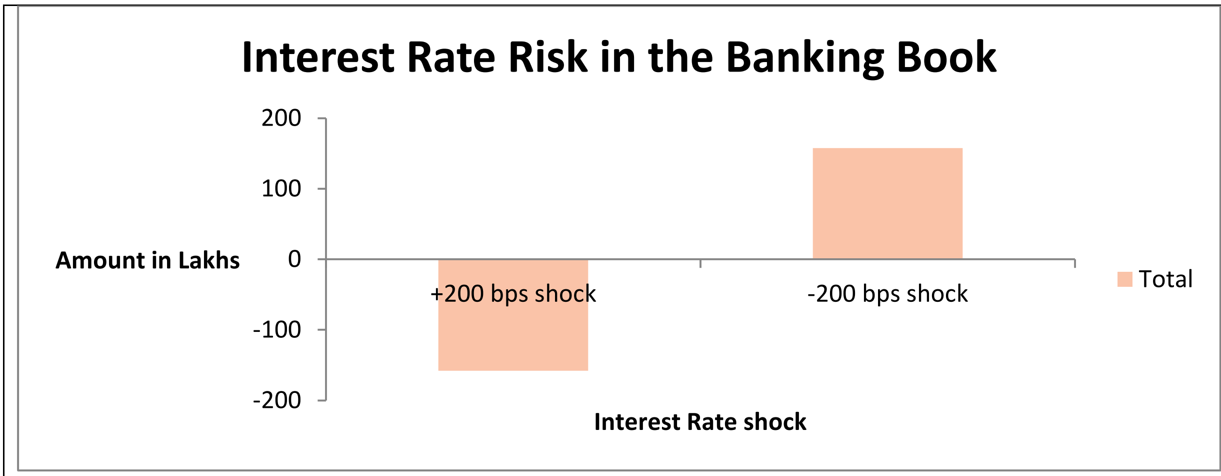
The interest rate risk is measured and monitored through two approaches:

1) Earning at risk (Traditional Gap Analysis): The impact of change in interest rates on net interest income is analysed under this approach and calculated under yield curve approach. Under this approach a parallel shift of 2% is assumed both in assets and liabilities.
2) Economic Value of Equity (Duration Gap Approach): Modified duration of assets and liabilities is computed separately to arrive at modified duration gap. A parallel shift in yield curve by 200 basis points is assumed for calculating the impact on economic value of equity.

10.2. Quantitative Disclosures

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

Interest Rate Risk in the Banking Book (IRRBB)			
Sl.No	Country	Interest Rate Shock	
		+200 bps shock	-200 bps shock
1	India	-157.76	157.76
2	Overseas	--	--
3	Total	-157.76	157.76



10.2.1. Economic Value Perspective (Rs. in Lakhs)

Category	Items	Amount
A	Equity (i.e., Net Worth)	148,295
B	Computation of Aggregate RSL	794,809
C	Computation of Aggregate RSA	909,467
D	Weighted Avg. MD of RSL across all currencies	0.99
E	Weighted Avg. MD of RSA across all currencies	1.30
F	MDG	0.44
G	Change in MVE as % of equity for 200bps change in interest rate	-5.36%
H	Change in MVE in absolute terms	7949

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

Summary comparison of accounting assets vs. leverage ratio exposure measure		
	Item	**Amount (Rs. in Lakhs)**
1	Total consolidated assets as per published financial statements	9,68,424
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
4	Adjustments for derivative financial instruments	-
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	3,400
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off- balance sheet exposures)	4,759
7	Other Adjustments	-14,823
8	**Leverage ratio exposure**	**9,61,760**

DF 18: Leverage ratio common disclosure template

Leverage ratio common disclosure template		
	Item	**Amount (Rs. in Lakhs)**
	On-balance sheet exposures	
1	**On-balance sheet items (excluding derivatives and SFTs, but including collateral)**	9,68,424
	Domestic Sovereign	1,32,730
	Banks in India	21,409
	Others	8,14,285
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	-14,823
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	**9,53,601**
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	-
5	Add-on amounts for PFE associated with all derivatives transactions	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	**Total derivative exposures (sum of lines 4 to 10)**	**-**
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	3,400
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	CCR exposure for SFT assets	-
15	Agent transaction exposures	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	**3,400**
	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	4,759
18	(Adjustments for conversion to credit equivalent amounts)	-
19	**Off-balance sheet items (sum of lines 17 and 18)**	**4,759**
	Capital and total exposures	
20	Tier 1 capital	1,54,484

21	Total exposures (sum of lines 3, 11, 16 and 19)	9,61,760
	Leverage ratio	
22	**Basel III leverage ratio**	**16.06%**

Presently the contribution of Tier I capital to Total Basel II capital is ~99%. 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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