Pillar 3 Disclosures- 31st March 2018

This disclosure report is prepared 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 as on 31st March 2018 together with a review for the first full year of operation of Ujjivan Small Finance Bank (hereinafter called “the Bank”) with key observations on capital adequacy, the credit quality of its asset book and issues relating to liquidity risk and operational risk.

The RBI issued the Bank, Licence No. MUM 123 dated November 11, 2016 to carry on Small Finance Bank (SFB) business in India. Pursuant to the receipt of various approvals from the RBI and a host of other registrations and regulatory compliances on which the licence was granted, the Bank commenced its operations as an SFB with effect from February 1, 2017.

The Bank commenced its formal operations with five branches in Bangalore. As at the year ended 31st March 2017, the Bank had 15 Bank branches in diverse locations across the country including one branch in Krishnapura, which qualified as a branch in an Unbanked Rural Centre (URC). In the first full year of operation, from 1st April 2017-31st March 2018, the Bank had continued to convert its erstwhile microfinance branches into Bank branches, shifting them to newer premises to cater to customer needs and comply with security requirements. As at 31st March 2018, the Bank had a total of 187 full service commercial bank branches, including 40 URCs. The 40 URC branches included 16 branches which qualify as URC branches (branches situated in tier 3-6 locations in North Eastern (NE) states and Left Wing Extremism (LWE) districts). The Bank also had 7 Business Correspondents (BCs) as at 31.3.2018. The remaining 277 erstwhile microfinance branches continued to operate as Asset Centres, most of which are slated for conversion into Bank branches in the next financial year.

The Bank is a Scheduled Commercial Bank vide an-RBI notification dated 7th September 2017, The Bank provides retail banking services to economically active poor in urban and semi urban areas and has also commenced its Para- banking activities as a corporate agent of Bajaj Allianz Life Insurance Company Limited, Aditya Birla Sun life Insurance Limited, HDFC Life Insurance Company limited and Bajaj Alliance General Insurance Company Limited in distributing life insurance and general insurance products. 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’s strategic imperative as it embarks on its second full year of operation are the following:

- Make Customer Service a primary focus
  - Provide doorstep banking
  - Graduate its customer base from assisted to self-service, enabled by biometric authentication through Hand Held Devices (HHD)
  - Provide remote solutions for account opening and account management
  - Quick Turn Around Time (TAT) – be amongst the top 2 in the industry
- Leverage large database enabled by Analytics and Channels.
- Progress to a full solution provider for the Bank's customers.
- Leverage Technology to aid financially underserved and unserved customers to navigate banking.
- Develop a robust cost management process to ensure optimal utilization of all resources.
- Productivity optimization through process improvement and digitization
- Grow sensitively, responsibly and sustainably.

This is in line with the mission statement of being the best institution to provide financial services to the unserved and underserved customers and transform to a bank serving the mass market.

Table DF- 1: Scope of Application

<u>Qualitative Disclosures</u>

Parent Organization: Ujjivan Financial Services Limited

As per the Agreement to Transfer Business Undertaking (hereinafter 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 the Bank with effect from February 01, 2017.

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.

List of group entities considered for consolidation			
Name of the entity / country of incorporation (as indicated in (I) a. above)	**Principal activity of the entity**	**Total balance sheet equity (as stated in the accounting balance sheet of the legal entity)**	**Total balance sheet assets (as stated in the accounting balance sheet of the legal entity)**
NIL	NIL	NIL	NIL

The 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 (as stated in the accounting balance sheet of the legal entity)**	**% of the Bank's holding in the total equity**	**Capital deficiencies**
NIL	NIL	NIL	NIL	NIL

The 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 (as stated in the accounting balance sheet of the legal entity)**	**% 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

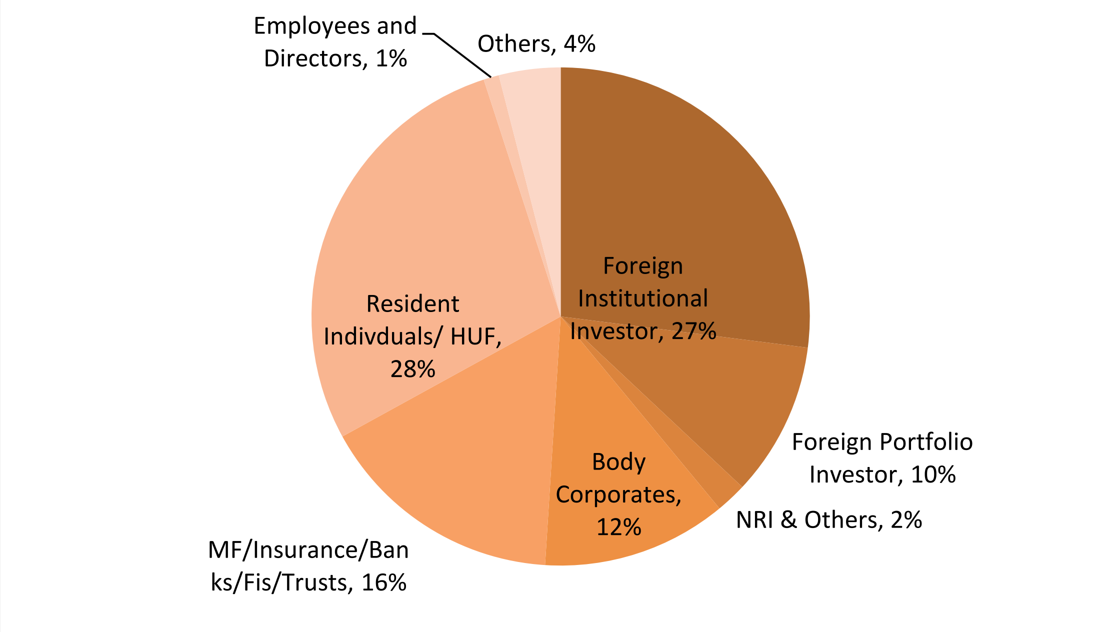
Table DF- 2: Capital Structure

Qualitative Disclosures

a) Equity capital

The Bank has an authorized capital of Rs.1,50,000 lacs 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 lacs, constituting 1,44,00,36,800 numbers of shares of Rs.10 each.

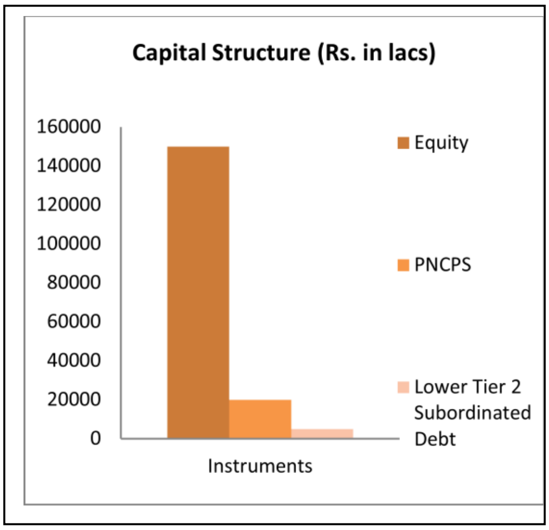
Out of this, 100% shareholding is with UFSL, the holding company as on 31st March 2018. The shareholding pattern of the holding company at the year-end is provided below. The Licensing guidelines for SFBs permit the aggregate foreign investment in a private sector bank from all sources up to a maximum of 74 % of the paid-up capital of the bank (automatic up to 49% and approval route beyond 49% to 74%). By limiting foreign shareholding in the holding company to 39% (including NRI holdings) as at the year end, the Bank was fully compliant with the Licensing Guidelines. Further, in compliance with the Licensing Guidelines, the Holding Company has been recognized as a Core Investment Company (CIC) by the RBI. The shares of the Holding Company are listed; the Bank is yet to list its shares.



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 Lacs)**
1	Equity	Tier 1	1,50,000
2	PNCPS*	Tier 1	20,000
3	Lower Tier 2 Subordinated Debt	Tier 2	5,000

**Perpetual Non-cumulative Preference Shares*



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. 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

(i) Superior to the claims of investors in equity shares;

(ii) Subordinated to the claims of Perpetual Debt Instruments (PDIs), all Tier 2 regulatory capital instruments, depositors and general creditors of the Bank; and

(iii) 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 lacs)	Issue date	Date of Redemption	Basel III complaint (Y/N)	Interest rate (% p.a.)
PNCPS	20,000	9th Feb 2017	Perpetual	Yes	11% p.a.

b) Debt Capital instruments (qualifying as Tier II capital)

Details of Subordinated debt instruments (in lacs)

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 2 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.

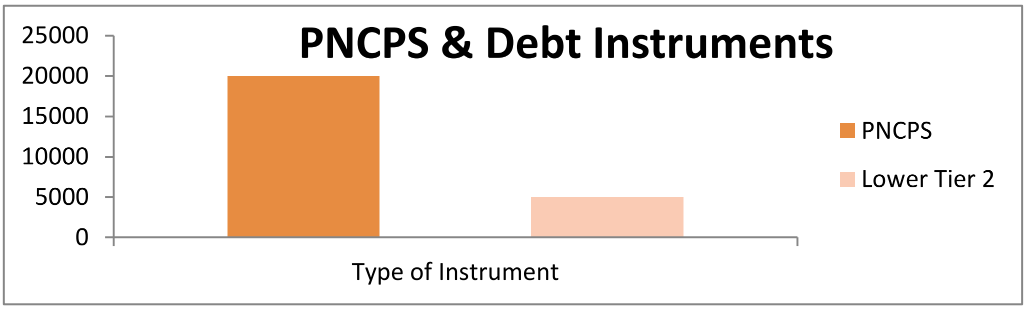
The claims of the investors in instruments are:

(i) senior to the claims of investors in instruments eligible for inclusion in Tier 1 capital;

(ii) subordinate to the claims of all depositors and general creditors of the Bank; and

(iii) 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 lacs)	Issue date	Date of Redemption	Basel III complaint (Y/N)	Interest rate (% p.a.)
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

Qualitative Disclosures

The Bank has been well capitalized since inception. As required by RBI in its operating guidelines to SFBs s (DBR.NBD.No.26/16.13.218/2016-17 dated October 6, 2016) SFBs are required to adopt the Standardized approach for credit risk and maintain a minimum 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 31st March 2018, the Bank's capital adequacy, when computed purely on the basis of risk weights for its credit risk exposures was 23.04%. The securitized portfolio that had been transferred to the Bank under the BTA had been completely paid by the year end. Hence additional charge on account of credit enhancement was not required. In addition, the legacy borrowing, which attracted an additional risk weight of 25%, had been considerably paid down by the year end, leading to further improvement in capital adequacy.

SFBs are not required to have a separate 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 for Credit Risk, Standardized Duration Approach for Market Risk and the Basic Indicator Approach for Operational Risk. In computing capital charge for Operational Risk, the Bank has used Gross Income for one completed year of operation. However, the Bank has developed an incident reporting module for capturing losses on account of operational risk incidents. Purely when compared to this loss data base, the capital charge on the BIA basis, even from a governance perspective, is high.

As directed by RBI, the Bank follows the Basel II guidelines when computing capital adequacy, though 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).

Quantitative Disclosures

The break-up of Basel II capital funds (in lacs) as on 31st March 2018 is as follows:

Capital Funds		
	Position as on 31st March 2018	**Amount(Rs. in Lacs)**
A	**Tier I Capital**	
A.1	Paid-up Share Capital	1,44,004
A.2	Reserves	689
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	7,627
B,4	Good will and Adjustments for less liquid position/intangibles	8,772
C	**Net Tier 1 Capital**	**1,48,295**
D	**Tier II Capital**	
D.1	General Provisions	3,646
D.2	Upper Tier 2 capital instruments	-
D.3	Lower Tier 2 capital instruments	1,167
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**	

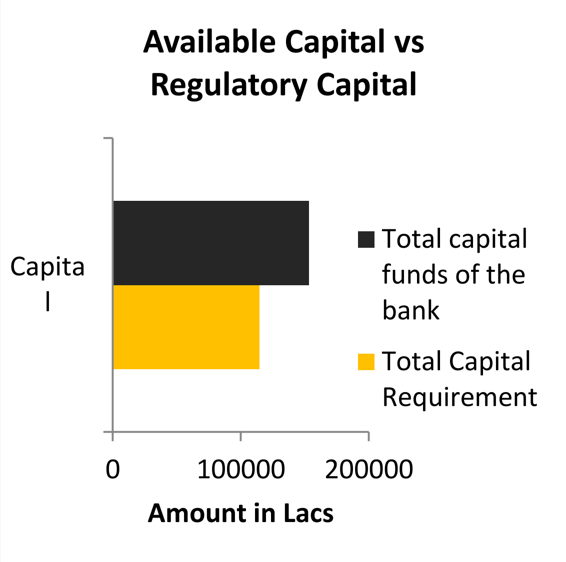
			4,813	
	G	**Total Eligible Capital**	**1,53,108**	

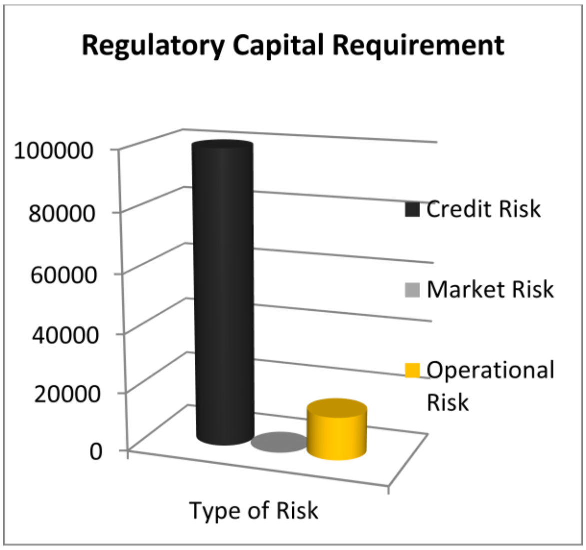
Capital Requirements for Various Risks		
Sl.No	**Capital Requirements for various Risks**	**Amount(Rs. in Lacs)**
A	**Credit Risk**	99,678
A.1	For non-securitized portfolio	99,678
A.2	For Securitized portfolio	0
B	**Market Risk**	169
B.1	For Interest Rate Risk	169
B.2	For Equity Risk	NIL
B.3	For Forex 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**	1,14,424
E	**Total Risk Weighted Assets**	8,48,844
F	**Total capital funds of the bank**	1,53,108

Basel II Ratios as on 31st March 2018 (Rs.in Lacs)

Particulars	Amount/Ratio(Only Credit RWA)	Amount/ Ratio (all Pillar 1 risks)
Tier I Capital	1,48,295	1,48,295
Tier II Capital	4,813	4,813
Total Capital	1,53,108	1,53,108
Total RWA	6,64,525	8,48,844
Tier I Ratio	**22.32%**	**17.47%**
Tier II Ratio	**0.72%**	**0.57%**
Overall CRAR	**23.04%**	**18.04%**

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	Jun-17	Sep-17	Dec-17	Mar-18
Credit RWA (Rs.in lacs)	6,42,726	6,34,526	6,27,857	6,64,525
Tier I CRAR	21.81%	22.14%	21.83%	22.32%
Total CRAR	21.81%	22.20%	22.05%	23.04%

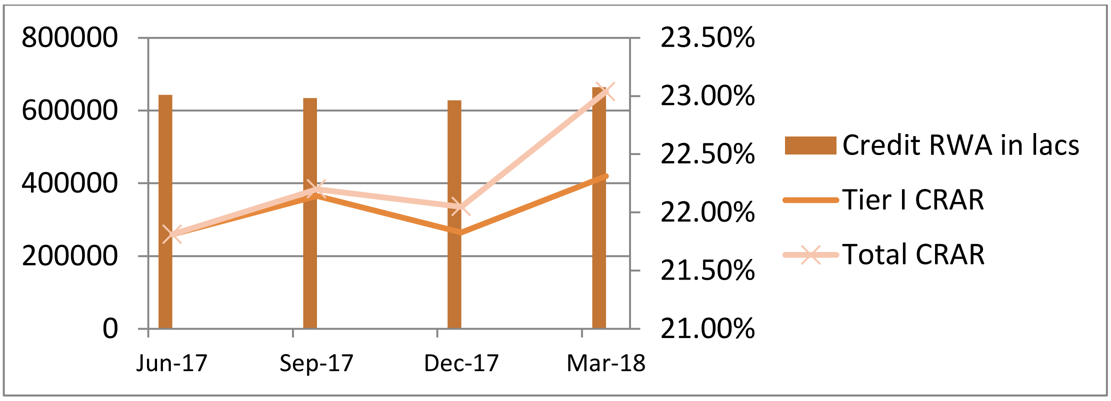


Table DF- 4: Credit Risk: General Disclosures

Qualitative disclosures

Credit risk

A) Definitions of past due and impaired

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

(i) Interest and/or instalment of principal remains overdue for a period of more than 90 days in respect of a Term Loan;

(ii) The account remains out of order for 90 days

(iii) The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted

(iv) In case of advances granted for Agricultural purposes

a) The instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops

b) The instalment of principal or interest thereon remains overdue for one crop season for long duration crops

(v) 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.

B) Provisioning Norms of the Bank

The provisioning norms of the Bank, as approved by its Board, have been consistently more conservative than that defined by RBI. The increased provisioning norms help recognize the actual risk and gradually account higher for sub-standard assets and also provide fully for an asset that is past due over 365 days. The provisioning policy of the Bank that was current as at 31st March 2018 is as below:

Table 1: Unsecured loans: Group and Individual loans including unsecured MSE loans:

Asset Classification	Sub-category	Overdue Buckets	Regulatory Norms	Board approved Bank's Provision
Standard Asset	No Due	0 days	0.4%	0.5%
Standard Asset	Special Mention Account (SMA)-0	1-30 days	0.4%	0.5%
Standard Asset	SMA- 1	31-60 days	0.4%	1%
Standard Asset	SMA-2	61-90 days	0.4%	1%
Sub-standard Asset	Non-Performing Asset (NPA)	91-150 days	25%	25%
Sub-standard Asset	NPA	151-180 days	25%	50%
Sub-standard Asset	NPA	181-365 days	25%	75%
Sub-standard Asset	NPA	366-455 days	25%	100%
Doubtful Asset	NPA	>455 days	100%	100%

The reasons for the accelerated provisioning when compared to regulatory minimums are as below:

- About 93% of the Bank's asset book comprised microfinance loans as at 31st March 2018. Though historically the portfolio has performed exceedingly well and instances of delinquency and Portfolio at Risk (PAR) were small, the microfinance industry has periodically been exposed to shocks that can only be classified as Event Risk. The Andhra Crisis of 2010 was one such instance; the demonetisation of November 2016 was another such Event Risk. While there is no pattern or cyclicality in such shocks, as a matter of good governance, the Bank has always deemed it appropriate to provide for such contingencies. This is reflected in the higher than mandated provision in each bucket.
- The Bank has a robust credit review and credit risk management process. The granular review of the portfolio enabled the Bank to identify areas and groups that were severely affected post demonetization. Taking cognizance of assets that had been impaired and where any recovery was in doubt, the Bank followed a policy of making full provisions for these assets. As at 31st March 2018, the overall position was as below:

Asset Classification	FY 2017-18 (Rs. In lacs)				
	Regulatory Requirement	**Outstanding**	**Provision**	**Provision Rate**	**Additional Provision**
Standard	0.40%	7,26,850	3,640	0.50%	727
SMA 0 (001 to 030 days)	0.40%	1,110	10	0.50%	1
SMA 1 (031 to 060 days)	0.40%	1,030	10	1%	6
SMA 2 (061 to 090 days)	0.40%	720	10	1%	4
Sub- standard	25%	20,790	15,710	75%	10,603
Doubtful	100%	450	450	100%	0
Loss	100%	6,340	6,340	100%	0
Reschedule Accounts	25%	70	20	37%	8
		7,54,430	**26,190**		**11,349**

As would be seen from the table above, the Bank has provided in excess of the mandated minimum in each bucket and had an excess provision of Rs 11,349 lacs. The impaired portfolio is therefore more than adequately provided and as confirmed by the Bank's external auditors, there was no underestimation of Credit Risk. Provision Coverage Ratio as at 31st March 2018 was 81.87%.

Table 2: Secured loans: MSE Secured loans, Loan against Property and Housing loans:

Asset Classification	Sub-category	Overdue Buckets	Regulatory Norms	Board Approved Provisions
Standard Asset	No Due	0 days	0.4%	0.5%

Standard Asset	Special Mention Account (SMA)-0	1-30 days	0.4%	0.5%
Standard Asset	SMA- 1	31-60 days	0.4%	0.5%
Standard Asset	SMA-2	61-90 days	0.4%	0.5%
Sub-standard Asset	Non-Performing Asset (NPA)	91-180 days	15%	25%
Sub-standard Asset	NPA	181-455 days	15%	50%
Doubtful Asset	NPA	456-545 days	25%	75%
Doubtful Asset	NPA	546-720 days	25%	100%
Doubtful Asset	NPA	721- 970 days	40%	100%
Doubtful Asset	NPA	971- 1000 days	40%	100%
Loss Asset	NPA	>1551 days	100%	100%

- The provisioning norms for Secured loans, both MSE and Housing loans are also higher than the regulatory norms. The overdue buckets are categorized after analysing the trend/movement in overdue status and traction percentage achieved in these buckets.
- All cases identified as loss assets at any given point in time are fully provided for.
- This portfolio is stringently monitored with credit review by cluster and at a granular level. Any early signs of stress are addressed proactively to contain delinquencies.

Additional Considerations:
Treatment to the following special cases are as below:

- **Benami loans** and **Sub-lending cases** in its Group Loan portfolio as identified by the Bank, and as investigated and confirmed by the Risk and Fraud Management Committee are considered as loss asset and fully provided for immediately;
- **Abscond cases** are considered as loss assets from 91 days and fully provided for at 91 days. Any other fraudulent case as identified by the Bank and confirmed by the Risk and Fraud Management Committee is considered as loss asset and fully provided for immediately.
- While there had been increased instances of such Benami or Abscond cases as an immediate after effect of demonetisation, such instances are now lower and have been effectively contained.

C) Rescheduled loans

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

- Rescheduling results in 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;

D) 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. The financial accounting systems of the Bank are integrated and there are no write-offs done by the Bank which remain outstanding in the books of the branches

For the complete year, the Risk Management Committee has approved a write-off of Rs. 17,653 lacs. These are the advances where no recoveries have been made in the past six months i.e. accounts in overdue status since June 2017. Further, the Bank is of the opinion that there is very low probability of recovery. The summary of write-offs for FY 2017-18 is as follows:

Period	Amount (Rs. in lacs)
Q1 of 2017-18	1,000
Q2 of 2017-18	8,868
Q3 of 2017-18	3,305
Q4 of 2017-18	4,480
Total write-offs for FY 2017-18	**17,653**

All assets which have been fully provided for are considered for writing off after all recovery efforts have been exhausted:

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.

E) **Credit Risk Management**

The Financial Year 2017-18 was a challenging year for the microfinance industry and a real test of the Bank's strength and character. The steep drop in repayment rates due to demonetization impacted the Bank's portfolio quality and the SFB transition plans at the start of the Financial Year. However, the Bank has recovered well from the impact of demonetization with monthly collection efficiencies back to over 97% in March 2018. A snapshot of the year end comparison of key parameters is given below:

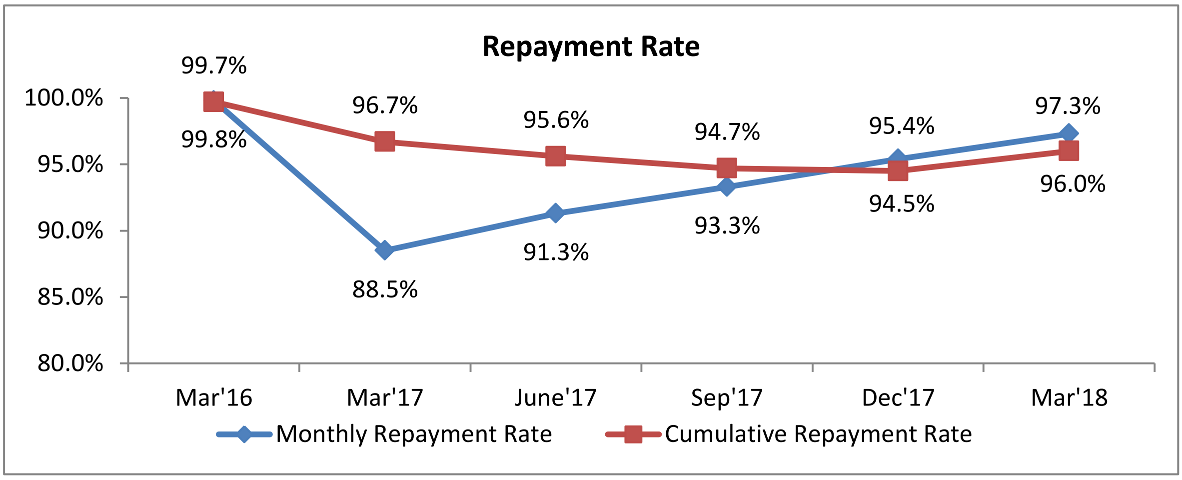
Particulars	**Mar'17**	**Sept'17**	**Mar'18**	**YTD Variance**
Outstanding Principal (OSP) (Rs. in lacs)	5,87,565	6,48,322	7,56,045	1,68,479
Monthly Repayment Rate (MRR)	88.5%	93.7%	97.3%	**8.8%**
Total Delinquent Accounts/client	4,30,376	3,76,176	2,29,378	**2,00,998**
Incremental Overdue (IOD)	27,917	11,399	2,909	**25,008**
PAR>0 Days (Rs. in lacs)	65,070	53,410	30,920	**34,150**
%PAR > 0 Days	10.2%	7.89%	4.10%	**6.1%**
On-time Repayment Rate (OTRR)	82.9%	86.3%	91.3%	**8.4%**

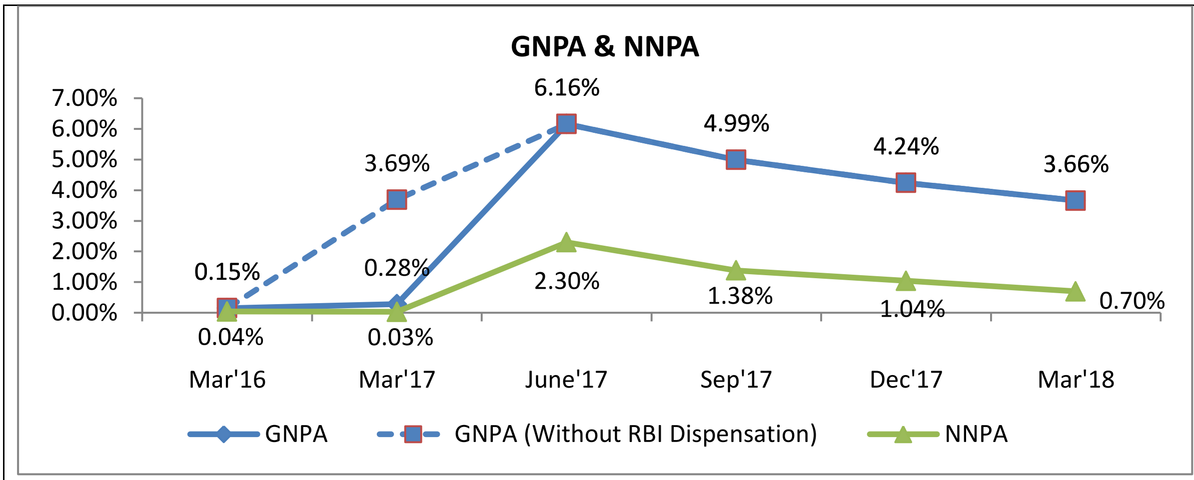
Cumulative Repayment Rate (CRR)	96.7%	94.7%	96.0%	0.7%

The Bank's proactive approach in involving the branch staff for collections, along with setting up of a dedicated collections team primarily focused on 90 days past due accounts has yielded good results with an average quarterly traction of 33% to 35% on accounts handled by this team. Considering the vintage of these delinquent accounts, a 30%+ traction is significant and gives the Bank hope of a constant recovery environment during the next financial year.

In the microfinance portfolio, fresh delinquencies have been contained over the quarters and with sustained collection efforts the PAR (Portfolio at Risk >0 days) has steadily declined from 10.2% in March 2017 to 4% in March 2018.

For all new loans disbursed from January 2017 onwards, the collection efficiency continues to be at an impressive 99.7%. The total Gross NPA of the Bank which had peaked to over 6% during the year had declined to 3.65% as of March'18. Since majority of the provisions have been taken during the year, the Provisioning Coverage Ratio was at 81.87% and as a result of this the NNPA as of March'18 was at 0.69 %.





Credit Risk Monitoring

Micro-finance portfolio

The Unsecured Credit function specifically manages and monitors the microfinance business – Joint lending groups (JLG) and Individual Loans through an independent loan underwriting and approval process. Credit risk monitoring for the unsecured lending portfolio is undertaken in the following way:

- Field credit teams ensure implementation of various policies and processes through random customer visits and assessment, training of branch staff on application errors, liaison with other institutions to obtain necessary information/loan closure documents, as the case may be, and highlight early warning signals and industry developments enabling pro-active field risk management. The efforts of the field credit team are supplemented by that of the strong Internal Audit framework of the Bank. This is primarily audit of field and branch banking processes, including the credit sanction and disbursement process. Any breach is highlighted and corrective measures are initiated;
- Branch specific credit limits for Joint Lending Group (JLG) business have been formulated that define credit limits for various occupations thereby addressing exposure and concentration risks. The limits so drawn ensure approvals in accordance with customer's maturity in the lending system, vintage with the organization, primary occupation of the family and their locale. The entire policy suite thus enables robust customer selection and assessment;
- Portfolio analysis and reporting is used to identify and manage credit quality and concentration risks.
- In response to customer needs post demonetization, the Bank has been quick to make necessary changes to its lending model including discontinuation of group members' guarantee and instead focus on individual on-time repayments at the centre meetings.
- Post the demonetization all branches in affected geographies are being re-surveyed to identify and exclude problematic areas, identify expansion areas and focus on

servicing repeat customers. Re-building business and portfolio cautiously is the Bank's goal in these geographies along with continued recovery efforts that will help keep incremental credit costs to pre-demonetization levels. The credit risk framework is also being re-visited to incorporate learning's as the Bank emerges with a stronger character from this devastating event.

- On the underwriting side, the Bank continues to leverage technology to further strengthen its assessment processes and effectively use data and credit models to ascertain credit behaviour of various customer segments as it diversifies the product suite to offer Personal loans, two wheeler loans and other new products under rural lending. This will also help the Bank achieve its objective of providing pre-approved and digital credit offerings to all customers including existing microfinance customers.

Housing and Micro and Small Enterprises (MSE) portfolios

Credit risk monitoring for MSE and the Affordable Housing sector 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 occupations, markets and states where the PAR % is out of sync with the Bank's long term vision.

Housing:

In line with Government of India's declared mission of 'Housing for All by 2022', the Bank has seen robust growth in Affordable Housing portfolio. The Affordable Housing portfolio had grown from Rs. 9863 lacs as on 31st March 2017 to Rs. 32278 lacs as on 31st March 2018 , with NPA of 0.11% with 2 times increase in customer base. Post conversion into a Bank, the Bank's affordable housing customers were able to take benefit of Credit Linked Subsidy Scheme (CLSS) of the Pradhan Mantri Awas Yojana (PMAY).

Demand in mid-income affordable housing remains strong and poised for excellent growth in coming months and years. Over the years the Bank has perfected the underwriting for these set of customers, and this has helped in being much more responsive to the customer needs.

The affordable Home Loans are tailor-made for the underserved customers to help them realize their dream of owning a home. The Bank provides loans for construction of new home, improvement of existing house, purchase of apartment or house and loan against property. The portfolio is a blend of multiple products with majority of loans being extended for self-construction and for home improvement with combination of self-employed (organized and unorganized sector) and salaried. Self-Employed segment forms 60% of the Bank's portfolio with salaried comprising the rest. The portfolio is reviewed periodically to identify early warning signals, to understand concentration of portfolio by industry, geography, profiles and accordingly remedial actions are adopted.

During the year RBI substantially reduced the risk weights on affordable housing with Loan to Value (LTVs) less than 75%, from previous 50% to 35%. As the portfolio grows at greater speed in coming years, this would help in better capital management.

Micro and Small Enterprises (MSE):

The year also saw the Bank make rapid strides in building its portfolio of Micro loans. There are four product variants that the Bank offers; these are both unsecured and secured. While lending to the micro segment is a mandatory priority sector lending requirement, the Bank also sees considerable business potential in this segment. Ticket size has been increased from the earlier cap of Rs 25 lacs to Rs 50 lacs, though this cap is strictly monitored to ensure that there is no breach of the SFB mandated guidelines. The Bank will also be introducing an overdraft product in the next financial year. A growth in the performance of the portfolio is furnished as below:

Region	Apr'17 (Rs. in lacs)	Mar'18 (Rs. in lacs)	Growth
South	2,467	7,014	184%
North	1,575	6,756	329%
East	1,361	5,314	291%
West	1,190	3,343	181%
Grand Total	6,593	22,427	240%

	PAR OSP							
OD Days	**Apr'17 (Rs. in lacs)**				**Mar'18 (Rs. in lacs)**			
Product	**LAP SENP SEP**	**UBL**	**UEL**	**Grand Total**	**LAP SENP SEP**	**UBL**	**UEL**	**Grand Total**
0-30 days	40.37	32.33	6.94	79.63	25.73	88.36	40.92	155.01
31-60 days	9.46	6.14	-	15.60	27.45	75.12	29.60	132.17
61-90 days	24.21	5.24	-	29.45	8.38	29.36	-	37.74
90+ days	9.18	4.30	-	13.48	73.22	122.65	25.21	221.08
Total	**83.22**	**48.01**	**6.94**	**138.17**	**134.79**	**315.49**	**95.72**	**546.00**

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.

F) 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. This includes audit of the liability process, all operating and functional departments, Treasury and business. In compliance with the regulatory requirements, the Bank has concurrent auditors at each region and as at 31st March, 2018 had completed the IS Audit of its systems. The Bank has scheduled to commence ISO 27001 certification process for its IT applications in the next financial year.

Quantitative Disclosures

Exposure summary: Facility type

Exposure Type*	Domestic (Rs. in lacs)	Overseas
Fund- Based exposure	7,81,443	--
Non- Fund Based Exposure	--	--
Total	7,81,443	**--**

*Exposure definition as per RBI

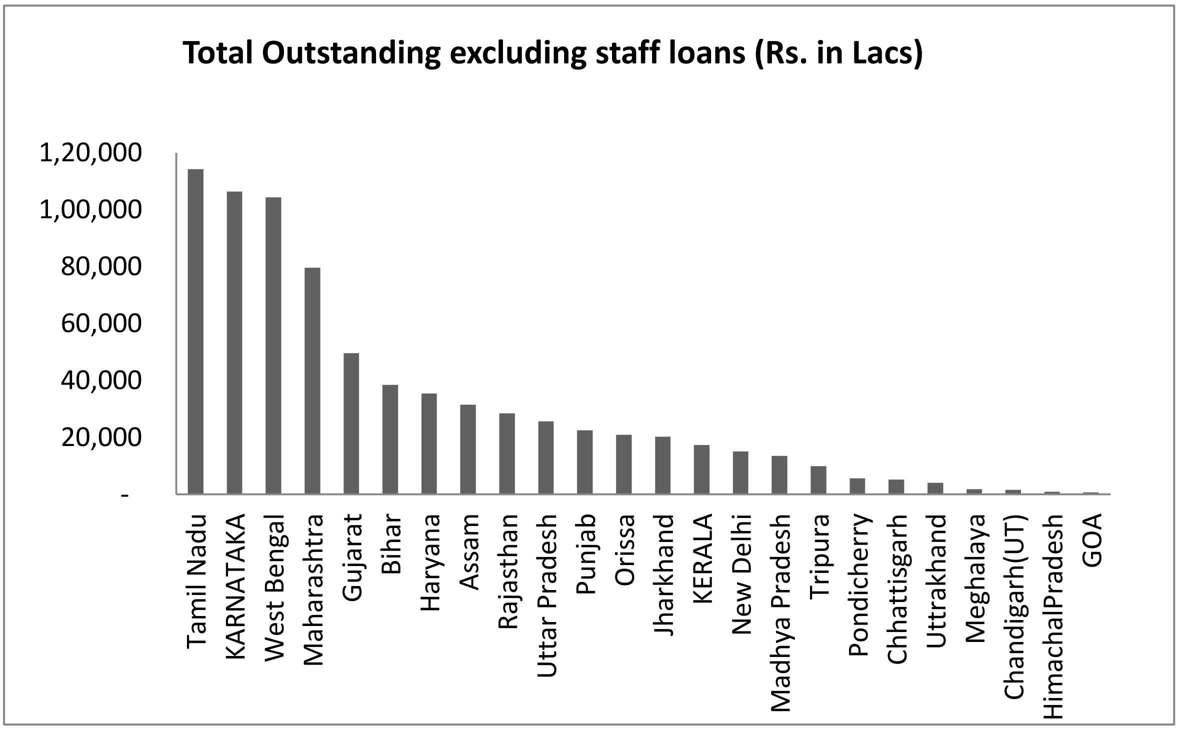
Geographic Distribution of advances (State-wise) (Excluding Staff Loans)

State	Total Outstanding excluding staff loans (Rs. in Lacs)	% Share
Tamil Nadu	1,14,272	15.16%
KARNATAKA	1,06,332	14.11%
West Bengal	1,04,301	13.84%
Maharashtra	79,616	10.56%
Gujarat	49,548	6.57%
Bihar	38,524	5.11%
Haryana	35,457	4.71%
Assam	31,503	4.18%
Rajasthan	28,503	3.78%
Uttar Pradesh	25,713	3.41%
Punjab	22,530	2.99%
Orissa	20,979	2.78%
Jharkhand	20,311	2.70%
KERALA	17,386	2.31%
New Delhi	15,085	2.00%
Madhya Pradesh	13,513	1.79%
Tripura	9,951	1.32%
Pondicherry	5,665	0.75%

Chhattisgarh	5,179	0.69%
Uttarakhand	4,138	0.55%
Meghalaya	1,798	0.24%
Chandigarh(UT)	1,583	0.21%
Himachal Pradesh	935	0.12%
GOA	761	0.10%
Grand Total	**7,53,584**	**100.00%**

The share of microfinance advances constitutes 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 geographic states with excess concentration, Pillar II capital charge as required by RBI is provided after duly factoring the expected defaults, expected tractions and expected provisions.

Since the share of MSE and Secured housing loans are small and growing, 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 shall be monitored and reported for corrective actions in the ensuing year.



Exposure distribution by activity

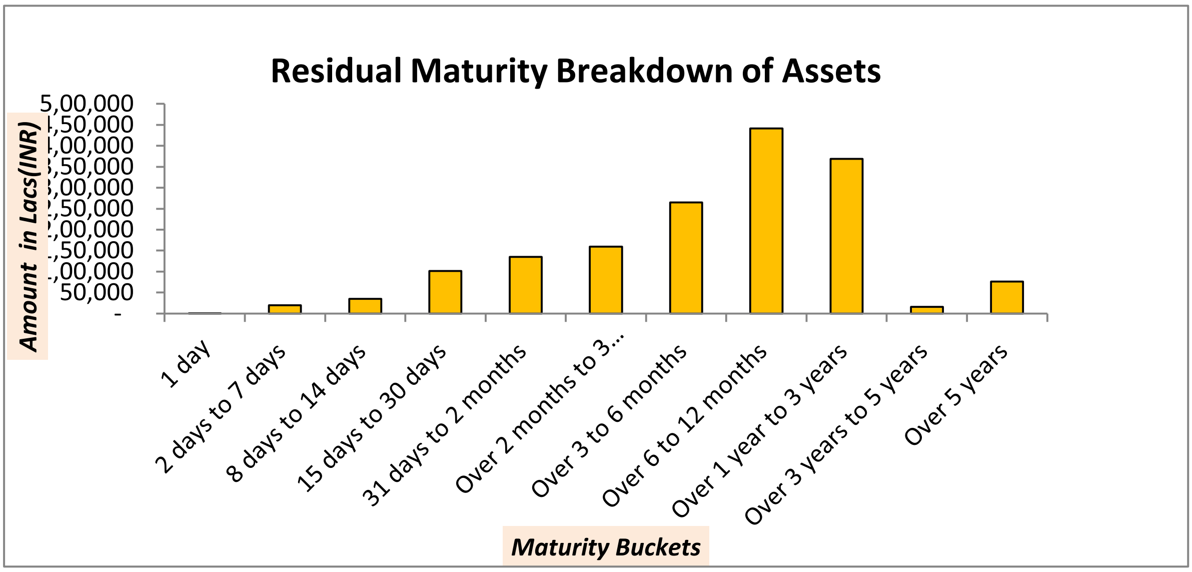
Exposure distribution by Activity		
S. No.	**Industry Classification**	**Fund Based (Rs. in lacs)**
1	Agriculture & Allied activities	21,891
2	MSME	35,934
3	Education	-
4	Housing	75,536
5	Other PSL Loans	3,10,424
	LESS: PSLC	(3,29,400)
A)	**Total Priority Sector Loan**	**1,14,385**
6	Agriculture (Non Priority)	1,36,521
7	MSME : Service (non-priority)	-
8	Education (Non Priority)	8,381
9	Housing(Non Priority)	36,969
10	Personal Loans under Non Priority Sector	3,34,298
11	Other Non PSL Loans	1,25,491
B)	**Total Non-Priority Sector**	**6,41,660**
C)	**Total Advances**	**7,56,045**

The Adjusted Net Bank Credit (ANBC) as on the corresponding date of the preceding year was Rs. 92,222 lacs. The Priority Sector lending was above the minimum requirement of 75% at 124% (Rs. 1,14,385 lacs as a percentage to ANBC).

Maturity pattern of assets and liabilities (Rs. in lacs)

Residual Contractual Maturity breakdowns of Assets- Position as on 31st March 2018					
Maturity Bucket	**Loans & Advances**	**Investment**	**Deposits**	**Borrowings**	**Total**
1 day	1	-	127	-	129
2 days to 7 days	11,063	7,495	1,385	-	19,943
8 days to 14 days	19,313	7,985	3,579	3,842	34,720
15 days to 30 days	24,609	-	63,631	13,460	1,01,700
31 days to 2 months	55,135	5,550	65,279	9,195	1,35,159
Over 2 months to 3 months	53,666	-	93,697	12,442	1,59,805
Over 3 to 6 months	1,44,704	11,088	37,146	71,960	2,64,897
Over 6 to 12 months	2,01,753	36,531	75,542	1,27,777	4,41,603
Over 1 year to 3 years	1,88,343	(0)	36,610	1,44,290	3,69,243

Over 3 years to 5 years	13,372	-	221	2,319	15,911
Over 5 years	21,591	54,598	30	-	76,219



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

Category of Gross NPA	31st March 2018
Sub-standard	20,801
Doubtful	454
Loss	6,337
Total	**27,592**

Net NPA	5,093

NPA Ratios	Percentage
Gross NPA to Gross Advances	3.65%
Net NPA to Net Advances	0.69%

Movement of Gross NPA's

Particulars	Amount (Rs. In lacs)
Opening Balance	1,640
Additions during the period	55,669
Reductions during the period	29,717
Closing Balance	27,592

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

Particulars	Amount (Rs. in lacs)
Opening Balance	1,460
Provisions made during the period	45,364
Write back of excess provisions	24,325
Closing Balance	22,499

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

Movement of provisions for depreciation on investments	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

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 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 RWA of 25% to these assets as per the specific directives by RBI to SFBs.

Quantitative Disclosures

Details of Gross Credit Risk Exposure (Fund based and Non-fund based) based on Risk Weight – Position as on 31st March 2018		
Sl.No	**Risk Weight**	**Rs. in lacs**
1	Below 100% Risk Weight	6,74,736
2	100% Risk Weight	1,87,873

3	More than 100% Risk Weight	92,760
4	Deductions from CRM	-
5	Total	9,55,369

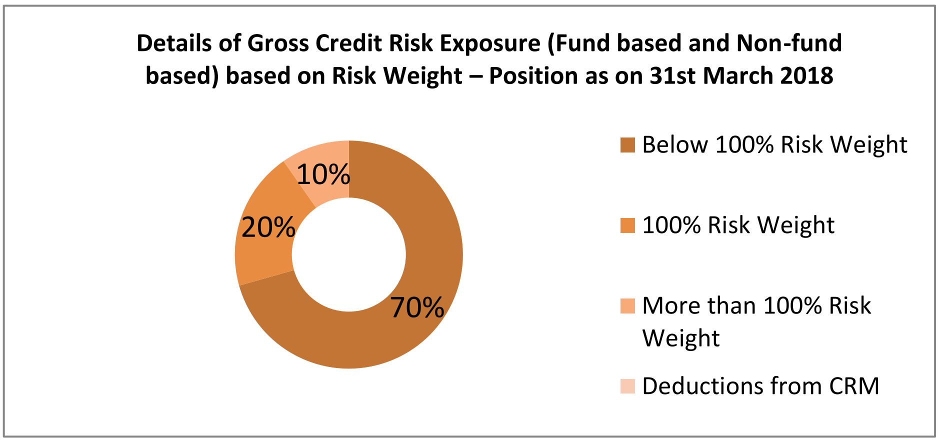


Table DF-6: Credit Risk Mitigation: Disclosures for Standardised Approaches

Qualitative Disclosure

- The JLG and Individual Loan portfolio of the Bank is unsecured. Loans to the affordable housing segment are collateralized by a mortgage over the property financed.
- Credit risk mitigation refers to the use of methods to reduce the risk of lending to a borrower. The Bank has put in place a detailed credit appraisal process which is captured in separate product manuals and product programs. The mitigants used in the unsecured lending portfolio are as follows:

1) Life insurance cover is mandatory for all the borrowers availing any of the Bank's asset products.
2) The Bank works with 4 credit bureaus and ensures 100% application screening through the bureaus. State of the art paperless approval process, through the document management system enables a quick and uniform approval process.
3) NPA Customers are identified and follow up is undertaken by the tele-calling team. The tele calling team updates the field recovery officer through revised Promise to Pay (PTP) dates from the borrower. Further, the Early Warning System (EWS) tool for Housing and MSE loans also enables the Bank to monitor the repayment behaviour and discipline of the borrower. This tool provides valuable insights which enable the Bank to focus more on customers deemed to be of higher risk.
4) 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

Qualitative Disclosure
The securitized transactions which were transferred under the BTA are without recourse to the Bank. The entire securitized portfolio had been completely repaid as at 31st March 2018 There are no securitization exposures in the Trading Book.

Table DF- 8: Market Risk and Liquidity Risk

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 been undertaken during the year. The AFS portfolio is small. Significantly, during the year 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 tenor 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 the year-end:

ALM	**Liabilities (Rs. in lacs)**						
Buckets	**Deposits**	**CDs**	**Interbank**	**Refinances**	**Legacy Borrowings**	**Net Worth**	**% of Liabilities**
1D	127	0	0	0	0	0	**0%**
2-7D	1,385	0	0	0	0	0	**0%**
8-14D	1,084	2,496	0	1,500	2,342	0	**1%**
15-30D	4,451	59,180	0	0	13,460	0	**9%**
31D to 2M	10,532	54,747	0	1,500	7,695	0	**17%**
2M to 3M	19,880	73,817	0	1,500	10,942	0	**29%**

3M to 6M	22,616	14,530	2,500	26,157	43,303	0	**41%**
6M to 1Y	63,687	11,855	0	37,490	90,287	0	**62%**
1 Year +	36,861	0	0	1,26,950	19,659	1,64,841	**100%**
Total	1,60,623	2,16,625	2,500	1,95,097	1,87,688	1,64,841	

ALM	**Assets (Rs. in lacs)**			
Buckets	**Cash & Balance**	**Investments**	**Advances**	**% of Assets**
1D	5,156	18,772	1	**3%**
2-7D	20,086	458	11,063	**6%**
8-14D	253	1,396	19,313	**9%**
15-30D	3,171	16,056	24,609	**13%**
31D to 2M	3,895	15,066	55,135	**22%**
2M to 3M	4,187	21,555	53,666	**31%**
3M to 6M	975	15,052	1,44,704	**49%**
6M to 1Y	3,069	25,645	2,01,753	**74%**
1 Year +	3,492	9,248	2,18,113	**100%**
Total	44,284	1,23,248	7,28,357	

As at the year end, about 23% of the funding was met through placement of Certificates of Deposits (CDs) of tenor not exceeding three months. But 21% of the funding came from total deposits, which were mostly of tenor up to 1 year. The Bank also availed of refinance from SIDBI and NABARD during the year and these were of an average tenor of 3 years. A summary of the funding mix as at the year-end is given below:

Rs. in lacs

S No	**Particulars**	**Mar-17**	**Jun- 17**	**Sep-17**	**Dec-17**	**Mar-18**	**% of Borrowing**
1	Legacy Borrowings	4,49,247	3,96,805	2,66,953	1,74,028	1,27,688	**17%**
2	Refinance	97,393	94,893	1,44,020	1,69,520	1,95,097	**25%**
3	Interbank	0	49,700	38,500	40,000	2,500	**0%**
4	Deposits	20,641	40,374	73,456	1,05,785	1,60,623	**21%**
5	CDs (< 3 Months)	0	0	61,500	1,05,000	1,74,700	**23%**
6	CDs (> 3	0	0	18,000	35,500	45,000	**6%**

	Months)						
7	NCDs	82,500	72,500	62,500	60,000	60,000	**8%**
8	Securitization Portfolio	50,833	34,858	22,982	13,362	0	**0%**
9	IBPC	0	0	7,500	3,500	0	**0%**
Outstanding		7,00,615	6,89,130	6,95,412	7,06,695	7,65,608	**100%**

The Bank adheres to RBI guidelines relating to the Liquidity Coverage Ratio (LCR), Liquidity Risk Monitoring Tools and the LCR Disclosure Standards pursuant to the Basel III Framework on Liquidity Standards that are applicable to banks in India with effect from January 1, 2015. LCR measures the Bank's ability to manage and survive under combined idiosyncratic and market-wide liquidity stress condition that would result in accelerated withdrawal of deposits from retail as well wholesale depositors, partial loss of secured funding, increase in collateral requirements, unscheduled draw down of unused credit lines etc.

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. LCR measures a bank's potential to stand under combined idiosyncratic and market-wide liquidity stress condition, where the bank experiences accelerated withdrawal of deposits from retail depositors, partial loss of secured funding, increase in collateral requirements and unscheduled draw down of unused credit lines.

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 31st March 2018, computed on the basis of daily average of three months, was comfortable and significantly in excess of the mandatory minimum:

Liquidity Coverage Ratio		
A	**High Quality Liquid Assets**	**Adjusted Baseline Scenario (Rs. in lacs)**
	Level 1 Assets	80,641
	Level 2 A Assets	0
	Level 2 B Assets	0
B	Total Stock of HQLAs	80,641
C	Cash Outflows	1,16,430
D	Cash Inflows	68,732
E	Net Cash-flow	47,699
F	25% of Total Cash Outflow	29,108

G	Higher of E or F	47,699
Liquidity Coverage Ratio		**169.06%**

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.

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

Quantitative Disclosures

Capital Requirement for Market Risk	Amount (Rs. in lacs)
Interest Rate Risk	169
Equity Position Risk	--
Foreign Exchange Risk	--
Total	**169**
Total Market Risk RWA	**2,116**

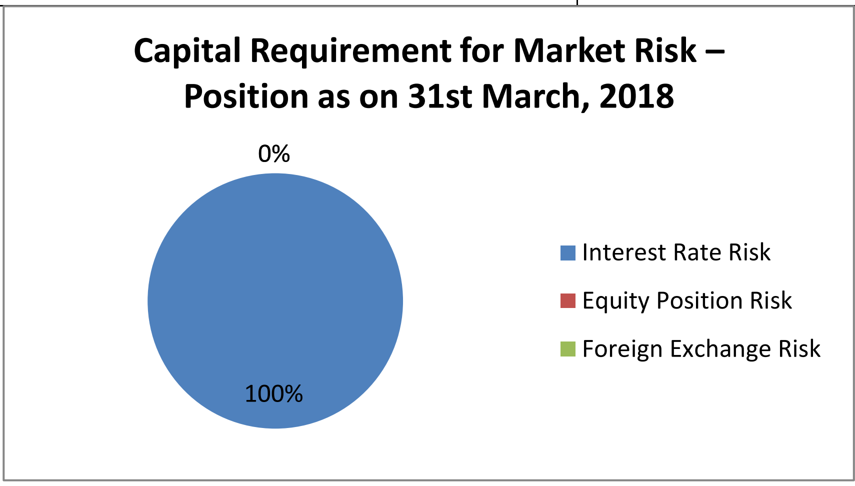


Table DF- 9: Operational Risk

Qualitative Disclosures

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 reputation 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

There are two methods that the Bank follows to measure Operational Risk:

1) A scorecard approach. This is internal scoring mechanism that the Bank has

developed to capture key risk parameters at a granular level. This is done each month and branches are categorized as High, Medium or Low risk based on these assessments. The findings are tabled to the Operational Risk Management Committee and actionable are decided to address the position of recurring high risk branches. The scorecard reporting is supplemented with observations of the Operational Risk team from branch visits and field observations. It is intended that the branch risk scores of the Operational Risk team will form the basis for identifying rigorous branch audits from the next financial year;

2) The Risk and Control Self-Assessment (RCSA) framework. While this is expected to be developed from the Enterprise Governance Risk and Compliance (EGRC) module of SAS which was in production at the year end, the Bank has developed an excel matrix for this purpose. The analysis is done using a product as the base. Using this, each process and sub process is documented and existing controls tested. This enables the generation of a residual risk score.

While these are two methods used to measure operational risk, the Bank has developed a robust system of recording all instances of operational risk events. Such reports are from branches and also at regional levels. A separate Operational Risk loss general ledger head has been created in the Banks chart of accounts to track the amount of loss booked. These are reported to the Operational Risk Management Committee (ORMC).

The Bank is also progressively doing a complete risk assessment of all its outsourced vendors. These are vendors that the Bank has been using since its days as an NBFC- MFI. The aim behind these risk assessment is to ensure that these vendors all comply with the minimum requirement prescribed by RBI for all outsourced contracts.

Consistent with Basel requirements, the Board has approved an Operational Risk Management policy of the Bank 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.

The policy provides :

- A comprehensive view of operational risks across business for proactively assessing key risks and initiating mitigating measures;
- Reduce ‘Impact’ and ‘Probability’ of risk events through introduction of sound practices for operational risk, embedding right sized controls in a proactive manner to minimize losses from operational failures;
- Create awareness by developing a common understanding and taxonomy of risks across the Bank and embed risk ownership by business.

Governance Structure for ORM

The Bank has an Operational Risk Management Framework and the Board of Directors gives direction on the risk management strategies and approves the operational risk policy of the Bank commensurate with the size of the Bank. For effective management of Operational Risk, the Bank has constituted an ORMC consisting of senior management drawn from different functions, 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. The main function of the ORMC is to ensure appropriate processes are in place to mitigate/contain Operational Risk losses. It is also responsible for recommending suitable control measures for risk mitigation.

The Operational Risk team performs root cause analysis on operational risk incidents for identification of open risks and suggestion of risk mitigants. Near miss incidents are collated to create a database for loss events and to understand the different risk drivers.

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

1) Conducting a thorough due diligence by taking input from business and all control functions before opening any new branch. In addition a periodic assessment of the competitive environment in the branch operating area through an analytics tool is done and that acts as proactive risk mitigants;
2) Monthly risk scoring through an internally developed model to measure risk of each branch operation with resultant scores determining the action plan which is devised in consultation with business to ensure quick turnaround of branch operations from high/medium risk to low risk. This is an established process and is proposed to be automated through the SAS module;

   The risk scoring framework has now been enhanced to include both SFB and MFI branches. There are different set of parameters for risk scoring of MFI and SFB branches and these are repeated at monthly intervals. When complemented with a robust internal audit process, the risk scoring at a granular level ensures adherence to laid down processes, especially in newly converted SFB branches. ;
3) Operational risk checklist is in place for assessment of controls in existing liability processes in SFB live branches. Similar checklist is also used for assessment of controls in branches not live with liability products. This is used to raise awareness amongst users of associated operational risks in case of controls being compromised;
4) Operational risk Incident reporting process is established which involves a detailed risk analysis for material incidents and learn from errors for strengthening controls through loss and near miss data. Incident reporting is used to capture operational risk incidents in a systematic manner. This is followed by a Root Cause Analysis (RCA) of each reported incident and to book losses on identified operational risk events;
5) All new products are rolled out post assessment of critical operational and

compliance risks and with approval of the Product Approval Committee (PAC);

6) RCSA entity selection is phased out across Business Groups and Support groups. Based on the interactions with the process owners, the Bank makes recommendations for change in process if warranted which in turn is suitably incorporated in the process note roll out with adequate risk mitigants and control features.
7) Comprehensive Risk register has been compiled
8) Internal control testing framework that assesses design and operating effectiveness of controls. This is an on-going exercise;
9) Framework 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;
10) Tracking of actions for timely closure of open issues from RCSAs, control testing, risk incidents and audit;
11) Periodic reporting of material risk exposures to senior management to facilitate timely mitigation;
12) SAS EGRC is implemented to record all loss events across the Bank. The module on KRI, Control Testing, Issue and Action is live. In long run the Bank will have sufficient data to arrive at a proper base for capital charge calculation.
13) Periodic training to frontend staff to create awareness on risk and available controls.
14) The ORMC provides direction for mitigation of operational risk in IT security
15) Disaster Recovery and Business Continuity Plan have been established for ensuring continuity of operations and minimal disruption of services in the Bank for its customers.
16) Reports from concurrent audit and internal audit also provide with independent assessment of the operating and the financial controls for the various processes that form an integral part in managing the operational risk that is all pervasive.

Information Technology and Security Risk

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 operates under cyber security framework that is aligned with the regulatory guidelines.

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 has commissioned the performance of independent vulnerability assessments and penetration tests to complement internal assessments. 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. The Bank was conferred the prestigious Indian Bank's Association (IBA)Award for Best IT Risk and Cyber Security Initiatives in the Small Bank Category in February 2018.

Business Continuity

The Business Continuity Management Policy (BCMP) of the Bank provides for procedures 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.

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.

Quantitative Disclosure

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

Other Pillar II Risks

Minimum regulatory capital requirements under Pillar 1 establish a threshold below which a bank's regulatory capital must not fall. Regulatory capital ratios permit some comparative analysis of capital adequacy across regulated banking entities because they are based on certain common methodology / assumptions. However, RBI performs a more comprehensive assessment of capital adequacy that considers risks specific to a bank, conducting analyses that go beyond minimum regulatory capital requirements. The assessment entails as to whether the bank maintains adequate capital cushion to take care of all material risks and operate with a cushion.

Pillar II risks such as Liquidity risk, Reputational Risk, Strategic Risk, Legal risks, outsourcing risks, Credit Concentration Risk are examples of Pillar II Risks.

These risks will be analysed separately by the Bank under ICAAP.

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

Qualitative Disclosures

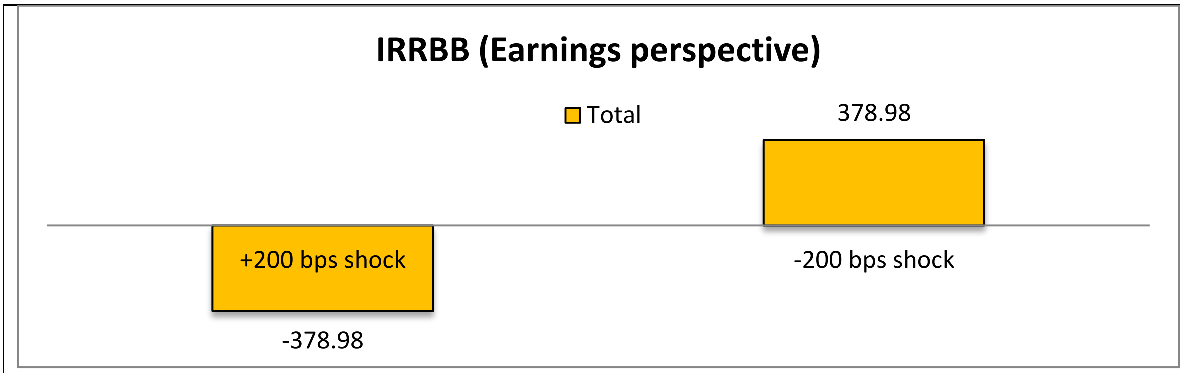
Interest Rate Risk in Banking Book (IRRBB) refers to the risk of loss in earnings and economic value of a bank's banking book as a consequence of movement in interest rates. The Bank has identified the risks associated with the changing interest rates on its exposures in the banking book from both a 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.

Earnings at Risk (Earnings Perspective) (Rs. in lacs)

Interest Rate Risk in the Banking Book (IRRBB)			
Sl.No	Country	Interest Rate Shock	
		+200 bps shock	-200 bps shock
1	India	-378.98	378.98
2	Overseas	--	--
3	Total	-378.98	378.98



Economic Value Perspective (Rs. in lacs)

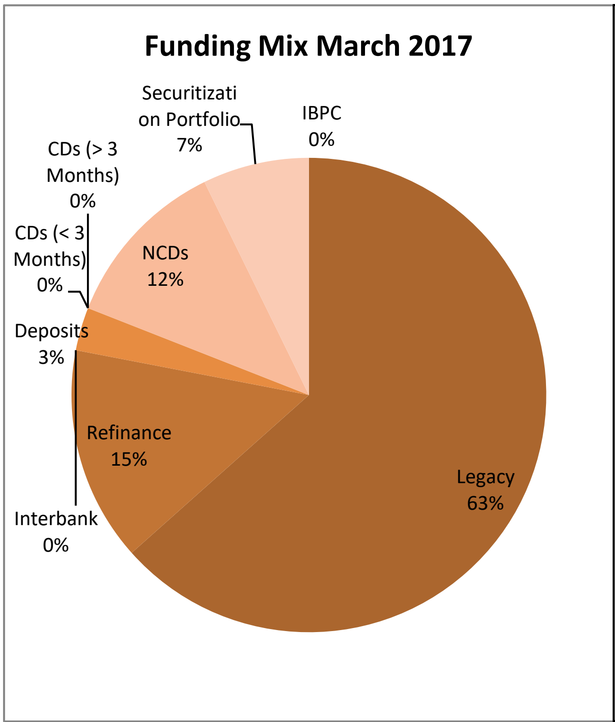
Category	Items	Amount
A	Equity (i.e., Net Worth)	1,44,004
B	Computation of Aggregate RSL	7,82,532
C	Computation of Aggregate RSA	8,85,362
D	Weighted Avg. MD of RSL across all currencies	0.9185
E	Weighted Avg. MD of RSA across all currencies	1.2196
F	MDG	0.41
G	Change in MVE as % of equity for 200bps change in interest rate	-5.01%
G	Change in MVE in absolute terms	-7214.58

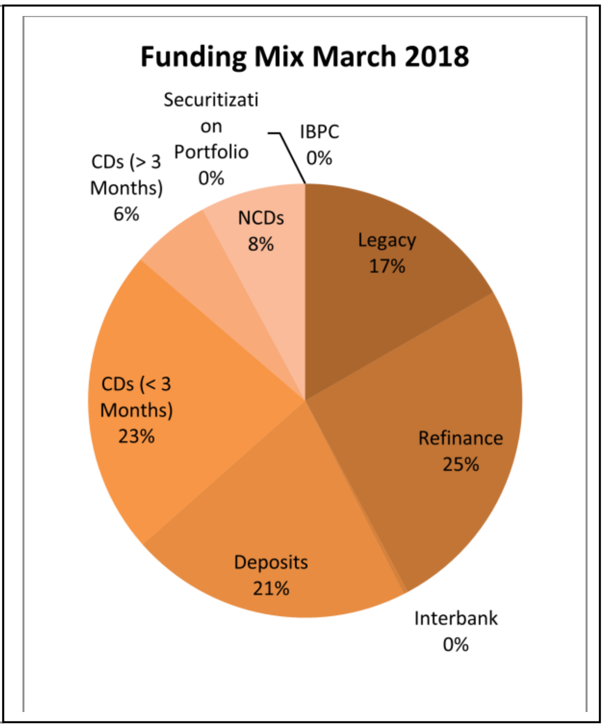
Liability profile of the Bank

Transformation from an NBFC-MFI to an SFB brings with itself a plethora of opportunities related to diversification of funding sources through mobilisation of deposits from the untapped market of underserved and unserved strata of the society. The modest growth in retail deposits is in line with the expectation set by the Bank for its 1st year of operations. CDs took the centre stage of funding plan in year 1 while the way forward is to diversify the funding sources through a combination of term money, refinance and portfolio re-financing to bring down the reliance on CDs to a limited portion and allow room for the deposits to grow. As the Bank completes its Branch conversion roll out plan, it is expected to enable a wider reach in building the core deposits.

Mobilization of Institutional deposits has been a key focus area during the year to create an entry into the rate-sensitive yet service oriented institutional deposit sector. With the proposed way forward, the Bank is expected to better the cost with a more diversified liability book after the initial focus of retiring high cost legacy debts in the 1st year.

The funding mix position is furnished as below:





Share of Legacy borrowings reduced to 17% (1, 27,688 lacs) as on March 2018 from 63% (Rs. 4, 44,247 lacs) as on corresponding previous year. The Bank has significantly increased its share of total deposits to 21% (Rs. 1, 60,589 lacs) from 2.94% (Rs. 20,641 lacs).

After Scheduled Bank status, funding from CD market was available. The Bank had issued CD of Rs. 2, 19,700 lacs (28.70%) across various maturities as on 31st March 2018.

DF 13: Main features of Regulatory capital Instruments

Disclosure template for main features of regulatory capital instruments				
		Equity Shares	**Preference Shares**	**Subordinated Debt**
1	Issuer	Ujjivan Small Finance Bank Limited	Ujjivan Small Finance Bank Limited	Ujjivan Small Finance Bank Limited (through BTA agreement)
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	Not Applicable (NA)	NA	NA
3	Governing law(s) of the instrument	Applicable Indian Statutes and regulatory requirements	Applicable Indian Statutes & Regulatory requirements and RBI Basel III Guidelines dated July 1, 2015	Applicable Indian Statutes & Regulatory requirements and RBI Basel III Guidelines dated July 1, 2015
	Regulatory treatment			
4	Transitional Basel III rules	Common equity Tier 1	Addition Tier 1 Capital (AT1)	Lower Tier II Bond
5	Post-transitional Basel III rules	Common equity Tier 1	Addition Tier 1 Capital (AT1)	Lower Tier II Bond
6	Eligible at solo/group/ group & solo	Solo	Solo	Solo
7	Instrument type	Common Shares	Perpetual Non-Cumulative Preference shares	Subordinated Debt Instrument
8	Amount recognised in regulatory capital (Rs. in million, as of most recent reporting date)	Rs 14400 Million	Rs 2,000 Million	Rs. 500 Million
9	Par value of instrument	Rs 10/-	Rs 10/-	Not applicable
10	Accounting classification	Capital	Capital	Capital

11	Original date of issuance	Rs 0.50 million – 4th July 2016 Rs 1099.868 Million – 30th July 2016 Rs 13,300 Million - 10th February 2017	10th February 2017	29th September 2014
12	Perpetual or dated	Perpetual	Perpetual	Dated
13	Original maturity date	No Maturity date	No Maturity date	10th April 2020
14	Issuer call subject to prior supervisory approval	No	No	No
15	Optional call date, contingent call dates and redemption amount	NA	NIL	NIL
16	Subsequent call dates, if applicable	NA	NIL	NIL
	Coupons / dividends	Dividend	Dividend	Coupon
17	Fixed or floating dividend/coupon	NA	Fixed	Fixed
18	Coupon rate and any related index	NA	11.0%	15% p.a.
19	Existence of a dividend stopper	NA	Yes	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary	NA
21	Existence of step up or other incentive to redeem	No	NIL	NIL
22	Noncumulative or cumulative	Non-Cumulative	Non-Cumulative	NA

23	Convertible or non-convertible	NA	Non-Convertible	Non- convertible
24	If convertible, conversion trigger(s)	NA	NA	NA
25	If convertible, fully or partially	NA	NA	NA
26	If convertible, conversion rate	NA	NA	NA
27	If convertible, mandatory or optional conversion	NA	NA	NA
28	If convertible, specify instrument type convertible into	NA	NA	NA
29	If convertible, specify issuer of instrument it converts into	NA	NA	NA
30	Write-down feature	No	Yes	No
31	If write-down, write-down trigger(s)	NA	PONV trigger & CET1 trigger	NA
32	If write-down, full or partial	NA	Full and Partial	NA
34	If temporary write-down, description of write-up mechanism	NA	The Issuer shall: 1. Notify holders of preference Shares 2. Cancel any dividend accrued and un paid to as on write down date 3 Without the need for the consent of holders of the PNCPS, write down the face value of the PNCPS by such amount as the Issuer may in its	NA

			absolute discretion decide. Provided that, in no event shall such amount of write down be less than the amount required to immediately return the Issuer's Common Equity Tier 1 Ratio (as defined below) to above the CET1 Trigger Event Threshold (as defined below), nor shall such amount of write down exceed the amount which would be required to be written down to ensure that the Common Equity Tier 1 Ratio is equal to the aggregate of the CET1 Trigger Event Threshold and 2.5%, or such other percentage as may be prescribed by the RBI (the "CET1 Write Down Amount").	
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Secured Term Loan Borrowings , NCD's , Creditors of the Bank and Depositors	Subordinate to the claims of all depositors and general creditors and all capital instruments qualifying Tier II Capital instruments and perpetual debt instruments. Only Superior to Equity Shares	Senior to claims of investors in Tier I Capital Subordinate to claims of all depositors and general creditors 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.
36	Non-compliant transitioned features	No	No	No
37	If yes, specify non-compliant features	NA	NA	NA

DF 14: Terms and conditions of Regulatory Capital Instruments

Full Terms and Conditions of Equity Shares of the Bank

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

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

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

3	Seniority	The claims in respect of the PNCPS, subject to applicable law, will rank: 1. Superior to claims of holders of equity shares and 2. Subordinate to the claims of all depositors, term loan borrowings, all capital instruments qualifying as tier II capital and all perpetual debt instruments
	Listing	Unlisted.
5	Tenor	The PNCPS shall be perpetual i.e. there is no maturity date and there are no step-ups or any other incentives to redeem the PNCPS.
6	Dividend Payment Frequency	Subject to Dividend Limitation and Loss Absorption, dividend will be payable annually in arrears.
7	Dividend Rate	11% per annum or at a rate as specified in terms of RBI Master Circular on Basel III capital regulations
8	Dividend Stopper	In the event that the Preference shareholders are not paid dividend at the Dividend Rate, there shall be no payment of discretionary dividend on equity shares until the Dividend payments to the shareholders are made in accordance with terms hereof.
9	Put Option	Not Applicable.
10	Call Option	**Issuer call:** The Issuer may at its sole discretion, subject conditions for Call and Repurchase and exercise of such call option (with a notification to the holders of the PNCPS which shall specify the date fixed for exercise of the call option), exercise a call option on the PNCPS ("Issuer Call"). The Issuer Call may be exercised at the option of the Issuer no earlier than on the fifth anniversary of the Deemed Date of Allotment.
		Tax Call: If a Tax Event has occurred and is continuing, the Issuer may at its sole discretion, subject to Conditions for Call and Repurchase and notification to the holders of PNCPS of not less than 21calendar days prior to the date of exercise of such call option (which notification shall specify the date fixed for exercise of the call option), exercise a call option on the PNCPS ("Tax Call").Provided further that, subject to conditions for Call and Repurchase the Issuer may substitute the PNCPS with capital instruments that are in accordance with the RBI Master Circular on Basel III capital regulations and any other applicable law
		Regulatory Call: If a Regulatory Event has occurred and is continuing, the Issuer may at its sole discretion, subject to Conditions for Call and Repurchase and notification to the holders of PNCPS of not less than 21 calendar days prior to the date of exercise of such call option (which notification shall specify the date fixed for exercise of the call option), exercise a call option on the outstanding PNCPS ("Regulatory

11		Call").Provided further that, subject to Condition 27 (Conditions for Call and Repurchase) the Issuer may substitute the PNCPS with capital instruments that are in accordance with the RBI Master Circular on Basel III capital regulations and any other applicable law.
11	Repurchase/ Redemption/ Buy-back	The Issuer may subject to Conditions for Call and Repurchase having been satisfied and such repayment being permitted by the RBI Master Circular on Basel III capital regulations, repay the PNCPS by way of repurchase, buy-back or redemption.
12	Loss Absorption	PNCPS should have principal loss absorption through a write-down mechanism which allocates losses to the instrument at a pre-specified trigger point. The write-down will have the following effects: 1. Reduce the claim of the PNCPS in case of liquidation; 2. Reduce the amount re-paid when a call over the PNCPS is exercised by the Issuer; and 3. Partially or fully reduce dividend payments on the PNCPS. The specific criteria for such loss absorption through conversion/write-down/write-off on breach of pre-specified trigger and the Point of Non-Viability (PONV) will be in accordance with the applicable RBI guidelines The relevant terms of Annex 16 in Master Circular of Basel III capital regulations shall be deemed to be incorporated herein.
13	Permanent Principal Write-down on PONV Trigger Event	If a PONV Trigger Event occurs, the Issuer shall: 1.Notify the holders of the PNCPS; 2.cancel any dividend which is accrued and unpaid on the PNCPS as on the write-down date; and 3. Without the need for the consent of the holders of the PNCPS, write down the outstanding principal of the PNCPS by such amount as may be prescribed by RBI ("**PONV Write Down Amount**") and subject as is otherwise required by the RBI at the relevant time. The Issuer will affect a write-down within 30 (thirty) days (or such other time as may be prescribed by applicable law) of the PONV Write-Down Amount being determined by the RBI.A Permanent Principal Write-down on PONV Trigger Event may occur on more than one occasion. Unless specifically permitted by applicable law, once the face value of the PNCPS has been written down pursuant to PONV Trigger Event, the PONV Write-Down Amount will not be restored in any circumstances, including where the PONV Trigger Event has ceased to continue.

14	Temporary principal Write-down on CET1 Trigger Event	If a CET1 Trigger Event (as described below) occurs, the Issuer shall: 1.Notify the holders of the PNCPS; 2. Cancel any dividend which is accrued and unpaid to as on the write-down date; 3. Without the need for the consent of holders of the PNCPS, write down the face value of the PNCPS by such amount as the Issuer may in its absolute discretion decide. Provided that, in no event shall such amount of write down be less than the amount required to immediately return the Issuer's Common Equity Tier 1 Ratio to above the CET1 Trigger Event Threshold , nor shall such amount of write down exceed the amount which would be required to be written down to ensure that the Common Equity Tier 1 Ratio is equal to the aggregate of the CET1 Trigger Event Threshold and 2.5%, or such other percentage as may be prescribed by the RBI (the "CET1 Write Down Amount"). A write-down may occur on more than one occasion. Once the value of a PNCPS has been written down pursuant to this temporary Write down, the value of the PNCPS may only be restored in accordance with condition of reinstatement.

Full Terms and Conditions Subordinated Debt of the Bank

Sl. No	Particulars	Full Terms and Conditions
1	Amount of Subordinated Debt	• Rs. 5000 lacs (Rupees Five Thousand lacs only for deployment in unserved and underserved areas) • Disbursement of subordinated debt of Rs. 5000 lacs shall be drawn in one or more instalment along with availment of term loan, on pro-rate basis, if applicable.
2	Interest	• Subordinate Debt shall carry interest rate at 15% p.a. • The Bank reserves the right to review the interest rate at the time of disbursement • Interest shall be paid monthly on the tenth day of every calendar month, on the principal outstanding. Provided that the interest payable by the Borrower shall be subject to the changes in the interest rates made by the Reserve Bank of India.
3	Non-refundable upfront fees	0.25% of subordinated debt sanctioned along with applicable service taxes and cess
4	Repayment period for	• The debt shall have tenure of five (5) years and six (6) months from the date of first disbursement. The repayment will be in

	subordinated debt	six monthly instalments after the initial moratorium of five (5) years from the date of first disbursement. Date of payment of instalment shall be tenth day of every calendar month.
5	Validity of drawal	Subordinated debt shall be valid for 6 months from the date of Letter of Intent
6	Interest on prepayment	The borrower shall not repay the outstanding principal amount of loan in full or part thereof before the due dates except after obtaining prior approval of SIDBI in writing which may be granted subject to such conditions as SIDBI may deem fit including levy of interest (currently 1%-3%) on such prepayment.
7	Security	Unsecured (being subordinated debt). Intended to provide Tier II capital support as per RBI guidelines.
8	End use	• For on-lending to individuals/groups strictly for non-farm income generating Micro enterprise activities and service sector as per the MSMED act • No part of the assistance nor any outstanding loans of SIDBI shall be deployed in Andhra Pradesh or Telangana • To be deployed only in urban/semi-urban areas as per the existing classification by RBI i.e. areas with population more than ten thousand or as stipulated by RBI from time to time and would be utilized only in unserved and underserved states i.e. areas outside Andhra Pradesh, Telangana, Kerala, Karnataka and Tamilnadu
9	Pre-disbursement conditions	Prior to disbursement, the Bank shall, • Furnish a certificate from a Chartered Accountant to the effect that it complies with the directions issued by RBI with respect to net owned fund, qualifying assets, prudential norms, asset classification norms, pricing of credit, fair practices in lending, corporate governance etc., • Furnish certificate from CA to the effect that it complies with KYC/AML norms as stipulated by RBI • Furnish a certification from Managing Director/Company Secretary/ Chartered Accountant that the Bank complies with all the relevant state/ central laws and all applicable regulatory guidelines including FDI/FEMA/FCRA 2010/ECB • Submit a Company Secretary certificate that provisions of Connected Lending are not applicable to the Bank • Submit an undertaking that the weaknesses observed by rating agency, if not addressed so far, shall be addressed in a time bound manner to the satisfaction of IDBI.

		• A CA firm (pre cleared by SIDBI), in addition to submitting end use verification certificate, would also carry out verification of beneficiaries at least 3% of a sample of borrowers/ group through visits. The sample verification by CA would also include verification of the loans documents of the sample of the borrowers/groups. • Submit an undertaking that the statutory dues including provident fund, ESI dues, income taxes, cess and other material statutory dues as applicable would be deposited without delay • Furnish to SIDBI and also lodge with its bank where it maintains a working capital account, an unconditional and irrevocable ECS mandate, in the manner and form acceptable to SIDBI to allow SIDBI to recover its monthly dues from the said Bank electronically or PDCs for the principal payments due under the Loan Agreement. • Before each disbursement, it shall be ensured: i) That SIDBI's maximum exposure (including outstanding and sanctioned but undrawn assistance from SIDBI) as % of total outstanding borrowing of the Borrower does not exceed 25% ii) Borrower is in compliance with extant CRAR norms iii) That the names of borrower, its promoters/directors, its associate and sister concerns and their promoters/directors do not appear in the latest caution/wilful defaulter /CIBIL/RBI/RMK black list/ UN terrorists list.
10	Disbursement of subordinated debt	• Disbursement to be released on satisfactory financial position, portfolio quality, recovery rates, PAR position, utilization of loan, capital adequacy, satisfactory internal controls, compliance with terms of sanction etc., • Borrower shall submit monthly reports to SIDBI on its operations. In the event of any of the followings, further disbursement to borrower would be considered by the Bank, only after a review of its portfolio quality and operations: i) In case collections are lower than 90% of the receivables for two consecutive months ii) In case collections are lower than 85% of the receivables in any month

		iii) In case of delay in furnishing MIS beyond thirty days from when the monitoring report was due. • In the event of the following, further disbursement to borrower would be considered by the Bank only with the prior approval of the sanctioning authority i) The Bank slips into losses or PAR>90 days exceeds 10% ii) Default to SIDBI and/or any other lender brought to SIDBI's notice iii) Rating downgrade iv) Any statutory/regulatory violations of a significant nature, coming to the notice of the Bank v) Audited financials are not received within six months of close of financial year vi) Large scale frauds, employer turnover, market failure, natural calamity etc., affecting the Bank's recovery/ reputation which in the opinion of SIDBI can affect the health of the Bank • Loan disbursements shall be subject to satisfactory documentations.

Table DF-15: Disclosure Requirements for Remuneration Remuneration - Qualitative disclosures	
a.	***Information relating to the bodies that oversee remuneration. Disclosure should include:*** ***• Name, composition and mandate of the main body overseeing remuneration.*** The Bank has constituted the Nomination & Remuneration Committee (NRC) as per the provisions of Section 178 of the Companies Act, 2013. The Functions of the NRC include 1) Overseeing the framing, review and implementation of the compensation policy of the bank on behalf of the Board, 2) Formulation of a criteria for determining qualifications, positive attributes and independence of a Director, 3) To ensure 'fit and proper' status of proposed/ existing Directors, 4) Identifying persons who are qualified to become directors and who may be appointed in senior management in accordance with the criteria laid down, and recommend to the board of directors their appointment and removal, whether to extend or continue the term of appointment of the independent director, on the basis of the report of performance evaluation of independent directors,

	5) To recommend to the Board the appointment and removal of Senior Management, 6) To carry out evaluation of Director's performance and recommend to the Board appointment / removal based on his / her performance to recommend to the Board on: i) Policy relating to remuneration for Directors, Key Managerial Personnel and Senior Management and ii) Executive Directors remuneration and incentive, conducting due diligence as to the credentials of any director before his or her appointment, and making appropriate recommendations to the Board, in consonance with the Dr. Ganguly Committee recommendations and the requirements of RBI, overseeing the framing, review and implementation of the Bank's Compensation Policy for Whole Time Directors/ Chief Executive Officers / Risk Takers and Control function staff for ensuring effective alignment between remuneration and risks, 7) To make recommendations to the Board concerning any matters relating to the continuation in office of any Director at any time including the suspension or termination of service of an Executive Director as an employee of the Bank subject to the provision of the law and their service contract; 8) Ensure that level and composition of remuneration is reasonable and sufficient, relationship of remuneration to performance is clear and meets appropriate performance benchmarks, 9) To devise a policy on Board diversity and to develop a succession plan for the Board and to regularly review the plan; The Bank effectively aligns its compensation for all types of risk, symmetric with risk outcomes and sensitive to the time horizon of risks. The Nomination and Remuneration Committee of the Bank comprises of the following Non-Executive Directors: 1. Ms. Vandana Viswanathan – Chairman of NRC. 2. Mr. Sunil Patel 3. Mr. Biswamohan Mahapatra 4. Mr. Prabal K Sen

Name of Directors	Designation	Number of meetings held during the FY 2018-19	
		Held during their Tenure	Attended
Ms Vandana Vishwanathan	Non-Executive Director	5	5
Mr Sunil Patel	Chairman & Independent Director	5	5
Mr Biswamohan Mahapatra	Independent Director.	5	5
Mr Prabal K Sen	Independent Director.	5	5

External consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process.

Not Applicable

• A description of the scope of the Bank's remuneration policy (eg: by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches.

The purpose of the Compensation Policy is to ensure statutory compliance as well as alignment with the Bank's business policies and practices. The Compensation & Benefits (C & B) Policy document is based upon the principle that a fair and competitive salary is paid for acceptable levels of performance on the job. The compensation policy document is designed to align long-term interest of the employee and the organization.

The policy document covers all employees and Board of Directors of the Bank. This document provides guidance on:

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

Salary Pay-out

- ***A description of the type of employees covered and number of such employees.***

All employees of the Bank are governed by the Compensation Policy. The total number of permanent employees of the Bank at March 31, 2018 was 11242.

b

Information relating to the design and structure of remuneration processes. Disclosure should include:

• An overview of the key features and objectives of remuneration policy.

The compensation policy has been laid out keeping the following perspectives into considerations:

- The Bank's compensation principles support it in achieving its mission of providing a full range of financial services to the economically active poor of India who are not adequately served (unserved and underserved) by financial institutions. Therein, this policy enables the Bank to attract and retain talent and skills required to further the organizations purpose and ideology.
- The pay structure and amounts shall always conform to applicable Income Tax and other similar statutes.
- All practices of the Bank shall comply with applicable labour laws.
- The pay structure should be standardized for a level of employees.
  - i) Elements eligible for tax exemption may be introduced at appropriate levels to enable employees take applicable tax breaks. Amounts related to benefits may undergo change with change in grade in the organization.
  - ii) The compensation structure shall be easy to understand for all levels of employees.
- The compensation policy is designed to promote meritocracy in the organization i.e. other things being equal, performers in a given role are expected to earn more than his/her peer group.
- The directors are paid sitting fees as approved by the Board for attending the Board and Board Committee Meetings.

Whether the remuneration committee reviewed the firm's remuneration policy during the past year, and if so, an overview of any changes that were made.

Yes:

The Compensation policy for the Bank was duly reviewed and approved by the board.

The Variable Pay Policy for the Bank was duly reviewed and approved by the board.

A discussion of how the Bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee.

- The Bank periodically benchmarks its remuneration practices and data points against the market. Compensation ranges in alignment to market pay are derived and reviewed periodically. Remuneration payable for each function is independent of amounts payable to other function as is the market practice. Further, performance metrics for the Risk and Compliance function are completely unrelated to deliverables of any other business function. The deliverables of the risk function are periodically reviewed by the Risk Committee of the Board ensuring due independence. Thus, the remuneration payable (which is linked to performance) is differentiated as well.

c.	***Description of the ways in which current and future risks are taken into account in the remuneration processes.*** 1. Structurally, the Control functions such as Credit, Risk and Vigilance are independent of the business functions and each other, thereby ensuring independent oversight from various aspects on the business functions. The Bank ensures that significant financial benefits may accrue to employees displaying high levels of individual performance over a 3 year period allowing adequate time for risks to completely manifest.
d.	***Description of the ways in which the Bank seeks to link performance during a performance measurement period with levels of remuneration.*** ***• A discussion of how amounts of individual remuneration are linked to the Bank-wide and individual performance.*** 1. The compensation policy is designed to promote meritocracy in the organization i.e. other things being equal, performers in a given role are expected to earn more than his/her peer group. 2. The Bank shall, from time to time benchmark its compensation against identified market participants to define its pay structure and pay levels. 3. The merit increments will be finalized and approved by the National Human Resources Committee (NHRC) year on year, basis organization's budgets and accomplishments as well as market reality. **4.** The Bank believes in paying its employees in an equitable and fair manner basis the incumbent's Role, Personal Profile (Education/Experience etc.) as well as Performance on the Job. **5.** Employees rated "Below Expectations" shall not be provided any increments, unless statutorily required. ***• A discussion of the measures the Bank will in general implement to adjust remuneration in the event that performance metrics are weak. This should include the bank's criteria for determining 'weak' performance metrics*** The Bank reviews metrics of all business units on a periodic basis and makes necessary changes to metrics to ensure satisfaction with the defined metrics and performance outcomes across the stakeholder spectrum including investors, customers, regulator and employees. The Bank, particularly at Corporate and senior levels takes a balanced approach to performance management. This means that high performance of an individual/ department is dependant not only on delivery of business metrics but also achievements of control functions. For eg: over achievement of business targets would not translate into a high performance rating if there are significant issues with Portfolio quality. Cost of business acquisition, both in short and long term are typically evaluated to

	ensure healthy bottom-line.
	• A discussion of the Bank's policy and criteria for adjusting deferred remuneration before vesting and (if permitted by national law) after The performance bonus payout shall be Annual. Discretion is typically applied related to staggered payout in case of large payouts, particularly for functions like Credit and Risk. Bonus is to be prorated for employees who have worked for part of the year at the Bank. The maximum amount of Variable Pay, for any position is capped at 60% of Fixed Pay (excluding benefits) of a person. However, the target setting is done in a manner that the average pay-out remains between 15% - 25% of fixed pay (excluding benefits) range. In case Variable Pay constitutes 50% or more of Fixed Pay, i.e., Variable Pay becomes a "substantial" portion of Fixed Pay, then 50% of the Variable Pay is deferred for a period of three years (including the year it was awarded) and is paid on pro rata basis of 1/3 each year. Incentive pay-out may be done on a monthly or quarterly basis, but a portion of the pay-out (15% - 25%) is withheld to be paid annually/ semi-annually to ensure retention of performers. The Bank believes in the philosophy of collective ownership by its employees. Thus, Employee Stock Options of the holding company Ujjivan Financial Services Ltd are distributed amongst employees basis their criticality and performance. **Typically, all Stock option schemes in the Bank vest in a staggered manner. Besides the statutory requirement of grant and 1 year vesting, the total set of options vest in various tranches for up to a period of 3 years.** **Malus/ Clawback**: In the event of negative contributions of the individual towards the achievements of the Bank's objectives in any year, the deferred compensation should be subjected to Malus/Clawback arrangements. Similar provisions shall apply in case the individual is found guilty of any major non-compliance or misconduct issues.
	Description of the different forms of variable remuneration that the bank utilizes and the rationale for using the same Variable Compensation at the Bank has the following distinct forms: 1. Statutory Bonus 2. Performance Pay: a. Performance Bonus b. Sales Awards 3. Rewards & Recognition The policy has been laid out keeping the following perspectives into considerations: o The Variable pay structure and amounts shall always conform to applicable

	Income Tax statutes, Labour Laws, Regulatory Requirements, any other applicable statutes and prevalent market practice. o It is designed to promote meritocracy in the organization i.e. other things being equal, performers in a given role are expected to earn more than his/her peer group. o **Statutory Bonus**: Statutory Bonus in India is paid as per Payment of Bonus Act, 1965. o **Performance Pay:** The performance pay, particularly at Senior and Middle levels and Control Functions, is a function of organizational and individual performance o **Performance Bonus**: All employees who are not a part of an Incentive/ Sales Award Scheme but part of the year end performance review will be covered under the Performance Bonus Plan of the Bank. However, the actual payout of performance bonus shall only to be to employees having superior performance. o **Sales Awards**: Employees in the Sales function, directly responsible for revenue generation shall be covered under the Sales Award Scheme. Typically some of the entry level roles and upto two levels of supervision thereof shall be covered by sales awards. Individual businesses may devise award schemes for specific roles. o **Rewards & Recognition**: The Bank shall design schemes and practices from time to time to celebrate employee / departmental / organizational success. These celebrations may include offering tokens of appreciation to employees as defined in specific schemes. Fairness of application and transparency of communication shall be the hallmark of all such schemes. These will be subject to income tax laws, as applicable. Examples of such schemes may include: Long Service Awards (currently at one, three, five and seven yrs. of completion of service with the Bank), Portfolio Improvement Reward Scheme; Functional R&R Schemes; Organizational Rewards Schemes such as: Service Champion; Process Excellence; Customer Connect Awards; Above and Beyond; Recognition program for Liabilities Branches for Retail Deposits; Recognition program for Asset growth in Branches o **Employee Stock Options (ESOPs):** ESOPs are given across the organization to employees based on tenure and performance. The Bank does not have its own schemes and ESOPs of the holding company may be granted to employees subject to approval of the board and AGM of the holding company, from time to time. Pursuant to conversion into a Bank, no ESOP scheme has been launched. The ESOP schemes have an inbuilt deferred vesting design

	which helps in directing long term performance orientation among employees o Non-executive directors (including Part- Time Chairman) are eligible for compensation in the form of profit related commission subject to the Bank making profits. Such compensation, however, shall not exceed Rs.1 million per annum for each director as per RBI guidelines.

SN	Quantitative Disclosures (Covers only Whole Time Directors/ CEO/Other Risk Takers*)	Numbers
1	Number of meetings held by the Remuneration Committee during the financial year and remuneration paid to its members.	5 meetings of Nomination & Remuneration Committee (NRC) were held during April 01, 2017 to March 31, 2018. Further, 1 meeting of Human Resource and Compensation Committee (HRC) was held during April 01, 2017 to March 31, 2018. The members of the NRC were paid total sitting fees of Rs. 8 lacs for five meetings while members of HRC were paid total sitting fees of Rs 80,000 for one meeting.
2	Number of employees having received a variable remuneration award during the year.	3 employees (CFO/CRO/Head Treasury)
3	Number and total amount of sign-on awards made during the financial year.	Nil
4	Details of guaranteed bonus, if any, paid as joining / sign on bonus.	Nil
5	Details of severance pay, in addition to accrued benefits, if any.	Nil
6	Total amount of outstanding **deferred remuneration**, split into cash, shares and share-linked instruments and other forms.	Rs. 7.87 lacs
7	Total amount of deferred remuneration paid out in the financial year.	Rs. 5.83 lacs
8	Breakdown of amount of remuneration awards for the financial year to show fixed and variable, deferred and non-deferred.	Rs. 318.96 lacs (Fixed) Rs. 5.83 lacs (variable/deferred)

9	Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and / or implicit adjustments.	Nil
10	Total amount of reductions during the financial year due to ex- post explicit adjustments.	Nil
11	Total amount of reductions during the financial year due to ex- post implicit adjustments.	Nil

*Risk Takers include MD &CEO, Chief Business Officer (CBO) and Head- Treasury. Personnel from Control functions such as Chief Risk Officer (CRO), Chief Financial Officer (CFO) and Company Secretary (CS) are also included in this disclosure in line with guidelines on compensation of Whole Time Directors / Chief Executive Officers / Risk takers and Control function staff issued by RBI on 13th January 2012.

Note: No pay-out to Managing Director during SFB tenure. However, there was a discharge of liability of Rs. 4.69 lacs pertaining to UFSL.
Although the Company Secretary (CS) has been on the payroll w.e.f. 30th January 2017, he was officially designated as CS w.e.f.24th March 2018 and therefore wasn't eligible for any Bonus

DF- 17 Summary comparison of accounting assets vs. leverage ratio exposure measure		
	Item	**Amount (Rs. in lacs)**
1	Total consolidated assets as per published financial statements	9,42,119
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)	5,200
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off- balance sheet exposures)	1951
7	Other Adjustments	-16,399
8	**Leverage ratio exposure**	**9,32,870**

DF 18: Leverage ratio common disclosure template

	Leverage ratio common disclosure template	
	Item	**Amount (Rs. in lacs)**
	On-balance sheet exposures	
1	**On-balance sheet items (excluding derivatives and SFTs, but including collateral)**	9,42,119
	Domestic Sovereign	1,39,227
	Banks in India	22,521
	Others	7,80,369
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	-16,399
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	**9,25,719**
	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	5,200
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)**	**5,200**
	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	1,951
18	(Adjustments for conversion to credit equivalent amounts)	-

19	**Off-balance sheet items (sum of lines 17 and 18)**	**1,951**
	Capital and total exposures	
20	Tier 1 capital	1,48,295
21	Total exposures (sum of lines 3, 11, 16 and 19)	9,32,870
	Leverage ratio	
22	**Basel III leverage ratio**	**15.90%**

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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