Pillar III Disclosures as at 30th June 2020

2020

[Ujjivan Small Finance Bank (hereinafter called “the Bank”) has prepared this disclosure document in compliance with the directions of Reserve Bank of India (hereinafter referred to as “the Regulator” or “RBI”) vide its circular RBI/2015-16/58; DBR.No.BP.BC.1/21.06.201/2015-16 dated 1st July 2015. The document provides a review of key observations pertaining to the Bank’s capital adequacy, credit quality, key business highlights and a review of its key risks as at 30th June 2020.]

Table of Contents

1. List of key abbreviations

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

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

2. Introduction

Ujjivan Small Finance Bank (hereinafter called “the Bank”) has prepared this disclosure document in compliance with the directions of Reserve Bank of India (hereinafter referred to as “the Regulator” or “RBI”) vide its circular RBI/2015-16/58; DBR.No.BP.BC.1/21.06.201/2015-16 dated 1st July 2015. The document provides a review of key observations pertaining to the Bank’s capital adequacy, credit quality, key business highlights and a review of its key risks as at 30th June 2020.

3. Key performance highlights of the Bank:

3.1. Branch network and distribution reach

The branch position of the Bank as at 30th June 2020 was as follows:

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

The Bank is fully compliant with the RBI guidelines on having 25% (25.04% as at 30th June 2020) of its Banking Outlets in the URCs. All erstwhile asset centres (centres which continued to do asset only business pending conversion into full service commercial bank branches) have now been converted into Banking Outlets (BO) within the mandated 3 years of commencement of banking operations.

The Bank had seven individual BCs as at 30th June 2020. These individual BCs perform essential banking services such as acceptance/withdrawal of small value deposits, balance enquiry, mini statement of accounts and undertake activities pertaining to updating Know Your Customer (KYC) requirements. The Bank also has an arrangement with two Corporate BCs primarily aimed at facilitating field collection for its microfinance business and is also in discussion with other Corporate BCs to source new customers beyond its branch network. These corporate BCs will be responsible for sourcing new customers for loan products and collecting repayments as well. The engagement, where the Corporate BC will be engaged in loan sourcing, will be backed by FLDG (First Loss Default Guarantee) and will cover primarily

---

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

[2] Unbanked Rural Centre (URC)

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

[4] North eastern states

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

personal loans, agricultural loans and loans to the micro and small enterprises. The Bank is currently updating its BC governance policy in line with the above mentioned arrangements. The agents of the Corporate BCs on the other hand are used primarily to provide alternate options to the Bank's customers to make loan repayments. Personnel managing each individual BC are duly certified by the Indian Institute of Banking and Finance (IIBF) as required by RBI. The Bank evaluates the performance of BCs at regular intervals. For its URC requirement, the Bank's strategy will continue to focus on brick and mortar branches in providing a wide array of banking services as this has proven to be a profitable and effective model.

The Bank operated a network of 423 Automated Teller Machines (ATMs) and 52 Automated Cash Recyclers (ACR) as at 30th June 2020.

3.2. COVID 19: Summary of measures taken by the Bank (Update as at 31st July 2020)

The month of March 2020 saw a disruption in the normal course of business on account of the nation-wide lockdown due to the on-going COVID-19 pandemic. While its impact on Q4 of FY 2019-20 was negligible, the impact was felt in the first quarter of the current financial year. The Bank is continuously monitoring the developments and implementing necessary steps to mitigate the same. Details of the various initiatives are provided under relevant sections of this disclosure. A summary of the initiatives taken by the Bank are produced as below:

- A Quick Response Team (QRT) was constituted for monitoring and supervising banking operations and to provide updates to Top Management regularly. A special committee of the Board - Business Continuity Monitoring (BCM) Committee has been formed to advise, monitor and assess the social, financial, business, credit and risk impact under the current economic scenario. The Bank had issued explicit instructions to its personnel to avoid reporting to work if their residential locations were within a containment zone. Initially, the Bank had adopted a Work from Home (WFH) policy for its Corporate and Regional Offices effective 24th March 2020 in view of the 21-day lockdown announced by the government and continues to provide this facility as an option for back-end staff within the Bank on a case to case basis.
- Most of the Bank's branches were open and operated with skeletal staff during the lockdown, adhering to the guidelines on branch timings issued by SLBCs, LDMs and local administration. The Bank ensured adequate cash in its ATMs and encouraged its customers to utilize alternative channels to banking namely ATMs, Mobile and Internet Banking for their transactions in view of the current situation. Customers and staff were also educated to maintain social distancing norms and take preventive measures to contain the spread of the virus. The Bank is reaching out to its staff and customers on a regular basis to ensure their wellbeing and to express solidarity in these trying times.

- The Bank has implemented all the directions provided by RBI vide its circular dated 27th March 2020. Since the beginning of lockdown, the Bank focused on providing only the essential banking services to its customers through branches and alternate channels. The Bank has stopped the levy of minimum balance charges and ATM transaction charges up to 30th June, 2020 in adherence to the instructions from the Government.
- The Bank has put in place a Board approved policy on providing moratorium on loan repayments for its customers. Initially, the Bank had extended moratorium under all segments, deferring the repayments for ~99% of loan accounts. Subsequently, the Bank had extended the same on a need basis only post discussion with the borrower. The details of moratorium provided are furnished under section 7.2.8 of these disclosures.
- The Bank has also made additional provisioning as a contingency measure against the pandemic impact. The details of additional provisioning made are furnished under section 7.2.9 of these disclosures.
- On the liquidity front, the Bank's deposit base was stable with no significant withdrawals. The measures announced by RBI with respect to enhanced Marginal Standing Facility, reduction in Cash Reserve Ratio etc. have helped the Bank in maintaining sufficient liquidity. In order to tide over any liquidity crisis emerging due to announcement of lockdown and related uncertainties, the Bank has secured funding from Refinance aggregating Rs. 1, 85,000 lakh during the period March 2020 to June 2020. Out of this, an amount of Rs. 75,000 lakh was obtained from SIDBI, an amount of Rs. 50,000 lakh was secured from NABARD and an amount of Rs. 60,000 lakh was secured from NHB. Bank had also participated in the LTRO scheme announced by RBI and raised Rs. 28,200 lakh. This borrowing was raised at a rate of 5.15% p.a. LTRO borrowing amounting Rs. 14,400 lakh was raised for 3 years and an amount of Rs. 13,800 lakh was obtained for a tenor of one year. Any intermittent temporary shortfall was met through variable repo borrowing. The Bank also took advantage of reduction in CRR requirement from 4% to 3% and reduced CRR requirement for incremental lending to specific sectors as allowed by RBI vide its circular dated February 10, 2020.
- The Bank sees an opportunity amidst this crisis for increasing its digital footprint across all its business operations. The Bank has on-boarded necessary personnel and has appointed a specialized executive to spearhead all Digital Banking initiatives within the Bank. The Bank has on boarded an experienced professional as Chief Technology Officer to support this initiative.

3.3. Progress in IT and Digital banking

The Bank has undertaken the necessary modifications/changes to its Loan Management Systems (LMS) to handle the moratorium announced by the Reserve Bank of India and related adjustments to the repayment schedule.

During the quarter, the Bank has put in place strong controls to mitigate the risk of frauds in digital account opening process as digital products have witnessed a significant increase. The Bank implemented Robotic Process Automation (RPA) for IFSC[6] addition, as part of its efforts to increase internal process efficiency. System changes have been made to enable Tax Deduction at Sources (TDS) at 2% on cash withdrawal in excess of Rs. 100 lakh by any customer made during the year in line with the provisions of section 194(N) of the Income Tax Act as proposed in the Union Budget 2019.

The Bank has witnessed a steady increase in transaction processing in the form of IMPS, UPI and NEFT payments. The Bank had beaten the national growth of UPI payments in Unlock 1.0 period[7], when it recorded a growth of 39% by value and 23% by volume as compared to the national average of 20% (value) and 9% (volume) respectively. During the Unlock 1.0 phase, UPI transactions had recorded a growth of 6% over the pre-lockdown phase (1st March 2020 to 24th March 2020), while usage of digital platforms for opening deposits increased by 110%. The Bank is working on expanding its digital channels for customer convenience and improved efficiencies by partnering with various Fintech and other service providers. To provide further impetus to digital acquisition of customers, Google Tag Manager was implemented in Digital Term Deposit (TD) page to measure and increase the effectiveness of the digital marketing campaigns.

In June 2020, digital transactions constituted 54% of the total transactions, a strong improvement from 35% in March 2020. The current pandemic has provided additional impetus to customers to adopt alternate channels. The Bank is live with its QR code program and has issued 39 QRs on a pilot basis in Bangalore. Digital channel adoption (Mobile banking and UPI) among customers had crossed the 7 lakh benchmark.

3.4. Financial highlights for Q1 of FY 2020-21

Some of the key achievements made for quarter ended 30th June 2020 were as follows:

Key Highlights	Description
Customer base	• Total outreach: 54.7 lakh (54.4 lakh in March 2020; 48.2 lakh in June 2019)
Loan Portfolio	• Gross Advances at Rs. 14,36,584 lakh (Rs. 14,15,330 lakh in March 2020; 11,39,416 lakh in June 2019) • Non-Microfinance book at: 23.30% (22.74% in March 2020 ; 17.94% in June 2019)
Deposit Balance	• Total Deposits (Retail plus Institutional): Rs. 11,05,748 lakh (Rs. 10,78,048 lakh in March 2020; Rs. 7,95,633 lakh in June 2019)

[6] Indian Financial System Code (IFSC)

[7] 1st June 2020 to 27th June 2020

	• CASA: 14.18% (13.54% in March 2020; 10.39% in June 2019) • Retail: 44.58% (43.82% in March 2020; 43.09% in June 2019)
Portfolio Quality	• Gross Non-Performing Assets (GNPA): 0.97% (0.97% in March 2020; 0.84% in June 2019) • Net Non-Performing Assets (NNPA): 0.18% (0.20% in March 2020; 0.26% in June 2019)
Employee strength	• 17,370 (17,841 as at March 2020; 15,626 as at June 2019)
Profitability	• Profit after Tax (PAT) for Q1 FY 2020-21: Rs. 5,465 lakh (Rs. 7,315 lakh in Q4 FY 2019-20, Rs. 9,449 lakh in Q1 FY 2019-20) • Return on Assets (ROA): 1.16% (1.64% in March 2020; 2.70% in June 2019)
Funding	• Cost of funds: 7.67% (7.88% in March 2020; 8.54% in June 2019)

The key performance ratios of the Bank were as follows:

Particulars	**June 2019**	**Sept 2019**	**December 2019**	**March 2020**	**June 2020**
Yield	20.21%	20.05%	20.10%	19.88%	19.70%
Cost of Funds	8.54%	8.37%	8.08%	7.88%	7.67%
Net Interest Margin	10.42%	10.76%	10.86%	11.16%	10.25%
Return on Assets	2.70%	2.44%	2.14%	1.64%	1.16%
Return on Equity	20.24%	18.91%	14.05%	9.32%	6.79%
Cost to Income ratio	64.37%	69.46%	71.27%	64.63%	55.89%
Other income/ Total Income	14.19%	10.29%	9.60%	8.91%	3.70%

The Cost of Funds has reduced over the quarters largely on account of increased availability in concessional refinance, fiscal stimulus measures by the government and policy rate cuts by RBI. Return on Equity (RoE) has reduced from September 2019 onward largely due to the successful IPO in December 2019. The additional capital infusion has resulted in reduced ROE on percentage basis. The Bank has also recorded a marked reduction in its Cost to Income ratio largely due to concerted cost cutting initiatives launched in this financial year. The Bank has optimized personnel costs (digital trainings), operating costs (renegotiation of contracts and rentals, reversal of rent equalization, reduced business linked expenses) and finance costs (deposit rate cuts, low cost funds availed etc.)

4. Table DF- 1: Scope of Application

4.1 Qualitative Disclosures

Parent Organization/Holding Company: Ujjivan Financial Services Limited (UFSL)

The disclosures in this document pertain to the Bank as a stand-alone and independent entity. The Bank does not have any subsidiary - the operating guidelines do not permit Small Finance Banks (SFBs) to have subsidiaries, nor does the Bank have any interest in any insurance entity.

4.1.1 List of group entities considered for consolidation

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

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

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

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

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

5. Table DF-2- Capital Structure

5.1 Qualitative Disclosures

5.1.1 Equity capital

The Bank has an authorized capital of Rs.2, 50,000 lakh in the form of Common Equity qualifying as Tier 1 capital under the guidelines of RBI. The Bank has an issued, subscribed and paid up equity capital of Rs.1, 72, 822 lakh, having 172, 82, 23, 169 shares of face value Rs.10 each as at 30th June 2020.

The licensing guidelines for SFBs permit the aggregate foreign investment in a private sector bank from all sources up to a maximum of 74% of the paid-up capital (automatic up to 49% and approval route beyond 49% to 74%). By limiting foreign shareholding in the Bank to

5.47% (Foreign Portfolio investors (FPI) and Non Residential Indians (NRI)) as at 30th June 2020, the Bank was compliant with RBI guidelines on SFBs. Further, in compliance with the licensing guidelines, UFSL, the Holding Company, is registered as an NBFC-Non-Deposit-taking Systemically Important - Core Investment Company – (NBFC-ND-SI-CIC) with RBI and is the non-operating holding company.

5.1.1.2. Promoter contribution[8]:

Subsequent to the IPO in December 2019, the promoter contribution in the Bank had reduced to 83.32% from being a 100% subsidiary of the holding company. As per RBI guidelines, if the initial shareholding by promoter in the Bank is in excess of 40%, it should be brought down to 40% within a period of five years. Additionally, the promoter's minimum contribution of 40% of paid-up equity capital shall be locked in for a period of five years from the date of commencement of business of the bank. Further, the promoter's stake should be brought down to 30% of the paid-up equity capital of the bank within a period of ten years, and to 26% within twelve years from the date of commencement of business of the bank.

The Bank takes cognizance of the same and compliance to the above guidelines will be undertaken as per the timelines prescribed. The shareholding pattern of the Bank as at 30th June 2020 was as follows:

Category of the Shareholder	No. of shares held	%age of shareholding
Promoter	1,44,00,36,800	83.32
Mutual Funds	40,08,955	0.23
AIFs	5,71,86,829	3.31
Foreign portfolio investors	8,87,58,538	5.14
Financial Institutions/Banks	8,25,522	0.05
Resident Individuals/HUF	10,83,81,712	6.27
Others	2,90,24,813	1.68
Total	**1,72,82,23,169**	**100**

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

Capital Structure- Summary of Tier I & Tier II Capital			
Sl. No.	**Instrument**	**Whether Tier I or II**	**Amount (Rs. in Lakh)**
1	Equity[9]	Tier 1	1,72,822
2	PNCPS[10]	Tier 1	20,000
	Total		**1,92,822**

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

[9] Issued and Paid up equity capital

[10] Perpetual Non-cumulative Preference Shares

5.1.2 Details of PNCPS instruments

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

The claims of the investors in the instruments are:

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

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

5.1.3. Subordinated Debt Instrument

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

5.1.4. Dividend policy

The Bank has formulated the Dividend Distribution Policy in compliance with the provisions of Companies Act, 2013 and Rules made thereunder, provisions of Banking Regulation Act, 1949 and Guidelines/circulars issued by Reserve Bank of India (“RBI”) and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“SEBI Listing Regulations”). The objective of the Policy is to appropriately reward shareholders through dividends for reposing their confidence in Bank while retaining the capital required for supporting future growth.

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

On 17th April 2020, RBI had issued a special direction[11] to all commercial banks on declaration of dividends by banks. RBI had directed that all banks shall not make any further dividend pay-outs from the profits pertaining to the financial year ended 31st March 2020 until further instructions. This restriction shall be reassessed by the regulator based on the financial results of banks for the quarter ending 30th September 2020. Accordingly, the Bank has passed an internal resolution in its Board meeting for restriction in payment of dividends for FY 2019-20.

6. Table DF- 3: Capital Adequacy

6.1 Qualitative Disclosures

The Bank has been well capitalized since inception and was further augmented after its IPO. As required by RBI in its operating guidelines to SFBs[12], the Bank is required to adopt the Standardized approach for Credit Risk and maintain a minimum Capital to Risk Weighted Assets Ratio (CRAR) of 15% segregated as under:

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

While SFBs are required to comply with Basel II norms for Capital Adequacy, as would be noted from the table above, some elements of the capital structure, such as Common Equity and Additional Tier 1 requirement, are from Basel III guidelines. In essence therefore, in the case of SFBs, the regulator has adopted a hybrid model.

SFBs are not required to have a separate capital charge for Market Risk and Operational Risk for the time being in terms of an RBI communication dated 8th November 2017 (DBR. NBD. No. 4502/16.13.218/2017-18). However, as a good governance practice, and as directed by its Board, the Bank separately computes capital charge for all the Pillar 1 risks viz. Credit, Market and Operational Risk following the Standardized Approach (SA) for Credit Risk, Standardized Duration Approach(SDA) for Market Risk and the Basic Indicator

[11] Refer RBI guideline on 'Declaration of dividend by banks' issued vide RBI/2019-20/218 DOR.BP.BC.No.64/21.02.067/2019-20 dated April 17, 2020

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

Approach(BIA) for Operational Risk.

In addition to the hybrid model for complying with capital adequacy requirement, for its internal and regulatory reporting, the Bank also complies with certain aspects of Basel III requirement, such as computation and maintenance of RBI prescribed minimum Liquidity Coverage Ratio (LCR) at 90% (revised to 80% vide RBI guideline[13] up to 30th September 2020, subsequent to which 90% up to 31st March 2021 and 100% thereafter) and Leverage Ratio at 4.5%. The RBI, on 27th March 2020, had decided to defer the implementation of Net Stable Funding Ratio (NSFR) from 1st April 2020 to 1st October 2020, an extension by six months as part of its COVID- 19 regulatory package.

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

The Bank has a comprehensive Internal Capital Adequacy Assessment Process ('ICAAP'). The Bank's ICAAP covers the capital management policy of the Bank, sets the process for assessment of the adequacy of capital to support current and future activities / risks and a report on the capital projections for the ensuing financial year[14]. The Bank has a structured management framework in the internal capital adequacy assessment process for the identification and evaluation of the significance of all risks that the Bank faces, which may have a material adverse impact on its business and financial position. The Bank considers the following as material risks it is exposed to in the course of its business and therefore, factors these while assessing / planning capital:

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

The Bank has implemented a Board approved Stress Testing Policy and Framework which forms an integral part of the Bank's ICAAP. Stress Testing involves the use of various techniques to assess the Bank's potential vulnerability to extreme but plausible stressed

[13] Refer RBI guideline on Basel III Framework on Liquidity Standards – Liquidity Coverage Ratio (LCR) issued vide RBI/2019-20/217 DOR.BP.BC.No.65/21.04.098/2019-20 dated 17th April 2020

[14] Due to impact of COVID 19 pandemic, the Bank has deemed it necessary to undertake a detailed analysis for FY 2020-21. The Bank intends to analyse the business environment post completion of moratorium to project its three year plan.

business conditions. The changes in the levels of credit risk, market risk, liquidity risk, IRRBB and operational risk are assessed under assumed "stress" scenarios and sensitivity factors. Typically, these relate, inter alia, to the impact on the Bank's profitability and capital adequacy. The stress test results are put up to the Risk Management Committee of the Board on a quarterly basis, for their review and guidance. The Bank periodically assesses and refines its stress tests in an effort to ensure that the stress scenarios capture material risks as well as reflect possible extreme market moves that could arise as a result of business environment conditions. The stress tests are used in conjunction with the Bank's business plans for the purpose of capital planning in the ICAAP.

6.2 Quantitative Disclosures

6.2.1. Basel II capital calculation

The break-up of Basel II capital funds as at 30th June 2020 was as follows:

Rs. in lakh

Sl. No	Description	Amount
	Core Equity Tier 1 Capital - Instruments and Reserves	
1.	Directly issued qualifying common share capital plus related stock surplus (share premium)	1,72,822
2.	Retained earnings	1,30,725
A	CET1 capital before regulatory adjustments	3,03,547
	Core Equity Tier 1 Capital - Regulatory Adjustments	
1.	Deferred tax assets arising from temporary differences	3,838
2.	Intangibles (Prepaid Expenses & Computer Software)	12,538
3.	Credit Enhancements	-
4.	Regulatory Adjustments applied to CET1 Capital due to insufficient funds in Tier 2 to cover deductions	-
B	Total regulatory adjustments to CET1 Capital	16,376
C	CET1 capital (A-B)	2,87,171
	Additional Tier 1 Capital - Instruments and Reserves	
1.	PNCPS	20,000
E	AT1 capital before regulatory adjustments	20,000
	Additional Tier 1 Capital - Regulatory Adjustments	
F	Total regulatory adjustments to AT1 Capital	-
G	AT1 Capital	20,000
H	Tier 1 Capital (C + G)	3,07,171
	Tier 2 Capital - Instruments and Provisions	
	Sub - debt eligible as Tier 2 capital	-

	General Provisions on Std Assets admissible as Tier 2	7,754
	Investment Fluctuation Reserve	1,523
I	Tier 2 Capital before regulatory adjustments	9,277
	Tier 2 Capital - Regulatory Adjustments	
J	Total Regulatory Adjustments to Tier 2 Capital	-
K	Tier 2 Capital (I - J)	9,277
L	**Total Regulatory Capital (H + K)**	**3,16,448**

Capital Requirements for Various Risks		
Sl.No	**Capital Requirements for various Risks**	**Amount(in Lakh**
A	**Credit Risk**	1,65,479
A.1	For non-sec portfolio	1,65,479
A.2	For Securitized portfolio	NIL
B	**Market Risk**	297
B.1	For Interest Rate Risk	297
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**	21,203
D	**Total Capital Requirement**	1,86,980
E	**Total Risk Weighted Assets**	13,71,954
F	**Total capital funds of the bank**	3,16,448
G	**Capital Adequacy Ratio of the Bank (%)**	**23.07%**

6.2.2. Credit Risk RWA

The detailed break up of Credit RWA is as follows:

Rs. in lakh

Asset Description	RWA
Cash and Balances with Reserve Bank of India	-
Balances with Banks and Money at Call and Short Notice	6,690
Investments	3,935
Advances	10,44,548
Fixed Assets	20,430
Other Assets	25,109
Off Balance Sheet	2,482
Total Credit RWA	**11,03,195**

6.2.3. Operational Risk RWA

Although RBI has not mandated SFBs to maintain capital charge for Operational Risk, the Bank has adopted Basic Indicator Approach (BIA) for measuring the capital requirements for Operational risk as applicable to Scheduled Commercial Banks. The Bank has computed its Operational Risk Capital Charge at 15% of the average of gross income for the past three completed years of operation.

The Bank follows the BIA approach to compute its Operational Risk capital charge and RWA. The detailed computation is as follows:

Rs. in lakh

Particulars	Mar-18	Mar-19	Mar-20
Net Profit	686	19,922	34,992
Operating Expenses	65,287	1,00,335	1,31,858
Provisions and Contingencies	31,276	10,980	28,731
Gross Income	97,249	1,31,237	1,95,581
Average (3 years)	1,41,356		
Capital Charge	**21,203**		
RWA	**2,65,042**		

6.2.4. Market Risk RWA

As at 30th June 2020, the AFS[15] book consisted of treasury bills, Non-Convertible Debentures (NCDs), Commercial Papers (CPs) and Certificate of Deposits (CDs) and the HFT[16] book consisted of T-bills and Government of India securities. On the basis of SDA[17], the capital requirement for market risk reported to the Board from a governance perspective was as under:

Rs. in lakh

Security	Market Value	Modified Duration	Weighted M duration
HDFC CP 26AUG2020	7,457	0.00	0.153
NABARD CD 5AUG2020	4,983	0.73	0.096
12.25% AU SFB NCD 02 APR 2021	1,574	0.49	0.700
14/01/2021 MATURING 364 DTB	11,675	0.02	0.513
07/01/2021 MATURING 364 DTB	9,739	0.75	0.494
182 DTB 19112020	9,871	0.04	0.374
08/10/2020 MATURING 364 DTB	3,944	0.13	0.259

15 Available for Sale

16 Held for Trading

17 Standardized Duration Approach

20/05/2021 MATURING 364 DTB	2,427	0.06	0.860
23/07/2020 MATURING 364 DTB	1,810	0.29	0.061
29/10/2020 MATURING 364 DTB	509	0.55	0.315
182 DTB 19112020	4,936	0.08	0.374
364 DTB 13052021	2,428	0.11	0.841
Capital Charge			**297**
RWA			**3717**

Capital Requirement for Market Risk	Amount (Rs. in Lakh)
Interest Rate Risk	297
Equity Position Risk	--
Foreign Exchange Risk	--
Total	**297**
Total Market Risk RWA	**3,717**

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

Particulars	Amount/Ratio(Only Credit RWA)	Amount/ Ratio (all Pillar 1 risks)
Tier I Capital	3,07,171	3,07,171
Tier II Capital	9,277	9,277
Total Capital	**3,16,448**	**3,16,448**
Total RWA	**11,03,195**	**13,71,954**
CET Ratio	26.03%	20.93%
Tier I Ratio	27.84%	22.39%
Tier II Ratio	0.84%	0.68%
CRAR	**28.68%**	**23.07%**

With the recent IPO, the CRAR of the Bank has witnessed a significant increase. The high capital adequacy is transitory in nature and is expected to stabilize with higher credit off - take in the ensuing financial year. This is also expected to cushion any potential adverse impact on account of COVID-19 pandemic in the ensuing year.

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

7.1. Qualitative disclosures

7.1.1. Credit Risk Management

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

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

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

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

Credit concentration risk arises mainly on account of concentration of exposures under various categories including industry, products, geography, underlying collateral nature and single / group borrower exposures. To ensure adequate diversification of risk, concentration ceilings have been set up by the Bank on different risk dimensions, in terms of borrower/ business group, geographic state, unsecured lending ratio and risk grading (for institutional lending). In the backdrop of the pandemic, the Bank is currently enhancing its occupation/industry wise exposure tracker and limits thereof. The enhanced framework is expected to go live by Q3 of this financial year.

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

7.1.2. Definitions of past due and impaired loans

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

- ✓ Interest and/or instalment remains overdue for a period of more than 90 days in respect of a Term Loan;
- ✓ The account remains out of order for 90 days;
- ✓ The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted. The Bank does not offer Bill Discounting as a product.
- ✓ In case of advances granted for Agricultural purposes
    - ✓ The instalment or interest thereon remains overdue for two crop seasons for short duration crops
    - ✓ The instalment or interest thereon remains overdue for one crop season for long duration crops
- ✓ The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitization transaction undertaken in terms of guidelines on securitization dated February 1, 2006.
- ✓ In respect of derivative transactions, the overdue receivables representing positive mark to- market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment. The Bank had no derivative transaction on its books.

7.1.3. Provisioning norms of the Bank

The Board reviews the provisioning norms of the Bank at regular intervals to determine if any enhanced provisioning is required based on credit performance. Despite a history of low Portfolio At Risk (PAR) and delinquencies, the microfinance portfolio of the Bank is unsecured and events (such as demonetization and the current COVID 19 pandemic) have impacted/are expected to impact the portfolio quality at Bank wide level. Taking cognizance of this and especially since the microfinance portfolio comprised 77% of the loan book as at 30th June 2020, the Bank has always deemed it appropriate to follow a conservative approach to its provisioning policy.

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

RBI had directed all banks to maintain 10% provision on standard overdue cases (1-89 DPD) split between two quarters. However, the Bank has deemed it appropriate to maintain over and above the RBI mandated norms keeping in mind the inherent risk in the portfolio. The details of additional provisions made by the Bank are furnished under section 8.1.8 of these disclosures. The Bank has also increased its provision rate in some NPA categories[18] to further strengthen the Provision Coverage Ratio (PCR %).

7.1.4. Rescheduled/ Restructured loans

The Bank only selectively and in exceptional circumstance, where a comprehensive review by Credit and Collections warrants it, reschedules or restructures 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/ restructured loans. Loan rescheduling is done for genuine cases and not for technical reasons.

- ✓ Restructuring results in an immediate downgrading of the loan, i.e. a standard loan becomes sub-standard and immediately attracts provision as per the asset classification and subsequent provisioning norms.
- ✓ If the account continues to deteriorate post restructuring, it slips into further lower asset classification with reference to pre- restructuring repayment schedule and attracts provisioning as per the policy.
- ✓ If a non-performing asset is rescheduled, it continues to have the same classification as prior to rescheduling and slips into further lower asset classification upon non-

[18] One time acceleration of NPA provision in DPD buckets of 121-150 (50% from 25%), 151-180 (75% from 50%) and 181-365 (100% from 75%) with 100% provision for 180+ DPD.

performance as per asset classification norms with reference to the pre-rescheduling repayment schedule and attracts provisioning as per policy. If the account performs regularly, it is upgraded after one year of satisfactory performance of the loan.

- ✓ As required by RBI guidelines, in each case of restructured loans for its MSE and Housing vertical, the Bank makes an additional provision by computing comparable NPVs for the "before" and "after" restructuring scenarios[19]. For the microfinance book, this is provided for as a percentage of the overall restructured book. These additional provisions are aimed to capture the loss due to diminution in the fair value of advances due to restructuring.
- ✓ The Bank however reschedules loans that are the recipient of grants under the Prime Ministers Avas Yojana scheme. The Bank follows the directives of the scheme and such loans when rescheduled are excluded from the purview of the provisioning directives of RBI.
- ✓ The Bank also undertakes restructuring/rescheduling of loans affected by natural disasters as per the provisions of RBI guidelines[20]. To this effect, the Bank has also framed its internal Natural Calamity Management Policy which prescribes specific actions pertaining to recognition and declaration of natural calamity, relief measures, additional credit facilities, asset classification and provisioning norms.
- ✓ The Bank is currently in the process of enhancing its Restructuring policy in light of the COVID 19 pandemic. Post completion of the loan moratorium provided by RBI, the Bank will assess the need for restructuring based on the guidelines issued by the Reserve Bank of India[21] and after consultation with borrowers and on a selective basis.

7.1.5. Credit Risk Monitoring:

7.1.5.1. Micro finance portfolio

The Bank undertakes portfolio monitoring on a periodic basis with specific focus on key portfolio triggers. Decisions with respect to business continuity and new customer acquisition at branch level/state level are taken by the Credit Risk Management Committee (CRMC). The Bank has defined quantitative trigger limits with respect to early delinquency rates, On Time Repayment Rates (OTRR) and spurt in business growth. Any exception to the internally defined thresholds is reviewed by the Head of Credit - Microbanking and Rural Banking. The Bank monitors the health of its Microbanking portfolio at branch level through

[19] Refer clause 17.4.2 of RBI guidelines on Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances dated 1st July 2015

[20] Refer RBI guidelines on Master Direction – Reserve Bank of India (Relief Measures by Banks in Areas affected by Natural Calamities) Directions 2018 – SCBs issued vide FIDD.CO.FSD.BC No 9/05.10.001/2018-19 dated 17th October 2018

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

its branch scorecards. These scorecards assess the performance on various parameters such as incremental over-dues, error rates, non-starter cases, collection performance etc. The Bank undertakes its portfolio monitoring separately for Group Loans (GL) and Individual Loans (IL) within the Microbanking segment.

Considering that many a time the external environment or factors affect the portfolio performance of a branch or district or a state, the Bank has incorporated external factors in addition to internal EWS parameters to have better early monitoring and to take proactive measures. Some of the external factors which are considered are area specific communal issues, protests, sub-lending/ring leader issues, snatching attempts and others. In addition to the above, industry level information is also collected from the credit bureau/s to rate the states or districts and align the growth strategy accordingly.

The Bank has developed risk scorecards for objective based credit appraisal and monitoring. This application score card has been integrated with Business Rule Engine (BRE) where every application will have a score generated from BRE which shall be reviewed as part of credit appraisal. This score will be in addition to present BRE rules. Credit approvers at backend shall review the BRE results (as per the existing practice) along with application score card while processing the applications. The Bank intends to monitor the performance of these scorecards for further fine-tuning of parameters on a semi-annual basis.

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

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

The Bank has also introduced an Early Warning System (EWS) at an account level for enhanced monitoring. This framework enables the Bank to monitor a borrower’s internal/external repayment record and signs of overleveraging efficiently on an on-going basis. The Bank has also initiated real-time monitoring of borrowers who have availed moratorium to monitor any potential signs of stress.

Risk scorecards are developed and implemented for introducing objective based lending. These application scorecards have been integrated with Loan Operating Systems (LOS) where every application will have a score generated from LOS which shall be reviewed as part of credit appraisal. This score will be in addition to present appraisal norms. These scorecards are subject to validation, subsequent to which, the same will be a part of credit decision making.

7.1.5.3. Other Portfolio- FIG, Vehicle Loans and Personal Loans

The Bank monitors the portfolio performance of other business verticals on a monthly basis. Business, Credit, Risk and Audit functions monitor these verticals on key indicators such as logins, turnaround time, ticket size, sanctioned versus disbursement, product performance, PAR and NPA trends etc. Risk department undertakes an independent assessment of the same and submits its findings to the CRMC for further action. Audit department undertakes post-mortem analysis to ensure adherence to various internal and regulatory guidelines and they in turn submit their findings along with recommendations at appropriate forums within the Bank. Based on the findings, the Bank undertakes the necessary changes to its product programs and credit policies.

Development of rating scorecards for these segments is at different stages of implementation. The Bank intends to launch scorecards for all these categories in this financial year.

Early Warning Systems for monitoring FIG loans has been approved by CRMC. The same will be used to extensively in the ensuing financial year. For Personal and Vehicle loans, the Bank has subscribed to various bureau reports to provide real time data on changes in credit scores, change in residential and communication details and increase/decrease in leverage as part of monitoring activities.

7.2. Quantitative Disclosures

The overall distribution of gross advances as at 30th June 2020 was as under:

Rs. in lakh

Vertical	Standard	NPA	OSP	%Share of OSP
Group Loans[22]	9,56,303	8,681	9,64,984	67.17%
Housing	1,53,772	1,163	1,54,935	10.78%
Individual Loans[23]	1,49,271	944	1,50,215	10.46%
MSE	96,815	3,344	1,00,159	6.97%
FIG	52,322	-	52,322	3.64%
Personal	7,554	114	7,668	0.53%
Loan against FD	4,012	-	4,012	0.28%
Vehicle	1,443	-	1,443	0.10%
Staff	1,108.66	10.22	1,119	0.08%
Less adjustments[24]	-	(274)	(274)	-0.02%
Total	**14,22,601**	**13,983**	**14,36,584**	**100.00%**

7.2.1. Exposure summary: Facility type

[22] Includes Agriculture Group Loans

[23] Includes individual agriculture loans

[24] Adjustments on accounts of interest suspense accounts

Exposure Type	Domestic (Rs. in Lakh)	Overseas
Fund- Based exposure	19,40,810	--
Non- Fund Based Exposure*	6,555	--
Total	19,47,365	--

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

7.2.2. Geographic Distribution of advances (State-wise)[25]

Rs. in lakh

State	Total	% Share
Tamil Nadu	2,32,264	16.21%
Karnataka	2,13,746	14.92%
West Bengal	2,00,331	13.98%
Maharashtra	1,32,769	9.27%
Gujarat	1,11,854	7.81%
Bihar	88,676	6.19%
Haryana	67,717	4.73%
Rajasthan	56,575	3.95%
Uttar Pradesh	52,607	3.67%
Assam	42,287	2.95%
Punjab	38,753	2.70%
Odisha	37,720	2.63%
Jharkhand	30,062	2.10%
New Delhi	29,696	2.07%
Kerala	26,127	1.82%
Madhya Pradesh	22,299	1.56%
Tripura	16,594	1.16%
Pondicherry	11,431	0.80%
Chhattisgarh	8,231	0.57%
Uttarakhand	5,990	0.42%
Chandigarh(UT)	2,384	0.17%
Meghalaya	2,002	0.14%
Himachal Pradesh	1,707	0.12%
Goa	1,024	0.07%
Grand Total	**14,32,846**	**100.00%**

7.2.3. Advances distribution by activity

Sl.	Categories	Disbursements	Outstanding at the end of the Quarter

[25] Excludes Loan against deposits of Rs. 4,012 lakh and adjustments of interest suspense accounts of Rs. 274 lakh

No		during the Quarter				
		No. of A/cs	Amount disbursed	No. of A/cs	No. of beneficiaries	Balance O/s
1	**Priority Sector (I+II+III+IV+V+VI+VII+VIII+IX)**	87,878	38,996	45,03,329	42,31,848	12,26,984
I	Agriculture (IA+IB+IC+ID)	40,867	17,395	15,97,382	15,25,661	3,86,017
II	MSMEs (i)+(ii)+(iii)+(iv)+(v)	27,440	12,488	8,98,010	7,74,378	3,14,724
III	Export Credit		-			-
IV	Education	-	-	2	2	2
V	Housing	3,835	3,326	2,87,605	2,80,365	1,82,438
VI	Renewable Energy		-			-
VII	Social Infrastructure		-			-
VIII	'Others' category under Priority Sector	15,736	5,787	17,20,330	16,51,442	3,43,802
IX	Net PSLC		-			-
3	**Non-Priority Sector Loans (I+II+III+IV+V)**	3,779	6,481	1,93,814	1,42,989	2,09,601
I	Agriculture	-	-	203	203	9
	Out of Agriculture, Loans against Negotiable Warehouse Receipts (NWRs)		-			-
II	Education Loans		-			-
III	Housing Loans	60	440	7,488	7,343	59,767
IV	Personal Loans under Non-Priority Sector	543	317	8,038	8,038	8,648
V	Other Non-Priority Sector Loans	3,176	5,724	1,78,085	1,27,405	1,41,176
4	**Total Loans (1+3)**	**91,657**	**45,477**	**46,97,143**	**43,74,837**	**14,36,584**

7.2.4. Priority Sector Lending (PSL) Compliance

The licensing conditions for SFBs require that PSL composition of a bank's asset book is a minimum of 75% of the total portfolio. While there is a quarterly monitoring of PSL in total and category-wise, the final compliance to PSL is reckoned on a yearly basis i.e. at the end of the financial year. For computing PSL, the Bank takes the ANBC of corresponding quarter of the previous year.

The ANBC as on the corresponding date of the preceding year i.e. 31st March 2020 was Rs. 11, 39,415 lakh. The Priority Sector lending was maintained at 107.68% as a percentage of ANBC. The Bank ended up having an overall surplus of ~Rs. 3, 72,400 lakh and sufficient surplus in each sub-category except for the PSL Agri sub category. The summary of compliance to PSL norms is as follows:

Rs. in lakh

Sl. No.	Sector wise achievements	Effective ANBC	Total Outstanding	% Achievement
1	Overall PSL	11,39,416	12,26,984	108%
2	Agriculture	11,39,416	3,86,017	34%
3	Small and Marginal Farmers	11,39,416	3,44,390	30%
4	Non - Corporate Farmers	11,39,416	3,86,017	34%
5	Micro Enterprises	11,39,416	3,07,369	27%
6	Weaker Sections	11,39,416	9,49,390	83%

7.2.5. Maturity pattern of assets and liabilities

Rs. in lakh

Buckets	Loans and advances	Investments	Deposits	Borrowings
Day - 1	104	55,265	2,462	12,591
2-7 Days	13,878	4,562	28,943	-
8-14 Days	34,000	1,500	15,628	2,214
15-30 Days	43,259	10,610	50,345	-
31 Days and up to 2 months	87,076	22,778	54,053	28,511
Over 2 months and up to 3 months	86,047	20,902	94,072	7,880
Over 3 Months and up to 6 months	2,39,413	28,667	1,36,047	51,975
Over 6 Months and up to 1 year	3,76,656	81,089	3,77,481	2,04,830
Over 1 Year and up to 3 years	3,53,360	43,024	3,44,479	1,16,174
Over 3 Year and up to 5 years	45,844	411	1,951	23,750
Over 5 years	1,45,474	71	288	-
Total	**14,25,111**	**2,68,879**	**11,05,749**	**4,47,924**

The Assets to liabilities are in a comfortable and positive position in all maturities cumulatively. Investments and Borrowings increased by 12% and 13% respectively in comparison to the previous quarter. The Loans and advances from the next 30 days have increased substantially with around 7% of the total advances.

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

Category of	June 2019	September	December	March 2020	June 2020

Gross NPA		2019	2019		
Sub-standard	7,636	9423	11,149	12,491	11,144
Doubtful	1,565	1,266	1,432	1,056	2,651
Loss	376	251	363	167	188
Total	**9,577**	**10,940**	**12,944**	**13,714**	**13,983**

	June 2019	September 2019	December 2019	March 2020	June 2020
Net NPA	2,912	4,253	5, 149	2,749	2,510

NPA Ratios	June 2019	September 2019	December 2019	March 2020	June 2020
Gross NPA to Gross Advances	0.84%	0.85%	0.95%	0.97%	0.97%
Net NPA to Net Advances	0.26%	0.33%	0.38%	0.20%	0.18%

7.2.7. Movement of Gross NPA's

Particulars (On YTD Basis)	June 2019	September 2019	December 2019	March 2020	June 2020
Opening Balance	9,785	9,785	9,785	9,785	13,714
Additions during the period	2431	6,542	10, 661	14,519	526
Reductions during the period	2638	5,387	7,502	10,590	257
Closing Balance	**9,577**	**10,940**	**12,945**	**13,714**	**13,983**

7.2.8. Key Risk factors affecting the credit portfolio

7.2.8.1. Microfinance and Rural banking

During April 2020, as part of its COVID 19 relief activities, the Bank had provided a blanket moratorium (M1) to all standard accounts which was subsequently removed for borrowers who made a repayment. In June 2020, moratorium (M2) was provided based on customer needs. As at 30th June 2020, the total outstanding for borrowers who had opted for moratorium was Rs. 5, 58,100 lakh (49%) representing ~23 lakh customers. At a state level, nine states exhibited a collection rate in excess of 60%, out of which seven were from North region. Maharashtra, Assam, West Bengal (WB) had lower collections among branches as Maharashtra had highest containment zones largely emanating from Mumbai and Pune. A key summary of the various remedial measures initiated by the Bank were as follows:

Particulars	Action taken
Geography	Areas with high containment zones and COVID cases were restricted

	for business. Business in branches with less than 60% collection efficiency was restricted for new customer acquisition. Areas with incidences of political intervention, protests against MFIs were restricted for business. Areas impacted due to natural calamities where activities were yet to resume were restricted for business.
Occupation	Customers involved in Animal husbandry, Agriculture and essential services were prioritized for business Additional source of income being considered while lending to certain occupations Customers engaged in hotels, cloth business, house maids, garment factory workers, tailors, wage earners, salons, poultry, fish business, flower business were low on business priority.
Changes to processes and guidelines	Focused on serving existing customers across vintage branches. New customer acquisition was undertaken only in low vintage rural branches with more than 60% collection efficiency. Payment track post moratorium with other institutions was reviewed for fresh customers. Ground check to ensure current cash flow of customers was performed along with a mandatory house visit by supervisors. Additional checks were undertaken by credit through tele verification (TVR[26]) to ensure right customers are funded. Discussion with major earning member of the family and their consent taken prior lending.
Recovery measures taken	A detailed collection strategy pertaining to people, process and technology was formulated. The Bank is in the process of strengthening it collection capacity across business and collections team, to be able to make multiple visits to non-paying customers, A collection software is currently being set up to capture customer level details and manage collections closely over the next few quarters. Tele-calling infrastructure is being enhanced to support the field collection activities. Mentorship from senior personnel was provided for affected branches. The Bank has also laid down plans to scale up its digital collections infrastructure to increase cashless repayments.

The Amphan cyclone had impacted the states of West Bengal and Odisha with 11.4% of portfolio being affected (i.e. Rs. 18,400 lakh out of Rs. 1, 91,400 lakh). 80,868 loan accounts from twelve districts in WB and Odisha have been affected due to the cyclone. 55,795 loan accounts have been provided with a repayment holiday (2-3 months) out of the eligible 66,512 loan accounts, as per SLBC guidelines. The Bank has made an additional 5% provision on these assets till maturity (additional credit cost of Rs. 570 lakh). For the remaining 14,000 loan accounts which were not covered under SLBC, the Bank has received repayments from

[26] Tele Verification Report- Phone Banking vertical undertakes additional borrower checks as part of due diligence.

36% of these loan accounts while the balance accounts were provided with a moratorium as per COVID program.

The state of Assam was affected on account of local political interferences in addition to the pandemic and floods. Recent floods in Assam due to heavy rain affecting Nalbari, Hajo and Pathshala branches. There was a complete lockdown being observed in Guwahati along with an increasing number of containment zones in the entire state. The Bank has appointed a task force exclusively to monitor collections from this state. The Bank has also strengthened it collections team for quicker resolution. The Bank however continued disbursements to performing repeat customers and also increased digital repayment channels for improving ease in repayments.

The Bank, at a portfolio level, recorded a collection efficiency of 52.6% in June 2020, a significant increase from collection rates experienced in the months of April and May 2020. By including partial collections, pre-closure and collections more than 1 EMI, the collection efficiency was 57.8%. The collection rates are expected to improve during the remaining part of the financial year given that the lockdown has been eased and business conditions have demonstrated signs of recovery.

The key positive indications and key risks for microfinance/rural banking for FY 2020-21 are as follows:

Positive indicators	Keys risks
• 2 precedents (AP crisis and Demonetization) available to provide evidence for quick bounce back in the portfolio. • Repayment behaviour tends to be healthy as defaults lead to blacklisting of borrowers and alternative finance is costlier. • An initial assistance in form of top-up loans to weather the temporary difficulties will help bounce the sector back. • Strong push and acceptance for cashless repayment modes by customers.	• September/October repayment rates (after moratorium) to provide clarity on outlook for FY 21. • Political intervention and misinterpretation of moratorium as loan waiver. • Any extension to the moratorium may affect repayment discipline.

7.2.8.2. MSE[27]

There were 6,539 unsecured MSE borrowers with a total book of Rs. 8,300 lakh. PAR30 was

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

Rs. 2,300 lakh (28%) out of which PAR90 was Rs. 1,900 crores (23%). There had been a reduction in PAR30 and PAR90 numbers due to recovery from NPA and extension of moratorium to 1-89 DPD borrowers. The Bank has constituted a special task force with focused attention on the unsecured MSE portfolio to ensure that slippages are contained.

There were 6,428 Loan Against Property (LAP-SENP-SEP[28]) borrowers with a total book of Rs. 57,600 lakh. PAR30 was Rs. 1,263 lakh (2.19%) out of which PAR90 was Rs. 634 lakh (1.10%). There had been a reduction in PAR 30 and PAR90 numbers due to recovery from NPA and extension of moratorium to 1-89 DPD borrowers.

There were 1, 141 Secured Enterprise Loan (SEL) borrowers with a total book of Rs. 26,200 lakh. PAR30 was Rs. 500 lakh (1.93%) out of which PAR90 was Rs. 281 lakh (1.07%). There was a marginal increase in PAR30 and PAR90 in May 2020 subsequent to which a reduction in PAR 30 and PAR90 numbers in June 2020 largely due to recovery from NPA and extension of moratorium to 1-89 DPD borrowers.

There were 10,514 (i.e. 71.8%) borrowers who had availed Moratorium up to 31st May 2020. Out of these, 3,942 (i.e. 27.19%) of borrowers had paid in the month of June 2020 and had quit the moratorium period. However, 505 (i.e. 2.48%) borrowers who had not opted for moratorium in M1 Period (April to May), had availed of fresh moratorium in June 2020 (M2-June to August). There were 6,535 (i.e. 45.06%) borrowers availing both M1 and M2 Moratorium

The Bank has initiated a slew of remedial measures, similar to the measured initiated under microfinance cateogry for the MSE portfolio. The key positive indications and key risks for MSE portfolio for FY 2021 are as follows:

Positive indicators	Keys risks
• Pent up demand caused by national lockdown to provide some respite for demand in goods and services. • Labour reverse migration to production centres.	• September/October repayment rates (after moratorium) to provide clarity on outlook for FY 21. • Impact on rental income to affect LAP loans. Rental income is expected to fall. • Almost 61% of MSE is expected to scale down business causing stress on cash flows. Bank has done industry wise margin analysis. • Travel and tourism, hotels, textiles, auto components, jewellery, construction material, manpower suppliers, sea food,

[28] Loan Against Property- Self Employed Non Professional- Self Employed Professional

	poultry and allied are sectors for which a cautious approach will be required.

7.2.8.3. Affordable Housing

There were 19,905 Secured Housing Loans (SHL) borrowers with a total book of Rs. 1, 54,935 lakh. PAR30 was Rs. 2,300 lakh (1.49%) out of which PAR90 was Rs. 1,100 lakh (0.71%). There had been a reduction in PAR 30 and PAR90 numbers as compared to March 2020 due to recovery from NPA and grant of moratorium to borrowers whose loans were classified 1-89 DPD.

13,342 (i.e. 67.06%) borrowers had availed of moratorium up to 31st May 2020. Out of these, 6,657 (i.e.33.45%) borrowers had paid in June 2020 and quit the moratorium period. However, 595(i.e. 3%) borrowers who had not opted moratorium in M1 (April to May) had opted for moratorium in M2 (June to August).

The Bank has initiated a slew of remedial measures, similar to measures implemented under microfinance for the housing portfolio. The key positive indications and key risks for housing portfolio for FY 21 are as follows:

Positive indicators	Keys risks
Home ownership seen as a priority among millennial. Bengaluru and MMR markets are poised to generate stronger demand. Affordable Housing least impacted due to COVID-19 Ready to Move (RTM) demand has surged.	• September/October repayment rates (after moratorium) to provide clarity on outlook for FY 21. • Sharp fall in rental income potential. Mumbai, Bangalore and Delhi have seen a fall of around 15% to 25%. • Cash flow of Self-employed category may take 12-18 months to recover to pre-COVID levels. • Home Improvement loans may face stress due to intermittent lockdowns causing shortage of materials and labour.

7.2.8.4. Personal loans

There were 5,289 borrowers with a total book of Rs. 7,668 lakh. PAR30 was Rs. 225 lakh (2.92%) out of which PAR90 was Rs. 220 lakh (2.85%). There had been a reduction in PAR 30% due to recovery efforts and grant of moratorium to borrowers whose loans were classified as 1-89 DPD. However, there had been a spike in PAR 90 during the month of May 2020 which was reduced in June 2020 by providing moratorium.

There were 3,250 borrowers (61%) that had opted for moratorium constituting an OSP of

Rs. 5,100 crores (66% of outstanding).

The Bank has initiated a slew of remedial measures, similar to the measures initiated under microfinance for the personal loans portfolio. Additionally, the Bank has also adopted a cautious approach for business development for the remaining part of the financial year. The key positive indications and key risks for personal loans portfolio for FY 21 are as follows:

Positive indicators	Keys risks
Green shoots in Semi-urban and rural areas.	• September/October repayment rates (after moratorium) to provide clarity on outlook for FY 21. • Sharp drop in discretionary spending due to intermittent lockdowns in metros. Structural changes in spending pattern. • Salary cuts, layoffs.

7.2.8.5. <u>Institutional Lending</u>

The Institutional Lending portfolio was well balanced with individual peak exposure of Rs. 3,000 lakh and average exposure of Rs. 1,500 lakh and all loans were at regular status as of 30th June 2020. The Bank evaluated moratorium on a case to case basis after reviewing liquidity availability and client level cash flow projections. Ten borrowers with loans amounting to Rs. 11,100 lakh had been granted moratorium based on cash flow assessment amongst several that had applied. Given the continuing stress in the NBFC sector and which is exacerbated by the COVID 19 pandemic, the Bank intends to re-visit its FIG policy. The revisions to the policy and strategy are currently being discussed internally and a revised policy would be implemented in the ensuing quarter.

7.2.8.6. <u>Vehicle Loans</u>

There were 2,032 Vehicle Loan borrowers with a total book of Rs. 1,400 lakh. There were 2 overdue borrowers amounting to Rs. 2 lakh. The Bank faces negligible risk from this portfolio at the present. Any new disbursements under this segment would be undertaken on a cautious basis. There were 1496 accounts (74%) that had opted for moratorium constituting an OSP of Rs. 1,058 crores (76% of outstanding).

The key positive indications and key risks for Vehicle loans portfolio for FY 21 are as follows:

Positive indicators	Keys risks
Preference for personal transport to boost demand for two wheelers. Positive increase in two wheeler sales during June and July	• September/October repayment rates (after moratorium) to provide clarity on outlook for FY 21. • Three wheelers loans to be affected. • Increasing trend in Work from Home, intermittent lockdowns.

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

Particulars (On YTD basis)	June 2019	September 2019	December 2019	March 2020	June 2020
Opening Balance	7,030	7,030	7,030	7,030	10,965
Provisions made during the period	1,854	3,780	6,058	10,973	667
Write back of excess provisions	2,219	4,124	5, 292	7,039	159
Closing Balance	**6,665**	**6,687**	**7,796**	**10,965**	**11,473**[29]

During the quarter, the Bank undertook a detailed exercise of understanding probable collection efficiencies post completion of the moratorium period which ends in August 2020. The Bank has reviewed its performance trends at branch level for each credit vertical and has also incorporated qualitative inputs from its front-line staff. Using the inputs, the Monthly Repayment Rates (MRR) has been projected. The repayment projections have taken into account the current situation on ground in terms of the following:

- Pandemic impact on staff and customers
- Economic impact on different customer segments and their lives and livelihoods
- External intervention on account of local political interventions, protests against MFI collections, coercive collection practices
- Impact on account of natural calamities like floods in various pockets of the country

Considering the above, the Bank has taken an additional credit cost of ~Rs. 12,900 lakh for future contingencies.

Vertical	OSP	Current Provisions	Addl. provisioning	Total Provisions (Including additional provisions)	PCR	Provisioning Coverage on Total Portfolio
MB & RB	11,15,199	18,400	11,600	30,000	90%	2.7%
MSE	1,00,159	3,490	800	4,290	65%	4.3%
Unsecured	*8,300*	*2,120*	*300*	*2,420*	*80%*	*29%*
Secured	*91,659*	*1,370*	*500*	*1,870*	*40%*	*2.0%*
Housing	1,54,935	1,800	400	2,200	57%	1.4%
FIG & VF	53,765	270	-	270	-	0.5%
PL	7,668	150	100	250	81%	3.2%
Others	4,857	30	-	-	89%	
Total	**14,36,584**	**24,120**	**12,900**	**37,020**	**82%**	**2.6%**

[29] Without additional COVID provisioning

7.2.10. Non-performing Investments (NPI) (June 2019 to June 2020)

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

7.2.11. Movement of provisions for depreciation on investments (June 2019 to June 2020)

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

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

8.1. Qualitative Disclosures

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

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

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

d) As on 30th June 2020, the Bank had a residual outstanding of "grandfathered" loans which comprised 0.57% of its funding book. As per regulatory guidelines, there was an additional risk weight of 25% assigned to this portfolio.

8.2. Quantitative Disclosures

Details of Gross Credit Risk Exposure (Fund based and Non-fund based) based on Risk Weight – Position as on 30th June 2020		
Sl.No	**Risk Weight**	**Rs. in lakh**
1	Below 100% Risk Weight	16,99,095
2	100% Risk Weight	2,50,834
3	More than 100% Risk Weight	8,909
4	Deductions from CRM[30]	11,473

[30] Credit Risk Mitigants

5	**Total**	**19,47,365**

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

9.1. <u>Qualitative Disclosure</u>

- The Group Loan and Individual Loan portfolio, under microfinance is unsecured. Loans to the Affordable Housing segment are collateralized by a mortgage over the property financed. There is primarily a secured product variant under MSE loans and a residual book of unsecured loans which is being run down and is expected to be fully repaid in the ensuing financial year. Loans to Financial Institutions are secured by a charge over book debts which are registered with CERSAI.
- The Bank accepts Eligible Financial Collateral[31] in a few instances for risk mitigation under secured Institutional lending and MSE loans. These financial collaterals are netted off for its collateralized transactions under comprehensive approach[32] while computing its Risk Weighted Assets (RWA).
- The Bank has a Portfolio Review/ Loan Review Mechanism (LRM) to review the health of the portfolio/ borrowers and work on mitigation of any risk associated with the portfolio or borrower in particular.
- The Bank has in place the following risk mitigation techniques for its loan portfolio which are as follows:
  - Life insurance cover is mandatory for all the borrowers availing of the Bank's microfinance loans. In the case of housing, two wheeler and personal loans borrowers are provided the option to avail of life insurance, though this is not a bundled offering along with the loan products.
  - The Bank works with 4 Credit Information Companies (CICs) and ensures 100% application screening through the bureaus using their comprehensive credit reports.
  - The Bank also undertakes independent surveys and analysis to identify negative areas/No- go areas based on historical events. These surveys enable the Bank to discourage increasing business from these areas as identified above.

[31] Refer section 7.3.5 of Master Circular - Prudential Guidelines on Capital Adequacy and Market Discipline New Capital Adequacy Framework (NCAF) dated July 1, 2015

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

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

10.1. <u>Qualitative Disclosure</u>

There were no securitization exposures in the banking book and trading book as at 30th June 2020

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

11.1. <u>Qualitative Disclosures</u>

<u>11.1.1. Market Risk</u>

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

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

11.1.2. <u>Liquidity Risk</u>:

Liquidity Risk Management is governed as per the provisions of the ALM policy. The average tenor of a microfinance loan is 18 months. The Bank has grown its portfolio of Affordable Housing and MSE portfolio, which are of longer tenor. Personal loans are for short dated tenors and the average tenor for loans to Financial Institutions did not exceed 24 months.

The ALM position for the Bank was well managed and regulatory thresholds complied with during the quarter. The Bank has various avenues to leverage upon in mitigating any future liquidity shortfalls. Some of the measures include securitization, IBPC transactions, term loan facilities from Bank and utilizing lines of refinance from NABARD, NHB and SIDBI.

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

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

Net Stable Funding Ratio (NSFR): RBI had issued its final guidelines for NSFR[33] which will come into effect from April 1, 2020. However, the same has been extended to 1st October 2020 in the backdrop of the COVID-19 pandemic.

11.2. Quantitative Disclosures

11.2.1. Liquidity Coverage Ratio (LCR)

Liquidity Coverage Ratio (Rs. in lakh)		
A	**High Quality Liquid Assets**	**Adjusted Amount**
	Level 1 Assets	3,03,577
	Level 2 A Assets	-
	Level 2 B Assets	-
B	**Total Stock of HQLAs (Adjusted for Capital)**	**3,03,577**
C	Cash Outflows	1,26,080
D	Cash Inflows	59,073
E	**Net Cash flow**	**67,008**
F	25% of Total Cash Outflow	31,520
G	**Higher of E or F**	**67,008**
Liquidity Coverage Ratio		**453.05%**

The high LCR was on account of high quarterly average cash position of Rs. 18,462 lakh (Cash in hand plus excess CRR balance) and excess SLR securities. The excess SLR securities were acquired in order to facilitate the Bank in borrowing through Variable rate Repo (via CROMS) and TREPS and therefore in capitalising on falling interest rate scenario. Better cash and SLR management will optimize the LCR.

12. Table DF- 9: Operational Risk

12.1. Qualitative Disclosures

12.1.1. Operational Risk Management Policy and Governance Structure

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

[33] Refer RBI guidelines issued vide circular DBR.BP.BC.No.106/21.04.098/2017-18 dated May 17, 2018

less, the impact in value terms could be significant.

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

12.1.2. Risk identification, measurement, monitoring and reporting

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

- **Product and Process reviews**: All new products and processes (including enhancement) are subject to a mandatory comprehensive review by the Operational Risk department. Post review, observations are raised to the respective functions for including additional controls for the risks identified during the assessment. Subsequent to closure, the new/enhancement to product/process are placed at the Product and Process Approval Committee (PPAC) for approval. The Bank continuously reviews and enhances its key processes to adapt to industry best practices. Few are enhancement of MSE/SHL processes, new process of Dedupe Phase 2, Video KYC and digital FDs.
- **UAT Testing** (including BRD and FSD): For any change management/ automation of products and processes, the department owners prepare the Business Requirement Document (BRD). The BRD is reviewed by key control and business functions for further improvements. Subsequently, the same is provided to the IT department within the Bank. The IT department then prepares the Functional Specification Document (FSD) detailing the scope of the project. Once the project is moved to testing stage, Operational Risk department performs the User Acceptance Testing (UAT) along with others to identify gaps in the actual deliverable versus that which was proposed in the BRD. These gaps are further addressed and closed before moving to production. During the quarter, the Bank had undertaken UAT for various activities such as Moratorium, Digital FDs, *Moneymitra* phase 2, mobility of SHL/MSE etc.
- **RCSA**: RCSA (Risk and Control Self-Assessment) is a forward looking tool to identify and assess the level of risk inherent in any activity / process, the causes responsible for that risk and the status of existing controls to minimize the risk. Its result

provides insight about known as well as potential Operational Risk areas in various process / business lines. Business being the first line of defence is responsible for carrying out RCSA activity as per the plan. Operational Risk being second line of defence is responsible for providing necessary guidance, training and inputs to the first line of defence for carrying out the RCSA. The Bank intends on undertaking RCSA for few critical functions during the year. There is a time bound plan to close the open issues as observed during RCSA and an update is provided to ORMC and RMC-Board at regular intervals.

- **Key Risk Indicators**: During the quarter review of existing KRIs was undertaken and post consultation with key stakeholders, **18 KRIs** were decided for monitoring at an organization level as part of the Operational Risk Management Framework. These KRIs will be analysed on monthly basis and a comprehensive report will be submitted to the ORMC and Board at quarterly intervals with action plan for closure of open issues. The thresholds for the KRIs have been decided upon in consultation with the stakeholders. The Bank is also in the process of enhancing the existing framework by defining functional KRIs for key functions such as HR, Operations, Micro Banking etc., for better monitoring. This is expected to be completed in the ensuing quarter.
- **Loss Data Management** is in place to record material incidents and learn from errors and strengthening existing controls. Incidents are recorded as operational loss and near miss events. This is followed by a Root Cause Analysis (RCA) for critical incidents. EGRC module in SAS is implemented to record all loss events across the Bank. Significantly, the efforts of the Operational Risk team have resulted in greater reporting of operational risk incidents from the branches. The Bank has created a separate General Ledger Code (GLC) to record losses (separate for fraud and non-fraud) on account of these incidents and these are reported to the Board at quarterly intervals. The Bank encourages its personnel to report incidents in an unbiased manner without fear for retribution. The incident reporting process enables creation of loss database as per Basel definitions. The activities broadly include the following:
    - Reconciliation of General Ledgers (GL) to operational loss as recorded in SAS
    - Root Cause Analysis (RCA) of critical events
    - Quarterly loss data submission to Board

  There were a few incidents of snatching reported from East and North region where we have lost cash. During the quarter though, the Bank noted increasing instances of its microfinance customers being defrauded through card cloning or through their sharing of confidential information with fraudsters. The Bank is enhancing its customer awareness program to minimise the impact of such incidents. The Bank records instances along the Basel defined lines of Operational Risk events and process enhancements arising from these occurrences are tabled at ORMC.
- **Thematic reviews:** While carrying out RCSA, KRIs, UAT testing, incident reporting etc., Operational Risk team identifies few risk indicators warranting a special

thematic review of the entire process. This enables the Bank to identify issues and gaps at minute level which are then taken up for rectification. These thematic reviews do not follow standardized risk identification techniques and therefore provide wider scope for a deeper and customized study of issues and gaps. Such thematic studies have enabled the Bank to further refine its existing processes and plug gaps that had been identified.

- **RRU[34] Scorecard approach**: The Bank has developed an internal scoring mechanism to capture all risk parameters at a granular level within the Bank i.e. branch level. The scorecard includes all facets of branch operations: Microbanking, Housing and MSE loans, Liabilities and other branch related parameters. Branches are categorized as High, Medium or Low risk based on these assessments on monthly basis. The scores are reviewed at ORMC and actionable to address key risk factors, be they at a branch or in a particular region are evaluated and addressed. Key policy decisions emerge from these scoring and reviews. The scorecard is continuously enhanced to include relevant parameters for optimizing the Operational Risk score. The Bank is in the process of automating the scorecard to make it a more effective tool.
- **User Access reviews** are conducted for critical applications to ensure that access and role matrix are well defined and that access is commensurate with the responsibility assigned. These reviews are undertaken at half-yearly intervals. The half yearly review for the current financial year has been initiated by the Operational Risk team.
- **RCU process:** The Bank has established a monitoring mechanism for identifying and rectifying instances of suspicious customers doing banking business. On a monthly basis, Vigilance department undertakes RCU check from a sampling of liability customers. The outcome of the RCU check provides a commentary on the customer profile. For all cases identified as 'negative', the Operational Risk department undertakes a special review in consultation with branch personnel and recommends corrections. For customers who are found to be negative after the rectification measures, exit strategies from customers are explored. This mechanism has enabled the Bank to avoid undertaking business relationships with potential anti-social members of society. This process is being further enhanced to include customers who are on boarded through various digital channels.
- **Branch Assurance**: Branches across regions are reviewed against a checklist devised by the Operational Risk team to ensure adherence to branch processes. The checklist is reviewed and enhanced every quarter to strengthen monitoring. With onset of COVID-19 and lockdown, and physical branch visits curtailed for the time being, the check list has been restructured to ensure that monitoring and review is not eased and can be done on a remote basis, based on reports derived from systems and through remote access and verification of registers. Due to COVID-19, remote monitoring of branches was started from June'20 and 20 branches were covered for

[34] Risk Rating Unit

the month.

- **Outsourcing Risk: 'Outsourcing'** is defined as the Bank's use of a third party (either an affiliated entity within the corporate group or an entity that is external to the corporate group) to perform certain activities on a continuing basis that would normally be undertaken by the Bank itself, now or in the future. The Bank has in place an outsourcing policy which provides guidance on outsourcing certain functions to specialized agencies for increasing efficiency and lower costs. The outsourcing policy is framed in compliance to various RBI guidelines on outsourcing issued from time to time. Key activities undertaken during Outsourcing are as follows:

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

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

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

  Outsourcing done by the Bank is subjected to an annual audit by the Internal Audit team who provide the required compliance certificate to RBI.

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

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

  Bank established Business Continuity Management Committee and Operational Risk Management Committee at apex level to monitor the business continuity preparedness of the Bank on an on-going basis. Further, the Bank's Business Critical Systems undergo periodical disaster recovery drills/tests in order to make sure that the recovery process become more robust and efficient to recover from any disaster / crisis situations. The Bank also has a Board approved Cyber Crisis Management Plan for tackling cyber threat / attack.

Bank reviews BCMP policy and plan documents annually and enhance the documents as per the changes made in the banks Business Critical processes and activities. Bank also conducts periodic BCP testing considering various Disruptive scenarios which will help to identify the gaps in recovering and resuming the Business Critical processes after the disruptive events.

- **Internal Financial Control (IFC) testing:** This is an annual exercise and done by the Operational Risk team. The team along with concerned stakeholders prepare and enhance Risk & Control Matrixes (RCMs). The financial and operational controls in these RCMs are then put to test by collecting samples from across the review period and from different regions, and are then evaluated for success or failure of the control effectiveness. The critical gaps observed during such testing are discussed with concerned functions for upgrading controls which may include automation of the controls. The result of this evaluation is also presented to ORMC and RMC of Board to update them on effectiveness of the internal controls of the Bank, and take guidance. This result is also shared with the Bank's external auditor to provide insight on adequacy and effectiveness of the controls in the Bank. The IFC testing is also mandatory requirement as per Companies Act, 2013.

12.1.3. Information Technology and Security Risk

The Bank, by virtue of its business, faces a plethora of information security risks. This was further exacerbated during the COVID-19 lockdown when the Bank implemented a Work from Home (WFH) policy and provided remote access to many of its employees. Provision of remote access, required enhanced monitoring to ensure that COVID themed attacks were thwarted. Data security is central to the Bank and forms the core. The Bank believes that good security risk management is good business and has thus formulated an enterprise-wide Information Security Policy and Cyber Security Policy to govern the protection of information assets. In addition, as per regulatory requirements, the Bank has put in place an up to date Incident Management and Cyber Crisis Management Plan to deal with incidents and cyber crises. There is also a policy governing the acceptable usage of information and system assets and policy to ensure continuity of business operations in the event of a disaster.

Given the dynamic nature of risks that the Bank faces, the Bank periodically assesses the risks and develops strategies to ensure that risks are mitigated to an acceptable level. Being technology-oriented, most of the risks are technological in nature and thus the Bank invests heavily in security technologies. The Bank carries out a range of security assessments throughout the year. A 24x7 Cyber Security Operations Centre has been established to detect and contain security anomalies. This Cyber SOC is also responsible to actively monitor emerging threats based on intelligence gathering. The Bank has developed a comprehensive awareness program wherein employees are trained during on-boarding, periodic phishing simulations are carried out and awareness mailers are broadcasted to both employees and customers.

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

13.1. <u>Qualitative Disclosures</u>

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

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

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

13.2. <u>Quantitative Disclosures</u>

13.2.1. <u>Earnings at Risk (Earnings Perspective) (Rs. in Lakh)</u>

Interest Rate Risk in the Banking Book (IRRBB)			
Sl.No	**Country**	**Interest Rate Shock**	
		+200 bps shock	**-200 bps shock**
1	India	(10,889)	10,889
2	Overseas	-	-
		(10,889)	10,889

13.2.2. <u>Economic Value Perspective (MDG Approach) (Rs. in Lakh)</u>

Category	Items	Amount
A	Equity	2,87,171
B	Computation of Aggregate RSA	18,44,619
C	Computation of Aggregate RSL	15,89,362
D	Weighted Avg. MD of RSL across all currencies	0.9
E	Weighted Avg. MD of RSA across all currencies	1.8
F	MDG	2,55,257

G	Change in MVE as % of equity for 200bps change in interest rate	-12.41%
H	Change in MVE in absolute terms	(35,631)

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

Rs. in lakh

Summary comparison of accounting assets versus leverage ratio exposure measure		
	Item	**Amount**
1	Total consolidated assets as per published financial statements	14,54,146
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	3,28,854
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)	1,17,000
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off- balance sheet exposures)	995
7	Other Adjustments	-16,376
8	**Leverage ratio exposure**	18,84,618

15. Table DF 18: Leverage ratio common disclosure template

Rs. in lakh

	Table DF-18: Leverage ratio common disclosure template	
	Item	**Amount**
	On-balance sheet exposures	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	17,83,000
	Domestic Sovereign	2,44,840
	Banks in India	31,650
	Corporates	52,322
	Exposure to default fund contribution of CCPs	42
	Other Exposure to CCPs	
	Others	14,54,146
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(16,376)

3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	17,66,624
	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	1,17,000
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)**	1,17,000
	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	6,555
18	(Adjustments for conversion to credit equivalent amounts)	5,560
19	**Off-balance sheet items (sum of lines 17 and 18)**	995
	Capital and total exposures	
20	**Tier 1 capital**	3,07,171
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	18,84,618
	Leverage ratio	
22	**Basel III leverage ratio**	**16.30%**

Presently the contribution of Tier I capital to Total Basel II capital is 97.07%. 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%.

****