Pillar III Disclosure

DF-1: Scope of Application

(i) Qualitative Disclosure :

Unity Small Finance Bank Limited (hereinafter referred to as the Bank) is a Private sector Bank domiciled in India, incorporated under the provisions of the Companies Act, 2013 and governed by the Banking Regulation Act, 1949. The Bank commenced operations as a Small Finance Bank (SFB) effective 1st November 2021 and the Scheme for Amalgamation of Punjab and Maharashtra Cooperative Bank Limited with Unity Small Finance Bank Limited was approved by the Government of India on 25th January 2022 vide Official Gazette Notification of the same date. The Bank is headquartered in Mumbai with its registered office in Delhi. It has no subsidiaries and no foreign operations.

(ii) Quantitative Disclosure:

a) List of group entities considered for consolidation

Name of the entity / country of incorporation	Principle activity of the Entity	Total balance sheet equity (as stated in the accounting balance sheet of the legal entity)	Total balance sheet assets (as stated in the accounting balance sheet of the legal entity)
Nil	Nil	Nil	Nil

b) The aggregate amount of capital deficiencies in all subsidiaries which are not included in the regulatory scope of consolidation i.e. that are deducted:

Name of the subsidiaries / country of incorporation	Principle activity of the entity	Total balance sheet equity (as stated in the accounting balance sheet of the legal entity	% of bank's holding in the total equity	Capital Deficiency
Nil	Nil	Nil	Nil	Nil

c) The aggregate amount (e.g. current book value) of the bank's total interests in insurance entities, which are risk-weighted:

Name of the subsidiaries / country of incorporation	Principle activity of the entity	Total balance sheet equity (as stated in the accounting balance sheet of the legal entity	% of bank's holding in the total equity/Proportion of voting power	Quantitative impact on regulatory capital of using risk weighting method versus using the full deduction method
Nil	Nil	Nil	Nil	Nil

DF-2: Capital Structure

a) Capital Structure

As per Reserve Bank of India (RBI) capital adequacy norms, capital funds are classified into Tier-1 and Tier-2 capital. Tier-1 capital of the Bank consists of paid-up share capital, share premium, statutory reserves, revenue & other disclosed free reserves. Tier-2 capital consists of revaluation reserves (at a discount of 55%), investment reserve, general provisions & loss reserves.

b) Equity Capital:

The Bank has authorized share capital of Rs. 40,000 million, comprising of 4,000 million equity shares of Rs. 10 each. As on September 30, 2022, the Bank has subscribed and paid-up capital of Rs. 704.9 million comprising of fully paid up 704,901,960 shares of Rs. 10 each.

During the period under review, the Authorised Share Capital of the Bank was reclassified into 170,00,00,000 (One Hundred and Seventy Crore) Equity shares of H 10/- each and 230,00,00,000 (Two Hundred and Thirty Crore) Preference Shares of H 10/- each.

c) Capital Funds:

Sr.no	Particulars:	(Rs. In million)
(a)	Tier I Capital	
	- Paid up Capital	20,506
	- Reserves	
	- Statutory Reserve	
	- Capital Reserve	
	- Employee Stock Option Outstanding account	0.02
	- Share Premium	4,003
	- General Reserve	
	- Balance in Profit	(2,647)
	- Less: Deferred Tax Assets & Prepaid Expenses	7,616
	Total Tier I Capital	**14,246**
(b)	The total amount of Tier II capital (net of deductions from Tier II capital)	9,807
	General Provision and loss reserves	156
(c)	Subordinated debt eligible for inclusion in Tier II capital	
	- Total amount outstanding	
	- Of which amount raised during the current year	
	- Amount eligible to be reckoned as capital funds	
(d)	Other deductions from capital, if any	
(e)	**Total Eligible Capital**	**24,209**

DF-3: Capital Adequacy

(i) Qualitative Disclosure:

a) Applicable Regulations:

The RBI guideline on 'Basel II Capital Regulation' was issued on July 1, 2008 for implementation in India with effect from March 31, 2008. Unity Small Finance Bank Limited is subject to the RBI Master Circular on Basel-II Capital Regulations, July 2008 and amendments thereto issued from time to time basis by the RBI.

The Basel II framework consists of three-mutually reinforcing pillars:

- Pillar 1: Minimum capital requirements for credit risk, market risk and operational risk
- Pillar 2: Supervisory review of capital adequacy
- Pillar 3: Market discipline

Market discipline (Pillar 3) comprises a set of disclosures on the Capital Adequacy and the Risk Management framework of the Bank. Pillar 3 disclosures as per RBI Master Circular on Basel-II Capital Regulations are set out in the following sections for information.

b) Regulatory capital assessment:

The Bank is subjected to Capital Adequacy guidelines stipulated by Reserve Bank of India (RBI). The Bank has followed the Basel II standardized approach for credit risk in accordance with the Operating Guideline issued by the Reserve Bank of India for Small Finance banks. Further, the RBI vide its circular No. DBR.NBD.No. 4502/16.13.218/2017-18 dated November 8, 2017 has provided an exemption to all Small Finance Banks whereby no separate capital charge is prescribed for market risk and operational risk.

c) Minimum capital requirements:

As per operating guidelines for Small Finance Banks, the Bank is required to maintain a minimum CAR of 15% with minimum Tier 1 capital at 7.5%. Till date, the capital conservation buffer and countercyclical buffer are not applicable for small finance banks.

As on 30th September 2022, the total CAR of the Bank stood at 63.71% well above the regulatory minimum requirementof 15%. The Tier I ratio of the Bank stood at at 38.77% well above the regulatory requirement of 7.5%.

d) Assessment of adequacy of Capital to support current and future activities:

The Bank has a policy and process note on Internal Capital Adequacy Assessment Process (ICAAP) which is approved by the Board of Directors. Under ICAAP, the Bank has determined whether it has adequate level of capital to meet regulatory norms, current and future business needs, including stress scenarios. ICAAP is intended to evaluate and document all risks and substantiate appropriate capital allocation for not only risks identified under Pillar 1 (i.e. Credit, Market and Operational Risk) but for the ones identified under Pillar 2 as well. The RBI regulations currently do not stipulate any capital charge for markets/operational risks for SFBs.

The yearly assessment of capital adequacy will enable the Bank to ensure the adequacy of capital to take care of the future business growth and various other risks that the Bank is exposed to, so that the minimum capital required is maintained on a continuous basis and at the times of changing economic conditions / economic recession. The Bank takes into account both quantifiable and non-quantifiable risks while assessing capital requirements.

The Bank considers all risks as mentioned in the ICAAP Guidelines as material and has put in place a methodology for assessment and measurement of the same under the ICAAP. The Bank considers the following risks as material and has considered these while assessing its capital requirements:

1. Credit Risk
2. Market Risk
3. Operational Risk
4. Interest Rate Risk in Banking Book
5. Liquidity Risk
6. Credit Concentration Risk
7. Business Risk
8. Strategic Risk
9. Compliance Risk
10. Reputational Risk

e) Monitoring and reporting

The Board of Directors of the Bank maintains an active oversight over the Bank's capital adequacy levels. On a quarterly basis, an analysis of the capital adequacy position and the risk weighted assets and an assessment of the various aspects of Basel II on capital and risk management as stipulated by RBI, are reported to the Board. These are also reported to the Risk Management Committee of Board (RMCB).

(ii) Quantitative Disclosure:

a) Capital requirements for various risks

A summary of Bank's capital requirement for credit, market and operational risk on September 30, 2022 is presented below:

		(Rs. In Million)
SN	**Particulars:**	**30.09.2022**
(a)	Capital requirements for Credit risk: - Portfolios subject to standardized approach	38,581
(b)	Capital requirements for Market risk: Standardized duration approach	-
	- Interest rate risk	N.A.
	- Foreign exchange risk (including gold)	N.A.
	- Equity risk	N.A.
	- Commodities risk	
	- Options risk	
(C)	Capital requirements for Operational risk: - Basic indicator approach	N.A.

b) **Common Equity Tier 1, Tier 1 and Total Capital ratios:**

Ratios:	**30.09.2022**
Capital Adequacy Ratios*	
- Total Capital Adequacy Ratio (%)	62.75%
- Tier -1 Capital Adequacy Ratio (%)	36.92%
- Common Equity Tier - 1 Capital Adequacy Ratio (%)	36.92%

Note:
SFBs are not required to have a separate capital charge for Market Risk and Operational Risk for the time being. Therefore, no separate capital charge has been applied by the Bank for market and operational risk while calculating the capital adequacy ratio for this quarter. This is in line with the RBI communication dated 8th November 2017 (DBR. NBD. No. 4502/16.13.218/2017-18).

DF-4: Credit Risk: General Disclosures

(i) Qualitative Disclosure :

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

a) Policy and Strategy for Credit Risk Management

The Bank has put in place a Master Credit Policy, Collection and Recovery Policy, Income Recognition and Asset Classification (IRAC) Policy and a Risk Management Policy whereby credit risk can be identified, quantified and managed within the framework that is considered consistent with the scale, size of business and risk appetite of the Bank. These policies are guided by the objective to build, sustain and maintain a high quality credit portfolio by risk identification, measurement, monitoring, control/mitigation techniques and management of problem loans/ credits. In addition, each of the product segments have their operating/product notes.

The policies and notes reflect the Bank's approach towards lending to borrowers in light of prevailing business environment and regulatory stipulations. All these policies are approved by the Board of Directors of the Bank and are reviewed regularly.

To avoid concentration of credit risk, the Bank has put in place internal guidelines on exposure norms in respect of single borrower, groups, product exposure, etc. based on various guidelines issued by regulators.

The delegation structure for approval of credit limits is approved by the Board of Directors. Credit Committees, comprising of various senior officials from the Bank including representation from the Risk Department, have been constituted for approval of high ticket size loan proposals.

b) Organizational Structure for Credit Risk Management function

The organizational structure of the Bank for the Credit Risk Management function has the Board of Directors at the apex level that maintains overall oversight on the management of risks. The Risk Management Committee of Board (RMCB) assists the Board in relation to the oversight and review of the Bank's risk management principles and policies, strategies, appetite, processes and controls which includes credit risk.

The RMCB also recommends the Bank's credit and risk related policies to the Board for approval. In addition, the RMCB also reviews the Bank's prudential exposure limits, product asset quality review, credit assessment and approval system, margin and collateral management, credit documentation review, credit pricing framework, credit administration and monitoring system, credit risk management system etc.

At the operational level the Risk Management Committee of the Executives (RMCE) was constituted on 22nd July 2022 and later reconstituted on 22nd August 2022 and 5th November 2022.

RMCE is entrusted with the responsibility for overseeing the implementation of the credit and operational risk management framework across the Bank. The committee shall review the status of portfolio management, loan review mechanisms, risk monitoring and evaluation, regulatory/legal compliance, adequacy of provision, risk concentrations, and industry reviews and shall suggest corrective measures.

The roles and responsibilities of the key functions are as detailed below:

- Risk Function: The Risk Function, with support from Business Units, is entrusted with the responsibility of implementing processes for credit risk identification, assessment, measurement, monitoring and control. The Risk function executes portfolio risk management activities, analyzes early warning signals and studies the impact of various stress testing scenarios.
- Business Units: Business Units are primarily responsible for day-to day risk management with regard to processing transactions and the establishment of internal controls to treat the risks associated with those transactions. Business units are required to comply with credit risk management policies and processes related to the origination and management of credit risks.

c) Credit risk measurement, mitigation, monitoring & reporting systems

1. Credit Origination and Appraisal System

The Bank has adopted underwriting standards for different client segments that are based, inter alia, on ticket size, availability of security and other risk parameters. The credit sanctions are provided by experienced credit professionals with delegated approval authorities as per Bank's Board approved credit policy, based on a detailed appraisal memorandum that takes into account business and financial risks of the proposal. The Bank has developed the parameters to comprehensively assess credit risk. Conversion of these parameters into a formal credit scoring model and/or internal risk rating is an ongoing process.

2. Credit Documentation

Collateral / security documents are finalized and registered in consultation with the legal and compliance department. The RM/RO and Credit Operations are jointly responsible for ensuring that proper documentation is obtained as per the checklist provided by credit and legal department. The Credit Operations team is responsible for the safe custody of all documentation.

3. Post Sanction Monitoring

Credit monitoring involves follow-up and supervision of the Bank's exposures with a view to maintaining the asset quality at the desirable level, through proactive and corrective actions, aimed at controlling and mitigating the credit risk to the Bank**.** The main objectives of credit monitoring are:

- To ensure that there is timely recovery of principal and interest from Borrower
- To assess the health of the borrower units at periodic intervals with reference to the key indicators of performance such as stability, activity level etc.

It is critical and important to strengthen the credit monitoring mechanism and the Bank strives to graduate to stringent/leading practices in monitoring on an on-going basis. The Bank accords special emphasis on credit monitoring at all times. We conduct periodic credit/portfolio reviews.

4. Security monitoring:

The value of the collateral is reassessed at periodic intervals. Collateral valuations are updated at a frequency appropriate to the value and nature of the collateral and the ease and costs of valuation. On collateral management we comply with the existing RBI policies.

5. Monitoring Standards – Portfolio level:

The Bank undertakes portfolio monitoring on a monthly/quarterly basis with specific focus on the following key aspects:

- Portfolio asset quality
- Portfolio concentration limits

The Risk unit is responsible for conducting portfolio level monitoring and publishing the relevant MIS reports.

6. Periodic Quality & Control Reviews:

Internal audit exercise shall be conducted by way of periodic reviews and checks to ensure adherence to established credit policies and procedures.

On a periodic basis, a sample of applications and approvals & rejects shall be selected and checked for adherence to the credit filters, credit underwriting and verification criteria. Feedback shall be provided to branches and changes shall be made to the process as a result of these reviews. This shall be documented.

Quality & control review primarily focuses on the following key aspects:

- Loan Approval process
- Adherence to internal policies and procedures and applicable laws/Regulations
- Compliance with loan covenants
- Post Disbursal Documentation (PDD) compliance
- Sufficiency of loan documentation

7. **Recovery Policy:**

- The Bank has a Collection and Recovery policy. This policy is formulated within the framework of various regulatory requirements and is reviewed annually by the Board or earlier, if required. The recovery process is required to be started as soon as a borrower account shows symptoms of weakness / default and the Bank does not wait till the borrower account is classified as NPA.
- The Bank documents the efforts made for the recovery of dues and relevant stakeholders are kept informed.
- The repayment record of borrowers is monitored both with regard to payment of interest and repayment of principal. The mode of recovery is decided after conducting a root cause analysis of the reason for default.
- Whenever a borrower defaults or is likely to default, rigorous follow-up is made for the collection of dues / arrears.
- In case the loan is secured by a guarantee (personal or corporate), steps are taken to recover dues from the guarantor.
- The Bank uses any of the following broad methods for management of problem accounts on case to case basis as it deems fit:
    - Restructuring, rephasement and rehabilitation
    - Exit strategy
    - Settlements / compromise
    - Sell down to Asset Reconstruction Company (ARC) / other entities
    - Invocation of SARFAESI (in case of secured loans)
    - Legal Action & recovery

d) Definition and classification non-performing assets (NPAs)

An asset, including a leased asset, becomes non-performing when it ceases to generate income for the Bank. A "Non-performing Asset" (NPA) is a loan or an advance where:

- Interest and/or instalment of principal, full or partial, remain overdue for a period of more than 90 days in respect of a Term Loan,
- The account remains ‘out of order’, in respect of an Overdraft/Cash Credit (OD/CC),
- The bill remains overdue for a period of more than 90 days, in the case of bills purchased and discounted.
- The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitization transaction undertaken in terms of the RBI guidelines on securitization dated February 1, 2006.
- Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

e) Credit risk exposures

Credit risk exposures (excluding specific risk on available-for-sale and held-for-trading portfolio) include all credit exposures as per RBI guidelines on exposure norms and investments in the held-to-maturity category, wherever applicable.

f) Credit Exposure by Risk Weights

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

Risk Weight	Amount of Exposure in INR mn
Below 100% risk weight	38,812
100% risk weight	37,233
More than 100% risk weight	367
Deducted (Intangible Assets and Deferred Tax Assets)	(7,616)
Total	**68,796**

Industry wise distribution of Exposure:

Industry Classification	Fund based (POS) in INR mn	Non fund based in INR mn
Trade	2,373.18	1.15
Services-Others	9,414.66	32.72
Agriculture and Allied Activities	2,698.92	0.52
Transport Operators	1,305.39	22.96
NBFCs	1,228.53	0.00
Vehicle/Auto Loans	219.42	0.00
Retail Loans-Other	5,555.19	1.09
Advances against Fixed Deposits	725.98	0.00
Housing Loans	3,329.62	0.00
Tourism, Hotel and Restaurants	608.32	0.83
Commercial Real Estate	24,984.63	14.06
Electronics & Engineering	2,526.72	0.00
Gems and Jewellery	0.00	0.00
Credit Card	98.37	0.00
Infrastructure	1,432.27	3.54
Industries-Other	5,433.83	0.00
Wood and Wood Products	34.44	0.00
Textiles	892.58	0.00
Metal, Iron And Steel	1,355.25	0.00
Rubber and Plastic Products	188.77	0.00
Mining and Quarrying	105.73	0.00
Chemicals and Chemical Products	212.33	0.00
Cement and Cement Products	125.43	0.00
Vehicles, Vehicle Parts and Transport Equipment	17.24	0.00
Food Processing	598.40	0.00
Beverages and Tobacco	196.88	0.00
Computer Software	56.11	0.00

Industry Classification	Fund based (POS) in INR mn	Non fund based in INR mn
Paper and Paper Products	59.82	0.00
Professional Services	1,224.58	0.00
Glass & Glassware	0.00	0.00
Leather and Leather products	145.37	0.00
Education Loans	29.19	0.00
Consumer Durables	432.35	0.00
Engineering –Others	30.94	0.00
Metal and Metal Product- Other Materials	3.23	1.48
Total	**67,643.69**	**78.36**

****Refers to gross principal outstanding. Does not include accrued interest. Net loans and advances stood at INR 2,419 crores as of 30th September 2022.***

VI. CREDIT RISK MITIGATION – DISCLOSURE FOR STANDRADISED APPROACH

Portfolio cover by Eligible Financial Collateral are as below: in INR mn

Particulars	Amount	Credit Risk Mitigate	Net Exposure
Gold Loan	0.80	0.80	0.00
Loan against FD	756.67	67.80	688.88
Bank Guarantee/LC	78.36	46.85	31.51
Total	**835.83**	**115.44**	**720.38**

Portfolio covered by guarantees: in INR mn:

Particulars	Amount	Credit Risk Mitigate (CRM)	Net Exposure
CGTMSE	-	-	-
ECLGS	104.29	-	104.29
Total	**104.29**	-	**104.29**

(ii) Quantitative Disclosures

1. Total gross credit risk exposures as on 30th September 2022:

(Rs. In Million)

Category	Credit Exposure
Fund Based*	
Gross Advances**	67,724
Investment	2,7048
All other Assets	17,510
Non - Fund Based***	78

*Represents book value as on 30th September 2022
** Gross Advances including Interest accrued and due on standard advances
***Credit Equivalent Amount

2. Geographic distribution of exposure Fund based* & Non- fund based separately**

(Rs. In Million)

Category	30.09.2022		
	Domestic	Overseas	Total
Fund Based	94772	-	94772
Non - Fund Based	78	-	78
Total	**94850**	-	**94850**

*Represents book value as on 30th September 2022 and includes Gross advances and investments
** Credit Equivalent Amount

3. Residual contractual maturity breakdown of assets

(Rs. In Million)

Maturity bucket	Cash, balances with RBI and other banks	Investments	Loans & Advances	Other assets including Fixed Assets	Total
Day 1	2,312	11,333	1,336	1	14,982
2 to 7 days	898	198	370	19	1,486
8 to 14 days	36	137	312	21	505
15 to 30 days	14	55	1,364	243	1,675
31 days to 2 months	51	384	2,026	317	2,778
2 months to 3 months	19	101	1,486	235	1,841
3 months to 6 months	164	3,415	4,204	89	7,872
6 months to 1 year	236	4,838	4,484	435	9,994
1 Year to 3 years	811	3,401	7,628	7,717	19,557
3 Years to 5 years	680	2,708	1,964	14	5,366
Over 5 years	12	478	6,300	3,186	9,976
Total	**5,232**	**27,048**	**31,475**	**12,277**	**76,033**

4. Asset Quality:

- **Classification of gross NPAs**

(Rs. In Million)

Particulars	**30.09.2022**
Sub-standard	957.29
Doubtful	
▪ Doubtful 1	694.49
▪ Doubtful 2	2,755.41
▪ Doubtful 3	2,919.02
Loss	30,795.25
Total Gross NPAs	**38,121.47**

Advances are classified as Performing Assets (Standard) and Non-performing Assets (NPAs) in accordance with the RBI guidelines on Income Recognition and Asset Classification (IRAC). Further, NPAs are classified into sub-standard, doubtful and loss assets based on the criteria stipulated by RBI. The advances are stated net of specific provisions made towards NPAs, unrealized interest on NPAs, if any etc. Interest on NPAs is transferred to an interest suspense account and not recognized in the Profit and Loss Account until received.

Net NPAs:

(Rs. In Million)

Particulars	**30.09.2022**
Gross NPAs	38,121.47
Less: Provisions	36,248.78
Net NPAs before floating provision	**1,872.69**
Less : Floating / Restructuring Provision	
Net NPA	**1,872.69**

Net NPA Ratios:

Particulars	**30.09.2022**
Gross NPAs to gross advances	56.29%
Net NPAs to net Advances	5.95%

Movement of Gross NPAs:

(Rs. In Million)

Particulars	**30.09.2022**
Opening balance	37,733.00
Additions during the year	992.13
Recoveries (excluding Recoveries made from upgraded accounts)	408.13
Upgrades	203.25
Increase in Same Category	7.72
Write offs	-
Closing balance	**38,121.47**

- **Movement of Provisions for NPAs:**

(Rs. In Million)

Particulars	30.09.2022		
	NPA Provision	Floating / Restructuring Provision	Total
Opening balance	35,763.13	-	35,763.13
Provisions made during the year	745.06	-	745.06
Any other adjustment, including transfer between provisions	-	-	-
Write-back of excess provisions (including Write off – Technical and Actual)	259.41	-	259.41
Closing balance	**36,248.78**	**-**	**36,248.78**

Provisioning

Provision for non-performing advances comprising Sub-standard, Doubtful and Loss Assets is made at a minimum in accordance with the RBI guidelines. In addition, specific loan loss provisions in respect of non-performing assets are made based on management's assessment and estimates of the degree of impairment of advances, based on past experience, evaluation of security and other related factors; the nature of product and delinquency levels. Loan loss provisions in respect of non-performing advances are charged to the Profit and Loss Account and included under Provisions and Contingencies.

Provisions made in excess of the Bank's policy for specific loan loss provisions for non-performing assets and regulatory general provisions are categorized as Floating Provision. The Bank up to a level approved by the Board of Directors considers Creation of Floating Provision. In accordance with the RBI guidelines, Floating Provisions are utilised up to a level approved by the Board with prior permission of RBI, only for contingencies under extraordinary circumstances for making specific provisions for impaired accounts.

Non-performing Investment

(Rs. In Million)

Particulars	30.09.2022
Gross Non-Performing Investment	19.8
Less: Provisions	(19.8)
Net Non-Performing Investment	0

- **Provision for depreciation on Investment**

(Rs. In Million)

Particulars	30.09.2022
Opening balance as on 01.04.2022	1022.4
Provisions made during the year	82.1
Write-Off	
Any other adjustment, including transfer between Provisions	
Write-back of excess provisions	50.7
Closing balance	**1053.8**

- **Provision for Standard Asset**

Particulars	**30.09.2022**
Opening balance as on 01.4.2022	
Provision made/reversed during the year	
Any other adjustment, including transfer between provisions	
Closing balance	156.44

- **Geographic Distribution**

(Rs. In Million)

Category	30.09.2022		
	Domestic	Overseas	Total
Gross NPA	38,121.47	-	38,121.47
Provision for NPA	36,248.78	-	36,248.78
Floating / Restructuring Provision	-	-	-
Provision for Standard Assets	156.44	-	156.44

DF-5: Credit Risk: Disclosures for Portfolios Subject to the Standardized Approach

(i) Qualitative Disclosure:

a) Ratings used under Standardized Approach:

The Bank has unrated corporate exposure, and the bank has applied risk weight of 100% on unrated corporate exposure.

(ii) Quantitative Disclosures

For exposure amounts after risk mitigation subject to the standardized approach, the amount of the Bank's exposure in the following four major risk buckets as well as those that are deducted:

(Rs. In Million)

Particulars	30.09.2022
- At 0% risk weight	29,258
- Below 100% risk weight	9,554
- 100% risk weight	37,233
- More than 100% risk weight	367
- Deducted (Intangible Assets and Deferred Tax Assets)	(7,616)

DF-6: Credit Risk Mitigation: Disclosure for Standardized Approach

(i) Qualitative Disclosure:

a) Collateral management and credit risk mitigation

In line with RBI guidelines, the Bank uses a comprehensive approach for credit risk mitigation. Under this approach, the Bank reduces its credit exposure to the counterparty when calculating its capital requirements to the extent of risk mitigation provided by the eligible financial collateral as specified.

b) Collateral management

1. Overview

The Bank defines collateral as the assets or rights provided to the Bank by the borrower or a third party to secure a credit facility. The Bank would have the rights of secured creditor in respect of the assets/contracts offered as security for the obligations of the borrower/obligor. The Bank ensures that the underlying documentation for the collateral provides the bank appropriate rights over the collateral or other forms ofcredit enhancement including the right to liquidate retain or take legal possession of it in a timely mannerin the event of default by the counterparty. The Bank also endeavors to keep the assets provided as security to the Bank under adequate insurance during the tenor of the Bank's exposure. The collateral value is monitored periodically.

2. Types of collateral acceptable to the Bank

- Fixed deposits
- Gold and jewelry of 99.9% purity
- Securities issued by Central & State Governments, Kisan Vikas Patra
- National Savings Certificates
- Life Insurance Policies with a declared surrender value of an Insurance Company which is regulated by IRDA
- Debt securities rated by a chosen Credit rating agency in which the Bank is sufficiently confident about market liquidity
- Other Corporate Debt Securities of which the Bank is sufficiently confident about market liquidity
- Units of Mutual Funds etc.
- Real estate: residential, commercial and industrial properties

Acceptable collateral will also form a part of each product's policies and it may be in addition to the list provided above.

3. Main type of guarantor counterparties

For guarantees to be recognized as per Basel II requirements for capital computation, they should meet the following criteria as prescribed by the RBI:

- The guarantee shall represent a direct claim on the guarantor
- The guarantee shall be unconditional and irrevocable
- The guarantee shall be properly documented and legally enforceable
- The guarantee shall remain continuously effective until the facility covered by the guarantee is fully repaid or settled
- The guarantee shall be from the Export Credit Guarantee Corporation (ECGC) or the Credit Guarantee Fund Trust for Micro and Small Exposures (CGTMSE).

As per the circular number DoR.BP.BC.No.76/21.06.201/2019-20 dated June 21,2020 issued by RBI, credit facilities extended under Emergency Credit Line Guarantee Scheme guaranteed by NCGTC are backed by an unconditional and irrevocable guarantee provided by Government of India, hence zero percent risk weight will be applied on the credit facilities extended under this scheme to the extent of guaranteed coverage.

4. Collateral Valuation

As stipulated by the RBI guidelines, the Bank uses the comprehensive approach for collateral valuation. Under this approach, the Bank reduces its credit exposure to counterparty when calculating its capital requirements to the extent of risk mitigation provided by the eligible collateral as specified in the Basel II guidelines.

(ii) Quantitative Disclosures

Portfolio covered by eligible financial collateral as on 30th September 2022:

(Rs. In Million)

Particulars	Amount
Exposures fully covered by eligible financial collateral, after application of haircut	38.11
Exposure that is covered by guarantees/credit derivatives	0

DF-7: Securitization Exposure: Disclosure for Standardized Approach

(i) Qualitative Disclosure:

The Bank undertakes securitization / loan assignment transactions with the objective of maximizing return on capital employed, managing liquidity, maximizing yield on asset opportunities.

The RBI issued "Revised Securitization Guidelines" i.e. Master Direction – RBI (Securitisation of Standard Assets) Directions, 2021 (Updated as on December 05, 2022) and Master Direction – RBI (Transfer of Loan Exposures) Directions, 2021 (Updated as on December 05, 2022) covering both Securitization and Loan Assignment transactions separately. The said guidelines define minimum holding period, minimum retention requirements, due diligence, credit monitoring, stress testing requirements etc. For loan assignment transactions, credit enhancement has been disallowed under the revised guidelines.

The Bank may undertake sale transactions through both securitization and loan assignment routes. The Bank may participate in Securitization and Loan Assignment transactions in the following roles:

- Originator / Seller: The Bank may originate assets in its book and subsequently down sell them through the securitization or assignment route.

- Servicing and Collection Agent: For sold assets, the Bank may undertake the activity of collections and other servicing activities including preparation of monthly payout reports.

- Liquidity facility provider: In case of sale transaction undertaken through the securitization route, the Bank may also provide liquidity facility. This is a type of credit support used to meet temporary collection mismatches on account of timing differences between the receipt of cash flows from the underlying performing assets and the fulfilment of obligations to the beneficiaries.

- Credit enhancement provider: under the revised securitization guidelines, the Bank may provide credit enhancement on Securitization 'sale' transactions undertaken by the Bank / a third party for meeting shortfalls arising on account of delinquencies and prepayment losses in the underlying pool sold.

- **Credit Risk:** In case of Securitization transactions, where credit enhancement is provided by the originator or any third party as permitted under the revised guidelines, the investor bears the loss in case the shortfalls in collections exceed the credit enhancement provided. If credit enhancement is provided in the form of a corporate guarantee, the investor bears the loss that could arise due to default by the guarantor, which is also reflected in the rating downgrade of the corporate guarantor. In case of Loan Assignment transactions, the assignee bears the loss arising from defaults/delinquencies by the underlying obligors.

- **Market Risk**:

  Liquidity Risk: This is the risk arising on account of absence of a secondary market, which provides exit options to the investor/participant. This risk would be applicable only in case of securitization transactions.

- **Servicer Risk:** Servicer risk is the risk arising on account of the inability of a collection and processing agent to collect monies from the underlying obligors and operational difficulties in processing the payments. In long tenor pools, the investor is exposed to the risk of servicer defaulting or discontinuing its operations in totality.

- **Regulatory and Legal Risk:** These are risks arising on account of non-compliance of transaction structures with the extant regulatory guidelines, which may result in higher risk weight and hence higher capital charge being applied on the transaction or the Bank not being able to classify the transactions as priority sector lending. These risks also arise when transactions are not compliant with applicable laws, which may result in the transaction being rendered invalid. Conflict between the provisions of the transaction documents and those of the underlying financial facility agreement or non-enforceability of security/claims due to imperfection in execution of the underlying facility agreements with the borrowers could also lead to an increase in legal risk. Risk could also arise due to issues on interpretation of tax laws leading to changes in scheduled transaction cashflows.

Accounting policy on Transfer and servicing of assets

The Bank may transfer loans through securitization transactions. The transferred loans are de-recognized, and gains/losses are accounted for, only if the Bank surrenders the rights to benefits specified in the underlying securitized loan contract. In accordance with the RBI guidelines for securitization of standard assets, the profit/premium arising from sell down/securitization to be amortized over the life of the transaction based on the method prescribed in the guidelines and the loss, if any, arises in the sell down/securitization transaction, is recognized upfront in the statement of profit or loss.

(In Million)

Particulars	**FY (2021-2022) (30.09.2022)***	
	securitization transactions originated	**Assignment Transactions originated**
Total number of loan assets securitized	-	-
Book value of loan assets securitized	-	-
Sale consideration received for the securitized assets	-	-
Gain / (Loss) on sale on account of securitization	-	-
Form of services provided	-	-
Quantum (outstanding value) of services provided:	-	-
Cash Collateral	-	-
Over Collateral	-	-
Exposure to own securitization)	-	-

note that the bank has Direct Assignment transactions originated as part of its legacy book

DF-8: Market Risk in Trading Book

(i) Qualitative Disclosure:

a) Policy and Strategy for Market Risk Management

The Bank is exposed to market risk as a part of its activity of trading in securities (i.e. AFS & HFT portfolio), e.g. Fixed Income securities and Mutual Funds and any other product as approved by Investment Policy. Market Risk is managed in accordance with the Board approved Investment Policy, Asset Liability Management (ALM) and Market Risk Management (MRM) Policy. These policies cover the Market Risk framework of the Bank, which includes liquidity risk and interest rate risk.

b) Scope and nature of risk reporting and measurement systems:

Reporting

Board of Directors have laid down broad guidelines for ALM & MRM and monitor the same through the Risk Management Committee of Board Asset Liability Management Committee (ALCO).The RMCB shall have the primary responsibility of evaluating overall risks faced by the Bank including liquidity risk and interest rate risk and it shall periodically provide necessary guidance to ALCO. ALCO is responsible for managing the ALM and defining the appetite for undertaking Market Risk.

Measurement

The Bank has defined various risk metrics for different products and investments. Risk limits are control measures, which seek to limit risk within or across the desks. The objective of a limit is to ensure that the negative earnings impact of price risks are within the risk-taking appetite of the Bank. The nature of limits includes position limits, gap limits, duration limits, stop-loss trigger level limits. These limits are appropriately selected for the relevant portfolios and are monitored on an ongoing basis.

d) Portfolios covered by Standardized Approach

The Bank has adopted Standardized Duration Approach (SDA) as prescribed by RBI for computation of capital charge for market risk for:

- Securities included under the Held for Trading (HFT) category,
- Securities included under the Available for Sale (AFS) category,

(ii) Quantitative Disclosures

Capital requirement for:

(Rs. In Million)

Particulars	**30.09.2022**
Interest Rate Risk	-
Foreign Exchange Risk (including Gold)	-
Equity Risk	-
Total Market Risk	-

Note: The Bank does not currently have exposure to listed equities and foreign exchange positions

OPERATIONAL RISK

DF-9: Operational Risk

(i) Qualitative Disclosure:

a) Policy and Strategy for Operational Risk Management

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes Legal Risk but excludes Strategic and Reputational Risk. Legal Risk includes, but is not limited to exposure to fines, penalties or punitive damages resulting from supervisory actions, as well as private settlements.

The Bank has a well-documented Operational Risk Management Policy to mitigate and manage Operational Risk.

b) Operational Risk Management Governance Structure

The Bank has an Operational Risk Management framework and is in the process of establishing an independent Operational Risk Management Committee. The Board of Directors of the Bank shall define the risk appetite, set the risk management strategies and approve the operational risk policies of the Bank. The Bank's risk management processes are guided by well-defined policies commensurate with size of the organization and appropriate for various risk categories. Independent risk oversight and periodic monitoring of portfolio is done by the Risk Management Committee of Board (RMCB).

For the effective management of Operational Risk, the Bank has constituted the Risk ManagementCommittee of Executives (RMCE) consisting of senior management personnel.

The RMCE shall support the RMCB. The RMCB shall be responsible for implementing the Operational Risk Management Policy, once this is instituted and adopting the best practices. The Risk Management Committee of

Executives, shall monitor and ensure appropriateness of operational risk management and recommend suitable control measures for mitigating the same.

Additionally, with a view to ensuring sound practices in respect of governance of the overall Operational Risk, the Bank has outlined policies and processes in respect of Information Security, Outsourcing, Fraud Risk Management Control and Customer Services.

c) Risk Reporting, Measurement, Mitigation and Monitoring Systems

- The Bank has built into its operational process, segregation of duties, clear reporting structures, well-defined processes, operating manuals, staff training, verification of high value transactions and strong audit trails to control and mitigate operational risks.
- New Product and activity notes prepared by business units are reviewed by all concerned departments including compliance, risk management and legal and approved through the Product approval committee.

(ii) Quantitative Disclosures

Capital requirement for:

(Rs. In Million)

Particulars	30.09.2022
Operational Risk	-

INTEREST RATE RISK IN THE BANKING BOOK

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

(i) Qualitative Disclosure:

a) Policy and Strategy for Interest Rate Risk Management

Interest rate risk represents the Bank’s exposure to movements in interest rates. Interest rate risk is measured by doing a gap analysis as well as sensitivity analysis to changes in interest rates. The Bank holds assets, liabilities with different maturities and which may be linked to different benchmark rates, thus creating exposure to unexpected changes in the level of interest rates in such markets.

Interest rate risk is measured across the Bank as a whole. This is done through measurement of the sensitivity of the Earnings at Risk (EaR) for a parallel movement in yields by 100 bps over a period of 1 year and the impact of changes in yields on the Market Value of Equity (MVE) for a 200 bps movement in yields. This is done using duration gap analysis method.

Interest Rate Risk is managed in accordance with the Board Approved Asset Liability Management and Market Risk (ALM & MR) Policy, Investment Policy and Limit Management Framework. The policies lay down a well-defined organizational structure for interest rate risk management functions and processes whereby the interest rate risks carried by the Bank are identified, measured, monitored and controlled.

b) Organization Structure for Interest Rate Risk Management function

The organizational structure of the Bank for Interest Rate Risk Management function has the Board of Directors at the apex level that maintains overall oversight of management of risks. The Risk Management Committee of Board (RMCB) shall devise policy and strategy for integrated risk management including interest rate risk. At operational level, the Asset Liability Management Committee (ALCO) monitors management of interest rate risk. The main functions of ALCO include balance sheet planning from a risk return perspective including the strategic management of interest rates and liquidity risks.

c) Risk Reporting, Measurement, Mitigation & Monitoring systems

The trading portfolio and total portfolio are monitored and reported to the senior management daily for risk parameters like Modified Duration Limits, PV01 limits and Stop Loss limits on the AFS/HFT portfolio. Any deviations or violations in the limits are immediately reported to the MD & CEO and Chief Risk Officer (CRO). The Interest Rate Risk for the company is reported to the ALCO.

(ii) Quantitative Disclosures

Level of Interest Rate Risk

The following table sets forth one possible prediction of the impact on the net interest income of changes in interest rates on interest sensitive positions at 30th September 2022, assuming a parallel shift in the yield curve:

(Rs. In Million)

	Change in Interest rates	
Currency	**-100 basis points**	**+100 basis points**
Impact on Economic Value of Equity	4.27%	-

Liquidity Risk Management

Liquidity Risk is managed in the following manner:

Liquidity refers to Bank's ability to fund an increase in assets or withdrawal of liabilities and meet both expected and unexpected cash & collateral obligations at reasonable cost without adversely impacting its financial condition. The liquidity risk arises when the Bank is unable to meet such obligations. The Bank's Asset Liability Management Committee (ALCO) is responsible for overseeing the management and governance of liquidity risk.

Liquidity risk management in the Bank (standalone) is governed by Board approved Asset Liability Management (ALM) Policy which provides the framework for its monitoring & management. The Bank actively manages its liquidity risk covering both market funding risk and market liquidity risk. The Bank maintains a diversified funding profile with emphasis on building a retail franchise to increase customer deposits. The Bank ensures that there is sufficient liquidity headroom available, including liquid assets, at all times to manage any contingency.

Liquidity risk is assessed from both structural and dynamic perspective and the Bank uses various approaches like stock approach, cash flow approach & stress test approach to assess liquidity risk. The Bank uses liquidity gap analysis to measure cash flow mismatches at different time bands. The cash flows are bucketed based on the residual maturity or expected behavior of assets, liabilities and off-balance sheet items.

- Asset Liability Management & Market Risk (ALM & MR) Policy of the Bank specifically deals with liquidity and interest rate risk management.
- As envisaged in the ALM policy, liquidity risk is managed through Gap Analysis based on the residual maturity / behavioral pattern of assets and liabilities as prescribed by RBI.
- Monitoring of prudential (tolerance) limits set for different residual maturity time buckets, large deposits, loans, various liquidity ratios for efficient asset liability management;
- The Bank has also implemented Basel-III liquidity standard i.e., Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). LCR measures the adequacy of High Quality Liquidity Asset to cover short-term net outflows under severe stress conditions. These measures have been incorporated as part of Bank's risk appetite definitions and thresholds. The LCR requirement from October 1, 2020 to September 30, 2021 is at 90% and is reset to 100% from April 1, 2021. The banks LCR is 663% against RBI regulatory requirement of 100%.
- The Net Stable Funding Ratio (NSFR) measures the ratio of Available Stable Funding (>1 year) and the Required Stable Funding (>1 year) to support long-term lending and other long-term assets. For banks in India, the RBI had released the guidelines for implementation and prescribed NSFR threshold of at least 100% from April 1, 2020. However, the implementation of NSFR had been deferred to October 1, 2021 as a relief measure provided by RBI to combat COVID-19 pandemic. The Bank's NSFR is currently 185% as against RBI minimum requirement of 100%.
- Contingency Funding Plan (CFP), approved by the Board sets out a process to manage liquidity in the event of liquidity crunch or a run on the Bank. In the event of a liquidity crisis, the ALCO will be responsible for providing directions for managing the situation. If ALCO is not in a position to be convened at short notice, the Chief Financial Officer (CFO), Chief Risk Officer (CRO) and the Head-Treasury are mandated to evaluate the stage of the crisis and take necessary action.

DF-17: Summary Comparison of accounting assets and leverage ratio exposure

LEVERAGE RATIO

The leverage ratio acts as a credible supplementary measure to the risk-based capital requirement. The Bank is required to maintain a minimum leverage ratio of 4.5%. The Bank's leverage ratioas on 30th September 2022, calculated in accordance with RBI guidelines is as follows:

(Rs. In Million)

Sr. No.	Particulars	Amount
1	Total consolidated assets as per published financial statements	1,08,108
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	
3	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	(7,546)
4	Adjustments for derivative financial instruments	
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off- balance sheet exposures)	
7	Other adjustments	
8	**Leverage ratio exposure**	**1,00,562**

DF-18: Leverage ratio common disclosure template

(Rs. In Million)

Sr. No.	Leverage Ratio Framework	Amount
On Balance Sheet exposures		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	1,00,562
2	(Asset amounts deducted in determining Basel II Tier 1 capital)	(14,750)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	**1,00,562**
Derivatives 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 exposure		
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	-
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)**	
17	Off-balance sheet exposure at gross notional amount	
18	(Adjustments for conversion to credit equivalent amounts)	
19	**Off-balance sheet items (sum of lines 17 and 18)**	
20	**Tier 1 capital**	14,750
21	**Total exposures (sum of lines 3,11,16 and 19)**	**1,00,562**
22	**Basel III leverage ratio**	**14.67%**