Pillar III Disclosures as at September 30, 2021

2021

[Ujjivan Small Finance Bank (hereinafter called "the Bank") has prepared this disclosure document in compliance with the directions of Reserve Bank of India (hereinafter referred to as "the Regulator" or "RBI") vide its circular RBI/2015-16/58; DBR.No.BP.BC.1/21.06.201/2015-16 dated 1st July 2015. The document provides a review of key observations pertaining to the Bank's capital adequacy, credit quality, key business highlights and a review of its key risks as at September 30, 2021.]

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1 List of key abbreviations

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

MD	Modified Duration
MD & CEO	Managing Director and Chief Executive Officer
MDG	Modified Duration Gap
MSE	Micro and Small Enterprises
NBFC-ND-SI-CIC	Non-Banking Financial Company-Non Deposit-taking-Systemically Important- Core Investment Company
NE	North Eastern
NEFT	National Electronic Funds Transfer
NNPA	Net Non-Performing Asset
NPI	Non Performing Investment
NSFR	Net Stable Funding Ratio
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

1. Introduction

Ujjivan Small Finance Bank (hereinafter called "the Bank") has prepared this disclosure document in compliance with the directions of Reserve Bank of India (hereinafter referred to as "the Regulator" or "RBI") vide its circular RBI/2015-16/58; DBR.No.BP.BC.1/21.06.201/2015-16 dated 1st July 2015. The document provides a review of key observations pertaining to the Bank's capital adequacy, credit quality, key business highlights and a review of its key risks as at September 30, 2021.

2. Key performance highlights of the Bank:

a. Change of guard

On August 18, 2021 , the Bank's Managing Director and Chief Executive Officer (MD & CEO), Mr. Nitin Chugh, resigned from his position citing personal and no material reasons. His resignation was with effect from September 30 ,2021. The Bank appointed Mr. Martin PS, an experienced personnel who has been associated with the Bank since inception, as 'Officer on Special Duty' to oversee the day-to-day activities of the Bank in the interim period.

The Reserve Bank of India (RBI) in a letter dated September 15, 2021[1], has also approved the constitution of a 'Special Committee of Directors (SCOD)' with three independent directors as its members. The SCOD is now empowered to oversee the operations and administration of the Bank in the absence of the MD & CEO with effect from September 16, 2021, under Section 10B(9) of the Banking Regulation Act, 1949. The SCOD is further empowered with discretionary powers of MD & CEO for sanction of credit proposals etc. until a regular MD & CEO is appointed and assumes charge.

The Bank is actively searching for a suitable replacement for the position of MD & CEO subject to approval by the Board and the Regulator. It is pertinent to note that the Bank remains steadfast in its leadership and governance despite instances of several exits at the helm. As a case in point, the Bank's founder, Mr. Samit Kumar Ghosh, was on-boarded in the capacity of non-executive, non-independent director on the Bank's Board with effect from August 20, 2021 to advise and guide the Bank during the transitory period along with oversight on the broader reverse-merger exercise with the holding company. The Bank's Board has also approved the appointment of Mr. Banavar Anantharamaiah Prabhakar, a veteran Banker, as an Additional Director (Independent), and as the Part-Time Chairman of the Bank.

b. Branch network and distribution reach

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

Particulars	Count
Total Banking outlets, of which	575

[1] Letter reference number: DoR. GOV.No.S1094/29.44.007/2021-22 dated September 15, 2021

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

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

The Bank had seven individual BCs as at September 30 2021. These individual BCs perform essential banking services such as acceptance/withdrawal of small value deposits, balance enquiry and generation of mini statement of accounts. The Bank also has an arrangement with Corporate BCs, primarily aimed at facilitating field collection for its microfinance business. The Bank also engages with Corporate BCs for sourcing variants of Personal Loans (PL) and MSE loans. The Bank evaluates the performance of the BCs at regular intervals. The Bank will continue to focus on brick and mortar URC branches for providing a wide array of banking services as this has proven to be a profitable and effective model. The Bank operated a network of 491 Automated Teller Machines (ATMs) including 53 Automated Cash Recyclers (ACR) as at September 30, 2021.

c. **COVID 19, macro-economic update and summary of measures taken by the Bank**

Q2 of FY 2021-22 witnessed a recovery post the ravages of the second wave in the beginning of the FY. The rebound in economic activity gained traction in August-September 2021, facilitated by the ebbing of infections, easing of restrictions and a sharp pick-up in the pace of vaccination on pan-India level.

After a prolonged slowdown, industrial production posted a high y-o-y growth for the fifth consecutive month in July 2021. The manufacturing Purchasing Managers Index (PMI) at 53.7 in September 2021 remained in positive territory. Services activity gained ground with support

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[2] 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.

[3] Unbanked Rural Centre (URC)

' [4] 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.

[5] North eastern states

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

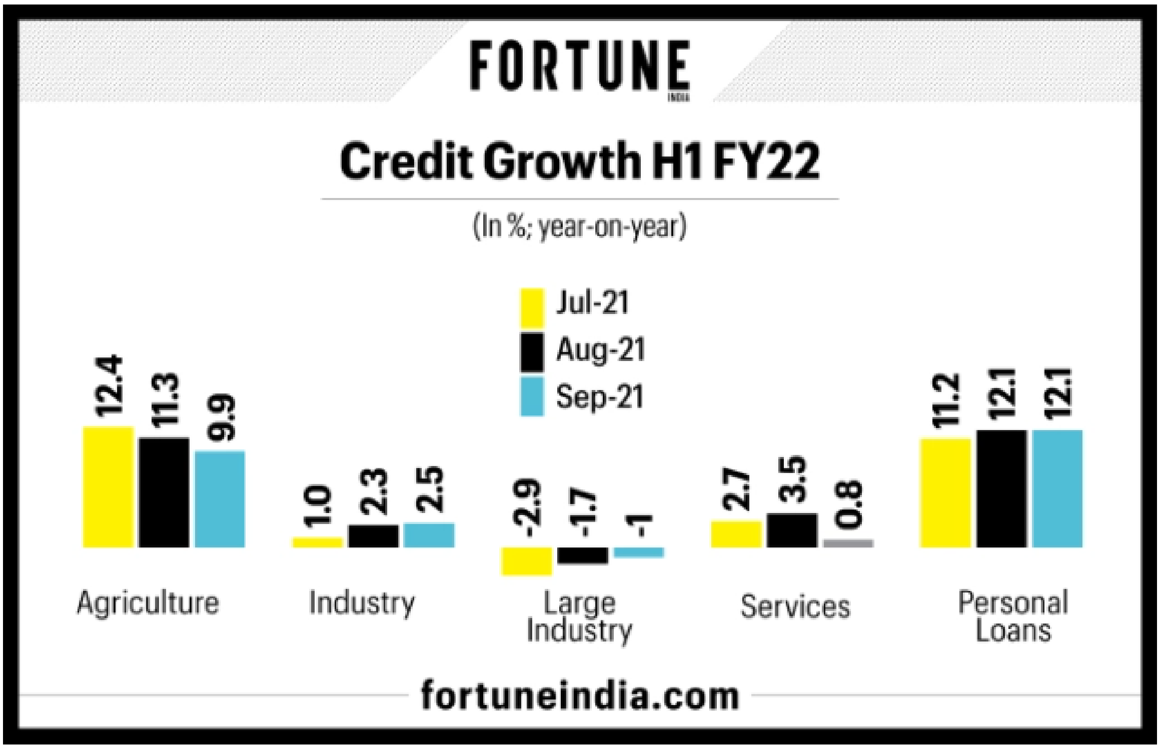
from the pent-up demand for contact-intensive activities. The services PMI continued to be in the expansion zone in September 2021 at 55.2, although some sub-components moderated. High-frequency indicators for August-September – railway freight traffic, cement production, electricity demand, port cargo, e-way bills, GST and toll collections – indicated progress in the normalisation of economic activity relative to pre-pandemic levels. However, indicators such as domestic air traffic, two-wheeler sales and steel consumption continue to lag. Non-oil export growth remained strong on buoyant external demand.

On the GDP front, the substantial acceleration in the pace of vaccination, the sustained lowering of new infections and the upcoming festival season is expected to support a rebound in the pent-up demand for contact intensive services, strengthen the demand for non-contact intensive services, and bolster urban demand. Monetary and financial conditions remained easy and supportive of growth during the quarter. The broad-based reforms by the government focusing on infrastructure development, asset monetisation, taxation, telecom sector and banking sector is likely to boost investor confidence, enhance capacity expansion and facilitate crowding in of private investment. The production-linked incentive (PLI) scheme augurs well for domestic manufacturing and exports. The Reserve Bank of India (RBI) has also maintained its real GDP growth target for FY 2021-22 at 9.5%. This consists of 7.9% growth in Q2, 6.8% in Q3 and 6.1% in Q4 of 2021-22.

RBI's credit outflow data for the first half of FY22 registered some concerning trends. Growth in credit was being driven primarily by low-productive and low-income agriculture and non-productive personal loans (consumption) rather than high-productive and high-income industry and services. In September 2021, credit flow in personal loans segment (Rs. 29.2 lakh crores) had surpassed credit outflows to both industry(Rs. 28.3 lakh crores) and services segment (Rs. 25.7 lakh crores)[7] .

While growth in Personal loans (consumption) is considered as driver of growth, it cannot be viewed as sustainable in the long run or sufficient if growth in industry and services credit flow loses momentum. Agriculture, which constitutes 14-16% of GDP, cannot be expected to do the heavy-lifting and it is imperative for higher growth in industry and services for a meaningful value accretion to the country's GDP. The following graph indicates growth rates in credit outflows for all four non-food segments in H1 of FY22:

7 7https://www.fortuneindia.com/opinion/indias-growth-prospects-anything-but-bright/106155



Sectoral Trends:

Gross Value Added (GVA) growth in agriculture, forestry and fishing is likely to be at 3.0 per cent for FY 2021-22. Despite the higher incidence of Covid-19 cases in rural India during the second wave, healthy crop output and procurement, as well as higher Minimum Support Prices (MSP) appear to have boyued the farm sector's demand during this challenging period.

Private consumption and investments are two biggest engines of India's economic growth. A glance at the National Accounts Data shows that of the four demand-side growth drivers[8], only Government Final Consumption Expenditure (GFCE) has somewhat registered a decent growth, averaging 5.7% during the period of FY19-FY21. PFCE growth had turned positive during the March 2021 quarter after a gap of three consecutive negative quarters, and is expected to maintain momentum. PFCE is now expected to grow to and reach 10.4% in FY22 as against the earlier projection of 10.8%.

The Nomura India Business Resumption Index (NIBRI) declined to 100.6 in the week ended September 5, 2021 from a record high of 102.8 in the previous week. However, it is still above the pre-pandemic level of 100. During August 2021, ultra-high-frequency indicators, such as Goods and Services Tax (GST), e-way bills, railway freight revenue and the services purchasing managers' index (PMI) improved, but data for automobile sales, merchandise trade and manufacturing PMI was observed to be lacklustre.

[8] Private Final Consumption Expenditure (PFCE), Government Final Consumption Expenditure (GFCE), Gross Fixed Capital Formation (GFCF) and Exports

Actions taken by the Bank (second wave):
The Bank is continuously monitoring the external developments and implements necessary steps as required through its Quick Response Teams (QRT). Details of the various initiatives are provided under relevant sections of this disclosure. A summary of the initiatives taken by the Bank is produced below:

- Within the Bank, the number of positive cases among employees has been on a declining trend with the number of positive cases peaking in the month of May 2021. As of October 12, 2021 (on a cumulative basis), 1,542 employees were infected, of which 1,529 have now recovered with 4 are under treatment and 9 personnel deceased. 94.7% of employees have been vaccinated with at least 1 dose through various camps arranged by the Bank, while 46.4% are fully vaccinated with two doses.

- During the quarter, with instances of lower cases being reported, the Bank has reverted back to 100% capacity at office premises. The Bank has however, reinforced COVID related precautionary measures at offices and branches at all times.

- The Bank revised its Work From Home (WFH)/Hybrid work policy, after factoring feedback from its personnel. The WFH privilege is now provided on a case- to- case basis as deemed appropriate by the respective heads of departments.

- The Bank conducted various vaccination drives to educate and encourage customers to take the vaccines. All regions were directed to implement vaccination drives and set milestones on a monthly basis. All regions are in the process of undertaking surveys to ascertain the share of vaccinated customers which will then percolate in prioritising vaccination camps at various locations. 8 vaccination drives were undertaken in North region with 1,491 beneficiaries while 15 camps were organized in East region with 1,668 beneficiaries. Similar programs are being planned for South and West regions.

- All COVID related guidelines issued by RBI were monitored during the year and were adhered to.
- The Bank has also restructured the loans of eligible borrowers under the Resolution Framework 2.0 as issued by RBI.
- The Bank has devised a ‘100 days plan’ for all the business generating verticals. The objective of the plan is to identify areas of improvement with respect to business generation, collections and strategic/policy level overhauling. The performance of the plan is being monitored on weekly basis internally.

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

In Q2 of FY 2021-22 the Bank has further leveraged lead funnel management processes to springboard its acquisition strategy and contribute significantly to business. A total of 31,548 plus leads were generated in Q2 FY22 across Savings Account/Fixed Deposits, Two-Wheeler Loans, Personal Loans, and Home Loans.

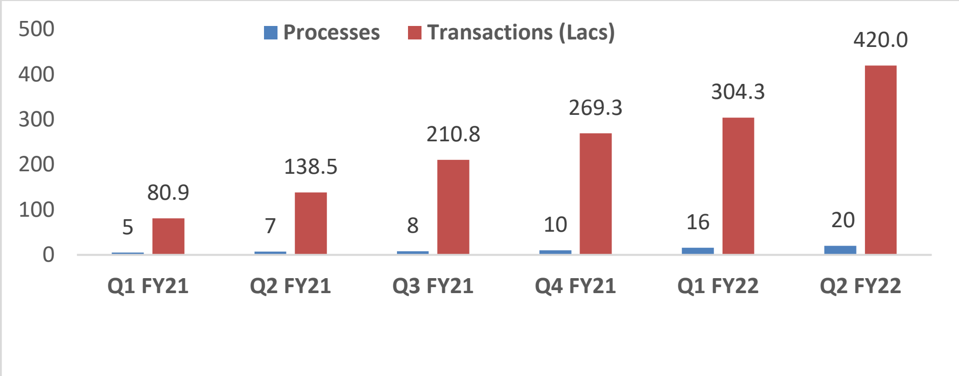
In Q2 FY 21-22, the Bank mobilized Rs. 12,138 lakhs of deposits through digital channels. This quarter, the Digital vertical within the Bank assumed oversight of Fin-Tech partnerships to further drive digital lending business. Currently there are 3 Fin-Tech partnerships that are live across Personal Loans and MSE verticals, through which Rs. 16,644 lakhs of loans have been disbursed at an aggregate level.

The Bank, armed with its full-fledged marketing automation suite has made significant strides in Existing to Bank (ETB) campaign strategy. In total, 91 campaigns were executed during Q2 of FY 2022. These campaigns were spread across various categories such as acquisition, activation, and balance build up/win-back, collection, cross-sell, informative, promotional, regulatory, and usage. Due to campaigns done via the marketing automation, the digital marketing team was able to shore up incremental business of Rs. 60,410 lakhs. The collection campaign resulted in Rs. 11,090 lakhs of incremental collection done from assets and micro-banking customer in Q2 of FY 21-22 Q2.

The on-boarding process of customers has also been considerably digitized. Internal processes like statement analysis, document verification, e-agreements, E-mandates have been operationalized in digital mode. The multilingual Chatbot on the bank's website has been extended to social media platforms like Facebook to improve conversions from digital marketing campaigns with a healthy conversion of 9.2%.

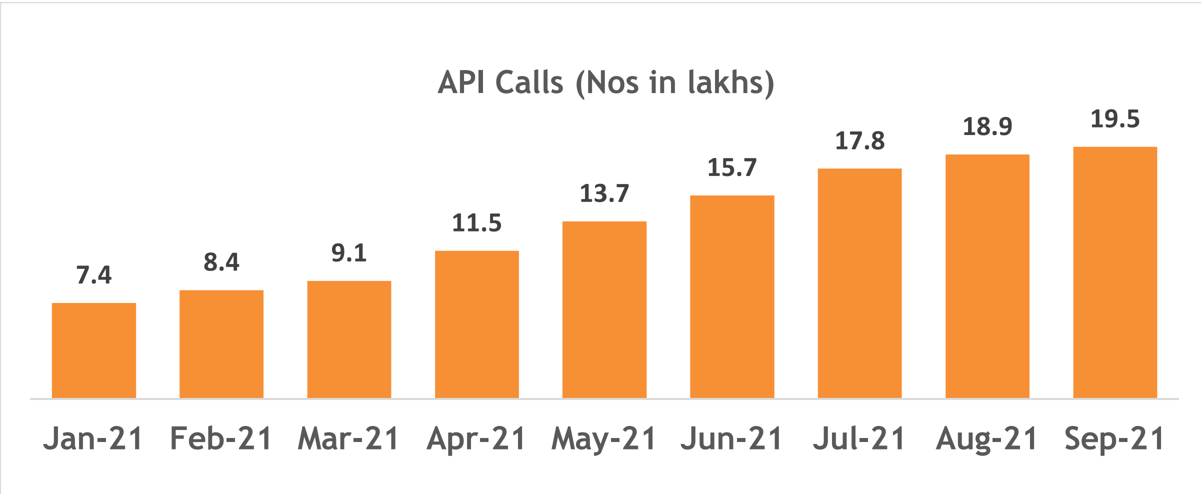
An enhanced Intelligent Bot for FAQs, lead generation and customer experience is planned to be piloted for launch in Q4-FY22. Automated Customer Engagement platform has been implemented for improved customer engagement and enriching Customer Life Time Value (CLTV) and is now integrated with Website, Mobile Banking, Internet Banking, WhatsApp, SMS and E-mail engines.

Machine-Learning based customer segmentation models have also been developed which have helped identify and target potential customers for cross-selling and up-selling opportunities. 20 processes across business verticals are completely automated. The Bank's Robotic Process Automation (RPA) now handles over 140 lakh transactions per month, effectively becoming a key driver towards ensuring business continuity during Covid 2.0.

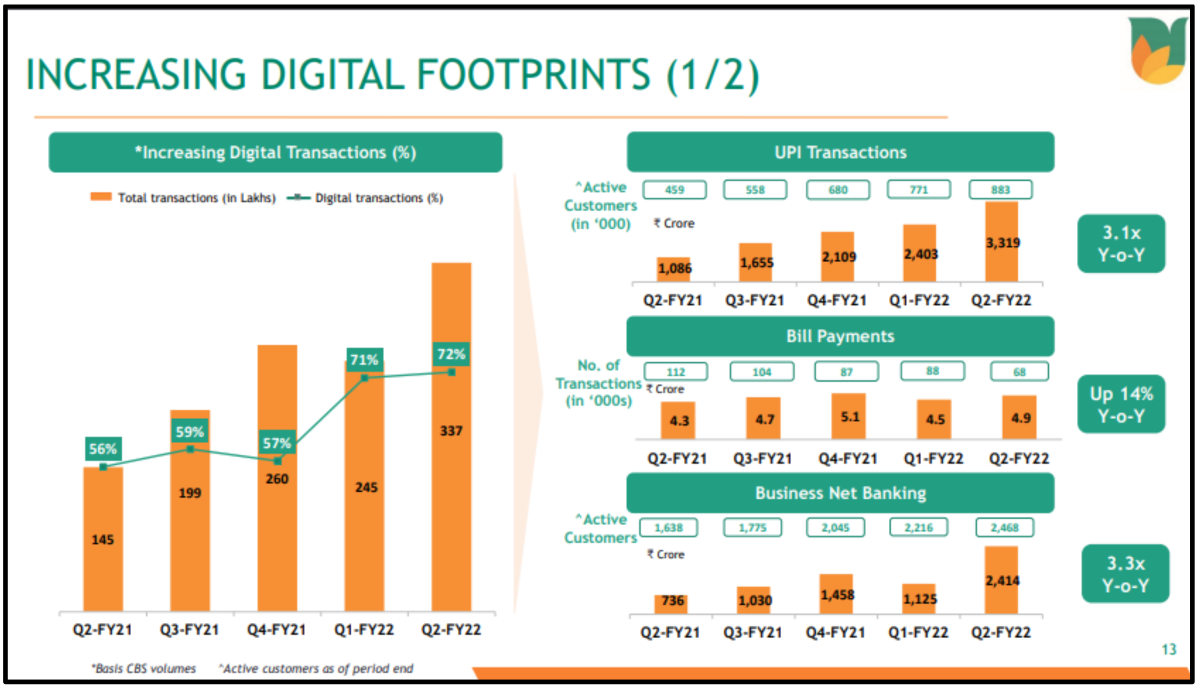


The Bank has listed its APIs[9] in the newly launched NPCI API Accelerator platform and is among the first set of banks (and the only SFB) to do so. This listing in the financial ecosystem, will help in increasing the API visibility among all financial players and facilitate easier partnership discussions and collaborations targeted at serving the un-banked and under-banked segments.

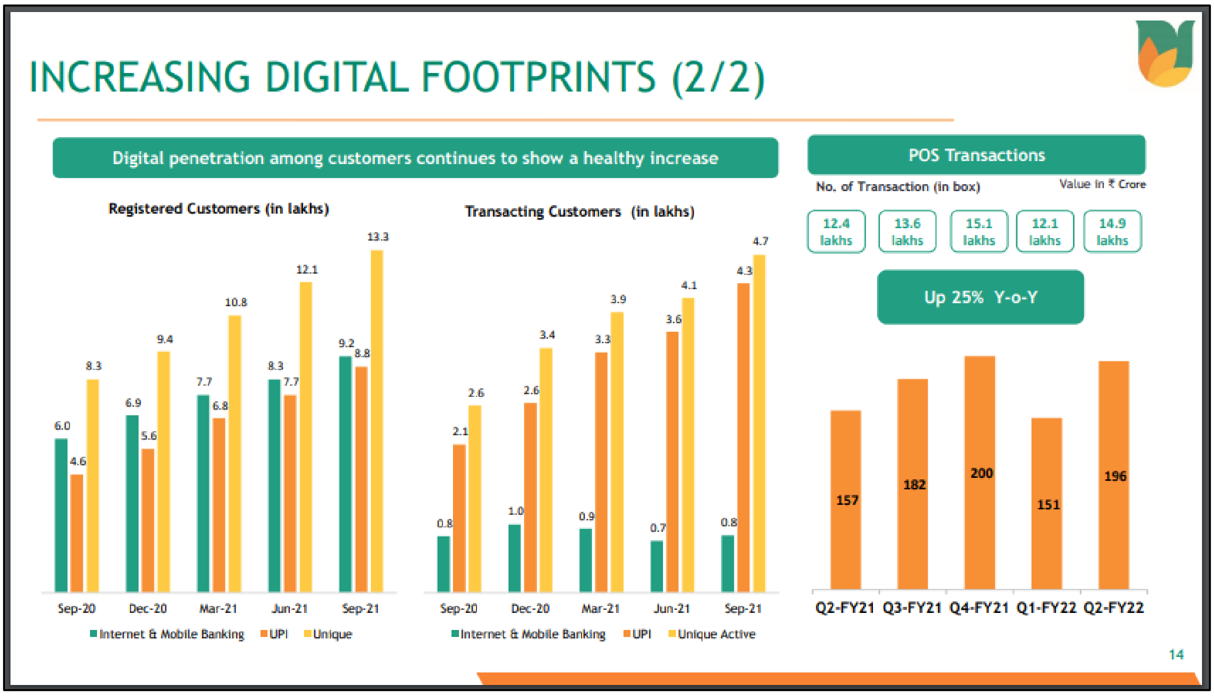
The Bank is designing a customized collection campaign to target customers within a radius of 1 km of the payment outlets to drive digital collections for better customer convenience and collection efficiency and activate new payment outlets wherever there are very few outlets in the vicinity of the customer location. The Bank has launched its API Banking portal to showcase its existing API banking capabilities to Fin-Techs, Start-Ups, Developer communities, which in turn will help in attracting more such partners. RPA for Aadhaar seeding and de-seeding process has gone live. As of September 2021, ~20 other routine processes have been automated and are currently in UAT while ~17 projects are in their development stages.



[9] **Application Program Interface**



The Bank had witnessed a steady increase in its transaction processing in the form of IMPS, UPI and NEFT etc. In Q2 of FY22, transactions through UPI witnessed 3.1 times year-on-year growth whereas transactions undertaken using Net banking saw a 3.3 times year-on-year growth. In Q2 of FY22, digital transactions constituted 72% of the total payment related transactions, a strong improvement from 56% in the corresponding quarter of FY21.



At the end of Q2 FY22, the Bank had 13 lakh customers registered on digital platform. An increase of 5 lakh compared to Q2-FY21. Out of these customers 9.2 lakh and 8.8 lakh customers are registered on IB&MB and UPI respectively

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

d. Financial highlights for Q2 of FY 2021-22

Some of the key achievements made for quarter ended September 30 2021 were as follows:

Key Highlights	Description
Customer base	• Total outreach: 59.7 lakh in September 2021 (58.2 lakh in June 2021, 59.2 lakh in March 2021, 56.6 lakh in December 2020, 55.3 lakh in September 2020)
Loan Portfolio	• Gross Advances at Rs. 14,51,418 lakh in September 2021 (Rs. 14,03,708 lakh in June 2021 ,Rs. 15,13,996 lakh in March 2021, Rs. 13,63,838 lakh in December 2020, Rs.13,88,970 lakh in September 2020) • Non-Microfinance book at: 33.62% in September 2021 (31.52% in June 2021, 28.21% in March 2021, 26.83% in December 2020, 24.20% in September 2020)
Deposit Balance	• Total Deposits (Retail plus Institutional): Rs 14,08,953 lakh in September 2021 (Rs. 13,67,287 lakh in June 2021, Rs. 13,13,577 lakh in March 2021, Rs. 11,61,700 lakh in December 2020, Rs. 10,742,77 lakh in September 2020; Rs. 11,05,748 lakh in June 2020) • CASA: 22.49% in September 2021 (20.30% in June 2021, 20.55% in March 2021, 17.69% in December 2020, 16.08% in September 2020)
Portfolio Quality	• Gross Non-Performing Assets (GNPA): 11.8% in September 2021 (9.8% in June, 2021 7.1% in March 2021, 0.96% in December 2020, 1.0% in September 2020) • Net Non-Performing Assets (NNPA): 3.3% in September 2021 (2.7% in June, 2021, 2.9% in March 2021 , 0.05% in December 2020, 0.18%

	in June 2020, 0.1% in September, 2020)
Employee strength	• 16,251 in September 2021 (16,102 in June, 2021, 16,571 in March 2021, 16,733 in December 2020, 17,018 in September 2020)
Profitability	• PAT for Q2 FY 2021-22: Rs. (27,379) lakh; Rs 830 lakh for FY 2020-21 (Rs. 34,992 lakh in FY 2019-20)

	September 2020	December 2020	March 2021	June 2021	September 2021
Quarterly PAT (Rs. in lakh)	9,600	(27,883)	13,649	(23,348)	(27,379)

The key performance ratios of the Bank were as follows:

Particulars	Sep-20	Dec-20[10]	Mar-21 (Qtr. Ended)	Jun-21	Sep-21
Yield	19.8%	18.6%	15.7%	16.0%	16.3%
Cost of Funds	7.4%	7.1%	6.8%	6.5%	6.3%
Net Interest Margin	10.2%	9.7%	7.9%	8.0%	8.1%
Return on Assets (ROA)	2.0%	-5.6%	2.7%	-4.7%	-5.6%
Return on Equity (ROE)	11.6%	-34.7%	17.3%	-30.1%	-34.2%
Cost to Income ratio	56.8%	62.0%	67.3%	64.8%	83.8%
Other income/ Total Income	7.6%	12.7%	16.0%	10.2%	6.8%

Note: Bad debt recovery has been netted of with credit cost for all quarters as reported in audited H1 FY22 financials

The impact of the second wave on the Bank's asset quality was reflected on the financial performance for quarter ended September 2021. Yield on advances has registered a marginal increase over June 2021 on account of better disbursements (~Rs. 3,12,200 lakh in Q2). It is however assuring to observe that the monthly disbursement trends have registered a consistent improvement post second-wave and is expected to be at pre-pandemic levels in Q3 which should bolseter the yield.

The increased credit provisioning costs during the quarter resulted in the Bank posting a loss of Rs. 27,379 lakh. This has negatively exarcerbated the ROA and ROE indicators and also

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[10] Figures year ended

increased the Cost to Income ratio (reduction in overall income). The Bank has maintained the floating provision of Rs. 25,000 lakh which was created in June 2021 in September 2021 and has not utilized the same for the stress in its asset book. The non-utilization of floating provisions resulted in a sharp dip in profitability in Q2 as the Bank had to book the additional credit costs from its P&L. With the Bank armed with a Floating Provision buffer of Rs. 25,000 lakh, it is well poised to withstand any future adverse changes to the external environment (eg: a potential third wave). At an opportune moment and with approval from the Regulator, the Bank will seek to utilize the floating provisions against Non-Performing Assets.

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

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.1,72,831.42 lakh, having 1,72,83,14,205 shares of face value Rs.10 each as at September 30, 2021.

The licensing guidelines for SFBs permit the aggregate foreign investment in a private sector bank from all sources up to a maximum of 74% of the paid-up capital (automatic up to 49% and approval route beyond 49% to 74%). As foreign shareholding in the Bank was 0.82% (Foreign Portfolio investors (FPI), Non Residential Indians (NRI)) at September 30, 2021, the Bank was compliant with RBI guidelines on SFBs. Further, in compliance with the licensing guidelines, UFSL, the Holding Company, is registered as an NBFC-Non-Deposit-Taking Systemically Important - Core Investment Company – (NBFC-ND-SI-CIC) with RBI and is the non-operating holding company.

5.1.1.2. Promoter contribution[11]:

As at September 2021, the promoter contribution in the Bank was 83.32% with the holding company being the largest shareholder. As per RBI guidelines, the promoter shareholding is required to be brought down to 40% within a period of five years from the date of commencement of business. The promoter's minimum contribution is also subject to a lock-in for a period of five years during this period.

The Bank has initiated the process of reverse-merger with its holding company to meet the above mentioned criteria. To this effect, the Boards of both the Bank and Holding company have approved the scheme for amalgamation in its meeting dated October 30, 2021. As directed by RBI, the scheme for amalgamation was also submitted to the Regualtor three months prior to completing the five years timeline.

The Bank expects various regulatory approvals from RBI, SEBI and stock exchanges in the ensuing quarter. Post obtaining approvals ,the Bank will initiate the necessary formalities such as approvals from National Company Law Tribunal (NCLT), shareholders and creditors of the Bank. Post approval from NCLT, the Bank will initiate processes relating to finaization of record date, approval from Registrar of Companies (ROC), issue of shares etc. The entire

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

process is expected to completed within a time-frame of 12-15 months.

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

Category of the Shareholder	No. of shares held	%age of shareholding
Promoter	1,44,00,36,800*	83.32
Mutual Funds	1,67,114	0.01
AIFs	1,28,90,729	0.75
Foreign portfolio investors	21,87,162	0.13
Resident Individuals/HUF	24,37,05,017	14.10
Others	2,93,27,383	1.70
Total	**1,72,83,14,205**	**100**

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

Capital Structure- Summary of Tier I & Tier II Capital			
Sl. No.	**Instrument**	**Whether Tier I or II**	**Amount (Rs. in Lakh)**
1	Equity[12]	Tier 1	1,72,831
2	PNCPS[13]	Tier II	20,000
	Total		**1,92,831**

5.1.2 <u>Details of PNCPS instruments</u>

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

The claims of the investors in the instruments are:

a Superior to the claims of investors in equity shares;

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

c Is neither secured nor covered by a guarantee of the issuer nor related entity or

[12] Issued and Paid up equity capital

[13] Perpetual Non-cumulative Preference Shares

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

other arrangement that legally or economically enhances the seniority of the claim vis-à-vis Bank creditors.

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

5.1.3. Subordinated Debt Instrument

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

5.1.4. Dividend policy

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

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

Given setbacks from the second wave and potential threats from other unusual external events, it is crucial that the Bank remains resilient and proactively raise and conserve capital as a bulwark against unexpected losses. Therefore, while RBI guidelines[14] allowed certain relaxations on payment of dividend on equity shares, the Bank did not declare any dividends on its equity shares or preference shares as at September 30, 2021 as the Bank posted a loss for the quarter.

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

6. Table DF- 3: Capital Adequacy

6.1 Qualitative Disclosures

The Bank has been well capitalized since inception and was further augmented after its IPO. As required by RBI in its operating guidelines to SFBs[15], 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 Approach (BIA) for Operational Risk.

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

The implementation of Net Stable Funding Ratio (NSFR) is now applicable for Banks with effect from October 1, 2021, post multiple rounds of deferment. The Bank has however submitted its NSFR estimates to the Regulator[16] for quarter ended June 2021 as directed.

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[15] 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

[16] RBI had sought the NSFR estimates for academic and review of preparedness purposes for quarter ended June 2021. The same was submitted to RBI.

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

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

Credit Risk	Underestimation of Credit Risk (Under ICAAP framework)
Market Risk	Reputational Risk
Operational Risk	Strategic Risk
Interest Rate Risk in Banking Book (IRRBB)	Compliance Risk
Liquidity Risk	People Risk
Concentration Risk	Digital and Technology Risk
Outsourcing Risk	Group Risk[17]

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

6.2 <u>Quantitative Disclosures</u>

<u>6.2.1. Basel II capital calculation</u>

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

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

Rs. in lakh

	Description	Amount
	Core Equity Tier 1 Capital - Instruments and Reserves	
	Directly issued qualifying common share capital plus related stock surplus (share premium)	1,72,831
	Retained earnings	75,817
A	CET1 capital before regulatory adjustments	2,48,648
	Core Equity Tier 1 Capital - Regulatory Adjustments	
	Deferred tax assets arising from temporary differences	38,203
	Intangibles (Prepaid Expenses & Computer Software)	13,003
	Credit Enhancements	0
	Regulatory Adjustments applied to CET1 Capital due to insufficient funds in Tier 2 to cover deductions	0
B	Total regulatory adjustments to CET1 Capital	51,205
C	**CET1 capital (A-B)**	**1,97,443**
	Additional Tier 1 Capital - Instruments and Reserves	
	Preference Shares	20,000
E	AT1 capital before regulatory adjustments	20,000
	Additional Tier 1 Capital - Regulatory Adjustments	
F	Total regulatory adjustments to AT1 Capital	-
G	AT1 Capital	20,000
H	**Tier 1 Capital (C + G)**	2,17,443.00
	Tier 2 Capital - Instruments and Provisions	
	Sub - debt eligible as Tier 2 capital	0
	General Provisions on Std. Assets admissible as Tier 2	13,103
	Investment Fluctuation Reserve	2,051
I	Tier 2 Capital before regulatory adjustments	15,155
	Tier 2 Capital - Regulatory Adjustments	
J	Total Regulatory Adjustments to Tier 2 Capital	-
K	Tier 2 Capital (I - J)	15,155

L	**Total Regulatory Capital (H + K)**	**2,32,598**

6.2.2. Credit Risk RWA

The detailed break up of Credit RWA is as follows:

Rs. in lakh

Asset Description	RWA
Cash and Balances with Reserve Bank of India	0
Balances with Banks and Money at Call and Short Notice	16,763.60
Investments	12.53
Advances	9,77,314.89
Fixed Assets	15,176.79
Other Assets	30,425.70
Off Balance Sheet	8,578.33
Total Credit RWA	**10,48,271.83**

6.2.3. Operational Risk RWA

Although RBI has not mandated SFBs to maintain capital charge for Operational Risk, the Bank has adopted Basic Indicator Approach (BIA) for measuring the capital requirements for Operational risk as applicable to Scheduled Commercial Banks. The Bank has computed its Operational Risk Capital Charge at 15% of the average of gross income for the past three completed years of operation. Under BIA, the Bank has to consider Gross Income of previous three Financial Years for computation. Therefore, Capital Charge for Operational Risk will remain same as of Mar-21 even for subsequent quarters of FY 2021-22.

The detailed computation is as follows:

Rs. in lakh

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

6.2.4. Market Risk RWA

As at September 30, 2021, the AFS[18] book consisted of Treasury Bills, Certificates of Deposit (CDs) and the HFT[19] book consisted of T-bills and Government of India securities. On the basis of SDA[20], the capital requirement for market risk reported to the Board from a governance perspective was as under:

Rs. in lakh

Capital Requirement for Market Risk	**Amount**
Interest Rate Risk	81
Equity Position Risk	24
Foreign Exchange Risk	--
Total	105
Total Market Risk RWA	**1,316**

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

Rs. in lakh

Particulars	**Amount/Ratio(Only Credit RWA)**	**Amount/ Ratio (all Pillar 1 risks)**
Tier I Capital	2,17,443.00	2,17,443.00
Tier II Capital	15,155	15,155
Total Capital	**2,32,598**	**2,32,598**
Total RWA	**10,48,272**	**13,81,310**
CET Ratio	18.84%	14.29%
Tier I Ratio	20.74%	15.74%
Tier II Ratio	1.45%	1.10%
CRAR	**22.19%**	**16.84%**

Capital Requirements for Various Risks		
Sl.No	**Capital Requirements for various Risks**	**Amount (Rs. in Lakh)**
A	**Credit Risk**	1,57,241
A.1	For non-sec portfolio	1,57,241
A.2	For Securitized portfolio	NIL
B	**Market Risk**	**105**
B.1	For Interest Rate Risk	81

[18] Available for Sale

[19] Held for Trading

[20] Standardized Duration Approach

B.2	For Equity Risk	24
B.3	For Forex Risk (including gold)	NIL
B.4	For Commodities Risk	NIL
B.5	For Options risk	NIL
C	**Operational Risk**	**26,538**
D	**Total Capital Requirement**	**1,83,884**
E	**Total Risk Weighted Assets**	**13,81,310**
F	**Total capital funds of the bank**	**2,32,598**
G	**Capital Adequacy Ratio of the Bank (%)**	**16.84%**

The Bank registered a loss of Rs. 27,379 lakh for Q2 FY 2021-22 and the RWA increased to Rs. 10,48,272 lakh in Q1, which when combined has resulted in a decreased CRAR.The Bank is however comfortably placed in meeting its minimum capital requirements of 15% as per Operating Guidelines for Small Finance Banks. Based on projected capital requirements under the ICAAP, the Bank's Board has approved to augment its capital position vide issue of equity shares through the Qualified Institutional Placement (QIP) route in Q1 of FY 2022-23 (i.e. by quarter ended June 2022)

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

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

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

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

The Board sets concentration ceilings which are monitored by the respective credit verticals and by the independent credit risk department. The Risk Management department reviews the exposure level under each dimension and ensures that the portfolio profile meets the approved concentration limits. These concentration ceilings and exposure levels are periodically reported to the Credit Risk Management Committee (CRMC) and the Risk Management Committee of the Board (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 ~66% of the loan book as at September 30, 2021, the Bank has always deemed it appropriate to follow a conservative approach to its provisioning through accelerated rates.

To give effect to Resolution Framework (RF 1.0 and RF 2.0) guidelines issued by RBI, the Bank put in place a Board approved policy for restructuring and resolution framework for COVID 19 related stressed assets. The policy included aspects such as the eligibility criterion for restructuring, asset classification and provisioning norms, conditions for reversal in provisions and asset classification, approach for restructuring at a vertical level, delegation of power/authority and disclosure requirements. The restructuring of borrowers was invoked within timelines stipulated i.e. September 30, 2021 and implemented well within the time-limit of December 2021.

The outstanding balance in the restructured book (both RF 1.0 and RF 2.0 combined after factoring rundowns) was Rs. 1,48,000 lakh as at September 2021. The restructuring was undertaken through provisoin of EMI holidays and reduction of EMI through extension of tenor.

The collection rates in the NDA buckets[21] have improved significantly post July 2021 and are expected to reach pre-pandemic levels by December 2021. The new book (i.e. sourced from April 2021 onwards) is exhibiting excellent collection performance (in excess of 99%).

The restructured book has registered instances of delinquencies indicating sub-optimal performance over its success. Various internal surveys and feedback from customers show that the impact of the pandemic has adversely affected the income generating capacity of the borrowers. Borrowers have indicated a combination of reasons encompassing business disruptions, loss of lives and increased medical expenses as individually or collectively affecting their ability to restart their livelihoods and that servicing the debt burden was difficult. The additional interest servicing due to restructuring was observed to be exarcerbating the already stressed repayment ability.

The relatively lower collection rates observed in the restructured book have resulted in some borrowers missing their revised EMI dues and therefore are classified as SMA or NPA as per the DPD category. Further, as per the IRACP guidelines, the provisioning for restructured NPA borrrowers must be undertaken at a rate computed from the original due date prior to restructuring. This resulted in borrowers 'jumping the DPD buckets' wherein provisioning sharply increased from 10% (when classified as standard) to 50%/75% (when classified as NPA as due dates now include the due dates prior to restrcuturing) and therefore resulting in a sharp increase in credit costs.

To address the same, the Bank created a floating provision amounting to Rs. 25, 000 lakh in quarter ended June 2021. The Floating provisions enhance the Provision Coverage Ratio (PCR) maintained for NPA borrowers. As at September 2021, the total book coverage was 10.37% and PCR was 75%. The Bank takes comfort in maintaining a high provision coverage for its stressed assets. Furthermore, the floating provisions buffer (Rs. 25,000 lakh) and the capital adequacy buffer (CRAR is 22.19% against required rate of 15%) is expected to protect the Bank against any future contingencies.

7.1.5 Credit Risk Monitoring:

7.1.5.1 Micro finance portfolio

The Bank undertakes portfolio monitoring on a periodic basis with specific focus on key portfolio triggers. The Bank has defined quantitative trigger limits with respect to early delinquency rates, On Time Repayment Rates (OTRR) and spurt in business growth. Any exception to the internally defined thresholds is reviewed by the Chief Credit Officer (CCrO). The Bank monitors the health of its Microbanking portfolio at branch level through its

[21] No Dues Accounts (NDA)

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

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

The Bank has also chalked out a state wise recovery plan to identify problem states with respect to collections. Where collections are observed to be improved, incremental business is sourced from those states.

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

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

The scorecards implemented for the Individual Loan (IL) loans will be used in decisioning and linked to Risk Based Pricing with effect from October 1, 2021.

7.1.5.2 Housing and Micro and Small Enterprises (MSE) portfolios

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

The Bank has also introduced an Early Warning System (EWS) at an account level for enhanced monitoring. This framework enables the Bank to monitor a borrower’s internal/external repayment record and signs of overleveraging efficiently on an on-going basis. Prior to the pandemic, the Bank had launched this framework on a pilot basis encompassing 1,000 accounts each in MSE and Housing. This framework has however been put on hold on account of the pandemic and the Bank has made changes to its EWS mechanism by solely relying on external bureau-based triggers monitored on a real time basis.

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. The scorecards implemented for MSE and Housing loans will be used in decisioning and linked to Risk Based Pricing with effect from October 1, 2021.

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

The Bank monitors the portfolio performance of other business verticals on a monthly basis. Business, Credit and Risk functions monitor these verticals on key indicators such as logins, turnaround time, ticket size, sanctioned versus disbursement, product performance, PAR and NPA trends etc. Risk department undertakes an independent assessment of the same and submits its findings to the CRMC for further action.

The Bank has developed a statistical scorecard for Personal Loans and an Expert Judgement scorecard for its vehicle loans portfolio. While these scorecards are expected to be used in decisioning making with effect from October 1, 2021, the linkage to Risk Based Pricing can only be undertaken after these scorecards are statistically validated.

The Bank assesses Early Warnings for monitoring FIG loans on a regular basis. For Personal Loans and Vehicle loans, the Bank has subscribed to various bureau reports to provide daily data on changes in credit scores, changes in residential and communication details and increase/decrease in leverage as part of monitoring activities.

The Internal Audit Department also evaluates the adequacy and effectiveness of processes 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 various product programs and credit policies.

7.1.5. Audit

The Bank is subject to have an independent **Internal Audit** department (IAD) under Governance norms mandated by the Reserve Bank of India (RBI). The Audit Department of the Bank complies to the latest RBI circular on Risk Based Internal Audit (RBIA) Framework – Strengthening Governance arrangements dated 07 January 2021. All the staff having requisite skills to audit all areas of the Bank with areas of knowledge and desired skills in Banking Operation, Accounting, Information Technology, Data Analytics and Forensic Investigation etc. The internal audit function and its functionaries are responsible and:

- Accountable and report only to the Board through the Audit Committee of Board (ACB);
- Independent of auditable activities i.e., have no responsibilities related to the first line of defence, the second line of defence and the vigilance function;
- Audit all activities undertaken by the first line of defence, the second line of defence and the vigilance function;
- IAD follows the approach, 'RBIA is not auditing the Risks but auditing the management of Risks'.

The IAD has its own Audit Policy and Manual approved by the Board. These are annually reviewed and ensured that Regulatory expectations are met. These documents are presented to ACB for their approval. The Internal Audit process in the Bank complements the risk management and monitoring tool as the third line of defence. The IAD has five Audit verticals where in the RBIA approach is now established. As a control function it is always striving for improvement in functional knowledge of its staff and works to support the Bank in strengthening the control environment. The audit activities by Department are explained below:

a. **Branch Audit:** The audit is performed at the operational branches covering Liability and assets business, including Banking Correspondents. IAD has internally developed Risk Control Matrices and assesses the residual risks at the Branches. The Department follows a quantitative and qualitative risk assessment for each and every branch audit. This helps the operating and senior management to take appropriate mitigation on the identified risks.
b. **Credit Audit:** The audit of lending activity covers all the assets, products, process and credit risk department, which enumerates the risks in aggregation. This approach assesses the root cause and focused mitigation plan. Apart from these the thematic audit on Credit Risk management is also planned as per internal risk assessment and periodic RBI advisories. The risk identification, measurement and mitigation from sourcing to monitoring and collection of asset accounts results in continuous improvisation.
c. **Central Function:** Largely focus on all HO functions/departments, second line of defence, vigilance function and all liability operations. The RBIA approach is in accordance with ICAI and IIA.US standards. This encompasses the Governance, Risk Management and Control (GRC) approach in each and every audit and internal review.
d. **IS Audit:** Assessment of application level risks, IT infrastructure (Network, Operating systems, Database), IT processes / Operations and IT governance to assure information assets are protected and security risk is mitigated, are covered in this audit activity and / or Integrated audit activities wherein, the IT controls are

reviewed, as part of an end-to-end coverage of business process along with General IS controls.

e. **Concurrent Audit:** As per RBI guidelines on Concurrent Audit System in Commercial Banks, Concurrent audit at branches should cover at least 50% of the advances and 50% of deposits of a bank. In addition to these, there are specific branches/verticals which fall under the ambit of concurrent audit as per the RBI guidelines.

The Bank has put in place a Board approved separate Concurrent Audit Policy. On September 18, 2019, RBI has revised guidelines on Concurrent Audit and has advised to follow the Risk based approach in Concurrent Audit. The Concurrent Audit Policy of the Bank is aligned to RBI and approved from ACB in February 2021. The Branch identification and implementation of Concurrent Audit activity is also now Risk Based in accordance with approach prescribed by RBI. Accordingly, the IAD identified the Branches that contributed more than 50% of Bank's business covered under concurrent audit. In FY 2021-22, along with other control environment attributes, 167 branches contributing 60% of Bank's business are covered in Concurrent Audit.

Additionally, few critical processes like Payments and Treasury function, Data Centre and Disaster Recovery Centres are also covered under Concurrent Audit.

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

7.1 Quantitative Disclosures

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

Rs. in lakh

Vertical	OSB	Provisions	% Share
Microbanking (includes Rural Banking)	9,63,456	1,30,532	66.38%
Housing	2,32,539	6,555	16.02%
MSE	1,43,449	10,523	9.88%
Personal Loan	18,204	1,319	1.25%
Vehicle Loan	11,660	600	0.80%
Institutional Lending	75,840	819	5.23%
Staff Loans	2,931	17	0.20%
Loans against deposit	5,574	30	0.38%

Less adjustments	2,235[22]	-	0.15%
Total	**14,51,418**	**1,50,393**	**100.00%**

The total provision held as at September 30, 2021 was Rs. 1,50,393 lakh excluding floating provision.

7.2.1 Exposure summary: Facility type

Exposure Type	Domestic (Rs. in Lakh)	Overseas
Fund- Based exposure	19,50,755	--
Non- Fund Based Exposure*	34,631	--
Total	**19,85,386**	**--**

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

7.2.2 Geographic Distribution of advances (State-wise)

Rs. in lakh

States	Total Advances (in Lakh)	% Share
Assam	25,452	1.75%
Bihar	87,093	6.00%
Chandigarh	2,636	0.18%
Chhattisgarh	7,076	0.49%
Delhi	58,716	4.05%
Goa	960	0.07%
Gujarat	1,23,818	8.53%
Haryana	68,618	4.73%
Himachal Pradesh	1,573	0.11%
Jharkhand	29,256	2.02%
Karnataka	2,02,576	13.96%
Kerala	22,212	1.53%
Madhya Pradesh	21,499	1.48%
Maharashtra	1,44,170	9.93%
Meghalaya	1,450	0.10%
Odisha	36,269	2.50%
Pondicherry	9,842	0.68%
Punjab	32,833	2.26%
Rajasthan	61,197	4.22%

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

Tamil Nadu	2,32,667	16.03%
Tripura	16,728	1.15%
Uttar Pradesh	68,108	4.69%
Uttarakhand	6,393	0.44%
West Bengal	1,90,275	13.11%
Grand Total	14,51,418	

7.2.3 Advances distribution by activity

Rs. in lakh

Sl. No	Categories	Disbursements during the Quarter		Outstanding at the end of the Quarter		
		No. of A/cs	Amount disbursed	No. of A/cs	No. of beneficiaries	Balance O/s
1	**Priority Sector (I+II+III+IV+V+VI+VII+VIII+IX)**	473583	2,25,353.64	3494559	3494515	10,03,800.84
I	Agriculture (IA+IB+IC+ID)	173321	76,397.26	1387137	1387107	2,20,086.51
II	MSMEs (i)+(ii)+(iii)+(iv)+(v)	227	5,668.17	1557	1557	1,41,920.08
III	Export Credit	0	-	0	0	-
IV	Education	0	-	0	0	-
V	Housing	19423	33,784.94	161305	161293	2,15,608.87
VI	Renewable Energy	0	-	0	0	-
VII	Social Infrastructure	0	-	0	0	-
VIII	'Others' category under Priority Sector	473583	2,25,353.64	3494559	3494515	10,03,800.84
IX	Net PSLC	173321	76,397.26	1387137	1387107	2,20,086.51
3	**Non-Priority Sector Loans (I+II+III+IV+V)**	227	5,668.17	1557	1557	1,41,920.08
I	Agriculture	0	-	0	0	-
	Out of Agriculture, Loans against Negotiable Warehouse Receipts (NWRs)	0	-	0	0	-
II	Education Loans	0	-	0	0	-
III	Housing Loans	1321	13,783.75	14188	14174	1,00,670.96
IV	Personal Loans under Non-Priority Sector	2064	3,809.67	13763	13763	19,628.48

V	Other Non-Priority Sector Loans	64063	41,419.14	488108	488054	3,27,783.41
4	**Total Loans (1+3)**	541031	2,84,366.20	4010675	4010563	14,51,895.02

7.2.1 Priority Sector Lending (PSL) Compliance

The licensing conditions for SFBs require that PSL composition of a bank's asset book is a minimum of 75% of the total portfolio. Further, the overall PSL achievement of 75% should be maintained as at end of the year and not mandatory at the end of every quarter. The Bank calculates surplus/deficit as provided in Annex IV of the circular RBI/FIDD/2020-21/72 Master Directions FIDD.CO.Plan.BC.5/04.09.01/2020-21 dated 04.09.2020.

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[23] of corresponding quarter of the previous year.

The ANBC as on the corresponding date of the preceding year i.e. 30st September 2020 was Rs. 13,86,133 lakh. The Priority Sector lending was maintained at 72.42% as a percentage of ANBC for quarter ended September 30, 2021. The summary of compliance to PSL norms is as follows:

Sl. No.	Sector wise achievements	Effective ANBC	Total Outstanding	% Achievement
1	Overall PSL	13,86,133.00	10,03,800.84	72.42
2	Agriculture	13,86,133.00	2,20,086.51	15.88
3	Small and Marginal Farmers	13,86,133.00	2,10,934.46	15.22
4	Non - Corporate Farmers	13,86,133.00	2,20,086.51	15.88
5	Micro Enterprises	13,86,133.00	1,36,388.01	9.84
6	Weaker Sections	13,86,133.00	3,50,003.03	25.25

The average PSL maintained on YTD basis is 72.42 %. Alternatively, the average of quarterly achievements (in %) is 66.97%. The details of the calculations are as below:

Rs. in lakh

Particulars	Q1	Q2
Gross PSL	9,70,007.51	8,90,700.84
PSLC (as until quarter)	115000	113100 (Purchase)
Net PSL - (x)	8,55,007.51	10,03,800.84
ANBC	13,89,807.13	13,86,133.00
Target (75% of ANBC) - (y)	10,42,400	10,39,599.75
Achievement (Net PSL upon ANBC) for the quarter [QPSA]	61.52%	72.42%
Surplus/Deficit (in lakhs) (x)-(y)	(1,87,393)	(35,800)
Average Surplus (in Lakhs year till date)	(1,87,393)	(1,11,597)

During the quarter, the Bank purchased PSLC- Micro amouting to ~Rs. 1,13,100 lakh to augment its PSL compliance. Given that the requirement to maintain PSL above 75% is as at year end, the Bank intends to monitor the PSL position as at December 2021 and accordingly take decisions for purchase of PSLC, if warranted to meet the requirement.

7.2.4 Maturity pattern of assets and liabilities

Rs. in lakh

Buckets	Loans and advances	Investments	Deposits	Borrowings
Day – 1	197	0	8070	12917
2-7 Days	14643	0	20845	0
8-14 Days	23644	0	31608	114
15-30 Days	27797	0	21762	0
31 Days and up to 2 months	70548	0	74964	114
Over 2 months and up to 3 months	68856	0	83009	2780
Over 3 Months and up to 6 months	199472	12962	261121	27530
Over 6 Months and up to 1 year	304109	0	412440	45166
Over 1 Year and up to 3 years	263259	29363	475027	79098
Over 3 Year and up to 5 years	162467	33725	19459	0
Over 5 years	213676	220775	647	0

Total	**13,48,667**	**2,96,825**	**1408953**	**167719**

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

Category of Gross NPA	September 2020	December 2020	March 2021	June 2021	September 2021
Sub-standard	7,671	3,799	83,232	1,36,765	1,69,900
Doubtful	4,972	8,089	4,947	728	1,297
Loss	966	1,171	18,881	6	69
Total	**13,609**	**13,058**	**1,07,060**	**1,37,498**	**1,71,266**

	September 2020	December 2020	March 2021	June 2021	September 2021
Net NPA	1,908	640	42,458	59,870	68,514

NPA Ratios	September 2020	December 2020	March 2021	June 2021	September 2021
Gross NPA to Gross Advances	0.98%	0.96%	7.07%	9.80%	11.80%
Net NPA to Net Advances	0.14%	0.05%	2.93%	4.51%	3.29%

The Gross Non-Performing Assets have registered a sharp increase as at September 30, 2021 due to stress observed in the performance of the restructured book in Q2.

7.2.5 Movement of Net NPAs

Particulars	Jun-20	Sept-20	Dec-20	Mar-21	Jun-21	Sept-21
Opening Balance	2,749	2,749	2,749	2,749	42,458	42,458
Additions during the period	312	869	920	42,994	34,880	62,067
Reductions during the period	551	1,711	3,029	3,285	17,465	36,011
Closing Balance	**2,510**	**1,908**	**640**	**42,458**	**34,873**	**43,514**

7.2.6 Key Risk factors affecting the credit portfolio and strategy

7.2.6.1 Microfinance and Rural banking

The Microfinance and Rural banking portfolio, which was affected by the pandemic adversely, has registered recovery during the quarter. This was evidenced in the composite collection rates where it was observed to be reaching almost pre-pandemic levels.

Collection efficiency for MB & RB, for Sep'21 was at **89%**. This has **improved by 1%** as compared to the collection efficiency for Aug'21 **(88%)**

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

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

7.2.6.2 MSE[24]

As at September 30 2021, there were 14,222 MSE accounts. During the quarter, the Bank had constituted a special task force with focused attention on the unsecured MSE portfolio to ensure that slippages are contained. New case log-ins have been above pre-Covid levels with more focus on semi-formal and formal segments.

Loan Against Property (LAP- SENP- SEP) constitutes 45.12% of the total MSE portfolio with 7,241 accounts amounting to Rs. 64,127 lakh.

Unsecured Overdraft (Progcap partnership) was launched during the year for the purpose of tapping opportunities in financing consumer durable lending. The book has exhibited

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

satisfactory performance.

. Overall PAR and product level PAR has reduced in September to 21.15% as compared to 26.58% in July largely due to restructuring.

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

Vertical	September 2021
Secured MSE	88%
Unsecured MSE	57%

It is pertinent to note that the Bank has discontinued offering unsecured MSE loans[25]. The Bank has fully provided for borrowers in this residual portfolio. Collection rates exhibited is not a true indicator of performance.

Secured MSE	SMA0	SMA1	SMA2	NPA	NDA
September 2021	86%	78%	59%	36%	98%

Unsecured MSE	SMA0	SMA1	SMA2	NPA	NDA
September 2021	62%	64%	40%	30%	95%

MSE Navnirman Loans (ECLGS scheme) were launched in FY 2020-21 to provide immediate financial assistance to borrowers affected by the pandemic. There are 1,651 Navnirman accounts, amounting to Rs. 5,445 lakhs. The Bank had also launched a scheme for Loan against Rent Receivables (LARR) in September 2020. As at September 30, 2021, there were 16 accounts in LARR amounting to Rs. 317 lakhs. LARR was specifically targeted at the owners of the Bank's branch premises, who can avail loans against the property rented to the Bank. The Bank has established the necessary systems and processes for the launch of new offerings such as loans under the CTGMSE credit guarantee scheme.

On the COVID restructuring front, the exercise was completed in 501 accounts amounting to Rs. 6,608 lakhs, as at September 30 2021.

The Bank has focused on process improvements for its MSE vertical. These improvement measures are intended to improve the turnaround time in the end to end process of origination till disbursement.

7.2.6.3 Affordable Housing

As at September 30, 2021, there were 27,743 Secured Housing Loan (SHL) borrowers with a total book of Rs. 2, 31,651 lakh**.** Q1 of FY 2021-22 witnessed a steady collection efficiency percentage. The Bank expedited legal processes to aid collection in the case of NPA

[25] Product variants of Unsecured Business Loan (UBL) and Unsercured Enterprise Loans (UEL)

accounts.

The composite collection efficiency in Housing borrowers was as follows:

Vertical	September 2021
Housing Loans	94%

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

Housing Loans	SMA0	SMA1	SMA2	NPA	NDA
September 2021	86%	83%	70%	40%	99%

PAR 30+ was 9.68% in July and 8.95% in September 2021. PAR 90+ was 5.23% in July, and 5.76% in September. Home Equity loan has the highest PAR of 16.87% across all product schemes and the same constituted 27.52% of the total portfolio.

7.2.6.4 Personal loans

There were 10,502 borrowers with a total book of Rs. 18,008 lakh. PAR30+ was 11.03%, and PAR 90+ was 9.72%.

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

Vertical	September 2021
Personal Loans	89%

Personal Loans	SMA0	SMA1	SMA2	NPA	NDA
September 2021	72%	67%	43%	22%	99%

Collections have registered an improvement in Q2 across all buckets in Personal Loans.

7.2.6.5 Institutional Lending

As at September 30 2021, there were 36 borrowers amounting to Rs. 75,840 lakh. The Institutional Lending portfolio was well balanced with individual peak exposure of Rs. 10,000 lakh. Given the continuing stress in the NBFC sector which was exacerbated by the COVID 19 pandemic, the Bank has reviewed its FIG policy and has introduced additional control measures in the areas of exposure caps, monitoring of financial covenants (Capital Adequacy Ratio, GNPA, NNPA, Debt/Equity ratio as stipulated in sanction letter), monitoring of CA certified receivables statement received from borrowers and has enhanced the EWS mechanism. The Bank is also actively monitoring the developments in one case which is classified as NPA. Collection efficiency for this vertical has consistently been at 100% (without including the NPA exposure) .

7.2.6.6 Vehicle Loans

There were 17,481 Vehicle Loan borrowers with a total book of Rs. 11,962 lakh. The Bank has launched digital LOS for two-wheeler products in FY21, and scaled it to 100% in Q1FY22. The composite collection efficiency in Vehicle loan borrowers, for the quarter, was as follows:

Vertical	September 2021
Vehicle Loans	91%

Since the majority of the portfolio comprise of Two-Wheeler Loans with a share of 93.5% of the total portfolio , to diversify and reach a good customer mix, the Bank has launched new products like Electric Two-wheeler Loans, which is considered to be an emerging product in the industry. This segment would be processed only for Income based funding cases.

As a business strategy to “go-green”, the Bank has launched Electric Cargo segment as well, considering the on-going demands in supply chain. Electric Three-wheeler passenger segment still remains discontinued as the PAR remains high.

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

Rs. in lakh

Particulars (On YTD basis)	September 2020	December 2020	March 2021	June 2021	September 2021
Opening Balance	10,965	10,965	10,965	64,601	64,601
Provisions made during the period	1,532	2,549	61,424	48,818	78,318
Write back of excess provisions	795	1,096	7,787	28,794	40,168
Closing Balance	**11,702**	**12,418**	**64,601**	**77,625**	**1,02,751**

7.2.8 Provision Coverage Ratio (PCR)

Rs. in lakh

Category	OSB	Provisions	% Share	GNPA	Provisions	Floating provisions	PCR%
MBRB	9,63,456	1,30,532	66.38%	1,38,712	88,206	23,500	81%
Housing	2,32,539	6,555	16.02%	13,955	4,916		35%
MSE	1,43,449	10,523	9.88%	17,555	7,164	1,500	49%
Personal Loans	18,204	1,319	1.25%	1,936	1236		64%
Vehicle Loans	11,660	600	0.80%	871	491		56%
FIG	75,840	819	5.23%	464	442		95%

Staff Loans	2,931	17	0.20%	5	2		52%
Loans against deposits	5,574	30	0.38%	4	2		46%
Less adjustments	2,235	-	0.15%	2237	292		13%
Total	**14,51,418**	**1,50,393**	**100.00%**	**1,71,265**	**1,02,751**	**25,000**	**75%**

For quarter ended September 2021, the Bank created a floating provision of Rs. 25,000 lakh to cover for a major portion of stress expected in the ensuing quarter. As per RBI guidelines, after factoring the floating provisions, the Bank maintained a PCR% of 75% at Bank level.

7.2.9 Non-performing Investments (NPI)

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

7.2.10 Movement of provisions for depreciation on investments

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

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 September 30, 2021, the Bank had a residual outstanding of “grandfathered” loans which comprised 0.09% of its funding book. As per regulatory guidelines, there was an additional risk weight of 25% assigned to this portfolio.

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

f. On 12th October 2020[26], RBI issued directions for revision in limit for risk weight under the Regulatory Retail portfolio. RBI has now decided that the limit of Rs. 500 lakh for aggregated retail exposure to counterparty shall stand increased to Rs. 750 lakh from the date of this circular. The risk weight of 75 per cent will apply to all fresh exposures and also to existing exposures where incremental exposure may be taken by the banks up to the revised limit of Rs. 750 lakh. The Bank takes cognizance of the same and these were incorporated for all loans sanctioned after the date of issuance of this circular.

8.2. Quantitative Disclosures

Details of Gross Credit Risk Exposure (Fund based and Non-fund based) based on Risk Weight – Position as on September 30 2021		
Sl. No.	**Risk Weight**	**Rs. in lakh**
1	Below 100% Risk Weight	17,12,556
2	100% Risk Weight	3,76,886
3	More than 100% Risk Weight	12
4	Deductions from CRM[27]	-1,04,069
5	**Total**	**19,85,386**

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

9.1. Qualitative Disclosure

- The Group Loan and Individual Loan portfolio, under microfinance is unsecured. Loans to the Affordable Housing segment are collateralized by a mortgage over the property financed. There are primarily secured product variants under MSE loans.. The residual book of unsecured loans[28] is being run down and is expected to be fully repaid in the ensuing financial year.The Bank has discontinued unsecured loans in its MSE vertical. Loans to Financial Institutions are secured by a charge over book debts which are registered with CERSAI. All Personal Loans are extended on a clean basis; Vehicle loans are collateralised by a charge over the vehicle financed. Gold Loans are secured with the maximum Loan to Value (LTV) being offered at 70% on the value of the

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

[27] Credit Risk Mitigants (Provision against NPA)

[28] Unsecured Business Loans and Unsecured Enterprise Loans

ornaments/jewel proposed to be pledged.

- The Bank accepts Eligible Financial Collateral[29] 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[30] while computing its Risk Weighted Assets (RWA).

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

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

10.1. <u>Qualitative Disclosure</u>

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

[29] 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

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

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

11.1. Qualitative Disclosures

11.1.1. Market Risk

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

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

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

Investments: The Bank has a Board approved policy to make investments in both SLR and Non SLR securities. The Bank had investments in the following instruments: Government of India securities (G Sec), Treasury Bills (T Bills), State Development Loans (SDL), Separate Trading of Registered Interest and Principal of Securities (STRIPS) and one legacy investment in an unquoted equity. The Bank had also made a token investment in a New Umbrella Entity (NUE) in association with National Payment Corporation of India (NPCI). As on September 30, 2021, the investment holdings in various SLR and Non SLR instruments were as under:

Rs. in lakh

Instrument	Book Value	Market Value	Appreciation / Depreciation
SLR			
G Sec	1,89,776	1,89,291	(485)
SDL	90,118	90,227	109
STRIPS	7,501	7,518	17
T Bills	9,420	9,420	0
TOTAL	**2,96,815**	**2,96,455**	**(359)**

Non SLR			
CP	0	0	0
Legacy investment (unquoted Equity)	10.02	18.02	8.00
TOTAL	**10.02**	**18.02**	**8.00**

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

Rs. in lakh

Month (in Rs. lakhs)	**Average SLR requirement**	**Average SLR maintenance**	**Average SLR requirement maintained as a % of NDTL**
July – 2021	2,39,528	3,76,749	28.31%
Aug – 2021	2,43,516	3,86,835	28.59%
Sept– 2021	2,44,869	3,50,356	25.75%

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

The investment in non SLR securities is mainly for short term cash deployment and for investment income. During the period under review, the Bank had made Non SLR investments in unquoted equity and token investment in an NUE. This unquoted equity investment in the share of M/s Alpha Microfinance for Rs 10.02 lakh, is a legacy investment of the Bank and was acquired from the parent company as per a Business Transfer Agreement (BTA) entered into at the time of launch of the Bank. All the Non SLR investments were categorized as part of the Available for Sale (AFS) portfolio.

Trading: The Bank had commenced trading in Government of India security in FY 2020-21, in a calibrated manner through its HFT portfolio. While the Bank had initially commenced trading on an intraday basis only, it has now graduated to keeping open positions on an overnight basis as well. Open positions taken by the Bank are progressively being stepped up with the required controls. The trading limits in the form of duration limits, PV01 limits, trading book limit, exposure limits and Value at Risk (VaR) are monitored regularly by the Middle Office. Any instance of breach in limits is brought to the notice of stakeholders and remedial measures taken.

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

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

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

Liquidity Risk Management is governed as per the provisions of the ALM policy. The ALM position for the Bank was well managed and regulatory thresholds complied with during the quarter. The Bank has various avenues to leverage upon 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 had positive cash flows in the maturity buckets in the 1-30 days' maturity, over and above the regulatory minimum, as at September 30, 2021.

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

<table>
<tr><th>Risk Measurement</th><th>Description</th><th>Position for Q2 FY 2021-22</th></tr>
<tr><td>Cash Flow measurement and gap limits</td><td>Technique involving a comprehensive tracking of mismatches between outflows and inflows for balance sheet as well as off balance sheet items across different time buckets. The Bank computes the cash flow mismatches using Structural Liquidity Statement (‘SLS’). Under SLS, cash flows of assets, liabilities and off-balance sheet items are placed in different time bands based on the residual maturity or based on expected behaviour as per RBI / internal guidelines. The difference between cash inflows and outflows in any given time period measures the bank’s liquidity surplus or deficit in that time period.</td><td>As at September 30 2021, the Bank maintained a positive cumulative mismatch indicating surplus liquidity. The cumulative mismatch limits were well within the RBI mandated limits and also within the conservative limits as set internally by the Bank. The position for the first four buckets for which the Regulator has mandated minimum thresholds were as follows:
<table>
<tr><th>Bucket</th><th>RBI threshold</th><th>Cumulative Mismatch</th></tr>
<tr><td>Day 1</td><td>-5%</td><td>85.05%</td></tr>
<tr><td>2-7 days</td><td>-10%</td><td>101.67%</td></tr>
<tr><td>8-14 days</td><td>-15%</td><td>83.58%</td></tr>
<tr><td>15.30 days</td><td>-20%</td><td>77.83%</td></tr>
</table>
The bucketing of cash flows as per the maturity buckets is guided by regulatory guidelines and as per ALCO directives.</td></tr>
<tr><td>Behavioural analysis</td><td>Banks are required to analyse the behavioural maturity profile of various components of on / off-balance sheet items on the basis of assumptions and trend analysis supported by time series analysis.</td><td>During the year, the Bank has undertaken a behavioural study on CASA outflow and the same has been placed to ALCO for further directions. Given the relative short vintage of the Bank, it was deemed appropriate to further refine the assumptions and dataset before deploying these models for bucketing.
Presently, the Bank follows the RBI guidelines on bucketing assumptions until significant</td></tr>
</table>

		historical data is available for conducting behavioural studies. After ensuring the availability of data, the Bank will conduct behavioural studies to appropriately bucket products with non-deterministic cash flows.
Limits on borrowing and lending/investment	Bank monitors limits prescribed by the Regulator with respect to borrowing and lending in the interbank market.	During the quarter, the Bank was within the prescribed limits for interbank lending, call money borrowing/lending, SGL limits and HTM holding limit.
Liquidity ratios	Liquidity ratios under stock approach as prescribed by the Regulator are monitored	The liquidity ratios under stock approach were computed and placed to ALCO for their noting.
Stress Testing	The Bank undertakes stress tests on their Liquidity Coverage Ratio (LCR) and Interest rate risks.	During the quarter, the LCR was above the minimum thresholds under all levels of stress. Further, the impact of interest rate risk and its impact on the market value of equity were also below the regulatory limit of 20%.
Funding gap analysis	The Bank estimates its short-term liquidity profiles on the basis of business projections and other commitments for planning purposes	On a monthly basis, the Bank undertakes a detailed analysis on the projected funding requirement for its subsequent month on the basis of business projections and other commitments. This exercise essentially includes inputs on credit and deposit activities encompassing projected disbursements, collections and deposit mobilization. The Bank has ensured adequate liquidity to meet its commitments during the quarter.

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

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

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

Net Stable Funding Ratio (NSFR): 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. Further, the Regulator has decided to defer the implementation of NSFR guidelines[31] by a further period of six months. These guidelines were to come into effect from April 1, 2021. However, the same has again been deferred by a further period of six months[32]. Accordingly, the NSFR Guidelines shall come into effect from October 1, 2021.

11.2. <u>Quantitative Disclosures</u>

11.2.1. Liquidity Coverage Ratio (LCR)

			Liquidity Cover
Date	**Quarterly Average**		***INR lakhs***
A	**High Quality Liquid Assets**	**Amount**	**Adjusted Amount**
	Level 1 Assets	3,53,807	3,53,807
	Level 2 A Assets	-	-
	Level 2 B Assets	-	-
B	**Total Stock of HQLAs (Adjusted for Capital)**		3,53,807
C	**Cash Outflows**	10,15,012	3,11,334
D	**Cash Inflows**	2,09,634	64,096
E	**Net Cash flow**		2,47,238
F	**25% of Total Cash Outflow**		77,833
G	**Higher of E or F**		2,47,238
	Liquidity Coverage Ratio		**143.10%**

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

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

12. Table DF- 9: Operational Risk

12.1. Qualitative Disclosures

12.1.1. Operational Risk Management Policy and Governance Structure

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

For effective management of Operational Risk, the Bank has constituted an Operational Risk Management Committee (ORMC) chaired by MD & CEO 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 enhancements) are subject to a mandatory comprehensive review by the Operational Risk department. For Process related approvals, PrAC (Process Approval Committee) has been constituted in the month of February 2021 which mandates Operational Risk to convene the meeting at defined frequency. Accordingly, processes which are presented in the Committee are circulated in advance to all the PrAC members for review and approval. From Operational Risk, post review observations are raised to the respective functions for including additional controls for the risks identified during the assessment. Subsequent to closure, the new/enhanced processes are placed at the PrAC for approval. The Bank continuously reviews and enhances its key processes to adapt to industry best practices. ORMD has reviewed 75 process / products, till Q2 FY22. Few of them are Value dating policy, Video KYC PD, Credit life SOP for TPP, Framework for review and monitoring of internal office account, Engagement with Spice money, Change in KYC guideline SOP and MOI for NR accounts etc.

- **UAT Testing** (including BRD and FSD): For any change management/ automation of products and processes, the department owners prepare the Business Requirement Document (BRD). The BRD is reviewed by key control and business functions for further improvements. Subsequently, the same is provided to the IT department within the Bank. The IT department then prepares the Functional Specification Document (FSD) detailing the scope of the project. Once the project is moved to testing stage, Operational Risk department performs the User Acceptance Testing (UAT) along with others to identify gaps in the actual deliverable versus that which was proposed in the BRD. These gaps are further addressed and closed before moving to production. During the quarter, 83 BRD's and FSD's have been reviewed and UAT for 90 various activities such as Account opening revamp project, Classic SA Product, FIG Collections/ CC account, ORACLE EBIZ - CBS Integration for Payments, Age validation for Privilege Scheme in HHD assisted app, Restructuring of MSE and Housing loan, Escrow account and collection account 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 into known as well as potential Operational Risk areas in various process / business lines. Business being the first line of defence is responsible for carrying out RCSA activity as per the plan. Operational Risk being second line of defence is responsible for providing necessary guidance, training and inputs to the first line of defence for carrying out the RCSA. Accordingly, RCSA framework was approved in ORMC Apr'21 and till Q2 FY22, 6 RCSAs have been completed for 6 functions viz., Liabilities, Service Quality, Collections, Operations, Micro Banking and TPP by conducting a workshop with critical team members of the function. It is also planned to further complete RCSAs for 6 functions in the FY22.There is a time bound plan to close the open issues as observed during RCSA and an update is provided to ORMC and RMC-Board at regular intervals.
- **Key Risk Indicators**: During the quarter **29 KRIs** were monitored at an organization level as part of the Operational Risk Management Framework. 11 new KRI's were introduced May'21 onwards. The thresholds for the KRIs have been decided upon in consultation with the stakeholders. These KRIs will be analysed on a monthly basis and a comprehensive report will be submitted to the ORMC and Board at quarterly intervals with action plan for closure of open issues. KRIs for the period March 2021 to June 2021, were presented to the ORMC held in July'21 and were presented to the Board in June'21. In addition to Organizational KRIs, Functional KRIs for Liabilities were monitored for the period April 2021 to June 2021 and presented to ORMC held in July'21. The Bank is also in the process of enhancing the existing risk monitoring framework by defining Functional KRIs for other key Functions for better monitoring. It is planned to Introduce KRIs for 2 functions in Q3 FY22 and for 4 functions by

March’22. Red KRIs which breached thresholds were discussed with stakeholders and actionable was presented in ORMC.

- **Loss Data Management** is in place to record material incidents and learn from errors and strengthening existing controls. Incidents are recorded as operational loss and near miss events. This is followed by a Root Cause Analysis (RCA) for critical incidents. EGRC module in SAS is implemented to record all loss events across the Bank. Significantly, the efforts of the Operational Risk team have resulted in greater reporting of operational risk incidents from the branches. The Bank has created a separate General Ledger Code (GLC) to record losses (separate for fraud and non-fraud) on account of these incidents and these are reported to the Board at quarterly intervals. The Bank encourages its personnel to report incidents in an unbiased manner without fear for retribution. The incident reporting process enables creation of loss database as per Basel definitions. The activities broadly include the following:
    - Reconciliation of General Ledgers (GL) to operational loss as recorded in SAS
    - Root Cause Analysis (RCA) of critical events
    - Quarterly loss data submission to Board

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

Loss Dashboard for YTD FY 21-22 (*as on Aug’21*):

	Count			LOSS in lakh			
Event Type	**H1 FY20-21**	**YTD *Aug’21***		**YTD FY 21-22 (as on *Aug’ 21)***			**H1 FY20-21**
	Total	**Loss**	**Total**	**Gross**	**Net**	**Ops Loss**	**Ops Loss**
Business Disruption and Systems Failures	**126**	65	**67**	₹ 24.60	₹ 3.31	₹ 0.79	**₹ 4.52**
Clients, Products, and Business Practice	**7**	18	**18**	₹ 7.37	₹ 3.92	₹ 0.39	**₹ 0.63**
Damage to Physical Assets	**59**	25	**25**	₹ 6.65	₹ 6.65	₹ 0.00	**₹ 0.00**
Employment Practices and Workplace Safety	**5**		**4**	₹ 0.00	₹ 0.00	₹ 0.00	**₹ 0.00**
Execution, Delivery, and Process Management	**142**	83	**109**	₹ 112.01	₹ 24.86	₹ 6.42	**₹ 1.50**
External Fraud	**273**	234	**248**	₹ 68.81	₹ 49.58	₹ 16.62	**₹ 18.59**
Internal Fraud	**54**	130	**130**	₹ 183.57	₹ 63.10	₹ 39.57	**₹ 21.52**

Total	**666**	**555**	**601**		**₹ 403.01**	**₹151.42**	**₹ 63.79**	**₹ 46.76**

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

- **Thematic reviews:** While carrying out RCSA, KRIs, UAT testing, incident reporting etc., Operational Risk team identifies few risk indicators warranting a special thematic review of the entire process. This enables the Bank to identify issues and gaps at minute level which are then taken up for rectification. These thematic reviews do not follow standardized risk identification techniques and therefore provide wider scope for a deeper and customized study of issues and gaps. Such thematic studies have enabled the Bank to further refine its existing processes and plug gaps that had been identified.
- **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. Till Q2 FY22, User access review had commenced and work is in progress for Br.Net, Finacle, E-kuber. User access review has been completed for Finacle Treasury application. Operational Risk team has drafted a Policy on User access review covering all the critical aspects of User life cycle starting from activation to de-activation of ID's, Review Frequency, Process to be followed for managing vendor ID's, Process to be followed for user de-activation on exit from organisation.

  Operational Risk team has initiated a request with individual business teams who manage the applications to have a comprehensive SOP for each of the applications managed by them with role based access given in system and approval matrix to be followed. Final draft note has been circulated to PrAC (Process Approval Committee) members for Trucel, Glow and SMELO and approved for Rupee power application and it is proposed to initiate preparation of SOP for other verticals as well who are managing applications viz., Br.Net, CRM Next etc.
- **Exceptions Handling Mechanism** is a new initiative, which started from July 2020 as guided by NIDC (National Inter Departmental Committee). A list of 27 exception reports was identified and tagged to Operational Risk for initiating the review. 24 exception reports are currently reviewed on a quarterly basis and gaps identified are discussed with relevant stake holders for needful action. All observations have been circulated to relevant stake holders and corrective action has been initiated. In addition to existing list of reports, there are 5 more exceptions which are planned to be tracked by Operational Risk and report development is in progress.
- **RCU process:** The Bank has established a monitoring mechanism for identifying and rectifying instances of suspicious customers doing banking business. On a monthly basis, Vigilance department undertakes RCU check from a sampling of liability customers. The outcome of the RCU check provides a commentary on the customer profile. For all cases identified as 'negative', the Operational Risk department undertakes a special review in consultation with branch personnel and recommends

corrections. For customers who are found to be negative after the rectification measures, exit strategies from customers are explored. This mechanism has enabled the Bank to avoid undertaking business relationships with potential anti-social members of society. 3179 accounts have been sampled by RCU in FY 21-22 (on YTD basis) out of which 408 accounts were finally tagged as Negative. The identification exercise for more triggers from this sample set will be undertaken in the ensuing quarter. Additionally, 6519 accounts have been reviewed basis undelivered deliverable post account opening in FY 21-22, out of which 4979 accounts have been finally tagged as negative till end of October'21. Account Freeze process has been initiated for all the final negative cases as per the new RCU Process after serving adequate notices to the customers.

- **Digital Account Monitoring:** The Bank re-launched Digital SA (Savings Accounts) and TD (Term Deposits) in the month of May 2020 with enhanced monitoring measures around the product. 34499 Digital accounts have been opened till 30th September 2021 since the re-launch. Each account is being eyeballed by the Operational Risk team and a total of 11790 accounts have been identified with some or the other eyeballing related observations till end of September'21. All observations with respect to demographic details have been shared with business for onwards corrective measures. As a process, Operational Risk team has also been monitoring the transactions done in all digital accounts every fortnight, basis certain pre-defined triggers around value, fraud and velocity. Around 2301 accounts with suspected transaction patterns have been referred to Vigilance and Compliance team for onwards investigation and action till September'21. Additionally, review around common address, email id, match with accounts where regulatory notices are sent etc. is also performed on a regular basis and triggers with respect to close to 2300 digital accounts have been shared with Vigilance and business for onwards action.
- **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. Remote monitoring is the process of checking, verification and identification of process lapse and other operational errors without visiting the Branch, by working from remote locations. Critical and repeat observations are shared with the leadership team for remedial /corrective actions. Revised checklist was implemented from May 2021 post presenting the same in ORMC. Till 30th September 2021, Operational Risk has reviewed 182 branches which is nearly 76% of the total branches that is proposed to be covered this financial year. The plan is to cover 240 branches through remote monitoring in the current financial year.

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

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

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

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

  Annual review of material vendors: Operational Risk team along with CISO's team carries out annual risk review of material vendors.

  Outsourcing done by the Bank is subjected to an annual audit by the Internal Audit team who provide the required compliance certificate to RBI. Annual review of 7 empanelled BCs was completed during Aug-Sept'21.

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

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

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

Bank reviews BCMP policy and plan documents annually and enhances the documents as per the changes made in the Bank's Business Critical processes and activities. Bank also conducts periodic BCP testing considering various Disruptive scenarios which helps to identify the gaps in recovering and resuming the Business Critical processes after the disruptive events. On an ongoing basis, BCP testing for branches which are selected randomly is conducted to ensure that the recovery process becomes more robust and efficient to recover from any disaster / crisis situations. The BCP test results of branches, IT, CTS, and Payments along with their respective observations and recommendations are placed before the ORMC and Risk Management Committee of the Board at every quarter. These learnings are documented in the respective Business Continuity Plan documents and the same are placed to RMCB. Till Q2 FY22, 106 planned BCPs and 125 unplanned BCPs were conducted. BCP testing was done for Treasury department which was successful and for Phone Banking departments which was partially successful due to connectivity issue and work is in progress to fix the issue noticed during BCP and it is proposed to re-initiate BCP for Phone Banking department in this Quarter. Business Impact Analysis is completed for Liabilities, Treasury, Phone Banking, Regional office and HR functions of the Bank.

Internal Financial Control (IFC) testing: This is an annual exercise and done by the Operational Risk team. The team along with concerned stakeholders prepare and enhance Risk and Control Matrixes (RCMs). The financial and operational controls in these RCMs are then put to test by collecting samples from across the review period and from different regions, which are then evaluated for success or failure of the control effectiveness. The critical gaps observed during such testing are discussed with concerned functions for upgrading controls which may include automation of the controls. The result of this evaluation is also presented to ORMC and RMC of Board to update them on effectiveness of the internal controls of the Bank, and take guidance. This result is also shared with the Bank's external auditor to provide insight on adequacy and effectiveness of the controls in the Bank. The IFC testing is also mandatory requirement as per Companies Act, 2013. IFC testing for the previous financial year has been completed and an update on the same was presented to ORMC held in the month of July'21. IFC Framework was also enhanced and approved by ORMC held in the month of July'21. IFC testing for FY22 commenced in the month of Aug'21. RCM enhancement is under progress for 12 departments. Testing will be initiated post receipt of RCM sign-off from Heads of the departments.

12.1.3. Information Technology and Security Risk

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

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

The Bank has well-documented, Board approved policies which are enhanced periodically with current security standards.

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

The Bank has enhanced the monitoring capacity by creating use cases to have better alerting on the SIEM (Security Information Event Management) system and further action taken by the Security Operations Centre (SOC). This is intended to avoid any potential delays in detection and response to the Cyber-Attacks.

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

The Bank was subjected to **Information Technology Examination** in the month of April 2021 by the Regulator. The focus of the examination was to assess the cyber security risk in the Bank by examining in detail the cyber security and resilience framework as implemented by the Bank in terms of RBI guidelines on Cyber Security Framework in Banks. The assessment covered IT governance, Information Security, IS/IT audit, regulatory reporting systems, BCP/DR aspects, IT operations, Digital products, IT related outsourcing and extent of IT risk in Operational Risk Management. Bank has already closed 70% of the findings and is in the process of closing the remaining in a time bound manner.

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

13.1. Qualitative Disclosures

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

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

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

13.2. Quantitative Disclosures

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

Interest Rate Risk in the Banking Book (IRRBB)			
Sl. No.	**Country**	**Interest Rate Shock**	
		+200 bps shock	**-200 bps shock**
1	India	(13,210)	13,210
2	Overseas	-	-
		(13,210)	13,210

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

Category	Items	Amount
A	Equity	2,68,313
B	Computation of Aggregate RSA	16,53,467

C	Computation of Aggregate RSL	18,59,576
D	Weighted Avg. MD of RSL across all currencies	0.97
E	Weighted Avg. MD of RSA across all currencies	2.26
F	MDG	1.40
G	Change in MVE as % of equity for 200bps change in interest rate	-19.47%
H	**Change in MVE in absolute terms**	**(52,240.48)**

14. Table DF-13: Main features of Regulatory capital Instruments

Equity shares

Disclosure template for main features of regulatory capital instruments		
		Equity Shares
1	Issuer	Ujjivan Small Finance Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	ISIN: INE551W01018
3	Governing law(s) of the instrument	Applicable Indian Statutes and regulatory requirements
	Regulatory treatment	
4	Transitional Basel III rules	Common equity Tier 1
5	Post-transitional Basel III rules	Common equity Tier 1
6	Eligible at solo/group/ group & solo	Solo
7	Instrument type	Common Shares
8	Amount recognised in regulatory capital (Rs. in lakh, as of most recent reporting date)	Rs. 1,72,831.42 lakh
9	Par value of instrument	Rs 10/-
10	Accounting classification	Capital
11	Original date of issuance	• Rs 0.50 million – 4th July 2016 • Rs 1099.868 Million – 30th July 2016 • Rs 13,300 Million - 10th February 2017 • Rs. 140.55 Million- 11th November 2019 • Rs. 714.29 Million- 13th November 2019 • Rs. 2,027.03 Million- 10th December 2019

		• Rs. 0.03 Million- 07th November 2020 • Rs. 0.02 Million- 19th January 2021 • Rs. 0.04 Million- 15th February 2021 • Rs. 0.004 Million- 15th March 2021
12	Perpetual or dated	Perpetual
13	Original maturity date	No Maturity date
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable	NA
	Coupons / dividends	Dividend
17	Fixed or floating dividend/coupon	NA
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Non-Cumulative
23	Convertible or non-convertible	NA
24	If convertible, conversion trigger(s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	No
31	If write-down, write-down trigger(s)	NA
32	If write-down, full or partial	NA
34	If temporary write-down, description of write-up mechanism	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Secured Term Loan Borrowings , Creditors of the Bank and Depositors

36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	NA

During April - March 2021, the Bank made the following allotments:

Date of issue and allotment	Method of allotment	Face value (Rs.)	Issue price (Rs.)	Number of equity shares allotted
November 07, 2020	Employee Stock Purchase Scheme	10	35	29,069
January 19, 2021	Employee Stock Option Plan	10	35	20,298
February 15, 2021	Employee Stock Option Plan	10	35	37,229
March 15, 2021	Employee Stock Option Plan	10	35	4,440
Total				91,036

PNCPS

Disclosure template for main features of regulatory capital instruments		
		Preference Shares
1	Issuer	Ujjivan Small Finance Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	INE551W04012
3	Governing law(s) of the instrument	Applicable Indian Statutes & Regulatory requirements and RBI Basel III Guidelines dated July 1, 2015
	Regulatory treatment	
4	Transitional Basel III rules	Addition Tier 1 Capital (AT1)
5	Post-transitional Basel III rules	Addition Tier 1 Capital (AT1)
6	Eligible at solo/group/ group & solo	Solo
7	Instrument type	Perpetual Non-Cumulative Preference shares
8	Amount recognised in regulatory capital (Rs. in million, as of most recent reporting date)	Rs 2,000 Million
9	Par value of instrument	Rs 10/-
10	Accounting classification	Capital
11	Original date of issuance	10th February 2017

12	Perpetual or dated	Perpetual
13	Original maturity date	No Maturity date
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	10th February 2022
16	Subsequent call dates, if applicable	NIL
	Coupons / dividends	Dividend
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	11.0%
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	NIL
22	Noncumulative or cumulative	Non-Cumulative
23	Convertible or non-convertible	Non-Convertible
24	If convertible, conversion trigger(s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	Yes
31	If write-down, write-down trigger(s)	PONV trigger & CET1 trigger
32	If write-down, full or partial	Full and Partial
34	If temporary write-down, description of write-up mechanism	The Issuer shall: 1. Notify holders of preference Shares 2. Cancel any dividend accrued and un paid to as on write down date 3 Without the need for the consent of holders of the PNCPS, write down the face value of the PNCPS by such

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

15. Table DF-14: Terms and conditions of Regulatory Capital Instruments

Equity Shares

Full Terms and Conditions of Equity Shares of the Bank		
SN	**Particulars**	**Full Terms and Conditions**
1	Voting shares	Equity Shares of the Bank are Voting Shares
2	Limits on Voting Shares	Limits on Voting rights are applicable as per provisions of the Banking Regulation Act, 1949. One share has one voting right
3	Position in Subordination hierarchy	Represent the most Subordinated claim on liquidation of the Bank. It is not secured or guaranteed by issuer or related entity nor subject to any other arrangement that legally or economically enhances the seniority of the claim
4	Perpetuity	Principal is perpetual and never repaid outside of liquidation (Except discretionary repurchases/buy backs or other means of effectively reducing capital in a discretionary manner that is allowable under relevant law as

		well as guidelines, if any issued by RBI in the matter)
5	Accounting Classification	The paid up amount is classified as Equity Capital in Banks Balance Sheet
6	Distributions	Distributions are paid out of Distributable items (retained earnings included). There are no circumstances under which distributions are obligatory. Non Payment is therefore not an event of default
7	Approval for Issuance	Paid up capital is only issued with approval given by Board of Directors

PNCPS

SN	Particulars	Full Terms and Conditions
1	Type of Instrument	Perpetual Non-Cumulative Preference Shares
2	Terms for Raising PNCPS	Issue of PNCPS for augmenting the overall capital of the Issuer to strengthen the Issuer's capital adequacy and enhance its long-term resources in compliance with the applicable law.
3	Seniority	The claims in respect of the PNCPS, subject to applicable law, will rank: 1. Superior to claims of holders of equity shares and 2. Subordinate to the claims of all depositors, term loan borrowings, all capital instruments qualifying as tier II capital and all perpetual debt instruments
4	Listing	Unlisted.
5	Tenor	The PNCPS shall be perpetual i.e. there is no maturity date and there are no step-ups or any other incentives to redeem the PNCPS.
6	Dividend Payment Frequency	Subject to Dividend Limitation and Loss Absorption, dividend will be payable as per the discretion of the Bank's Board. The Board is empowered to (i) Declare Interim Dividend during the financial year (ii) Declare for subsequent financial years (including interim dividends) or (iii) Declare dividend during the period between the end of the financial year and before conducting the AGM.

7	Dividend Rate	11% per annum or at a rate as specified in terms of RBI Master Circular on Basel III capital regulations
8	Dividend Stopper	In the event that the Preference shareholders are not paid dividend at the Dividend Rate, there shall be no payment of discretionary dividend on equity shares until the Dividend payments to the shareholders are made in accordance with terms hereof.
9	Put Option	Not Applicable.
10	Call Option	**Issuer call:** The Issuer may at its sole discretion, subject conditions for Call and Repurchase and exercise of such call option (with a notification to the holders of the PNCPS which shall specify the date fixed for exercise of the call option), exercise a call option on the PNCPS ("Issuer Call"). The Issuer Call may be exercised at the option of the Issuer no earlier than on the fifth anniversary of the Deemed Date of Allotment.
		Tax Call: If a Tax Event has occurred and is continuing, the Issuer may at its sole discretion, subject to Conditions for Call and Repurchase and notification to the holders of PNCPS of not less than 21calendar days prior to the date of exercise of such call option (which notification shall specify the date fixed for exercise of the call option), exercise a call option on the PNCPS ("Tax Call").Provided further that, subject to conditions for Call and Repurchase the Issuer may substitute the PNCPS with capital instruments that are in accordance with the RBI Master Circular on Basel III capital regulations and any other applicable law
		Regulatory Call: If a Regulatory Event has occurred and is continuing, the Issuer may at its sole discretion, subject to Conditions for Call and Repurchase and notification to the holders of PNCPS of not less than 21 calendar days prior to the date of exercise of such call option (which notification shall specify the date fixed for exercise of the call option), exercise a call option on the outstanding PNCPS ("Regulatory Call").Provided further that, subject to Condition 27 (Conditions for Call and Repurchase) the Issuer may substitute the PNCPS with capital instruments that are in accordance with the RBI Master Circular on Basel III capital regulations and any other applicable law.
11	Repurchase/ Redemption/ Buy-back	The Issuer may subject to Conditions for Call and Repurchase having been satisfied and such repayment being permitted by the RBI Master Circular on Basel III capital regulations, repay the PNCPS by way of repurchase, buy-back or redemption.

12	Loss Absorption	PNCPS should have principal loss absorption through a write-down mechanism which allocates losses to the instrument at a pre-specified trigger point. The write-down will have the following effects: 1. Reduce the claim of the PNCPS in case of liquidation; 2. Reduce the amount re-paid when a call over the PNCPS is exercised by the Issuer; and 3. Partially or fully reduce dividend payments on the PNCPS. The specific criteria for such loss absorption through conversion/write-down/write-off on breach of pre-specified trigger and the Point of Non-Viability (PONV) will be in accordance with the applicable RBI guidelines The relevant terms of Annex 16 in Master Circular of Basel III capital regulations shall be deemed to be incorporated herein.
13	Permanent Principal Write-down on PONV Trigger Event	If a PONV Trigger Event occurs, the Issuer shall: 1.Notify the holders of the PNCPS; 2.cancel any dividend which is accrued and unpaid on the PNCPS as on the write-down date; and 3. Without the need for the consent of the holders of the PNCPS, write down the outstanding principal of the PNCPS by such amount as may be prescribed by RBI ("**PONV Write Down Amount**") and subject as is otherwise required by the RBI at the relevant time. The Issuer will affect a write-down within 30 (thirty) days (or such other time as may be prescribed by applicable law) of the PONV Write-Down Amount being determined by the RBI.A Permanent Principal Write-down on PONV Trigger Event may occur on more than one occasion. Unless specifically permitted by applicable law, once the face value of the PNCPS has been written down pursuant to PONV Trigger Event, the PONV Write-Down Amount will not be restored in any circumstances, including where the PONV Trigger Event has ceased to continue.
14	Temporary principal Write-down on CET1 Trigger Event	If a CET1 Trigger Event (as described below) occurs, the Issuer shall: 1.Notify the holders of the PNCPS; 2. Cancel any dividend which is accrued and unpaid to as on the write-down date; 3. Without the need for the consent of holders of the PNCPS, write down the face value of the PNCPS by such amount as the Issuer may

		in its absolute discretion decide. Provided that, in no event shall such amount of write down be less than the amount required to immediately return the Issuer's Common Equity Tier 1 Ratio to above the CET1 Trigger Event Threshold , nor shall such amount of write down exceed the amount which would be required to be written down to ensure that the Common Equity Tier 1 Ratio is equal to the aggregate of the CET1 Trigger Event Threshold and 2.5%, or such other percentage as may be prescribed by the RBI (the "CET1 Write Down Amount"). A write-down may occur on more than one occasion. Once the value of a PNCPS has been written down pursuant to this temporary Write down, the value of the PNCPS may only be restored in accordance with condition of reinstatement.

16. Table DF-15: Disclosure on Remuneration

18.1. Remuneration - Qualitative disclosures

a. ***Information relating to the bodies that oversee remuneration. Disclosure should include:***

• Name, composition and mandate of the main body overseeing remuneration.

Name: Nomination and Remuneration Committee

Composition of Nomination and Remuneration Committee as on September 30, 2021:

Sr. No.	Name of director	Designation/Category
1.	Mr. Ravichandran Venkataraman	Chairperson -Independent Director
2.	Mr. Banavar Anantharamaiah Prabhakar	Member-Independent Director
3.	Mr. Rajesh Kumar Jogi	Member - Independent Director
4.	Mr. Samit Kumar Ghosh	Member- Director (Non-Executive, Non-Independent)
5.	Ms. Sudha Suresh	Member- Director (Non-Executive, Non-Independent)

6.	Mr. Prabal Kumar Sen	Member - Independent Director

Following are the main terms of reference of the Committee:

1. Formulating the criteria for determining qualifications, positive attributes and independence of a director and recommend to the Board of directors a policy, relating to the remuneration of the directors, key managerial personnel and other employees.

   The Nomination and Remuneration Committee, while formulating the above policy, ensures that:

   (i) the level and composition of remuneration be reasonable and sufficient to attract, retain and motivate directors of the quality required to run our Bank successfully;

   (ii) relationship of remuneration to performance is clear and meets appropriate performance benchmarks; and

   (iii) Remuneration to directors, key managerial personnel and senior management involves a balance between fixed and incentive pay reflecting short and long term performance objectives appropriate to the working of the Bank and its goals.

2. Formulating criteria for evaluation of performance of independent directors and the Board of Directors;

3. To ensure 'fit and proper' status of proposed/ existing Directors;

4. Devising a policy on diversity of Board of Directors;

5. Ensure that level and composition of remuneration is reasonable and sufficient, relationship of remuneration to performance is clear and meets appropriate performance benchmarks,

6. Identifying persons who are qualified to become directors and who may be appointed in senior management in accordance with the criteria laid down, and recommend to the Board of directors their appointment and removal and shall specify the manner for effective evaluation of performance of the Board, its committees and individual directors to be carried out either by the Board, by the NRC or by an independent external agency and review its implementation and compliance. The Bank shall disclose the remuneration policy and the evaluation criteria in its annual report;

7. Analysing, monitoring and reviewing various human resource and compensation matters;

8. Determining the Bank's policy on specific remuneration packages for executive directors including pension rights and any compensation payment, and determining remuneration packages of such directors;

9. Determining compensation levels payable to the senior management personnel and other staff (as deemed necessary), which shall be market-related, usually consisting of a fixed and variable component;

10. Determining whether to extend or continue the term of appointment of the independent director, on the basis of the report of performance evaluation of independent directors;

11. Recommending to the Board, all remuneration, in whatever form, payable to senior management;

12. Administering, monitoring and formulating detailed terms and conditions of the Employees' Stock Option Scheme of the Bank, inter-alia, including the following:

    a) Determining the eligibility of employees;

    b) The quantum of option to be granted under the Employees' Stock Option Scheme per Employee and in aggregate;

    c) The exercise price of the option granted;

    d) The conditions under which option may vest in employee and may lapse in case of termination of employment for misconduct;

    e) The exercise period within which the employee should exercise the option and that option would lapse on failure to exercise the option within the exercise period;

    f) The specified time period within which the employee shall exercise the vested option in the event of termination or resignation of an Employee;

    g) The right of an employee to exercise all the options vested in him at one time or at various points of time within the exercise period;

    h) Re-pricing of the options which are not exercised, whether or not they have been vested if stock option rendered unattractive due to fall in the Market Price of the Shares;

    i) Formulating and implementing the procedure for making a fair and reasonable adjustment to the number of options and to the exercise price in case of corporate actions such as rights issues, bonus issues, merger, sale of division and others. In this regard following shall be taken into consideration by the

Compensation Committee:

- The number and the price of stock option shall be adjusted in a manner such that total value of the Option to the Employee remains the same after the Corporate Action;
- For this purpose global best practices in this area including the procedures followed by the derivative markets in India and abroad may be considered;
- The Vesting Period and the life of the option shall be left unaltered as far as possible to protect the rights of the Employee who is granted such option;

j) The grant, vest and exercise of option in case of Employees who are on long leave;

k) Allow exercise of unvested options on such terms and conditions as it may deem fit;

l) The procedure for cashless exercise of options;

m) Forfeiture/ cancellation of options granted;

n) Framing of suitable policies and procedures to ensure that there is no violation of securities laws, as amended from time to time, by the ESOP trust, the Bank and its employees, as applicable;

o) All other issues incidental to the implementation of Employees' Stock Option Scheme; and

p) Construing and interpreting the Plan and any agreements defining the rights and obligations of the Bank and eligible employees under the Plan, and prescribing, amending and/or rescinding rules and regulations relating to the administration of the Plan.

13. Administering, monitoring and formulating detailed terms and conditions of the Employee Stock Purchase Scheme of the Bank;

14. Conducting due diligence as to the credentials of any director before his or her appointment/ re-appointment, and making appropriate recommendations to the Board, in consonance with the Dr. Ganguly Committee recommendations and the requirements of RBI;

15. To make recommendations to the Board concerning any matters relating to the continuation in office of any Director at any time including the suspension or termination of service of an Executive Director as an employee of the Bank subject to the provision of the law and their service contract;

16. Ensure that level and composition of remuneration is reasonable and sufficient, relationship of remuneration to performance is clear and meets appropriate performance benchmarks;

17. To develop a succession plan for the Board and to regularly review the plan;

18. To approve Job descriptions & KRA's of Senior Managers and Business Line Managers on an annual basis;

19. To review Performance of the senior/business line managers by NRC on an annual basis;

20. Overseeing the framing, review and implementation of the Bank's Compensation Policy for Whole Time Directors/ Chief Executive Officers / Risk Takers and Control function staff for ensuring effective alignment between remuneration and risks;

21. To recommend to the board, all remuneration, in whatever form, payable to senior management;

22. Framing suitable policies and systems to ensure that there is no violation, as amended from time to time, of any securities laws or any other applicable laws in India or overseas, including:

    1. The Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015; and
    2. The Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulations, 2003.

23. Carrying out any other function as is mandated by the Board from time to time and / or enforced/mandated by any statutory notification, amendment or modification, as may be applicable; and

24. Review regularly and approve the Bank's program for executive and employee development;

25. Review and implement the various HR policies and manual of the Bank;

26. Develop, review and approve the principles guiding the Bank's executive

	compensation philosophies; 27. Assure that the bonus plan is administered in a manner consistent with Bank's compensation principles and strategies including Bank's policies relating to executive management succession and executive organization development; and 28. Performing such other functions as may be necessary or appropriate for the performance of its duties. ***<u>External consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process.</u>*** Not Applicable ***<u>• A description of the scope of the Bank's remuneration policy (eg: by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches.</u>*** The purpose of the Compensation Policy is to ensure statutory compliance as well as alignment with the Bank's business policies and practices. The Compensation & Benefits (C & B) Policy document is based upon the principle that a fair and competitive salary is paid for acceptable levels of performance on the job. The compensation policy document is designed to align long-term interest of the employee and the organization. The policy document covers all employees and Board of Directors of the Bank. This document provides guidance on: • Compensation Philosophy • Compensation Structure • Grades • Pay Review Process • Variable Pay Plans • Salary Pay-out
	<u>A description of the type of employees covered and number of such employees.</u> All employees of the Bank are governed by the Compensation Policy. The total number of permanent employees in the Bank as on 31-Mar-2021 was 16,571.
B	***<u>Information relating to the design and structure of remuneration processes. Disclosure should include:</u>*** ***<u>• An overview of the key features and objectives of remuneration policy.</u>*** The Compensation Policy and Nomination & Remuneration Policy has been laid out keeping the following perspectives into considerations: a) Our Compensation principles should support us in achieving our mission of providing a full range of financial services to the economically active poor of India who are not adequately served (unserved and underserved) by financial institutions. Therein, this policy should support us to attract and retain talent and skills required to consolidate the organization's purpose and ideology.

	b) The pay structure and amounts shall always conform to applicable Income Tax and other similar statutes. c) All practices of Ujjivan SFB shall comply with applicable labour laws. d) The pay structure should be standardized for a level of employees. e) Elements eligible for tax exemption may be introduced at appropriate levels to enable employees take applicable tax breaks. Amounts related to certain benefits may undergo change due to change in grade/ roles/ function/ state/ region in the organization. f) The compensation structure shall be easy to understand for all levels of employees. g) The compensation policy is designed to promote meritocracy in the organization i.e. other things being equal, performers in a given role are expected to earn more than his/her peer group. h) The Bank pays the Independent Directors remuneration by way of sitting fees for attending meetings of the Board and its Committees as may be decided by the Board and, if required, approved by the Shareholders from time to time. ***Whether the remuneration committee reviewed the firm's remuneration policy during the past year, and if so, an overview of any changes that were made.*** There were no changes to the compensation policy of the Bank in FY 2020-21. ***A discussion of how the Bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee.*** The Bank periodically benchmarks its remuneration practices against the market. Compensation ranges in alignment to market pay are derived and reviewed periodically. Remuneration payable for each function is independent of amounts payable to other function as is the market practice. Further, performance metrics for the Risk and Compliance function are completely unrelated to deliverables of any other business function. The deliverables of the risk function are periodically reviewed by the Risk Committee of the Board ensuring due independence. Thus, the remuneration payable (which is linked to performance) is differentiated as well.
c.	***Description of the ways in which current and future risks are taken into account in the remuneration processes.*** • Structurally, the Control functions such as Credit, Risk and Vigilance are independent of the business functions and each other, thereby ensuring independent oversight from various aspects on the business functions. • The Bank ensures that staff engaged in financial and risk control are independent, have appropriate authority, and are compensated in a manner that is independent of the business areas they oversee and commensurate with their key role in the firm.

d.	***<u>Description of the ways in which the Bank seeks to link performance during a performance measurement period with levels of remuneration.</u>*** ***<u>• A discussion of how amounts of individual remuneration are linked to the Bank-wide and individual performance.</u>*** • The compensation policy is designed to promote meritocracy within the Bank i.e. other things being equal, performers in a given role are expected to earn more than his/her peer group. • The Bank shall, from time to time benchmark its compensation practices against identified market participants to define its pay structure and pay levels. • The merit and increments are finalized and approved by the National Human Resources Committee (NHRC) at annual intervals, basis organization's budgets and accomplishments as well as market reality. • The Bank believes in paying its employees in an equitable and fair manner basis the incumbent's Role, Personal Profile (Education/Experience etc.) as well as Performance on the Job. • Employees rated "Below Expectations" shall not be provided any increments, unless statutorily required. ***<u>• A discussion of the measures the Bank will in general implement to adjust remuneration in the event that performance metrics are weak. This should include the bank's criteria for determining 'weak' performance metrics</u>*** The Bank reviews metrics of all business units on a periodic basis and makes necessary changes to metrics to ensure satisfaction with the defined metrics and performance business outcomes across the stakeholder spectrum including investors, customers, regulator and employees. The Bank, particularly at Corporate and senior levels takes a balanced approach to performance management. High performance of an individual/ department is dependant not only on delivery of business metrics but also achievements of control functions. For e.g.: Over-achievement of business targets would not translate into a high performance rating if there are significant issues with Portfolio quality. Cost of acquisition, both in short and long term are typically evaluated to ensure healthy bottom-line.
	<u>• A discussion of the Bank's policy and criteria for adjusting deferred remuneration before vesting and (if permitted by national law) after</u> (a) The Bank shall announce payment of cash variable pay as suitable. Discretion is typically applied related to staggered pay-out in case large pay-outs, particularly for functions like Credit and Risk. Payment is prorated for employees who have worked for part of the year at Ujjivan. If there are significant developments in the year of payment (internal or external), management shall have leeway to announce a decision about pay-outs.

	(b) Ujjivan believes in the philosophy of collective ownership by its employees. Thus, Employee Stock Options of the Bank are distributed amongst employee's basis their criticality and performance from time to time, at the discretion of the management. (c) Stock option schemes at Ujjivan vest in a staggered manner. Besides the statutory requirement of grant and 1 year vesting, the total set of options vest in various tranches for up to a period of 5 years. (d) Malus/ Clawback: In the event of negative contributions of the individual towards the achievements of the Banks objectives in any year, the deferred compensation should be subjected to Malus/Clawback arrangements. Similar provisions shall apply in case the individual is found guilty of any major non-compliance or misconduct issues. (e) Directors, if appointed/ Material Risk Takers/ other employees, as planned by the Bank/ or the relevant line of business, towards achievements of the Banks objectives in any year, the deferred compensation shall be subjected to Malus/Clawback arrangements.
	Description of the different forms of variable remuneration that the bank utilizes and the rationale for using the same Variable Compensation at Ujjivan has the following distinct forms: **A - Cash Variable Pay** 1. Statutory Bonus 2. Performance Pay – Performance Bonus and Monthly Variable Pay 3. Rewards & Recognition The policy has been laid out keeping the following perspectives into considerations: • The Variable pay structure and amounts shall always conform to applicable Income Tax statutes, Labour Laws, Regulatory Requirements, any other applicable statutes and prevalent market practice. • It is designed to promote meritocracy in the organization i.e. other things being equal, performers in a given role are expected to earn more than his/her peer group. **Statutory Bonus:** Statutory Bonus in India is paid as per Payment of Bonus Act, 1965. **Monthly Variable Pay:** Employees in the Sales function, directly responsible for revenue generation shall be covered under the Monthly Variable Pay if meeting the criteria of the respective scheme. Typically some of the entry level roles and up to two or three levels of supervision thereof shall be covered. **Performance Bonus:** All employees who are not a part of any Monthly Variable Pay but part of the year end performance review will be covered under the Performance Bonus

	Plan of Ujjivan Small Finance Bank. However, the actual pay-out of performance bonus shall be paid only to employees who have met the set criteria. The Bank shall announce the payment of bonus, as suitable year on year. If there are significant developments in the year of payment (internal or external), management shall have leeway to announce a decision about bonus payment. **Rewards & Recognition:** Ujjivan shall design schemes and practices from time to time to celebrate employees / departmental / organizational success. These celebrations may include offering tokens of appreciation to employees as defined in specific schemes. Fairness of application and transparency of communication shall be the hallmark of all such schemes. These will be subject to income tax laws, as applicable. Examples of such schemes may include: Long Service Awards (currently at one, three, five, seven and ten yrs. of completion of service with Ujjivan), Functional R&R Schemes; Organizational Rewards Schemes such as: Service Champion; Process Excellence; Customer Connect Awards; Above and Beyond; etc. **B - Non-cash Variable Pay** Ujjivan believes in the philosophy of collective ownership by its employees. Thus, Employee Stock Options of the Bank are distributed amongst employee's basis their criticality and performance from time to time, at the discretion of the management. Stock options are granted based on a combination of parameters such as tenure and/or employees' performance.

17.2. Quantitative Disclosures		
Sl. No	**Quantitative Disclosures (Covers only Whole Time Directors/ CEO/Other Risk Takers[33])**	**Numbers**
1	Number of meetings held by the Nomination and Remuneration Committee during the first half financial year and remuneration paid to its members.	**Total Meeting Held:** 6 **Total sitting fee paid:** Rs. 14 lakh
2	Number of employees having received a variable remuneration award during the year.	6 employees MD & CEO, Head- Treasury, Current and Ex-Chief Credit Officer (CCO), Head - Liabilities and Head - Micro and Rural Banking.

[33] Key material risk takers are internally defined as mentioned in row 2 of the above table.

3	Number and total amount of sign-on awards made during the financial year.	Rs. 37.99 lakh[34]
4	Details of guaranteed bonus, if any, paid as joining / sign on bonus.	NIL
5	Details of severance pay, in addition to accrued benefits, if any.	Rs. 74.10 lakh (Made to Ex- MD)
6	Total amount of outstanding **deferred remuneration**, split into cash, shares and share-linked instruments and other forms.	> Cash : NIL > ESPS shares : NIL > ESOP grants : 2,54,874 MD & CEO, Head- Treasury, Chief Credit Officer (CCO), Head - Liabilities and Head - Micro & Rural Banking.
7	Total amount of deferred remuneration paid out in the financial year.	NIL
8	Breakdown of amount of remuneration awards for the financial year to show fixed and variable, deferred and non-deferred.	> Fixed gross : Rs. 491.98 lakh > Variable deferred : Rs. NIL Fixed gross of the following employees : MD & CEO, Head- Treasury, Current and Ex-Chief Credit Officer (CCO), Head - Liabilities and Head - Micro and Rural Banking.
9	Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and / or implicit adjustments.	NIL
10	Total amount of reductions during the financial year due to ex- post explicit adjustments.	NIL
11	Total amount of reductions during the financial year due to ex- post implicit adjustments.	NIL

17. 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**

[34] ESOPs basis RBI approval as sign-on grant for MD and CEO; vesting due over 2 years - 2020 and 2021.

1	Total consolidated assets as per published financial statements	14,19,243
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	4,56,012
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)	75,500
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off- balance sheet exposures)	13,041
7	Other Adjustments	-51,205
8	**Leverage ratio exposure**	19,12,590

18. Table DF 18: Leverage ratio common disclosure template

Rs. in lakh

	Table DF-18: Leverage ratio common disclosure template	
	Item	**Amount**
	On-balance sheet exposures	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	18,75,255
	Domestic Sovereign	2,96,760
	Banks in India	83,818
	Corporates	75,376
	Exposure to default fund contribution of CCPs	58
	Other Exposure to CCPs	
	Others	14,19,243
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(51,205)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	**18,24,050**
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	0
5	Add-on amounts for PFE associated with all derivatives transactions	0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	0

7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	0
8	(Exempted CCP leg of client-cleared trade exposures)	0
9	Adjusted effective notional amount of written credit derivatives	0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0
11	**Total derivative exposures (sum of lines 4 to 10)**	0
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	75,500
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0
14	CCR exposure for SFT assets	0
15	Agent transaction exposures	0
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	75,500
	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	34,631
18	(Adjustments for conversion to credit equivalent amounts)	21,590
19	**Off-balance sheet items (sum of lines 17 and 18)**	13,041
	Capital and total exposures	
20	**Tier 1 capital**	2,17,443
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	19,12,590
	Leverage ratio	
22	**Basel III leverage ratio**	**11.37%**

Presently the contribution of Tier I capital to Total Basel II capital is 93.48%. The business model of the Bank is relatively simple with a significant portion as fund-based assets. Gross advances were primarily in the nature of term loans. Since the exposure to Securities Financing Transactions (SFT) and Off Balance Items are presently low, the Leverage ratio is well above the benchmark of >4.5%.

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