



Pillar III Disclosures for year
ended June 30, 2024

2024-2025

[Ujjivan Small Finance Bank (hereinafter called “the Bank”) is primarily subject to the BASEL II {New Capital Adequacy Framework (NCAF)} framework with some elements of Basel III regulations made applicable and 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 June 30, 2024.]

Table of Contents

<i>Table of Contents</i>	2
<i>1. List of key abbreviations</i>	2
<i>2. Key Performance highlights of the Bank</i>	6
<i>3. Table DF- 1: Scope of Application</i>	14
<i>4. Table DF-2: Capital Structure</i>	15
<i>5. Table DF- 3: Capital Adequacy</i>	17
<i>6. Table DF- 4: Credit Risk: General Disclosures</i>	24
<i>7. Table DF-5: Credit Risk: Disclosures for portfolios subject to the Standardised Approach</i>	38
<i>9. Table DF-7: Securitisation Exposures: Disclosure for Standardised Approach</i>	40
<i>10. Table DF- 8: Market Risk and Liquidity Risk</i>	45
<i>11. Table DF- 9: Operational Risk</i>	49
<i>12. Table DF- 10: Interest Rate Risk in Banking Book (IRRBB)</i>	56
<i>16. Table DF-17: Summary Comparison of Accounting assets vs. Leverage ratio exposure measure</i>	57
<i>17. Table DF 18: Leverage ratio common disclosure template</i>	58

1. List of key abbreviations

Abbreviation	Full form
ACR	Automated Cash Recycler
AFS	Available for Sale
ALCO	Asset Liability Committee
ANBC	Adjusted Net Bank Credit

ATM	Automated Teller Machine
AIF	Alternate Investment Fund
BC	Business Correspondent
BIA	Basic Indicator Approach
BRACO	Business Risk and Compliance Officer
BSE	Bombay Stock Exchange
BV	Book Value
CC	Cash Credit
CASA	Current Account Savings Account
CBDR	Common But Differentiated Responsibilities (CBDR) and respective capabilities
CERSAI	Central Registry of Securitisation Asset Reconstruction and Security Interest of India
CET1	Common Equity Tier 1 Capital
CFO	Chief Financial Officer
CFP	Contingency Funding Plan
CIC	Core Investment Company
CRAR	Capital to Risk-weighted Assets Ratio
CRMC	Credit Risk Management Committee
CRO	Chief Risk Officer
DPD	Days Past Due
DSA	Direct Selling Agent
DSCB	Domestic Scheduled Commercial Bank
ECL	Expected Credit Loss
ECLGS	Emergency Credit Line and Guarantee Scheme
ECRA	External Credit Rating Agency
ESG	Environment, Social and Governance
EWS	Early Warning Signal
FIG	Financial Institutions Group
FOIR	Fixed Obligation to Income Ratio
FLOD	First line of Defence
FP	Floating provision
FPI	Foreign Portfolio Investor
GDP	Gross Domestic Product
GA	Gross Advances
GLB	Gross Loan Book
GLC	General Ledger Code
GNPA	Gross Non-Performing Asset
GVA	Gross Value Added
HFT	Held for Trading
HHI	Household Income
HTM	Held to Maturity
HQLA	High Quality Liquid Assets

HUF	Hindu Undivided Family
IBPC	Inter Bank Participation Certificate
ICAAP	Internal Capital Adequacy Assessment Process
ICAI	Institute of Chartered Accountants of India
ICE	Internal Combustion Engine
IFSC	Indian Financial System Code
IGAAP	Indian Generally Accepted Accounting Principles
IMPS	Immediate Payment Service
IPDI	Innovative Perpetual Debt Instrument
IPO	Initial Public Offer
IRAC	Income Recognition and Asset Classification
IRRBB	Interest Rate Risk in Banking Book
IWG	Internal Working Group
KRI	Key Risk Indicator
LAP-SENP-SEP	Loan Against Property- Self Employed Nonprofessional- Self Employed Professional
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LMS	Loan Management System
LR	Leverage Ratio
LWE	Left Wing Extremism
MB	Micro banking
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
MVE	Market value of Equity
MV	Market Value
NBFC-ND-SI-CIC	Non-Banking Financial Company-Non-Deposit-taking-Systemically Important- Core Investment Company
NE	North Eastern
NEFT	National Electronic Funds Transfer
NGFS	Network for Greening the Financial System
NPA	Non-Performing Asset
NNPA	Net Non-Performing Asset
NPI	Non-Performing Investment
NSE	National Stock Exchange
NSFR	Net Stable Funding Ratio
Non-URC	Non-Unbanked Rural Centre
OD	Overdraft
ORMC	Operational Risk Management Committee
OSP	Outstanding Principal

PAT	Profit After Tax
PAR	Portfolio at Risk
PB	Payments Bank
PD	Probability of Default
PNCPS	Perpetual Non-Cumulative Preference Shares
PPOP	Pre – provision operating profit
PSL	Priority Sector Lending
QIP	Qualified Institutional Placement
QR Code	Quick Response Code
QRT	Quick Response Team
RB	Rural Banking
RBI	Reserve Bank of India
RCA	Root Cause Analysis
RCSA	Risk Control and Self-Assessment
RMCB	Risk Management Committee of the Board
ROA	Return on Asset
ROE	Return on Equity
RSA	Risk Sensitive Assets
RSL	Risk Sensitive Liabilities
RWA	Risk Weighted Assets
SA	Standardized Approach
SDA	Standardized Duration Approach
SEBI	Securities and Exchange Board of India
SEL	Secured Enterprise Loan
SFB	Small Finance Bank
SLOD	Second Line of Defence
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
USD	United States Dollar
VaR	Value at Risk
WEO	World Economic Outlook
YTD	Year till Date

2. Key Performance highlights of the Bank

Ujjivan Small Finance Bank (hereinafter referred to as “the Bank”) is required to publish disclosures under the Pillar III framework as required in terms of RBI guidelines on New Capital Adequacy Framework issued vide RBI/2015-16/58; DBR.No.BP.BC.1/21.06.201/2015-16 dated July 1, 2015. This 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 June 30, 2024. All exposure related figures quoted in the document are ‘Rs. in lakhs’, unless otherwise specifically stated.

A. Branch network and distribution reach

The branch position of the Bank as at June 30, 2024 was as follows:

Particulars	Count
Total Banking outlets, of which	752
Banking outlets ¹ (Non-URC)	562
Banking outlets (URC) ² , of which	190
i Qualifying URC Branches (Branches situated in tier 3-6 locations in NE ³ states and LW ⁴ districts)	43
ii Business Correspondents (BC)	4

During the Quarter ended June 24, the Bank had opened only 1 new branch across regions (South - 0, North - 1, East – 0 and West - 0). With 25.26% of Banking outlets in URC, the Bank is fully compliant with RBI guidelines in this regard.

With a strategic imperative to expand on its customer base and area of operations, the Bank intends on expanding its network with 50 branches proposed to be launched in FY 2024-25, of which 15 branches will be Micro Banking led branches. The physical reach would also be

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

² 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 an 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.

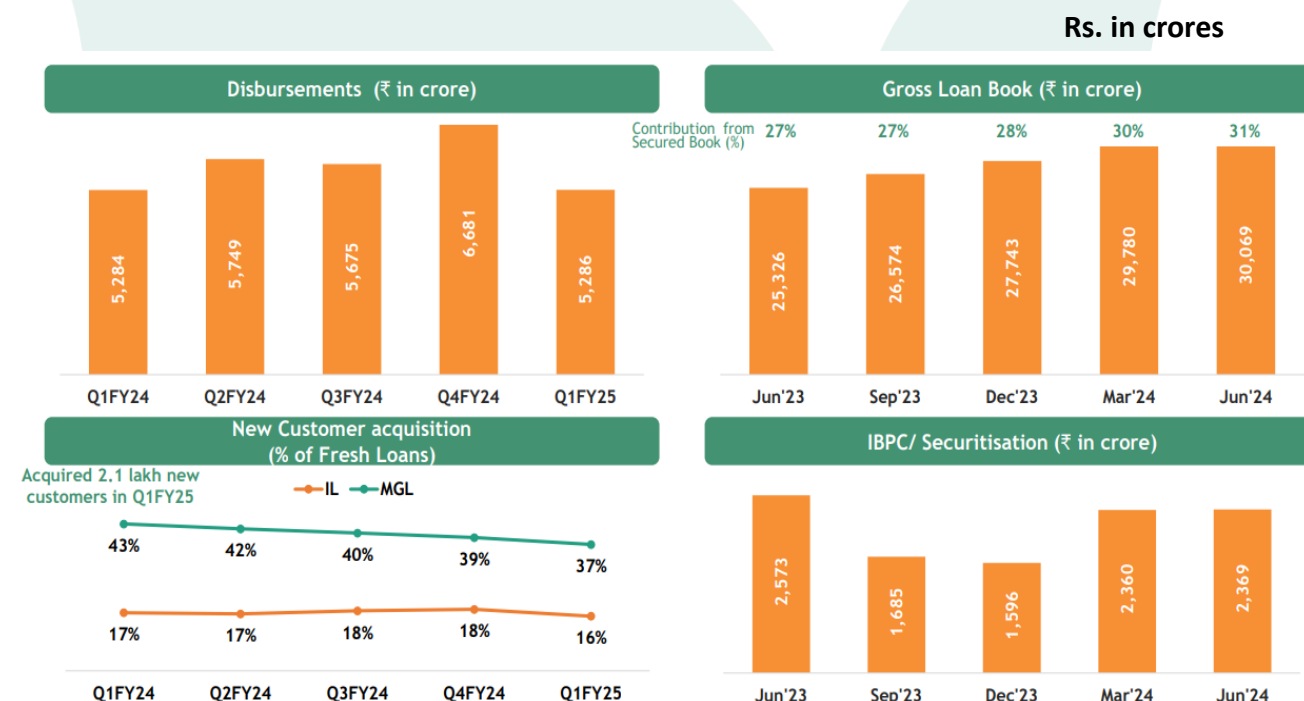
³ North eastern states

⁴ Districts with active Left-Wing Extremism (LWE)

supplemented by a strong and focused investment in digital platforms to aid in business development, on both asset and the liabilities side. The Bank operated 610 Automated Teller Machines (ATM) including 62 Automated Cash Recycler (ACR) machines across the country as at June 30, 2024.

B. Financial highlights for Q1 FY 2024-25

Some of the key achievements made for period ended June 30, 2024, were as follows:



Customer base	<ul style="list-style-type: none"> Total customer outreach was 90 lakhs customer through 752 branches as at June 30, 2024 (86 lakhs as at March 31, 2024; 77 lakhs as at March 31, 2023)
Loan Portfolio	<ul style="list-style-type: none"> Gross Loan Book (GLB) (without netting off IBPC/Securitization/Direct Assignment): Rs. 30,06,854.60 as at June 30, 2024 (Rs. 29,77,954.18 lakhs as at March 31, 2024, Rs. 24,08,511.89 lakhs as at March 31, 2023). Gross Advances (GA) (after netting off IBPC/Securitisation/Direct Assignment): Rs.27,69,985.52⁵ lakhs as at June 30, 2024, (Rs.27,41,915.16⁶ lakhs as at March 31, 2024, Rs. 21,91,123.23 lakhs as at March 31 ,2023).

⁵ Outstanding balance in IBPC/Securitisation/ Direct Assignment as on March 31, 2024 was Rs 2,36,823.53 lakh

⁶ Outstanding balance in IBPC/Securitisation/ Direct Assignment as on March 31, 2024 was Rs 2,36,006.18 lakh

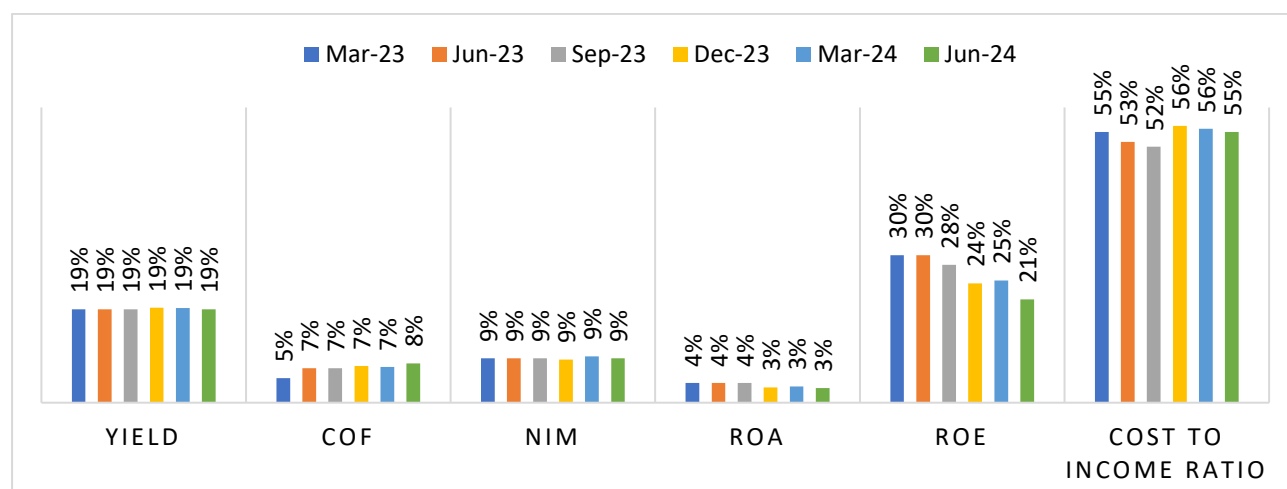
	<ul style="list-style-type: none"> Non-Microfinance book was 32.46% as at June 30, 2024 (31.49% as at March 31, 2024, 29.16% as at March 31, 2023).
Deposit Portfolio	<ul style="list-style-type: none"> Total Deposits (Retail plus Institutional): Rs. 32,51,369 lakhs as at June 30, 2024. (Rs. 31,46,216 lakhs as at March 31, 2024, Rs. 25,53,768 lakhs as at March 31, 2023). CASA: 25.8% as at June 30, 2024 (26.7% as at March 31, 2024; 26.4% as at March 31, 2023).
Asset Quality	<ul style="list-style-type: none"> Gross Non-Performing Assets (GNPA): 2.52⁷% as of June 30, 2024 (2.23%⁸ as at March 31, 2024; 2.88% as at March 31, 2023) Net Non-Performing Assets (NNPA): 0.41% as at June 30, 2024, (0.28% as at March 31, 2024⁹, 0.04% as at March 31, 2023)
Capital Adequacy	<ul style="list-style-type: none"> CRAR ratio of the Bank as at June 30, 2024 was 24.85% (March 31, 2024 was 24.69%, 25.81% as at March 31, 2023)
Employee strength	<ul style="list-style-type: none"> 22,980 as at June 30, 2024 (22,566 as at March 31, 2024; 17,870 as at March 31, 2023)
Provisions and Credit costs	<ul style="list-style-type: none"> Total provisions including Floating Provision as at June 30, 2024 was Rs.72,733.32 lakhs (Rs.67,637.06 lakhs as at March 31, 2024; Rs. 73,529.67 lakhs as at March 31, 2023) Total NPA provision (excluding floating provision) held was Rs 46,600.15 (Rs.41,623.25 lakhs as at March 31, 2024, Rs.50,157.11 lakhs as at March 31, 2023). Total NPA provision increased by Rs. 4,976.90 lakhs during quarter ended June 30, 2024 as compared to March 31, 2024 due to industry level issues faced in the Microfinance industry.

⁷ Computed as a percentage to Gross advances. GNPA% on GLB basis was 2.33%

⁸ Computed as a percentage to Gross advances. GNPA% on GLB basis was 2.07%

⁹ Computed as a percentage to Net advances. NNPA% as a ratio to Net GLB was 0.27%

The key performance ratios (quarterly positions) of the Bank were as follows:



The Bank recorded continued good performance across all parameters during the Q1 of FY 2024-25. A summary of the key highlights of the Bank as at June 30, 2024 is given below:

- Pre-Provision Operating Profit (PPOP) for Q1 FY 2024-25 was Rs. 5,163.07 lakhs up 11% Y-o-Y;
- Disbursements were at Rs.5,28,600 lakhs in Q1 FY 2024-25 at par YoY but down by 21% QoQ.
- Deposits at Rs. 32,51,369 lakhs as of Jun'24 up by 22%/3% YoY/QoQ, CASA at Rs 8,37,113 lakhs up 28% YoY; CASA ratio at 25.8% as of Jun'24. Retail TD (Retail TDs are TDs less than ₹ 3 crores) grew 42%/14% YoY/QoQ.
- Continued traction on Collections with ~98% efficiency in June 2024; NDA collection at ~99%. Portfolio at risk was at 4.2% as of June 2024¹⁰. GNPA on GLB basis at 2.3% as of June 2024; NNPA continues to be negligible at 0.4% as at June 2024. Total of Rs.5900 lakhs written-off in Q1 FY25; Provision coverage ratio as at June 2024 was 84%¹¹.

C. Macro-Economic Outlook:

The global economy faces multiple challenges: prospects of slowing growth, large public debt, increasing economic fragmentation, and prolonging geopolitical conflicts. The following are some of the key developments during the quarter.

Global Economic Outlook¹²

¹⁰ Without adjusting IBPC & Securitization of ₹ 2,369 / ₹ 2,360 / ₹ 2,573 crores as on Jun 2024/ Mar 2024/ Jun 2023

¹¹ Floating provision of ₹ 250 Cr continues to be on books & can be utilized for making specific provisions in future during extraordinary circumstances, with prior approval from the RBI ₹ 30 Cr was moved to Tier II capital in Jun'22 while ₹ 60 Cr, ₹ 10 Cr and ₹ 30 Cr were moved to other provision in Sep'22, Dec'22 and Mar'23 respectively

¹² Source : <https://www.imf.org/> & <https://www.oecd.org>
RBI FSR REPORT

- A key feature of the evolving global economic outlook has been the recent alignment between market expectations and policy stances. The resilience of growth has allayed fears of hard landing and pushed out expectations of early interest rate cuts in response to central banks' discomfort about inflation remaining elevated relative to targets persistently; more recently, policy paths are increasingly expected to diverge as macroeconomic conditions move disparately in different regions of the world.
- Financial conditions remain stable, with equity markets scaling new highs and credit spreads narrowing. Volatility has largely remained subdued but intermittent reversals have signalled unease in investor perceptions around potential flux.
- While several near-term risks have receded, the global financial system continues to face heightened uncertainty surrounding the outer-term outlook for both financial markets and financial institutions. These shadows are cast by elevated levels of public debt, stretched asset valuations, stress in the commercial real estate (CRE) sector, risks in private credit and cyber risk in addition to the persistence of geopolitical risks.
- The frenetic expansion of global public debt in recent years has accentuated concerns about its sustainability. These worries are exacerbated by elevated interest rates and rollover risks for many overburdened economies. Global public debt has increased to 93.2 per cent of GDP by end-2023-24 - nine percentage points above its pre-pandemic level – bloated by pandemic-era expansionary fiscal policies, post-pandemic supportive measures such as tax breaks and subsidies. The rollback of supportive measures has also been slow. Worryingly, the two largest economies in the world, viz., the U.S. and China, are leading the increase in global debt.
- Global GDP growth is projected to be 3.1% in 2024, unchanged from 2023, before edging up to 3.2% in 2025 helped by stronger real income growth and lower policy interest rates. The overall macroeconomic policy mix is nonetheless expected to remain restrictive in most economies, with real interest rates declining only gradually and mild fiscal consolidation in most countries over the next two years. The divergence across economies is expected to persist in the near term but fade as the recovery in Europe becomes more firmly based, and growth moderates in the United States, India and several other emerging-market economies. Annual consumer price inflation in the G20 economies is projected to ease gradually, helped by fading cost pressures, declining to 3.6% in 2025 from 5.9% in 2024. By the end of 2025, inflation is projected to be back on target in most major economies.

1) <https://pib.gov.in/PressReleasePage.aspx?PRID=1894932>

2) OECD ECONOMIC OUTLOOK

4) World bank website

5) IMF World economic outlook April 2023

6) RBI Financial Stability Report

7) RBI Bulletin

8) India Brand Equity Foundation (IBEF)

- Global growth, which slowed in the second half of 2023, is expected to stabilise and then pick up slightly through 2024-25. In part, this reflects better momentum than previously expected in the United States and some emerging-market economies. More broadly, faster disinflation than projected a few months ago is projected to result in a widespread easing of monetary policy as inflation converges towards central bank targets. This should sustain a recovery in real incomes and boost interest-rate-sensitive expenditures.
- The outcome of the US election in November 2024 will have major implications beyond the US, particularly in Asia where US-China relations have been worsening over recent years.

Indian Economic Outlook¹³

- **Global Economic Resilience:** The global economy projects stable growth of 3.2% for 2024-25 despite challenges like increasing real interest rates and geo-economics fragmentation, with both service and manufacturing PMIs remaining positive.
- **Strong GDP Growth in FY24:** India achieved 8.2% GDP growth driven by robust manufacturing and construction sectors, supported by high gross fixed capital formation and government capex growth exceeding 29%.
- **Sectoral Growth:** Manufacturing and construction sectors surged, with manufacturing growing at 9.9% and significant growth in steel and cement sectors due to infrastructure spending.
- **Domestic Economic Indicators:** FY24 indicators such as buoyant GST collections, rising electricity demand, and steady credit growth reflect strong domestic demand, although some indicators showed moderation at the start of FY25.
- **Fiscal Management:** Gross tax revenue grew by 13.4% in FY24, aiding fiscal deficit reduction to 5.6% of GDP through better-than-anticipated revenues and reduced subsidies.

¹³ Other sources referred :

1) <https://pib.gov.in/PressReleasePage.aspx?PRID=1894932>

2) OECD ECONOMIC OUTLOOK

3) Crisil Insight report May 2023

4) World bank website

5) IMF World economic outlook April 2023

6) RBI Financial Stability Report

7) Research report on “Credit Growth to drive GDP: Nothing Unsecured about Unsecured Lending” by SBI

- **Macroeconomic Stability:** CPI moderated to 4.75% in May 2024, nearing RBI's 4% target, with stable interest rates, low net NPAs, and robust credit creation indicating a strong financial system.
- **Investment Trends:** FDI inflows remained constant and VC and PE investments declined by 9% in FY24. There is a need for a revival in private capex, especially in manufacturing and infrastructure.
- **Economic Outlook:** Major global rating agencies upgraded India's credit outlook to 'positive', expecting continued economic momentum supported by government capex, with RBI projecting FY25 growth over 7.2%.
- **Private consumption** spending fared better last year than reported earlier. There were upward revisions to the third-quarter data, suggesting consumers spent more generously in the quarter of festivals and the Cricket World Cup than previously believed. Third-quarter GDP growth was revised to 8.6%, up from the earlier estimate of 8.4%, on the back of a 50-basis point upward revision of private consumption spending. That said, private consumption growth remained capped at 4.03% over fiscal 2023 to 2024, owing to modest growth in the agriculture sector and persistent inflation that weighed on rural demand.
- **Indian exports** surged by an impressive 8.1% YoY in the fourth quarter—the highest this fiscal year. Merchandise exports improved remarkably that quarter (even though the quarter's performance could not prevent annual merchandise export growth from contracting). Notably, high-value manufactured goods like pharmaceuticals, chemicals, engineering products, and electronics achieved record export levels this quarter, propelling overall growth in merchandise exports in the high value-added segment. This positive trend bodes well for India as it aims to strengthen its integration into the global value chain and increase its exports to US\$2 trillion over the next six years. Growth in the traditional basket of exports, however, continued to decline.

Indian Banking industry Outlook:

- The Indian Banking Industry has been on an upward trajectory aided by strong economic growth, rising disposable incomes, increasing consumerism and easier access to credit. Digital modes of payments have grown by leaps and bounds over the last few years. As on April 2024, there were 581 banks actively using UPI. The total number of digital transactions during this period amounted to 15.08 billion, with a total value of US\$ 25.27 billion (Rs. 2.1 trillion).
- In the recent period, technological innovations have led to marked improvements in efficiency, productivity, quality, inclusion and competitiveness in the extension of financial services, especially in the area of digital lending.

- Digitalization of Agri-finance was conceptualized jointly by the Reserve Bank and the Reserve Bank Innovation Hub (RBIH). This will enable delivery of Kisan Credit Card (KCC) loans in a fully digital and hassle-free manner.
- Rating agency ICRA has revised its outlook for Indian banks to "stable" from "positive" for Financial Year 2024-25 (FY25), saying it expects credit growth and profitability to moderate. The sector's overall profile is expected to remain healthy. Challenges in deposit mobilisation and regulatory measures could slow down growth in consumer credit. Non-banking financial companies (NBFCs) are expected to temper expansion to Rs 19.0-20.5 trillion in FY25 from Rs 22 trillion in FY24. Credit expansion in absolute terms was the highest ever in FY24. The growth in per cent terms year-on-year is expected to moderate to 11.7-12.5 per cent in FY25 from 16.3 per cent in FY24. While the compression in the banking sector's interest margins over the last 18 months has been driven by rising deposit costs, the expectation of a rate cut in the second half of FY25 could lead to margin pressure that is driven by a likely downward re-pricing of advances. A growth in loan book, despite margin compression, is expected to translate into steady operating profits that will be aided by benign credit costs. Loan book growth is expected to drive healthy earnings that will largely be sufficient for most banks to meet their regulatory and growth capital requirements.

D. Key developments within the Bank

- The Bank has won the following awards in the quarter:
 - 1) Finacle Innovations Awards 2024 – Process Innovation Platinum
 - 2) Ambition Box Employee Choice Award 2024- Ranker 2 in Banking (Large Category)
 - 3) BFSI Technology Awards - Robotic Process Automation
 - 4) HR Trailblazer Awards - Winners of Employee Engagement Excellence Award
- **Digital Banking Highlights:**
 - **Direct Tax Payment Feature** made live in close user group testing in BNB in collaboration with ICICI Bank as agency bank. Corporate customers can now make tax payments using Business Net Banking platform;
 - **NPS Account Opening** - Investment option enabled for customers to subscribe for NPS through IBMB;
 - Ujjivan SFB has been awarded as first runner up in **AWS Innovate X Action** event;
 - **RPA Migration Activity:** All the 32 RPA processes have been migrated from Windows OS 12 to OS 19, important from security perspective. This will also increase the bot efficiency. Total **6,760** Man Days saved through these processes in Jun'24 (1 Man Day = 8 Working Hours)

- Digital Transactions – **90.39%** of Bank's transactions (outward debit) were made digitally.
- Loan Acknowledgement Feature processed **21,182 (24% of total sourcing)** loans digitally in June'24 out of which **17%** consented for HospiCare Insurance offering directly through Hello Ujjivan.

E. Major Regulatory Update

Through its guideline dated April 26, 2024 the Regulator has provided a detailed framework for conversion of SFBs into Universal Commercial Bank. The eligibility criteria for an SFB to transition into a Universal bank will now be as follows:

- Scheduled status with a satisfactory track record of performance for a minimum period of five years;
- Shares of the bank should have been listed on a recognized stock exchange;
- Having a minimum net worth of ₹1,000 crore (Rs 100,00,000,000) as at the end of the previous quarter (audited);
- Meeting the prescribed CRAR requirements for SFBs;
- Having a net profit in the last two financial years; and
- Having GNPA and NNPA of less than or equal to 3 percent and 1 percent respectively in the last two financial years.

The Bank will review its compliance in the next financial year and then the matter of conversion will be considered at the Board.

3. Table DF- 1: Scope of Application

3.1 Qualitative Disclosures

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 for Small Finance Banks (SFBs) do not permit SFBs to have subsidiaries) nor does the Bank have any interest in any insurance entity.

3.1.1 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

3.1.2 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

3.1.3 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

4. Table DF-2: Capital Structure

4.1 Qualitative Disclosures

4.1.1 Tier I capital

The Bank has an authorized capital of Rs. 2,62,500 lakhs in the form of Common Equity qualifying as Tier 1 capital. Please note that pursuant to the effect of the Scheme of amalgamation, 1,44,00,36,800 equity shares and 20,00,00,000 preference shares of the Bank held by UFSL are extinguished. Further, basis the allotment of 1,41,27,02,033 fully paid equity shares of Rs.10/- each of Bank to the eligible shareholders of the erstwhile UFSL, who were holding equity shares of UFSL as on the Record date i.e., May 03, 2024, the paid-up equity capital of the Bank as on May 06, 2024 was revised to Rs. 19,31,79,51,170. As on June 30, 2024, the paid-up equity capital of the Bank is Rs. 19,32,56,86,840. *(Detailed shareholding pattern is given below.)*

The licensing guidelines for SFBs permit the aggregate foreign investment in a private sector bank from all sources up to a maximum of 74% of the paid-up capital (automatic up to 49% and approval route beyond 49% to 74%). As foreign shareholding in the Bank was 28.61% comprising of (a) Foreign Portfolio investors (FPI), (b) Non-Residential Indians (NRI) and (c) Foreign Direct Investments (FDI) as at June 30, 2024, the Bank was compliant with RBI guidelines on SFBs.

4.1.1.1. Promoter contribution¹⁴:

As the Reverse Merger of the Promoter – UFSL with the Bank being effective, the Bank is now a 100% publicly held entity with no identified Promoter. Before the Scheme being effective the promoter contribution in the Bank was 73.52%.

The shareholding pattern of the Bank as at June 30, 2024 was as under:

Category of the Shareholder	No. of shares held	%age of shareholding
Mutual Funds	7,85,10,192	4.06
Alternate Investment Funds (AIF)	4,39,31,250	2.27
Foreign Portfolio Investors (FPIs)	37,66,45,189	19.49
Foreign Direct Investments (FDIs)	10,02,56,456	5.19
Resident Individuals/Hindu Undivided Family (HUF)	105,01,57,957	54.34
Others	28,30,67,640	14.65
Total	193,25,68,684	100

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

Sl. No.	Instrument	Whether Tier I or II	Amount (Rs. in Lakh)
1	Equity ¹⁵ (refer note 1)	Common Equity Tier 1 (CET 1)	1,93,256.86
2	PNCPS ¹⁶	Additional Tier I	Nil
3	Subordinated Debt Instruments	Tier II	30,000.00
	Total		2,23,256.86

4.1.2. Subordinated Debt Instrument

As per specific directions received from the Regulator¹⁷, the Bank can issue Tier II capital instruments in compliance to either NCAF or Basel III guidelines of RBI. As on June 30, 2024 following were the Tier II Instruments raised by the Bank.

¹⁴ Refer RBI on Guidelines for Licensing of “Small Finance Banks” in the Private Sector dated November 27, 2014.

¹⁵ Issued and Paid up equity capital

¹⁶ Perpetual Non-Cumulative Preference Shares (PNCPS)

¹⁷ RBI communication to the Bank vide email dated December 13, 2017

Capital	Description of the Security	Issue Amount (Rs. in Lakhs)	Issue date	Date of Redemption	Contractual Dividend rate (% p.a.) (on a fixed rate basis)
Tier II – Subordinated Debt	Subordinated, rated, unlisted, unsecured, transferable, redeemable, fully paid up, non-convertible debentures	22,500	August 26, 2022	April 26, 2028	11.95% p.a.
		7,500	September 09, 2022 ¹⁸	April 26, 2028	11.95% p.a.
Total		30,000	-	-	-

4.1.3. 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 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.

5. Table DF- 3: Capital Adequacy

5.1 Qualitative Disclosures

The Bank has been well capitalized since inception and its capital position has been further augmented after equity raise through a QIP in Q2 FY 2022-23. As required by RBI in its operating guidelines to SFBs¹⁹, the Bank is required to adopt the Standardized approach

¹⁸ Deemed Allotment Date: August 26, 2022

¹⁹ 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.

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 calculation purposes, the structure and nature of capital instruments such as Common Equity, Additional Tier 1 instruments are required to be compliant with the 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 November 8, 2017 (DBR. NBD. No. 4502/16.13.218/2017-18). However, as a good governance practice, and as directed by its Board, and in anticipation to an eventual transition to a Universal Commercial Bank, 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 New Standardized Approach (NSA) for Operational Risk. It is pertinent to note that the Regulator has now dispensed with the existing approaches of Operational Risk capital charge with the revised New Standardized Approach (NSA) vide Reserve Bank of India (Minimum Capital Requirements for Operational Risk) Directions, 2021 which is applicable to universal banks with effect from April 1, 2023. The Bank is also in the process of automating the CRAR computation process.

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%, NSFR at 100% and Leverage Ratio at 4.5%.

The disclosures pertaining to capital adequacy are as per the Generally Accepted Accounting Practices (GAAP). Preparation of Financial statements under Ind-AS regime by banks have been deferred by RBI until further notice and hence a comparison of capital adequacy under both the regimes will be made part of disclosures after the same is made applicable to banks. There are indications that the Regulator may consider adopting a

dynamic loan loss provisioning under IFRS9/Ind-AS framework. To this effect, a Discussion Paper was released by the Regulator on January 16, 2023 and formal guidelines in the matter are awaited. From the readiness standpoint, the Bank has put in place the necessary processes to compute Expected Credit Loss (ECL) and Ind-AS compliant financial statements. While the Bank has utilized internal capabilities in automating ECL components, the preparation of Ind-AS compliant financial statements continues to be manual. A final guideline from the Regulator is awaited to commence engagement with technology partners in developing necessary systems.

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 ICAAP framework for the identification and evaluation of the material risks that the Bank faces, which may have a bearing 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)
Operational Risk	Reputational Risk
Market Risk	Strategic Risk
Interest Rate Risk in Banking Book (IRRBB)	Compliance Risk
Liquidity Risk	People Risk
Concentration Risk	Information Technology and Information Security Risk
Outsourcing Risk	Group Risk ²⁰
Securitization Risk	Fintech Risks
Climate induced financial risks	ESG risks

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, operational risk and reputational 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 tests are conducted and the results are placed to the Risk Management Committee of the Board (RMCB) , for their review and

²⁰ 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

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.

5.2 Quantitative Disclosures

5.2.1. Basel II capital calculation

The break-up of Basel II capital funds as June 30, 2024 was as follows:

Rs. in lakhs

	Description	Amount
	Core Equity Tier 1 Capital - Instruments and Reserves	
	Directly issued qualifying common share capital plus related stock surplus (share premium)	1,93,256.87
	Retained earnings	3,90,000.66
A	CET1 capital before regulatory adjustments	5,83,257.53
	Core Equity Tier 1 Capital - Regulatory Adjustments	
	Deferred tax assets arising from temporary differences	23,278.60
	Intangibles (Prepaid Expenses & Computer Software)	15,495.82
	Credit Enhancements	2,020.71
	Regulatory Adjustments applied to CET1 Capital due to insufficient funds in Tier 2 to cover deductions	0.00
B	Total regulatory adjustments to CET1 Capital	40,795.13
C	CET1 capital (A-B)	5,42,462.40
	Additional Tier 1 Capital - Instruments and Reserves	
	Preference Shares	
E	AT1 capital before regulatory adjustments	
	Additional Tier 1 Capital - Regulatory Adjustments	
F	Total regulatory adjustments to AT1 Capital	-
G	AT1 Capital	
H	Tier 1 Capital (C + G)	5,42,462.40
	Tier 2 Capital - Instruments and Provisions	
	Sub - debt eligible as Tier 2 capital	18,000.00
	General Provisions on Std. Assets admissible as Tier 2	17,113.17
	Investment Fluctuation Reserve	9,427.52
	Investment Reserve Account	
I	Tier 2 Capital before regulatory adjustments	44,560.69
	Tier 2 Capital - Regulatory Adjustments	

J	Total Regulatory Adjustments to Tier 2 Capital	-
K	Tier 2 Capital (I - J)	44,560.69
L	Total Regulatory Capital (H + K)	5,87,023.09

5.2.2. Credit Risk RWA

The detailed break up of Credit RWA is as follows:

<i>Rs. in lakhs</i>	
Asset Description	RWA
Cash and Balances with Reserve Bank of India	0.00
Balances with Banks and Money at Call and Short Notice	6,785.72
Investments	1,454.13
Advances	22,41,317.56
Fixed Assets	31,445.96
Other Assets	63,546.42
Off Balance Sheet	17,910.31
Total Credit RWA	23,62,470.10

A significant regulatory guideline impacting the RWA on consumer loans was issued by the Regulator on November 16th 2023 vide its Circular RBI/2023-24/85 dated November 16 2023.

The Bank has evaluated the impact of the revised guidelines on its book, especially that small component of unsecured loans that do not satisfy the PSL criteria or the criteria for regulatory retail. There are also some loans in its FIG book where based on the rating a higher risk weight will apply. The net impact of the revised application of RWA is 0.8%, and the Bank is adequately capitalised to weather this impact.

5.2.3. Operational Risk RWA

The Regulator has issued Master Directions on Minimum Capital Requirements for Operational Risk under the New Standardized Approach (NSA) which will be applicable with effect from April 1, 2023 for Universal Banks. While the Regulator is yet to take a decision on its applicability for SFBs, the Bank has already commenced computation of Operational RWA under this new approach for internal reporting purposes.

The detailed computation is as follows:

<i>Rs. in lakhs</i>			
Particulars	T	T-1	T-2
	FY'24	FY'23	FY'22
Total amount of operational losses net of recoveries (no exclusion)	1,263.55	527.35	906.96
Total number of operational risk losses	1,322.00	1,416.00	1,253.00
Total amount of excluded operational risk losses#	866.73	474.69	807.83
Total number of exclusions	1,152.00	1,255.00	990.00

Total amount of operational losses net of recoveries and net of excluded losses	396.82	52.66	99.13
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Rs. in lakhs

Sr. No.	Business Indicator (BI) and its sub components	T	T-1	T-2
1	Interest, lease, and dividend component			
1a	Interest and lease income	5,67,715.4 1	4,16,499.4 7	2,81,279.9 1
1b	Interest and lease expenses	2,26,770.3 9	1,46,709.2 6	1,03,920.7 0
1c	Interest earning assets	36,64,893. 73	30,42,153. 98	21,64,058. 57
1d	Dividend Income	0	0	0
2	Services component	0	0	0
2a	Fee and commission income	39,631.88	31,737.78	21,874.86
2b	Fee and commission expense	1,851.00	1417.61	1392.79
2c	Other operating income	27,811.05	22822.14	11466.14
2d	Other operating expense	63,573.17	51036.29	40062.39
3	Financial Component			
3a	Net P&L on the trading book	2,076.56	178.40	1,575.63
3b	Net P&L on the banking book	326.38	0	185.34
4	BI	1,50,619.5 2	1,15,606.7 5	92,414.17
5	Business Indicator Components (BIC)	18,074.34	13,872.81	11,089.70
6a	BI gross of excluded divested activities		1,50,619.52	
6b	Reduction in BI due to excluded divested activities		-	

Disclosure on the BI

Rs. in lakhs

1	Business indicator component (BIC)	18,074.34
2	Internal loss multiplier (ILM)	0.60
3	Minimum required operational risk capital (ORC)	18,074.34
4	Operational risk RWA	2,25,929.28

5.2.4. Market Risk RWA

On April 1, 2024, the Regulator issued revised guideline for computation of Market Risk RWA. The computation of the Market risk RWA is performed basis the revised guidelines. As at June 30 2024, the AFS book consisted of Government of India Securities and Treasury Bills for which no market risk capital charge is applicable since AFS book is classified as

Banking Book as per said revised guidelines. HFT book consisted Government Securities, Commercial Paper, Treasury Bills, Certificate of Deposits, Non-Convertible Debentures, unlisted equity and PTC investments. The Market Risk capital charge has been computed for HFT portfolio both for specific charge and general market risk charge.:

Rs. in lakhs

Capital Requirement for Market Risk	Amount
Interest Rate Risk	3858.58
Equity Position Risk	2.76
Foreign Exchange Risk	-
Total	3861.34
Total Market Risk RWA	48,266.70

5.2.5. Basel II CRAR (with only Credit RWA)

Rs. in lakhs

Particulars	RBI thresholds	Amount/Ratio (Only Credit RWA)
Tier I Capital	--	5,42,462.40
Tier II Capital	--	44,560.69
Total Capital	--	5,87,023.09
Total RWA	--	23,62,470.10
CET Ratio	Minimum 6%	22.96% (Complied)
Tier I Ratio	Minimum 7.5%	22.96% (Complied)
Tier II Ratio	Maximum cap at 7.5% of CRWA	1.89% (Complied)
CRAR	Minimum 15%	24.85% (Complied)

Presently, the operating guidelines for SFBs mandate that the minimum CRAR be computed in relation to only the Credit Risk Weighted Assets (CRWA). The CRAR of the Bank at **24.85%** is well above the minimum ratio of 15% as applicable for SFBs.

5.2.6. Capital Adequacy under Pillar I Risk (Credit, Market and Operational risks)

Particulars	Amount/ Ratio (all Pillar 1 risks)
Tier I Capital	5,42,462.40
Tier II Capital	44,560.69
Total Capital	5,87,023.09
Total RWA	26,70,142.74
CET Ratio	20.32%
Tier I Ratio	20.32%
Tier II Ratio	1.67%
CRAR	21.98%

It may be noted that the Bank's CRAR is assessed at 21.98%% after inclusion of Credit RWA, Operational Risk RWA and Market Risk RWA. The capital adequacy, is higher than the mandated SFB requirement of 15%, which is solely on the basis of CRWA, and also considerably higher than the minimum mandated for Universal Commercial Banks. While the Regulator is yet to notify the applicability of the other two pillar 1 risks, there is a possibility to align the minimum capital adequacy norms with that of Universal Commercial Banks for SFBs. Hence, not only from a governance perspective but also to meet its future projections in growth, the Bank has always been well capitalized, when taking into consideration capital charges for Credit Risk, Market Risk and Operational Risk.

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

6.1. Qualitative disclosures

Credit risk arises as a result of failure or unwillingness on part of customer or counterparties to fulfil their contractual obligations. The Bank is exposed to credit risk in its lending operations. Credit risk is the risk of loss that may occur from the failure of any counterparty to abide by the terms and conditions of any financial contract with the Bank, principally the failure to make required payments as per the terms and conditions of the contracts.

The Bank has implemented an extensive credit risk management architecture. The Board of Directors of the Bank endorses the credit risk strategy and approves the credit risk policies. This is done taking into consideration the Bank's risk appetite, derived from perceived risks in the business and 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) is entrusted with the development of policies, procedures and systems for managing credit risk and towards implementing a robust credit risk strategy of the Bank. The RMCB reviews the credit risk profile and keeps an eye on both internal and external contexts, their impact on the Bank's portfolio and devises management strategies accordingly. 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. 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 with any business targets.

The Credit Risk Management Committee (CRMC) is responsible for overseeing implementation of the credit risk management framework across the Bank and providing recommendations to the RMCB. CRMC ensures monitoring of credit risks on Bank wide basis and in ensuring compliance with the Board approved risk parameters/prudential limits and monitor risk concentrations. It also reviews the status of portfolio management, loan review mechanism, risk monitoring and evaluation, regulatory/legal compliance, adequacy of provision, risk concentrations, industry reviews, and suggests corrective measures and activity reviews for credit management. It reviews and approves the use of credit scorecards for business and risk management purposes, tests its performance and effectiveness and places recommendations before the RMCB.

The Bank's Credit Policy, Credit Risk Management Policy, Credit Manuals, Product Programs, NPA Management Policy, Collateral Management Policy and Interest Rate Policy, form the core set of internal guidelines for management of 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).

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. Any breaches to these limits are periodically reported to CRMC and the RMCB. The regulatory prudential norms with respect to ceilings on credit exposure to individual borrowers or group of borrowers also ensure that the Bank avoids concentration of exposure.

Definitions of past due and impaired loans

An asset, including a leased asset, becomes non-performing when it ceases to generate

income for the bank. 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 with respect to CC/ OD for 90 days on a continuous basis;
- The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted.
- In case of advances granted for Agricultural purposes
 - The instalment 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 securitisation transaction undertaken in terms of the Reserve Bank of India (Securitisation of Standard Assets) Directions, 2021.
- 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.

The Bank is guided by the provisions laid down in Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances dated April 2nd 2024 as amended from time to time.

Provisioning and Regulatory norms applicable to the Bank

- 1) 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 (the Bank's flagship offering) is unsecured where adverse and acute events (such as demonetization and the Pandemic) can impact the portfolio quality. To enhance the coverage on MB-RB portfolio, the Bank continuously identifies incipient stress in specific accounts and geographies where accelerated provisions may be required on an on-going basis.
- 2) The Bank's NPA Management Policy, on the directions of the Board, has adopted an accelerated provisioning regime which is higher than the RBI mandated provisioning norms since inception. The Bank's Risk Management Department undertakes a proactive assessment of the likely GNPA's, NNPA, Provision Coverage Ratio (PCR) and incremental credit/provisioning costs by studying historical delinquency trends and external developments which can have a bearing on the asset quality and credit costs. During the financial year FY 21-22, as a one-time measure, the Bank had created a Floating Provision amounting to Rs. 25,000 lakhs to address the risk of any recurrence of pandemic

associated mobility restrictions. The decision to create a floating provision was made as there was no scientific consensus on the severity and frequency of future pandemic waves. While the chances of a fresh wave with similar levels of severity are low, the presence of the floating provision acts as a strong bulwark to protect against unexpected losses of any kind.

- 3) As on June 30, 2024, out of Rs. 25,000 lakhs, Rs. 12,000 lakhs are allocated for netting off Gross NPA for the purpose of computing NNPA/ PCR, while Rs. 3,000 lakhs have been factored as part of Tier II capital. The residual balance of Rs. 10,000 lakhs have been grouped as part of other provisions without utilising the same towards Tier II capital. This amount continues to be earmarked for netting off GNPA as and when warranted.
- 4) During the Q3 FY 2023-24, RBI released guidelines on **Regulatory Measures towards Consumer Credit and Bank Credit to NBFCs dated November 16, 2023**, wherein the Regulator raised the risk weights on consumer credit exposure of commercial banks and NBFCs, and also on bank credit to NBFCs. The risk weights have been increased to 125 per cent from 100 per cent for consumer credit exposure (outstanding as well as new) of commercial banks and NBFCs, including personal loans, but excluding housing loans, education loans, vehicle loans, and loans secured by gold and gold jewellery. Additionally, microfinance/ SHG loans provided by NBFCs have also been excluded. The risk weights on credit card receivables of SCBs and NBFCs were also increased by 25 percentage points to 125 and 150 per cent, respectively. The risk weight on exposure of SCBs to NBFCs, excluding loans to HFCs and loans to NBFCs which are eligible for classification as priority sector, were also increased by 25 percentage points (over and above the risk weight associated with the given external rating) in all cases where the extant risk weight as per external rating of NBFCs is below 100 per cent. Furthermore, regulated entities (REs) have been asked to review their extant sectoral exposure limits for consumer credit and put in place Board-approved limits in respect of various sub-segments under consumer credit. The Bank has complied with the regulatory measures released.
- 5) During the year as per the Consumer Credit circular dated November 16, 2023, the Regulator *has asked the banks to review their extant sectoral exposure limits for consumer credit and put in place, if not already there, Board approved limits in respect of various subsegments under consumer credit* as may be considered necessary by the Boards as part of prudent risk management. In view of the same the Bank has set exposure limits on subsegments under consumer credit.
- 6) RBI released a discussion paper on **Expected Credit Loss (Loss) framework for provisioning** by banks. Currently, banks are mandated to set aside provisions as per the IRAC guidelines which follows the '**incurred loss**' approach. The proposed approach aims to recognize Significant Increase in Credit Risk (SICR) on a forward-looking basis which is expected to strengthen the banking system. The discussion paper has provided the following directions:
 - ECL amount is expected to be over and above IGAAP.

- To avoid the capital shocks in banks, incremental provision required under ECL (ECL minus IGAAP) can be added back to Common Equity (Tier 1). This benefit to be phased out in 5 years.
- A bank may choose to phase it out on a shorter period as per their own plan.

Credit Risk Portfolio review and Monitoring:

Micro finance Portfolio:

A comprehensive review of the MBRB Portfolio for past quarters is given below:

Rs. in lakh

MBRB	Mar-23	Dec-23	Mar-24	Jun-24
Gross Advances*	15,52,066.34	18,50,651.41	18,78,573.22	18,70,882.95
GNPA(Value)	37,028.49	35,370.16	40,707.01	48,307.62
GNPA%	2.39%	1.91%	2.17%	2.58%

**Excluding IBPC/ Securitization/DA transactions.*

The Bank undertakes portfolio monitoring on a periodic basis with specific focus on key portfolio triggers. Continuous review of portfolio enables the Bank to identify incipient stress at cluster/region/state/branch level. Breach in the internal thresholds for default is the starting point for identifying risk in the portfolio. Risk indicators such as PAR30+, PAR90+, early delinquencies, quick mortality, non-starters, On Time Repayment Rates (OTRR), Collection Efficiency (CoE), stressed assets percentage and lagged PAR estimates provide useful insights in risk identification.

The Bank monitors collection trends at a bucket level on a daily basis and findings are reported to top management. Collection monitoring is aided by a strong and dedicated collection team at ground level with extensive use of analytics and digital tools. Digital collection continues to scale up through existing and new channels like Fintech, Payment Banks, Money Mitra outlets (BC outlets) and the Hello Ujjivan Mobile application.

The composite collection efficiency (CE%) had reached nearly 99% in the month of June 2024. The efforts of enhanced monitoring and collections enabled the Bank to arrest fresh slippages (incremental overdues) and also increase the recovery rates in delinquency buckets. During the Q1 FY 2024-25, at an industry level the Microfinance portfolio is facing higher delinquency levels in a few pockets of the country arising mainly from over leveraging by customers. The Bank's book has also been affected with an increase in GNPA on a quarter on quarter basis. However, the M-FIN (Microfinance Institutions Network India) has released guardrails for lending in microfinance. The Bank has adopted the guardrails laid down by M-FIN and adopted restrictive credit policies in pockets that are worst affected and in branches where the portfolio is under stress

Given that the microfinance portfolio is subject to adverse event risks, 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.

For the ensuing financial year, in the GL and IL vertical there would be increased focus on staff productivity. The key projects include Hello Ujjivan repeat loans, SMELO Revamp. The Gold loans and Secured livestock book are also projected to grow in the coming years. The Vertical is also prioritizing implementation of regulatory directives and pursuant to the November 16th 2023 guideline on Consumer credit, the vertical is putting up a LUC mechanism in place which is expected to go live by the Second half of the FY 2024-25. System development required to close critical RMP observations is also in progress and expected to be completed by the second half of FY 2024/25.

Affordable Housing Loans (including M-LAP)

A comprehensive review of the Housing Portfolio for past quarters is given below:

	<i>Amt in Rs. Lakh</i>			
Housing Loans	Mar-23	Dec-23	Mar-24	Jun-24
Gross Advances*	3,11,398.13	4,17,144.14	4,69,356.62	4,97,952.98
GNPA(Value)	8,877.83	7,353.06	6,888.57	7,109.18
GNPA%	2.85%	1.76%	1.47%	1.43%

**Excluding IBPC/ Securitization/DA transactions*

Credit risk monitoring of 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.

During Q1 FY 2024-25, the vertical registered 42% year on year and 6% Quarter on quarter growth on Gross Loan Book. This is the fastest growing asset vertical in the Bank.

MSME (Micro and Small and Medium Enterprise)

A comprehensive review of the MSME Portfolio given below:

	<i>Rs. in lakh</i>			
MSME	Mar-23	Dec-23	Mar-24	Jun-24
Gross Advances*	1,59,335.80	1,39,650.74	1,41,413.45	1,41,506.88
GNPA(Value)	14,013.74	12,354.84	11,837.95	12,518.17

GNPA%	8.80%	8.85%	8.37%	8.85%
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**Excluding IBPC/ Securitization/DA transactions*

At the commencement of FY 2023-24, the Bank's MSME unit underwent a comprehensive transition through discontinuation of all existing products and launch of new products. The MSME business will now focus on providing Loan Against Property (LAP) with semi-formal and formal customers as the target segment. In addition to LAP, the MSME vertical has also commenced to offer tailored products on working capital facilities, supply chain financing and Fintech based loans. The Bank has launched semiformal LAP in Q1, which is now scaling up. The Bank is investing on internal capabilities to address the other business lines like Fintech Partnership, working capital financing, Supply chain financing, etc. This vertical also intends to leverage digital analytics for MIS/reporting automation. The disbursements have started to scale up. Much of the GNPA has arisen from what was booked previously. The repackaged semi formal LAP product that has now run for a period marginally in excess of 12 months, continues to perform well with no apparent signs of stress. However, cognizant of the fact that stress tends to build up as the portfolio ages, the Bank now has an independent monitoring unit within the MSME unit, which leverages on the EWS triggers to take proactive corrective action at the first sign of stress.

During the Q2 of FY 2022-23, the Bank set up a **Health council** under the ambit of **Credit Risk Monitoring Unit (CRMU)**. The Health Council is mandated to specifically review delinquency cases and deliberate on ways to improve the asset quality of the MSME portfolio. The Health Council is convened at monthly intervals with representation from Credit, Risk, Collections and Business teams who are empowered to take decisions against erring borrowers.

Institutional Lending

A comprehensive review of the Institutional Lending Portfolio is given below:

	Rs. in lakh			
FIG	Mar-22	Dec-23	Mar-24	Jun-24
Gross Advances	1,12,752.62	1,43,522.40	1,73,053.60	1,79,973.95
GNPA(Value)	441.68	441.68	441.68	441.68
GNPA%	0.39%	0.31%	0.26%	0.25%

As on June 30, 2024, FIG vertical has increased by 4% in the OSB Quarter on Quarter. The share of the institutional lending book of the Bank increased to be 6.5 % of the overall lending book and registered a collection rate at 100%. As part of monitoring, the Bank regularly reviews compliance to financial covenants (Capital Adequacy Ratio, GNPA, NNPA, Debt/Equity ratio as stipulated in sanction letter), collection of CA certified receivables statement and potential Early Warning Signals (EWS) alerts.

Vehicle Loans

The Vehicle Loans vertical was also considerably revamped and sought to focus only on two-wheeler financing during the year. As a step towards the relaunch, a new LOS was adopted and the Bank has also embedded a scorecard in the LOS to facilitate decision making. New locations for the business were identified and locations where business was suspended were revived.

A comprehensive review of the Vehicle loan Portfolio given below:

Rs. in lakh				
VF	Mar-23	Dec-23	Mar-24	Jun-24
Gross Advances*	14,032.81	16,491.45	19,589.98	23,945.37
GNPA(Value)	875.12	704.29	643.50	630.19
GNPA%	6.24%	4.27%	3.28%	2.63%

**Excluding IBPC/ Securitization/DA transactions*

As on June 30, 2024, the vertical has registered a 22% quarter on quarter increase in its OSB. Functionality to collect repayments through third party payment aggregators and other online portals was also enabled to provide ease of transaction. The vertical also propelled new dealerships for Two-wheeler financing. The business model is focused on sourcing new loans through tie-ups with direct dealerships. The Bank has also developed a trade advance facility to dealers which is now active.

Gold Loans and Micro LAP:

With an objective to diversify away from Microfinance which is largely unsecured and reduce concentration risk, the Bank has placed top priority on venturing into new business lines which are secured by underlying collateral. The Bank intends on leveraging the synergy in the target customer segment and has identified Gold loans and Micro- LAP loans as key enablers to meet the dual target of secured loans ratio and profitability targets.

The Gold Loan product is now being offered in **111** branches covering **14** states with a plan to expand in **200** branches in the ensuing financial year.

Micro LAP as a product offering, was launched within the Housing unit to cater to the financing needs of customers with a collateral. The product has been launched majorly in Tamilnadu, Karnataka and also in Maharashtra, Gujarat. The disbursement trends (in value) of the Product are given below:

Rs. in lakh					
Particulars	Q1 FY 2023-24	Q2 FY 2023-24	Q3 FY 2023-24	Q4 FY 2023-24	Q1 FY 2024-25
Disbursement-MLAP Actuals	1762	3639	5556	7965	7762

Credit Risk Monitoring Unit (CRMU)

As per management directives, CRMU was created during FY2023 within the Credit Risk Department under the supervision of the Bank's Chief Risk Officer. Some of the key activities undertaken by CRMU:

- Conducted monthly Health Council with CRO, ED and CCrO as council members. The idea of these health councils is to provide an insight into ongoing concerns in the MSME portfolio and get case specific feedbacks directly from the field which includes Regional Credit Managers, Business as well Collection Team
- Quarterly Quick Mortality analysis is being done by the CRMU and a report on the findings is placed at CRMC.
- File review of New products Elite LAP and Working capital loans on sample basis was started in March 2024.
- Developed a Dashboard internally to monitor the Bank's portfolio at a snap shot which includes IOD'S, NPA, Bucket Movements, Roll Rates, etc.

Other Credit Risk management initiatives:

In a continuous endeavour to improve risk management practices, the Bank has, over time, transitioned from being reactive to proactive. In the post pandemic period, the Bank has put in place tools and techniques in order to transition to a proactive approach.

- District Risk Index (DRI) and DPM (District Performance Matrix) were developed to identify and monitor high risk branches on the basis of pre-specified parameters. The Bank is monitoring and taking appropriate steps towards any findings from the matrix.
- Collection productivity analysis for Micro-banking was developed during the year to analyse the performance of the In-house Collections officers, Off roll collections officers and Agencies.
- The Bank performed PDD and OTC documents analysis for Retail verticals on a timely basis.
- During the year, the Bank's board approved the Quick Mortality framework for all the loans in the Bank.
- The Bank has developed an Early Warning System (EWS) framework at an account level to detect and monitor account level behaviour patterns. This framework aids in identifying early signs of stress in loan accounts for early intervention and

follow-up. The Bank has onboarded a vendor to put in place a system to capture feedback and enable on going monitoring. The system is currently under configuration and is expected to go-live sometime in Q1 FY 2024-25.

- With the availability of credit and loan performance data in the post pandemic period, the Bank has restarted its risk analytics journey for development of statistical application scorecards. Application scorecards are being redeveloped with post pandemic data for microfinance, vehicle and housing loans. Leveraging on the EWS outputs, the Bank also intends on developing behavioural scorecards, the outputs of which will be used in advanced capital charge calculation frameworks (FIRB approach).
- The credit risk models are intended to aid banks in quantifying, aggregating and managing risk across geographical and product lines. The outputs of these models also play increasingly important roles in banks' risk management and performance measurement processes, customer profitability analysis, risk-based pricing, active portfolio management and capital structure decisions. Credit risk modelling will aid in better internal risk management and have the potential to be used in the supervisory oversight of banking operations. The Bank has commenced development of scorecards in GL and IL. IL and VF scorecard are directly used in pricing models warranting regular review. As part of ECL preparedness, Bank has developed PD and LGD models using historical data and statistical techniques. **Therefore, the Bank's Board approved a policy to govern Model development, validation and ongoing monitoring. The Credit risk model validation essentially has qualitative as well as quantitative components.**
- A key exercise initiated during the quarter was a **comprehensive review of pricing strategies** adopted in all Strategic Business Units. While RBI guidelines on loan pricing mandates delineation of spread components and assignment of benchmarks (MCLR or EBLR) to loan pricing, the Bank undertook an internal exercise to evaluate the reasonableness and effectiveness in pricing of loans to meet strategic imperatives. The Bank developed customised pricing models using internal data estimates and external benchmarking, wherever applicable. Further, these pricing models were carefully evaluated for alignment to business strategy, budgets, system feasibility, adherence to prudential risk management norms and also ensure compliance to RBI guidelines on interest rate management on advances. A salient feature in these pricing models includes adoption of a differential pricing matrix, in that, pricing of loans to borrowers would be risk adjusted to reflect the borrower's creditworthiness. The Bank believes that the introduction of Risk Based Pricing (RBP) will aide in encouraging and incentivising

borrower/s to maintain a long-term relationship. During the quarter pricing models were deployed and as at June 30, 2024, all business units were covered.

6.2. Quantitative Disclosures

The overall distribution of Gross advances and Gross Loan Book as at June 30, 2024 was as under:

Rs. in lakh				
Vertical	Gross Advances	%	Gross Loan Book	%
MB&RB	18,70,882.95	67.54%	20,85,782.95	69.37%
FIG Lending	1,79,973.95	6.50%	1,79,973.95	5.99%
Housing	4,97,952.98	17.98%	5,19,855.62	17.29%
MSE	1,41,506.88	5.11%	1,41,506.88	4.71%
Personal Loans	5,493.69	0.20%	5,493.69	0.18%
Staff Loan	18,369.27	0.66%	18,390.16	0.61%
Vehicle Finance	23,945.37	0.86%	23,945.37	0.80%
Loan/OD Against Deposit/Gold loan	31,860.43	1.15%	31,860.33	1.06%
Total	27,69,985.52	100.00%	30,06,854.60	100.00%

Exposure summary: Facility type

Exposure Type	Domestic (Rs. in Lakhs)	Overseas
Fund- Based exposure ²¹	41,64,203.98	--
Non- Fund Based Exposure*	38,028.02	--
LESS: CRM DEDUCTIONS (GNPA Provisions held)	(46,600.15)	
Total	41,55,631.86	--

*Non-fund-based exposure for purpose of computation of CRAR includes undrawn limits of MSME Overdrafts and KPC, yet to be disbursed portion of Secured Housing, MSME and FIG customers and Contingent liabilities.

Geographic Distribution of advances (State-wise)²² (Rs in lakh)

Tamil Nadu	4,20,569.30	13.99%
Karnataka	4,00,483.10	13.32%
West Bengal	3,65,121.00	12.14%
Maharashtra	2,78,559.11	9.26%
Gujarat	2,39,081.91	7.95%

²¹ Fund Based exposure is computed as per Basel II guidelines

²² Geography wise loans and advances is Including IBPC, Securitization and DA

Uttar Pradesh	2,09,935.20	6.98%
Bihar	2,05,449.94	6.83%
Haryana	1,63,255.23	5.43%
New Delhi	1,45,273.47	4.83%
Rajasthan	1,35,831.58	4.52%
Jharkhand	73,801.87	2.45%
Punjab	69,334.34	2.31%
Kerala	63,153.74	2.10%
Odisha	61,473.23	2.04%
Madhya Pradesh	47,424.28	1.58%
Tripura	32,877.04	1.09%
Assam	31,003.72	1.03%
Uttarakhand	16,829.88	0.56%
Pondicherry	13,903.71	0.46%
Chhattisgarh	13,873.04	0.46%
Telangana	5,557.98	0.18%
Chandigarh (UT)	5,462.81	0.18%
Himachal Pradesh	3,594.88	0.12%
Meghalaya	3,592.41	0.12%
Goa	1,366.16	0.05%
Andhra Pradesh	0.00	0.00%

Maturity pattern of assets and liabilities

Rs. in lakhs

Buckets	Net Advances	Investments	Deposits	Borrowings
Day - 1	1,423	3,73,943	32,552	49,239
2-7 Days	24,918	13,518	77,464	-
8-14 Days	48,242	23,542	61,660	10,000
15-30 Days	55,698	34,226	1,01,409	-
31 Days and up to 2 months	1,31,103	39,391	2,32,104	10,000
Over 2 months and up to 3 months	1,27,455	53,956	1,93,073	9,050
Over 3 Months and up to 6 months	3,78,328	1,00,224	4,62,127	10,936
Over 6 Months and up to 1 year	6,41,223	2,47,593	7,71,416	22,577
Over 1 Year and up to 3 years	7,87,023	1,90,561	12,92,648	40,308
Over 3 Year and up to 5 years	96,256	15,848	24,663	50,308
Over 5 years	4,19,715	19,041	2,252	33,344
Total	27,11,385	11,11,843	32,51,369	2,35,762

Gross Non-performing assets (NPA)

Rs. In Lakh					
Category of Gross NPA	Jun-23	Sept-23	Dec-23	Mar -24	June-24
Sub-standard	25,496.61	27,395.28	31,310.04	37,994.01	47,781.17
Doubtful	33,965.53	30,265.28	24,843.83	21,851.52	20,756.51
Loss	191.62	919.22	920.39	1,406.94	1,186.78
Total	59,653.76	58,579.78	57,074.26	61,252.47	69,724.46

Rs. In Lakh					
NNPA	Jun-23	Sept-23	Dec-23	Mar-24	June-24
Net NPA	13,262.39	14,181.34	16,275.07	19,629.22	23,124.31
NNPA after factoring Floating Provisions	1,262.39	2,181.34	4,275.07	7,629.22	11,124.31

NPA Ratios	June 2023	Sept-23	Dec-23	Mar-24	June-24
Gross NPA to Gross Advances (excluding IBPC/Securitisation/DA) ²³	2.62%	2.35%	2.18%	2.23%	2.52%
Net NPA to Net Advances (excluding IBPC/Securitisation/DA) ²⁴	0.057%	0.0897%	0.1669%	0.284%	0.41%

Movement of Net NPAs (Quarterly basis)

Rs. In lakh					
Particulars	June 2023	Sept 2023	Dec-23	Mar-24	June-24
Opening Balance is Year Opening Balance	903.83	903.83	903.83	903.83	7,629.22
Additions during the period	7,052.85	12,819.62	19,015.71	25,845.80	13,357.63
Reductions during the period	6,694.29	11,542.12	15,644.48	19,120.41	9,862.54
Closing Balance	1,262.39	2,181.34	4,275.07	7,629.22	11,124.31

²³ Gross NPA to Gross Loan Book (including IBPC/Securitisation/Direct Assignment) was 2.33% as on June 30, 2024

²⁴ Net NPA to Net Loan Book (including IBPC/Securitisation/Direct Assignment) was 0.39% as June 30, 2024

Movement of Provisions for NPAs (excluding provisions on standard assets)

Rs. in lakh

Particulars	June- 2023	Sept-2023	Dec-23	Mar-24	June-24
Opening Balance	50,157.11	50,157.11	50,157.11	50,157.11	41,623.25
Provisions made during the period	6,811.00	13,729.98	19,732.02	25,578.38	12,449.41
Write back of excess provisions	10,576.75	19,488.65	29,089.94	34,112.25	7,472.51
Closing Balance	46,391.37	44,398.44	40,799.19	41,623.25	46,600.15

Provision Coverage Ratio (PCR)

Rs. in lakh

Category	Gross Advances after netting off IBPC, Securitization & Direct Assignment	GNPA on gross advances	GNPA Provisions on gross advances	Floating Provisions Considered for NNPA*	PCR% on gross advances	PCR ON Gross Loan book
MB-RB	18,70,882.95	48,307.62	32,433.97	10,500.00	88.88%	88.88%
FIG Lending	1,79,973.95	441.68071	441.68071	0	100.00%	100.00%
Housing	4,97,952.98	7,109.18	4,361.92	0	61.36%	60.54%
MSME	1,41,506.88	12,518.17	8,364.20	1,500.00	78.80%	78.80%
Personal Loans	5,493.69	601.32	430.73	0	71.63%	71.63%
Staff Loan	18,369.27	22.600764	13.5000825	0	59.73%	59.73%
Vehicle Finance	23,945.37	630.1899641	500.6492891	0	79.44%	79.44%
Loan/OD Against Deposit	31,860.33	93.69162	53.497075	0	57.10%	57.10%
Grand Total	27,69,985.52	69,724.46	46,600.15	12,000.00	84.05%	83.81%

*Rs.12,000 lakh considered for the purpose of netting of GNPA and factoring the benefit in NNPA/PCR computation.

Write off:²⁵

²⁵ Write off includes actual write off and technical write off

Rs. in lakh

Particulars	Total Write off undertaken
Q1 FY 2024-25	5886.66

Non-performing Investments (NPI)

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

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	--

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

7.1. Qualitative Disclosures

- 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.
- 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.
- Institutional lending is risk-weighted as per ratings assigned by Eligible Credit Rating Agencies (ECRA) as prescribed by RBI. During the year, the Regulator had issued specific guidelines with respect to treatment of exposures with instances of rating withdrawal and unrated exposures in relation to total borrowings from industry. The Bank has taken cognizance of the same.
- 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 and only on the basis of LTV vide

a notification on October 16, 2020. The Bank has taken cognizance of the same and these were incorporated for all loans sanctioned after the date of issuance of this circular. The Bank has factored the directions of RBI circular dated April 8, 2022 wherein, it was directed to continue with risk weights contained in the circular ibid for all new individual housing loans sanctioned up to March 31, 2023.

7.2. Quantitative Disclosures

Details of Gross Credit Risk Exposure (Fund based and Non-fund based) based on Risk Weight – Position as on June 30, 2024		
Sl. No.	Risk Weight	Rs. in lakh
1	Below 100% Risk Weight	32,80,819.12
2	100% Risk Weight	1,97,237.46
3	More than 100% Risk Weight	7,24,175.43
4	Deductions (GNPA PROVISION)	(46,600.15)
5	Total	41,55,631.86

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

8.1. 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 MSME loans. Loans to Financial Institutions are secured by a charge over book debts which are registered with CERSAI. Vehicle loans are collateralised by a charge over the vehicle financed.

The Bank accepts Eligible Financial Collateral²⁶ in a few instances for risk mitigation under secured Institutional lending and MSME loans. These financial collaterals are netted off for its collateralized transactions under comprehensive approach²⁷ 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 through a combination of limits and restrictions.

The Bank has in place the following risk mitigation techniques for its loan portfolio which are as follows:

- Life insurance cover is voluntary for all the borrowers availing of the Bank's

²⁶ 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

²⁷ Refer section 7.3 of Master Circular - Prudential Guidelines on Capital Adequacy and Market Discipline New Capital Adequacy Framework (NCAF) dated July 1, 2015

microfinance loans. Housing, two-wheeler, and gold loans are provided with an option to avail a life insurance cover, 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 to those categories.

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

9.1. Qualitative Disclosure

9.1.1. Securitisation Objectives

The Bank undertakes Securitisation transactions to increase the efficiency of capital and enhance the return on capital employed by diversifying sources of funds, managing liquidity and maximising yield on asset opportunities.

The RBI issued 'Updated Securitisation Guidelines' on December 5th 2022 (hereinafter, the 'revised securitisation guidelines') covering Securitisation of Standard Assets. The said guidelines define minimum holding period, minimum retention requirements, due diligence, credit monitoring, stress testing requirements etc. The Regulator has also revised "Master Direction – Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021' dated September 24, 2021 (updated on December 5, 2022) covering transfer of loan exposures (herein after, the 'transfer of loan exposure guidelines'). In compliance to the guidelines, the Bank has put in place appropriate policies for undertaking these transactions.

The overall framework for the Securitisation of Standard Assets for the Bank is specified in the Board approved policy on Securitisation of Standard Assets. During the Q1 2022-23 the Bank had undertaken 'sale' transactions through securitisation route and Direct assignment.

9.1.2. The major risks inherent in Securitisation of Standard Assets and Transfer of Loans are given below:

Credit Risk: In case of Securitisation transactions, where credit enhancement is provided by the originator or any third party as permitted under the revised guidelines, the investor bears the loss in case the shortfall in collections exceeds the credit enhancement provided. If credit enhancement is provided in the form of a corporate guarantee, the investor bears

the loss that could arise due to default by the guarantor which is also reflected in the rating downgrade of the corporate guarantor.

Market Risk:

- **Liquidity Risk:** This is the risk arising on account of absence of a secondary market, which provides exit options to the investor/participant.
- **Interest Rate Risk:** This is the mark-to-market risk arising on account of interest rate fluctuations.

Regulatory and Legal Risk: These risks may arise when transactions are not compliant with applicable laws which may result in the transaction being rendered invalid. Conflict between the provisions of the transaction documents and those of the underlying financial facility agreement.

Operational Risk

- **Co-mingling risk:** Risk arising on account of co-mingling of funds belonging to investor(s) with that of the originator and /or collection and processing servicer, when there exists a time lag between collecting amount due from the obligors and payment made to the investors.

Reputational Risk:

- This risk may arise due to rating downgrade of a securitised instrument due to unsatisfactory performance of the underlying asset pool.
- Inappropriate practices followed by the collection and processing agents

Prepayment Risk:

- This risk arises on account of prepayment of dues by obligors/borrowers in the securitised pool.

In addition to above, originators are exposed to pipeline and warehousing risks which refers to the event where originating banks are unable to off-load assets, which were originated with an intention of selling thus potentially exposing them to losses arising on declining values of these assets. The Bank does not follow the “originator to distribute” model and hence is not exposed to the pipelining and warehousing risks.

The Bank has established appropriate risk management processes to monitor the risks on Securitisation of Standard Assets which include:

Monitoring credit risk

The Bank, in the capacity of collection and processing agent prepares monthly performance reports which are circulated to investors/ rating agencies. The securitised pools are

continuously monitored and those requiring attention are subjected to specific interventions (e.g. focused collection efforts in affected geographies) to improve their performance. The pool is also monitored by the rating agencies based on amortisation level, collection efficiency, credit enhancement utilisation levels and credit cover available for balance deal tenor.

Monitoring market risk

The Bank ascertains market value of the securitisation exposures based on extant norms, which is compared with their book value to assess the marked to market impact of these exposures monthly.

9.1.3 Roles Played by the Bank

Originator / Seller

The Bank originates assets in its book and subsequently sells down through the securitisation or assignment route.

Servicer

For sold assets, the Bank undertakes the activity of collections and other servicing activities including preparation of monthly pay out reports.

Provider of Liquidity Facilities

The Bank may provide liquidity facility to address temporary mismatches on account of the timing differences between the receipt of cash flows from the underlying performing assets and the fulfilment of obligations to the beneficiaries.

Credit Enhancement provider

The Bank provides credit enhancement on Securitisation 'sale' transactions undertaken by the Bank for meeting shortfalls arising on account of delinquencies and prepayment losses in the underlying pool sold.

9.1.4 Significant Accounting Policy for Securitisation and Direct Assignment of Standard Assets

The Bank as originator sells assets to a special purpose entity only on cash basis. Standard Assets transferred through securitisation are de-recognised in the Balance Sheet when they are sold (true sale criteria being fully met with) and consideration is received. Sales / transfers that do not meet true sale criteria are accounted for as borrowings. Standard assets transferred through direct assignment are de-recognised in the Balance Sheet of the Bank to the extent a portion of the rights, title and interest of the Bank in the underlying loans has been assigned. The Bank follows the accounting treatment specified in the revised securitisation guidelines and transfer of loan exposure guidelines for any realised and

unrealised gain arising from the securitisation transactions.

The Bank transfers advances through inter-bank participation with risk. In the case of participation with risk, the aggregate amount of the participation issued by the Bank is reduced from advances.

9.1.5 Rating of Securitisation Transaction

During FY 2023-24, the Bank used the ratings provided by CARE Ratings limited for the securitisation of retail pools. There has been no change to this rating.

9.2. Quantitative Disclosures

Details of Securitisation exposures in the Banking Book

Rs.in Lakh

Total Exposures Securitised by the Bank*	-
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*Represents total exposure of loans securitised and sell-downs via Direct Assignment during Q1 FY 2024-25

For exposures securitised, losses recognised by the Bank during the current period broken by the exposure type

Rs.in Lakh

Exposure type	Losses
PTC (underlying assets being Loan against property) *	-
Total	-

*PTC- Pass Through Certificate

Assets to be securitised within a year as on June 30, 2024

Rs.in Lakh

Exposure type	Amount
Amount of assets intended to be securitized within a year	-
Of which amount of assets originated within a year before Securitization	-

Total outstanding exposures securitised by the Bank and the related unrecognised gains/(losses)

Rs.in Lakh

Exposure Type	Amount*	Unrecognised gains / (losses)
PTC (underlying assets being Loan against property)	14,856.79	-
Direct Assignment	7,055.18	
Total	21,911.97	-

*The amount represents the total outstanding for Securitization and Direct Assignment as on June 30, 2024.

Securitisation exposures retained or purchased

Rs.in Lakh

Exposure Type	On Balance Sheet*	Off Balance Sheet	Total
Equity Tranche	1,262.94	-	1,262.94
Overcollateralization	1,969.22	-	1,969.22
Direct Assignment	850.43	-	850.43
Total	4,082.59	-	4,082.59

* Represents total principal amount of investment in Equity Tranche, Overcollateralization and Direct Assignment outstanding under risk sharing as at June 30, 2024.

Risk weight bands break-up of securitisation exposures retained or purchased

Rs. In lakh

Exposure Type	50% weight	75% risk weight	114% risk weight*	125% risk weight	Total
Equity Tranche (underlying assets being Loan against property)			1,262.94		1,262.94
Total			1,262.94		1,262.94

* Calculated as per formula prescribed in Master Direction – Reserve Bank of India (Securitisation of Standard Assets) Directions, 2022

Securitisation exposures deducted from capital –

Exposure Type	Exposure deducted entirely from Tier-1 capital	Credit enhancing interest-only strips deducted from total capital	Other exposures deducted from total capital
Overcollateralization	1,969.22	-	-
First Loss Credit Enhancement	1,989.81	-	-
Total	3,959.03	-	-

Details of Securitisation Exposures in the Trading Book

- NIL

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

10.1. Qualitative Disclosures

10.1.1. Overview of Market Risk Management

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

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), Certificate of Deposits (CD), Commercial Papers (CP), Debt Mutual Funds (MF), Non-Convertible Debentures (NCD) 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) and investment of Rs. 1,263 lakhs as Pass through Certificates as part of the Securitisation deal executed during FY 2022. The Bank resumed investments in non SLR securities such as certificate of deposits, commercial papers and Mutual Funds during Q1 FY 24-25 after successfully completing the automation of NPI module. During the year the Bank also secured necessary approvals to commence investments in select IPOs as a way to deploy short term surpluses and generate the alpha. This aspect of the investment business is at a nascent stage and limited investments were made during the period. These were all liquidated upon listing of the shares. As on June 30, 2024, the investment holdings in various SLR and Non SLR instruments were as under:

Rs. in lakhs

	AFS		HFT+FVTPL		HTM	
Instruments	BV	MV	BV	MV	BV	MV
<u>SLR</u>						
G Sec	2,524.00	2,527.00	20,617.00	20,607.00	4,48,408.50	4,42,423.00
SDL	0.00	0.00	0.00	0.00	1,92,100.00	1,91,768.00
STRIPS	0	0	0	0	0	0
T Bill	2,28,555	2,28,555	5,373	5,373	0	0
Total SLR	2,31,079.00	2,31,082.00	25,990.00	25,980.00	6,40,508.50	6,34,191.00
<u>NON-SLR</u>						
PTC	0.00	0.00	1,262.00	1,384.00	0.00	0.00
Equity	0.00	0.00	12.00	12.00	0.00	0.00
CP	0.00	0.00	18,656.00	18,656.00	0.00	0.00
CD	0.00	0.00	1,71,938.00	1,71,938.00	0.00	0.00
NCD	0.00	0.00	22,397.00	22,397.00	0.00	0.00
MF	0.00	0.00	1,262.00	1,384.00	0.00	0.00
Total NSLR	0.00	0.00	2,14,265.00	2,14,387.00	0.00	0.00
Total Investment	2,31,079.00	2,31,082.00	2,40,255.00	2,40,367.00	6,40,508.50	6,34,191.00

During the quarter, the Bank had added ~Rs. 83,002 lakhs of securities in its HTM portfolio. There was no transfer of securities from HTM to AFS portfolio in the current quarter. However, RBI had announced switch of GOI securities conducted on 27th May 2024. The Bank had participated in the switch auction and swapped the near maturity securities with longer maturity securities. The Bank participated in the auction with due approval of Board of Directors.

As at June 30, 2024, there was negative MTM of ~Rs. 6.62 lakhs from positions held in HFT and AFS. As the rate has stabilised, the Bank started purchasing securities of slightly higher duration in HTM portfolio in order to capture the benefit of reduction in interest rate during H2 of FY 2025. The HTM duration stood at 4.52 years. The Bank continued to operate under the HTM limit of 23% applicable until June 30, 2024. However, this limit is no longer applicable in terms of RBI's Master Direction on Investments dated September 12, 2023. The Bank monitors the market signals and yield curve for any investment opportunity which can maximise yield. The current investment mix of the HTM portfolio is well poised to generate a positive MTM in the event of interest rate reduction. From risk management standpoint, the duration mix of the investment portfolio is also strategically maintained in a manner to limit incremental negative MTM in the event of recommencement of rate hikes.

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; majority of investments in AFS is in the form of Treasury Bills with small part of the AFS portfolio held in Central Government securities. The mandatory requirement for maintenance of SLR as stipulated by RBI is 18.00% of Net Demand and Time Liabilities (NDTL). 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 lakhs			
Month	Average SLR requirement	Average SLR maintenance	Average SLR requirement maintained as a % of NDTL
Apr-24	5,48,862	8,79,235	28.84%
May-24	5,65,713	9,17,018	29.18%
June-24	5,67,043	8,40,621	26.68%

The maintenance of SLR was higher than the minimum requirement as the Bank continued to carry surplus liquidity and deployment in SLR was one the avenues opted for minimising the effect of negative carry. The excess SLR provides the required support in a contingency and helps in maintenance of regulatory ratios over the mandated minimum threshold and internal risk tolerance limits.

Reserve Bank of India had issued revised guidelines for investments vide its Circular number RBI/DOR/2023-24/104 dated September 12th 2023. The circular has become effective from 1st April 2024. The Bank took various steps to implement and comply with the Master Direction such as revised investment policy incorporating the provisions of the Direction was put in place with the approval of Board of Directors, necessary system enhancements were made to create new portfolios and accounting step up and also existing book was transitioned to new regime and appropriate reserve was created for revised carrying value of the investment portfolio. Also, it was necessitated by the provisions of the Master Direction to align the existing risk and loss limits on Treasury such as Trading Limits, M-duration and PV01 limits, exposure limits and stop loss limit to operate under the new framework.

Trading: The Bank is actively trading in G-sec market on an intraday basis and also carries overnight position in HFT portfolio, the trading positions are governed by stop loss limits to minimise the loss should there be a volatility in the market. 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.

The Bank resumed non SLR investments from June 2023 onwards and has made investments in CD, CP, NCD and debt and liquid mutual funds. The investment is undertaken with an objective of diversifying the investment portfolio and maximising the yield on the investment portfolio by deploying surplus liquidity. The transactions in non SLR investments were within the Board approved policies and regulatory thresholds.

10.1.2. Liquidity and Liquidity Risk Management:

Treasury Department is primarily responsible for the day to day liquidity and fund

management with an oversight by the ALM desk. 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 funds, Front Office undertakes money market borrowing and lending activity. The source of borrowing and lending amongst Call money, Repo, TREPS and CROMS is decided based on the most favourable rate. The regulatory limit on Call/Notice money borrowing and lending is monitored on a daily basis by Middle office and reported to all stakeholders.

Market Risk team keeps the senior management and the Board apprised of the Liquidity situation of the Bank through regular updates to the ALCO and RMCB. As a part of the update, a detailed analysis on cash flow projections, recommendations, constraints (if any), scenario analysis on various regulatory ratios and ALM position of the Bank are being placed at regular intervals.

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, Direct Assignment, IBPC transactions, refinance and term loan facilities from Bank. The Bank is prioritizing long-term funding through deposit mobilization. The average liquidity position of the Bank is at comfortable levels with LCR hovering above 163.89% during Q1 FY 24-25 (average for the quarter).

Despite the challenges faced on account of spiralling inflation, liquidity reduction in the market and sticky interest rate on deposits, the Bank's ALCO took various proactive measures to align the Bank's funding and interest rate risk management strategies to evolving market dynamics by tweaking the interest rate offered on deposits and advances, diversifying funding avenues with the twin objective of staggered maturities and controlled increase in cost of funds and revisiting the investment portfolio limits which helped to minimise the impact of risks and aiding balance sheet growth.

On AD1 License:

The Bank initiated putting in place necessary steps to apply for AD1 license with RBI during FY 2025 as the Bank has met all the eligibility criteria laid out by RBI in this regard. The AD 1 license shall enable the Bank to offer wide range of product suits to certain segments of existing customers and also enter into new segments which will facilitate customer acquisition albeit at a gradual pace.

10.2. Quantitative Disclosures

Liquidity Coverage Ratio (LCR)

The objective of the LCR is to promote the short-term resilience of a bank's liquidity risk profile, ensuring that it has adequate stock of unencumbered high-quality liquid assets that can easily be converted into cash to meet its liquidity needs in an acute stress scenario lasting for 30 days.

Liquidity Coverage Ratio			
	Q1 Quarterly Average		Rs. in lakhs
		Amount	Adjusted Amount
A	High Quality Liquid Assets		
	Level 1 Assets	8,69,510.20	8,69,510.20
B	Total Stock of HQLAs	-	8,69,510.20
C	Cash Outflows	25,21,656.60	6,82,957.37
D	Cash Inflows	2,41,009.15	1,52,425.61
E	Net Cash flow	-	5,30,531.76
F	25% of Total Cash Outflow	-	1,70,739.34
G	Higher of E or F	-	5,30,531.76
Liquidity Coverage Ratio		163.89%	

LCR for the quarter was comfortable and remained considerably in excess of the mandated minimum.

Net Stable Funding Ratio (NSFR): NSFR is defined as the amount of available stable funding relative to the amount of required stable funding. "Available Stable Funding" (ASF) is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. The amount of stable funding required ("Required Stable Funding") (RSF) of a specific institution is a function of the liquidity characteristics and residual maturities of the various assets held by that institution as well as those of its off-balance sheet (OBS) exposures. The minimum NSFR requirement set out in the RBI guideline is 100%.

The Bank's NSFR as at June 30, 2024 was 137.35% as against RBI minimum requirement of 100%.

Rs. In Lakhs	
NSFR	Weighted Amount
Total Available Stable Funding (ASF)	27,84,625.45
Total Required Stable Funding (RSF)	20,27,329.32
NSFR	137.35%

11. Table DF- 9: Operational Risk

11.1. Qualitative Disclosures

11.1.1. 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. 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 Risk Management Committee Board (RMCB). The ORMC supports the RMCB 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. Operational Risk Team enhanced the existing Operational Risk Management Policy with the Guidance note on Operational Risk Management and Operational Resilience published by RBI issued on 30th April 24 and approved by ORMC & RMCB held in the month of July’24. 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 Business Continuity Management. This is a continuing process and the Bank is continuously striving to enhance its processes.

In the post pandemic era, the Bank has largely been successful in mitigating the risks of credit quality deterioration, collection risks, liquidity risks and interest rate risks which were largely triggered on account of external dynamics. The Bank has taken concerted efforts in reviewing the operational risk framework to identify and mitigate idiosyncratic risks in processes and systems. For instance, the Bank has identified various deficiencies in branch level operations which can exacerbate internal and external frauds.

11.1.2. 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~~ 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 with effect from February 2021 and meetings are held at defined frequency. The Bank’s Operational Risk team reviews and provides their observations for including additional controls for the risks identified during the assessment, if warranted. 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. Operational Risk Management Department (ORMD) had reviewed 40 processes in Q1 FY'25. Few of them to note are process note on MSME Working Capital - Renewal and review process, PM Vishwakarma (PMV) - Tranche 1, Navratna Family Program, SOP on Software Escrow Management and One Time Combination (OTC) Lock for ATM/ACR etc.

UAT Testing (including BRD and FSD): For any change management/ automation of products and processes, the respective department owners prepare a Business Requirement Document (BRD). The BRD is to be approved by the Department's Head, post which it is reviewed by the control functions (namely Compliance and Operational Risk) for further improvements (if any). Subsequently, the same is sent to the IT department who then prepare a Functional Specification Document (FSD) detailing the scope of the project. Once the project is moved to the testing stage, the Business and IT teams are to sign-off on the requirements developed in the User Acceptance Testing UAT environment. With these sign-offs, the ORMD performs UAT along with other key stake holders (wherever needed) to identify gaps (if any) in the actual deliverable versus changes proposed in the BRD. These gaps are further addressed and closed by the Business and IT team before moving the development to production. As on June 30, 2024, 63 BRDs and 28 FSDs were reviewed and UAT was undertaken for 84 new developments/changes/fixes provided by IT. A few key projects undertaken were Current account opening through HHD Ujjivan assisted app, Staff LOS, Enabling AePS Cash Deposit, Account transfer request through Phone Banking, Overdraft Product for Veefin LMS - Supply Chain Finance in CRM, WhatsApp Banking & Chatbot Banking, Employee Referral Module amongst others.

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. The outcome of RCSA provides insight into known as well as potential Operational Risk areas in various process / business lines. Business teams, being the first line of defence, are responsible for carrying out RCSA activity. ORMD, being second line of defence is responsible for providing necessary guidance, training and inputs to the First Line of Defence (FLOD) for carrying out the RCSA. To create a Risk culture in FLOD and assume ownership for this activity, a Special Point of Contact (SPOC) is identified in each department who is designated as Business Risk and Compliance Officer (BRACO) with whom ORMD shall engage. RCSA framework was approved in April 2021. Based on directions from the Board, in FY'24, RCSA was conducted for 21 identified departments through BRACOs of the vertical and completed by May 2024, also advised the department to ensure that RCSA is done on an ongoing basis as a First line of defense.

Key Risk Indicators: In FY'25, 40 KRIs continue to be monitored at Organization level. At functional level, 14 KRI's are monitored for Branch Banking vertical, 14 KRI's are monitored

for Micro Banking vertical, 9 KRI's for Secured Housing Loans, 25 KRI's for Digital Banking, 7 KRI's for Agricultural Banking, 7 KRI's for MSME, 9 KRI's for Vehicle Loan as part of the ORM framework. The thresholds for the KRIs have been set in consultation with the respective stakeholders. These KRIs are analysed on the monthly basis and wherever breached those KRI's are shared with the respective stakeholders for their action plan. The KRI's across all the 8 functions (Organisation, Branch Banking, Micro Banking, Secured Housing Loans & Digital Banking, Agricultural, MSME & Vehicle Loan) were computed till Q1'25. Ops Risk has presented the KRIs along with the action plan provided by the department to ORMC held in the month of July 24. In Q1 FY'25, ORM has planned to identify the KRIs for Operations which will be commenced post obtaining the concurrence for the threshold from the respective departments.

Risk Review Unit (RRU) Score Card: RRU Scorecard for MSME and SHL verticals were published on monthly basis. Scorecards for both the verticals were published till the month of June'24 and wherever breaches observed, details shared with respective department for action plan and timeline to mitigate the risk.

Operational Risk Index (ORI): The ORMD developed an Operational Risk Index for the Micro Banking business unit, which monitors 22 parameters pertaining to People and Process risk. The index is developed on a monthly basis and the output classifies the branches into High, Medium and Low risk basis the branch's performance against the parameters. The output is shared with the OR regional team and the Audit team to better plan their branch visits and closely monitor the breached parameters in order to identify the root cause of the lapses.

Loss Data Management is in place to record material incidents and learnings 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. Bank has onboarded new vendor M/s. Acies to replace existing EGRC module from SAS which was in place to record all loss events across the Bank till 30th June'2023. 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 of any 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.

Loss Dashboard for YTD FY 24-25 (as on Jun'24):

Event Type	Count		Loss in lakhs			
	YTD Jun'23	YTD Jun'24	YTD Jun'24			YTD Jun'23
	Total	Total	Gross	Net	Ops Loss	Ops Loss
Business Disruption and Systems Failures	114	62	₹ 1.44	₹ 1.38	₹ 0.23	₹ 3.58
Clients, Products, and Business Practice	1	4	₹ 1.43	₹ 1.43	₹ 1.43	₹ 0.02
Damage to Physical Assets	3	5	₹ 0.00	₹ 0.00	₹ 0.00	₹ 0.00
Employment Practices and Workplace Safety	1	5	₹ 0.00	₹ 0.00	₹ 0.00	₹ 0.00
Execution, Delivery, and Process Management	327	447	₹ 38.60	₹ 70.74	₹ 53.86	₹ 6.43
External Fraud	81	47	₹ 70.38	₹ 63.52	₹ 8.06	₹ 0.85
Internal Fraud	46	127	₹ 132.23	₹ 87.03	₹ 36.67	₹ 0.00
Total	573	697	₹ 244.10	₹ 224.13	₹ 100.27	₹ 10.89

>Gross loss refers to total amount involved in the reported incidents, Net loss refer to loss which got netted off post recoveries and Operational loss refer to the actual loss booked in Operational loss GL (Fraud & Non-fraud) in case of unsuccessful recovery efforts.

^ Out of the 697 incidents reported in YTD Jun'24, 359 (~51%) are from "Cash Excess" and "Cash Shortage", owing to inclusion of all incidents reported, irrespective of amount.

The Ops Loss Recovery done as on date (30th Jun'24) pertaining to Operational Losses booked in previous financial years is Rs. 18.51 Lakhs.

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. In Q1 FY 24-25, ORMD team performed an analysis on the Post Disbursement Document (PDD) pending for Housing Loan provided to Staff to identify the gaps and to recommend measures to mitigate the risk if any. Key gaps identified during the review were highlighted with the respective stake holders and discussed in ORMC and RMCB held in the month of July 24.

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. In FY'24, user access review was proposed to be performed for 20 applications which are used

by the Bank as a part of yearly review and findings were shared with respective stake holders for initiating corrective action. The Bank has a process for 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, contractor's ID's, Generic ID's and system ID's. Role Base Access provision reviews and process to be followed for user de-activation on exit from organisation which is under review.

Exceptions Handling Mechanism is an initiative, which was initiated from July 2020 as guided by the National Controls and Compliance Committee. A list of 32 exception reports was identified and tagged to Operational Risk department of the Bank for initiating the review. In Q1 FY'25, the existing list of exception reports was revamped with a change in frequency of monitoring from Quarterly to Daily/Monthly which will help to take action on priority basis. A list of 30 exception reports was identified post revamp and ORM will start the monitoring from Q1 FY'25. A total of 18 exception reports were revised for monitoring on daily frequency. Observations identified in exception reports during the monitoring activity till the month of June 2024 have been taken up with respective stakeholders for discussing the gaps observed to undertake appropriate corrective actions.

Branch Assurance: Branches across regions are reviewed against a checklist devised by ORMD of the Bank to ensure adherence to branch processes. The checklist is reviewed and enhanced as and when required to strengthen monitoring of branches. Critical and repeat observations are shared with the leadership team for remedial /corrective actions. Checklist was reviewed and enhanced further. In Q1 FY'25, ORM team had reviewed 145 branches PAN India. A monthly connect is also called for with leadership team at regional level to discuss on critical and key observations made by ORM team as part of their branch visit. These critical observations were presented in ORMC meeting in the month of Jul'24.

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 ORMD has developed the revised Outsourcing Policy based on the Master Directions on IT Outsourcing released in April '23. This has been approved by all relevant stakeholders and by the Board. Outsourcing undertaken by the Bank is also subject to an annual audit by the Internal Audit team who provide the required compliance certificate to RBI. Key activities undertaken during Outsourcing are as follows:

Pre on-boarding risk assessment: All outsourcing 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. In Q1 FY25, pre-on boarding risk assessment was carried out for 8 vendors as on June 30, 2024.

Post – on boarding risk assessment: All material vendors are also subjected to a periodic post on boarding risk assessment. This assessment is carried out by the respective unit that has outsourced the activity and it is monitored by the Alliance & Electronic Payments team.

Annual review of material vendors: ORMD of the Bank along with Information security team of the Bank carries out annual risk review of material vendors. In the FY'25, the assessment is to be carried out for 38 vendors out of which 10 are bulk vendors and 28, non-bulk.

Business Continuity Planning (BCP): Business Continuity Management is a requirement for a Bank to minimize the adverse effect on critical areas of Operational Risk with respect to High-Impact and Low-Probability Disruptions. Through this, the 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.

The Bank's 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 threats/ attacks.

The Bank reviews BCM policy and plan documents annually and enhances the documents as per the changes made in the Bank's critical processes and activities. Bank also conducts periodic BCP testing considering various disruptive scenarios which helps identify the gaps in ensuring smooth recovery and resumption of the processes. On an ongoing basis, BCP testing for randomly selected branches is also conducted to ensure that the recovery process becomes more robust and efficient to recover from any disaster / crisis situation. Learnings are documented in the Business Continuity Plan for corrective action In Q1 FY'25, 56 planned and 7 unplanned BCPs were conducted across branches in regions. Also 2 planned BCP Exercises were conducted by corporate functions viz., Treasury Front Office and Payments & Settlements.

Internal Financial Control (IFC) testing: This is an annual exercise and carried out by ORMD of the Bank. The team along with concerned stakeholders prepares and enhances Risk and Control Matrices (RCMs) for activities performed by process owners. The financial and operational controls in these RCMs are then tested by collecting samples from across the

review period covering 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 results of this evaluation are also presented to ORMC, RMCB & ACB to update them on effectiveness of the internal controls of the Bank and take guidance. These results are also shared with the Bank's statutory auditor to provide insight on adequacy and effectiveness of the controls in the Bank. ORMD planned to enhance the RCMs from Q2 FY'25, post the enhancement testing will be initiated from Q3 FY'25.

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

12.1. 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. For banking book, interest rate risk arises through mismatches in re-pricing of interest rate sensitive assets (RSA), rate sensitive liabilities (RSL). The Bank has identified the risks associated with 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:

- 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.
- 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. Additionally, the Bank has also performed steepening of yield curve wherein a change in 100 basis points was considered linearly between 15-day and over 25-year maturities and using an inversion of the yield curve wherein One -year rates were increased by 250 basis points and 10-year rates were decreased by 100 basis points. Such shocks are monitored regularly in order to assess the impact of interest risk on the Bank's book and its potential impact on the Bank's business projections. These scenarios are as per the RBI guidelines on stress testing dated 02 Dec 2013.
- The Bank has taken measures to address interest rate fluctuations and the impact on the portfolio.

12.2. Quantitative Disclosures

12.2.1. 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	-3,210.16	3,210.16
2	Overseas	-	-
	Total	-3,210.16	3,210.16

12.2.2. Economic Value Perspective (MDG Approach)

Rs. in Lakh

Category	Items	Amount
A	Computation of Aggregate RSA	39,30,299.31
B	Computation of Aggregate RSL	34,87,130.85
C	Weighted Avg. MD of RSL across all currencies	1.08
D	Weighted Avg. MD of RSA across all currencies	2.01
E	Modified Duration Gap (MDG)	1.05
F	Change in MVE as % of equity for 200 bps change in interest rate	15.14%
G	Change in MVE in absolute terms	82,665.32

12.2.3. Economic Value Perspective (Steepening of Yield Curve)

The Bank calculated the change in MVE using steepening of yield curve wherein a change of 100 basis points was considered linearly between 15-day and over 25-year maturities. Change in MVE under this scenario was (Rs. 35,764.48 lakh).

12.2.4. Economic Value Perspective (Inversion of Yield Curve)

The Bank calculated the change in MVE using Inversion of yield curve wherein one -year rate was increased by 250 basis points and 10-year rate was decreased by 100 basis points. Change in MVE under this scenario was (Rs.13,314.51 lakh).

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

Rs. in lakh

Summary comparison of accounting assets versus leverage ratio exposure measure		
	Item	Amount
1	Total consolidated assets as per published financial statements	42,04,999.10

2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	11,12,696.26
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)	
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off- balance sheet exposures)	35,223.33
7	Other Adjustments	-40,795.13
8	Leverage ratio exposure	41,99,427.30

17. 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)	42,04,999.10
	Domestic Sovereign	8,97,412.54
	Banks in India	33,848.61
	Corporates	1,81,263.11
	Exposure to default fund contribution of CCPs	172.00
	Other Exposure to CCPs	
	Others	30,92,302.85
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	-40,795.13
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	41,64,203.97
	Derivative exposures	-
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	-
5	Add-on amounts for PFE associated with all derivatives transactions	-



6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	Total derivative exposures (sum of lines 4 to 10)	-
	Securities financing transaction exposures	-
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	CCR exposure for SFT assets	-
15	Agent transaction exposures	-
16	Total securities financing transaction exposures (sum of lines 12 to 15)	-
	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	52,530.60
18	(Adjustments for conversion to credit equivalent amounts)	17,307.27
19	Off-balance sheet items (sum of lines 17 and 18)	35,223.33
	Capital and total exposures	
20	Tier 1 capital	5,42,462.40
21	Total exposures (sum of lines 3, 11, 16 and 19)	41,99,427.30
	Leverage ratio	
22	Basel III leverage ratio	12.92%

Presently the contribution of Tier I capital to Total Basel II capital is 92.41%. 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 Off Balance Items is presently low, the Leverage ratio is well above the benchmark of 4.5%.
