

**Basel – Pillar 3 Disclosures – March 31, 2022**

Bandhan Bank Limited (hereafter referred as the “Bank”) aims to operate within an effective risk management framework to actively manage all the material risks faced by the Bank, in a manner consistent with the Bank’s risk appetite.

Bandhan Bank Limited commenced its banking operations on August 23, 2015. As per the Scheme of Arrangement, the entire balance sheet of Bandhan Financial Services Limited (BFSL) was transferred to Bandhan Bank Limited with effect from August 23, 2015. The Bank got listed on March 29<sup>th</sup>, 2018 on NSE & BSE.

This document covers the Capital Adequacy status for Bandhan Bank Limited. It also describes the Risk Process and Governance at the Bank to effectively assess, monitor and report risk.

**1. Scope of Application and Capital Adequacy****DF – 1: Scope of Application**

The framework of disclosures applies to Bandhan Bank Limited (hereinafter referred to as the Bank), a scheduled commercial bank, incorporated on August 23, 2015. Currently, the Bank does not have any financial or non-financial subsidiary.

**DF – 2: Capital Adequacy*****Qualitative Disclosure:***

The Bank has a process for assessing its overall capital adequacy in relation to the Bank's risk profile and strategy for maintaining its capital levels. The process provides an assurance that the Bank has adequate capital to support all risks inherent to its business

and an appropriate capital buffer based on its business profile. The Bank identifies, assesses and manages comprehensively all risks that it is exposed to through sound governance and control practices, robust risk management framework and an elaborate process for capital calculation and planning.

In line with the Basel III guidelines which are effective since April 01, 2013, the Bank has calculated its capital ratios as per the extant RBI guidelines. The main focus of Basel III norms is on the quality and quantity of Tier I capital and these regulatory requirements are currently met with the quantum of capital available with the Bank. The Pillar I Risk Weighted Assets (RWA) Calculation covers the following risks:

- i. Credit Risk (Standardized Approach)
- ii. Market Risk (Standardized Approach)
- iii. Operational Risk (Basic Indicator Approach)

As on March 31, 2022, the Bank had a total capital of Rs. 18234. 23 Cr, out of which Tier-I capital stood at Rs. 17136.82 Cr. The Capital to Risk Assets Ratio (CRAR) of the Bank stood at 20.10% against regulatory requirement of 11.50%.

The Bank has in place the Internal Capital Adequacy Assessment Process (ICAAP) wherein, all risks relevant to the bank are identified and the risk factors are stressed to measure the capital requirement for such risk.

**Quantitative Disclosure**

The standalone CRAR position of the Bank as on March 31, 2022 stood as below

| <b>Capital Requirement</b>                                       |                      |
|--|----------------------|
|  | <b>(Rs in crore)</b> |
| <b>(a) Risk Weighted Assets for Credit Risk:</b>                 |                      |
| Portfolios subject to Standardised approach                      | <b>73288.34</b>      |
| Securitisation   | -                    |
| <b>(b) Risk Weighted Assets for Market Risk:</b>                 |                      |
| Standardised duration approach                                   | <b>2635.88</b>       |
| Interest Rate Risk   | 1623.95              |
| Foreign exchange Risk (including Gold)                           | 28.13                |
| Equity Risk  | 983.81               |
| <b>(c) Risk Weighted Assets for Operational Risk:</b>            |                      |
| Basic indicator approach   | <b>14,773.10</b>     |
| <b>(d) Total Risk Weighted Assets</b>                            | <b>90,697.31</b>     |
| <b>(e) Common Equity Tier 1, Tier 1 and Total capital ratio:</b> |                      |
| <b>CET I</b>   | 18.89%               |
| <b>TIER I</b>  | 18.89%               |
| <b>TIER II</b>   | 1.21%                |
| <b>TOTAL</b>   | 20.10%               |

**2. Risk Exposure and Assessment**

The Bank encourages calculated risk-taking, where risks are known, and are within the risk limits arising from the Board approved risk appetite. Also while evaluating the risks, the associated returns are also considered. The key constituents that promote “Risk aware culture” in the Bank are:

- Encourage employees to take business decisions in line with the Bank’s approved risk appetite;
- Treatment to whistleblowers who report on fraudulent activities;
- Treatment to employees who report potential risks; and

- Adequate and regular training of personnel in the business areas on their roles in risk management.

Risk transparency is fostered through reporting, disclosure, sharing of information and open dialogue on the risks arising from various activities across the Bank.

### **Risk Governance Model**

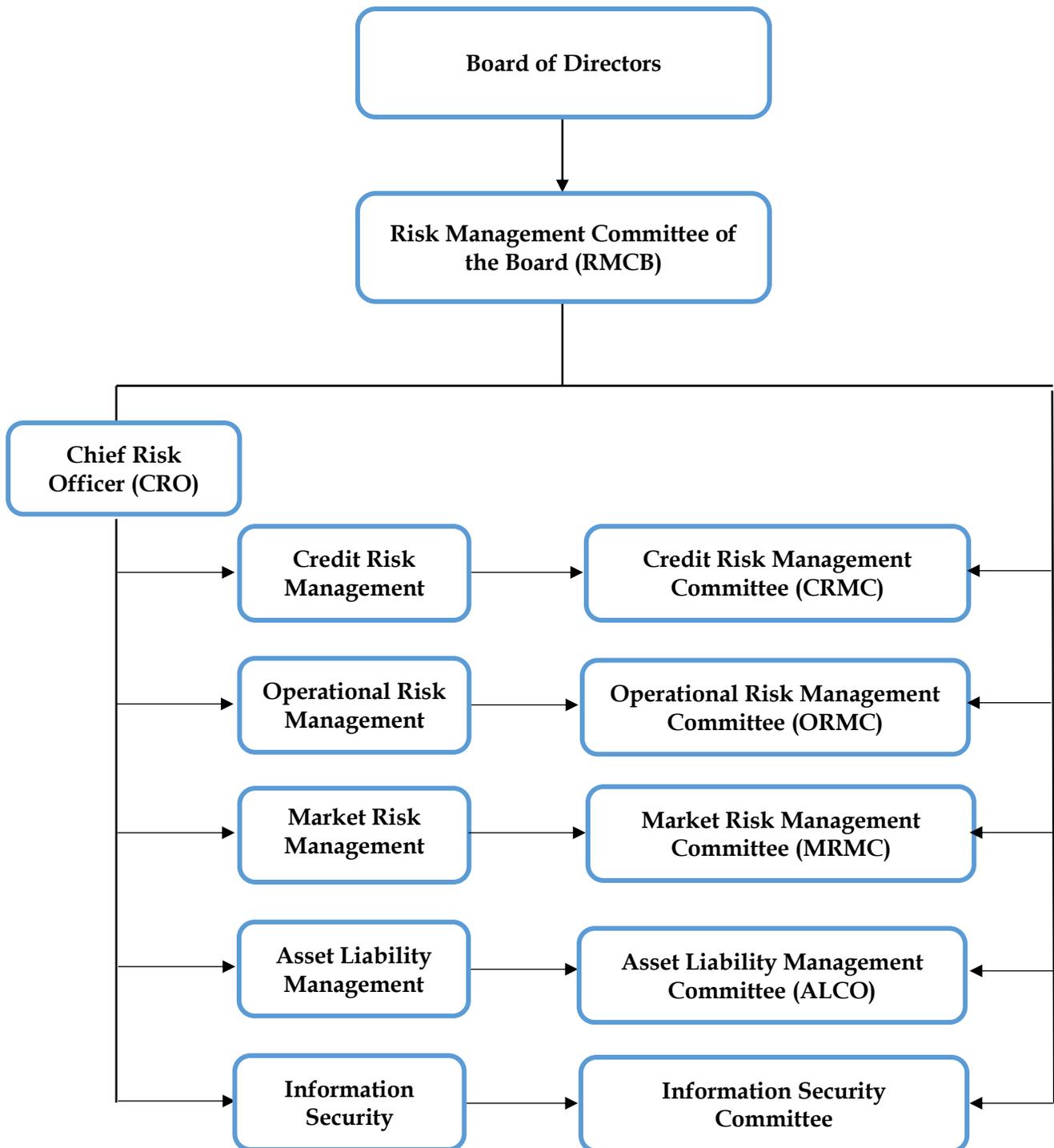
The Bank has established a robust system for directing and controlling the management of various risks within and across the Bank. This governance model defines three key roles:

- Business that take, manage, and assess risk;
- Risk Management that provide risk appetite, governing policies, analysis, monitoring, and reporting; and
- Internal Audit that provide independent inspection and assurance.

Risk Management Department is responsible for setting up the appropriate risk control mechanism to quantify and monitor risks in timely manner.

### **Risk Governance Framework**

The Bank believes that the role of risk management should not be biased by consideration of profits or performance evaluation and should be in line with regulatory guidelines and international good practices. The risk governance framework has been designed taking this into account.

**Risk Governance Structure**

The risk governance framework provides guidance on adopting a more holistic approach to manage risk, emphasizing four related elements:

- Developing the corporate risk profile;
- Establishing a risk function that manages risk in an integrated manner;
- Practicing integrated risk management; and
- Ensuring continuous risk monitoring.

The risk governance framework for the Bank is supported by the detailed roles and responsibilities within the Bank.

### **Governance Committees**

Key roles and responsibilities relating to risk management are clearly defined and stated below:

#### **Board of Directors**

Board of Directors (BoDs) has the overall responsibility for management of all the Risks. The key responsibilities of BoDs are the following:

- Be aware of the major aspects of the bank's risks that should be managed, and should approve an appropriate risk management framework for the bank and review it periodically;
- Based on the recommendation of RMCB and individual RMCs, approve and periodically review the risk appetite, risk management policies, and processes;
- Establish a management structure, which can effectively implement the Bank's risk management framework and define clear lines of management responsibility, accountability and reporting;

- Provide senior management with clear guidance and direction with respect to promotion of risk management culture and awareness in the bank;
- Ensure that the Bank has adequate internal controls (empower internal audit) in place to oversee the implementation of policy and procedures;
- Approve ICAAP and the underpinning capital requirements periodically;
- Ensure that the Bank has in place appropriate methods for monitoring compliance with laws, regulations, and supervisory and internal policies; and
- Obtain assurance (through internal audit and external reviews) that the Bank's risk management policies for significant risks are being adhered to.

### **Risk Management Committee of the Board (RMCB)**

RMCB has overall responsibility to oversee the Integrated Risk Management program including Credit, Market, Operational and other key risks. The committee is responsible to:

- Oversee risk management function and obtain assurance from the respective committees and risk departments that the key risks facing the Bank have been properly identified and are being appropriately managed;
- Define the risk appetite of the Bank within overall parameters set by the Board including business strategy & growth and review Risk Profile on quarterly basis
- Ensure effectiveness in the conduct of the overall risk governance;
- Approve risk limits at the bank-wide level for various portfolios such as product, industry, geography, risk types etc.;

- Approve risk management and measurement policies/ guidelines and procedures before submission to the Board;
- Allocate and maintain sufficient resources (including IT support) for risk identification, measurement, monitoring and reporting;
- Approve risk capital computation and place it to the Board for approval;
- Reinforce the culture and awareness of risk management throughout the organization.
- Approve and ensure robustness of financial models and effectiveness of systems used to measure Credit Risk whenever applicable, which include:
  - Approve all material credit risk models
  - Approve the use of risk rating systems for business and risk management purposes;
  - Ensure effectiveness and performance of rating system and associated processes and controls
  - Approve all material credit risk models and rating systems along with changes if any made to them; and
- Discuss the findings of the Audit Committee of the Board (ACB) whichever and whenever deemed necessary

### **Audit Committee of the Board**

The Audit Committee of the Board (ACB) is responsible to:

- Assist the Board in carrying out its oversight responsibilities as they relate to the Banks financial and reporting practices, internal control and compliance with laws, regulations and ethics

**A. Financial and Other Reporting**

- Provide assurance to the governing board that financial information reported by management reasonably portrays the Bank's financial condition, results of operations, and plans and long-term commitments;
- Review of financial and/or fiscal policies and policy decisions;
- Review of the financial statements including interim financial statements, auditors opinion and management letter;
- Recommendations on the selection of the external auditors or participation in the selection of external auditors;
- Oversight of the external audit coverage; and
- Review of other reports that require approval by the BOD prior to submission.

**B. Internal Control**

- Understand the Bank's key risk areas and the internal controls structure;
- Monitor the control process through the results of internal and external audits;
- Examining and evaluate the planning, organization and directing processes to determine that the objectives and goals will be achieved; and
- Evaluate systems, processes, operations, functions & activities within the organization.

**C. Compliance with Laws, Regulations and Ethics**

- Provide reasonable assurance to the governing board that the Bank is in compliance with pertinent laws and regulations, is conducting its affairs ethically, and is maintaining effective controls against conflicts of interest /fraud.

**Market Risk Management Committee (MRMC)**

The Market Risk Management Committee (MRMC) is responsible for:

- Setting policies and guidelines for market risk measurement, management and reporting; placing before the Board for approval;
- Identification, assessment, monitoring, reporting and analysis of market risk associated with treasury operations, setting of risk parameters, overseeing compliance with risk parameters etc.;
- Reviewing and ensuring adherence to market risk limits, including triggers or stop-losses for traded and accrual portfolios;
- Risk research and analysis, development of risk mitigation strategies;
- Ensuring robustness of financial models, and the effectiveness of all systems used to calculate market risk;
- Ensure appointment of qualified and competent staff and support RMCB in the conduct of effective market risk governance;
- Ensure effective management of currency and country risk;
- Review the stress testing results for market risk.

**Asset Liability Management Committee (ALCO)**

The Asset Liability Management Committee (ALCO) is responsible for:

- Manage the liquidity gaps and the interest rate risk by deciding on desired maturity profile and mix of incremental assets and liabilities and effectively articulate the balance-sheet management strategies;
- Approve risk limits and triggers for liquidity and interest rate risks and ensuring adherence to the limits set by the Board;
- Ensure the effectiveness of the Contingency Funding Plan;
- Articulating interest rate view of the Bank and deciding on the future business strategy;
- Review and articulate the fund management;

- Approve the transfer pricing mechanism for the Bank and ensure the effective balance sheet management;
- Review micro and macro-economic factors;
- Approve pricing for deposits and advances;
- Review the stress testing results for liquidity risk and IRRBB.

### **Credit Risk Management Committee**

CRMC is responsible for overseeing implementation of Credit Risk Management Framework across the Bank and providing recommendations to the RMCB. Key responsibilities of the committee include:

- Review and approve the Credit Risk profile of the Bank.
- Review and recommend policies pertaining to Credit Risk Management to the RMCB for review and approval;
- Clear policies on standards for presentation of credit proposals, financial covenants, rating standards and benchmarks and recommend to the Board, for its approval.
- Reviewing Credit Approving Powers, prudential limits on large credit exposures, standards for loan collateral, portfolio management, loan review mechanism, risk concentrations, risk monitoring and evaluation, provisioning, regulatory / legal compliance.
- Ensure implementation of credit risk policy and strategy approved by the Board as per the directions of the RMCB;
- Monitor credit risk on a bank wide basis and ensure compliance with limits approved by Board
- Monitor quality of loan portfolio at periodic intervals, identifying problem areas and issuing directions for rectifying deficiencies;

- Monitor credit risks on the Bank-wide basis and ensuring compliance with the approved risk parameters/ prudential limits and monitor risk concentrations including industry exposures;
- Ensure regulatory compliance in the Bank's policies and guidelines in regard to credit risk;
- Recommending changes in Delegation of Power (DOP) to appropriate authority within the overall limit approved by Board.
- Review all rating system validation results to assess efficacy and effectiveness of model performance and the need for any adjustments, and placing recommendations before RMCB if required
- Review the use of internal risk rating systems for business and risk management purposes and placing recommendations before the RMCB;
- Bring to the attention of RMCB material issues for information / recommendation / approval; and
- Review and approve the credit risk stress testing scenarios, results and outcome analysis.

### **Operational Risk Management Committee**

The Operational Risk Management Committee is responsible for:

- Develop ORM Framework in terms of all the policies and procedures, methodologies, models, tools and system for their effective implementation;
- Report to Board/RMCB on operational risk profile, key risks, and other material operational risk issues;
- Put-up Operational Risk appetite framework and review the operational risk management strategy;

- Ensure their implementation for creation and enhancement of operational risk management culture;
- Ensure timely and accurate reporting to all stakeholders, and recommend further preventive measures;
- To review gaps in process, people and system and directed appropriate measures to control/minimize the highlighted risk;
- Ensure effective communication of the operational risk management approach of the Bank to staff to ensure consistent treatment of operational risk across the Bank.

#### **Audit Committee of Executives**

The Audit Committee of Executives is responsible to:

- Provide an independent assurance to the Board on their assessment of compliance with the risk processes across the Bank;
- Independently validate the ratings/ scores assigned Credit Risk Management Team post sanction of loans and reporting the deviations;
- Review (at least annually) the scoring/ rating system and its operations, capital calculations under various approaches including the estimation of PDs, LGDs and EADs;
- Independently validate proper implementation of risk mitigation plans drawn out by the focus group or committees for various key risks;
- Independently validate that the significant risks identified under RCSA process is incorporated in the Operational loss warehouse;
- Give assurance to the board on the management of risks, including the effectiveness of the controls and the compliance and irregularities;
- Give assurance to the board on the accuracy of the reporting and the appropriateness of the risk reporting design; and

- Feedback on the adherence to the Bank's values and code of ethics.

### **Business Continuity Management Committee (BCMC)**

The roles & responsibilities of BCMC are as under:

1. Determining how the Bank shall manage and control identified risks;
2. Prioritizing critical business functions;
3. Allocating sufficient resources;
4. Allocating knowledgeable personnel and sufficient financial resources to implement the BCMP;
5. Designating a BCM Committee who shall be responsible for the Business Continuity Management;
6. Reviewing annually the adequacy of the Bank's business recovery, contingency plans and the test results and put up the same to the Board;
7. Evaluating the adequacy of contingency planning and their periodic testing by Service Providers, whenever critical operations are outsourced;
8. Ensuring employees are trained and aware of their roles in implementation of the BCMP;
9. Ensuring the BCP/IT-DRP is regularly tested on an enterprise-wide basis;
10. Reviewing the BCP/IT-DRP testing programme and test results on a regular basis;
11. Ensuring the BCP/IT-DRP is continually updated to reflect the current operating environment;
12. Ensuring independent annual review and approval of BCMP
13. Ensure training and awareness on BCP to concerned teams and employees

**DF -3: Credit Risk***Qualitative Disclosure*

Credit risk is the risk of loss that may occur due to default of the counterparty or from its failure to meet its obligations as per terms of the financial contract. Any such event will have an adverse effect on the financial performance of the Bank. The Bank faces credit risk through its lending, investment and contractual arrangements. To counter the effect of credit risks faced by the Bank, a robust risk governance framework has been put in place. The framework provides a clear definition of roles as well as allocation of responsibilities with regard to ownership and management of risks. Allocation of responsibilities is further substantiated by defining clear hierarchy with respect to reporting relationships and Management Information System (MIS) mechanism.

**i. Credit Risk: Strategies and processes**

The Bank has defined and implemented various risk management policies, procedures and standards with an objective to clearly articulate processes and procedural requirements that are binding on all concerned Business groups. The Credit Policy and the Credit Risk Management Policy of the Bank is guided by the objective to build, sustain and maintain a high quality credit portfolio by measurement, monitoring and control of the credit exposures. The policies also address more granular factors such as diversification of the portfolio across companies, business groups, industries, geographies and sectors. The policies reflect the Bank's approach towards lending to borrowers in light of prevailing business environment and regulatory stipulations.

The Bank's Policies also detail the standards, processes and systems for growing and maintaining its diversified portfolio. The policies are reviewed annually in anticipation of or in response to the dynamics of the environment (regulatory & market) in which the Bank operates or to change in strategic direction, risk tolerance, etc. The policies are approved by the Board of Directors of the Bank.

To avoid concentration of credit risk, the Bank has put in place internal guidelines on exposure norms in respect of single borrower, groups, exposure to sensitive sector, industry exposure, unsecured exposures, etc. Norms have also been detailed for soliciting new business as well as for preliminary scrutiny of new clients. The Bank abides by the directives issued by RBI, SEBI and other regulatory bodies in respect of lending to any industry including NBFCs, Commercial Real Estate, and Capital Markets. In addition, internal limits have been prescribed for certain sensitive segments based on prudential considerations.

In view of putting in place a comprehensive credit risk framework to aggregate overall credit risk perception of the Bank Risk Profiling is carried out as a part of Risk Appetite Framework to access, monitor and communicate the risk perception to Board & senior management. The framework is approved by the Board of Directors via Risk Management Committee of the Board and any change in the appetite, credit risk limits or credit risk parameters get approved by the Board of Directors only. This process of quantification and benchmarking via credit risk helps senior leadership to understand the risk and monitor by way of constant tracking.

## **ii. Credit Risk: Structure and organization**

The organizational structure for Credit Risk Management is as follows:

- Board of Directors
- Risk Management Committee of Board (RMCB)
- Credit Risk Management Committee (CRMC)
- Chief Risk Officer (CRO)
- Head - Credit Risk Department
- Credit Risk Department

## **iii. Credit Risk: Scope and nature of measurement systems**

The Bank's approach for credit risk identification and assessment of credit risks underlying both funded and non-funded exposures is explicitly set out. All credit

proposals are subject to a credit risk scoring process / risk rating process based on the quantum of advance value to support credit approvals and decision making as well as to enhance risk management capabilities for portfolio management, pricing and risk based capital measurement.

#### **iv. Credit Risk: Policies for hedging and/or mitigating risk**

Credit risk is defined as the possibility of losses associated with default by or diminution in the credit quality of Borrowers or Counterparties arising from:

- Outright default due to inability or unwillingness of a borrower or counterparty to meet commitments in relation to lending, trading, settlement and other financial transactions; or
- Reduction in portfolio value arising from actual or perceived deterioration in credit quality of borrowers or counterparties.

Credit Risk emanates from the Bank's dealings with an individual, non-corporate, corporate, bank, financial institution or sovereign.

The Bank's credit risk governance framework is being built up to strengthen risk evaluation and management of credit whilst positioning the Bank to effectively and efficiently manage changes in the environment. Through an effective, Board approved risk governance framework, the Bank seeks to ensure adequate risk oversight, monitoring and reporting of credit risks.

The responsibilities for managing credit risk extend throughout the Bank. Key principles of credit risk governance are:

- Adequate oversight, monitoring and control of credit risk through the Board, risk committees and senior management.
- Clearly defined roles and responsibilities for overall credit risk management.

- Establishment of functional independence of Credit Risk Management function from personnel and management functions responsible for credit origination and credit administration.
- Appropriate mechanisms to ensure that the Board and senior management understand credit risk rating systems design and operations through regular training and involvement in the model review and approval processes.
- Business units monitor and manage credit risk in their businesses and report.

### Quantitative Disclosures

#### a. Total gross credit risk exposure by facility:

(Rs in Cr)

| Facility Type  | Credit Exposure |
|----------------|-----------------|
| Fund Based     | 98,790.70       |
| Non-Fund Based | 791.09          |
| <b>Total</b>   | <b>99581.79</b> |

#### b. Total gross credit risk exposure by geography:

(Rs in Cr)

| Category     | Fund Based       | Non-Fund Based | Total Credit Exposure |
|--------------|------------------|----------------|-----------------------|
| Domestic     | 98,790.70        | 791.09         | 99581.79              |
| Overseas     | 0                | 0              | 0                     |
| <b>Total</b> | <b>98,790.70</b> | <b>791.09</b>  | <b>99581.79</b>       |

#### c. Total gross credit risk exposure by industry:

(Rs. in Cr)

| Industry  | Fund Based | Non-Fund Based | Total Credit Exposure |
|---|------------|----------------|-----------------------|
| A. Mining and Quarrying                           | -          | -              | 0                     |
| B. Food Processing                                | 106.50     |                | 106.50                |
| C. Beverages (excluding Tea & Coffee) and Tobacco | 0.74       |                | 0.74                  |

| <b>Industry</b>  | <b>Fund Based</b> | <b>Non-Fund Based</b> | <b>Total Credit Exposure</b> |
|--|-------------------|-----------------------|------------------------------|
| D. Textiles  | 2,601.97          | 5.00                  | 2,606.97                     |
| E. Leather and Leather products  | 236.01            |                       | 236.01                       |
| F. Wood and Wood Products  | 329.29            |                       | 329.29                       |
| G. Paper and Paper Products  | 8.50              |                       | 8.50                         |
| H. Petroleum (non-infra), Coal Products (non-mining) and Nuclear Fuels | 64.23             |                       | 64.23                        |
| I. Chemicals and Chemical Products (Dyes, Paints, etc.)                | 265.72            | 30.37                 | 296.09                       |
| J. Rubber, Plastic and their Products                                  | 195.76            | 26.50                 | 222.26                       |
| K. Glass & Glassware   | 109.99            |                       | 109.99                       |
| L. Cement and Cement Products  | 48.23             | 32.50                 | 80.73                        |
| M. Basic Metal and Metal Products                                      | 274.10            | 123.04                | 397.14                       |
| N. All Engineering   | 1,507.23          | 100.75                | 1,607.98                     |
| O. Vehicles, Vehicle Parts and Transport Equipment                     | 285.37            | 35.00                 | 320.37                       |
| P. Gems and Jewellery  | 227.50            |                       | 227.50                       |
| Q. Construction  |                   | 63.00                 | 63.00                        |
| R. Infrastructure  | 29.19             | 214                   | 243.19                       |
| S. Other Industries  | 6808.60           |                       | 6808.60                      |
| Residuary other advances (to tally with gross advances)                | 85691.77          | 160.93                | 85852.70                     |
| <b>Total</b>   | <b>98,790.70</b>  | <b>791.09</b>         | <b>99581.79</b>              |

**d. Residual maturity breakdown of assets:**
*(Rs in Cr)*

| Time Buckets                   | Cash and balances with Reserve Bank of India | Balance with Banks and Money at Call and Short Notice | Investments     | Advances        | Fixed Assets  | Other Assets   | Total            |
|--------------------------------|--|---|-----------------|-----------------|---------------|----------------|------------------|
| Next Day                       | 1649.16                                      | 953.63  | 12322.79        | 725.27          |               |                | 15650.86         |
| 2 to 7 Days                    | 3349.04                                      | 100.00  | 281.36          | 2116.36         |               |                | 5846.75          |
| 8 to 14 Days                   | 56.69  | 0.00  | 265.50          | 1092.42         |               |                | 1414.62          |
| 15 to 30 Days                  | 76.23  | 0.00  | 395.01          | 2341.74         |               |                | 2812.97          |
| 31 Days to 2 Months            | 64.81  | 25.00   | 340.84          | 5266.26         |               |                | 5696.91          |
| More than 2 Months to 3 Months | 127.09                                       | 0.00  | 633.86          | 6273.61         |               |                | 7034.55          |
| More than 3 Months to 6 Months | 334.83                                       | 0.33  | 1847.25         | 12918.81        |               |                | 15101.23         |
| More than 6 Months to 1 Year   | 592.96                                       | 1330.67   | 2865.26         | 15985.56        |               |                | 20774.45         |
| More than 1 Year to 3 Years    | 1692.26                                      | 1702.99   | 8168.70         | 28581.07        |               | 2527.60        | 42672.61         |
| More than 3 Years to 5 Years   | 172.43                                       | 342.24  | 807.54          | 4747.29         |               |                | 6069.50          |
| 5 Years & Above                | 127.05                                       | 0.00  | 1150.60         | 13926.55        | 587.89        |                | 15792.08         |
| <b>Total</b>                   | <b>8242.57</b>                               | <b>4454.86</b>  | <b>29078.71</b> | <b>93974.93</b> | <b>587.89</b> | <b>2527.60</b> | <b>138866.54</b> |

**e. Position of Non-Performing Assets (NPA):**
*(Rs in Cr)*

| Particulars           | As on March 31, 2022 |
|-----------------------|----------------------|
| <b>Gross Advances</b> | 98,790.70            |
| <b>Net Advances</b>   | 93,974.93            |
| <b>Gross NPA</b>      | 6,380.00             |
| 1. Substandard        | 1,746.28             |
| 2. Doubtful 1         | 183.82               |
| 3. Doubtful 2         | 250.32               |
| 4. Doubtful 3         | 30.67                |
| 5. Loss               | 4,168.91             |
| <b>NPA Provision</b>  | <b>4,815.77</b>      |
| <b>Net NPA</b>        | <b>1,564.23</b>      |

| Particulars                     | As on March 31, 2022 |
|---------------------------------|----------------------|
| NPA Ratios                      |                      |
| Gross NPA to Gross Advances (%) | 6.46%                |
| Net NPA to Net Advances (%)     | 1.66%                |

**f. Movement of Non-Performing Assets (NPA Gross):**
*(Rs in Cr)*

| Particulars             | As on March 31, 2022 |
|-------------------------|----------------------|
| Opening Balances        | 5757.76              |
| Additions               | 9430.27              |
| Write Offs              | 3244.13              |
| Reductions              | 5563.90              |
| <b>Closing Balances</b> | <b>6380.00</b>       |

**g. Movement of Specific & General NPA Provisions:**
*(Rs in Cr)*

| Particulars  | As on March 31, 2022 |                    |
|--|----------------------|--------------------|
|  | Specific Provisions  | General Provisions |
| Opening Balances                                       | 2896.73              | 678.61             |
| Add: Provisions made during the period                 | 6217.86              | 2703.01            |
| Less : Transfer to Counter cyclical Provisional Buffer | -                    | -                  |
| Less : Write offs                                      | 3244.13              |                    |
| Less : Write Back of excess provision                  | 1054.69              |                    |
| <b>Closing Balances</b>                                | <b>4815.77</b>       | <b>3381.62</b>     |

*Specific Provisions represents provisions for NPAs.*
*General Provisions represents provisions for Standard Advances (incl. Restructured Standard).*

**h. Geography based position of NPAs, Specific provisions and General provisions:**

*(Rs in Cr)*

| Particulars       | As on March 31, 2022 |          |
|-------------------|----------------------|----------|
|                   | Domestic             | Overseas |
| Gross NPA         | 6380.00              | -        |
| Provision for NPA | 4815.77              | -        |

**i. Position of Non-Performing Investments (NPI) as on March 31, 2022:**

*(Rs in Cr)*

| Particulars  | As on March 31, 2022 |
|--|----------------------|
| Amount of Non-performing Investments (NPI)               | Nil                  |
| Amount of provisions held for Non-performing Investments | Nil                  |

**j. Movement of provisions for depreciation on investments as on March 31, 2022**

*(Rs in Cr)*

| Particulars                                  | As on March 31, 2022 |
|--|----------------------|
| Opening Balance                              | 86.80                |
| Provisions made during the period            | 92.74                |
| Write offs / Write Back of excess provisions | -137.70              |
| <b>Closing Balance</b>                       | <b>41.84</b>         |

**DF - 4: Credit Risk- Disclosures for Portfolios Subject to Standardized Approach**
***Qualitative Disclosure***

In line with RBI guidelines, the Bank has employed Standardized Approach under Basel III capital regulations for computing risk-weighted assets of its credit portfolio.



*Basel III Disclosures as on March 31, 2022*

As per regulations, the Bank is using issuer ratings, short-term ratings, long-term instrument ratings and /or bank facility ratings issued by the specified accredited External Credit Rating Agencies (ECRA) and published in public domain in order to assign credit risk weights to its counterparties.

The Bank is using ratings issued by only those External Credit Rating Agencies (ECRA) which have been accredited for the purpose of risk weighting the banks' claims for capital adequacy purposes by the Reserve Bank of India. These ECRA's are CARE Ratings, CRISIL, India Ratings (FITCH India), ICRA, Brickwork Ratings, SMERA and INFOMERICS Valuation and Rating Pvt. Ltd. (INFOMERICS). Ratings issued by either of these ECRA's are used, however, in case an exposure is rated by more than one ECRA, the lower of the two ratings is considered.

***Quantitative Disclosure***

|                              | <i>(Rs in Cr)</i>         |
|------------------------------|---------------------------|
| <b>Category</b>              | <b>As on Mar 31, 2022</b> |
| Below 100% Risk Weight       | 56,021.67                 |
| 100% Risk Weight             | 13,375.79                 |
| More than 100% Risk Weight   | 3,890.87                  |
| <b>Total Credit Risk RWA</b> | <b>73,288.33</b>          |

*\*Both Fund Based & Non-Fund Based Exposure*

**DF 5: Credit Risk Mitigation- Disclosures for Standardized Approaches**

***Qualitative Disclosure***

As per the Credit Policy and Credit Risk Management Policy of the Bandhan Bank, all credit proposals of over Rs. one lakh (excluding Micro Loan & Personal Loan) is subject to internal rating (based on score card model as well as Internal Rating model as per the

quantum and nature of the exposure) process to support credit approvals and decision making as well as to enhance risk management capabilities for portfolio management and pricing.

Credit scorecards are mathematical models which attempt to provide a quantitative estimate of the probability that a customer will display a defined behavior (e.g. loan default, bankruptcy or a lower level of delinquency) with respect to their current or proposed credit position with a lender in case of small value loans. Scorecards are built and optimized to evaluate the credit file of a homogeneous population. Main Objective of the score card rating model is to

- Identify credit-worthy customers
- Decide whether to extend credit, and how much credit to extend.
- Forecast the future behavior of a new credit applicant
- Predict the future payment behavior of existing debtors

Scoring is a two or three level process (approval wise) consisting of an analyst at the branch / analyst of the credit processing team submitting the model inputs and generating the score which subsequently gets approved by the respective sanctioning authority. For exposures beyond a certain threshold, the credit rating score gets approved by the Credit Risk Management Department before sanction of the credit appraisal.

Scoring is carried out broadly on the following:

- Financial Risk (FR Risk).
- Business & Industry Risk (B & I Risk).
- Promoter Risk / Management Risk (MR Risk).

As per the best industry practice and to maintain prudent credit risk management principle, various internal rating grades have been devised as per the score obtained by the borrower. Rating grade signifies the creditworthiness of the borrower. Higher the rating, higher the creditworthiness.

The sanction of credit proposals is in accordance with the delegation structure approved by the Board of Directors. Beyond a certain threshold of individual loan proposal, Committee based sanctioning approach is adopted. There are various Head Office Level Committees comprise of senior officials of the Bank who sanctions the credit proposals. Risk vetting is compulsory for all proposals above a certain threshold.

**Definitions of non-performing assets:**

The Bank classifies its advances into performing and non-performing advances in accordance with the extant RBI guidelines.

The non-performing asset (NPA) is a loan or an advance where;

- Interest and/ or installment of principal remains overdue for more than 90 days for a term loan,
- The account remains 'out of order' in respect of an Overdraft/Cash Credit (OD/CC). 'Out of order' means if the account outstanding balance remains continuously in excess of the sanctioned limit/drawing power. In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for 90 days as on the date of Balance Sheet or credits are not enough to cover the interest debited during the same period, these accounts are treated as 'out of order'.
- The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted.

NPAs are further classified into sub-standard, doubtful and loss assets based on the criteria stipulated by RBI. A substandard asset is one, which has remained as NPA for a period less than or equal to 12 months. An asset is classified as doubtful if it has remained in the sub-standard category for more than 12 months. A loss asset is one where loss has

been identified by the Bank or by the internal / external auditors or the RBI inspection but the amount has not been written off fully.

### *Quantitative Disclosures*

#### **Exposure covered by Credit Mitigants**

| <b>Particulars</b>                                      | <b>Amount<br/>(In Rs. Cr)</b> |
|---|-------------------------------|
| Total exposure covered by eligible financial collateral | 1,114.54                      |
| Total exposure covered by guarantees                    | 896.85*                       |

\*Sovereign guarantee consists of GECL.

#### **DF-6: Securitization Exposures: Disclosure for Standardized Approach**

As on March 31, 2022, the Bank does not have any Securitization Exposures.

#### **DF-7: Market Risk in Trading Book**

##### *Qualitative Disclosure*

The Bank for International Settlements defines market risk as “the risk that the value of ‘on’ and ‘off’ balance sheet positions will be adversely affected by movements in market interest rate, currency exchange rates, equity and commodity prices.” This definition is adopted by the Bank for the purposes of identifying and managing the risk. Market risk has the following components:

- **Interest Rate Risk:** The risk that changes in market interest rates may adversely affect the Bank’s financial condition. While the immediate impact is on the Net Interest Income (NII) and also the value of investments, the long term variations in interest rates would also impact the Bank’s net worth.
- **Equity Risk:** The risk that changes in the equity prices of various stocks may diminish the value of equity portfolio held by the Bank (also includes investments in units of mutual funds)

• **Exchange Rate Risk:** The risk that the Bank may suffer losses as a result of adverse exchange rate movements during a period in which it has an open position, either spot or forward, or a combination of the two, in any foreign currency.

#### **i. Strategies & Processes**

Risk identification entails ensuring all instruments that result in Market Risk both on and off the balance sheet of the Bank are identified and monitored centrally. To achieve this objective, all new instruments/ products in which the Bank engage should be assessed. The Market Risk Management Committee (MRMC) reviews all new instruments to evaluate whether they result in market risk. Modifications to existing instruments is also reported to the MRMC / ALCO to enable such evaluation.

#### **ii. Structure and organization**

The organizational structure for Market Risk Management is as follows:

- Board of Directors
- Risk Management Committee of Board (RMCB)
- Market Risk Management Committee (MRMC)
- Chief Risk Officer (CRO)
- Head - Market Risk Department
- Market Risk Department

#### **iii. Scope and nature of measurement systems**

There are a number of methods for measuring market risks encountered in trading operations. All these require adequate information on current positions, market conditions, and instrument characteristics.

Of the various measures available, the Bank may use sensitivity indicators for market risk measurement. Different products are measured by certain parameters. At present, in the trading book, Bank has investments in interest rate sensitive products and in equities.

Measures for Interest Rate Sensitive Products

- Modified Duration
- Basis Point Value (BPV) or PV01

**iv. Processes for monitoring**

The Bank fixes appropriate action triggers or stop limits for all marked to market risk taking activities. The Bank has procedure that monitors activity to ensure that they remain within the approved limits at all times. Limits are classified into general (applicable to all portfolios) and specific portfolio related limit. For the purpose of market risk management, the following minimum limits are monitored:

- Portfolio-wide Position limits
- Dealer-wise limits
- Single Deal Size Limit
- Stop-loss limits
- Value at Risk (VaR)
- Specific Limits (Interest Rate Related Instruments)
- Modified Duration Limit
- PV01 Limit (Portfolio Level)

Quantitative Disclosures

| <u>Capital Requirement</u>                   |                 |
|--|-----------------|
|  | (Rs in crore)   |
| <b>Risk Weighted Assets for Market Risk:</b> |                 |
| Standardized Duration Approach               | <b>2635.883</b> |
| Interest Rate Risk                           | 1623.95         |
| Foreign exchange Risk (including Gold)       | 28.13           |
| Equity Risk                                  | 983.81          |

**DF-8: Operational Risk**
Qualitative Disclosures

Operational risk, which is intrinsic to all the material products, activities, processes and systems, has emerged as an important component of the enterprise-wide risk management system. Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk may result from various internal and external factors e.g. failure to obtain proper internal authorizations, improperly documented transactions, breach of information security procedures, failure of IT and / or communication infrastructure / equipment, non-compliance of regulatory requirements, contractual terms and corporate policies & procedures, commitment of fraud, natural disasters, inadequate training to employees etc.

#### **i. Strategies & Processes**

The Bank's strategy for operational risk management focuses on:

- Building a strong Risk Management Culture in the Bank which will denote the set of Bank's Values, norms, attitudes, competencies and behavior related to risk awareness and risk taking
- Minimizing the losses to an acceptable level as per risk appetite of the Bank;
- Providing operational risk capital which is as per regulatory guidelines;
- Using results of operational risk management in day to day business operations and decision making process;
- Carrying out risk based performance measurement;
- Analyzing the impact of failures in technology / systems and develop mitigants to minimize the impact; and
- Developing plans for external shocks that will adversely impact the continuity in the Bank's operations.
- Ensuring operational resilience through monitoring of risks and implementing controls to minimise operational disruptions and their effects.

- Creating awareness through training programs and workshops for embedding Operational Risk Culture in the First Line of Defence.

## **ii. Structure and organization**

The Board of Directors (Board) is primarily responsible for ensuring effective management of the operational risks of the bank. The Board sets the overall strategy and direction for Operational Risk Management (ORM) within the Bank, while Risk Management Committee of Board (RMCB) is responsible for acting as an interface between the Board and top management of the Bank. RMCB also monitor the overall Operational Risk Management of the Bank for which reports and analysis on Operational Risk Profile and Operational Risk areas is submitted by the Risk/ Other Departments and Operational Risk Managements Committee (ORMC) from time to time.

Operational Risk Management Department (ORMD) is as independent department responsible for implementation of Operational Risk framework across the Bank and convene Operational Risk Management Committee (ORMC). The ORMC members include MD & CEO (Chairmen) and Heads from various verticals representing Business, Operations, Support and Control functions.

Other Management committee on operational risk management include Fraud Prevention and Monitoring Committee, Business Continuity and Management Committee, Central Outsourcing Committee, Process & Change Management Committee and Product Approval Committee.

The operational risk management governance structure is as follows:

- Board of Directors
- Risk Management Committee of Board (RMCB)
- Operational Risk Management Committee (ORMC)
- Fraud Prevention and Monitoring Committee
- Business Continuity Planning and Management Committee
- Central Outsourcing Committee
- Process Change Management Committee

- Product Approval Committee
- Chief Risk Officer (CRO)
- Head - Operational Risk Department
- Operational Risk Department

### **iii. Scope and nature of measurement systems**

As per the Basel III Capital Regulations issued by RBI for banking institutions based on the Basel framework, banks need to use an approach that is risk sophisticated and commensurate to the risk profile of the institution. The Bank is currently performing capital risk measurement under the Basic Indicator Approach (BIA) and over a period of time shall move to the Standardized Measurement Approach.

### **iv. Policies for Mitigating, Monitoring, and Reporting of Operational Risk**

Bank's Operational Risk Management Policy is approved by the Board and recommended by the Risk Management Committee of the Board (RMCB) which details out the framework for Mitigating, Monitoring and Reporting of operational risk in the Bank.

As per Policy, before introducing new products or process in the Bank, respective Business/Operating units seeks appropriate approvals of Products Approval Committee (PAC) and Process & Change Managements Committee (PCMC) as applicable and implements the internal controls as directed by the committee's to ensure appropriate controls in the operating environment and their by mitigate/minimize any potential Operational Risk.

Additionally, Business/Operating Units conduct Risk and Control Assessments (RCSA) in association with Operational Risk Departments for identification of Gaps in People, Process or System and recommend changes as applicable from time to time and report the same as per the Bank's Operational Risk Framework.

Bank also continually analyse and monitors its risk profile at Enterprise Level and Business Line wise (as applicable), to enable it to take appropriate action and report it on a timely basis to mitigate/minimize operational risk. The Bank tracks and monitors the following:

- Key Risk Indicators;
- Operational risk losses in the Bank;
- Internal and external changes affecting risk profile of the Bank; and
- Implementation of action plan.

Results of monitoring are reported to Board / RMCB, senior management and respective business units, as relevant.

Furthermore, Bank has also adopted BCM Policy wherein critical activities and system applications have been defined, recovery plan is in place for these critical activities and system applications to ensure timely recovery of the Bank's critical products and services in the event of an emergency.

Regular tests are carried out to ascertain BCP preparedness. The test reports are shared with senior management and Business Continuity Management (BCM) Committee on a regular frequency.

### **DF-9: Interest Rate Risk in Banking Book**

#### **Qualitative Disclosures**

Bank has identified the risks associated with the changing interest rates on its exposures in the banking book from both, a short-term and long-term perspective. This includes the impact of changes due to parallel shocks, yield curve inversions, changes in the relationships of rates (basis risk) on rate sensitive assets and liabilities up to 1 year. Stress testing and scenario analysis has also been used in the analysis of interest rate risks.

The main components of the approach for identification and measurement are as under:

- a) The assessment takes into account both the earnings perspective and economic value perspective of interest rate risk.
- b) The impact on income or the economic value of equity have been calculated by applying a notional interest rate shock of 200 basis points.
- c) The methods followed in measuring the interest rate risk are:
  - i. Earnings perspective: Earnings at Risk combined with Gap Analysis,
  - ii. Economic perspective: Gap analysis combined with duration gap analysis.

*Quantitative Disclosures*

|  |              |
|--|--------------|
| Impact on NII with 200 bps increase change in interest rates                     | Rs. 379.66Cr |
| Impact on MVE as a percentage of Net Worth with 200 bps change in interest rates | 8.31%        |

**DF-10: Exposures related to Counterparty Credit Risk**

Counterparty Credit Risk (CCR) is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. An economic loss would occur if the transactions or portfolio of transactions with the counterparty has a positive economic value at the time of default. The Counterparty Credit Risk is managed and controlled through Counterparty Credit Risk Policy and Country Risk Management Policy of the Bank.

The Foreign Exchange settlement of the contracts are guaranteed by qualified central counterparty viz. Clearing Corporation of India Ltd (CCIL). The residual tenor of each of the forward contract is less than 1 year.

**Quantitative Disclosures**

| Sl. No. | Particulars                           | Amount in Rs. Cr |
|---------|---------------------------------------|------------------|
| 1       | Gross Value of Contracts (PFE + MTM)  | 225.15           |
| 2       | Netting Benefits                      | 219.74           |
| 3       | Netted Credit Exposure                | 5.41             |
| 4       | Collateral Held                       | -                |
| 5       | <b>Net Derivative Credit Exposure</b> | 5.41             |

**DF-11 and DF-12: Composition of Capital and Reconciliation**

The requisite disclosures are available on the Bank's website under link titled Regulatory Disclosure -> Capital Composition and Reconciliation

**DF-13: Main Features of Regulatory Capital Instruments**

| Sl. No | Particulars   | Equity Share   |
|--------|---|--|
| 1      | Issuer  | Bandhan Bank Ltd                                       |
| 2      | Unique identifier   | INE545U01014   |
| 3      | Governing laws of the instrument  | Applicable Indian statutes and regulatory requirements |
|        | <b>Regulatory treatment</b>   |  |
| 4      | Transitional Basel III rules  | Common Equity Tier - 1                                 |
| 5      | Post- transitional Basel III rules  | Common Equity Tier - 1                                 |
| 6      | Eligible at solo/group/group & solo   | Solo   |
| 7      | Instrument type   | Common Equity Shares                                   |
| 8      | Amount recognized in regulatory capital (Rs. in Million, as of most reporting date) | 16108  |
| 9      | Par value of instrument   | Rs. 10 per share                                       |
| 10     | Accounting classification   | Shareholder's Equity                                   |

| Sl. No | Particulars   | Equity Share              |
|--------|---|---------------------------|
| 11     | Original date of issuance   | Various                   |
| 12     | Perpetual or dated  | Perpetual                 |
| 13     | Original maturity date  | No Maturity               |
| 14     | Issuer call subject to prior supervisory approval   | No                        |
| 15     | Optional call date, contingent call dates and redemption amount   | Not Applicable            |
| 16     | Subsequent call dates, if applicable  | Not Applicable            |
|        | <b>Coupons/ dividends</b>   |                           |
| 17     | Fixed or floating dividend/coupon   | Not Applicable            |
| 18     | Coupon rate and any related index   | Not Applicable            |
| 19     | Existence of a dividend stopper   | Not Applicable            |
| 20     | Fully discretionary, partially discretionary or mandatory   | Fully Discretionary       |
| 21     | Existence of step-up or other incentive to redeem   | NO                        |
| 22     | Non-cumulative or cumulative  | Non-cumulative            |
| 23     | Convertible or non-convertible  | Not Applicable            |
| 24     | If convertible, conversion trigger(s)   | Not Applicable            |
| 25     | If convertible, fully or partially  | Not Applicable            |
| 26     | If convertible, conversion rate   | Not Applicable            |
| 27     | If convertible, mandatory or optional conversion  | Not Applicable            |
| 28     | If convertible, specify instrument type convertible into  | Not Applicable            |
| 29     | If convertible, specify issuer of instrument it converts into   | Not Applicable            |
| 30     | Write-down feature  | No                        |
| 31     | If write-down, write-down trigger(s)  | Not Applicable            |
| 32     | If write-down, full or partial  | Not Applicable            |
| 33     | If write-down, permanent or temporary   | Not Applicable            |
| 34     | If write-down, description of write-up mechanism  | Not Applicable            |
| 35     | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | Perpetual Debt Instrument |
| 36     | Non-compliant transitioned features   | Not Applicable            |
| 37     | If yes, specify non-compliant features  | Not Applicable            |

**DF-14: Full Terms and Conditions of Regulatory Capital Instruments**
**Terms and Conditions of Equity Shares of Bandhan Bank**

| <b>Sl. No.</b> | <b>Particulars</b>                  | <b>Terms</b>   |
|----------------|-------------------------------------|--|
| 1              | Voting shares                       | Equity shares of Bandhan Bank are voting shares.   |
| 2              | Limit on voting rights              | Limits on voting rights are applicable as per provisions of the Banking Regulation Act, 1949.  |
| 3              | Position in subordination hierarchy | Represent the most subordinated claim in liquidation of the Bank. The paid up amount is neither secured/covered by a guarantee of the issuer or related entity nor subject to any other arrangement that legally or economically enhances the seniority of the claim.                  |
| 4              | Claim on residual assets            | Entitled to a claim on the residual assets, which is proportional to its share of paid up capital; after all senior claims have been repaid in liquidation.  |
| 5              | Perpetuity                          | Principal is perpetual and never repaid outside of liquidation (except discretionary repurchases/ buy backs or other means of effectively reducing capital in a discretionary manner that is allowable under relevant law as well as guidelines, if any, issued by RBI in the matter). |
| 6              | Distributions                       | Distributions are paid out of distributable items (retained earnings included). The level of distributions is not in any way linked to the amount paid up at issuance and is not subject to a contractual cap (except to the   |

| Sl. No. | Particulars                   | Terms   |
|---------|-------------------------------|---|
|         |                               | extent that a bank is unable to pay distributions that exceed the level of distributable items).  |
| 7       | Loss Absorption               | It is the paid up capital that takes the first and proportionately greatest share of any losses as they occur. Within the highest quality capital, each instrument absorbs losses on a going concern basis, proportionately and <i>pari- passu</i> with all others. |
| 8       | Accounting classification     | The paid up amount is classified as equity capital. It is classified as equity in the Bank's Balance sheet.   |
| 9       | Directly issued and paid - up | Share are directly issued and paid up. The Bank cannot directly or indirectly fund the purchase of its own equity shares. The Bank also does not extend loans against its own shares.   |
| 10      | Approval for issuance         | Paid up capital is only issued with the approval of the Shareholders of the Bank, either given directly by the Shareholders or, if permitted by applicable law, given by the Board of Directors or by other persons duly authorized by the Shareholders.            |

### **DF-15: Disclosure Requirements for Remuneration**

#### **Qualitative Disclosures**

##### **a) Information relating to the bodies that oversee remuneration:**

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

The Bank's Nomination and Remuneration Committee(NRC) oversees the framing, review and implementation of the Compensation policy on behalf of the Board of Directors. The NRC has a minimum of three members and includes at least one member from the Risk Management Committee of the Board. All members of the NRC are non-Executive Directors and the majority of members are independent. The chairperson of the NRC is an independent director, provided that the chairperson of the Board of Directors, whether executive or non-executive, may be appointed as a member of the NRC, but cannot be appointed as the chairperson of the NRC.

The Compensation Policy guidelines are reviewed by the NRC at least once a year to ensure that the reward design is aligned to industry best practices and is consistent with effective risk management and long term business interests. The NRC works in close coordination with the Risk Management Committee of the Bank, to achieve the effective alignment between remuneration and risks.

The composition of the Nomination & Remuneration Committee of the Bank as on March 31, 2022 is as under:

| Sl. No. | Name of the Members       | Designation | Category                                |
|---------|---------------------------|-------------|---|
| 1       | Mr. Suhail Chander        | Chairman    | Independent Director                    |
| 2       | Dr. A.S. Ramasastrri      | Member      | Independent Director                    |
| 3       | Mr. Ranodeb Roy           | Member      | Non- Executive Non-Independent Director |
| 4       | Mr. Snehomoy Bhattacharya | Member      | Independent Director                    |

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

The Bank avails the services of a consulting firm (Aon Consulting) for market benchmarking in the area of compensation and benefits, including executive compensation.

- **Scope of the bank's remuneration policy, including the extent to which it is applicable to foreign subsidiaries and branches.**

The Compensation Policy of the Bank, which has been approved by the Board of the Bank, and is reviewed at least once a year, covers all employees of the Bank. The Bank does not have any foreign subsidiaries and branches.

- **Type of employees covered and number of such employees.**

All employees of the Bank are governed by the Compensation Policy of the Bank. The number of employees on the Bank's payroll was 60,211 as on 31<sup>st</sup> March, 2022.

**b) Information relating to the design and structure of remuneration processes:**

- **An overview of the key features and objectives of remuneration policy.**

Compensation Policy reflects the Bank's objectives for good corporate governance as well as sustained and long-term value creation for stakeholders.

The aims of the Bank's remuneration framework are to:

- a) Attract, motivate and retain people with requisite skill, experience and ability to deliver the Bank's strategy;
- b) Create an alignment and balance between the rewards and risk exposure of shareholders and interests of employees;
- c) Link rewards to creation of long term sustainable shareholder value consistent with strategic goals and appropriate risk management; and
- d) Encourage behaviour consistent with the Bank's values and principles.

To achieve the above objectives, the philosophy adopted by the Bank is as follows:

- Market referenced: offer employees competitive salary, achieved through benchmarking with peer groups.
- Making fixed salary the main remuneration component.
- Internal Equity: by ensuring that jobs of similar internal value are grouped and pegged within a range guided by market benchmarked jobs
- Risk factoring: A significant portion of the senior and top management compensation will be variable, of which, for some key roles, part of the variable compensation may be deferred.

- Focus on 'Total rewards', all aspects of compensation, rewards and well defined benefits, including rewarding work environment and personal development.

- **Review of the Bank's remuneration policy during the past year, and an overview of changes that were made.**

In light of the RBI guidelines no.RBI/2019-20/89 DOR, Appt.BC.No.23/29.67.001/2019 dated November 04, 2019, the revised Compensation Policy of the Bank has been amended which was approved by the Board on January 21,2022 with effect from January 21,2022.

- **How the bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee.**

Employees engaged in all control functions including Compliance, Risk, do not carry business profit targets in their goal sheets and are compensated based on their achievement of their own key result areas.

**c) Description of the ways in which current and future risks are taken into account in the remuneration processes.**

- **An overview of the key risks that the bank takes into account when implementing remuneration measures.**

The Board approves the risk framework of the Bank and all the business activities are carried out within the approved framework. The framework covers various risks including operational, financial and reputational etc. A member of the Risk Management Committee of the Board ("RMCB") is also a member of the NRC which ensures that the risk framework is taken into account while implementing remuneration measures.

- **An overview of the nature and type of key measures used to take account of these risks, including risk difficult to measure (values need not be disclosed).**

To take account of these risks and ensuring that all business activities happen with the risk management framework, various aspects of risk are built into the Key Result Areas (KRAs) for different level of employees. E.g. the KRAs of the employees in asset verticals also include their performance on quality, process and compliance aspects.

- **The ways in which these measures affect remuneration.**

The measures as part of the KRAs have a direct bearing on the performance evaluation which in turn impacts the remuneration. Further, the NRC measures Bank's and Individual performance not only on financial aspects but also on various qualitative aspects including adherence to the risk management framework. As per the compensation policy, poorly rated risk management, internal controls, regulatory and procedural compliance and loan reviews can reduce or wipe out the bonus pool and the value of deferred remuneration.

- **How the nature and type of these measures have changed over the past year and reasons for the changes, as well as the impact of changes on remuneration**

No major changes have been observed in the nature and type of these measures. Hence, there has not been any significant impact on the changes in remuneration.

- d) **Description of the ways in which current and future risks are taken into account in the remuneration processes.**

- **An overview of main performance metrics for bank, top level business lines and individuals.**

To take into account, current and future risks, the performance on risk management and internal controls is built into the performance evaluation of the MD & CEO which is evaluated by the NRC and the Board.

- **How amounts of individual remuneration are linked to the bank-wide and individual performance.**

The performance of the Bank impacts the cumulative performance linked bonus payouts and also the corpus available for salary increments. Within these limits, the individual remuneration is a function of individuals' performance rating amongst other factors. Therefore, the amount of individual remuneration is impacted by both the Bank-wide performance vis-à-vis individual performance.

- **The measures the bank will in general implement to adjust remuneration in the event that performance metrics are weak.**

The NRC approves the organizational performance threshold for bonus to be paid. If the Bank's performance is below the NRC approved threshold performance level the bonus will be nil.

e) **Description of the ways in which the bank seeks to adjust remuneration to take account of the longer term performance:**

- **Bank's policy on deferral and vesting of variable remuneration and, if the fraction of variable remuneration that is deferred differs across employees or groups of employees, along with a description of the factors that determine the fraction and their relative importance.**

The Bank's Compensation Policy defines guidelines on deferral and vesting of variable remuneration specifically for a certain set of employees being paid a variable remuneration over a certain threshold. Various principles are applied for grant and deferral of performance-based variable remuneration in accordance with the RBI guidelines and the Bank's Compensation Policy. The factors for deferring the variable remuneration are based on the negative contributions of the bank as defined in the compensation policy.

- **The bank's policy and criteria for adjusting deferred remuneration before vesting and after**

The Bank's Compensation policy states that the proportion of variable pay and any decision pertaining to deferral has to be specifically approved by the NRC

**f) Description of the different forms of variable remuneration that the bank utilizes and the rationale for using these different forms.**

- **An overview of the forms of variable remuneration offered.**
- Performance-based variable remuneration comprises:
  - Cash bonus
  - Stock linked instruments

The Annual Bonus Plan is based on financial and non-financial performance;

- Pre-tax profit drives the funding of the bonus pool.
  - Poorly rated risk management, internal controls, regulatory and procedural compliance and loan reviews can reduce or wipe out the bonus pool and the value of deferred bonus.
- **The use of different forms of variable remuneration and, if the mix of different forms of variable remuneration differs across employees or group of employees, along with a description of the factors that determine the mix and their relative importance.**

The Cash Bonus is aimed at rewarding the employees for their performance in the year of evaluation and to increase the retention of employees particularly the high performers.

The Employee Stock Option Scheme aims at achieving the twin objectives of aligning senior and middle management compensation to long term shareholders' interests and retention of employees. The pay mix is a function of performance ratings, grade hierarchy and function.

### **Quantitative disclosures**

*(The quantitative disclosures covers Whole Time Directors / Chief Executive Officer / Other Risk Takers- MD & CEO, SVP & Above)*

- a) Number of meetings held by the main body overseeing remuneration during Q 4 for the FY 21-22 and remuneration paid to its members.**

Number of Meeting – 2. Remuneration paid – 4.8 lakh

- b) Number of employees having received a variable remuneration award during Q 4 for the FY 21-22.**

Nil

- c) Number and total amount of sign-on awards made during Q 4 for the FY 21-22.**

Nil

- d) Number and total amount of guaranteed bonuses awarded during Q4 for the FY 21-22.**

Nil

- e) Details of severance pay, in addition to accrued benefits, if any.**

Nil

- f) Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms.**

Nil

- g) Total amount of deferred remuneration paid out in Q4 for the FY 21-22.**

Nil

**h) Breakdown of amount of remuneration awards for Q4 for the FY 21-22 to show fixed and variable, deferred and non-deferred, different forms used**

- Fixed - ₹ 9.72 Crore
- Variable - ₹ Nil Crore
- Non- Deferred - Nil Crore
- Deferred - ₹ 27,86,301
- Number of ESOPs granted during Q4 for the FY 21-22 - 90,000 .

**i) Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and / or implicit adjustments.**

Nil

**j) Total amount of reductions during the Q4 for the FY 21-22 due to ex- post explicit adjustments.**

NA

**k) Total amount of reductions during Q4 for the FY 21-22 due to ex- post implicit adjustments.**

NA

**DF-16: Equities - Disclosure for Banking Book Positions**

As per RBI guideline on prudential norms for classification, valuation and operation of investment portfolio, investments are classified at the time of purchase as Held for Trading ('HFT'), Available for Sale ('AFS'), and Held to Maturity ('HTM').

As per RBI guidelines, Investments that the Bank intends to hold till maturity are classified under the HTM category. The securities acquired by the banks with the intention to trade by taking advantage of the short-term price / interest rate movements will be classified under 'Held for Trading (HFT)' category and the securities which do not fall within the above two categories will be classified under 'Available for Sale (AFS)' category.



*Basel III Disclosures as on March 31, 2022*

Investments in the equity of subsidiaries / joint ventures are categorized as HTM in accordance with the RBI guidelines. All other investments are classified as AFS securities. Equity investments carried under the HTM category are carried at acquisition cost. Realized gains on investments under the HTM category are recognized in the Profit and Loss Account and subsequently appropriated to Capital Reserve account (net of taxes and transfer to statutory reserves) in accordance with the RBI guidelines. Losses are recognized in the Profit and Loss Account.

The Bank does not have any equity investments under the Banking Book.

**DF-17 and DF-18: Summary Comparison of Accounting Assets vs. Leverage Ratio Exposure Measure and Leverage Ratio Disclosure**

The requisite disclosures are available on the Bank's website under link titled Regulatory Disclosure -> Leverage Ratio Disclosure