



SURYODAY

A BANK OF SMILES

THE
FUTURE
OF THE
FUTURE
IS IN
THE PRESENT

Annual Report
2016-17

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**THE
FUTURE
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FUTURE
IS IN THE
PRESENT**

The future is not a result of choices among alternative paths offered by the present, but a place that is created – created first in the mind and will, created next in activity. The future is not some place we are going to, but one we are creating. The paths to it are not found but made, and the activity of making them changes both the maker and the destination.

John Schaar



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BOARD OF DIRECTORS

Dr. (Mrs.) Sheela Bhide, Chairperson
Mr. R. Ramachandran
Mr. Mruntunjay Sahoo
Mr. Mathew Joseph (upto 10th January, 2017)
Mr. Aleem Remtulla (upto 10th January, 2017)
Mr. Arun Diaz
Mr. Venkatesh Natarajan
Mr. Jyotin Mehta (w.e.f. 13th February, 2017)
Mr. Baskar Babu, MD & CEO

STATUTORY AUDITORS

BSR & ASSOCIATES, LLP
Chartered Accountants

REGISTERED OFFICE

1101, Sharda Terraces, Plot No. 65,
Sector 11, CBD Belapur,
Navi Mumbai – 400 614
Tel: +91 91 22 40435800
Website: www.suryodaybank.com

CORPORATE IDENTIFICATION NUMBER [CIN]

U65923MH2008PLC261472

REGISTRAR & TRANSFER AGENT (RTA)

Karvy Computershare Private Limited
Karvy Selenium, Tower- B, Plot No 31 & 32,
Financial district, Nanakramguda,
Serilingampally Mandal,
Hyderabad, 500032, India.
Tel: 040-67161500/ 040-2331 2454
Fax: 040-2331 1968
Email: einward.ris@karvy.com / support@karvy.com



The next decade is not only promising but also a great opportunity

Dear Members,

We are happy to share with you that we launched our banking operations on 23rd January, 2017 having transformed from an NBFC-MFI to a Small Finance Bank. With your continuing support we are now Suryoday Small Finance Bank and our tag line 'A Bank of Smiles' reflects our values and focus.

As you are aware, we had received the in-principle approval from the RBI to start a Small Finance Bank on 7th October, 2015. Since then, it has been a significant journey for Suryoday, in more ways than one. We had to deliver seamlessly on multiple fronts - putting the necessary processes in place, getting the right team on-board, investing in the right kind of technology and resources, getting the requisite capital were some of the things we meticulously attended to. We stayed connected - with each other, with our Investors, our Colleagues and with our Customers.

The journey from getting the in-principle licence, to getting the final licence in August 2016, to actually commencing operations as a Bank in January 2017 is one of the most significant milestones and a strategic shift in our company's nine year history. We are confident in our own humble way that we will make a meaningful impact and contribute to one of the key national agenda of Inclusive Banking.

We had to navigate many challenges along the way and the most impactful one has been the increased instances of delinquency and default which was initially caused post demonetisation. While the instances of default continues in specific geographic pockets, we are seeing signals of slow recovery.

Our culture of prudence helped us take some corrective actions. We were optimistic and truly believed that these were passing clouds. While we did get impacted, the trust reposed on us by over a million smiling customers will keep us going strong as we build a best-in-class Small Finance Bank. These phases in the journey of an institution are very valuable to build a robust foundation. We are learning valuable lessons from these experiences and believe that having a great customer connect will help us in managing such challenging situations in the future.

For a home grown Indian enterprise that started off as a Micro Finance Company with the support and trust of Investors both from within and outside the country, the next decade is not just promising but also is a great opportunity. We are embarking our next phase of our journey of Building A World Class Financial Services Institution and as a team, we are confident that we will deliver.

Our desire is to be one of the best banking services companies in the country, helping our customers, communities and people to prosper and grow. We are sensitive to and conscious of our 'purpose of being' ie, Inclusive Finance and therefore will deliver financial products and services that are affordable and meaningful to all segments of the society. We will offer a comprehensive basket of banking, insurance and investment products to our customers that are beneficial to them. We believe this will help us build deep and enduring customer relationships and result in superior returns for our shareholders.

In delivering on our strategy we will initially focus on our core markets of Maharashtra, Tamil Nadu, Puducherry, Odisha, Gujarat and Madhya Pradesh. With our strong position in these markets, we will focus on organic growth in addition to acquiring new customers in our chosen segments and build stronger and deeper customer relationships.

As always, our CSR strategy continued to focus on imparting 'Financial Literacy' in addition to 'Upskilling' and 'Skill Building' programs to our customers, especially, in the microfinance segment. We also focussed on their health and environment issues through sustained efforts organizing health and awareness camps. We are also associated with the ICICI Academy of Skills and other institutions to impart job oriented training for the children of our esteemed customers and facilitated their inclusion into the mainstream by getting them full time jobs.

Our long-term strategy that will define the way forward will include:

- Being a 'Best-In-Class' Institution at every phase of growth
- Being a 'Customer Driven' organization keeping the interest of the customer at the forefront of all our decisions
- Being highly compliant and ethical in all our dealings
- Being highly respected by all stakeholders for our prudent approach
- Building a sustainably profitable organization

As we look to the future, it is clear we are on the cusp of a revolution in 'Inclusive Banking'. We are aware that banking presents a massive opportunity to us and to all our stakeholders. We will continue to keep things simple and meaningful to the customer. We will persist in being prudent in our thinking and doing. Our investment in people, process and technology on this front will continue to be a critical component not just in customer acquisition but also in customer retention.

Our focus on 'Customer Experience' will be a constant 'non-negotiable' and internal benchmarks will be a measure of our 'promise and intent' vis-a-vis 'what we deliver'. We understand that 'Customer Insight' and 'Customer Profiling' are no longer constant and our success will depend on how sensitive we are to the changing customer mindset. We will constantly engage ourselves in understanding their changing needs and profile our business and products to suit the change.

The entire Suryoday team is committed to building a best-in-class Small Finance Bank. We are committed to providing great products and great experiences. And we are committed to creating value and delivering long-term profitable growth for our stakeholders. Most importantly we are aware that the future of the future is in the present. In what we do today and what we do every day. We will be 'A Bank of Smiles' for all our stakeholders.

Thank you for your support and for being part of this exciting journey and we commit to make you all proud.

R. Baskar Babu
MD & CEO

We will continue to keep things simple and meaningful to the customer.



From left to right: Mr. Arun Diaz, Mr. Venkatesh Natarajan, Mr. Jyotin Mehta, Dr. (Mrs.) Sheela Bhide, Mr. R. Ramachandran, Mr. Mrutyunjay Sahoo, Mr. R. Baskar Babu

Dr. Mrs. Sheela Bhide (Chairperson)

Served as IAS officer in Govt. of India for 36 years across - Ministry of External Affairs, Ministry of Defense & Ministry of Corporate Affairs, Ex-Chairman and Managing Director, ITPO.

Mr. R. Baskar Babu (MD & CEO)

MD & CEO of Suryoday Small Finance Bank Ltd. Over 24 years of experience in financial services. He has held leadership roles in Cholamandalam, HDFC Bank, GE Capital.

Mr. R. Ramachandran (Independent Director)

Currently Non-Executive Director - SIDBI and an Independent Director - Gati. Ex-Chairman & Managing Director - Andhra Bank. Ex-Executive Director - Syndicate Bank.

Mr. Mrutyunjay Sahoo (Independent Director)

Ex-Special Chief Secretary to the Government of Andhra Pradesh. Ex-Director as government nominee in Navratna and Miniratna PSUs.

Mr. Jyotin Mehta (Independent Director)

Finance and Compliance professional with over 35 years of experience. Ex-General Manager and Company Secretary of ICICI Bank Ltd. Presently the Vice President and Chief Internal Auditor of Voltas Limited.

Mr. Arun Diaz (Nominee Director)

An Entrepreneur / Consultant and also Trustee/Member of the Investment Committee of Aavishkaar Goodwell. Earlier he was Head of Reuters Consulting for South Asia and 28 years at Standard Chartered Bank in various positions and international locations

Mr. Venkatesh Natarajan (Nominee Director)

Over 14 years of experience in product development and venture capital at Intel. Led several equity deals in design software, computing and wireless technology. Operational consultant to various MFIs in India.

Key Investors



2008-2009

- Suryoday Micro Finance was incorporated under the Companies Act
- Received RBI license for NBFC Operations
- Partnered with Aavishkaar Goodwell for Private Equity Funding
- Opened 10 branches across Pune and Solapur in Maharashtra and Chittoor in Andhra Pradesh

2009-2014

- Expanded operations across Maharashtra, Andhra Pradesh, Odisha, Tamil Nadu, Karnataka, Gujarat and Rajasthan bringing the network to 70 branches with 274,000 active customers
- CRISIL rating steadily upgraded to mfR3
- New products launched
- Received Equity Infusion from Lok Capital, HDFC Holdings, HDFC Life and IFC in addition to Aavishkar Goodwell
- Received RBI approval for NBFC-MFI Status
- Received ICRA rating of BBB for debt instruments

2014-2015

- Received Bank Line rating of BBB
- Received ICRA rating of M2+
- Network expanded to include Madhya Pradesh bringing the total number of branches to 145 with 562,000 active customers
- Issued debt securities and obtained listing permission from the BSE Ltd. in the Wholesale Debt segment

2015-2016

- Received grading of MFI-1
- Received in-principle approval from RBI for setting up Small Finance Bank (September 2015)

2016-2017

- Received final license from RBI to operationalise Small Finance Bank (August 2016)
- Rating from ICRAA(-) and A1 received in August, 2016
- Received approval for change of name to Suryoday Small Finance Bank Limited
- Launched Small Finance Bank Operations (January 23, 2017)
- Set up four bank branches in Mumbai and Pune within a short span of 67 days

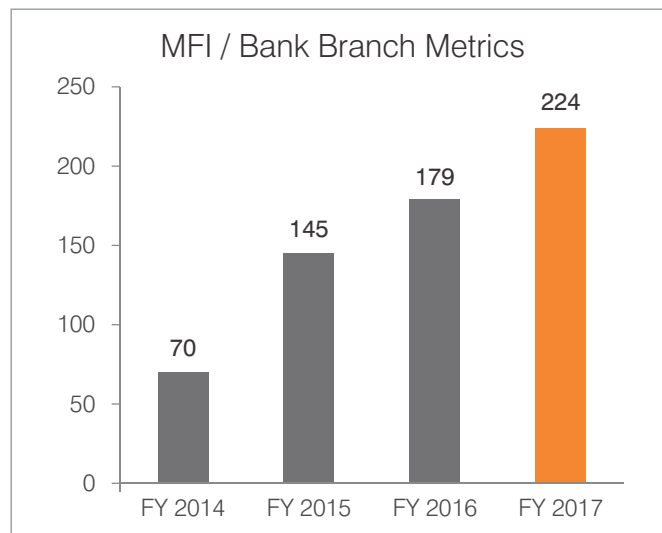
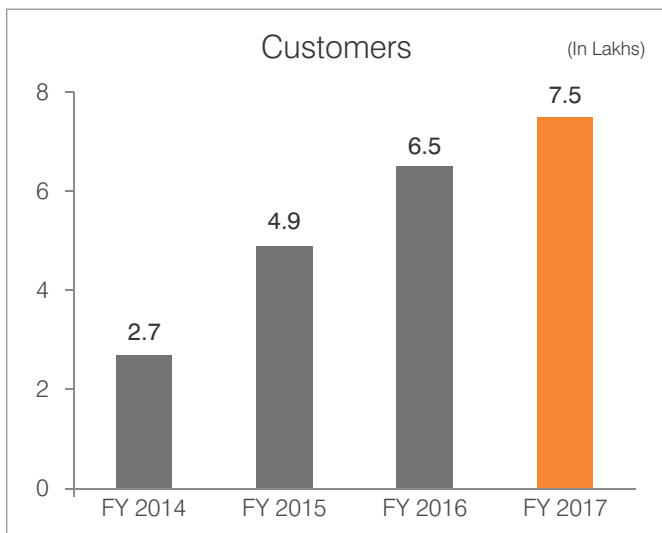
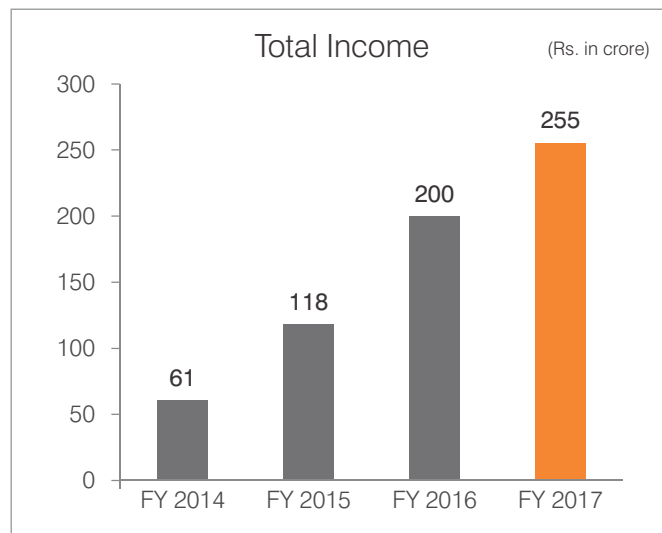
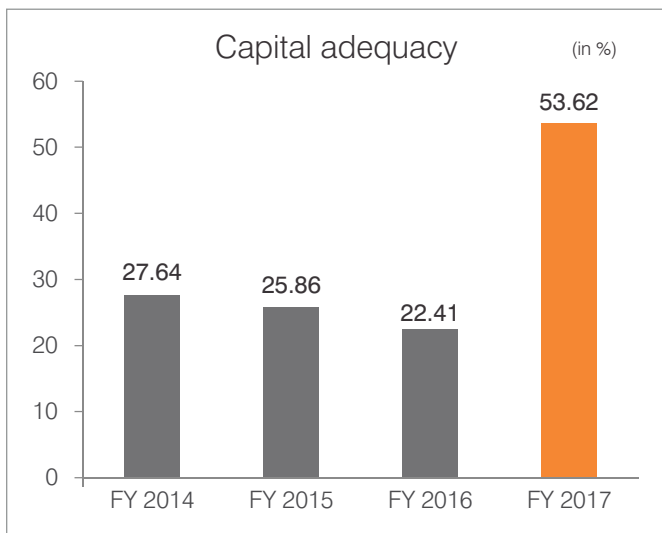
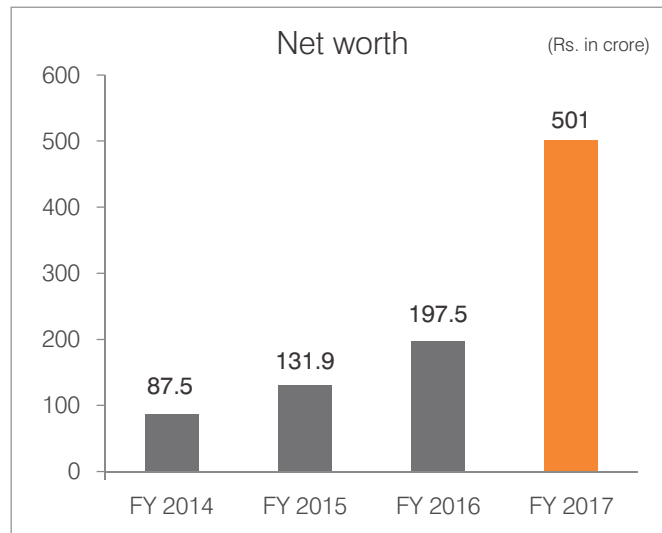
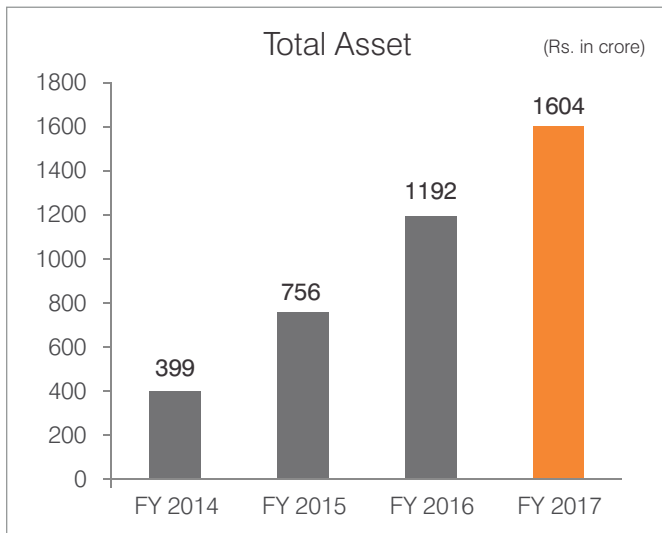


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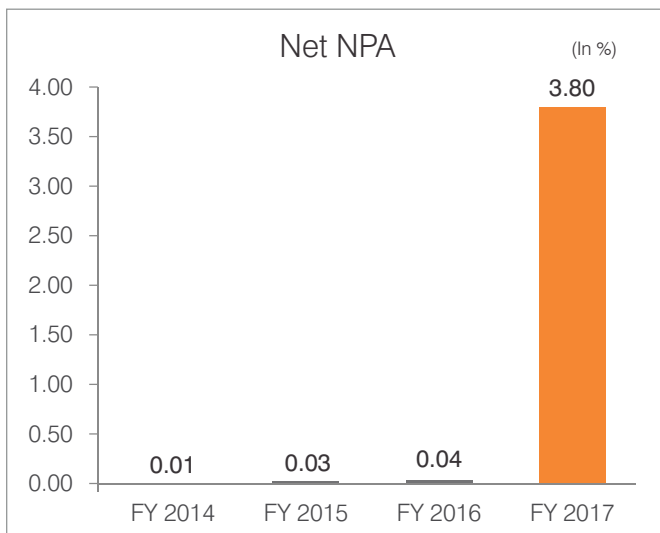
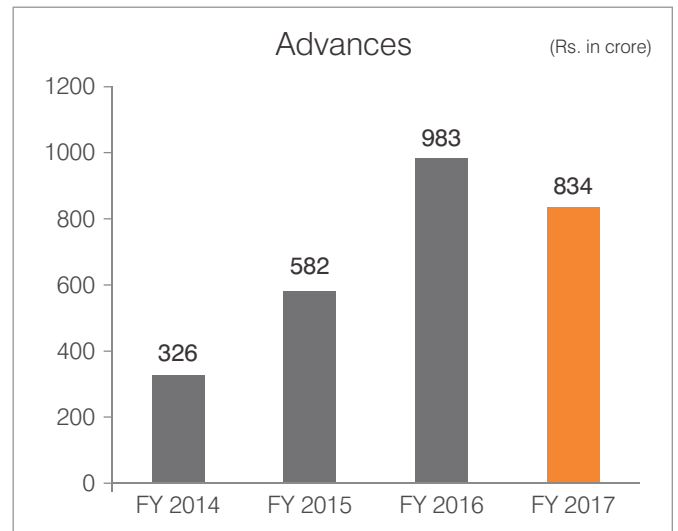
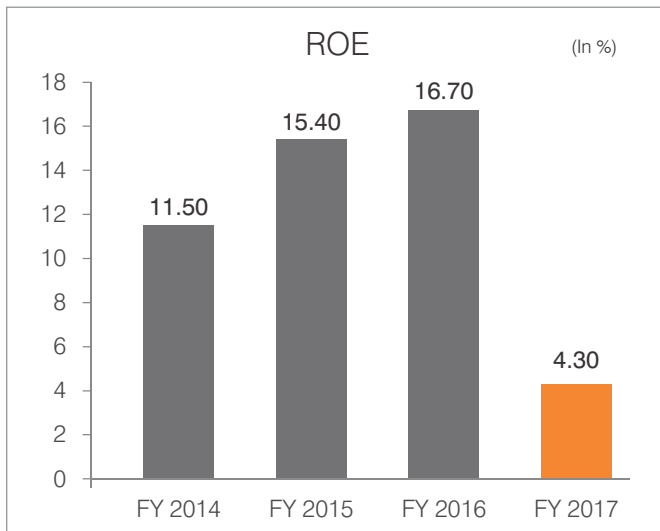
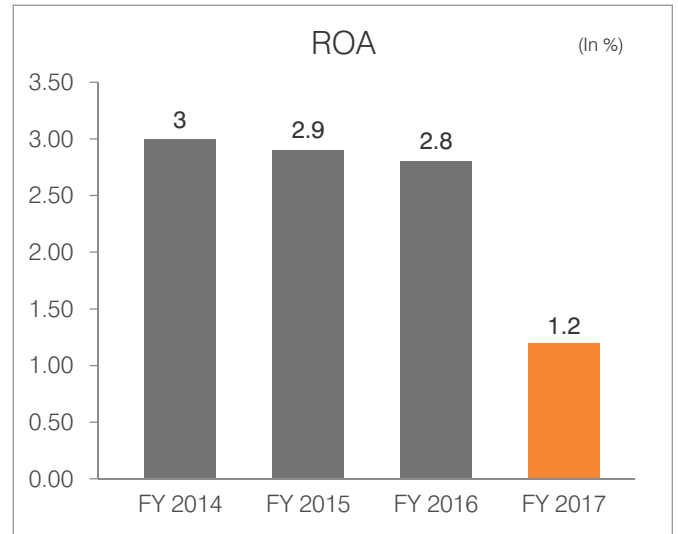
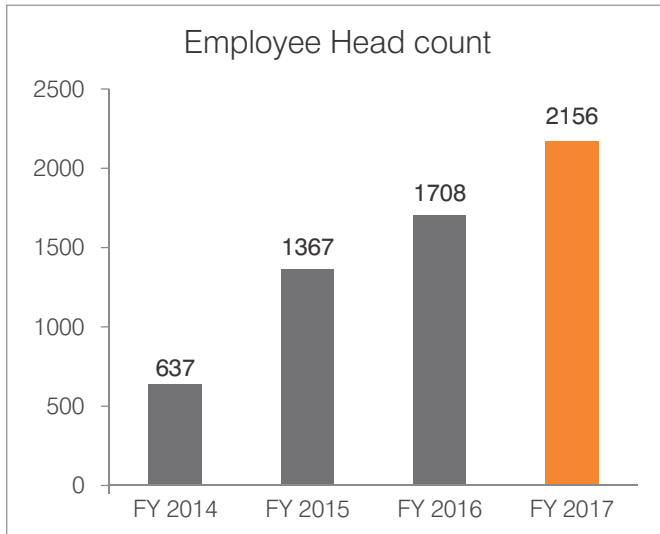
**FINANCIAL
HIGHLIGHTS**



Financial Highlights



Financial Highlights



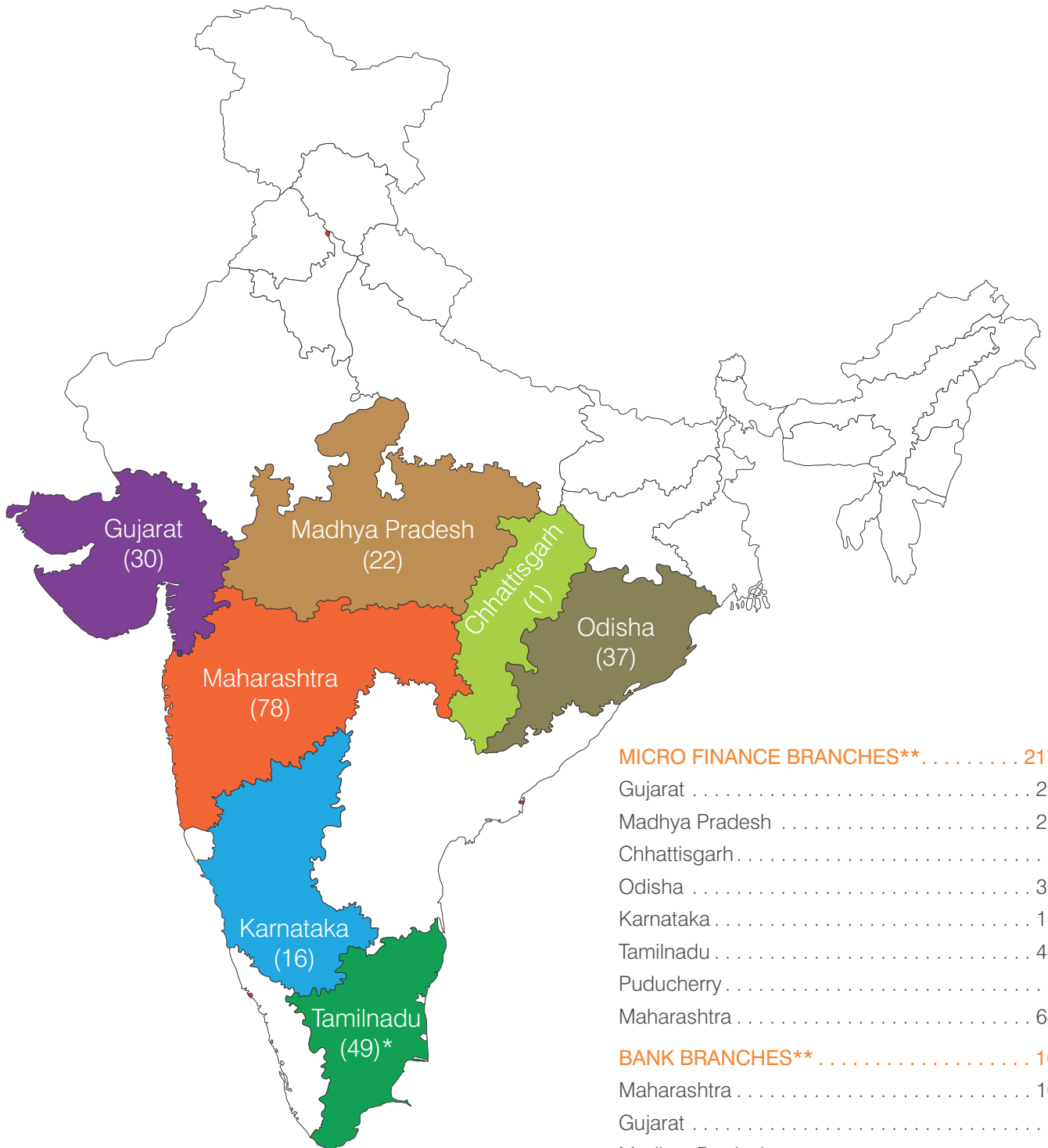
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**THE
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**OUR
NETWORK**





MICRO FINANCE BRANCHES**	217
Gujarat	29
Madhya Pradesh	21
Chhattisgarh	1
Odisha	37
Karnataka	16
Tamilnadu	44
Puducherry	1
Maharashtra	68
BANK BRANCHES**	16
Maharashtra	10
Gujarat	1
Madhya Pradesh	1
Tamilnadu	3
Puducherry	1

*Puducherry is included in Tamilnadu
 Figures in States indicate the number of
 Micro Finance branches & Bank branches

**As on July 28, 2017

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**DIRECTORS’
REPORT**

To

The Members,

Suryoday Small Finance Bank Limited
[Formerly Suryoday Micro Finance Limited]

Your Directors have pleasure in presenting the Ninth Annual Report of the Company and the First Annual Report of Suryoday Small Finance Bank Limited together with the Financial Statements for the year ended 31st March, 2017.

Overview of Operations

The year 2016-2017 has been a milestone year for us. We transitioned from an NBFC-MFI to a Small Finance Bank during the year.

We complied with all the regulatory requirements required for transitioning and obtained a final approval for becoming a Small Finance Bank from Reserve Bank of India on the 26th August, 2016.

The approval of the Registrar of Companies, Maharashtra, for change of name from 'Suryoday Micro Finance Limited' to 'Suryoday Small Finance Bank Limited' was received on 13th January, 2017. We successfully launched our Small Finance Bank operations on the 23rd January, 2017.

The task of transformation involved various steps and the process looked very challenging. We are glad that with meticulous planning and determination, the management was able to accomplish the job successfully.

The first branch of your Bank was opened in Belapur, Navi Mumbai on 23rd January, 2017 and by the end of the financial year, the Bank had opened four branches. It gives us great pleasure to state that as of date, your Bank has sixteen fully operational branches. We are planning to have close to 100 Banking outlets by the end of the current financial year.

While the JLG (Joint Liability Group) micro finance portfolio continues to be the main business vertical, your Bank has embarked on introducing new verticals in Retail Assets for MSMEs (Micro, Small and Medium Enterprises), Home Loans / Loans against Properties products in an effort to diversify its portfolio.

We are focussed on building an institution with customer centric focus and continue to adhere to the highest standards of compliance and governance. This will be possible only with the untiring hard work of our employees who pride themselves with adherence to our culture and we are confident of achieving the same throughout our ongoing journey.

The details of the operations are given in the 'Management Discussion and Analysis' which forms part of the Annual Report.

Your Directors are aware that the RBI has given its approval to us as part of India's drive for greater financial inclusion, enhanced competition, and the creation of a stable financial system catering to the needs of a growing and globalising economy. Towards this objective, your Bank expects to play an important role in the supply of credit and other financial services to micro and small enterprises (MSEs), to agriculture and to the underbanked and unbanked population of our country.

Financial Highlights

The Bank's performance during the year ended 31st March, 2017 as compared to the previous financial year, is summarized below:

(Rs. in crores)

Particulars	2016-2017	2015-2016
Total Income	254.79	200.01
Operating Expenses	216.99	153.67
Provisions and contingencies	22.70	18.90

Particulars	2016-2017	2015-2016
Profit for the year	15.10	27.44
Add: surplus brought forward from previous year	44.27	22.31
Amount available for appropriation	59.37	49.75
Appropriations:		
Statutory Reserve under section 17 of the Banking Regulation Act, 1949	(3.78)	(5.49)
Surplus carried to Balance Sheet	55.59	44.26
EPS (Basic)	3.01	7.59
EPS (Diluted)	2.90	7.52

Dividend

With a view to ploughing back profits for expansion of the bank's branches as also setting up branch banking activities in certain unbanked areas, your Directors do not recommend any dividend for the financial year under review.

Issuance of capital

During the year under review, 255,60,469 equity shares of the face value of Rs. 10/- each were allotted by way of Rights issues, Private Placement issues and Preferential Allotment issues in various tranches bringing in a total inflow of Rs. 289.27 crores.

During the year under review, 1,69,000 equity shares were allotted to the employees under Equity Stock Options exercised under the prevalent Employee Stock Option Scheme.

As on 31st March, 2017, the paid up share capital of your Bank stood at Rs. 64.06 crores divided into 6,40,64,690 Equity Shares of Rs. 10 each.

Funds raised and Credit Ratings

Rs. 501.29 crores were raised by way of debt facilities from various lenders and Rs. 261.28 crores by way of loan portfolio buys outs/securitization during the Financial Year 2016-2017.

ICRA has assigned the Bank A- rating in August, 2016 for its long term Bank facilities of Rs. 500 crores and rating of ICRA A- for its subordinated debt of Rs. 25 crores. CARE has assigned a rating of A- for its NCDs issued of Rs 130 cr.

CARE has assigned a Grading of MFI-1 in August, 2016.

Capital Adequacy

As per operating guidelines for Small Finance Bank, the Bank is required to maintain a minimum Capital Adequacy Ratio of 15% with minimum Common Equity Tier I (CET I) CAR of 6%.

As on March 31, 2017, the Capital Adequacy Ratio of the Bank stood at 53.62%, well above regulatory minimum requirement of 15%. Tier I ratio of the Bank stood at 47.95% well above regulatory requirement of 6%.

Subsidiary, Associate and Joint Venture Companies

The Bank does not have any Subsidiary, Associate or Joint Venture as on 31st March, 2017.

Extract of Annual Return

In accordance with Section 92 (3) of the Companies Act, 2013, an extract of the Annual Return in the prescribed format (MGT-9) is attached as **Annexure-1** to this Report.

Directors

During the year under review, the composition of the Board of Directors changed in accordance with the requirements of RBI

guidelines with respect to Small Finance Bank.

Mr. Mathew Joseph [DIN 01033802] and Mr Aleem Remtula [DIN 02872107], erstwhile Nominee Directors representing the Qualifying Investors resigned from the Board of Directors. The Board places on record its sincere appreciation of the services rendered by Mr. Joseph and Mr. Remtula during their tenure as Directors on the Board.

Mr. Arun Diaz [DIN 00493304] and Mr. Venkatesh Natarajan [DIN 02453219] who resigned as Nominee directors on 12th July, 2016 and 10th January, 2017 respectively were elected by the Board at its meeting held on 29th March, 2017 as 'Investor Directors' representing the Qualifying Investors as per the relevant provisions in the Articles of Association of the Bank.

Mr. Jyotin Mehta [DIN 00033518] was appointed as Additional Director (Independent Category) by the Board with effect from 13th February, 2017 to hold office till the conclusion of the ensuing Annual General Meeting and his appointment was duly approved by the Reserve Bank of India (RBI). Mr. Mehta is a qualified Chartered Accountant and Company Secretary and possesses relevant knowledge and practical experience in banking operations, legal compliances and finance as per the provisions of Section 10A (2) (a) of the Banking Regulation Act, 1949.

In terms of Section 149 of the Companies Act, 2013, it is proposed to appoint Mr. Mehta as an Independent Director for a tenure of five (5) years, determined in accordance with the applicable provisions of the Banking Regulation Act, 1949 and the RBI Directions. The Bank has received a notice from a member proposing the candidature of Mr. Mehta as Independent Director of the Bank and accordingly, the resolution for his appointment will be put up for members' approval at the ensuing Annual General Meeting.

Dr. (Mrs) Sheela Bhide was appointed as Independent Director by the members at the Annual General Meeting held on 24th September, 2015 for a period of five years upto 23rd September, 2020. During the year under review, Dr. Bhide was appointed as Part-time Chairman of the Bank in accordance with the RBI Directions and in terms of the RBI approval in this regard, she holds office for a period of three years from 23rd January, 2017 to 22nd January, 2020.

Since this entails a variation of tenure in her appointment vide resolution passed on 24th September, 2015 by the members, the same is being put up for members' approval at the ensuing Annual General Meeting.

Mr. Baskar Babu was appointed as Managing Director and Chief Operating Officer (MD & CEO) vide resolution passed by the members at the Annual General Meeting held on 22nd September, 2016 for a period of three years with effect from 1st April, 2016. However, in terms of the guidelines prescribed by the RBI, Mr. Babu was required to be re-appointed as MD & CEO of the Banking entity in January, 2017 subject to RBI approval. Accordingly, Mr. Babu was appointed as MD & CEO of the Bank and in terms of the RBI's approval, holds office for a period of three years from 23rd January, 2017 to 22nd January, 2020.

Since this entails a variation in the term of the office of the MD & CEO, the same is being placed for members' approval at the ensuing Annual General Meeting.

The terms of appointment of the other Independent Directors viz. Mr. R. Ramachandran and Mr. Mrutyunjay Sahoo has been approved by the RBI without any amendment.

There is no director liable to retire by rotation.

Meetings of the Board of Directors

During the year under review, nine Board Meetings were convened and held and the gap between any two meetings were well within the statutorily permissible limits. The dates of meetings together with the attendance are detailed in the Corporate Governance Report.

Declaration by Independent Directors

All Independent Directors have given declaration that they meet the criteria of Independence as laid down under Section 149 (6) of the Companies Act, 2013.

Key Managerial Personnel

During the year under review, Ms. Priya Vishwanathan, Company Secretary, resigned from the services of the Bank. Ms. Geeta Krishnan has since been appointed as Company Secretary as per the provisions of section 203 of the Companies Act, 2013.

Policy on appointment and remuneration of Directors, KMPs and senior management

Pursuant to provisions of Section 178 of the Companies Act, 2013 and the Reserve Bank of India's Directions in this regard, the Board, at its meeting held on 23rd January, 2017 approved the Policy on Appointment of Directors and remuneration of Directors, KMP and employees. This Policy has been disclosed on the Bank's website, [https://www.suryodaybank.com/assets/pdf/policies/Directors Appointment.pdf](https://www.suryodaybank.com/assets/pdf/policies/Directors%20Appointment.pdf)

The Disclosures pursuant to the aforesaid Policy and section 197 of the Companies Act, 2013 read with Rule 5(1) of Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 is attached as **Annexure 2** to this Report.

Board Evaluation

Pursuant to provisions of section 178(2) of the Companies Act, 2013, the Board carried out annual evaluation of its own performance and that of its Committees and individual directors.

A Board effectiveness assessment questionnaire was designed for the performance evaluation of the Board, its Committees and individual directors covering various aspects including composition, competency, board procedures, processes, functioning and effectiveness, contribution to the Board / Committee meetings etc. The said questionnaires were circulated to all the Directors of the Bank for the annual performance evaluation.

Based on the responses received from the Directors, the Nomination and Remuneration Committee ("NRC") reviewed the performance of the individual Directors. At a separate meeting of Independent Directors, the performance of non-independent Directors, performance of the Board as a whole and performance of the Chairman of the Bank were reviewed. The Board at its meeting assessed the performance of the Independent Directors.

The Directors were satisfied with the results of the performance evaluation of the Board & its Committees, Chairman and individual Directors.

Employees Stock Option Scheme

The Nomination and Remuneration Committee of the Board of Directors administers and monitors the Employee Stock Option Scheme in accordance with the ESOP Scheme approved by the shareholders.

During the year under review, the ESOP Scheme 2014 was the only Scheme in operation.

Although the SEBI (Share Based Employee Benefits) Regulations, 2014 is not applicable to your Bank as its shares are not listed, the latest ESOP Scheme, 2016 which was approved by the members at the Extra Ordinary General Meeting held on 22nd December, 2016 has been drawn up in compliance with these Regulations.

The Option movement during the year in respect of ESOP Scheme, 2014 is as follows:

Particulars	Details
Number of options outstanding at the beginning of the period	4,45,700
Number of options granted during the year	Nil
Number of options forfeited / lapsed during the year	1,00,750
Number of options exercised during the year	1,69,000
Number of shares arising as a result of exercise of options	1,69,000
Money realized by exercise of options (INR), if scheme is implemented directly by the Bank	Rs. 60,84,000
Loan repaid by the Trust during the year from exercise price received	Not applicable

Particulars	Details
Number of options outstanding at the end of the year	1,75,950
Number of options vested during the year	1,09,200
Number of options yet to be vested	66,750

The ESOP Schemes are implemented in accordance with guidance notes issued by ICAI and the relevant accounting standards.

The Employee-wise Options granted during the year under the ESOP Scheme, 2016 is as follows:

Particulars	Details
1231 employees	15,10,000
Any other employee who receives a grant in any one year of option amounting to 5% or more of option granted during that year	Nil
Identified employees who were granted option, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) at the time of grant.	Nil

Particulars of Loans, Guarantees or Investments

Pursuant to Section 186(11) of the Companies Act, 2013, loans made, guarantees given, securities provided or acquisition of securities by a banking company in the ordinary course of its business are exempted from the disclosure requirement under Section 134(3)(g) of the said Act.

Details of Investments are given in Schedule 8 to the Financial Statements forming part of the Annual Report.

Related Party Transactions

During the year under review, there were no transactions with related parties, as envisaged under Section 188 of the Companies Act, 2013, hence Form AOC-2 is not applicable. Other disclosures with respect to related parties form part of the notes to Financial Statements.

Risk Management Framework

Your Bank has in place a comprehensive Risk Management framework supported by detailed policies and processes for management of Credit Risk, Market Risk, Liquidity Risk, Operational Risk and various other Risks.

The Risk Management Committee of the Board oversees the implementation of the various risk management policies and processes and is also in charge of review of these and other Policies from the risk perspective.

Internal Financial Controls (IFC) with reference to the Financial Statements

The Board of Directors confirms that your Bank has laid down set of standards, processes and structure which enables to implement Internal Financial controls across the organization with reference to Financial Statements and that such controls are adequate and are operating effectively. During the year under review, no material or serious observation has been observed for inefficiency or inadequacy of such controls.

Director's Responsibility Statement

Pursuant to section 134(3)(c) read with section 134(5) of the Companies Act, 2013 (the Act), the Board of Directors of the Bank hereby confirms that:

- a. in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- b. we have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Bank as on March 31, 2017 and of the profit of the Bank for the year ended on that date;
- c. we have taken sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Bank and for preventing and detecting fraud and other irregularities;
- d. we have prepared the annual accounts on a going concern basis;
- e. we have laid down internal financial controls to be followed by the Bank and that such internal financial controls are adequate and were operating effectively;
- f. we have devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems are adequate and operating effectively.

Corporate Governance

A Report on Corporate Governance forms part of the Annual Report.

Corporate Social Responsibility (CSR) Initiatives

The Board of Directors constituted the Corporate Social Responsibility (CSR) Committee in accordance with Section 135 of the Companies Act, 2013 comprising of four Directors including two Independent Directors. The CSR Policy of the Bank and CSR initiatives taken by the Bank are in accordance with the Companies (Corporate Social Responsibility Policy) Rules, 2014. The requisite details are attached as **Annexure 3**.

Statutory Audit

M/s. BSR & Associates, LLP, Chartered Accountants, Mumbai were appointed as Statutory Auditors of the Bank at the Extra Ordinary General Meeting held on 13th February, 2017 for the year 2016-2017 and their appointment was approved by the Reserve Bank of India.

The Audit Committee and the Board have recommended their re-appointment as Statutory Auditors for FY 2017-2018.

The relevant resolution is being put up for members' approval at the ensuing Annual General Meeting.

The report of the Statutory Auditors on the Financial Statements for the year 2016-2017 forms part of the Annual Report. The said Report does not contain any qualification, reservation, adverse mark or disclaimer. Further, no frauds have been reported by the Auditors under section 143(12) of the Companies Act, 2013.

Secretarial Audit

Pursuant to the provisions of Section 204 of the Companies Act, 2013 and the Companies (Appointment and Remuneration of Management Personnel) Rules, 2014, M/s. Aabid & Co., Practising Company Secretaries were appointed to conduct Secretarial Audit for the financial year 2016-17.

The Secretarial Audit Report is attached as **Annexure 4** to this Report and it does not contain any qualification, reservation or adverse remark.

Deposits

Being a banking company, the disclosures required as per Rule 8(5)(v) & (vi) of the Companies (Accounts) Rules, 2014, read with Section 73 and 74 of the Companies Act, 2013 are not applicable.

Material changes and commitments, affecting the financial position of the Bank

There are no material changes affecting the financial position of the Bank subsequent to the close of the financial year 2016 - 2017 till the date of this Report.

Vigil mechanism

In compliance with Section 177 of the Companies Act, 2013, a Whistle Blower Policy has been formulated for the directors and employees to report genuine concerns or grievances about unethical behaviour, act or suspected fraud or violations of the Bank's Code of Conduct. Please refer [https://www.suryodaybank.com/assets/pdf/policies/Whistle Blowers Policy.pdf](https://www.suryodaybank.com/assets/pdf/policies/Whistle%20Blowers%20Policy.pdf) for the Policy. The functioning of the Whistle Blower mechanism is subject to review by the Audit Committee from time to time.

During the year under review, no complaint was received from any employee or Director.

Conservation of Energy, Technology Absorption, Foreign Exchange Earnings and Outgo

The provisions of Section 134(3)(m) of the Companies Act, 2013 read with Rule 8(3) of the Companies (Accounts) Rules, 2014 are not applicable to banking companies.

Significant and Material Orders passed by the Regulators or Courts or Tribunal

There are no significant material orders passed by the Regulators or Courts or Tribunal which would impact the going concern status of the Bank and its future operations.

Particulars of Employees

The employee strength of your Bank is growing and as of 31st March, 2017, there were 2156 permanent employees on the roll of the Bank. With the budgeted growth in operations, this number has grown and is definitely set to grow more in the current year.

During the year under review, there was only one employee who was employed throughout the year and was in receipt of remuneration of not less than Rs. 102 lakhs per annum, and the information required under section 197 of the Companies Act, 2013 read with Rule 5(2) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 is given herein below:

Sr. No.	Particulars	Details
1	Name	Mr. R Baskar Babu
2	Designation	Managing Director & Chief Executive Officer
3	Remuneration received	Rs. 105.64 lakhs*
4	Nature of employment, whether contractual or otherwise	Contractual
5	Qualifications and experience of the employee	B.E, MBA with more than 24 years' experience in banking and financial services.
6	Date of commencement of employment	10-11-2008
7	Age	48 years
8	The last employment held by such employee before joining the Bank	Infinity.Com Securities Limited, Head – Institutional Equities
9	The percentage of equity shares held by the employee in the Bank	3.64%

*Inclusive of salary, perquisites, retivals and performance linked incentive of Rs. 15 lakhs for FY 2015-16

Acknowledgements

Your Directors would like to place on record their gratitude for all the guidance and co-operation received from the Reserve Bank of India and other government and regulatory agencies. Your Directors would like to thank all the stakeholders of the Bank including its investors, customers, bankers, and other service agencies for their continued support and also wishes to express their appreciation for the hard work and dedicated efforts put in by all the employees of the Bank at all levels and look forward to their continued contribution in building this 'Bank of Smiles' into a world class organisation.

For and on behalf of the Board

sd/-

Dr. (Mrs.) Sheela Bhide
Chairperson

sd/-

Mr. R Baskar Babu
Managing Director & CEO

Date: July 28, 2017

Place: Mumbai

Extract of Annual Return in Form MGT-9 as on the financial year ended on March 31, 2017

[Pursuant to section 92(3) of the Companies Act, 2013 and rule 12(1) of the Companies (Management and Administration) Rules, 2014]

I. REGISTRATION AND OTHER DETAILS

CIN	:	U65923MH2008PLC261472
Registration Date	:	November 10, 2008
Name of the Company	:	Suryoday Small Finance Bank Limited [Formerly Suryoday Micro Finance Limited]
Category / Sub-Category of the Company	:	Company Limited by Shares / Indian Non-Government Company
Address of the Registered office and contact details	:	1101, Sharda Terraces, Plot No.65 Sector 11, CBD Belapur, Navi Mumbai – 400 614
Whether listed company	:	Yes; Non-Convertible Debentures of the Bank are listed on the Wholesale Debt Segment of BSE Ltd. However, Equity shares are not listed.
Name, Address and Contact details of Registrar and Transfer Agent, if any	:	Karvy Computershare Private Limited Karvy Selenium, Tower- B, Plot No 31 & 32., Financial district, Nanakramguda, Serilingampally Mandal, Hyderabad - 500032 Karvy Registry House, 8-2-596, St. No. 1, Banjara Hills, Hyderabad - 500 034 Email: einward.ris@karvy.com / support@karvy.com Contact No.: Tel: +91 40 67161500

II. PRINCIPAL BUSINESS ACTIVITIES OF THE COMPANY

Sl. No.	Name and Description of main products/ services	NIC Code of the Product / service	% to total turnover of the company
1	Banking & Financial Services	64191	100%

III. PARTICULARS OF HOLDING, SUBSIDIARY AND ASSOCIATE COMPANIES

The Company does not have any holding, subsidiary or any associate company.

III. SHARE HOLDING PATTERN (Equity Share Capital Breakup as percentage of Total Equity):**i. Category-wise Share Holding:**

Category of Shareholders	No. of Shares held at the beginning of the year				No. of Shares held at the end of the year				% Change during the year
	Demat	Physical	Total	% of Total shares	Demat	Physical	Total	% of Total shares	

A. Promoters**(1) Indian**

a) Individual/HUF	10,00,000	14,76,435	24,76,435	6.46	153,87,728	13,66,450	167,54,178	26.15	19.69
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Category of Shareholders	No. of Shares held at the beginning of the year				No. of Shares held at the end of the year				% Change during the year
	Demat	Physical	Total	% of Total shares	Demat	Physical	Total	% of Total shares	
b) Central Govt	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
c) State Govt(s)	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
d) Bodies Corp.	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
e) Banks / FI	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
f) Any other	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Sub-total (A)(1):	10,00,000	14,76,435	24,76,435	6.46	153,87,728	13,66,450	167,54,178	26.15	19.69
(2) Foreign									
a) NRIs – Individuals	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
b) Other – Individuals	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
c) Bodies Corp.	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
d) Banks / FI	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
e) Any other	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Sub-total (A)(2):	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Total shareholding of Promoter (A)-(A)(1) + (A)(2)	10,00,000	14,76,435	24,76,435	6.46	153,87,728	13,66,450	167,54,178	26.15	19.69
B. Public Shareholdings									
(1) Institutions	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
a) Mutual Funds	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
b) Banks / FI	Nil	17,23,286	17,23,286	4.50	44,72,066	17,23,286	61,95,352	9.67	5.17
c) Central Govt	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
d) State Govt(s)	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
e) Venture Capital Funds	Nil	Nil	Nil	Nil	76,29,468	Nil	76,29,468	11.91	11.19
f) Insurance Companies	Nil	14,72,465	14,72,465	3.84	25,78,679	Nil	25,78,679	4.03	0.18
g) FIs		37,77,777	37,77,777	9.85	6,10,111	37,77,777	43,87,888	6.85	-3.01
h) Foreign Venture Capital Funds	Nil	Nil	Nil	Nil	56,41,414	Nil	56,41,414	8.81	8.81
i) Others (specify)	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Sub-total (B)(1):		69,73,258	69,73,528	18.19	2,09,31,738	55,01,063	2,64,32,801	41.26	23.07

Category of Shareholders	No. of Shares held at the beginning of the year				No. of Shares held at the end of the year				% Change during the year
	Demat	Physical	Total	% of Total shares	Demat	Physical	Total	% of Total shares	
(2) Non-Institutions									
a) Bodies Corp.					Nil	Nil	Nil	Nil	Nil
i) Indian	7,527	Nil	7,527	0.02	7,61,359	Nil	7,61,359	1.19	1.17
ii) Overseas	86,06,761	114,99,262	201,06,023	52.45	107,36,254	68,74,424	176,10,678	27.49	-24.96
b) Individuals					Nil	Nil	Nil	Nil	Nil
i) Individual shareholders holding nominal share capital upto Rs. 1 lakh	2,500	95,700	98,200	0.26	58,196	94,688	1,52,884	0.24	-0.02
ii) Individual shareholders holding nominal share capital in excess of Rs. 1 lakh	75,05,005	11,68,503	86,73,508	22.63	15,26,998	8,25,792	23,52,790	3.67	-18.95
c) Others (specify)	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Sub-total (B)(2):	161,21,793	127,63,465	288,85,258	75.35	130,82,807	77,94,904	208,77,711	32.58	-42.76
Total Public Shareholding (B)=(B)(1)+(B)(2)	161,21,793	197,36,993	358,58,786	93.54	340,14,545	132,95,967	473,10,512	73.85	-19.69
C. Shares held by Custodian for GDRs & ADRs	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Total (C)	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
(A+B+C)	171,21,793	212,13,428	383,35,221	100.00	494,02,273	146,62,417	640,64,690	100.00	-

ii. Shareholding of Promoters:

Sr. No.	Name of the Shareholders	Shareholding at the beginning of the year			Shareholding at the end of the year			% change in share holding during the year
		No. of Shares	% of total Shares of the Company	% of Shares Pledged / encumbered to total shares	No. of Shares	% of total Shares of the Company	% of Shares Pledged / encumbered to total share	
1.	Mr. R. Baskar Babu	24,76,435	6.46	1.83	23,33,578	3.64	1.09	-2.82
2.	Mr. P Surendra Pai	59,32,900	15.48	Nil	114,34,327	17.85	Nil	17.85
3.	Mr. P.S. Jagdish	9,35,755	2.44	Nil	26,37,823	4.12	Nil	4.12
4.	Mr. G. V. Alankara	3,00,000	0.78	Nil	3,48,450	0.54	Nil	0.54
	TOTAL	96,45,090	25.16	1.83	167,54,178	26.15	1.09	0.99

Note: Persons mentioned in (2), (3) and (4) above were not promoters as on 1.4.2016.

iii. Change in the Promoters' shareholding (please specify, if there is no change):

Sr. No.	Name of the shareholder	Shareholding at the beginning of the year		Date	Reason	Increase/Decrease in shareholding		Cumulative Shareholding during the year	
		No. of shares	% of total shares of the Company			No. of shares	% of total shares of the Company	No. of shares	% of total shares of the Company
1	Mr. R. Baskar Babu	24,76,435	6.46	28-05-2016	Transfer	-1,00,000	-0.24	23,76,435	5.65
				27-12-2016	Preferential Allotment	1,00,000	0.19	24,76,435	4.81
				28-01-2017	Transfer	-1,42,857	-0.28	23,33,578	4.52
As on 31 st March, 2017								23,33,578	3.64
2	Mr. P. Surendra Pai	59,32,900	15.48	29-04-2016	Preferential Allotment	24,70,588	5.88	84,03,488	19.99
				28-01-2017	Transfer of shares	1,42,857	0.28	85,46,345	16.56
				21-02-2017	Rights Allotment	17,57,107	2.93	103,03,452	17.19
				22-02-2017	Preferential Allotment	11,30,875	1.85	114,34,327	18.72
				As on 31 st March, 2017					
3	Mr. P. S. Jagdish	935,755	2.44	29-04-2016	Allotment	12,35,294	2.94	21,71,049	5.16
				28-05-2016	Transfer of shares	1,00,000	0.24	22,71,049	5.40
				21-02-2017	Rights Allotment	3,66,774	0.61	26,37,823	4.40
				As on 31 st March, 2017					
4	Mr. G. V. Alankara	300,000	0.78	21-02-2017	Rights Allotment	48,450	0.08%	3,48,450	0.58%
				As on 31 st March, 2017					

iv. Shareholding pattern of Top Ten Shareholders (Other than Directors, Promoters and holders of GDRS and ADRS):

Sl. No.	Name of Top 10 Shareholders	Date wise increase/ decrease in shareholding	Shareholding at the beginning of the year		Cumulative Shareholding during the year	
			No. of shares	% of total shares of the Company	No. of shares	% of total shares of the Company
1.	Sarva Capital LLC					
	At the beginning of the year	01.04.2016	61,15,911	15.95		
	At the end of the year	31.03.2017			61,15,911	9.55
2.	International Financial Corporation					
	At the beginning of the year	01.04.2016	37,77,777	9.85		
	Rights Allotment	21.02.2017	6,10,111	1.02	43,87,888	7.32
	At the end of the year	31.03.2017			43,87,888	6.85
3	DWM (International) Mauritius Limited					
	At the beginning of the year	01.04.2016	37,17,333	9.70		
	Rights Allotment	21.02.2017	6,00,349	1.00	43,17,682	7.20
	At the end of the year	31.03.2017			43,17,682	6.84
4	ResponsAbility Participations Mauritius					
	At the beginning of the year	01.04.2016	Nil	Nil	Nil	Nil
	Acquired through transfer	05.07.2016	25,56,742	6.08	25,56,742	6.08
	Rights Allotment	21.02.2017	4,12,914	0.69	29,69,656	4.95
	Private Placement Allotment	01.03.2017	2,04,377	0.32	31,74,033	4.95
	At the end of the year	31.03.2017			31,74,033	4.95
5	Gaja Capital Fund II Limited					
	At the beginning of the year	01.04.2016	Nil	Nil	Nil	Nil
	Acquired through transfer	08.07.2016	24,28,905	4.73	24,28,905	4.73
	Rights Allotment	21.02.2017	392,268	0.65	28,21,173	4.71
	Private Placement Allotment	01.03.2017	194,159	0.30	30,15,332	4.71
	At the end of the year	31.03.2017			30,15,332	4.71
6	ASK Pravi Private Equity Opportunities Fund					
	At the beginning of the year	01.04.2016	Nil	Nil	Nil	Nil
	Acquired through Transfer	03.02.2017	25,56,742	4.95	25,56,742	4.95

Sl. No.	Name of Top 10 Shareholders	Date wise increase/ decrease in shareholding	Shareholding at the beginning of the year		Cumulative Shareholding during the year	
			No. of shares	% of total shares of the Company	No. of shares	% of total shares of the Company
	Rights Allotment	21.02.2017	412,914	0.69	29,69,656	4.95
	At the end of the year	31.03.2017			29,69,656	4.64
7	Evolve India Fund II Limited					
	At the beginning of the year	01.04.2016	Nil	Nil	Nil	Nil
	Acquired through Transfer	07.07.2016	25,56,742	4.95	25,56,742	4.95
	Rights Allotment	21.02.2017	412,914	0.69	29,69,656	4.95
	At the end of the year	31.03.2017			29,69,656	4.64
8	TVS Shriram Growth Fund					
	At the beginning of the year	01.04.2016	NIL	NIL	NIL	NIL
	Acquired through subscription	21.02.2017	482,305	0.80	4,82,305	0.80
	Allotment of equity shares on Private Placement basis	01.03.2017	24,13,793	3.77	28,96,098	4.52
	At the end of the year	31.03.2017			28,96,098	4.52
9	Americop Ventures Limited					
	At the beginning of the year	01.04.2016	NIL	NIL	NIL	NIL
	Acquired through Transfer	24.03.2017	26,71,758	4.17	26,71,758	4.17
	At the end of the year	31.03.2017			26,71,758	4.17%
10	HDFC Standard Life Insurance Company Limited					
	At the beginning of the year	01.04.2016	14,72,465	3.84%		
	Private Placement Allotment	30.06.2016	747,663	1.46%	22,20,128	4.32%
	Rights Allotment	21.02.2017	358,551	0.59%	25,78,679	4.30%
	At the end of the year	31.03.2017			25,78,679	4.03%

V. Indebtedness:

Indebtedness of the Company including interest outstanding/accrued but not due for payment.

	Secured Loans excluding deposits	Unsecured Loans	Deposits	Total Indebtedness
(Rs. in lakhs)				
Indebtedness at the beginning of the financial year				
i) Principal Amount	92,063.98	3,500.00	-	95,563.98
ii) Interest due but not paid				-
iii) Interest accrued but not due	1,068.25	-	-	1,068.25
Total (i+ii+iii)	93,132.23	3,500.00	-	96,632.23
Change in Indebtedness during the financial year				
• Addition	19,650.00	31,500.00	2,206.27	53,356.27
• Reduction	44,556.41			44,556.41
Net Change	-24,906.41	31,500.00	2,206.27	8,799.86
Indebtedness at the end of the financial year				
i) Principal Amount	67,157.57	35,000.00	2,206.27	1,04,363.84
ii) Interest due but not paid				-
iii) Interest accrued but not due	913.93	511.70		1,425.64
Total (i+ii+iii)	68,071.50	35,511.70	2,206.27	1,05,789.47

vi. Remuneration of Directors and Key Managerial Personnel:

A. Remuneration to Managing Director & CEO - Mr. R. Baskar Babu:

Sl. No.	Particulars of Remuneration	(Rs. in lakhs)
1	Gross salary	
	(a) Salary as per provisions contained in section 17(1) of the Income-tax Act, 1961*	100.68
	(b) Value of perquisites u/s 17(2) Income-tax Act, 1961	0.64
	(c) Profits in lieu of salary under section 17(3) Income-tax Act, 1961	-
2	Stock Option	-
3	Sweat Equity	-
4	Commission	-
	- as % of profit	-
	- others, specify	-
5	Others, please specify (provident fund)	4.32
	Total (A)	105.64

Ceiling as per the Act

[Section 198 of the Companies Act, 1956 (which corresponds to the now applicable section 197 of the Companies Act, 2013) does not by virtue of section 35B (2A) of the Banking Regulation Act, 1949, apply to Banking companies.]

*Includes performance linked incentive of Rs. 15 lakhs for FY 2015-16

B. Remuneration to other Directors:

(Rs. in lakhs)

Sr. No.	Particulars of Remuneration	Name of the Directors				Total Amount
1.	Independent Directors	Dr. (Mrs.) Sheela Bhide	Mr. R. Ramachandran	Mr. Mrutunjay Sahoo	Mr. Jyotin Mehta	
	Fees for attending board/ committee meetings	4.65	5.85	2.70	0.80	14.00
	Commission	Nil	Nil			Nil
	Others, please specify	Nil	Nil			Nil
	Total (1)	4.65	5.85	2.70	0.80	14.00
2.	Other Non-Executive Directors	Mr. John Arun Kumar Diaz	Mr. Venkatesh Natarajan	Mr. Mathew Joseph	Mr. Aleem Remtula	
	Fees for attending board/ committee meetings	1.35	2.40	0.80	Nil	4.55
	Commission	Nil	Nil	Nil	Nil	
	Others, please specify	Nil	Nil	Nil	Nil	
	Total (2)	1.35	2.40	0.80	Nil	4.55
	Total (B)= (1+2)					18.55
	Total Managerial Remuneration					124.79

Overall Ceiling as per the Act

[Section 198 of the Companies Act, 1956 (which corresponds to the now applicable section 197 of the Companies Act, 2013) does not by virtue of Section 35B (2A) of the Banking Regulation Act, 1949, apply to Banking companies.]

C. Remuneration to Key Managerial Personnel other than MD&CEO

(Rs. in lakhs)

Sl. No.	Particulars of Remuneration	Key Managerial Personnel		Total Amount
		Mr. Bhavin Damania – CFO	Ms. Priya Vishwanathan – CS*	
1	Gross salary			
	(a) Salary as per provisions contained in section 17(1) of the Income-tax Act, 1961	34.27	15.95	50.22
	(b) Value of perquisites u/s 17(2) Income-tax Act, 1961	-	-	-
	(c) Profits in lieu of salary under section 17(3) Income tax Act, 1961	-	-	-
2	Stock Option	-	-	-
3	Sweat Equity	-	-	-
4	Commission	-	-	-
	- as % of profit	-	-	-
	- others, specify	-	-	-
5	Others (Provident Fund)	1.72	0.80	2.52
	Total (A)	35.99	16.75	52.74

*Upto 31.01.2017

vii. Penalties / Punishment / Compounding of Offences:

Type	Section of the Companies Act	Brief Description	Details of Penalty / Punishment / Compounding fees imposed	Authority [RD/NCLT/ COURT]	Appeal made, if any (give Details)
A. COMPANY					
Penalty	NIL	NIL	NIL	NIL	NIL
Punishment	NIL	NIL	NIL	NIL	NIL
Compounding	NIL	NIL	NIL	NIL	NIL
B. DIRECTORS					
Penalty	NIL	NIL	NIL	NIL	NIL
Punishment	NIL	NIL	NIL	NIL	NIL
Compounding	NIL	NIL	NIL	NIL	NIL
C. OTHER OFFICERS IN DEFAULT					
Penalty	NIL	NIL	NIL	NIL	NIL
Punishment	NIL	NIL	NIL	NIL	NIL
Compounding	NIL	NIL	NIL	NIL	NIL

Annexure 2

Information required under Section 197 of the Act read with rule 5(1) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014:

Sr No.	Particulars	Disclosures	
1	The ratio of the remuneration of the MD & CEO (Whole time Director) to the median remuneration of the employees of the Bank for FY 2016-2017	43.48 : 1	
2	The percentage increase in remuneration of MD & CEO, Chief Financial Officer, Chief Executive Officer, Company Secretary in FY 2016-2017	MD&CEO	45.63%
		CFO	0%
		CS	16.67%
3	The percentage increase in the median remuneration of employees in FY 2016-2017	4.55%	
4	The number of permanent employees on the rolls of Bank as at 31st March,2017	2156	
5	Average percentage increase already made in the salaries of employees other than the managerial personnel in the last financial year and its comparison with the percentage increase in the managerial remuneration and justification thereof and point out if there are any exceptional circumstances for increase in the managerial remuneration	Average percentage increase in salaries of employees other than managerial personnel: 10% Avg. percentage increase in salaries of managerial personnel: 21%	
6	Affirmation that the remuneration is as per the Remuneration Policy of the Bank	Yes; the remuneration is as per the provisions of the Policy on Appointment of Directors and remuneration of directors, KMP and employees.	

Annexure 3

Details of CSR Activities and spends

- (i) Web-link to the Bank's CSR Policy and programs: ([https://www.suryodaybank.com/assets/pdf/policies/CSR Policy.pdf](https://www.suryodaybank.com/assets/pdf/policies/CSR%20Policy.pdf))
- (ii) The Composition of the CSR Committee:
 Mr. Venkatesh Natarajan (Investor Director): Chairman
 Mr. R. Ramachandran (Independent Director): Member
 Mr. Mrutunjay Sahoo (Independent Director): Member
 Mr. Baskar Babu (MD & CEO): Member
- (iii) Average net profit of the Bank for last three financial years: Rs. 2,673.04 lakhs
- (iv) Prescribed CSR Expenditure (two per cent of the amount as in item 3 above): Rs. 53.46 lakhs
- (v) Details of CSR spent during the financial year:
 (a) Total amount to be spent for the financial year: Rs. 53.46 lakhs
 (b) Amount unspent, if any : Nil
 (c) Manner in which the amount spent during the financial year is detailed below.
- (vi) The details of CSR expenditure in FY 2016-2017 in the prescribed format is as follows:

S. No	CSR Project or activity identified	Sector in which the project is covered	Project or programmes local area or other Specify the state and district where projects or programs was undertaken	Amount outlay (budget) project or programs wise	Amount spent on the projects Direct Expenditure on projects and programs was undertaken or Overheads (Rs. in lakhs)	Cumulative Expenditure up to the reporting period (Rs. in lakhs)	Amount spent Direct or Through implementing agency
1	Promoting Preventive health care	Health care, nutrition, sanitation, and safe drinking water	Pune, Salem, Ahmedabad, Akalkot, Akluj, Amravati, Asara, Athani, Barshi, Belgum, Bidar, Daund, Dhule, Dindigul, Erode, Halol, Gobichettipalayam, Mumbai, Thane, Gokak, Nagpur, Latur, Jalgaon, Kolhapur, Kuttur, Nasik, Chennai, Tanjaore, Madurai, Nagarcoil, Pandarpur, Woraiyur	-	17.00	17.00	Direct: Suryoday

S. No	CSR Project or activity identified	Sector in which the project is covered	Project or programmes local area or other Specify the state and district where projects or programs was undertaken	Amount outlay (budget) project or programs wise	Amount spent on the projects Direct Expenditure on projects and programs was undertaken or Overheads (Rs. in lakhs)	Cumulative Expenditure up to the reporting period (Rs. in lakhs)	Amount spent Direct or Through implementing agency
2	Enhancing vocational skills of women	Educational and vocational development	Pune, Latur, Nagpur, Nasik, Jalgaon, Dhule, Belgaum	-	35.00	35.00	Direct: Suryoday
3	Environmental Sustainability	Planting of Saplings			4.00	4.00	Direct Suryoday
4	Promoting education	Imparting financial literacy trainings through Financial Literacy Centres	Pune, Mumbai, Vadodara, Ahmedabad, Surat, Indore, Jabalpur, Hoshangabad, Kalaburgi, Belgavi, Bhubaneshwar, Balangir, Brahmapur, Cuttack, Rourkela, Chennai, Thanjavur, Trichy, Coimbatore, Kanyakumari		30.00	30.00	Direct Suryoday
Total					86.00	86.00	

We confirm that the implementation and monitoring of the CSR Policy is in compliance with the CSR objectives and CSR Policy of the Bank.

sd/-

Venkatesh Natarajan
Chairman, CSR Committee
Mumbai:28.07.2017

sd/-

R. Baskar Babu
MD & CEO

FORM NO. MR-3 SECRETARIAL AUDIT REPORT

For The Financial Year Ended 31st March 2017

[Pursuant to section 204(1) of the Companies Act, 2013 and Rule No. 9 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014]

To,

The Members,

SURYODAY SMALL FINANCE BANK LIMITED

(Formerly SURYODAY MICRO FINANCE LIMITED)

We have conducted the Secretarial Audit of the compliances of the applicable statutory provisions and the adherence to good corporate practices by Suryoday Small Finance Bank Limited (formerly known as Suryoday Micro Finance Limited) having CIN U65923MH2008PLC261472 (hereinafter called the "Company"). Secretarial Audit was conducted in a manner that provided us a reasonable basis for evaluating the corporate conducts/statutory compliances and expressing our opinion thereon.

Based on our verifications of the Company's Books, Papers, Minute Books, Forms and Returns filed and other records maintained by the Company and also the information provided by the Company, its officers, agents and authorized representatives during the conduct of Secretarial Audit, we hereby report that in our opinion, the Company has, during the audit period covering the Financial Year ended on 31st March, 2017 complied with the statutory provisions listed hereunder and also that the Company has proper Board-processes and compliance-mechanism in place to the extent, in the manner and subject to the reporting made hereinafter:

We have examined the Books, Papers, and Minute Books, Forms and Returns filed and other records maintained by the Company as listed in ANNEXURE- I for the Financial Year ended on 31st March, 2017 according to the provisions of:

- a) The Companies Act, 2013 (the Act) and the Rules made thereunder.
- b) The Banking Regulation Act 1949.
- c) The Securities Contracts (Regulation) Act, 1956 ('SCRA') and the Rules made thereunder.
- d) The Depositories Act, 1996 and the Regulations and Bye-laws framed thereunder.
- e) Foreign Exchange Management Act, 1999 and the Rules and Regulations made thereunder is applicable to the extent of Foreign Direct Investment, Overseas Direct Investment and External Commercial Borrowings;
- f) The following Regulations and Guidelines prescribed under the Securities and Exchange Board of India Act, 1992 ('SEBI Act'):-
 - (i) The Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011;
 - (ii) The Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992;
 - (iii) The Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009;
 - (iv) The Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999;
 - (v) The Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008;
 - (vi) The Securities and Exchange Board of India (Registrars to an Issue and Share Transfer Agents) Regulations, 1993 regarding the Companies Act and dealing with client;

- (vii) The Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2009; and
- (viii) The Securities and Exchange Board of India (Buyback of Securities) Regulations, 1998;
- (ix) The Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulation 2015.

- g) The Credit Information Companies (Regulation) Act 2005.
- h) Non-Banking Finance Companies RBI Directions, 1998;
- i) All applicable notifications and circulars issued by the RBI with respect to NBFC operations;
- j) RBI operating guidelines for Small Finance banks;
- k) The other Laws applicable specifically to the Company is Annexed with this Report as ANNEXURE- II.

Note: Since only the Non Convertible Debentures (NCDs) of Company are listed on Stock Exchange, the above mentioned point f (i),(ii),(vi),(vii),(viii) are not applicable to the Company.

We have also examined Compliance with the applicable clauses of the following:

- (i) Secretarial Standards issued by the Institute of Company Secretaries of India to the extent applicable.

During the period under review the Company has complied with the provisions of the Act, Rules, Regulations, Guidelines, Standards, etc. mentioned above.

We further report that the Board of Directors of the Company is duly constituted with proper balance of Executive Directors, Non-Executive Directors and Independent Directors including Woman Director in accordance with the provisions of the Companies Act, the Banking Regulation Act, and the applicable Rules, Regulations, Directions thereunder. The changes in the composition of the Board of Directors that took place during the period under review were carried out in compliance with the provisions of the Act.

Adequate notices are given to all Directors to schedule the Board Meetings, Agenda and detailed notes on agenda were sent at least seven days in advance, except the board meetings convened on urgent basis. Also, a system exists for seeking and obtaining further information and clarifications on the agenda items before the meeting and for meaningful participation at the meeting.

We further report that there are adequate systems and processes in the company commensurate with the size and operations of the company to monitor and ensure compliance with applicable Laws, Rules, Regulations and Guidelines. The other compliances and comments thereon are given as ANNEXURE-IV.

Place: Mumbai
Date: 25.05.2017

For Aabid & Co.
(Mohammad Aabid)
Partner
FCS NO.: 6579
C.P.No.: 6625

Note: This report is to be read with our letter of even date which is annexed as 'ANNEXURE-III' and forms an integral part of this report.

Annexure I

List of documents verified

1. Memorandum & Articles of Association of the Company
 2. Annual Report for the Financial Year ended 31st March, 2016.
 3. Minutes of the meetings of the Board of Directors, Audit Committee, Nomination & Remuneration committee, along with Notices and Attendance Register held during the financial year under report.
 4. Minutes of General Body Meetings held during the financial year under report.
 5. Agenda papers submitted to all the directors/members for the Board Meetings and Committee meetings.
 6. Declarations received from the Directors of the Company pursuant to the provisions of Sections 164 (2) and 184 (1) of Companies Act, 2013.
 7. E-forms filed by the company, from time to time, under applicable provisions of the Companies Act, 2013 and attachments thereof during the financial year under report.
 8. Certificate of change of name issued by the Registrar of Companies.
 9. Statutory Registers viz.
 - Register of Directors' & Key Managerial Personnel (KMP) and their Shareholding
 - Register of Members
 - Register of Charges
-

Annexure II

Registered office:

Unit No.1101, Sharda Terraces, Plot No. 65, Sector 11, CBD Belapur, Navi Mumbai, Mumbai 400614, Maharashtra, India.

Corporate office:

Unit No.1101, Sharda Terraces, Plot No. 65, Sector 11, CBD Belapur, Navi Mumbai, Mumbai 400614, Maharashtra, India.

List of Applicable Laws to the Company under the Major Group and Head:

1. The Payment of Bonus Act, 1965
2. The Employees Provident Fund & Miscellaneous Provisions Act, 1952
3. The Workmen's Compensation Act, 1923
4. The Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013
5. The Maternity Benefit Act, 1961
6. The Payment of Gratuity Act, 1972
7. The Employees State Insurance Act, 1948
8. The Apprenticeship Act, 1961
9. The Maharashtra Labour Welfare Fund Act, 1953
10. The Employment Exchanges (Compulsory Notification of Vacancies) Act, 1959
11. The Maharashtra Shops & Establishments Act, 1948
12. The Maharashtra State Tax on Professions, Trades, Callings and Employments Act, 1975
13. The Equal Remuneration Act, 1976

14. The Foreign Trade (Development & Regulation) Act, 1992
 15. Negotiable Instruments Act, 1881
 16. The Information Technology Act, 2000
 17. Micro, Small and Medium Enterprises Development Act, 2006
 18. The Employees Provident Funds and Miscellaneous Provisions Act, 1952
-

Annexure III

To,

The Members,

SURYODAY SMALL FINANCE BANK LIMITED

(Formerly SURYODAY MICRO FINANCE LIMITED)

Our report of even date is to be read with this letter.

1. Maintenance of secretarial records is the responsibility of the management of the Company. Our responsibility is to express an opinion on these secretarial records based on our audit.
2. We have followed the audit practices and processes as were appropriate to obtain reasonable assurance about the correctness of the contents of the Secretarial records.

The verification was done on a test basis to ensure that correct facts are reflected in secretarial records. We believe that the processes and practices we followed provide a reasonable basis for our opinion.

3. We have not verified the correctness and appropriateness of the financial records and Books of accounts of the Company.
 4. Wherever required we have obtained Management Representation about the compliance laws, rules, regulations and happening of the events etc.
 5. The compliance of the provisions of corporate and other applicable laws, rules, regulations, standards is the responsibility of the management. Our examination was limited to the verification of procedures on a test basis.
 6. The Secretarial Audit Report is neither an assurance as to the future viability of the Company nor of the efficacy or effectiveness with which the management has conducted the affairs of the Company.
-

Annexure IV

The following are the additional points annexed separately forming part of the Secretarial Audit Report

1. The Company has received members consent for calling Extra Ordinary General Meeting at shorter notice held on 06th June, 2016 and 20th February, 2017 during the FY 2016-17.
2. The Company has changed its name in the Annual General Meeting held on 22nd September, 2016 from Suryoday Micro Finance Limited to Suryoday Small Finance Bank Limited, a certificate for same has received from Registrar of Companies, Mumbai Maharashtra on 13th January, 2017.
3. The Company has received Final Licence from Reserve Bank of India to operate as a Small Finance Bank on 26th August, 2016 and it has commenced its Banking operations on 23rd January, 2017.
4. The company has altered its Memorandum of Association and Articles of Association in the Annual General Meeting of the Company held on 22nd September, 2016 in line with requirements of a banking company.
5. The Company has issued and allotted 2,57,29,469 (Two Crore Fifty Seven Lakhs Twenty Nine Thousand Four Hundred and Sixty Nine) Equity shares of Rs. 10/- (Rupees ten Only) each during the financial year 2016-17.

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**THE
FUTURE
OF THE
FUTURE
IS IN THE
PRESENT**

**MANAGEMENT
DISCUSSION &
ANALYSIS**



Macroeconomic environment

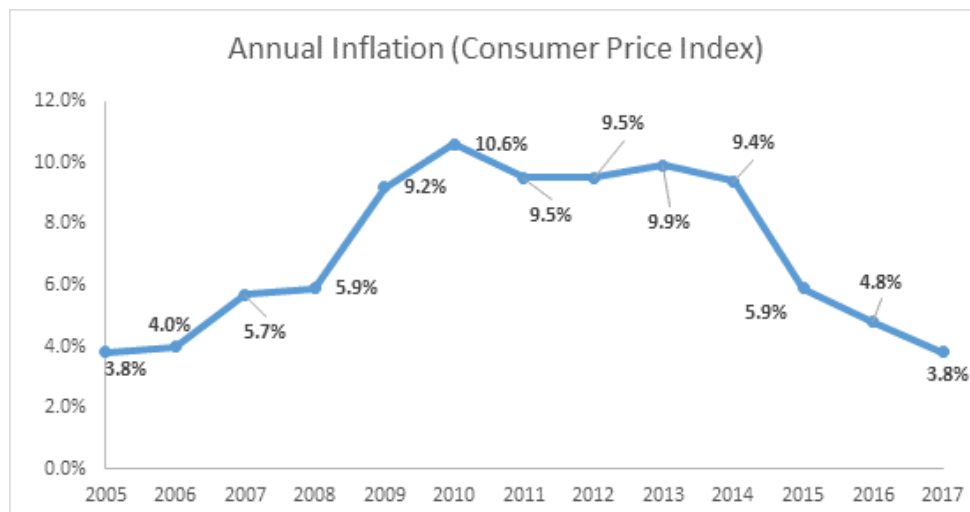
Global economic development

The world economic growth for 2016, slowed to 3.1%, is the weakest growth since 2008–09. This is owed largely to the turbulence in the world financial markets in the first half of 2016 due to major setbacks such as Brexit, China's slowdown, low oil prices, heightened political uncertainty and overall weakness in the economies of Japan, US and Europe. Global commodity prices strengthened during 2016 following expectation of strong infrastructure investment in China, fiscal easing in the US, and agreement by major oil producers to trim supply. Assuming that this trend will continue, the world economy is expected to pick up steam in 2017 and grow by 3.4%, this time on the back of previously lacklustre advanced economies. On the other hand, Emerging Markets and Developing Economies (EMDEs) are projected to grow by 4.5% in 2017. Among these economies, China is expected to show strong growth at 6.5% (as compared to the previous estimate of 6.2%) on account of its policy stimulus measures; however, moderation in the growth prospects prevails among large economies such as India, Brazil and Mexico.

India economic development

India recorded gross domestic product (GDP) growth rate of 7.1% for the financial year ended 31st March, 2017 compared to 8% recorded in financial year ended 31st March, 2016. While Gross Value Added (GVA) recorded growth of 6.6% in current financial year compared to 7.9% in previous financial year. The slowdown reflects the impact on high cash dependent sectors of demonetisation of specified currency notes (SBNs) by the Government in November 2016 and sluggish growth in industrial activity during the year. Credit growth was also hampered during the second half of financial year post announcement of demonetisation of SBNs.

Retail inflation declined during the year to 4.5% from 4.9% in FY 2016 driven by moderation in food prices and core-core inflation (excluding food, fuel, gold etc. from headline inflation) decelerated to 4.7% from 5.3% in FY 2016. RBI cut its policy rates by 50 bps during the year however remained cautious during later part of the financial year amid stagnant core-core inflation and reversed its policy stance from accommodative to neutral showing confidence in economic revival.



Economic outlook for India in medium term remains growth oriented, however, uncertainty in near term growth prospect post demonetisation and policy uncertainty in advance economies makes the growth projection vulnerable.

India witnessed a number of major policy initiatives in fiscal year 2017:

- In May 2016, the Insolvency and Bankruptcy Code, 2016 was enacted providing an institutional framework for recovery and resolution, and protection for investors and creditors.
- A six-member Monetary Policy Committee comprising members from the Reserve Bank of India (RBI) and the Government was constituted with responsibility for monetary policy decision making.

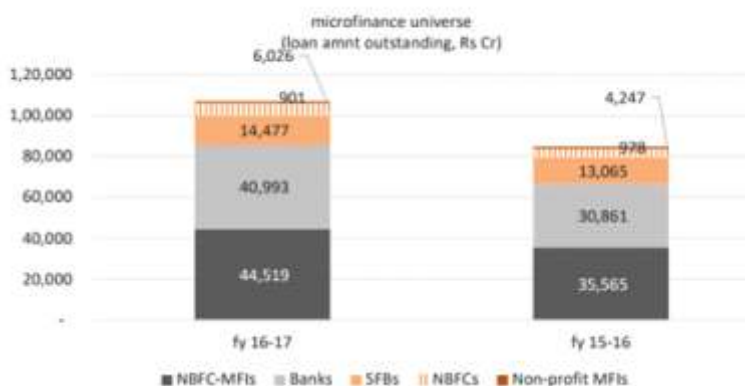
- On November 8, 2016, the Government of India demonetised Rs. 1,000 and Rs. 500 denomination currency notes (SBNs) as legal tender and introduced new Rs. 500 and Rs. 2,000 denomination currency notes. The extant Rs. 500 and Rs. 1,000 denominated currency notes accounted for more than Rs. 15 trillion or approximately 86% of the total currency in circulation. This step was taken with the aim to curb the parallel economy, eliminate the use of counterfeit notes and encourage a shift to digital transaction modes.
- Fiscal policy was reformed with the merger of the Railway Budget with the Union Budget and removing the categorisation of expenditure into plan and non-plan.
- Legislation relating to the Goods and Services Tax was enacted, paving the way for its implementation in fiscal 2018. The Goods and Services Tax is a unified single tax replacing the various indirect taxes on goods and services such as central excise duty, service tax, central sales tax and state value added tax currently being collected by the central and state governments.

Banking sector outlook

During the year, deposits in banking sector witnessed growth of approximately 11.8% while advances grew by approximately 5%. Moderate growth in advances was primarily due to demonetisation of SBNs (more than Rs. 15 trillion) in November 2016. Substantial increase in deposits led to spike in investments portfolio of the banks by 17.9% primarily in Government securities. During the year, credit growth was hampered as evidenced by lower industrial production especially after demonetisation of SBNs and even witnessed negative growth during first quarter of FY 2018.

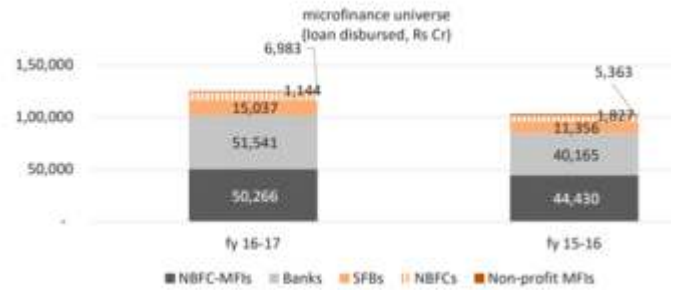
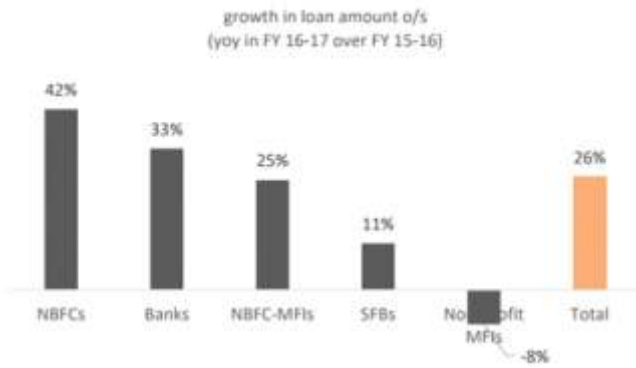
Microfinance Industry Overview

As at 31st March, 2017, microfinance industry had total loan portfolio (i.e. loan amount outstanding) of Rs. 106,916 Cr. This represents a growth of 26% over the last year.



NBFC-MFI represent 42% of the microfinance lending, followed by Banks at 38% and SFBs at 14%. It is worth noting that the 3 NBFC-MFIs (Disha, Janalakshmi and RGVN) who will be converting into SFBs in the next few months, account for 31% of the NBFC-MFI portfolio. As they transition into SFBs, share of NBFC-MFIs will get reduced to 28% while share of SFBs will increase to 27%. Post this, Banks will have largest share in the microfinance lending.

On a year-on-year basis, industry grew by 26%. As customer transactions in the microfinance industry are cash-intensive, demonetization severely impacted the microfinance business in multiple ways including slowing down of growth due to non-availability of cash for a few months.



SMALL FINANCE BANKS (SFBs)

Five entities grouped as SFBs, were NBFC-MFIs in FY 15-16 and they converted into SFBs during FY 16-17. However, for comparison purpose, their aggregated data in FY 15-16 is shown as SFBs. End of FY 16-17, five SFBs, (ESAF, Equitas, Suryoday, Ujjivan and Utkarsh) with a branch network of 1,722 have 1.04 Cr loan accounts and loan outstanding of Rs. 14,447 Cr.



Average loan outstanding per account for group of SFBs is Rs. 13,911. During FY 16-17, on an average they disbursed Rs. 23,516 per account.

Transition to Small Finance Bank

Financial year 2016-17 was a milestone year wherein Suryoday Micro Finance Ltd. received its final banking licence in the month of August, 2016 and commenced its operations as a Small Finance Bank on 23rd January, 2017. During the year, the Bank opened 4 Bank branches. As at 30th June, 2017, the Bank had 13 bank branches in 4 states – Maharashtra, Tamil Nadu, Gujarat, and Madhya Pradesh.

Bank Strategy

On the Asset / Lending side, the Bank will continue to stay focussed on micro finance segment customers while aiming to provide basic banking services to micro and small enterprise segment having limited access to formal lending sector. Further, the Bank is focused on providing long term secured funding for business growth and expansion of micro and small enterprise segment. The Bank has created two segments under which it caters to different asset class – Financial Inclusion catering to Micro Finance customers and Retail Assets which caters to non-micro finance customers. The Bank has built strong risk and credit team to support the existing as well as the new business lines.

On the Liability / Deposit side, the Bank will be focusing on new as well as its existing asset customer base. In the medium term, the Bank aims to provide the banking services to all its customers. The Bank endeavours to deliver the products through digital services and with customised products which meets the needs of the customer segment it is catering to.

Product Strategy

Micro Finance: The Bank has micro finance loans which caters to marginal borrowers with a ticket size between Rs. 10,000 to Rs. 50,000. These are templated products which are dependent on the parameterised credit review to ensure appropriate evaluation of the borrower and better health of portfolio. The focus in the coming period will be to maintain a stable micro finance book and ensure that other products grow as a percentage of total portfolio.

Individual Loans: Individual loans are typically provided to the marginal borrowers having a distinct business outlet and visible business practice. This enables us to perform proper review of the business and validate stability of the business. These are also templated products with the ticket size ranging from Rs. 40,000 to Rs. 1,00,000. These are unsecured loans but backed by pre-disbursement cheques. The focus in the coming period will be to improve the quality of micro finance borrowings by graduating the potentially good customers to Individual loans and thus enabling them to transact with us individually. The Bank has a portfolio of Rs. 10.2 crores as at March 31, 2017.

Loan Against Property (LAP) & Housing Loan: LAP is divided into M-LAP and LAP. M-LAP ranges from Rs. 1.5 lacs to Rs. 5 lacs and is collateral based lending. LAP is in the range of Rs. 10 lacs and upwards and is also collateral based lending. The focus in coming period will be to improve the quality of asset book by having larger secured portfolio especially with LAP and Housing Loans. The Bank has a portfolio of Rs. 4 crores as at March 31, 2017.

MSME loans: MSME loans are provided as unsecured loans to retail business especially grocers and shopkeepers. These are templated products with the ticket sizes in the range of Rs. 1.5 lacs to 5 lacs. These are unsecured loans but backed by pre-disbursement cheques. The focus in the coming period will be to improve the quality of asset book by spreading the risk in various products, one of the key products being MSME loans. The Bank has a portfolio of Rs. 4 crores as at March 31, 2017.

Liabilities: The Bank has substantial number of customers on asset side who will be instrumental in bringing small ticket but large quantum of deposits. The Bank also has a strong liabilities team which is engaging in campaign activities promoting the Bank's name and services offered. Our service delivery and motto to bring smile to all our customers with an excellent customer experience will be key differentiator in the small finance bank space. The Bank aims to reduce its overall funding cost through infusion of retail deposits over a period. The Bank has a total deposit of Rs. 22.1 crores and CASA ratio of 8.3% as at March 31, 2017.

Other functions

Information Technology (IT)

As part of the transition process, the Bank made significant investments to set up robust technology platforms and to have focused digital footprint. The Bank is making an effort to ensure that it has robust, scalable systems in place with strong support systems for all the services and products it endeavours to offer to its customers. The Bank has invested in the following systems for better service delivery:

- a. IT Infrastructure – core banking solution from 'FIS' supporting its entire banking transactions activities;
- b. Compliance tracking and monitoring system;
- c. Risk and control systems;
- d. Online onboarding & servicing - hardware and software.

Treasury Operations

The Bank has set up new teams for supporting its treasury function segregated into Front Office (Dealing), Middle Office and Back Office. While the risk is being monitored independently by market risk department which reports to the Chief Risk Officer. The Bank has procured a treasury management system from FIS which supports the dealing, monitoring and settlement of securities. The Bank aims to establish a strong treasury management team to support the liquidity at lower cost. The Bank has dealt in fixed income products during the year primarily to manage its excess liquidity and to enhance yield on such investments.

Risk Management

The Bank has an independent risk management team reporting to the Chief Risk Officer (CRO). The Bank has Board

approved risk management and governance policies and manages the risk under enterprise wide risk management framework. The Bank has constituted a risk management committee of the Board which reports to the Board and has sub-committees at management level. Broadly, the risk team is divided into credit risk, market risk and operational risk and works in close consultation with business teams. Prime focus of the risk team is to independently analyse and provide guidance on managing the risk at regular intervals. The Bank endeavours to set up strong risk management culture within the Bank.

Compliance

The Bank has an independent compliance function and is responsible for maintaining highest level of compliance monitoring and reporting. Compliance function is responsible for providing compliance related training to employees, framing and providing necessary guidance on various policies, updating management on new compliance requirements, ensuring compliance standards are followed at all levels etc.

Internal Audit

The Bank has an independent internal audit function reporting to the audit committee of the Board. The function is responsible to ensure quality and effectiveness of internal controls across several functions of the Bank and report any deviation to audit committee for necessary remedial action. The function is responsible for ensuring strong control environment across the Bank including compliance requirements.

Outlook

The Bank is focused on the objective of supply of credit to small business units, small and marginal borrowers, micro and small industrial and unorganised sector entities. The Bank is focused on delivering liabilities products with a best-in-class customer experience. The challenge which we take upon ourselves is to pave our way through the problem presented in form of higher delinquencies in the micro finance segment, as well as to leverage on the new setup and technologies to deliver the best experience at optimal cost to the customers.

Financial Summary

Suryoday Small Finance Bank commenced its operations as a Small Finance Bank on 23rd January, 2017. During the year, the Bank opened 4 Bank branches. As at 30th June, 2017, the Bank had 13 bank branches in 4 states. The Bank raised a deposit of Rs. 22.1 Crores and 958 liability customers in a span of 2 months. Asset customer base of 7.5 Lakhs was achieved which showed 4 year CAGR of 28.64%. The Bank's Gross Loan Book stood at Rs. 964 Crores as on 31st March, 2017. The Bank has 217 door step service centres (microfinance branches) and geographical spread of branches is as under:

MFI Branches	31 st March, 2017
Gujarat	29
Karnataka	16
Madhya Pradesh	21
Maharashtra	68
Odisha	37
Tamil Nadu	44
Chhattisgarh	1
Pondicherry	1
Total	217

During the year, the Bank raised a debt of Rs. 501.2 crores and equity of Rs. 290 crores. The Bank's net worth stands at Rs. 501 crores. The debt raised before the bank launch provided sufficient liquidity during the transition phase. The profit at the end of the year was Rs. 15.1 crores. The total interest income went up by 27.6% while operating expenses increased by 72.9% owing to its conversion into a small finance bank. Interest expense also spiked up by 21.5% due to increase in borrowings. The Bank made NPA Provision Rs. 13.9 crores and floating provision of Rs. 6.3 crores during the year.

The Bank is subject to capital adequacy guidelines as per operating guidelines applicable to small finance banks as stipulated by RBI. The capital adequacy ratio of the Bank at March 31, 2017 in accordance with RBI guidelines is 53.6% with a Tier-1 capital adequacy ratio of 47.9% as compared to a total capital adequacy ratio of 22.4% and Tier-1 capital adequacy ratio of 18.4% at March 31, 2016.

Impact on Microfinance Sector Post Demonetization

Indian microfinance industry was growing at a rapid pace over the past few years due to low penetration ratio of formal banking system to majority of population. The industry has been considerably impacted post announcement of demonetization of specified currency notes (SBNs) on November 8, 2016 due to high dependency on cash transactions. The average collection efficiency of the Microfinance Industry has gone down from ~99% in October 2016 to 70% during November, 2016 mainly due to limited supply of new currency notes post demonetization, disruption in borrower's cash flow due to decline in demand and elongation of working capital cycle in few cash-based industries (such as textile, leather, handicraft, construction, etc.).

Post third-week of November, 2016, the collection efficiency improved to more than 80% mainly on account of

- improvement in supply of new currency,
- constructive measures taken by the industry players in the form of frequently meeting with defaulting borrowers and educating the borrowers regarding deterioration in credit profile in case of non-payment of dues, and
- timely intervention by the industry self-regulatory body (MFIN and Sa-dhan) in the form of meeting with bureaucrats at state government/district levels. Despite improvement in supply of new currency, the collection efficiency remained stable at around 82% in the second half of December, 2016 due to the prioritization of cash flow for spending on necessities and impact of drought in Karnataka.

Post-demonetization, the entities in Microfinance lending are further strengthening the risk management system by balancing-check of overleveraging of the borrowers and disbursing funds on a more prudent basis. Further, MFIN is also putting in place an initiative where all the industry players have voluntarily agreed to cap the number to three lenders per borrower (as against only two NBFC-MFI per borrower but with no cap on other lenders) by increasing the universe from NBFC-MFIs to cover the entire industry (i.e. banks, SFBs, NBFCs, NBFC-MFIS, etc.). This would help in better management of overall indebtedness of the borrowers from the industry perspective. In the short term, the MFI entities are expected to remain under pressure.

Operating results

Profit after tax decreased by 45% from Rs. 27.4 crores in fiscal 2016 to Rs. 15.1 crores in fiscal 2017 primarily due to increase in operating cost by 72.9%, and an NPA provisioning of Rs. 20.1 crores, offset by a 27.6% increase in interest income.

Particulars (Rs. in crores)	FY 2015-16	FY 2016-17	ΔYoY%
Interest income	198.8	253.6	27.6%
Interest on advances	188.8	236.9	25.4%
Income on investments	1.4	8.8	512.2%
Other interest income	8.5	7.9	-6.8%
Total Interest expense	94.8	115.2	21.5%
Interest on Deposits	-	0.1	-

Particulars (Rs. in crores)	FY 2015-16	FY 2016-17	ΔYoY%
Interest on Borrowings	94.8	115.1	21.4%
Net Interest Income	104.0	138.4	33.1%
Other Income	1.2	1.2	-5.6%
Net Total Income	105.2	139.6	32.7%
Employee Expense	42.0	62.1	48.0%
Other operating expenses	16.9	39.7	134.8%
Operating Expenses	58.9	101.8	72.9%
Operating Profit	46.3	37.8	-18.4%
Provisions, net of write-backs	4.5	13.9	208.3%
Profit before tax	41.8	23.9	-43.0%
Income tax, including deferred tax	14.4	8.8	-39.1%
Profit after tax	27.4	15.1	-45.0%

Interest income

Increase in interest income on advances by 25% was primarily on account of increase in average advances during the year to Rs. 926 crore from approximately Rs. 729 crore in previous financial year. Net Interest income margin decreased marginally to 11.5% from 12.4% in the previous year primarily due to increase in lower interest earning assets such as investments in Government securities and decline in advances portfolio in second half of the financial year.

Income on Investment of Rs. 8.8 crores comprised of interest on SLR investment required to be maintained by the banks as per RBI guidelines and non-SLR investments such as certificate of deposits, commercial paper and mutual funds.

Other interest income comprises of interest on fixed deposits placed as collateral against grandfathered borrowings. Decline is primarily on account of maturity of fixed deposits during the year and increase in unsecured borrowings.

Finance cost

The increase of 21% in finance cost can be attributed to overall incremental borrowings raised during the year, offset by all-inclusive cost of borrowing decreased by 130 basis points from 13.6% in FY 2015-16 to 12.3% in FY 2016-17. The decrease in borrowing cost was driven by lower cost of incremental borrowings including short term borrowings and improved credit rating. Overall borrowings have increased by 7% during the year, however, average outstanding has increased by 27% yielding to increase in finance cost by 21%.

Operating expenses

Operating expenses increased by 72.9% from Rs. 58.9 crores to Rs. 101.8 crores in fiscal 2017 primarily due to increase in staff cost and expenses incurred for conversion to a Small finance bank. Number of employees increased from 1,708 in March 2016 to 2,156 as at March 2017.

Increase in other operating expenses increased primarily due to increase in professional fees paid to professional and individual consultants for advising on transition to small finance bank, expenses incurred on implementation of core banking system, rental expenses on properties rented for bank branches, marketing expenses etc.

Provisions and contingencies

Provisions and contingencies (excluding provision for tax) increased by 208% from Rs. 4.5 crores in fiscal 2016 to Rs. 13.9 crores in fiscal 2017. This increase was primarily due to an increase in provisions on non-performing assets (NPA) in Quarter 4 of the financial year. The Bank made NPA provision of Rs. 13.9 crore, Rs. 6.3 crore of floating provision and Rs. 1.4 crore for exposure on securitisation transactions wherein the Bank has given credit enhancement. The Bank made reversal of Rs. 7.8 crore in standard assets provision due to lower percentage (0.25% / 0.4%, depending upon the nature of portfolio) as per RBI guidelines applicable to banks compared to 1% applicable as per NBFC-MFI guidelines.

Income tax expense decreased by 39.1% from Rs. 14.4 crores in fiscal 2016 to Rs. 8.8 crores in fiscal 2017 due to reduction in profit before tax.

Financial Condition

Particulars (Rs. in crores)	FY 2015-16	FY 2016-17	% change
Capital & Liabilities	1,192.5	1,604.2	
Equity Share Capital	38.3	64.1	67.1%
Reserves	159.2	436.5	174.2%
Deposits	-	22.1	100.0%
Borrowings			
- Short term borrowing	-	142.9	-
- Long term borrowing	956.0	878.7	-8.1%
Other Liabilities and Provisions	38.9	60.0	54.1%
Assets	1,192.5	1,604.2	34.5%
Cash in Hand and balance with Banks	172.6	133.9	-22.4%
Investments			
-Government and other approved investments	-	460.3	
-Other investments	0.1	133.6	107196.7%
Advances	982.5	819.7	-16.6%
Fixed Assets	2.4	7.8	220.5%
Other assets	34.9	48.9	40.4%

Equity share capital and Reserve

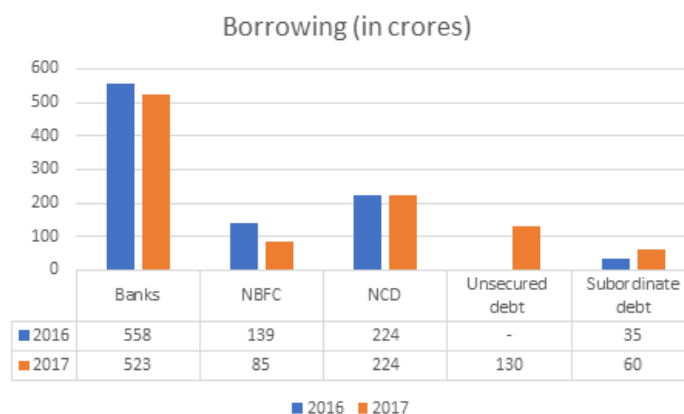
Increase in Net worth by Rs. 303 crores is attributed to equity infusion of Rs. 131 crores in the first half of the financial year and Rs. 99.9 crores of rights issue and private placement of Rs. 57.6 crores during the last quarter of FY 2016-17. The Bank crossed Rs. 500 crore net worth as at March, 2017.

Deposit

The Bank raised deposits of Rs. 22.1 crores since its conversion on 23rd January, 2017. The Bank CASA ratio stood at 8.3%. The Bank offers one of the highest rates in the industry to attract customers as part of its strategy. On Savings account, the Bank offers 6.25% for balance upto Rs. 1 Lakh, 7.25% for balance between Rs. 1 Lakh and Rs. 10 Lakh, and 7% for balance above Rs. 10 Lakh. On fixed deposit, the Bank offers 9% for tenure between 1 year to 2 year and provides spread of 0.75% for senior citizens.

Borrowing

During the year, the Bank raised debt of Rs. 501.2 crores primarily to meet business expansion needs and support the liquidity at the time of conversion into a small finance bank. The Bank raised significant borrowing before converting into Small finance bank through short term funding in the form of commercial paper, NCDs and term loans.



The Bank raised Rs. 150 crore of commercial paper for the first time from various counterparties in January, 2017. The Bank was able to reduce its incremental cost of funding (coupon) to 10.4% just before conversion into a small finance bank. Further, the Bank securitised portfolio of approximately Rs. 275 crore during the financial year to fund its business requirements and support the liquidity requirements during the conversion phase into a small finance bank.

Other Liabilities and provisions

Other liabilities and provision increased by 54.1 % from Rs. 38.9 crores as at March 31, 2016 to Rs. 60 crores as at March 31, 2017 primarily due to increase in cash flow payable for securitisation transactions since the Bank acts as a servicing agent; creation of floating provision; and provision for expenses.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, balances with RBI and other banks in the form of fixed deposit and current account balances. The Bank maintained CRR balance of Rs. 25.2 crores, which contributes to 4.6% of demand and time liabilities, as against the 4% requirement of RBI.

Investments

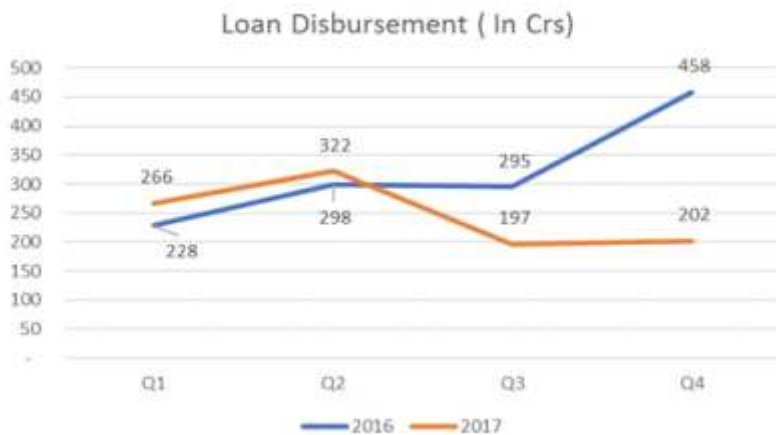
Total investments increased from Rs. 0.1 crore as at 31st March, 2016 to Rs. 593.9 crores as at 31st March, 2017 due to Statutory Liquidity Ratio (SLR) requirements and excess liquidity deployed into SLR and Non-SLR securities as at the year end due to lower disbursement during second half of the financial year. The Bank SLR stood at Rs. 460.3 crores which is 45.9% of the net demand and time liabilities as against 20% required by RBI guidelines. Investments in SLR securities include investment in long dated Government securities, treasury bills and cash management bills. Investments in non-SLR securities include investment in certificate of deposits, commercial paper and mutual funds. Investments into non-SLR was made primarily to increase the effective yield on investments and volatility in Government securities yield due to uncertain economic environment post demonetisation of SBNs.

Advances

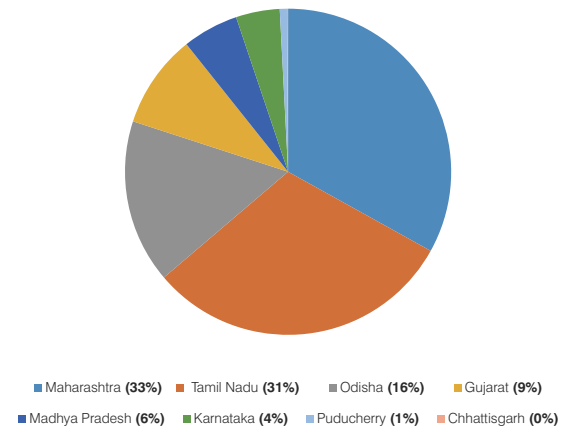
Advances observed decline of 17% mainly due to reduction in disbursement made during the second half of the financial year post demonetisation of SBNs. Decline in disbursement was primarily to avoid any disruption in the borrower profile due to non-availability of cash and uncertainty over Government policies and timeline for remonetisation of new currency. The Bank observed significant deterioration in quality of repayment post demonetisation primarily in the state of Maharashtra. Overall collection efficiency went down from more than 99% before demonetisation to less than 90% as at year end.

The decline in the book was also on account of securitisation of advances portfolio of approximately Rs. 275 crores during the year. The asset under management (AUM) has declined marginally by 7% while the own book has declined by approximately 15%.

A disbursement of Rs. 987 crores was made in FY 2016-17 as compared to Rs. 1279 crores in the FY 2015-16.



State wise Portfolio - 2017



Geographical distribution of the portfolio

The microfinance portfolio stood at Rs. 820 crores, net of NPA provisions of Rs. 13.9 crores, at the end of FY 2016-17 as against Rs. 982 crores in FY 2015-16; comprising of more than 95% of total portfolio.

The Bank has started diversifying into non-micro finance sectors such as micro and small enterprises (MSME) and loan against property (LAP) and will be concentrating on these new sectors going forward along with micro finance portfolio.

During the year, the Bank commenced its operations in Chhattisgarh and at the year-end total Bank branches stood at 224 with 220 MFI Branches and 4 Bank Branches.

Detail of Gross Non-performing assets (NPAs), Net NPAs and Provision:

Particulars (Rs. in crores)	2016	2017
Net NPA to Net Advances (%)	0.04%	3.80%
Gross advances as at 31 st March	1.61	51.25
Provision as at 31 st March	1.36	13.85
Net NPA as at 31 st March	0.25	37.40
Gross NPA to Gross Advances	0.16%	6.15%

Priority sector lending (PSL)

The Bank is required to maintain 75% of its total lending into priority sector advances as per operational guidelines applicable to SFBs. However, the requirement is applicable from financial year beginning 1st April, 2017 since the base for achievement of PSL target is 31st March, 2017 as per operational guidelines for SFBs. Hence, at year end achievement of PSL was not applicable for the Bank, however more than 99% of the Bank's portfolio qualifies for PSL requirements.

Fixed assets

Increase in fixed assets is primarily due to increase in capital expenditure incurred at bank branches and new micro finance branches during the year.

Other assets

Other assets comprise of interest accrued on advances, interest accrued on investments, advance tax, deferred tax, security deposits for branches etc.

Segment information

The Bank is required to furnish operating results as per reportable segments defined in RBI guidelines applicable for banks and accounting standard 17 'Segment Reporting'. Accordingly, the Bank classified its business segments into Treasury,

Retail banking, Wholesale banking and other banking operations. Treasury segment comprise of investment portfolio of the Bank; retail segment comprises of retail advances, deposits portfolio and borrowings portfolio of the Bank; and other banking portfolio comprise of residual portfolio which cannot be classified into any other business segment.

Particulars [#] (Rs. in crores)	Treasury*	Retail banking	Other banking operations	Total
Segment Revenue	7.30	247.39	0.11	254.80
Segment Result	6.12	18.77	0.11	25.00
Unallocated expenses	-	-	-	(1.15)
Operating Profit	-	-	-	23.85
Income taxes	-	-	-	(8.75)
Extraordinary profit/loss	-	-	-	-
Net Profit	-	-	-	15.10
Other information:	-	-	-	-
Segment assets	628.98	963.63	-	1,592.61
Unallocated assets	-	-	-	11.60
Total assets	-	-	-	1,604.21
Segment Liabilities	-	1,103.16	0.15	1,103.31
Unallocated liabilities	-	-	-	0.33
Total liabilities	-	-	-	1,103.64
Capital employed	-	-	-	500.57
Capital expenditure	-	-	-	5.58
Depreciation	-	-	-	2.15

[#] During the year, the Bank has not provided advance to any counterparty having exposure of more than Rs. 5 crores hence the wholesale banking is not presented in the reportable segment.

*Segment revenue and result for 'treasury' segment includes income from investments from 23rd January, 2017 to 31st March, 2017 without any allocation for inter segment revenue and expenses. During such period, treasury segment was primarily engaged in managing liquidity for the Bank hence inter segment revenue and expense allocation was not made.

The Bank has not presented geographical segment since the operations of the Bank was concentrated in India.

Capital Adequacy

Particulars (Rs. in crores)	31 st March, 2016	31 st March, 2017
Risk Weighted Assets	1018.2	1010.7
Tier I Capital	187.5	484.7
Tier II Capital	40.8	57.2
Total Capital	228.3	541.9
Tier I Capital Ratio	18.4%	47.9%
Tier II Capital Ratio	4.0%	5.7%
Capital Adequacy	22.4%	53.6%

The Bank maintained healthy Capital Adequacy Ratio (CAR) of 53.6% as compared to RBI requirement of 15%. Tier I capital ratio comprised of equity capital and accounts for 47.9% of the capital adequacy ratio. Tier II capital comprised of subordinated debt of Rs. 49 crores and standard assets and floating provision of provision of Rs. 8.2 crores. The CAR increased significantly during the year primarily on account of capital infusion of approximately Rs. 290 crores.

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**THE
FUTURE
OF THE
FUTURE
IS IN THE
PRESENT**
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CORPORATE
GOVERNANCE
REPORT

Corporate Governance Report

SURYODAY SMALL FINANCE BANK LIMITED (SSFB) is committed to ensuring the highest corporate governance standards by implementing good governance practices. Good governance practices are those that, in addition to following the rule of law, follow the spirit of law by being accountable, transparent, responsive, participatory, equitable and inclusive, effective and efficient.

We believe that good corporate governance practices are essential to achieve and maintain public trust and confidence in the banking system, as also to fulfill the Bank's fiduciary role and responsibility towards its stakeholders in terms of enhancing long term values.

SSFB aims to achieve the above through a democratic management process which adopts best practices and transparency in line with the Directions of the Reserve Bank of India (RBI) on Corporate Governance.

1. BOARD OF DIRECTORS:

The composition of the Board of Directors of the Bank ("Board") is governed by the provisions of the Companies Act, 2013, the Banking Regulation Act, 1949 and the Directions issued by the Reserve Bank of India (RBI) for small finance banks.

As on 31st March 2017, the Bank's Board comprised of seven Directors as follows:

Independent Directors: Dr. (Mrs.) Sheela Bhide (Part-Time Chairperson) Mr. R. Ramachandran, Mr. Mrutunjay Sahoo and Mr. Jyotin Mehta (appointed as Additional Director)

Investor Directors: Mr. John Arunkumar Diaz and Mr. Venkatesh Natarajan

Executive Director: Mr. R. Baskar Babu (Managing Director & Chief Executive Officer)

During the year under review, the Board met 9 (Nine) times viz. on 06th May 2016, 28th May 2016, 26th August 2016, 25th October 2016, 06th January 2017, 13th January 2017, 23rd January 2017, 13th February 2017 and 29th March 2017. The gap between any two meetings did not exceed One hundred and twenty days.

The Number of Board meetings attended by the Directors is as follows:

Name of the Director	No. of Board Meetings held during their tenure	No. of meetings attended
Dr. (Mrs.) Sheela Bhide	9	9
Mr. R. Ramachandran	9	9
Mr. John Arunkumar Diaz*	3	3
Mr. Venkatesh Natarajan**	5	4
Mr. Mathew Joseph (upto 10 th January, 2017)	5	1
Mr. Aleem Remtula (upto 10 th January, 2017)	5	4
Mr. Mrutunjay Sahoo	9	6
Mr. Jyotin Mehta (*** w.e.f. 13 th February, 2017)	2	2
Mr. R. Baskar Babu	9	9

* Resigned as Director on 12th July, 2016 and re-appointed as Investor Director on 29th March, 2017.

** Resigned as Director on 10th January, 2017 and re-appointed as Investor Director on 29th March, 2017.

*** Appointed as Additional Director

2. COMMITTEES OF THE BOARD

The Board has constituted various Committees of Directors as required under the provisions of the Companies Act, 2013 and the RBI Directions

a) Audit Committee

The Audit Committee has been constituted as per the provisions of Section 177 of the Companies Act, 2013 and the RBI directions which are applicable to the Bank.

The Committee comprises of the following Directors:

1. Mr. Jyotin Mehta (Additional Director-Independent Category): Chairman
2. Dr. (Mrs.) Sheela Bhide (Independent Director): Member
3. Mr. R. Ramachandran (Independent Director): Member
4. Mr. Arun Diaz (Investor Director): Member

Mr. Baskar Babu, Managing Director & Chief Executive Officer, Mr. Bhavin Damania, Chief Financial Officer, Statutory Auditors and Internal Auditors attend Audit Committee meetings as Invitees. The Company Secretary acts as the Secretary to the Committee.

The broad functions of the Audit Committee are as follows:

- (i) Review the annual financial statements and auditors' report with the management with particular reference to the following:
 - a. Matters to be included in the directors' responsibility statement
 - b. Change in the accounting policies and practices, if any, with reasons for the same
 - c. Major accounting entries involving estimates based on the exercise of judgment by management
 - d. Significant adjustments made in the financial statements arising out of audit findings
 - e. Compliance with listing and other legal and regulatory requirements relating to financial statements
 - f. Disclosure of related party transactions
 - g. Modified opinions in the draft audit report
- (ii) Review and monitor the accuracy and completeness of books of account, periodic financial statements including disclosures and any public announcements related to the Bank's financial performance, review the accounting policies and practices and the financial reporting process from time to time.
- (iii) Review the Bank's internal financial controls and the internal controls systems
- (iv) Approve internal audit plans, monitor the reporting of issues identified by internal auditors to the management, review the effectiveness of the internal audit function and ensure that corrective actions are being taken in a timely manner.
- (v) Ensure that any concerns raised by the statutory auditors are addressed by the management, bring unaddressed concerns to the notice of the management, review management letter(s) and other submissions by the statutory auditors and management response to the findings and recommendations of the statutory auditors and study the issues raised by statutory auditors and raise appropriate flags to the management in case of repeated issues.
- (vi) Review and monitor implementation and effectiveness of the policies laid down by the risk management committee and highlight gaps or deviations, if any, to the Board, ensure that the Bank properly documents the identified risks and the related policies, assess whether awareness and identification of risks are percolating to all levels and ensure that systems are in place to ensure compliance of all regulations.

(vii) Review with Senior Management of the Bank, overall anti-fraud programmes and controls in the Bank

During the year under review, the Committee met three times i.e. on 06th May 2016, 25th October 2016 and 23rd January 2017.

Details of attendance of each member at the Audit Committee Meetings are as follows:

Name of Director	No. of Audit Committee Meetings attended
Mr. Jyotin Mehta (w.e.f. 29 th March, 2017)	Nil
Dr. (Mrs.) Sheela Bhide	3
Mr. R. Ramachandran	3
Mr. Arun Diaz (upto 12 th July, 2016 & w.e.f. 29 th March, 2017)	1
Mr. Mrutunjay Sahoo (upto 13 th January, 2017)	2

Vigil Mechanism/ Whistle Blower Policy

The Bank believes in the conduct of its affairs in a fair and transparent manner by adopting highest standards of professionalism, honesty, integrity and ethical behaviour.

Towards this objective, the Whistle Blower Policy has been formulated as part of corporate governance norms and transparency where the employees, customers, stakeholders or Non-Governmental Organizations (NGOs) are encouraged to prefer any complaints which have not been resolved or satisfactorily resolved within the usual applicable protocols. The employees may refer any complaints covering areas such as corruption, misuse of office, criminal offences, suspected / actual fraud, failure to comply with existing rules and regulations and acts resulting in financial loss / operational risk, loss of reputation, etc. detrimental to depositors' interest / public interest.

The Policy provides for referring complaints to the Regional Vigilance Officer, who shall in turn, submit the Complaints Report to the Internal Complaints Committee. The Committee shall institute investigation into complaints wherever required and shall review the investigation report before giving a final decision on the matter. A half yearly report with number of complaints received under the Policy and their outcome shall be placed before the Audit Committee and the Board.

During the year under review, no complaints were received under the Whistle Blower Policy.

b) Nomination and Remuneration Committee:

The Nomination and Remuneration Committee of the Directors has been constituted in accordance with requirements of Section 178 of the Companies Act, 2013 and the RBI Directions.

The Composition of the Committee is as under:

1. Mr. Mrutunjay Sahoo (Independent Director): Chairman
2. Dr. (Mrs.) Sheela Bhide (Independent Director): Member
3. Mr. Venkatesh Natarajan (Investor Director): Member

The terms of reference include formulating the policy setting out the criteria for determining qualifications, positive attributes, independence of a Director and policy relating to remuneration for Directors, Key Managerial Personnel and other senior employees, and evaluation of directors' performance. The Committee also evaluates the performance of the senior employees and the Key Managerial Personnel of the Bank.

Further, the Committee is responsible for overseeing the ESOP Scheme of the Bank and the administration of the Scheme under the broad framework laid down by the Bank.

During the year under review, the Committee met Five (5) times, the dates being 06th May 2016, 25th August 2016, 13th January 2017, 23rd January 2017 and 29th March 2017.

Details of attendance of each member at the Nomination & Remuneration Committee (NRC) Meetings are as follows:

Name of Director	No. of NRC Meetings attended
Mr. Mrutunjay Sahoo (w.e.f. 29 th March, 2017)	Nil
Dr. (Mrs.) Sheela Bhide	5
Mr. R. Ramachandran	5
Mr. Venkatesh Natarajan (upto 10 th January, 2017 and w.e.f. 29 th March, 2017)	2
Mr. Arun Diaz (upto 12 th July, 2016)	1

Remuneration Policy:

The Board has in accordance with the provisions of sub-section (3) of Section 178 of the Companies Act, 2013, formulated the Policy setting out the criteria for determining qualifications, positive attributes, independence of a Director and Policy relating to remuneration for Directors, Key Managerial Personnel and other employees. The Committee, inter alia, shall ensure that the level and composition of remuneration is reasonable and sufficient to attract, retain and motivate quality professionals, that the relationship of remuneration to performance is clear and meets appropriate performance benchmarks; and there is a balance between fixed and incentive pay reflecting short and long-term performance objectives of the Bank.

(i) Remuneration paid to Executive Director:

The remuneration structure of Managing Director comprises of basic salary, special allowance, perquisites and retiral benefits and performance linked incentive as may be approved by the Board, subject to the overall limits of remuneration governed by the Companies Act, 2013 read with the shareholders' approval.

Details of remuneration paid to the MD & CEO during the Financial Year 2016-2017 is as follows:

Name of Director	Salary*	Contribution to Provident & other Funds	Perquisites in cash or kind
Mr. R. Baskar Babu	10,068,000	432,000	63,763

*Includes all allowances and performance linked incentive of Rs. 15 lakhs for FY 2015-16.

Mr. R Baskar Babu holds 23,33,578 equity shares in the Bank as on 31st March, 2017.

(ii) Remuneration to Non- Executive Directors

The Non-Executive Directors do not draw any remuneration from the Corporation other than sitting fees. Details of sitting fees paid to Non-Executive Directors during the year 2016-2017 are given below:

Name of Director	Sitting fees for Meetings attended	Total No. of Shares held in the Bank as on 31 st March, 2017
Dr. (Mrs) Sheela Bhide	465,000	Nil
Mr. R. Ramachandran	585,000	Nil
Mr. Mrutyunjay Sahoo	270,000	Nil
Mr. Mathew Joseph (upto 10 th January, 2017)	80,000	Nil

Name of Director	Sitting fees for Meetings attended	Total No. of Shares held in the Bank as on 31 st March, 2017
Mr. Aleem Remtulla (upto 10 th January, 2017)	Nil	Nil
Mr. Arun Diaz	135,000	Nil
Mr. Venkatesh Natarajan	240,000	Nil
Mr. Jyotin Mehta (w.e.f. 13 th February, 2017)	80,000	Nil

Board Evaluation:

Pursuant to the provisions of the Companies Act, 2013 ("Act") and the Corporate Governance Policy of the Bank, the Board of Directors ("Board") has carried out an annual evaluation of its own performance, and that of its Committees .

The performance of the Board was evaluated by seeking inputs from all the Directors and the performance of the Committees was evaluated by seeking inputs from the Committee members. The Nomination and Remuneration Committee ("NRC") reviewed the performance of the individual Directors. A separate meeting of Independent Directors was also held to review the performance of non-independent Directors and performance of the Board as a whole.

Subsequently, the Board met and discussed the performance of the Board and its Committees.

The criteria for performance evaluation of the Board included aspects like Board composition and structure, effectiveness of Board processes, information and functioning etc. The criteria for performance evaluation of Committees of the Board included aspects like composition of committees, effectiveness of committee meetings etc. The criteria for performance evaluation of the individual directors included aspects on contribution to the Board and committee meetings like preparedness on the issues to be discussed, meaningful and constructive contribution and inputs in meetings.

c) Corporate Social Responsibility (CSR) Committee

The CSR Committee which has been constituted under the provisions of Section 135 of the Companies Act, 2013 comprises of the following Directors:

1. Mr. Venkatesh Natarajan (Investor Director): Chairman
2. Mr. R. Ramachandran (Independent Director): Member
3. Mr. Mrutunjay Sahoo (Independent Director): Member
4. Mr. R. Baskar Babu (MD & CEO): Member

The terms of reference of the Committee include formulating and reviewing the CSR Policy, monitoring the implementation of CSR objectives of the Bank, recommend the amount of expenditure to be incurred on CSR activities and monitor and oversee CSR expenditures.

During the year under review, the Committee met once on 30th March, 2017.

d) Risk Management Committee:

In accordance with Banking Regulation Act 1949 and RBI Directions, the Risk Management Committee was constituted and the following Directors were the members of the committee as on 31st March, 2017:

1. Mr. R. Ramachandran (Independent Director): Chairman
2. Mr. R. Baskar Babu (Managing Director & CEO): Member
3. Mr. Venkatesh Natarajan (Investor Director): Member

The terms of reference of the Committee includes review and approval of policies, products / processes / systems & procedures etc. involving Operational Risk and Fraud Risk from time to time, reviewing the risk profile, development

and implementation of risk methodologies and tools, introduce a system of documented approvals and authorizations to ensure accountability at every level of management, define the risk tolerance level for the Bank and reviewing and approving suitable controls/ mitigation measures for various risks.

During the year under review, the Committee did not meet in view of the commencement of banking operations only in January, 2017. This Committee meets once in a quarter with effect from April, 2017.

e) Committee for review of wilful defaulters and monitoring high value frauds:

This Committee was constituted as per the RBI Directions for reviewing the status of wilful defaulters and monitoring high value frauds. This Committee comprises of:

1. Mr. Mrutunjay Sahoo (Independent Director): Chairman
2. Mr. R. Ramachandran (Independent Director): Member
3. Mr. Jyotin Mehta (Additional Director - Independent Category): Member
4. Mr. R. Baskar Babu (MD & CEO): Member
5. Mr. Venkatesh Natarajan (Investor Director): Member

This Committee has been formed for reviewing the status of willful defaulters and monitoring high value frauds.

This Committee was constituted in March, 2017 and shall meet as and when required with effect from FY 2017-2018.

f) Customer Service Committee

This Committee was constituted as per the RBI Directions and comprises of :

1. Mr. John Arunkumar Diaz (Investor Director): Chairman
2. Dr. (Mrs.) Sheela Bhide (Independent Director): Member
3. Mr. R. Ramachandran (Independent Director): Member
4. Mr. Jyotin Mehta (Additional Director - Independent Category): Member
5. Mr. R. Baskar Babu (Managing Director & CEO): Member

The terms of reference of this Committee include assessing and reviewing the overall implementation of customer service policies and initiatives, reviewing product approval process with respect to suitability and appropriateness for customers, reviewing the audit findings of services rendered to customers, customer satisfaction, improvement in quality of customer service etc.

This Committee having been constituted in March 2017, did not meet during the year under review.

g) IT Strategy Committee

This Committee was constituted as per the RBI Directions and comprises of:

1. Mr. Jyotin Mehta (Additional Director - Independent Category): Chairman
2. Dr. (Mrs) Sheela Bhide (Independent Director): Member
3. Mr. John Arunkumar Diaz (Investor Director): Member
4. Mr. Venkatesh Natarajan (Investor Director): Member

The terms of reference of this Committee include approving the Information Technology (IT) strategy, reviewing whether business strategy is aligned with IT strategy, monitoring the management's requirement of IT resources, reviewing the implementation of IT strategies, processes and practices and reviewing IT performance measurement etc.

This Committee having been constituted in March 2017, did not meet during the year under review.

h) Credit Committee

This Committee was constituted as per the RBI Directions and comprises of:

1. Mr. John Arunkumar Diaz (Investor Director): Chairman
2. Mr. Mrutunjay Sahoo (Independent Director): Member
3. Mr. Jyotin Mehta (Additional Director - Independent Category): Member
4. Mr. R. Baskar Babu (Managing Director & CEO): Member

The terms of reference of the Credit Committee includes consideration of proposals for approval, renewal of various credit facilities as delegated to it by the Board and as envisaged in the Credit Policy adopted by the Board.

This Committee having been constituted in March 2017, did not meet during the year under review.

i) Stakeholders relationship and investors grievance committee

This Committee has been constituted under the provisions of the Companies Act,2013 and the RBI Directions for banking companies. The Committee comprises of:

1. Dr. (Mrs.) Sheela Bhide (Independent Director): Chairperson
2. Mr. Mrutunjay Sahoo (Independent Director): Member
3. Mr. John Arunkumar Diaz (Investor Director): Member

This Committee oversees redressal of shareholders' / debenture holders' grievances and other related matters.

Since the Bank is an unlisted entity having limited number of investors/ shareholders/ debenture holders, no meeting was necessitated during the year under review since there were no complaints from any stakeholder.

3. GENERAL BODY MEETINGS:

Information regarding General Body Meetings held during the three previous years and the Special Resolutions passed thereat:

Date and time of General Meetings	Venue	Brief description of Special resolutions passed
1. EGM held on 10.4.2014 at 11.00 am	1101, Sharda Terraces, Plot No. 65, Sector 11, CBD Belapur, Navi Mumbai – 400 614	For issue of NCDs on private placement basis, creating charge on assets, further issue of securities on private placement basis.
2. AGM held on 18.8.2014 at 3.00 pm	No. 6, CS Towers, 3 rd floor, 34/76, Bazullah Road, T. Nagar, Chennai – 600 017	For increase in borrowing powers, creating charge on assets, issue of NCDs on private placement basis, alteration of Articles of Association and increase of Authorised Share capital from Rs. 35 crores to Rs. 50 crores
3. EGM held on 11.3.2015 at 11.00 am	1101, Sharda Terraces, Plot No. 65, Sector 11, CBD Belapur, Navi Mumbai – 400 614	For adoption of new set of Articles of Association.
4. EGM held on 14.5.2015 at 11.00 am	1101, Sharda Terraces, Plot No. 65, Sector 11, CBD Belapur, Navi Mumbai – 400 614	For Conversion from Private Limited Company to Public Limited Company.

Date and time of General Meetings	Venue	Brief description of Special resolutions passed
5. AGM held on 24.9.2015 at 11.00 am	1101, Sharda Terraces, Plot No. 65, Sector 11, CBD Belapur, Navi Mumbai – 400 614	For increase in borrowing powers, creating charges on assets, issue of NCDs on private placement basis.
6. EGM held on 24.12.2015 at 11.00 am	1101, Sharda Terraces, Plot No. 65, Sector 11, CBD Belapur, Navi Mumbai – 400 614	For alteration of Articles of Association and issue of shares on preferential basis.
7. EGM held on 15.4.2016 at 11.00 am	1101, Sharda Terraces, Plot No. 65, Sector 11, CBD Belapur, Navi Mumbai – 400 614	For increase in Authorised Share capital from Rs. 50 crores to Rs. 75 crores, consequent changes in Memorandum & Articles of Association, issue of shares to Promoters on preferential basis.
8. EGM held on 6.6.2016 at 11.00 am	1101, Sharda Terraces, Plot No. 65, Sector 11, CBD Belapur, Navi Mumbai – 400 614	For issue of securities on private placement basis.
9. AGM held on 22.9.2016 at 10.30 am	1101, Sharda Terraces, Plot No. 65, Sector 11, CBD Belapur, Navi Mumbai – 400 614	For issue of NCDs on private placement, change of name of Company from 'Suryoday Micro Finance Limited' to 'Suryoday Small Finance Bank Limited', alteration of Memorandum and Articles of Association, re-appointment of MD & CEO.
10. EGM held on 22.12.2016 at 11.00 am	1101, Sharda Terraces, Plot No. 65, Sector 11, CBD Belapur, Navi Mumbai – 400 614	Approval of ESOP Scheme, 2016, and issue of shares on preferential basis.
11. EGM held on 20.2.2017 at 11.00 am	1101, Sharda Terraces, Plot No. 65, Sector 11, CBD Belapur, Navi Mumbai – 400 614	Appointment of Statutory Auditors, issue of shares to promoters by way of preferential allotment and private placement.

4. COMPLIANCE WITH PROVISION OF SEXUAL HARASSMENT OF WOMEN AT WORKPLACE (PREVENTION, PROHIBITION, AND REDRESSAL) ACT, 2013:

The Bank is in compliance with the provisions of the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 and has in place a Policy for Prevention of Sexual Harassment. During the year under review, one complaint was received under the Policy which was put up to the Internal Complaints Committee. After due investigations, appropriate action was taken and the complainant was satisfied with the redressal.

5. GENERAL SHAREHOLDER INFORMATION:

(a) Company Registration Details:

The Bank is registered with the Registrar of Companies, Maharashtra as a banking company under CIN U65923MH2008PLC261472

During the year under review, the Bank received the Certificate of Change of Name from the ROC, Maharashtra from "Suryoday Micro Finance Limited" to "SURYODAY SMALL FINANCE BANK LIMITED".

The RBI's approval for commencement of business as a Bank was received on 23rd January, 2017.

(b) AGM: Date, Time and Venue:

Thursday, 31st August, 2017 at 3.30 pm at Park Hotel, CBD Belapur, Navi Mumbai 400614

Book Closure dates: Monday, 28th August, 2017 to Thursday, 31st August, 2017 (both days inclusive)

(c) Financial Calendar (tentative):

Financial reporting for the quarter ended June, 2017: By 1st August, 2017

Financial reporting for the quarter/ half year ending September, 2017: By 15th November, 2017.

Financial reporting for the quarter / 9 months' ending December, 2017: By 15th February, 2018

Financial reporting for the year ending 31st March, 2018: By 30th May, 2017

Annual General Meeting for the year ending 31st March, 2018: On or before 30th September, 2018

(d) Listing on Stock Exchanges:

The Equity shares of the Bank are unlisted. However, the debt securities of the Bank (Non-Convertible Debentures / Commercial Papers) are listed on the Wholesale Debt Segment of the BSE Ltd., the scrip Code being 950240

(e) Names of Debenture Trustees:

1. IDBI Trusteeship Services Limited, Asian Building, Gr. Floor, R. Kamani Marg, Mumbai - 400 001
2. Catalyst Trusteeship Limited [Formerly GDA Trusteeship Limited]
Office No. 1, 2 & 3, 4th Floor, Rehematoola House, 7th Homji Street, Off P.M. Road, Fort, Mumbai - 400 002
3. Axis Trustee Services Limited, Axis House, 2nd Floor, Wadia International Centre, Pandurang Budhkar Marg, Worli, Mumbai - 400 025

(f) Payment of Depository Fees:

Name of the Depositories in India for dematerialization of Equity Shares and Debt Securities:

- National Securities Depository Limited (NSDL)
- Central Depository Services (India) Limited (CDSL)

(g) SEBI Complaints redressal systems (SCORES)

The Bank is registered with SEBI Complaints redressal systems for resolving Complaints arising out of issues that are covered under SEBI Act, Securities Contract Regulation Act, Depositories Act and rules and regulation made there under and provisions that are covered under section 24 of Companies Act, 2013.

(h) Registrar And Share Transfer Agent For Equity Shares And Non-Convertible Debentures

Karvy Computershare Private Limited, Karvy Selenium, Tower- B, Plot No. 31 & 32, Financial district, Nanakramguda, Serilingampally Mandal, Hyderabad - 500032, India.

Tel: 040-67161500 / 040-23312454 Fax: 040-23311968 Email: einward.ris@karvy.com/support@karvy.com

(i) Means of Communication

The unaudited / audited financial results are published in Business Standard in English and Aaplya Mahanagar in Marathi (regional language). The results are also displayed on the Bank's web-site at www.suryodaybank.com.

(j) Shareholders' and Investors' Helpdesk

Dedicated email id for Shareholders' queries / grievances: shr.relations@suryodaybank.com

Dedicated email id for Investors' queries / grievances: inv.relations@suryodaybank.com

(k) Banking Customer Helpdesk:

In the event of any queries/complaints, banking customers can directly approach to the Branches or can call/write to the Bank using the following contact details of Smile Centre

Call at: Our Customer care (Phone Banking) Numbers: 1800 266 7711

Write to: smile@suryodaybank.com

(l) Distribution of shareholding as on 31st March, 2017:

Group of shares	No. of shareholders	No. of shares held	% of total share capital
1 - 5000	53	81,064	0.13
5001-10000	9	73,320	0.11
10001 - 20000	9	130,884	0.20
20001 - 50000	7	238,885	0.37
50001 - 100000	3	212,210	0.33
100001 and above	33	63,328,327	98.85
TOTAL	114	64,064,690	100.00

(m) Shareholding pattern as on 31st March, 2017

Particulars	No. of shares held	% of total share capital
Promoters	16,754,178	26.15
Banks, Financial Institutions	6,195,352	9.67
Domestic Corporate bodies	10,969,506	17.12
FII's	4,387,888	6.85
Foreign Corporate bodies	23,252,092	36.30
Others	2,505,674	3.91
TOTAL	64,064,690	100.00

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**THE
FUTURE
OF THE
FUTURE
IS IN THE
PRESENT**
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**AUDITOR'S REPORT
AND FINANCIALS**

To the Members of Suryoday Small Finance Bank Limited
(formerly known as **Suryoday Micro Finance Limited**)

Report on the Financial Statements

We have audited the accompanying financial statements of Suryoday Small Finance Bank Limited (formerly known as "Suryoday Micro Finance Limited") ('the Bank'), which comprise the Balance Sheet as at 31 March 2017, the Profit and Loss Account, the Cash Flow Statement for the year then ended, and a summary of the significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

The Bank's Board of Directors is responsible for the matters stated in Section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Bank in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014, provisions of Section 29 of the Banking Regulation Act, 1949 and the circulars, guidelines and directions issued by the Reserve Bank of India ('RBI') from time to time. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Bank and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and the design, implementation and maintenance of internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit.

We have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder.

We conducted our audit of the Bank in accordance with the Standards on Auditing ('the Standards') specified under Section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Bank's Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the financial statements.

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid financial statements give the information required by the Banking Regulation Act, 1949 as well as the relevant requirements of the Companies Act, 2013, in the manner so required for banking companies and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Bank as at 31 March 2017, its profit and its cash flows for the year then ended on that date.

Emphasis of Matter

We draw attention to Note 1 to the financial results which describes the grant of small finance bank license by Reserve Bank of India (RBI) on 26 August 2016, consequently Suryoday Micro Finance Limited converted itself into a small finance bank with effect from 23 January 2017. The Bank has accordingly, changed some of its accounting policies to ensure compliance with banking regulations issued by RBI from time to time and practices that are prevalent in the banking industry. As a result, the previous year's figures are not strictly comparable with those of the current year.

Our Opinion is not modified in respect of this matter

Report on Other Legal and Regulatory Requirements

The Balance Sheet and Profit and Loss Account have been drawn up in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949 read with Section 133 of the Act read with the Rule 7 of the Companies (Accounts) Rules, 2014.

As required by sub section (3) of Section 30 of the Banking Regulation Act, 1949, we report that:

- (a) we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit and have found them to be satisfactory;
- (b) the transactions of the Bank, which have come to our notice, have been within the powers of the Bank; and
- (c) since the key operations of the Bank are automated with the key applications integrated to the core banking systems, the audit is carried out centrally as all the necessary records and data required for the purposes of our audit are available therein. During the course of our audit, we have visited 10 branches.

Further, as required by Section 143 (3) of the Act, we further report that:

- (a) we have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
- (b) in our opinion, proper books of account as required by law have been kept by the Bank so far as it appears from our examination of those books;
- (c) the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report are in agreement with the books of account;
- (d) in our opinion, the aforesaid financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014, to the extent they are not inconsistent with the accounting policies prescribed by the RBI;
- (e) on the basis of the written representations received from the directors as on 31 March 2017 taken on record by the Board of Directors, none of the directors is disqualified as on 31 March 2017 from being appointed as a director in terms of Section 164 (2) of the Act.
- (f) with respect to the adequacy of the internal financial controls over financial reporting of the Bank and the operating effectiveness of such controls, refer to our separate Report in "Annexure A";
- (g) with respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:
 - (i) The Bank has disclosed the impact of pending litigations on its financial position in its financial statements - Refer Schedule 17 (L) and 18 (15) to the financial statements;
 - (ii) the Bank has made provisions, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long term contracts including derivate contracts - refer Schedule 17 (L) and 18 (15) to the financial statements;
 - (iii) there has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Bank; and

- (iv) the disclosure required on holdings as well as dealings in Specified Bank Notes during the period from 8 November 2016 to 30 December 2016 as envisaged in notification G.S.R. 308(E) dated 30 March 2017 issued by the Ministry of Corporate Affairs is not applicable to the Bank. Refer Schedule 18 (33) to the financial statements.

For **B S R & Associates LLP**
Chartered Accountants
Firm's Registration No: 116231W/W-100024

Mumbai
25 May 2017

Ashwin Suvarna
Partner
Membership No: 109503

ANNEXURE A to the Independent Auditor's Report of even date on the Financial Statements of Suryoday Small Finance Bank Limited (formerly known as Suryoday Micro Finance Limited)

Report on the Internal Financial Controls under clause (i) of sub-section 3 of Section 143 of the Companies Act, 2013

We have audited the internal financial controls over financial reporting of Suryoday Small Finance Bank Limited (formerly known as Suryoday Micro Finance Limited) ('the Bank') as at 31 March 2017 in conjunction with our audit of the financial statements of the Bank for the year ended on that date.

Management's Responsibility for Internal Financial Controls

The Bank's Board of Directors is responsible for establishing and maintaining internal financial controls based on the internal control over financial reporting criteria established by the Bank considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting ('the Guidance Note') issued by the Institute of Chartered Accountants of India ('the ICAI'). These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to Bank's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Companies Act, 2013 ('the Act').

Auditor's Responsibility

Our responsibility is to express an opinion on the Bank's internal financial controls over financial reporting based on our audit. We conducted our audit in accordance with the Guidance Note and the Standards on Auditing ('the Standards'), issued by the ICAI and deemed to be prescribed under section 143(10) of the Act, to the extent applicable to an audit of internal financial controls, both issued by the ICAI. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls over financial reporting was established and maintained and if such controls operated effectively in all material respects.

Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls system over financial reporting and their operating effectiveness. Our audit of internal financial controls over financial reporting included obtaining an understanding of internal financial controls over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Bank's internal financial controls system over financial reporting.

Meaning of Internal Financial Controls over Financial Reporting

A bank's internal financial control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A bank's internal financial control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the bank; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the bank are being made only in accordance with authorizations of management and directors of the bank; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the bank's assets that could have a material effect on the financial statements.

Inherent Limitations of Internal Financial Controls over Financial Reporting

Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls over financial reporting to future periods are subject to the risk that the internal financial control over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

In our opinion, the Bank has, in all material respects, an adequate internal financial controls system over financial reporting and such internal financial controls over financial reporting were operating effectively as at 31 March 2017, based on the internal control over financial reporting criteria established by the Bank considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the ICAI.

For **B S R & Associates LLP**
Chartered Accountants
Firm's Registration No: 116231W/W-100024

Mumbai
25 May 2017

Ashwin Suvarna
Partner
Membership No: 109503

Financial Statements

Suryoday Small Finance Bank Limited
[Formerly known as Suryoday Micro Finance Limited]

Balance Sheet as at March 31, 2017

₹ in '000

	Schedule	As at March 31, 2017	As at March 31, 2016
CAPITAL AND LIABILITIES			
Capital	1	640,647	383,352
Reserves and Surplus	2	4,365,073	1,591,961
Deposits	3	220,627	-
Borrowings	4	10,215,757	9,560,431
Other Liabilities and Provisions	5	599,968	389,435
	TOTAL	16,042,072	11,925,179
ASSETS			
Cash and Balances with Reserve Bank of India	6	266,692	19,739
Balances with banks and money at call and short notice	7	1,072,516	1,706,056
Investments	8	5,939,291	1,245
Advances	9	8,196,548	9,825,340
Fixed Assets	10	77,798	24,273
Other Assets	11	489,227	348,526
	TOTAL	16,042,072	11,925,179
Contingent Liabilities	12	87,787	67,348
Bills for Collection		-	-
Significant Accounting Policies and Notes to the financial statements 17 & 18			
The schedules referred to above form an integral part of the Balance sheet			

As per our report of even date

For **B S R & Associates LLP**

Chartered Accountants

Firm's Registration No: 116231W/W-100024

Ashwin Suvarna

Partner

Membership No: 109503

For and on behalf of the Board of Directors

R. Baskar Babu

Managing Director and
Chief Executive Officer

Geeta Krishnan

Company Secretary

Sheela Bhide

Chairperson

Bhavin Damania

Chief Financial Officer

Place: Mumbai

Date: May 25, 2017

Place: Mumbai

Date: May 25, 2017

Financial Statements

Suryoday Small Finance Bank Limited
[Formerly known as Suryoday Micro Finance Limited]

Profit and Loss Account for the year ended March 31, 2017

₹ in '000

	Schedule	Year ended 31 March 2017	Year ended 31 March 2016
I. INCOME			
Interest earned	13	2,536,433	1,987,894
Other income	14	11,501	12,179
	TOTAL	2,547,934	2,000,073
II. EXPENDITURE			
Interest expended	15	1,152,060	948,036
Operating expenses	16	1,017,872	588,652
Provisions and contingencies		226,998	188,953
	TOTAL	2,396,930	1,725,641
III. PROFIT			
Net profit for the year		151,004	274,432
Balance in Profit and Loss account brought forward		442,683	223,138
IV. APPROPRIATIONS			
Transfer to Statutory reserve		(37,751)	(54,887)
Balance carried over to Balance Sheet		555,936	442,683
V. EARNING PER EQUITY SHARE (Face Value ₹ 10 per Share)			
Basic		3.01	7.59
Diluted		2.90	7.52
Significant Accounting Policies and Notes to the financial statements		17 & 18	

The schedules referred to above form an integral part of the Profit and Loss account

As per our report of even date

For and on behalf of the Board of Directors

For B S R & Associates LLP

Chartered Accountants

Firm's Registration No: 116231W/W-100024

Ashwin Suvarna

Partner

Membership No: 109503

R. Baskar Babu

Managing Director and

Chief Executive Officer

Geeta Krishnan

Company Secretary

Sheela Bhide

Chairperson

Bhavin Damania

Chief Financial Officer

Place: Mumbai

Date: May 25, 2017

Place: Mumbai

Date: May 25, 2017

Suryoday Small Finance Bank Limited
[Formerly known as Suryoday Micro Finance Limited]

Cash Flow Statement for the year ended March 31, 2017

₹ in '000

	Year ended March 31, 2017	Year ended March 31, 2016
Cash flows from operating activities		
Profit before Income tax	238,511	418,146
Adjustments for:		
Depreciation on fixed assets	21,525	13,392
Amortisation of premium on held to maturity investment	4,586	-
Loss/ (Profit) on sale of fixed assets	9	(13)
Provision for non performing assets	138,500	-
Provision for diminution in value of investment	1,120	-
Floating provision	62,585	-
Provision for standard assets	(78,485)	45,239
Employee stock option expenses	5,528	3,354
Interest on borrowing	31,293	-
Bad debts written off	-	6,606
	425,172	486,724
Adjustments for:		
(Increase)/Decrease in investment	(4,440,156)	7,591
Decrease/ (Increase) in advances	1,490,292	(4,648,945)
Increase in deposit	220,627	-
(Increase)/Decrease in others assets	(75,950)	693,925
Increase in other liability	226,433	117,336
	(2,578,754)	(3,830,093)
Direct tax paid (net of refunds)	(152,256)	(159,257)
Net cash flow used in / from operating activities	(2,305,839)	(3,502,626)
Cash flow used in investing activities		
Purchase of fixed assets	(55,833)	(20,829)
Proceeds from sale of assets	45	23
Increase in capital work in progress	(19,271)	-
Investment in banking books	(1,503,596)	-
Net cash used in investment activities	(1,578,655)	(20,806)

Suryoday Small Finance Bank Limited
[Formerly known as Suryoday Micro Finance Limited]

Cash Flow Statement for the year ended March 31, 2017

₹ in '000

	Year ended March 31, 2017	Year ended March 31, 2016
Cash flow from financing activities		
Proceeds from issue of share capital (inclusive of issue expense)	2,873,873	378,181
Proceeds from borrowings	5,012,989	7,457,048
Repayment of borrowings	(4,388,955)	(3,841,100)
Net cash generated from financing activities	3,497,907	3,994,129
Net (decrease)/increase in cash and cash equivalents	(386,587)	470,697
Cash and cash equivalents as at April 1 (Schedule 6 and 7)	1,725,795	1,255,098
Cash and cash equivalents as at March 31 (Schedule 6 and 7)	1,339,208	1,725,795

As per our report of even date

For B S R & Associates LLP

Chartered Accountants

Firm's Registration No: 116231W/W-100024

Ashwin Suvarna

Partner

Membership No: 109503

For and on behalf of the Board of Directors

R. Baskar Babu

Managing Director and
Chief Executive Officer

Geeta Krishnan

Company Secretary

Sheela Bhide

Chairperson

Bhavin Damania

Chief Financial Officer

Place: Mumbai

Date: May 25, 2017

Place: Mumbai

Date: May 25, 2017

Suryoday Small Finance Bank Limited
[Formerly known as Suryoday Micro Finance Limited]

Schedules to the Financial Statements as at March 31, 2017

₹ in '000

	As at 31 March 2017	As at 31 March 2016
SCHEDULE 1 - CAPITAL		
Authorised capital		
75,000,000 (March 31, 2016: 50,000,000) equity shares of ₹ 10 each	750,000	500,000
Issued, Subscribed and Paid-up Capital		
64,064,690 (March 31 2016: 38,335,221) equity shares of ₹ 10 each fully paid up	640,647	383,352
Total	640,647	383,352
SCHEDULE 2 - RESERVES AND SURPLUS		
I. Statutory Reserve [Created pursuant to Section 17(2) of Banking Regulation Act, 1949]		
Opening Balance	-	-
Transfer from Statutory Reserve [refer Schedule 2(II)]	113,088	-
Addition during the year	37,751	-
Total	150,839	-
II. Statutory Reserve [Created pursuant to Section 45 IC of Reserve Bank of India Act, 1934 as amended by RBI (Amendment) Act 1997]		
Opening Balance	113,088	58,201
Additions during the year	-	54,887
Transfer to Statutory Reserve [Section 17(2) of Banking Regulation Act, 1949] [refer Schedule 2(I)]	(113,088)	-
Total	-	113,088
III. Share Premium Account		
Opening Balance	1,028,213	701,883
Additions during the year	2,644,902	326,703
Amounts utilized toward share issue expenses	(24,892)	(373)
Total	3,648,223	1,028,213
IV. General Reserves		
Opening Balance	419	331
Additions during the year	-	88
Total	419	419

Suryoday Small Finance Bank Limited
[Formerly known as Suryoday Micro Finance Limited]

Schedules to the Financial Statements as at March 31, 2017

	₹ in '000	
	As at 31 March 2017	As at 31 March 2016
V. Employee Stock Options Outstanding Account (ESOP)		
Opening Balance	7,558	6,049
Employee compensation expense for the year	5,528	3,354
Transfer to Share Premium Account/Share Capital on exercise of stock options	(3,430)	(1,757)
Transfer to General Reserve for Non- exercise of ESOP's	-	(88)
Total	9,656	7,558
VI. Balance in Profit and Loss Account	555,936	442,683
Total	4,365,073	1,591,961

SCHEDULE 3 - DEPOSITS

A. I. Demand Deposits

i) From banks	-	-
ii) From others	2,023	-
Total	2,023	-

II Savings Bank Deposits	16,300	-
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III. Term Deposits

i) From banks	100,033	-
ii) From others	102,271	-
Total	202,304	-

Total	220,627	-
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B. I. Deposits of branches in India	220,627	-
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II. Deposits of branches outside India	-	-
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Total	220,627	-
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SCHEDULE 4 - BORROWINGS

I. Borrowings in India*

i) Reserve Bank of India	-	-
ii) Other banks	4,432,375	4,891,488
iii) Other institutions and agencies	2,048,382	2,025,625
iv) Unsecured redemnable debentures and term loan (Subordinate debts included in Tier 2 capital)	600,000	350,000

Suryoday Small Finance Bank Limited
[Formerly known as Suryoday Micro Finance Limited]

Schedules to the Financial Statements as at March 31, 2017

	₹ in '000	
	As at 31 March 2017	As at 31 March 2016
v) Others	950,000	50,000
Total	8,030,757	7,317,113
II. Borrowings outside India*	2,185,000	2,243,318
Total	10,215,757	9,560,431

*Includes secured borrowings of ₹ 653.42 crores

SCHEDULE 5 - OTHER LIABILITIES AND PROVISIONS

I. Bills payable	-	-
II. Inter - office adjustments (net)	-	-
III. Interest accrued	142,576	106,825
IV. Contingent provisions against standard assets	19,820	98,305
V. Others (including provisions)	437,572	184,305
Total	599,968	389,435

SCHEDULE 6 - CASH AND BALANCES WITH RESERVE BANK OF INDIA

I. Cash in hand	14,216	19,739
II. Balances with Reserve Bank of India		
i) in Current account	252,476	-
ii) in Other accounts	-	-
Total	266,692	19,739

SCHEDULE 7 - BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE

I. In India		
i) Balances with banks		
a) In Current accounts	228,237	496,761
b) In Other deposit accounts*	844,279	1,209,295
Total	1,072,516	1,706,056
ii) Money at call and short notice		
a) With banks	-	-
b) With other institutions	-	-
Total	-	-
Total	1,072,516	1,706,056

Suryoday Small Finance Bank Limited
[Formerly known as Suryoday Micro Finance Limited]

Schedules to the Financial Statements as at March 31, 2017

₹ in '000

	As at 31 March 2017	As at 31 March 2016
II. Outside India		
i) In Current account	-	-
ii) In Deposit account	-	-
iii) Money at call and short notice	-	-
Total	-	-
Total	1,072,516	1,706,056

*Deposits with banks include ₹ 53.01 crores (March 31, 2016: ₹ 90.79 crores) under lien marked towards term loans availed from banks, financial institutions and cash collateral placed in connection with assignment / securitisation of receivables.

SCHEDULE 8 - INVESTMENTS

A. Investments in India

i) Government securities	4,603,447	-
ii) Other approved securities	-	-
iii) Shares	-	-
iv) Debentures and bonds	-	-
v) Subsidiaries / joint ventures	-	-
vi) Others (certificate of deposit, commercial paper and mutual funds)	1,335,844	1,245
Total	5,939,291	1,245

B. Investments outside India

i) Government securities	-	-
ii) Subsidiaries / joint ventures	-	-
iii) Others (equity shares and bonds)	-	-
Total	-	-
Total	5,939,291	1,245

C. Investments

i) Gross value of investments		
a) In India	5,940,411	1,245
b) Outside India	-	-
Total	5,940,411	1,245
ii) Provision for depreciation		
a) In India	1,120	-

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	As at 31 March 2017	As at 31 March 2016
b) Outside India	-	-
Total	1,120	-
iii) Net value of investments		
a) In India	5,939,291	1,245
b) Outside India	-	-
Total	5,939,291	1,245

SCHEDULE 9 - ADVANCES

A. i) Bills purchased and discounted	-	-
ii) Cash credits, overdrafts and loans repayable on demand	-	-
iii) Term loans	8,196,548	9,825,340
Total	8,196,548	9,825,340
B. i) Secured by tangible assets	41,834	-
ii) Covered by Bank / Government guarantees	-	-
iii) Unsecured	8,154,714	9,825,340
Total	8,196,548	9,825,340
C. I. Advances in India		
i) Priority sectors	8,185,409	98,25,340*
ii) Public sector	-	-
iii) Banks	-	-
iv) Others	11,139	-
Total	8,196,548	9,825,340
*Not segregated within categories as not applicable.		
C. II. Advances outside India		
i) Due from banks	-	-
ii) Due from others	-	-
(a) Bills purchased and discounted	-	-
(b) Syndicated loans	-	-
(c) Others	-	-
Total	8,196,548	9,825,340

(Advances are net of provisions)

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₹ in '000

	As at 31 March 2017	As at 31 March 2016
SCHEDULE 10 - FIXED ASSETS		
A. Premises		
At cost on March 31 of preceding year	-	-
Additions during the year	-	-
Deductions during the year	-	-
Total	-	-
Depreciation		
As at March 31 of the preceding year	-	-
Charge for the year	-	-
Deductions during the year	-	-
Total	-	-
Add: Premises revaluation		
Net Block	-	-
B. Other Fixed assets (including furniture and fixtures)		
Gross Block		
At cost on March 31 of the preceding year	59,977	39,159
Additions during the year	55,833	20,849
Deductions during the year	(168)	(31)
Total	115,642	59,977
Depreciation		
As at March 31 of the preceding year	35,704	22,333
Charge for the year	21,525	13,391
Deductions during the year	(114)	(20)
Total	57,115	35,704
Net Block	58,527	24,273
C. Assets given on lease	-	-
D. Capital work in progress	19,271	-
Total	77,798	24,273

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₹ in '000

	As at 31 March 2017	As at 31 March 2016
SCHEDULE 11 - OTHER ASSETS		
I. Inter - office adjustments (net)	-	-
II. Interest accrued	173,497	182,663
III. Tax paid in advance/tax deducted at source (net of provision for tax)	35,487	8,286
IV. Stationery and stamps	-	-
V. Non-banking assets acquired in satisfaction of claims	-	-
VI. Others*	280,243	157,577
Total	489,227	348,526

* includes deferred tax assets of ₹ 8.05 crores (Previous year : ₹ 2.40 crores)

SCHEDULE 12 - CONTINGENT LIABILITIES

I. Claims against the bank not acknowledged as debts - taxation	29,604	4,682
II. Claims against the bank not acknowledged as debts - others	-	-
III. Liability on account of outstanding forward exchange contracts	-	-
IV. Liability on account of outstanding derivative contracts	-	-
V. Guarantees given on behalf of constituents :		
- In India	-	-
- Outside India	-	-
VI. Acceptances, endorsements and other obligations	-	-
VII. Other items for which the Bank is contingently liable	58,183	62,666
Total	87,787	67,348

SCHEDULE 13 - INTEREST EARNED

I. Interest/discount on advances/bills	2,368,769	1,888,307
II. Income on investments	88,287	14,421
III. Interest on balances with Reserve Bank of India and other inter-bank funds	78,304	84,681
IV. Other interest	1,073	485
Total	2,536,433	1,987,894

SCHEDULE 14 - OTHER INCOME

I. Commission, exchange and brokerage	1,142	207
II. Profit on sale of investments (net)	7,037	18
III. Profit on sale of revaluation of investments	-	-

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₹ in '000

	As at 31 March 2017	As at 31 March 2016
IV Profit/(Loss) on sale of fixed assets (net)	(9)	13
V Profit on exchange transactions (net)	-	-
VI Income earned by way of dividends from Subsidiaries / Associates and / or Joint Venture abroad / in India	-	-
VII Miscellaneous income	3,331	11,941
Total	11,501	12,179

SCHEDULE 15 - INTEREST EXPENDED

I Interest on deposits	858	-
II Interest on Reserve Bank of India/ inter-bank borrowings	588,951	385,479
III Other interest	562,251	562,557
Total	1,152,060	948,036

SCHEDULE 16 - OPERATING EXPENSES

I Payments to and provisions for employees	621,303	419,787
II Rent, taxes and lighting	49,837	31,245
III Printing and stationery	18,679	14,400
IV Advertisement and publicity	27,494	5,465
V Depreciation on Bank's property	21,525	13,392
VI Director's fees/remuneration, allowances and expenses	1,874	1,080
VII Auditors' fees and expenses	3,386	3,034
VIII Law charges	8,559	292
IX Postage, telegrams, telephones, etc.	14,673	14,096
X Repairs and maintenance	78,612	16,443
XI Insurance	14,847	4,672
XII Other expenditure (includes professional fees)	157,083	64,746
Total	1,017,872	588,652

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Schedules to the Financial Statements For the year ended March 31, 2017

SCHEDULE 17 - Significant accounting policies appended to and forming part of the financial statements for the year ended March 31, 2017

1. Background and nature of operations

Pursuant to the resolution passed by the shareholders at the Annual General Meeting held on September 22, 2016 and the issue of small finance bank license by Reserve Bank of India (RBI) on August 26, 2016, Suryoday Micro Finance Limited (the 'Company') converted itself into a small finance bank with effect from January 23, 2017. Accordingly, the name of the Company is changed to Suryoday Small Finance Bank Limited (the 'Bank'). The financial statements for the year ended March 31, 2017 have, therefore, been prepared as per RBI guidelines which are applicable to banks. The Bank has accordingly, changed some of its accounting policies to ensure compliance with banking regulations issued by RBI from time to time and practices that are prevalent in the banking industry. As a result, the previous year's figures are not strictly comparable with those of the current year. Further comparative disclosure in the financial statement only been provided to the extent they were applicable to the company in the previous year.

The Bank is primarily engaged in extending micro credit to economically weaker women who are otherwise unable to access finance from the mainstream banking channels. The Bank broadly follows the Grameen model with suitable adaptations using the Joint Liability Groups (JLG) framework, where each member of the group guarantees the loan repayment of the other members of the group.

2. Basis of preparation of financial statements

The financial statements have been prepared and presented under the historical cost convention and accrual basis of accounting, unless otherwise stated and are in accordance with Generally Accepted Accounting Principles in India ('GAAP'), statutory requirements prescribed under the Banking Regulation Act, 1949, circulars and guidelines issued by the Reserve Bank of India ('RBI') from time to time, Accounting Standards ('AS') specified under Section 133 of the Companies Act, 2013 to the extent applicable, in so far as they apply to banks and current practices prevailing within the banking industry in India.

Use of estimates

The preparation of financial statements in conformity with GAAP requires the management to make estimates and assumptions considered in the reported amounts of assets and liabilities (including contingent liabilities) as of the date of the financial statements and the reported income and expenses for the reporting period. Management believes that the estimates used in the preparation of the financial statements are prudent and reasonable. Actual results could differ from these estimates. Any revision in the accounting estimates is recognised prospectively in the current and future periods.

3. PRINCIPAL ACCOUNTING POLICY

A. Investments

Classification:

In accordance with the RBI guidelines on investment classification and valuation, investments are classified on the date of purchase into "Held for Trading" ('HFT'), "Available for Sale" ('AFS') and "Held to Maturity" ('HTM' or "Banking book") categories (hereinafter called "categories"). Subsequent shifting amongst the categories is done in accordance with the RBI guidelines.

Under each of these categories, investments are further classified under six groups (hereinafter called "groups") – Government Securities, Other Approved Securities, Shares, Debentures and Bonds, Investments in Subsidiaries / Joint Ventures and Other Investments.

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The Bank follows trade date accounting for purchase and sale of investments except for central & state government securities where settlement date method of accounting is followed in accordance with RBI Guidelines.

Basis of classification:

Investments that are held principally for resale within 90 days from the date of purchase are classified under HFT category.

Investments which the Bank intends to hold till maturity are classified as HTM securities. Investments which are not classified in either of the above categories are classified under AFS category.

Acquisition cost

Brokerage, commission and broken period interest on debts instruments are recognised in Profit and Loss Account and are not included in the cost of acquisition.

Disposal of investments

Profit/Loss on sale of investments under the aforesaid three categories is recognised in the Profit and Loss Account. Cost of investments is based on the weighted average cost method. The profit from sale of investment under HTM category, net of taxes and transfer to statutory reserve is appropriated from Profit and Loss Account to "Capital Reserve" in accordance with the RBI Guidelines.

Valuation

Investments classified under AFS and HFT categories are marked to market as per the RBI guidelines.

Traded investments are valued based on the trades / quotes on the recognised stock exchanges, price list of RBI or prices declared by Primary Dealers Association of India ('PDAI') jointly with Fixed Income Money Market and Derivatives Association ('FIMMDA'), periodically.

The market value of unquoted government securities which qualify for determining the Statutory Liquidity Ratio ('SLR'), included in the AFS and HFT categories, is computed as per the Yield-to-Maturity ('YTM') rates published by FIMMDA.

Units of mutual funds are valued at the latest repurchase price / net asset value declared by the mutual fund.

Treasury bills, commercial papers and certificate of deposits being discounted instruments, are valued at carrying cost.

Net depreciation in the value, if any, compared to the acquisition cost, in any of the groups, is charged to the Profit and Loss Account. The net appreciation, if any, in any of the groups is not recognised except to the extent of depreciation already provided.

Investments classified under HTM category are carried at their acquisition cost and not marked to market. Any premium on acquisition is amortised over the remaining maturity period of the security on a constant yield-to-maturity basis. Such amortisation of premium is adjusted against interest income under the head "Income from investments" as per the RBI guidelines.

Non-performing investments are identified and depreciation / provision are made thereon based on the RBI guidelines. The depreciation / provision on such non-performing investments are not set off against the appreciation in respect of other performing securities. Interest on non-performing investments is not recognised in the Profit and Loss Account until received.

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Schedules to the Financial Statements For the year ended March 31, 2017

B. Advances

Advances are classified into performing and non-performing advances ('NPAs') as per the RBI guidelines and are stated net of specific provisions made towards NPAs. Further, NPAs are classified into sub-standard, doubtful and loss assets based on the criteria stipulated by the RBI. Provisions for NPAs are made for sub-standard and doubtful assets at rates as prescribed by the RBI. NPAs are identified by periodic appraisals of the loan portfolio by management.

Loss assets and unsecured portion of doubtful assets are provided as per the extant RBI guidelines. Amounts recovered against debts written-off are recognised in the Profit and Loss account.

For restructured/rescheduled assets, provision is made in accordance with the guidelines issued by RBI, which requires the diminution in the fair value of the assets to be provided at the time of restructuring.

The Bank maintains a general provision on standard advances at the rates prescribed by RBI. Provision made against standard assets is included in "Other liabilities & provisions".

Provisions made in excess of the Bank's policy for specific loan provisions for non-performing assets and regulatory general provisions are categorised as floating provisions. Creation of floating provisions is considered by the Bank up to a level approved by the Board of Directors. In accordance with the RBI guidelines, floating provisions are used up to a level approved by the Board only for contingencies under extraordinary circumstances and for making specific provisions for impaired accounts as per these guidelines or any other regulatory guidelines as applicable. Floating provisions have been included under "other liabilities and provisions".

C. Transfer and servicing of assets

The Bank transfers loans through securitisation transactions. The transferred loans are de-recognised and gains/losses are accounted for, only if the Bank surrenders the rights to benefits specified in the underlying securitised loan contract.

In accordance with the RBI guidelines for securitisation of standard assets, the profit/premium arising from sell down/securitisation to be amortised over the life of the transaction based on the method prescribed in the guidelines and the loss, if any, arises in the sell down/securitisation transaction, is recognised upfront in the Profit or Loss Account.

D. Foreign Currency Transactions

- (i) Foreign currency transactions are recorded in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction.
- (ii) Foreign currency monetary items are reported using the closing rate. Non-monetary items which are carried in terms of historical cost denominated in a foreign currency are reported using the exchange rate at the date of the transaction.

All exchange differences are recognized as income or as expenses in the period in which they arise.

E. Revenue Recognition

- (i) Interest income is recognised in the Profit and Loss Account on an accrual basis, except in the case of non-performing assets where it is recognised upon realisation as per income recognition and asset classification norms of RBI.
- (ii) Income on non-coupon bearing discounted instruments is recognised over the tenor of the instrument on a constant effective yield basis.

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- (iii) Loan processing fees is accounted for upfront when it becomes due.
- (iv) Interest income on deposits with banks and financial institutions is recognized on a time proportion basis taking into account the amount outstanding and the implicit rate of interest.
- (v) Dividend is recognised as income when the right to receive the dividend is established.
- (vi) All other fees are accounted for as and when they become due.

F. Fixed Assets and Depreciation

Tangible Assets:

Fixed assets are stated at cost less accumulated depreciation / amortization and impairment loss, if any. The cost comprises purchase price and any attributable cost of bringing the asset to its working condition for its intended use. Any trade discounts and rebates are deducted in arriving at the purchase price.

Depreciation is charged over the estimated useful life of the fixed asset on written down value basis from the date asset is put to use considering residual value of 5% of the cost.

The details of useful life are as under:

Class of Assets	Estimated useful life
Office equipment	5 years
Computers & Accessories	3 years
Furniture and fittings	10 years

Leasehold Improvements: Improvements to leasehold premises are amortised over the primary period of lease.

G. Intangible Assets:

Intangible assets such as software are amortized over a period of 36 months or license period whichever is lower on a straight-line basis with zero residual value.

Assets individually costing Rs. 5,000 or less are fully depreciated in the year of purchase.

Assets purchased / sold during the year are depreciated on a pro-rata basis for the actual number of days the assets have been put to use.

H. Leases

Operating Lease

Leases, where the lessor effectively retains substantially all the risks and benefits of ownership of the leased term are classified as operating leases in accordance with Accounting Standard 19, Leases. The office premises are generally rented on cancellable terms or renewable at the option of both the parties.

I. Impairment

The carrying amounts of assets are reviewed at each balance sheet date if there is any indication of impairment based on internal / external factors. An impairment loss is recognized wherever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the asset's net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

After impairment, depreciation is provided on the revised carrying amount of the asset over its remaining useful life.

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J. Taxation

Tax expense comprises current and deferred tax. Current income tax is measured at the amount expected to be paid to the tax authorities in accordance with the Income Tax Act, 1961 enacted in India. Deferred income taxes reflects the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years.

Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. In situations where the Bank has unabsorbed depreciation or carry forward tax losses, all deferred tax assets are recognised only if there is virtual certainty supported by convincing evidence that they can be realised against future taxable profits.

The carrying amount of deferred tax assets are reviewed at each balance sheet date. The Bank writes-down the carrying amount of a deferred tax asset to the extent that it is no longer reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available against which deferred tax asset can be realised.

K. Earnings Per Share

Basic and diluted earnings per share are computed in accordance with Accounting Standard 20 – Earnings per share.

Basic earnings per share are calculated by dividing the net profit or loss for the period attributable to equity shareholders by the weighted average number of equity shares outstanding during the period.

Diluted earnings per equity share reflect the potential dilution that could occur if securities or other contracts to issue equity shares were exercised or converted to equity during the year. Diluted earnings per equity share are computed using the weighted average number of equity shares and potential dilutive equity shares outstanding during the period except where the results are anti-dilutive.

L. Provisions, contingent liabilities and contingent assets

In accordance with AS 29, Provision, Contingent liabilities and Contingent Assets, the provision is recognised when the Bank has a present obligation as a result of past event, where it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the Balance Sheet date. These are reviewed at each Balance Sheet date and adjusted to reflect the current best estimates.

A disclosure of contingent liability is made when there is:

- a possible obligation arising from a past event, the existence of which will be confirmed by occurrence or non-occurrence of one or more uncertain future events not within the control of the Bank; or
- a present obligation arising from a past event which is not recognised as it is not probable that an outflow of resources will be required to settle the obligation or a reliable estimate of the amount of the obligation cannot be made.

When there is a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

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M. Cash and cash equivalents

Cash and cash equivalents include cash in hand, balances with RBI, balances with other banks and money at call and short notice.

N. Borrowing cost

Borrowing cost includes arranger fees, processing fees, stamp duty on issuance of debenture certificates and other associated transaction cost related to borrowing from banks and other financial institutions.

In accordance with Accounting Standard 16, borrowing costs are recognised over the tenor of the borrowings.

O. Retirement and other employee benefits

(i) Defined Contribution Plans

Retirement benefits in the form of provident fund and employee state insurance scheme are defined contribution schemes and the contributions are charged to the Profit and Loss Account of

the year when the contributions to the respective funds are due. There are no other obligations other than the contribution payable to the respective funds.

(ii) Defined Benefit Plan

The Bank operates a defined benefit scheme for its employees, viz., gratuity scheme. The costs of providing benefits under this plan is determined on the basis of actuarial valuation at each year-end. Separate actuarial valuation is carried out for each plan using the projected unit credit method. In accordance with the gratuity fund's rules actuarial valuation of gratuity liabilities is calculated based on certain assumptions regarding rate of interest, salary growth, mortality and staff alteration as per projected unit credit method.

Gratuity liability is a defined benefit obligation and is provided for on the basis of an actuarial valuation on projected unit credit method made at the end of each financial year. Actuarial gains/losses are immediately taken to profit and loss account and are not deferred.

(iii) Provision for Leave availment is made in accordance with Accounting Standard 15 "Employee benefits".

P. Employee Stock Compensation Cost

Employees (including senior executives) of the Bank receive remuneration in the form of share based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions).

In accordance with the Guidance Note on Accounting for Employee Share-based Payments, issued by the Institute of Chartered Accountants of India, the cost of equity-settled transactions is measured using the fair value method and recognized, together with a corresponding increase in the "Employees Stock options outstanding account" in reserves. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Bank's best estimate of the number of equity instruments that will ultimately vest. The expense or credit recognized in the Profit and Loss Account for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and is recognized in employee benefits expense.

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SCHEDULE 18 - NOTES TO THE FINANCIAL STATEMENTS

1. Capital

1.1 Capital to Risk Weighted Assets Ratio (CRAR)

The following table sets forth, for the year indicated, computation of capital adequacy as per operating guidelines.

Particulars	As at March 31, 2017	As at March 31, 2016
Common equity tier I Capital ratio (%)	47.95%	N/A
Tier I capital ratio (%)	47.95%	18.42%
Tier 2 capital ratio (%)	5.67%	4.01%
Total capital ratio (CRAR) (%)	53.62%	22.43%
Amount of Tier 2 Capital raised through;		
Debt capital instruments	25	15

Subordinated debt (Tier II capital) outstanding as at March 31, 2017 is ₹ 60 crore (Previous year: ₹ 35 crores).

The Bank has applied 100% risk weight on advances charged as security against grandfathered borrowing on the date of conversion in to a small finance bank. The Bank has applied to RBI for approval of capital risk charge on advances secured against grandfathered borrowings.

1.2 Capital Infusion

During the year ended March 31, 2017, the Bank allotted 169,000 (Previous Year: 182,500) equity shares having face value of ₹ 10 each aggregating to ₹0.61 crores (Previous year: ₹ 0.34 crores) in respect of stock option exercised.

Pursuant to Shareholders' approvals, the Bank has issued 25,560,469 (Previous Year: 5,183,419) equity shares having face value of ₹ 10 each at various prices aggregating to ₹ 289.27 crores (Previous year: ₹ 32.67 crores)

Details of movement in the paid up equity share capital are as below:

Particular	March 31, 2017		March 31, 2016	
	Equity shares	Amount	Equity shares	Amount
Equity shares at the beginning of the year	38,335,221	38.34	32,969,302	32.97
Addition pursuant to stock option exercised	169,000	0.17	182,500	0.18
Addition pursuant to equity shares issued during the year	25,560,469	25.55	5,183,419	5.19
Equity shares outstanding at the end of the year	64,064,690	64.06	38,335,221	38.34

2. Earnings per equity share

Particulars	March 31, 2017	March 31, 2016
Net profit after tax after	15	27
Weighted average number of equity shares in computing the basic earnings per share	50,091,865	36,152,246

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Particulars	March 31, 2017	March 31, 2016
Basic earnings per share	3.01	7.59
Weighted average number of equity shares in computing the diluted earnings per share	51,990,235	36,486,554
Diluted earnings per share	2.90	7.52

Basic earnings per share is calculated by dividing the net profit or loss after tax for the year attributable to equity shareholders by the weighted average number of equity shares outstanding during the year.

Diluted earnings per equity share is computed by dividing the net profit or loss after tax for the year attributable to equity shareholder by weighted average number of equity shares including potential equity shares outstanding as at the end of the year, except when results are anti dilutive.

3. Reserves

Share premium account

Share issue expenses amounting to ₹ 2.49 crores (Previous year: ₹ 0.04 crores) are adjusted from share premium account in terms of section 52 (2) (c) of the Companies Act, 2013.

Drawdown of Reserves

During the year ended March 31, 2017; there were no drawdown from reserves (Previous year : Nil).

4. Employees Stock Option Scheme

The Bank has share- based payment schemes for it's employees. Schemes in operation during the year ended March 31, 2017 are Employee Stock Option Scheme 2014 and Employee Stock Option Scheme 2016.

During the year-ended March 31, 2017, the Bank has issued 15,10,000 options under the Employee Stock Option Scheme 2016.

The details of the Employee Stock Option Scheme are as under:

Particulars	Employee stock option scheme 2010	Employee stock option scheme 2014	Employee stock option scheme 2016
Grant Date	June 10, 2010	June 26, 2014	January 19, 2017
Number of Options granted	396,000	521,500	1,510,000
Method of Settlement	Equity	Equity	Equity
Vesting	40% after one year from the date of grant i.e. July 1, 2011	40% after one year from the date of grant i.e. July 1, 2015	40% after one year from the date of grant i.e. Jan 31, 2018
	30% after two years from the date of grant i.e. July 1, 2012	30% after two years from the date of grant i.e. July 1, 2016	30% after two years from the date of grant i.e. Jan 31, 2019
	Balance 30% after three years from the date of grant i.e. July 1, 2013	Balance 30% after three years from the date of grant i.e. July 1, 2017	Balance 30% after three years from the date of grant i.e. Jan 31, 2020

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Particulars	Employee stock option scheme 2010	Employee stock option scheme 2014	Employee stock option scheme 2016
Exercisable period	3 years from the vesting date	3 years from the Vesting date	3 years from the vesting date
Vesting Conditions	No vesting conditions has been prescribed	No vesting conditions has been prescribed	No vesting conditions has been prescribed
Exercise Price Per Option (Rs)	₹ 10/-	₹ 36/-	₹ 108/-

The following are the outstanding options as at year end:

Particulars	Employee stock option scheme 2010		Employee stock option scheme 2014		Employee stock option scheme 2016	
	As at March 31, 2017	As at March 31, 2016	As at March 31, 2017	As at March 31, 2016	As at March 31, 2017	As at March 31, 2016
Total Options granted and outstanding at the beginning of the year	-	165,300	445,700	521,500	-	-
Add: Options granted during the year	-	-	-	-	1,510,000	-
Less: Options forfeited / lapsed during the year	-	(600)	(100,750)	(58,000)	-	-
Less : Options exercised during the year	-	(164,700)	(169,000)	(17,800)	-	-
Options Outstanding as at end of the year	-	-	175,950	445,700	1,510,000	-
- Vested	-	-	109,200	167,600	-	-
- Yet to Vest	-	-	66,750	278,100	1,510,000	-

The value of options have been estimated on the date of the grant using Black-Scholes model.

The key assumptions used in Black Scholes model for calculating value of options as on the date of the grant are:

Variables	Employee stock option scheme 2010		
	Tranche 1	Tranche 2	Tranche 3
1. Risk Free Interest Rate	8.75%	8.75%	8.75%
2. Expected Life (in years)	2.56	3.56	4.56
3. Expected Volatility	0.4	0.38	0.42
4. Dividend Yield	0.00%	0.00%	0.00%
5. Fair value of the option on the grant date (Rs.)	7.56	8.24	9.12

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Employee stock option scheme 2014			
Variables	Tranche 1	Tranche 2	Tranche 3
1. Risk Free Interest Rate	8.65%	8.65%	8.65%
2. Expected Life (in years)	2.56	3.56	4.56
3. Expected Volatility	0.38	0.39	0.37
4. Dividend Yield	0.00%	0.00%	0.00%
5. Fair value of the option on the grant date (Rs.)	18.99	21.91	23.80

Employee stock option scheme 2016			
Variables	Tranche 1	Tranche 2	Tranche 3
1. Risk Free Interest Rate	5.50%	5.50%	5.50%
2. Expected Life (in years)	2.56	3.56	4.56
3. Expected Volatility	0.42	0.40	0.38
4. Dividend Yield	0.00%	0.00%	0.00%
5. Fair value of the option on the grant date (Rs.)	42.82	48.32	53.26

Effect of the share based payment plans on the Profit and Loss Account and on its financial position:

Particulars	For the year ended March 31, 2017	For the year ended March 31, 2016
Employee stock option expenditure [included in schedule 16 (I)]	0.55	0.34

Particulars	As at March 31, 2017	As at March 31, 2016
Employee stock options outstanding account [included in schedule 2 (V)]	0.97	0.76

The Expected life of the stock option is based on historical data and current expectation and is not necessarily indicative of the pattern that may occur.

The expected volatility reflects the assumption that the historical volatility of a comparable listed entity for 5 years period ended on the date of the grant is indication of future trends which may not necessarily be the actual outcome.

5. Investments

5.1 Particulars of Investments and movement in provision held towards depreciation on Investments

Particulars	March 31, 2017	March 31, 2016
(1) Value of Investments		
i) Gross value of investments		
- In India	594.04	0.12
- Outside India	-	-

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Particulars	March 31, 2017	March 31, 2016
(ii) Provisions for depreciation on investments		
- in India	0.11	-
- Outside India	-	-
(iii) Net value of investments		
- In India	593.93	0.12
- Outside India	-	-
2) Movement of provisions held towards depreciation on investments:		
i) Opening balance	-	-
ii) Add: Provision made during the year	0.11	-
iii) Less: Write-off /write back of excess provision during the year	-	-
iv) Closing balance	0.11	-

5.2 Repo/ Reverse Repo Transactions

During the year ended March 31, 2017, the Bank has not undertaken any Repo / Reverse Repo Transaction. Hence disclosure related to Repo/Reverse

Repo Transaction have not been provided.

5.3 Sale and Transfer to/from HTM Category

During the year ended March 31, 2017, there was no sale and transfer to/from HTM category.

5.4 Issuer-wise composition of non-SLR investments

Issuer	Amount	Extent of private placement [#]	Extent of "below investment grade" securities [#]	Extent of "unrated" securities [#]	Extent of "unlisted" securities ^{##}
1. Public sector undertakings	-	-	-	-	-
2. Financial institutions	49.18	-	-	-	-
3. Banks	84.40	-	-	-	-
4. Private corporate	-	-	-	-	-
5. Subsidiaries / Joint ventures	-	-	-	-	-
6. Others	-	-	-	-	-
7. Provision held towards depreciation	-	-	-	-	-
Total	133.58	-	-	-	-

[#] Amounts reported under these columns above are not mutually exclusive

* Excludes investments in commercial paper and certificate of deposits in line with extant RBI guidelines.

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5.5 Non performing Non-SLR investments

During the year ended March 31, 2017; there are no non performing Non - SLR investments.

6. Derivatives

During the year ended March 31, 2017; the Bank has not undertaken any derivative transaction and there is no outstanding position as at the year end.

Hence disclosure related to Forward Rate Agreement / Interest Rate Swap and Exchange Traded Interest Rate Derivatives are not provided.

7. Asset quality

7.1 Non Performing Assets

The following table sets forth, for the periods indicated, the details of movement of gross non-performing assets (NPAs), net NPAs and provisions

Particulars	March 31, 2017	March 31, 2016
(i) Net NPAs to Net Advances (%)	3.80%	0.04%
(ii) Movement of NPAs (Gross)		
(a) Opening balance	1.61	0.67
(b) Additions during the year	50.07	1.94
(c) Reductions during the year	0.43	1.00
(d) Closing balance	51.25	1.61
(iii) Movement of Net NPAs		
(a) Opening balance	0.25	0.17
(b) Additions during the year	37.58	0.48
(c) Reductions during the year	0.43	0.40
(d) Closing balance	37.40	0.25
(iv) Movement of provisions for NPAs (excluding provision on standard assets and floating provision)		
(a) Opening balance	1.36	0.51
(b) Provision made during the year	12.49	1.44
(c) Write of/ write back of excess provision	-	0.59
(d) Closing balance	13.85	1.36

7.2 Movement of Non Performing Assets

Particulars	March 31, 2017	March 31, 2016
Gross NPA's as on April 1 of particular year	1.61	0.67
Additions (fresh NPAs) during the year	50.07	1.94
Sub Total (A)	51.68	2.61

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Particulars	March 31, 2017	March 31, 2016
Less :-		
- Upgradation		
- Recoveries (excluding Recoveries made from upgraded accounts)	0.43	0.41
- Technical / Prudential write offs	-	0.59
- Write offs other than those under (iii) above	-	-
Sub Total (B)	0.43	1.00
Gross NPAs as on 31st March of the following year (A-B)	51.25	1.61
Opening balance of technical / prudential write-offs	0.59	-
Add : Technical / Prudential write-offs during the year	-	0.59
Sub - Total (A)	0.59	0.59
Recoveries made from previously technically / prudentially written off accounts during the year (B)	-	-
Closing balance (A-B)	0.59	0.59

7.3 Particulars of Accounts Restructured

The Bank has not restructured any accounts during the year ended March 31, 2017.

7.4 Details of Non Performing Financial Assets Purchased / Sold

The Bank has not purchased or sold any non performing financial assets during the year ended March 31, 2017.

7.5 Floating provision*

Particulars	March 31, 2017
Opening balance in the floating provision account	-
Floating provision made in the accounting year	6.26
Amount of drawdown made during the accounting year	-
Closing balance in the floating provision account	6.26

*Floating provision is included under "Provision and Contingencies"

8. Securitisation and related disclosures

8.1 Details of Sales

The Bank has sold certain standard assets to Securitisation company in accordance with the guidelines issued by RBI. Details of the assets sold are given in the table below:

Particular	March 31, 2017	March 31, 2016
(i) No. of accounts	36,144	22,509
(ii) Aggregate value (net of provision) of accounts sold to SC	48.61	18.39
(iii) Aggregate Consideration	46.18	19.42

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Particular	March 31, 2017	March 31, 2016
(iv) Additional Consideration realised in respect of account transferred in earlier years	-	-
(v) Aggregate gain / (loss) over net book value	4.55	1.03

8.2 Details of direct assignment transactions

Particular	March 31, 2017	March 31, 2016
(i) No. of accounts	179,976	49,189
(ii) Aggregate value (net of provision) of accounts sold to SC/RC	226.42	51.86
(iii) Aggregate Consideration	215.10	51.86
(iv) Aggregate gain / loss over net book Value	19.21	2.40

9. Exposure

9.1 Exposure to Real Estate Sector

Category	March 31, 2017
A) Direct exposure	
(i) Residential mortgages	2.04
(of which housing loans eligible for inclusion in priority sector advances)	2.04
(ii) Commercial real estate	-
(ii) Investments in mortgage backed securities (MBS) and other securitised	-
a) Residential	
b) Commercial real estate	
B) Indirect exposure	-
Fund based and non-fund based exposures on National Housing Bank and housing finance Company (HFCs).	-

9.2 Capital Market Exposure

As at March 31, 2017, the Bank does not have any Capital Market Exposure.

9.3 Risk Category wise Country Exposure

The Bank's exposures are concentrated in India, hence country risk exposure as at March 31, 2017 is 'Nil'.

9.4 Intra Group Exposure

The Bank does not have any group entities, hence intra group exposure as at March 31, 2017 is 'Nil'.

9.5 Unsecured Advances

Advances for which intangible collaterals such as rights, licenses, authority etc. are charged in favour of the Bank in respect of projects financed by the Bank, are reckoned as unsecured advances under Schedule 9 of the Balance Sheet in line with extant RBI guidelines. There are no such advances given during the year and outstanding as on March 31, 2017.

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9.6 Details of Single Borrower Limit (SBL), Group Borrower Limit (GBL) exceeded by the Bank

During the year ended March 31, 2017, the Bank's credit exposures to single borrowers and group borrowers were within the limits prescribed under extant RBI guidelines.

10. Concentration of Deposits, Advances, Exposure and NPA's

10.1 Concentration of deposits

Particulars	March 31, 2017
Total deposits of twenty largest depositors	15.15
Percentage of deposits of twenty largest depositors to total deposits of the Bank	68.65%

10.2 Concentration of advances

Particulars	March 31, 2017
Total advances to twenty largest borrowers	1.97
Percentage of advances of twenty largest borrowers to total advances of the Bank	0.24%

10.3 Concentration of exposure

Particulars	March 31, 2017
Total exposure to twenty largest borrowers / customers*	236.26
Percentage of exposure of twenty largest borrowers / customers to total exposure of the Bank on borrowers / customers	22.28%

*Represents credit and investment exposures as per RBI guidelines on exposure norms

10.4 Concentration of NPAs

Particulars	March 31, 2017
Total gross exposure to top four NPA accounts	0.04

11. Sector-wise advances

	March 31, 2017		
	Outstanding total gross advances	Gross NPAs	Percentage of gross NPAs to Total advances in that sector
A . Priority Sector			
1. Agriculture and allied activities	207.69	8.62	4.15%
2. Advances to industries sector eligible as priority sector lending	0.11	-	-
3. Services	622.05	42.57	6.84%
4. Personal loans	2.54	0.06	2.55%
Sub total (A)	832.39	51.25	6.16%

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	March 31, 2017		
	Outstanding total gross advances	Gross NPAs	Percentage of gross NPAs to Total advances in that sector
B. Non Priority Sector			
1. Agriculture and allied activities	-	-	-
2. Industry	-	-	-
3. Services	-	-	-
4. Personal Loans	1.11	0.00	0.14%
Sub total (B)	1.11	0.00	0.14%
Total (A+B)	833.50	51.25	6.15%

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12. Asset Liability Management (ALM)

Assets and liabilities are classified in the maturity buckets as per the guidelines issued by the RBI.

	Day - 1	2-7 Days	8-14 Days	15-30 Days	31 Days and upto 2 months	More than 2 months and upto 3 months	Over 3 Months and upto 6 months	Over 6 Months and upto 1 year	Over 1 Year and upto 3 years	Over 3 Years and upto 5 years	Over 5 years	Total
As at March 31, 2017												
Deposits	0.01	0.08	0.10	-	0.00	-	0.34	2.84	18.68	0.00	0.00	22.06
Advances	0.00	13.69	16.53	22.67	53.35	63.71	145.06	241.85	223.44	39.24	0.11	819.65
Investments	253.74	0.05	0.96	14.18	5.74	137.44	20.96	14.25	119.42	14.94	12.25	593.92
Borrowings	2.23	0.00	9.97	44.16	23.08	35.47	202.11	207.49	428.64	42.74	25.68	1,021.58
Foreign currency assets	-	-	-	-	-	-	-	-	-	-	-	-
Foreign currency liabilities	-	-	-	-	-	-	-	-	-	-	-	-

Classification of assets and liabilities under the different maturity buckets is based on the same estimates and assumptions as used by the Bank for compiling the return submitted to the RBI.

	Upto 1 Month	1 to 2 Month	2 to 3 Month	3 to 6 Month	6 Months to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
As at March 31, 2016									
Deposits	-	-	-	-	-	-	-	-	-
Advances	70.94	73.98	74.07	219.41	323.70	222.82	0.02	-	984.94
Investments	-	-	-	-	-	-	-	-	-
Borrowings	30.58	27.29	36.52	112.86	221.49	456.41	55.49	15.00	955.64
Foreign currency assets	0.40	-	-	-	-	-	-	-	0.40
Foreign currency liabilities	0.13	-	-	-	-	-	-	-	0.13

ALM as of March 31, 2017, is prepared in accordance with RBI ALM guidelines applicable to banks while ALM of March 31, 2016 is prepared in accordance with RBI guidelines applicable to NBFC - MFI. Hence ALM as of March 31, 2017 and March 31, 2016 are not comparable.

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13. Contingent liabilities

Contingent liabilities	March 31, 2017	March 31, 2016
The Bank is contingently liable to financial institutions with respect to securitisation of loans and advances to the extent of cash collateral deposits and credit enhancements	5.82	5.27
Service tax liability	0.49	0.47
Income tax liability	2.46	-
Guarantee given for Business Correspondent Model	-	1.00

14. Provision on Standard Assets

Particulars	March 31, 2017	March 31, 2016
Provision towards standard assets	1.98	9.83

The Bank has reversed excess standard assets provision of ₹ 7.85 crore applying standard asset provisioning percentage as per RBI guidelines applicable to a banking company. Before conversion into a small finance bank, standard assets provision was created as per RBI guidelines applicable to NBFC - MFI.

15. Break up of 'Provisions and Contingencies' shown under the head 'Expenditure' in Profit and Loss Account

The following table sets forth, for the periods indicated, the break-up of provisions and contingencies included in Profit and Loss Account:

Particulars	March 31, 2017	March 31, 2016
Provision for depreciation on Investment	0.11	-
Provision towards NPA	13.85	-
Provision towards Income tax	12.51	16.27
Deferred Tax Benefit	(3.76)	(1.90)
Provision for Standard Assets	(7.85)	4.52
Other provision and contingencies*	7.84	-

*Includes floating provision of ₹ 6.26 crore and provision towards securitisation transaction of ₹ 1.58 crore.

16. Business ratio

Particulars	March 31, 2017
Interest income as a percentage to working funds ¹	19.63%
Non-interest income as a percentage to working funds ¹	0.09%
Operating profit ² as a percentage to working funds	2.93%
Return on assets (average)	1.17%
Business ³ (deposit plus Net advances) per employee ⁴ (₹ in crore)	0.43
Profit per employee ⁴ (crore)	0.01
Provision coverage ratio (including floating provision)	39.24%

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1. Working funds is the monthly average of total assets during the year.
2. Operating profit is net profit for the year before provisions and contingencies.
3. "Business" is the total of net advances and deposits (net of inter-bank deposits).
4. Productivity ratios are based on average employee number.

17. Employee benefits

Employment benefits - Gratuity

The Bank has non-contributory defined benefit arrangement providing gratuity benefits expressed in terms of final monthly salary and years of service. Every employee who has completed five years or more of service gets a gratuity on cessation of employment at 15 days salary (last drawn basic salary) for each completed year of service, subject to a maximum of ₹ 10 lacs. The scheme is funded with LIC of India and HDFC Standard Life Insurance Company Ltd. The following tables summarise the components of net benefit expense recognised in the Profit and Loss Account and the funded status and amounts recognised in the Balance Sheet.

Expenses recognised in the Profit and Loss Account

	March 31, 2017	March 31, 2016
Current service cost	0.65	0.46
Interest cost on benefit obligation	0.10	0.07
Expected return on plan assets*	(0.08)	(0.04)
Net actuarial loss recognized in the year	0.03	0.06
Employer Expenses	0.70	0.55

* Represents expected returns determined by the actuary

Net Liability/ (Asset) recognised in the Balance Sheet

	March 31, 2017	March 31, 2016
Present value of Defined Benefit Obligation	2.07	1.40
Fair value of plan assets	1.08	1.11
Net liability recognized in balance sheet	0.99	0.29
Less: Unrecognised Past Service Cost	-	-
Liability recognized in balance sheet	0.99	0.29

Reconciliation of Defined Benefit Obligation (DBO)

	March 31, 2017	March 31, 2016
Present Value of DBO at start of year	1.40	0.88
Interest cost	0.10	0.07
Current service cost	0.64	0.46
Benefits paid	(0.13)	(0.04)
Actuarial loss/(gain)	0.05	0.03
Present Value of DBO at end of year	2.07	1.40

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Reconciliation of Fair Value of Plan Assets

	March 31, 2017	March 31, 2016
Fair Value of Plan Assets at start of year	1.11	0.47
Expected return on plan assets	0.08	0.04
Contributions by employer	-	0.66
Benefits paid	(0.13)	(0.04)
Actuarial gain /(loss)	0.01	(0.02)
Fair value of plan assets at end of year	1.08	1.11
Estimated employer contributions for the next year	0.50	0.20
Actual return on plan assets	0.09	0.01

The principal assumptions used in determining gratuity obligations for the Bank's plan are shown below:

	March 31, 2017	March 31, 2016
Discount rate	6.50%	7.30%
Expected rate of return on assets	7.30%	7.80%
Employee turnover	25.00%	25.00%
Salary growth rate	7.50%	7.50%
Mortality Rate	IALM 2006-08ULT.	IALM 2006-08ULT.
Expected average remaining working lives of employees	3 Years	3 Years

Percentage break-down of total plan assets

	March 31, 2017	March 31, 2016
Insurer Managed Funds (non unit-linked)	65.60%	70.20%
Insurer Managed Funds (unit-linked)	34.40%	29.80%
Total	100.00%	100.00%

Planned Asset Break up for Unit Linked Fund

Debentures and Bonds	59.84%	40.65%
Government Securities	33.58%	50.79%
Deposits, Money market instruments and net current assets	6.58%	8.56%
Total	100.00%	100.00%

Planned Asset Break up for Non Linked Fund

Government Securities	27.81%	39.18%
Corporate Bonds	57.41%	43.88%
Cash and Deposit	14.78%	16.94%
Total	100.00%	100.00%

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Experience Adjustments

Experience Adjustments	March 31, 2017	March 31, 2016	March 31, 2015	March 31, 2014
Present Value of DBO	2.07	1.40	0.88	0.45
Fair Valuation of Plan Assets	1.08	1.11	0.47	0.36
Funded Status [Surplus/(Deficit)]	(0.99)	(0.29)	(0.41)	(0.09)
Experience adjustment on plan liabilities: (Gain) / Loss	(0.02)	-	0.08	0.04
Experience adjustment on plan Assets: Gain / (Loss)	0.01	(0.03)	(0.02)	-

Employment benefits - Leave Availment

The actuarial liability in respect of privilege leave granted to employees of the Bank and outstanding as at March 31, 2017 is ₹ 0.29 crores (Previous year: Nil).

Assumption used:

Discount rate: 6.5%

Salary escalation rate: 7.5

18. Disclosure on Remuneration

A) Qualitative Disclosures

(a) Information relating to the bodies that oversee remuneration.

Name, composition and mandate of the main body overseeing remuneration

The Nomination and Remuneration Committee (NRC) of the Board is the main body overseeing remuneration. As on March 31, 2017, the NRC had three members of which two are Independent Directors. The functions of the Committee include recommendation of appointments of Directors to the Board, evaluation of the performance of the Managing Director & CEO, framing of guidelines for the Employees Stock Option Scheme.

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

Not Applicable

Scope of the Bank's remuneration policy (e.g.. by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches

The Compensation Policy of the Bank, approved by the Board on January 23, 2017, pursuant to the guidelines issued by RBI, to cover all employees of the Bank.

Type of employees covered and number of such employees

All permanent employees of the Bank are covered. The total number of permanent employees of the Bank at March 31, 2017 was 2,169.

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

Key features and objectives of remuneration policy: The Bank has, under the guidance of the Board and the NRC, followed remuneration practices intended to drive meritocracy and performance based on a prudent risk

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management framework.

Effective governance of compensation: The NRC has oversight over compensation to senior management personnel and also provides overall guidance to the compensation paid to other employees.

Alignment of compensation philosophy with prudent risk taking: While the Bank seeks to achieve a mix of fixed and variable remuneration that is prudent, it currently has predominantly a fixed remuneration structure with no guaranteed bonuses. Also, the remuneration of employees in financial and risk control functions is not linked to business outcomes and solely depends on their performance. The Bank seeks to align remuneration with financial and non-financial performance indicators. Further, the Bank has an Employee Stock Option Scheme for eligible employees aimed at aligning compensation to long term performance through stock options that vest over a period of time.

Whether the remuneration committee reviewed the firm's remuneration policy during the past year, and if so, an overview of any changes that were made: The Board/NRC has been appraised of the Bank's remuneration practices.

Discussion of how the Bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee: The remuneration of employees in control functions such as Risk and Compliance depends solely on their performance and is not linked to any business outcomes.

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

Overview of the key risks that the Bank takes into account when implementing remuneration measures: The Board approves the overall risk management policy including risk framework, limits, etc. The Bank conducts all its business activities within this framework. The NRC while assessing the performance of the Bank and senior management, shall consider adherence to the policies and accordingly make its recommendations to the Board.

Overview of the nature and type of key measures used to take account of these risks, including risk difficult to measure: The evaluation process shall incorporate both qualitative and quantitative aspects including asset quality, provisioning, increase in stable funding sources, refinement/improvement of the risk management framework, effective management of stakeholder relationships and mentoring key members of the top and senior management.

Discussion of the ways in which these measures affect remuneration: In order to ensure alignment of remuneration with prudent practices, the NRC takes into account adherence to the risk framework in addition to business performance.

Discussion of 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: Not applicable

d) Description of the ways in which the Bank seeks to link performance during a performance measurement period with levels of remuneration

Overview of main performance metrics for the Bank, top level business lines and individuals: The main performance metrics include profitability, business growth, asset quality, compliance, and customer service.

Discussion of how amounts of individual remuneration are linked to the Bank-wide and individual performance: The assessment of employees shall be based on their performance with respect to their result areas and shall include the metrics mentioned above.

Discussion of the measures the Bank will in general implement to adjust remuneration in the event that performance metrics are weak, including the Bank's criteria for determining 'weak' performance metrics: In case

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such an event should occur, the Board/NRC shall review and provide overall guidance on the corrective measures to be taken.

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

Discussion of the 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, a description of the factors that determine the fraction and their relative importance: Not Applicable.

Discussion of the Bank's policy and criteria for adjusting deferred remuneration before vesting and (if permitted by national law) after vesting through claw back arrangements: Not Applicable.

f) Description of the different forms of variable remuneration that the Bank utilises and the rationale for using these different forms

Overview of the forms of variable remuneration offered. A discussion of 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, a description of the factors that determine the mix and their relative importance: Not Applicable.

B) Quantitative Disclosure

Sr. No	Subject	March 31, 2017
(a)	Number of meetings held by the NRC during the financial year and remuneration paid to its members	Number of meetings: 5 Remuneration paid: ₹ 0.03 crores
(b) (i)	Number of employees having received a variable remuneration award during the financial year.	1 employee
(b) (ii)	Number and total amount of sign on awards made during the financial year	None
(b) (iii)	Details of guaranteed bonus, if any, paid as joining /sign on bonus	None
(b) (iv)	Details of severance pay, in addition to accrued benefits, if any	None
(c) (i)	Total amount of outstanding deferred remuneration, split into cash, shares and share linked instruments and other forms	None
(c) (ii)	Total amount of deferred remuneration paid out in the financial year	None
(d) (i)	Breakdown of amount of remuneration awards for the financial year to show fixed and variable, deferred and non deferred.	Fixed Pay*: ₹ 0.90 crores Variable pay: ₹ 0.16 crores
(e) (i)	Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and / or implicit adjustments.	None
(e) (ii)	Total amount of reductions during the financial year due to ex post explicit adjustments.	None
(e) (iii)	Total amount of reductions during the financial year due to ex post implicit adjustments	None

* Fixed pay includes basic salary, contribution to provident fund and reimbursements

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19. Segment Reporting

Business segments have been identified and reported taking into account, the customer profile, the nature of products and services, the differing risks and returns, the organisation structure and the guidelines prescribed by RBI. The Bank operates in the following segments:

a) Treasury

The treasury segment primarily consists of entire investment portfolio of the Bank.

b) Retail banking

The retail banking segment serves retail customers through a branch network. Exposures are classified under retail banking taking into account the status of the borrower (orientation criterion), the nature of product, granularity of the exposure and the quantum thereof.

Revenues of the retail banking segment are primarily derived from interest and fees earned on retail loans, interest on deposits placed as collateral with banks and financial institutions. Expenses of this segment primarily comprise interest expense on borrowings, deposits, infrastructure and premises expenses for operating the branch network, personnel costs and other direct overheads.

c) Wholesale banking

Wholesale banking includes all advances to companies and statutory bodies, which are not included under Retail banking.

d) Other Banking Operation

Other Banking includes other items not attributable to any particular business segment.

e) Unallocated

All items which are reckoned at an enterprise level are classified under this segment. This includes other unallocable assets and liabilities such as deferred tax etc.

Geographical segments

The business operations of the Bank are concentrated in India hence the Bank is considered to operate only in domestic segment.

Particulars [#]	Treasury*	Retail banking	Other banking operations	Total
Segment Revenue	7.30	247.39	0.11	254.80
Segment Result	6.12	18.77	0.11	25.00
Unallocated expenses				(1.15)
Operating Profit				23.85
Income taxes				(8.75)
Extraordinary profit/loss				-
Net Profit				15.10
Other information:				
Segment assets	628.98	963.63	-	1,592.61

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Particulars [#]	Treasury*	Retail banking	Other banking operations	Total
Unallocated assets				11.60
Total assets				1,604.21
Segment Liabilities	-	1,103.16	0.15	1,103.31
Unallocated liabilities				0.33
Total liabilities				1,103.64
Capital employed				500.57
Capital expenditure				5.58
Depreciation				2.15

[#]The Bank does not have any operations under wholesale banking during the year. Accordingly wholesale banking segment is not disclosed in table above.

*Segment revenue and result for "treasury "segment includes income from investments from January 23, 2017 to March 31, 2017 without any allocation for inter segment revenue and expenses. During the period from January 23, 2017 to March 31, 2017, treasury segment was primarily engaged in managing liquidity for the Bank hence inter segment revenue and expense allocation was not made.

Until previous year, the Company operated in a single reportable segment of 'Micro Credit' in accordance with Accounting Standard 17 - Segment Reporting.

20. Liquidity Coverage Ratio

Quantitative information on Liquidity coverage ratio (LCR) is given below:

Particulars	Quarter ended March 31, 2017	
	Total unweighted value (average)*	Total weighted value (average)*
1 Total High Quality Liquid Assets (HQLA)		375.89
Cash Outflows		
2 Retail deposits and deposits from small business customers, of which:	7.94	0.79
(i) Stable deposits	-	-
(ii) Less stable deposits	7.94	0.79
3 Unsecured wholesale funding, of which:	1.50	0.96
(i) Operational deposits (all counterparties)	-	-
(ii) Non-operational deposits (all counterparties)	0.59	0.06
(iii) Unsecured debt	0.91	0.90
4 Secured wholesale funding		58.53
5 Additional requirements, of which	42.05	42.05
(i) Outflows related to derivative exposures and other collateral requirement	42.05	42.05

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Particulars	Quarter ended March 31, 2017	
	Total unweighted value (average)*	Total weighted value (average)*
(ii) Outflows related to loss of funding on debt products	-	-
(iii) Credit and liquidity facilities	-	-
6 Other contractual funding obligation	35.13	35.13
7 Other contingent funding obligations	-	-
8 Total cash outflows	-	137.47
Cash Inflows		
9 Secured lending (e.g. reverse repo)	-	-
10 Inflows from fully performing exposures	69.71	34.85
11 Other cash inflows	114.68	114.35
12 Total cash inflows	184.39	149.20
21 Total HQLA	-	375.89
22 Total Net Cash Outflows	-	34.37
23 Liquidity Coverage Ratio (%)	-	1093.72%

*The weighted value and unweighted value are calculated by monthly simple average of February 2017 and March 2017

The objective of LCR is to ensure that the Bank maintains an adequate stock of unencumbered HQLA that can be converted into cash to meet its liquidity needs for a 30 calendar day under a significant severe liquidity stress scenario. At a minimum, the stock of liquid assets should enable the Bank to survive until day 30 of the stress scenario, by which time it is assumed that appropriate corrective actions can be taken.

The LCR is calculated by dividing the amount of High Quality Liquid unencumbered Assets (HQLA) by the estimated net cash outflows over a stressed 30 calendar day period as per RBI Guidelines. Minimum LCR requirement for small finance banks is 60% up to 31 December 2017 and reaching the minimum requirement of 100% by 1 January 2021.

HQLA comprises of cash in hand, excess CRR, excess SLR securities, maximum liquidity facility allowed by RBI under marginal standing facility (MSF) and Facility to Avail Liquidity for Liquidity Coverage Ratio (FALLCR). HQLA comprise of Government securities primarily on account of excess liquidity from grandfathered borrowings invested into Central and State Government securities.

The net cash outflows are calculated by applying RBI prescribed outflow factors to the various categories of liabilities (deposits, borrowings), as well as to undrawn commitments and other miscellaneous liabilities, partially offset by inflows from assets maturing within 30 days.

Reason for LCR in excess of minimum regulatory requirement are as follows:

1. Excess liquidity arising from borrowings done prior to conversion into a small finance bank invested into level 1 securities - Central and State Government securities.
2. Lower cash outflow due to higher concentration of fixed tenor borrowings and low stable deposit base during the year.

The major sources of funding is borrowings from banks, NBFCs, financial institutions and other agencies in the form of term

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loan, non-convertible debentures, subordinate debts, commercial paper and refinance from Financial Institution.

The disclosure is only provided for the last quarter of the year ended March 31, 2017 given the conversion into a small finance bank in the last quarter.

21. Deferred Tax Assets

As at March 31, 2017, the Bank has recorded net deferred tax asset of ₹ 8.05 crore (Previous year: ₹ 4.29 crore), included in other assets.

The composition of Deferred Tax Assets (DTA) is as under:

	March 31, 2017	March 31, 2016
Loan loss provision	7.16	3.40
Employee benefits	0.44	-
Others	-	0.53
Depreciation	0.45	0.36
Deferred tax asset	8.05	4.29

22. Unhedged Foreign currency Exposure

The Bank doesn't have any unhedged foreign currency exposure as at March 31, 2017.

23. Leases

Operating lease primarily comprises of office premises and vehicle; which are renewable at the option of the Bank. The following table sets forth the details of future rentals payable on operating leases :

Particulars	March 31, 2017	March 31, 2016
Not less than one year	0.73	0.07
Later than one year but not later than five years	2.67	0.08
Later than five years	-	-

The terms of renewal and escalation clauses are those normally prevalent in similar agreements. There are no undue restrictions or onerous clauses in the agreement.

24. Customer Complaints

Particulars	March 31, 2017	March 31, 2016
(a) No. of complaints pending at the beginning of the year	-	-
(b) No. of complaints received during the year	49	18
(c) No. of complaints redressed during the year	49	18
(d) No. of complaints pending at the end of the year	-	-

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25. Related party disclosure

Name of related parties

Key Management Personnel: Mr. R. Baskar Babu, Managing Director [MD] and Chief Executive Officer [CEO]

Relatives of Key Management Personnel: Mrs. Shilpa Baskar Babu (Wife of Mr. R. Baskar Babu)

Particulars	Enterprises having significant influence over the Company		Subsidiaries / Associates		Key management personnel		Total	
	March 31, 2017	March 31, 2016	March 31, 2017	March 31, 2016	March 31, 2017	March 31, 2016	March 31, 2017	March 31, 2016
Issue of equity shares					0.10	1.00	0.10	1.00
Mr. R. Baskar Babu, MD and CEO	-	-	-	-	0.10	1.00	0.10	1.00
Loan to Directors	-	-	-	-	-	-	-	-
Remuneration	-	-	-	-	1.06	0.78	1.06	0.78
Mr. R. Baskar Babu, MD and CEO	-	-	-	-	1.06	0.78	1.06	0.78
Others								
Deposits/Savings Account - Mr. R. Baskar Babu & Family	-	-	-	-	0.15	-	0.15	-
Interest expensed	-	-	-	-	0.00	-	0.00	-
Interest paid on Deposits/Savings Account	-	-	-	-	0.00	-	0.00	-

26. Corporate Social Responsibility (CSR)

a) Gross amount required to be spent by the company during the year ended March 31, 2017 is ₹ 0.53 crore (previous year ₹ 0.28 crore) under section 135 of the Companies Act, 2013

b) Amount spent during the year on:

Particulars	In Cash	Yet to be paid in cash	Total
i) Construction /acquisition of asset	-	-	-
ii) On purpose other than (i) above	0.86	-	0.86
Total	0.86	-	0.86

Amount spent during the previous year on:

Particulars	In Cash	Yet to be paid in cash	Total
i) Construction /acquisition of asset	-	-	-
ii) On purpose other than (i) above	0.64	-	0.64
Total	0.64	-	0.64

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(All amounts are in Indian Rupees in crore unless otherwise stated)

Particulars	Included in expenses head	March 31, 2017	March 31, 2016
c) Break-up of amount spent on CSR activities			
Cost of employees engaged for social activities	Payments to and provisions for employees (Schedule 16 - I)	0.85	0.57
Other social initiative expenditure	Other expenditure (Schedule 16 - IV)	0.01	0.07
Total		0.86	0.64

27. Off balance sheet SPV

There are no off balance sheet SPVs sponsored by the Bank, which needs to consolidated as per accounting norms.

28. Small and micro industries

Under the Micro, Small and Medium Enterprises Development Act, 2006 which came into force from October 2, 2006, certain disclosures are required to be made relating to Micro, Small and Medium enterprises. There have been no reported cases of delays in payments to micro and small enterprises or of interest payments due to delays in such payments.

29. Depositor Education and Awareness Fund

During the year end March 31, 2017, no amount has been transferred to Depositor Education and Awareness Fund.

30. Para banking Activities

During the year ended March 31, 2017, the Bank has not undertaken any Para banking activities.

31. Overseas Assets, NPAs and Revenue

The Bank does not hold any overseas assets / NPA as at March 31, 2017 and no overseas operations were undertaken during the year ended March 31, 2017 hence revenue from overseas operation in 'nil'.

32. Fraud cases reported

During the year ended March 31, 2017, the Bank has reported two case of fraud amounting to 0.29 crores (Previous year: 0.07 crores) against which the Bank has made a provision of 0.16 crores (Previous year : Nil), adjusted for recovery.

33. Disclosure on specified bank notes (SBNs)

The Bank believes that the MCA notification G.S.R. 308(E) dated March 30, 2017 regarding holdings as well as dealings in Specified Bank Notes during the period from 8th November, 2016 to 30th December, 2016 is not applicable to banking companies.

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Schedules to the Financial Statements for the year ended March 31, 2017

(All amounts are in Indian Rupees in crore unless otherwise stated)

34. Penalties levied by the RBI

During the year ended March 31, 2017, no penalty was imposed by RBI on the Bank.

35. Letter of Comfort

The Bank has not issued letter of comfort during the year ended March 31, 2017.

As per our report of even date

For **B S R & Associates LLP**

Chartered Accountants

Firm's Registration No: 116231W/W-100024

Ashwin Suvarna

Partner

Membership No: 109503

Place: Mumbai

Date: May 25, 2017

For and on behalf of the Board of Directors

R. Baskar Babu

Managing Director and

Chief Executive Officer

Geeta Krishnan

Company Secretary

Place: Mumbai

Date: May 25, 2017

Sheela Bhide

Chairperson

Bhavin Damania

Chief Financial Officer

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**THE
FUTURE
OF THE
FUTURE
IS IN THE
PRESENT**

**BASEL PILLAR 3
DISCLOSURES**



Pillar III Disclosures as of March 31, 2017

I. Scope of Application

The framework of disclosures applies to Suryoday Small Finance Bank Limited (hereinafter referred to as the Bank) which launched Banking Operations on January 23, 2017. Disclosures are made as a standalone entity since the Bank does not have any subsidiary.

II. Capital Structure

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

Equity Capital:

The Bank has authorized share capital of Rs. 750.00 million, comprising of 75,000,000 equity shares of Rs. 10 each. As on March 31, 2017, the Bank has subscribed and paid up capital of Rs. 640.65 million comprising of fully paid up 64,064,690 shares of Rs. 10 each. During the year 2016-17, the Bank raised equity capital by around Rs. 257.30 million by way of private placement, right issue as well as preferential allotment. The Bank also allotted equity shares against vested and exercised options to employees under the Employee Stock Option Plan (ESOP).

Capital Funds:

		(Rs. In million)
Sr. No	Particulars	31.03.2017
(a)	Tier I Capital	
	- Paid up Capital	641
	- Reserves	
	Statutory Reserve	151
	Employee Stock Option Outstanding account	10
	Share Premium	3,648
	- General Reserve	0
	- Balance in Profit	556
	- Less: Intangible & Deferred Tax Assets	(159)
	Total Tier I Capital	4,847
(b)	The total amount of Tier II capital (net of deductions from Tier II capital)	
	General Provision	82
(c)	Subordinated debt eligible for inclusion in Tier II capital	
	- Total amount outstanding	600
	- Of which amount raised during the current year	250
	- Amount eligible to be reckoned as capital funds	490
(d)	Other deductions from capital, if any	0
(e)	Total Eligible Capital	5,419

III. Capital Adequacy

Capital management:

Objective

The Bank actively manages its capital to meet regulatory norms and current and future business needs considering the requirement as per the business plan, risks in its businesses, and the available options of raising capital.

Organisational set-up

The capital management framework of the Bank is administered by the Finance department and Risk Management Department under the supervision of the Board and Risk Management Committee of Board (RMCB).

Regulatory capital

The Bank is subjected to Capital Adequacy guidelines stipulated by Reserve Bank of India (RBI). In line with RBI guidelines under Basel II, the Bank has adopted Standardized Approach for Credit Risk, Standardized Duration Approach for Market Risk and Basic Indicator Approach for Operational Risk while computing its Capital Adequacy Ratio (CAR).

As per operating guidelines for Small Finance Bank, the Bank is required to maintain a minimum CAR of 15% with minimum Common Equity Tier I (CET I) CAR of 6%.

As on March 31, 2017, total CAR of the Bank stood at 53.62%, well above regulatory minimum requirement of 15%. Tier I ratio of the Bank stood at 47.95% well above regulatory requirement of 6%.

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

The Bank has a policy on Internal Capital Adequacy Assessment Process (ICAAP) which is approved by the Board of Directors (Board). Under ICAAP, the Bank determines whether it has adequate level of capital to meet regulatory norms, current and future business needs, including stress scenarios. ICAAP evaluates and documents all risks and substantiates appropriate capital allocation for not only risks identified under Pillar 1 (i.e. Credit, Market and Operational Risk) but for the ones identified under Pillar 2 as well.

ICAAP enables the Bank to ensure the adequacy of capital to take care of the future business growth and various other risks that the Bank is exposed to, so that the minimum capital required is maintained on a continuous basis and also at the times of changing economic conditions / economic recession. The Bank takes into account both quantifiable and non-quantifiable risks while assessing capital requirements. The Bank considers the following risks as material and has considered these while assessing its capital requirements:

- Credit Risk
- Market Risk
- Operational Risk
- Interest Rate Risk in banking Book
- Liquidity Risk
- Credit Concentration Risk
- Business Risk
- Strategic Risk
- Compliance Risk
- Reputation Risk

Monitoring

The Board of Directors of the Bank reviews capital adequacy position of the Bank on a quarterly basis.

Capital requirements for various risks

A summary of Bank's capital requirement for credit, market and operational risk along with CAR as on March 31, 2017 is presented below:

		(Rs. In Million)
SN	Particulars	31.03.2017
(a)	Capital requirements for Credit risk:	
	- Portfolios subject to standardized approach	1,284
	- Securitization exposures	5
(b)	Capital requirements for Market risk:	
	Standardized duration approach	
	- Interest rate risk	53
	- Foreign exchange risk (including gold)	-
	- Equity risk	-
(C)	Capital requirements for Operational risk:	
	- Basic indicator approach	187
(d)	Capital Adequacy Ratios	
	- Total Capital Adequacy Ratio (%)	53.62%
	- Tier -1 Capital Adequacy Ratio (%)	47.95%
	- Common Equity Tier - 1 Capital Adequacy Ratio (%)	47.95%

IV. Credit Risk: General Disclosures

Policy and Strategy for Credit Risk Management

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

The Bank has put in place Credit Policy, Collection and Recovery policy, Income Recognition and Asset Classification (IRAC) Policy, Investment Policy and Risk Management Policy duly approved by the Board whereby credit risk can be identified, quantified and managed within the framework that is considered consistent with the scale, size of business and risk appetite of the Bank. These policies prescribe various methods for credit risk identification, measurement, grading, monitoring, reporting, risk control/mitigation techniques and management of problem loans/ credit.

Organizational Structure for Credit Risk Management function

The organizational structure of the Bank for Credit Risk Management function has the Board of Directors at the apex level that maintains overall oversight on the management of risks. The Risk Management Committee of Board (RMCB) assists the Board in relation to the oversight and review of the Bank's risk management principles and policies, strategies, appetite, processes and controls which includes credit risk. RMCB approves/ recommend the Bank's credit policies, prudential exposure limits, business segments, credit assessment and approval system, margin and collateral management, credit documentation, credit pricing framework, credit administration and monitoring system, non-performing assets management policy, credit risk management system etc.

At operational level, Risk Management Committee of the Executives is responsible for overseeing implementation of credit and operational risk management framework across the Bank. The committee reviews status of portfolio management, loan review mechanism, risk monitoring and evaluation, regulatory/legal compliance, adequacy of provision, risk concentrations, industry reviews and suggest corrective measures.

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

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

Credit risk measurement, mitigation, monitoring & reporting systems

1. Credit Origination and Appraisal System:

There are separate Credit Origination and Appraisal Processes for Joint Liability Group (JLG) and Retail segments. Within the Retail segment, the Bank has adopted underwriting standards for different client segments that is based, inter alia, on ticket size, availability of security and other risk parameters. The credit sanctions are provided by experienced credit professionals with delegated approval authorities as per Bank's Board approved credit policy, based on detailed appraisal memorandum that takes into account business and financial risks of the proposal. The JLG segment, on the other hand, relies largely on standardized product programs for credit risk assessment and approvals.

2. Credit Score Framework:

The Bank is under process of developing credit scorecards for the assessment of loan applications on a pilot basis for a period of 6-12 months; thereafter, with reviews and updates of the scorecards, the Bank will define the usage of scorecard outputs for credit appraisal.

3. Credit Documentation:

Collateral / security documents are finalized and registered in consultation with the legal and compliance department. The RM/RO and Credit Operation are jointly responsible for ensuring that proper documentation is obtained as per the check list provided by credit and legal department. The Credit Operation team is responsible for the safe custody of all documentation. Documents from various branches are sent within 15 days of the sanction of the facility.

4. Delegation of powers:

The Bank has adopted 'Four Eyes' principle for credit approval which reduces risk from errors and ensure compliance. The principle dictates that generally at least two people must create, examine and approve any credit proposal. The Bank has also adopted Committee Approach for sanctioning high value credit proposals.

5. Review / Monitoring / Supervision:

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

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

Effective and on-going follow-up and supervision of borrower accounts are the important component in the Bank's credit monitoring process. It is critical and important to strengthen the credit monitoring mechanism and the Bank strives to graduate to stringent/leading practices in monitoring on an on-going basis. The Bank accord special emphasis on credit monitoring at all times.

6. Security monitoring:

The value of the collateral shall be reassessed at periodic intervals. Collateral valuations shall be updated at a frequency appropriate to the value and nature of the collateral and the ease and costs of valuation.

7. Monitoring Standards – Portfolio level:

The Bank is performing portfolio monitoring on a monthly basis with specific focus on the following key aspects

1. Portfolio origination performance – Number of applications, approval/rejection rate, Priority Sector Lending (PSL) compliant loans, etc.
2. Portfolio asset quality – Delinquencies in various buckets: 1+ days, 30+ days, 60+ days, 90+ days, NPAs, Write-offs, Recoveries, Non-starters and early delinquencies (30+ in less than 6 months or 60+ in less than 12 months, etc.)
3. Portfolio concentration limits – Concentration across tenor, collateral type, single borrower, group borrower level, geography, product, etc.

The Credit risk unit is responsible for conducting portfolio level monitoring and publishing relevant MIS reports.

8. Periodic Quality & Control Reviews:

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

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

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

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

9. Recovery Policy:

- The Bank has a Recovery and collection policy. This policy is formulated within the framework of various regulatory requirements and was approved by Board of Directors on 23rd Jan 2017.
- The recovery process is required to be started as soon as a borrower account shows symptoms of weakness / default and the Bank does not wait till the borrower account is classified as NPA.
- The Bank is documenting the efforts made for the recovery of dues and the copies of communication sent to customers, if any, shall be kept on record.
- The repayment record of borrowers shall be monitored both with regard to payment of interest and repayment of principal. The mode of recovery shall be decided after conducting a root cause analysis of the reason for default.
- Whenever a borrower defaults or is likely to default, rigorous follow-up shall be made for the collection of dues / arrears. When default occurs, oral and written communications shall be sent to the borrower to regularise their accounts within a specified period.
- In case the loan is secured by a guarantee (personal or corporate), steps shall be taken to recover dues from the guarantor.
- Suryoday shall use any of the following broad methods for management of problem accounts:
 - Restructuring, rephasing and rehabilitation

- Exit strategy
- Settlements / compromise
- Sell down Asset Reconstruction Company (ARC) / other entities
- Invocation of SARFAESI
- Legal Action & recovery

Non-performing Assets (NPA)

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

- Interest and/or instalment of principal remain overdue for a period of more than 90 days in respect of a Term Loan,
- The account remains 'out of order', in respect of an Overdraft/Cash Credit (OD/CC),
- The amount of liquidity facility remains outstanding for more than 90 days, in respect of a Securitisation transaction undertaken in terms of the RBI guidelines on securitisation dated February 1, 2006.
- Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.
- An account may also be classified as NPA if the interest charged during any quarter is not serviced fully within 90 days from the date of debit / due date.

Quantitative Disclosures

a) Total gross credit risk exposures*, Fund based and Non -fund** based separately:

	(Rs. In Million)
Category	31.03.2017
Fund Based	
Gross Advances	8,197
Investment [#]	-
All other Assets	1,747
Non - Fund Based	87
Total	10,031

*Represents book value as on 31st March

** Credit Equivalent Amount

Investment includes Government Securities – Rs. 4,125 Million, State Government Securities – Rs. 478 Million, Certificate of Deposits and Commercial Papers – Rs. 1,336 Million.

b) Geographic distribution of exposure* Fund based & Non-fund** based separately:

	(Rs. In Million)		
Category	31.03.2017		
	Domestic	Overseas	Total
Fund Based	9,944	-	9,944
Non - Fund Based	87	-	87
Total	10,031	-	10,031

*Represents book value as on 31st March

** Credit Equivalent Amount

c) Residual contractual maturity breakdown of assets as on 31.03.2017

(Rs. In Million)

Maturity bucket	Cash, balances with RBI and other banks	Investments	Advances	Other assets including fixed assets
Day - 1	140	2,537	-	14
2-7 Days	27	1	138	42
8-14 Days	33	10	167	39
15-30 Days	17	142	230	35
31 Days and upto 2 months	7	57	540	8
More than 2 months and upto 3 months	67	1,374	637	25
Over 3 Months and upto 6 months	184	210	1,451	26
Over 6 Months and upto 1 year	328	143	2,405	39
Over 1 Year and upto 3 years	506	1,194	2,234	79
Over 3 Years and upto 5 years	16	149	392	16
Over 5 years	14	122	1	244
Total	1,339	5,939	8,196	567

d) Asset Quality

• NPA Ratios

Particulars	31.03.2017
Gross NPAs to gross advances	6.15%
Net NPAs to net advances	3.80%

• Net NPAs

(Rs. In Million)

Particulars	31.03.2017
Gross NPAs	513
Less: Provisions	(139)
Less: Floating Provisions	(62)
Net NPAs	312

• Classification of gross NPAs

(Rs. In Million)

Particulars	31.03.2017
Sub-standard	499
Doubtful	
Doubtful 1	14
Doubtful 2	-
Doubtful 3	-
Loss	-
Total Gross NPAs	513

- Movement of Gross NPAs

(Rs. In Million)

Particulars	31.03.2017
Opening balance as on 01.04.2016	17
Additions during the year	500
Reductions	(4)
Closing balance	513

- Movement of Provisions for NPAs

(Rs. In Million)

Particulars	31.03.2017
Opening balance as on 01.04.2016	14
Provisions made during the year	125
Write-Off	-
Any other adjustment, including transfer between provisions	-
Write-back of excess provisions	-
Closing balance	139

- Non -performing Investment

(Rs. In Million)

Particulars	31.03.2017
Gross Non-performing Investment	Nil
Less: Provisions	Nil
Net Non performing Investment	Nil

- Provision for depreciation on Investment

(Rs. In Million)

Particulars	31.03.2017
Opening balance as on 01.04.2016	Nil
Provisions made during the year	1
Write-Off	Nil
Any other adjustment, including transfer between provisions	Nil
Write-back of excess provisions	Nil
Closing balance	1

- Provision for Standard Asset

(Rs. In Million)

Particulars	31.03.2017
Opening balance as on 01.04.2016	98
Provision reversed during the year	(79)
Any other adjustment, including transfer between provisions	-
Closing balance	19

- **Geographic Distribution**

(Rs. In Million)

Category	31.03.2017		
	Domestic	Overseas	Total
Gross NPA	513	Nil	513
Provision for NPA	139	Nil	139
Provision for Standard Assets	19	Nil	19

V. Credit Risk: Disclosures for Portfolios Subject to the Standardized Approach

Ratings used under Standardized Approach:

The Bank reckons external ratings for risk weighting purposes, if the external rating assessment complies with the guidelines stipulated by RBI.

The Bank uses ratings assigned by RBI approved Eligible Credit Assessment Institutions (ECAI) for domestic counterparties.

Quantitative Disclosures

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

(Rs. In Million)

Particulars	31.03.2017
At 0% risk weight	4,935
Below 100% risk weight	2,256
100% risk weight	7,435
More than 100% risk weight	2
Deducted (Intangible Assets and Deferred Tax Assets)	159

Treatment of undrawn exposures

As required by regulatory norms, the Bank holds capital even for the undrawn portion of credit facilities which are not unconditionally cancellable without prior notice by the Bank, by converting such exposures into a credit exposure equivalent based on the applicable Credit Conversion Factor ("CCF")

VI. Credit Risk Mitigation: Disclosures for Standardized Approaches

Policies and processes

The Bank has in place Credit Risk Policy duly approved by the Board. The policies lay down the types of securities normally accepted by the Bank for lending, and administration / monitoring of such securities in order to safeguard / protect the interest of the Bank so as to minimize the risk associated with it.

Credit Risk Mitigation

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

Main types of eligible financial collateral

- Cash (including deposits)
- Gold (including bullion and jewellery of 99.9 % purity)
- Securities issued by Central & State Governments, Kisan Vikas Patra

- National Savings Certificates
- Life Insurance Policies with a declared surrender value of an Insurance Company which is regulated by IRDA
- Debt securities rated by a chosen Credit rating agency in which the Bank is sufficiently confident about market liquidity
- Other Corporate Debt Securities of which the Bank is sufficiently confident about market liquidity
- Units of Mutual Funds etc.

Currently, the Bank does not hold any eligible financial collateral.

Main type of guarantor counterparties

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

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

If a guarantee is used as an eligible credit risk mitigant, a substitution approach shall be applied. The Bank does not use guarantee as credit risk mitigant.

Quantitative Disclosures

		(Rs. In Million)
SN	Particulars	31.03.2017
1	Total Exposure (on and off balance sheet) covered by eligible financial collateral after application of haircuts	Nil
2	Total Exposure (on and off balance sheet) covered by guarantees / credit derivatives	Nil

VII. Securitization Exposures: Disclosure for Standardized Approach

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

The RBI issued "Revised Securitisation Guidelines" on May 7, 2012 (hereinafter, the revised securitisation guidelines") covering both Securitisation and Loan Assignment transactions separately. The said guidelines define minimum holding period, minimum retention requirements, due diligence, credit monitoring, stress testing requirements etc. For loan assignment transactions, credit enhancement has been disallowed under the revised guidelines.

The Bank undertakes sale transactions through both securitisation and loan assignment routes.

The Bank participates in Securitisation and Loan Assignment transactions in the following roles:

- Originator / Seller : The Bank originates assets in its book and subsequently down sells them through the securitisation or assignment route.
- Servicing and Collection Agent For sold assets, the Bank undertakes the activity of collections and other servicing activities including preparation of monthly payout reports.
- Liquidity facility provider : In case of sale transactions undertaken through the securitisation route, the Bank may also provide liquidity facility. This is a type of credit support used to meet temporary collection mismatches on account of timing differences between the receipt of cash flows from the underlying performing assets and the fulfilment of obligations to the beneficiaries.
- Credit enhancement provider : Under the revised securitisation guidelines, the Bank may provide credit enhancement on

Securitisation 'sale' transactions undertaken by the Bank / a third party for meeting shortfalls arising on account of delinquencies and prepayment losses in the underlying pool sold.

- **Credit Risk** : In case of 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 shortfalls in collections exceed the credit enhancement provided if credit enhancement is provided in the form of a corporate guarantee, the investor bears the loss that could arise due to default by the guarantor which is also reflected in the rating downgrade of the corporate guarantor. In case of Loan Assignment transactions, the assignee bears the loss arising from defaults/delinquencies by the underlying obligors.
- **Market Risk**: Liquidity Risk : This is the risk arising on account of absence of a secondary market, which provides exit options to the investor/participant. This risk would be applicable only in case of securitisation transactions.
- **Servicer Risk**: Servicer risk is the risk arising on account of the inability of a collection and processing agent to collect monies from the underlying obligors and operational difficulties in processing the payments. In long tenor pools, the investor is exposed to the risk of servicer defaulting or discontinuing its operations in totality.
- **Regulatory and Legal Risk**: These are risks arising on account of non-compliance of transaction structures with the extant regulatory guidelines which may result in higher risk weight and hence higher capital charge being applied on the transaction or the Bank not being able to classify the transactions as priority sector lending. These risks also arise when transactions are not compliant with applicable laws which may result in the transaction being rendered invalid. Conflict between the provisions of the transaction documents and those of the underlying financial facility agreement or non-enforceability of security/claims due to imperfection in execution of the underlying facility agreements with the borrowers could also lead to an increase in legal risk. Risk could also arise due to issues on interpretation of tax laws leading to changes in scheduled transaction cash flows

External credit rating agencies: The ratings declared/issued by the RBI approved agencies were used to cover the following securitisation and loan assignment exposures:

- First loss credit enhancement facilities
- Second loss credit enhancement facilities

Securitisation exposures in banking book:

	(Rs. In Million)
Particulars	31.03.2017
Fund Based Exposure	-
Non-Fund Based Exposure	
Guarantee for 1st Loss credit enhancement	44
Guarantee for 2nd Loss credit enhancement	14
Total	58

Accounting policy on Transfer and servicing of assets

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

VIII. Market Risk in Trading Book

Policy and Strategy for Market Risk Management

The Bank takes market risk as a part of its trading activity (i.e. HFT portfolio), e.g. Fixed Income securities, Equities and Mutual Funds. Market Risk is managed in accordance to the Board approved Investment Policy, Asset Liability Management (ALM)

and Market Risk Management (MRM) Policy.

These policies cover liquidity risk, Interest rate risk (Banking and Trading book) and Market Risk framework of the Bank.

Organization Structure for Market Risk Management (MRM) function

Board of Directors have laid down broad guidelines for ALM & MRM and monitor the same through Risk Management Committee of Board (RMCB) / Asset Liability Management Committee (ALCO). RMCB has the primary responsibility of evaluating overall risks faced by the Bank including liquidity risk and interest rate risk. RMCB shall provide necessary guidance to ALCO, periodically. ALCO shall have the primary and sole responsibility of ALM and managing market, liquidity, and interest rate risk. ALCO shall take all such decisions as are necessary to implement this policy and take day to day decisions within the overall objectives.

Risk Reporting, Measurement, Mitigation and Monitoring Systems

The Market Risk Management framework ensures that there are sufficient processes and controls in place to ensure all market risk exposures are monitored and are within the risk appetite set by the Bank's Board.

Reporting and measurement systems

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

Liquidity Risk Management

Liquidity Risk is managed in the following manner:

- Asset Liability Management (ALM) Policy of the Bank specifically deals with liquidity and interest rate risk management.
- As envisaged in the ALM policy, liquidity risk is managed through Traditional Gap Analysis based on the residual maturity / behavioral pattern of assets and liabilities as prescribed by RBI.
- Monitoring of prudential (tolerance) limits set for different residual maturity time buckets, large deposits, loans, various liquidity ratios for efficient asset liability management;
- The Bank has also put in place mechanism of short term dynamic liquidity and contingency plan for liquidity risk management;
- Contingency Funding Plan (CFP), approved by the Board sets process to take care of crisis situation in the event of liquidity crunch or a run on the Bank. The Constitution of Crisis management team has been provided in policy to provide direction for handling any crisis situation.

Portfolios covered by Standardized Approach

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

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

Capital requirement for:

	(Rs. In Million)
Particulars	31.03.2017
Interest Rate Risk	53

IX. Operational Risk

Policy and Strategy for Operational Risk Management

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

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

Operational Risk Management Governance Structure

The Bank has an Operational Risk Management framework. The Board of Directors of the Bank defines the risk appetite, sets the risk management strategies and approves the operational risk policies of the Bank. The Bank's risk management processes are guided by well-defined policies commensurate with size of the organization and appropriate for various risk categories, independent risk oversight and periodic monitoring of portfolio by Risk Management Committee of Board (RMCB).

For the effective management of Operational Risk, the Bank has constituted the Risk Management Committee of Executives (RMCE) consisting of senior management personnel. The RMCE which supports the Risk Management Committee of Board (RMCB) is responsible for implementing the Operational Risk Management Policy and adopting the best practices. The main functions of RMCE are to monitor and ensure appropriateness of operational risk management and recommend suitable control measures for mitigating the same.

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

Risk Reporting, Measurement, Mitigation and Monitoring Systems

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

Approach for Operational Risk capital assessment

In accordance with RBI guidelines, the Bank has adopted Basic Indicator Approach (BIA) for computation of capital charge for operational risk.

Particulars	31.03.2017
Operational Risk	188

IX. Interest Rate Risk in the Banking Book (IRRBB)

Policy and Strategy for Interest Rate Risk Management

Interest rate risk in banking book represents the Bank's exposure to adverse movements in interest rates about its non-trading exposures. Interest rate risk is measured by doing a gap analysis as well as sensitivity analysis. The Bank holds assets, liabilities with different maturity and linked to different benchmark rates, thus creating exposure to unexpected changes in the level of interest rates in such markets.

Interest Rate Risk is managed in accordance to the Board approved Asset Liability Management (ALM) Policy, Investment Policy. The policies lay down well-defined organization structure for interest rate risk management functions and processes whereby the interest rate risks carried by the Bank are identified, measured, monitored and controlled.

Organization Structure for Interest Rate Risk Management function

The organizational structure of the Bank for Interest Rate Risk Management function has the Board of Directors at the apex

level that maintains overall oversight of management of risks. The Risk Management Committee of Board (RMCB) devises policy and strategy for integrated risk management which includes interest rate risk. At operational level, Asset Liability Management Committee (ALCO) monitors management of interest rate risk. The main functions of ALCO include balance sheet planning from a risk return perspective including the strategic management of interest rates and liquidity risks.

Risk Reporting, Measurement, Mitigation & Monitoring systems

The total portfolio is monitored and reported to the senior management on a daily basis for risk parameters like Modified Duration Limits, PV01 limits and Stop Loss limits on the AFS/HFT portfolio. Any deviations or violations in the limits are immediately reported to the MD & CEO and the Head-Risk.

X. Leverage Ratio Disclosure

The leverage ratio acts as a credible supplementary measure to the risk based capital requirement. The Bank is required to maintain a minimum leverage ratio of 4.5%. The Bank's leverage ratio calculated in accordance with RBI guidelines under consolidated framework is as follows:

		(Rs. In Million)
SN	Particulars	Rupees
On Balance Sheet exposures		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	16,042
2	(Asset amounts deducted in determining Basel II Tier 1 capital)	(159)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	15,883
Derivatives Exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	-
5	Add-on amounts for PFE associated with all derivatives transactions	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	Total derivative exposures (sum of lines 4 to 10)	-
Securities financing transaction exposure		
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	CCR exposure for SFT assets	-
15	Agent transaction exposures	-
16	Total securities financing transaction exposures (sum of lines 12 to 15)	-
Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	87
18	(Adjustments for conversion to credit equivalent amounts)	-
19	Off-balance sheet items (sum of lines 17 and 18)	87

SN	Particulars	Rupees
Capital and total exposures		
20	Tier 1 capital	4,847
21	Total exposures (sum of lines 3,11,16 and 19)	15,970
Leverage Ratio		
22	Basel III leverage ratio	30.35%

**GIVE A MAN
A FISH AND
YOU FEED HIM
FOR A DAY;
TEACH A MAN
TO FISH AND YOU
FEED HIM
FOR A LIFETIME**



At Suryoday, we aim to improve the Financial and Social well-being of our customers by enabling and empowering them with the right information and skill sets. We start with collecting qualitative socially relevant data from our customers that will help us decide the kind of projects we can work on.

Financial Literacy programs to inculcate regular savings habit amongst our customers, provide assistance in opening bank accounts and encourage them to look after their health and life.

Livelihood / Skills Training programs to help our customers improve the businesses they currently operate or start a new venture. We also facilitate their inclusion into the mainstream by helping them get relevant jobs.

Healthcare Camps: Eye check-ups, dental check-ups and mammograms. We also educate them on health and hygiene aspects.



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(Formerly Suryoday Micro Finance Limited)

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