SURYODAY
A BANK OF SMILES

# Pillar III Disclosures

## 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. Disclosure 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:

| Sr.no | Particulars | (Rs. In million)<br>**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, rephasement 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 used 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.

(Rs. In Million)

| 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:

| SN | Particulars | Rupees (Rs. In Million) |
|---|---|---|
| | **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** |
| | **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%** |