Suryoday Small Finance Bank Ltd

Pillar III Disclosure

DF-1: Scope of Application

(i) Qualitative Disclosure:

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 nor does it have any interest in any insurance entity.

DF-2: Capital Structure

a) 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.

b) Equity Capital:

The Bank has authorized share capital of Rs. 1,250 million, comprising of 12,50,00,000 equity shares of Rs. 10 each. As on Dec 31, 2020, the Bank has subscribed and paid up capital of Rs. 891.85 million comprising of fully paid up 8,91,84,939 shares of Rs. 10 each.

c) **Capital Funds:**

(Rs. In million)

Sr.no	Particulars	31.12.2020
(a)	Tier I Capital	
	- Paid up Capital	892
	- Reserves	
	- Statutory Reserve	670
	- Capital Reserve	2
	- Employee Stock Option Outstanding account	109
	- Share Premium	7,541
	- General Reserve	5
	- Balance in Profit	2,600
	- Less: Deferred Tax Assets & Prepaid Expenses	(642)
	Total Tier I Capital	**11,177**
(b)	The total amount of Tier II capital (net of deductions from Tier II capital)	
i	General Provision and loss reserves	231
ii	Subordinated debt eligible for inclusion in Tier II capital	
	- Total amount outstanding	1,400
	- Of which amount raised during the current year	1,000
	- Amount eligible to be reckoned as capital funds	1,050
Iv	Other deductions from capital, if any	0
(c)	Total Eligible Capital	**12,458**

DF-3: Capital Adequacy

(i) Qualitative Disclosure:

a) Applicable Regulations:

The RBI guideline on 'Basel II Capital Regulation' was issued on July 1, 2008 for implementation in India with effect from March 31, 2008. Suryoday Small Finance Bank Limited (hereinafter referred to as the Bank) is subject to the RBI Master Circular on Basel-II Capital Regulations, July 2008 and amendments thereto issued on time to time basis by RBI.

The Basel II framework consists of three-mutually reinforcing pillars:
Pillar 1 - Minimum capital requirements for credit risk, market risk and operational risk
Pillar 2 - Supervisory review of capital adequacy
Pillar 3 - Market discipline

Market discipline (Pillar 3) comprises a set of disclosures on the Capital Adequacy and Risk Management framework of the Bank. Pillar 3 disclosures as per RBI master circular on Basel-II Capital Regulations are set out in the following sections for information.

b) Regulatory capital assessment:

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).

c) Minimum capital requirements:

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 Dec 31, 2020, total CAR of the Bank stood at 41.17%, well above regulatory minimum requirement of 15%. Tier I ratio of the Bank stood at 36.94% well above regulatory requirement of 6%.

d) 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 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

e) Monitoring and reporting

The Board of Directors of Suryoday Bank maintains an active oversight over the Bank’s capital adequacy levels. On a quarterly basis, an analysis of the capital adequacy position and the risk weighted assets and an assessment of the various aspects of Basel II on capital and risk management as stipulated by RBI, are reported to the RMCB and Board.

(ii) Quantitative Disclosure:

a) Capital requirements for various risks:

A summary of Bank's capital requirement for credit, market and operational risk on December 31, 2020 is presented below:

		(Rs. In Million)
SN	**Particulars**	**31.12.2020**
(a)	Capital requirements for Credit risk:	
	- Portfolios subject to standardized approach	4,538
	- Securitization exposures	-
(b)	Capital requirements for Market risk:	
	Standardized duration approach	
	- Interest rate risk	
	- Foreign exchange risk (including gold)	-
	- Equity risk	
(C)	Capital requirements for Operational risk:	-
	- Basic indicator approach	

b) Common Equity Tier 1, Tier 1 and Total Capital ratios:

Ratios	**31.12.2020**
Capital Adequacy Ratios*	
- Total Capital Adequacy Ratio (%)	41.17%
- Tier -1 Capital Adequacy Ratio (%)	36.94%
- Common Equity Tier - 1 Capital Adequacy Ratio (%)	36.94%

***Note**: No separate capital charge has been applied by the Bank for market and operational risk while calculating Capital Adequacy ratio for quarter ending 31st December, 2020 in accordance with the regulatory guidelines for Small Finance Banks. If the Bank had applied capital charge for market and operational risk then Capital Adequacy ratio quarter ending 31st December, 2020 would be 30.08%

DF-4: Credit Risk: General Disclosures

(i) Qualitative Disclosure:

"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.

a) Policy and Strategy for Credit Risk Management

The Bank has put in place Credit Policy, Collection and Recovery policy, Income Recognition and Asset Classification (IRAC) Policy and Credit Risk Management Policy 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 are guided by the objective to build, sustain and maintain a high-quality credit portfolio by risk identification, measurement, monitoring, control/mitigation techniques and management of problem loans/ credit.

The policies reflect the Bank's approach towards lending to borrowers in light of prevailing business environment and regulatory stipulations. All these policies are approved by the Board of Directors of the Bank and are reviewed regularly.

To avoid concentration of credit risk, the Bank has put in place internal guidelines on exposure norms in respect of single borrower, groups, product exposure, etc. based on various guidelines issued by regulators.

The delegation structure for approval of credit limits is approved by the Board of Directors. Credit Committees, comprising of various senior officials from the Bank including representation from the Risk Department, are constituted for approval of high ticket size loan proposals.

b) 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, product asset quality review, credit assessment and approval system, margin and collateral management, credit documentation, credit pricing framework, credit administration and monitoring system, 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.

c) 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. The JLG segment relies largely on standardized product programs for credit risk assessment and approvals. Within the Retail segment, on the other hand, 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 Bank developed a Credit Scoring Model for retail segment which is expected to evolve and get fine-tuned when more and more cases are sanctioned based on detailed credit appraisal.

2. 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.

3. Post Sanction Monitoring

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.

4. Security monitoring:

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

5. Monitoring Standards – Portfolio level:

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

- 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.)
- Portfolio concentration limits – Concentration across tenor, single borrower, group borrower level, geography, product, etc.

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

6. 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

7. Recovery Policy:

- The Bank has a Collection and Recovery policy. This policy is formulated within the framework of various regulatory requirements and is reviewed annually by the Board or earlier, if required.
- 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 does document the efforts made for the recovery of dues and relevant stakeholders are kept informed.
- The repayment record of borrowers is monitored both with regard to payment of interest and repayment of principal. The mode of recovery is decided after conducting a root cause analysis of the reason for default.
- Whenever a borrower defaults or is likely to default, rigorous follow-up is made for the collection of dues / arrears. When default occurs, oral and written communications is 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 are taken to recover dues from the guarantor.
- The Bank uses any of the following broad methods for management of problem accounts on case to case basis as it deems fit:
  - Restructuring, rephasement and rehabilitation
  - Exit strategy
  - Settlements / compromise
  - Sell down Asset Reconstruction Company (ARC) / other entities
  - Invocation of SARFAESI
  - Legal Action & recovery

d) Definition and classification non-performing assets (NPAs)

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 is not serviced fully within 90 days from the date of debit / due date.

e) Credit risk exposures

Credit risk exposures (excluding specific risk on available-for-sale and held-for-trading portfolio) include all credit exposures as per RBI guidelines on exposure norms and investments in the held-to-maturity category, wherever applicable.

(ii) Quantitative Disclosures

1. Total gross credit risk exposures* as on 31st December,2020

(Rs. In Million)

Category	Credit Exposure
Fund Based	
Gross Advances	38,531
Investment	15,114
All other Assets	9,925
Non - Fund Based**	520
Total Exposures	**64,090**

*Represents book value as on 31st December,2020
** Credit Equivalent Amount]

2. Geographic distribution of exposure*, Fund based & Non- fund based separately.**

(Rs. In Million)

Category	31.12.2020		
	Domestic	Overseas	Total
Fund Based	63,570	-	63,570
Non - Fund Based	520	-	520
Total	**64,090**	-	**64,090**

*Represents book value as on 31st December, 2020
** Credit Equivalent Amount

3. Residual contractual maturity breakdown of assets as on 31st December,2020

(Rs. In Million)

Maturity bucket	Cash, balances with RBI and other banks	Investments	Loans & Advances	Other assets including Fixed Assets	Total
Day 1	7,612	9,075	107	435	17,229
2 to 7 days	10	87	518	123	738
8 to 14 days	9	76	593	147	824
15 to 30 days	32	284	711	82	1,109
31 days to 2 months	19	172	2,026	65	2,282
2 months to 3 months	14	122	3,972	37	4,145
3 months to 6 months	58	514	5,833	67	6,472
6 months to 1 year	134	1,178	10,785	19	12,116
1 Year to 3 years	290	2,221	10,151	43	12,704
3 Years to 5 years	152	1,318	425	58	1,953
Over 5 years	3	69	2,701	1,160	3,932
Total	**8,332**	**15,114**	**37,823**	**2,236**	**63,504**

4. Asset Quality

- **Classification of gross NPAs**

(Rs. In Million)

Particulars	31.12.2020
Sub-standard	83
Doubtful	
▪ Doubtful 1	174
▪ Doubtful 2	40
▪ Doubtful 3	-
Loss	2
Total Gross NPAs	**299**

- **Net NPAs**

(Rs. In Million)

Particulars	31.12.2020
Gross NPAs	299
Less: Provisions	171
Net NPAs before floating provision	128
Less: Floating provision*	0
Net NPA	128

*****_Floating Provisions as at 31st December 2020 to the extent utilised was Rs 0.03 million, however shown as 0 because of rounding off._

- **NPA Ratios**

(Rs. In Million)

Particulars	31.12.2020
Gross NPAs to gross advances	0.8%
Net NPAs to net advances	0.3%

- **Movement of Gross NPAs**

(Rs. In Million)

Particulars	31.12.2020
Opening balance as on 01.04.2020	1,013
Additions during the year	0
Recoveries (excluding Recoveries made from upgraded accounts)	31
Upgrades	56
Write offs	626
Closing balance	**299**

- **Movement of Provisions for NPAs**

(Rs. In Million)

Particulars	31.12.2020		
	NPA Provision	Floating Provision	Total
Opening balance as on 01.04.2020	412	532	944
Provisions made during the year	409	6	415
Any other adjustment, including transfer between provisions	-	-	-
Write-back of excess provisions (including Write off – Technical and Actual)	651	-	651
Closing balance	**171**	**538**	**708**

6. Non-performing Investment

(Rs. In Million)

Particulars	31.12.2020
Gross Non-Performing Investment	Nil
Less: Provisions	Nil
Net Non-Performing Investment	Nil

- **Provision for depreciation on Investment**

(Rs. In Million)

Particulars	31.12.2020
Opening balance as on 01.04.2020	-
Provisions made during the year	87
Write-Off	-
Any other adjustment, including transfer between provisions	-
Write-back of excess provisions	87
Closing balance	0

- **Provision for Standard Asset**

(Rs. In Million)

Particulars	31.12.2020
Opening balance as on 01.04.2020	116
Provision made/reversed during the year	24
Any other adjustment, including transfer between provisions	-
Closing balance	**140**

- **Geographic Distribution**

(Rs. In Million)

Category	31.12.2020		
	Domestic	Overseas	Total
Gross NPA	299	-	299
Provision for NPA	171	-	171
Floating Provision	538		538
Provision for Standard Assets	140	-	140

DF-5: Credit Risk: Disclosures for Portfolios Subject to the Standardized Approach

(i) Qualitative Disclosure:

a) Ratings used under Standardized Approach:
The Bank has unrated corporate exposure and the bank has applied risk weight of 100% on unrated corporate exposure.

(ii) Quantitative Disclosures

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

(Rs. In Million)

Particulars	**31.12.2020**
- At 0% risk weight	13,971
- Below 100% risk weight	33,421
- 100% risk weight	4,502
- More than 100% risk weight	1,386
- Deducted (Deferred Tax Assets and Prepaid expenses)	642

LEVERAGE RATIO

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 as on 31st Dec,2020 calculated in accordance with RBI guidelines is as follows:

(Rs. In Million)

Tier-1 capital (A)	11,177
Exposure measure (B)	63,143
Leverage ratio (A/B)	17.70%