# 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.

**(ii) Quantitative Disclosure:**

**a) List of group entities considered for consolidation**

| Name of the entity / country of incorporation | Principle activity of the entity | Total balance sheet equity (as stated in the accounting balance sheet of the legal entity) | Total balance sheet assets (as stated in the accounting balance sheet of the legal entity) |
|---|---|---|---|
| Nil | Nil | Nil | Nil |

**b) The aggregate amount of capital deficiencies in all subsidiaries which are not included in the regulatory scope of consolidation i.e. that are deducted:**

| Name of the subsidiaries / country of incorporation | Principle activity of the entity | Total balance sheet equity (as stated in the accounting balance sheet of the legal entity | % of bank's holding in the total equity | Capital Deficiency |
|---|---|---|---|---|
| Nil | Nil | Nil | Nil | Nil |

**c) The aggregate amount (e.g. current book value) of the bank's total interests in insurance entities, which are risk-weighted:**

| Name of the subsidiaries / country of incorporation | Principle activity of the entity | Total balance sheet equity (as stated in the accounting balance sheet of the legal entity | % of bank's holding in the total equity/Proportion of voting power | Quantitative impact on regulatory capital of using risk weighting method versus using the full deduction method |
|---|---|---|---|---|
| Nil | Nil | Nil | Nil | Nil |

**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. 1,000.00 million, comprising of 100,000,000 equity shares of Rs. 10 each. As on March 31, 2019, the Bank has subscribed and paid up capital of Rs. 815.82 million comprising of fully paid up 81,582,482 shares of Rs. 10 each. During the year 2018-19, the Bank raised equity capital by around Rs. 2517.13 million by way of preferential allotment and allotment of equity shares against vested and exercised options to employees under the Employee Stock Option Plan (ESOP).

**c) Capital Funds:**

| Sr.no | Particulars | (Rs. In million)<br>**31.03.2019** |
|---|---|---|
| **(a)** | Tier I Capital | |
| | - Paid up Capital | 816 |
| | - Reserves | |
| | - Statutory Reserve | 393 |
| | - Employee Stock Option Outstanding account | 46 |
| | - Share Premium | 6,268 |
| | - General Reserve | 2 |
| | - Revenue and Other reserve | 1 |
| | - Balance in Profit | 1,261 |
| | - Less: Intangible & Deferred Tax Assets | (287) |
| | **Total Tier I Capital** | **8,500** |
| **(b)** | Tier II capital (net of deductions from Tier II capital) | |
| | - General Provision | 316 |
| | - Investment Fluctuation reserve | 19 |
| | Subordinated debt eligible for inclusion in Tier II capital | |
| | - Total amount outstanding | 600 |
| | - Of which amount raised during the current year | 0 |
| | - Amount eligible to be reckoned as capital funds | 250 |
| | - Other deductions from capital, if any | 0 |
| | **Total Tier II Capital** | **585** |
| **(e)** | Total Eligible Capital | 9,085 |

**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 March 31, 2019, total CAR of the Bank stood at 36.0%, well above regulatory minimum requirement of 15%. Tier I ratio of the Bank stood at 33.7% 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 Board.

**(ii) Quantitative Disclosure:**

**a) Capital requirements for various risks**

A summary of Bank's capital requirement for credit, market and operational risk on March 31, 2019 is presented below:

| | | (Rs. In Million) |
|---|---|---|
| **SN** | **Particulars** | **31.03.2019** |
| **(a)** | Capital requirements for Credit risk: | |
| | - Portfolios subject to standardized approach | 3,290 |
| | - Securitization exposures | 12 |
| **(b)** | Capital requirements for Market risk: | |
| | Standardized duration approach | |
| | - Interest rate risk | 67 |
| | - Foreign exchange risk (including gold) | - |
| | - Equity risk | - |
| **(C)** | Capital requirements for Operational risk: | |
| | - Basic indicator approach | 417 |

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

| **Ratios** | **31.03.2019** |
|---|---|
| Capital Adequacy Ratios | |
| - Total Capital Adequacy Ratio (%) | 35.98% |
| - Tier -1 Capital Adequacy Ratio (%) | 33.67% |
| - Common Equity Tier - 1 Capital Adequacy Ratio (%) | 33.67% |

## 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 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 Recovery and collection policy. This policy is formulated within the framework of various regulatory requirements and was last reviewed by Board of Directors on 24$^{th}$ Oct 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 does documents 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 March, 2019**

(Rs. In Million)

| Category | Credit Exposure |
|---|---|
| **Fund Based** | |
| Gross Advances | 27,406 |
| Investment # | 2,651 |
| All other Assets | 3,739 |
| **Non - Fund Based**** | 246 |
| **Total Exposures** | **34,042** |

*Represents book value as on 31th March 2019

** Credit Equivalent Amount

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

(Rs. In Million)

| Category | 31.03.2019 | | |
|---|---|---|---|
| | Domestic | Overseas | Total |
| Fund Based | 33,796 | - | 33,796 |
| Non - Fund Based | 246 | - | 246 |
| **Total** | **34,042** | - | **34,042** |

*Represents book value as on 31th March 2019

** Credit Equivalent Amount

**3. Residual contractual maturity breakdown of assets**

(Rs. In Million)

| Maturity bucket | Cash, balances with RBI and other banks | Investments | Loans & Advances | Other assets including Fixed Assets | Total |
|---|---|---|---|---|---|
| Day 1 | 110 | 1,711 | 54 | 278 | 2,153 |
| 2 to 7 days | 1,663 | 860 | 289 | 108 | 2,920 |
| 8 to 14 days | 17 | 373 | 390 | 127 | 907 |
| 15 to 30 days | 29 | 230 | 568 | 93 | 920 |
| 31 days to 2 months | 48 | 272 | 1,391 | 35 | 1,746 |
| 2 months to 3 months | 419 | 1,131 | 1,441 | 28 | 3,019 |
| 3 months to 6 months | 62 | 281 | 4,201 | 24 | 4,568 |
| 6 months to 1 year | 77 | 462 | 7,799 | 7 | 8,345 |
| 1 Year to 3 years | 325 | 1,250 | 9,122 | 202 | 10,899 |
| 3 Years to 5 years | 14 | 73 | 910 | 27 | 1,024 |
| Over 5 years | - | 0 | 954 | 482 | 1,450 |
| **Total** | **2764** | **6644** | **27,119** | **1,411** | **37,938** |

**4. Asset Quality**

- **Classification of gross NPAs**

(Rs. In Million)

| Particulars | 31.03.2019 |
|---|---|
| Sub-standard | 328 |
| Doubtful | 168 |
| ▪ Doubtful 1 | |
| ▪ Doubtful 2 | |
| ▪ Doubtful 3 | |
| Loss | |
| **Total Gross NPAs** | **496** |

- **Net NPAs**

(Rs. In Million)

| Particulars | 31.03.2019 |
|---|---|
| Gross NPAs | 496 |
| Less: Provisions | 287 |
| Net NPAs | 209 |

- **NPA Ratios**

(Rs. In Million)

| Particulars | 31.03.2019 |
|---|---|
| Gross NPAs to gross advances* | 1.81% |
| Net NPAs to net advances | 0.77% |

* Subject to write off approval by board of director

- **Movement of Gross NPAs**

(Rs. In Million)

| Particulars | 31.03.2019 |
|---|---|
| Opening balance as on 01.04.2018 | 566 |
| Additions during the year | 330 |
| Recoveries (excluding Recoveries made from upgraded accounts) | 64 |
| Write offs | 336 |
| **Closing balance** | **496** |

- **Movement of Provisions for NPAs**

(Rs. In Million)

| Particulars | 31.03.2019 | | |
|---|---|---|---|
| | NPA Provision | Floating Provision | Total |
| Opening balance as on 01.04.2018 | 211 | 63 | 274 |
| Provisions made during the year | 437 | 260 | 697 |
| Write-Off | 336 | - | 336 |
| Any other adjustment, including transfer between provisions | - | - | - |
| Write-back of excess provisions | 25 | - | 25 |
| **Closing balance** | **287** | **323** | **610** |

**6. Non-performing Investment**

(Rs. In Million)

| Particulars | 31.03.2019 |
|---|---|
| Gross Non-Performing Investment | Nil |
| Less: Provisions | Nil |
| Net Non-Performing Investment | Nil |

- **Provision for depreciation on Investment**

(Rs. In Million)

| **Particulars** | **31.03.2019** |
|---|---|
| Opening balance as on 01.04.2018 | - |
| Provisions made during the year | - |
| Write-Off | - |
| Any other adjustment, including transfer between provisions | - |
| Write-back of excess provisions | - |
| **Closing balance** | - |

- **Provision for Standard Asset**

(Rs. In Million)

| **Particulars** | **31.03.2019** |
|---|---|
| Opening balance as on 01.04.2018 | 40 |
| Provision made/reversed during the year | 34 |
| Any other adjustment, including transfer between provisions | |
| **Closing balance** | **74** |

- **Geographic Distribution**

(Rs. In Million)

| **Category** | **31.03.2019** | | |
|---|---|---|---|
| | **Domestic** | **Overseas** | **Total** |
| Gross NPA | 496 | - | 496 |
| Provision for NPA | 287 | - | 287 |
| Provision for Standard Assets | 74 | - | 74 |

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

**(i) Qualitative Disclosure:**

**a) 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.

**(ii) 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 | 31.03.2019 |
|---|---|
| - At 0% risk weight | 3,806 |
| - Below 100% risk weight | 26,583 |
| - 100% risk weight | 2,431 |
| - More than 100% risk weight | 544 |
| - Deducted (Intangible Assets and Deferred Tax Assets) | 287 |

**DF-6: Credit Risk Mitigation: Disclosure for Standardized Approach**

**(i) Qualitative Disclosure :**

**a) Collateral management and credit risk mitigation**

In line with RBI guidelines, the Bank uses 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.

**b) Collateral management**

**1. Overview**

The Bank defines collateral as the assets or rights provided to the Bank by the borrower or a third party to secure a credit facility. The Bank would have the rights of secured creditor in respect of the assets/contracts offered as security for the obligations of the borrower/obligor. The Bank ensures that the underlying documentation for the collateral provides the bank appropriate rights over the collateral or other forms of credit enhancement including the right to liquidate retain or take legal possession of it in a timely manner in the event of default by the counterparty. The Bank also endeavors to keep the assets provided as security to the Bank under adequate insurance during the tenor of the Bank’s exposure. The collateral value is monitored periodically.

**2. Types of collateral taken by the Bank**

- 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.

### 3. 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 is applied. The Bank does not used guarantee as credit risk mitigant.

### 4. Collateral Valuation

As stipulated by the RBI guidelines, the Bank uses the comprehensive approach for collateral valuation. Under this approach, the Bank reduces its credit exposure to counterparty when calculating its capital requirements to the extent of risk mitigation provided by the eligible collateral as specified in the Basel II guidelines.

The Bank adjusts the value of any collateral received to adjust for possible future fluctuations in the value of the collateral in line with the requirements specified by RBI guidelines. These adjustments, also referred to as 'haircuts', to produce volatility-adjusted amounts for collateral, are reduced from the exposure to compute the capital charge based on the applicable risk weights.

### (ii) Quantitative Disclosures

**Portfolio covered by eligible financial collateral as on March 31, 2019**

(Rs. In Million)

| Particulars | Amount |
|---|---|
| Exposures fully covered by eligible financial collateral, after application of haircut | 145 |
| Exposure that is covered by guarantees/credit derivatives | - |

**DF-7: Securitization Exposure: Disclosure for Standardized Approach**

**(i) Qualitative Disclosure:**

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 pay-out reports.

- Liquidity facility provider: In case of sale transaction 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

**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.

**(Rs. In Million)**

| **Particulars** | **FY 2018-2019 (31-03-2019)** | |
|---|---|---|
| | **securitization transactions originated** | **Assignment Transactions originated** |
| Total number of loan assets securitized | 68,201 | 1,26,169 |
| Book value of loan assets securitized | 1,035.63 | 1,237.32 |
| Sale consideration received for the securitized assets | 921.67 | 1,113.59 |
| Gain / (Loss) on sale on account of securitization | 106.8 | 65.11 |
| Form of services provided | JLG advances | JLG advances |
| Quantum (outstanding value) of services provided: | | |
| Cash Collateral (as on 31-03-2019) | 52.00 | 0.00 |
| Over Collateral (as on 31-03-2019) | 56.03 | 0.00 |
| Exposure to own securitization (as on 31-03-2019) | 0.00 | 0.00 |

## DF-8: Market Risk in Trading Book

### (i) Qualitative Disclosure:

#### a) 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.

#### b) Scope and nature of risk reporting and measurement systems:

**Reporting**

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 provides necessary guidance to ALCO, periodically. ALCO is the primary and sole responsibility of ALM and managing market, liquidity and interest rate risk. ALCO is taking all such decisions as are necessary to implement this policy and take day to day decisions within the overall objectives.

**Measurement**

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.

#### c) 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 / behavioural 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;
- Contingency Funding Plan (CFP), approved by the Board sets process to take care of crisis 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.

**d) 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,

**(ii) Quantitative Disclosures**

**Capital requirement for:**

(Rs. In Million)

| Particulars | 31.03.2019 |
|---|---|
| Interest Rate Risk | 36 |
| Foreign Exchange Risk (including Gold) | - |
| Equity Risk | - |
| Total Market Risk RWA | |

**OPERATIONAL RISK**

**DF-9: Operational Risk**

**(i) Qualitative Disclosure:**

**a) 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.

**b) 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.

**c) 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 department including compliance, risk management and legal and approved through Product approval committee.

**d) 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.

**(ii) Quantitative Disclosures**

**Capital requirement for:**

(Rs. In Million)

| **Particulars** | **31.03.2019** |
|---|---|
| Operational Risk | 417 |

**INTEREST RATE RISK IN THE BANKING BOOK**

**DF-10: Interest Rate Risk in the Banking Book (IRRBB)**

**(i) Qualitative Disclosure:**

**a) 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.

**b) 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.

**c) Risk Reporting, Measurement, Mitigation & Monitoring systems**

The total portfolio is monitored and reported to the senior management daily 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.

**(ii) Quantitative Disclosures**

**Level of interest rate risk**

The following table sets forth one possible prediction of the impact on the net interest income of changes in interest rates on interest sensitive positions at March 31, 2019 assuming a parallel shift in the yield curve:

(Rs. In Million)

| | **Change in Interest rates** | |
|---|---|---|
| **Currency** | **-100 basis points** | **+100 basis points** |
| INR | **(470)** | **470** |

**DF-17: Summary Comparison of accounting assets and leverage ratio exposure**

**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 March, 2019 calculated in accordance with RBI guidelines is as follows:

(Rs. In Million)

| **Sr. No.** | **Particulars** | **Amount** |
|---|---|---|
| 1 | Total consolidated assets as per published financial statements | 37,938 |
| 2 | Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation | |
| 3 | Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure | 287 |
| 4 | Adjustments for derivative financial instruments | |
| 5 | Adjustment for securities financing transactions (i.e. repos and similar secured lending) | |
| 6 | Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off- balance sheet exposures) | 246 |
| 7 | Other adjustments | |
| 8 | **Leverage ratio exposure** | **22.43%** |

**DF-18: Leverage ratio common disclosure template**

(Rs. In Million)

| Sr. No. | Leverage Ratio Framework | Amount |
|---|---|---|
| **On Balance Sheet exposures** | | |
| 1 | On-balance sheet items (excluding derivatives and SFTs, but including collateral) | 37,938 |
| 2 | (Asset amounts deducted in determining Basel II Tier 1 capital) | 287 |
| **3** | **Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)** | **37,651** |
| **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 | 246 |
| 18 | (Adjustments for conversion to credit equivalent amounts) | - |
| **19** | **Off-balance sheet items (sum of lines 17 and 18)** | **246** |
| **Capital and total exposures** | | |
| **20** | **Tier 1 capital** | 8,499 |
| **21** | **Total exposures (sum of lines 3,11,16 and 19)** | 37,897 |
| | | |
| **22** | **Basel III leverage ratio** | **22.43%** |