

## **Suryoday Small Finance Bank**

### **Pillar III Disclosure**

**Background:** The purpose of Market discipline (detailed in Pillar 3) in the Basel II Framework of RBI is to complement the minimum capital requirements (detailed under Pillar 1) and the supervisory review process (detailed under Pillar 2). The aim is to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on the scope of application, capital, risk exposures, risk assessment processes, and hence the capital adequacy of the institution.

#### **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. Disclosures 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 Adequacy**

##### **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:**

Shareholders of the Bank at their 15th Annual General Meeting (AGM) of the Bank held on September 14, 2023, had accorded their approval for increasing authorized share capital of the Bank from existing Rs 1,250 million, comprising of 12,50,00,000 equity shares of Rs. 10 each to Rs 1,500 million divided into 15,00,00,000 equity shares of Rs. 10 each.

**c) Capital Funds:**

Sr.no	Particulars	31.12.2023
		(In Rs. million)
<b>(a)</b>	<b>Tier I Capital</b>	
I	<b>Paid up Capital</b>	1,062
II	<b>Reserves</b>	
	-Statutory Reserve	894
	-Capital Reserve	14
	-Employee Stock Option Outstanding account	103
III	Share Premium	11,866
IV	General Reserve	66
V	Balance in Profit*	1,514
VI	Less: Deferred Tax Assets & Prepaid Expenses	(1,028)
	<b>Total Tier I Capital</b>	<b>14,490</b>
<b>(b)</b>	<b>Tier II capital (net of deductions from Tier II capital)</b>	
I	General Provision and Loss Reserves	587
II	<b>Subordinated debt eligible for inclusion in Tier II capital</b>	
	- Total amount outstanding	0
	- Of which amount raised during the current year	0
	<b>Amount eligible to be reckoned as capital funds</b>	<b>600</b>
III	<b>Other deductions from capital if any</b>	<b>0</b>
<b>(c)</b>	<b>Total Eligible Capital (Tier I + Tier II)</b>	<b>15,677</b>

*\*The balance in Profit Loss Account after deducting the Current Years Profit.*

**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 from time to time 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 subject 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 while computing Capital Adequacy Ratio (CAR).

**c) Minimum capital requirements:**

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

As on 31<sup>st</sup> December 2023 total CRAR of the Bank stood at 27.77 %, which is well above regulatory minimum requirement of 15%. Tier I ratio of the Bank stood at 25.66%, which is 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 considers 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 31<sup>st</sup> December 2023 is presented below:

SN	Particulars	31.12.2023
		(In Rs. million)
(a)	Capital requirements for Credit risk: - Portfolios subject to standardized approach - Securitization exposures	8,470 -
(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	31.12.2023
Capital Adequacy Ratios*	
- Total Capital Adequacy Ratio (%)	27.77%
- Tier -1 Capital Adequacy Ratio (%)	25.66%
- Common Equity Tier - 1 Capital Adequacy Ratio (%)	25.66%

\* **Note:** No separate capital charge has been applied by the Bank for Market and Operational risk while calculating Capital Adequacy Ratio for quarter ending 31<sup>st</sup> December 2023 in accordance with the regulatory guidelines for Small Finance Banks.

**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, group borrower, 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 monthly 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, rephasing 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 31.12.2023

Category	Credit Exposure
	(In Rs. Million)
<b>Fund Based</b>	<b>91,650</b>
Gross Advances^	72,169
Investment	9,614
All other Assets	9,866
<b>Non - Fund Based**</b>	<b>21</b>
<b>Total Exposures</b>	<b>91,671</b>

\*Represents book value as on 31<sup>st</sup>, December 2023.

\*\* Credit Equivalent Amount

^ Net of NPA Provisions and IBPC amount.

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

Category	31.12.2023		
	Domestic	Overseas	Total
	(In Rs. Million)		
Fund Based	91,650	-	91,650
Non - Fund Based	21	-	21
<b>Total</b>	<b>91,671</b>	<b>-</b>	<b>91,671</b>

3. Residual contractual maturity breakdown of assets as on 31<sup>st</sup> December 2023.

Maturity bucket	Cash, balances with RBI and other banks	Investments	Loans & Advances	Other assets including Fixed Assets	Total
	(In Rs. Million)				
Day 1	2,707	14,872	95	1,424	<b>19,098</b>
2 to 7 days	68	314	1,673	478	<b>2,533</b>
8 to 14 days	71	829	562	122	<b>1,585</b>
15 to 30 days	33	899	510	38	<b>1,481</b>
31 days to 2 months	28	377	3,039	85	<b>3,528</b>
2 months to 3 months	23	356	3,058	231	<b>3,668</b>
3 months to 6 months	129	1,570	8,718	36	<b>10,454</b>
6 months to 1 year	215	1,000	16,729	22	<b>17,966</b>
1 Year to 3 years	1,248	5,859	23,341	424	<b>30,871</b>
3 Years to 5 years	519	2,430	3,930	63	<b>6,943</b>
Over 5 years	5	32	10,130	2,925	<b>13,092</b>
<b>Total</b>	<b>5,045</b>	<b>28,538</b>	<b>71,786</b>	<b>5,849</b>	<b>1,11,217</b>

#### 4. Asset Quality

- Classification of gross NPAs as on 31.12.2023

Particulars	31.12.2023
	<i>(In Rs. Million)</i>
Sub-standard	1,480.7
Doubtful	
▪ Doubtful 1	496.4
▪ Doubtful 2	233.8
▪ Doubtful 3	0.0
Loss	21.7
<b>Total Gross NPAs</b>	<b>2,232.6</b>

- Net NPAs

Particulars	31.12.2023
	<i>(In Rs. Million)</i>
Gross NPAs	2,232.63
Less: Provisions	828.67
<b>Net NPAs before floating provision</b>	<b>1,403.95</b>
Less : Floating Provision	289.38
Less : ECLGS Claims Received	94.47
<b>Net NPA</b>	<b>1,020.11</b>

- NPA Ratios

Particulars	31.12.2023
Gross NPAs to gross advances	3.06%
Net NPAs to net advances	1.42%

- Movement of Gross NPAs

Particulars	31.12.2023
	<i>(In Rs. Million)</i>
Opening Balance as on 01.04.2023	1,914.01
Additions during the year (+)	1,468.94
Recoveries (Excluding Recoveries made from Upgraded Accounts) (-)	99.48
Upgrades (-)	273.94
Write Offs (-)	776.91
<b>Closing Balance</b>	<b>2,232.6</b>

- **Movement of Provisions for NPAs as on 31.12.2023**

Particulars	NPA Provision	Floating Provision	Restructuring Provision	ECLGS Claim Received	Amount received against performance guarantee	Total
<i>(in Rs Millions)</i>						
Opening balance as on April 01, 2023	716	178	5	63	22	984
Provisions made during the year	1,012	111	0	32	0	1,154
Any other adjustment, including transfer between provisions	0	0	0	0	0	0
Write-back of excess provisions (including Write off – Technical and Actual)	900	0	5	0	22	926
<b>Closing balance</b>	<b>829</b>	<b>289</b>	<b>0</b>	<b>94</b>	<b>0</b>	<b>1,213</b>

- **Floating Provision / Restructuring Provision / Interest Capitalization movement**

Particulars	Floating Provision	Restructure Provision	ECLGS Claims received	Amount Received against performance Guarantee
<i>(In Rs. Million)</i>				
Opening balance as on 01.04.2023	178.44	4.61	62.97	22.15
Provisions made during the year	110.94	-	31.51	-
Any other adjustment, including transfer between provisions	-	-	-	-
Write-back of excess provisions (including Writeoff – Technical and Actual)	-	4.61	-	22.15
<b>Closing balance</b>	<b>289.38</b>	<b>-</b>	<b>94.48</b>	<b>-</b>

- **Non-performing Investment**

Particulars	31.12.2023
<i>(In Rs. Million)</i>	
Gross Non-Performing Investment	-
Less: Provisions	-
<b>Net Non-Performing Investment</b>	<b>-</b>

- **Provision for depreciation on Investment**

Particulars	31.12.2023
	<i>(In Rs. Million)</i>
Opening balance as on 01.04.2023	128.32
Provisions made during the year	-
Write-Off	-
Any other adjustment, including transfer between provisions	-
Write-back of excess provisions (net of provisions made and write back)	58.40
<b>Closing balance</b>	<b>69.92</b>

- **Provision for Standard Asset (including UFCE Provision)**

Particulars	30.12.2023
	<i>(In Rs. Million)</i>
Opening balance as on 01.04.2023	233.79
Provision made/reversed during the year	33.61
Any other adjustment, including transfer between provisions	-
<b>Closing balance</b>	<b>267.40</b>

- **Geographic Distribution**

Category	31.12.2023		
	Domestic	Overseas	Total
	<i>(In Rs. Million)</i>		
Gross NPA	2,232.63	-	<b>2,232.63</b>
Provision for NPA	828.67	-	<b>828.67</b>
Floating Provision/Restructuring Provision/ ECLGS Claims Received/ Amount received against performance guarantee	383.85	-	<b>383.85</b>
Provision for Standard Assets	267.40	-	<b>267.40</b>

**DF-5: Credit Risk: Disclosures for Portfolios Subject to the Standardized Approach**
**(i) Qualitative Disclosure:**
**a) Ratings used under Standardized Approach:**

Rating Agencies considered by the Bank:

1. CRISIL Ratings Limited
2. India Ratings and Research (FITCH Group)
3. Acuite Ratings and Research
4. Care Edge Ratings
5. ICRA Limited

**b)** The Bank has utilized the ratings from the above agencies for our FIG (Financial Institution Group) customers. The rest of the corporate exposure is considered as unrated, and hence the bank has applied risk weight of 100% on the remaining corporate customers.

**(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:

Particulars	31.12.2023
<i>(in Rs Millions)</i>	
At 0% risk weight	15,746
Below 100% risk weight	63,506
100% risk weight	9,630
More than 100% risk weight	1,869
<i>Deducted (Deferred Taxes and Prepaid Expenses)</i>	<i>(1,028)</i>

**Leverage Ratio:**

Capital and total exposures	31.12.2023
<i>(in Rs Millions)</i>	
Tier 1 capital(A)	14,490
Total exposures (B)	1,10,364
<b>Leverage ratio(A/B)</b>	<b>13.13%</b>

**Action Required from the Committee:** The note is submitted for Committee review and noting purpose.

<b>Name of the Proposer:</b> Sameer Ranade (SVP- Market Risk)	<b>Name of the Recommender:</b> Yogesh Dixit (Chief Risk Officer)	<b>Name of the Approver:</b> Baskar Babu Ramachandran (Managing Director & CEO)
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