

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.

(ii) Quantitative Disclosure:

The Bank is a standalone entity and does not have subsidiaries.

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 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	30.09.2023
<i>(in Rs Millions)</i>		
(a)	Tier I Capital	
I	Paid up Capital	1,062
II	Reserves	14,443
	-Statutory Reserve	894
	-Capital Reserve	14
	-Employee Stock Option Outstanding account	96
	-Share Premium	11,866
	-General Reserve	60
	-Balance in Profit	1,514
III	Less: Deferred Tax Assets & Prepaid Expenses	-1,020
	Total Tier I Capital	14,485

(b)	Tier II capital (net of deductions from Tier II capital)	
I	General Provision and Loss Reserves	575
II	Subordinated debt eligible for inclusion in Tier II capital	
	- Total amount outstanding	1,000
	- Of which amount raised during the current year	0
	Amount eligible to be reckoned as capital funds	600
III	Other deductions from capital if any	0
(c)	Total Eligible Capital (Tier I + Tier II)	15,659

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 30th September 2023 total CRAR of the Bank stood at 30.23%, which is above regulatory minimum requirement of 15%. Tier-I ratio of the Bank stood at 27.96%, 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 30th September 2023 is presented below:

(Rs. In Million)		
SN	Particulars	30.09.2023
(a)	Capital requirements for Credit risk:	
	- Portfolios subject to standardized approach	7,770
	- 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	30.09.2023
Capital Adequacy Ratios*	
- Total Capital Adequacy Ratio (%)	30.23%
- Tier -1 Capital Adequacy Ratio (%)	27.96%
- Common Equity Tier - 1 Capital Adequacy Ratio (%)	27.96%

* **Note:** No separate capital charge has been applied by the Bank for Market and Operational risk while calculating Capital Adequacy Ratio for quarter ending 30th September 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 the 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 Assets segments. The JLG segment relies largely on standardized product programs for credit risk assessment and approvals. Within the Retail Assets segment, on the other hand, the Bank has adopted underwriting standards for different client categories 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 the 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 to 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 remains overdue for a period of more than 90 days in respect of a term loan.
- The account remains 'out of order' as indicated below, in respect of an Overdraft/Cash Credit (OD/CC):
 - i. The outstanding balance in the CC/OD account remains continuously in excess of the sanctioned limit/drawing power for 90 days, or
 - ii. The outstanding balance in the CC/OD account is less than the sanctioned limit/drawing power but there are no credits continuously for 90 days, or the outstanding balance in the CC/OD account is less than the sanctioned limit/drawing power but credits are not enough to cover the interest debited during the previous 90 days period.
- The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted.
- The instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops.
- The instalment of principal or interest thereon remains overdue for one crop season for long duration crops.
- The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitisation transaction undertaken in terms of the Reserve Bank of India (Securitisation of Standard Assets) Directions, 2021 as amended from time to time.
- In respect of derivative transactions, the overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

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 30.09.2023

Category	Credit Exposure
	<i>(in Rs. Million)</i>
Fund Based	88,122
Gross Advances [^]	67,614
Investment	9,222
All other Assets	11,286
Non - Fund Based**	19
Total Exposures	88,141

*Represents book value as on 30th, September 2023.

** Credit Equivalent Amount

[^] Net of NPA Provisions and IBPC amount.

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

Category	30.09.2023		
	Domestic	Overseas	Total
	<i>(in Rs. Million)</i>		
Fund Based	88,122		88,122
Non - Fund Based	19		19
Total	88,141		88,141

*Represents book value as on 30th, September 2023.

** Credit Equivalent Amount

3. Residual contractual maturity breakdown of assets as on 30th September 2023:

Maturity bucket	Cash, balances with RBI and other banks	Investments	Loans & Advances	Other assets including Fixed Assets	Total
<i>(in Rs. Million)</i>					
Day 1	795	16,447	5	1,135	18,382
2 to 7 days	3,004	593	979	953	5,529
8 to 14 days	94	361	1,166	120	1,741
15 to 30 days	71	271	526	90	958
31 days to 2 months	43	164	2,843	110	3,159
2 months to 3 months	42	409	3,031	73	3,555
3 months to 6 months	62	1,213	8,276	43	9,594
6 months to 1 year	261	1,954	16,090	-6	18,298
1 Year to 3 years	1,343	5,160	21,602	375	28,480
3 Years to 5 years	603	2,462	3,129	309	6,504
Over 5 years	2	15	9,563	2,782	12,363
Total	6,320	29,049	67,210	5,984	1,08,564

4. Asset Quality

- Classification of gross NPA:

Particulars	30.09.2023
<i>(in Rs Million)</i>	
Sub-standard	1,318.58
Doubtful:	
Doubtful 1	462.63
Doubtful 2	173.00
Doubtful 3	0.00
Loss	23.12
Total Gross NPAs	1,977.33

- **Net NPAs**

Particulars	30.09.2023
<i>(in Rs. Million)</i>	
Gross NPAs	1,977.33
Less: Provisions	593.63
Net NPAs before floating and other provisions	1,383.70
Less : Floating Provision	289.38
Less : Restructure Provision	5.12
Less : ECLGS Claim Received	96.65
Less : Amount received against performance guarantee	13.14
Net NPAs	979.41

- **NPA Ratios**

Particulars	30.09.2023
Gross NPAs to gross advances	2.90%
Net NPAs to net advances	1.46%

- **Movement of Gross NPAs**

Particulars	30.09.2023
<i>(in Rs. Million)</i>	
Opening balance as on April 01, 2023	1,914.01
Additions during the year	939.67
Recoveries (excluding Recoveries made from upgraded accounts)	85.38
Upgrades	238.68
Write offs	552.30
Closing balance	1,977.33

- **Movement of Provisions for NPA:**

Particulars	30.09.2023			
	NPA Provision	Floating Provision/Restructuring Provision/ Interest Capitalization	ECLGS claim received / Amount received for performance guarantee	Total
<i>(in Rs. Million)</i>				
Opening balance as on April 01, 2023	716.14	183.04	85.11	984.29
Provisions made during the year	408.84	111.45	33.69	553.98
Any other adjustment, including transfer between provisions	0.00	0.00	0.00	0.00
Write-back of excess provisions (including Write off – Technical and Actual)	531.34	0.00	9.01	540.35
Closing balance	593.63	294.49	109.79	997.92

- **Non-performing Investment:**

Particulars	30.09.2023
<i>(in Rs. Million)</i>	
Gross Non-Performing Investment	-
Less: Provisions	-
Net Non-Performing Investment	-

- **Provision for depreciation on Investment:**

Particulars	30.09.2023
<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	39.30
Closing balance	89.02

- **Provision for Standard Asset**

Particulars	30.09.2023
<i>(in Rs. Million)</i>	
Opening balance as on April 01, 2023	233.79
Provision made/reversed during the year	18.77
Any other adjustment, including transfer between provisions	0.00
Closing balance	252.56

- **Geographic Distribution**

Category	30.09.2023		
	Domestic	Overseas	Total
<i>(in Rs. Million)</i>			
Gross NPA	1,977.33	0.00	1,977.33
Provision for NPA	593.63	0.00	593.63
Floating Provision	289.38	0.00	289.38
Restructure Provision	5.12	0.00	5.12
ECLGS Claim Received	96.65	0.00	96.65
Amount received for performance guarantee	13.14	0.00	13.14
Provision for Standard Assets	252.56	0.00	252.56

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 Ratings
5. ICRA Limited
6. Infomerics Ratings

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:

Row Labels	30.09.2023
	<i>(in Rs. Million)</i>
At 0% risk weight	16,834
Below 100% risk weight	60,973
100% risk weight	8,963
More than 100% risk weight	1,351
Grand Total	88,122

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 endeavours 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 acceptable to the Bank

- Cash (including deposits)
- 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 National Credit Guarantee Trustee Company Ltd (NCGTC), Export Credit Guarantee Corporation (ECGC) or the Credit Guarantee Fund Trust for Micro and Small Exposures (CGTMSE).

As per the circular number DoR.BP.BC.No.76/21.06.201/2019-20 dated June 21,2020 issued by RBI credit facilities extended under Emergency Credit Line Guarantee Scheme guaranteed by NCGTC are backed by an unconditional and irrevocable guarantee provided by Government of India, hence zero percent risk weight will be applied on the credit facilities extended under this scheme to the extent of guaranteed coverage.

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.

(iii) Quantitative Disclosures

Portfolio covered by eligible financial collateral:

Particulars	30.09.2023
	(in Rs. Million)
Exposures fully covered by eligible financial collateral, after application of haircut	690
Exposure that is covered under ECLGS (100% guarantee)	753
Exposure that is covered under CGFMU *	43,048

* The first loss to the extent of 3% will be borne by the Bank. Of the balance portion, the extent of guarantee will be to the extent of 75% of the amount in default subject to a maximum cap of 15% of crystallised portfolio.

DF-7: Securitization Exposure:

Disclosure for Standardized Approach

(i) Qualitative Disclosure:

The Bank undertakes securitisation/transfer of loan exposure transactions as a means of risk management, liquidity management increase, capital allocation among others.

The RBI issued revised securitisation guidelines (Master Direction-Reserve bank of India (Securitisation of Standard Assets)) on September 24, 2021. The Master Direction defines minimum holding period, minimum retention requirements, due diligence, credit monitoring etc. The RBI also issued Master Direction – Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021 dated September 24, 2021 covering transfer of loan exposures. The Bank has put in place Board approved policies for undertaking these transactions under the purview of the said Master Directions.

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 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 will also be 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 to the extent of the assignee's exposure.

- **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 can transfer loans through securitisation/assignment 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/transfer of loan exposures, 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.

DF-8: Market Risk in Trading Book

Particulars	FY (2022-2023) (30-09-2023)	
	Securitization transactions originated	Assignment Transactions originated
Total number of loan assets securitized	Nil	Nil
Book value of loan assets securitized	Nil	Nil
Sale consideration received for the securitized assets	Nil	Nil
Gain / (Loss) on sale on account of securitization	Nil	Nil
Form of services provided	Nil	Nil
Quantum (outstanding value) of services provided:	Nil	Nil
Cash Collateral (as on 30-09-2023)	Nil	Nil
Over Collateral (as on 30-09-2023)	Nil	Nil
Exposure to own securitization (as on 30-09-2023)	Nil	Nil

(i) Qualitative Disclosure:

a) Policy and Strategy for Market Risk Management

The Bank is exposed to market risk as a part of its activity of trading in securities (i.e. AFS & HFT portfolio), e.g. Fixed Income securities and Mutual Funds and any other product as approved by Investment Policy. Market Risk is managed in accordance with the Board approved Investment Policy, Asset Liability Management and Market Risk Management Policy. These policies cover Market Risk framework of the Bank which includes liquidity risk and Interest rate risk.

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

Reporting

Board of Directors have laid down broad guidelines for ALM & Market Risk 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. and it periodically provides necessary guidance to ALCO. ALCO is responsible for managing the ALM and defining the appetite for undertaking Market Risk.

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, duration limits, stop-loss trigger level limits. These limits are appropriately selected for the relevant portfolios and are monitored on an ongoing basis.

Portfolios covered by Standardized Approach

The Bank has not applied separate capital charge for Market Risk while calculating Capital Adequacy ratio for quarter ending 30th September, 2023 in accordance with the regulatory guidelines for Small Finance Banks.

(ii) Quantitative Disclosures

Capital requirement for:

Particulars	30.09.2023
	(in Rs. Million)
Interest Rate Risk	Nil
Foreign Exchange Risk (including Gold)	Nil
Equity Risk	Nil
Total Market Risk	Nil

Note: The Bank does not currently have exposure to listed equities and foreign exchange positions

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.

(ii) Quantitative Disclosures

Capital requirement for:

The Bank has not applied separate capital charge for Operational Risk while calculating Capital Adequacy ratio for quarter ending 30th September 2023 in accordance with the regulatory guidelines for Small Finance Banks.

Particular	30.09.2023
	<i>(in Rs. Million)</i>
Operational Risk	Nil

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 represents the Bank's exposure to movements in interest rates. Interest rate risk is measured by doing a gap analysis as well as sensitivity analysis to changes in interest rates.

The Bank holds assets, liabilities with different maturities and which may be linked to different benchmark rates, thus creating exposure to unexpected changes in the level of interest rates in such markets. Interest rate risk is measured across the Bank as a whole. This is done through measurement of the sensitivity of the Earnings at Risk (EaR) for a parallel movement in yields by 100 bps over a period of 1 year and the impact of changes in yields on the Market Value of Equity (MVE) for a 200 bps movement in

yields. This is done using duration gap analysis method. Interest Rate Risk is managed in accordance with the Board Approved Asset Liability Management and Market Risk (ALM & MR) Policy, Investment Policy and Limit Management Framework. 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 including 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 trading portfolio and total portfolio are 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 Chief Risk Officer (CRO). The Interest Rate Risk for the Bank is reported to the ALCO.

(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 September 30th, 2023 assuming a parallel shift in the yield curve:

	Changes in Interest Rates	
Currency	-100 basis points	+100 basis points
<i>INR in Million</i>	-194.4	194.4

Liquidity Risk Management

Liquidity Risk Management Liquidity Risk is managed in the following manner:

- Asset Liability Management & Market Risk (ALM & MR) Policy of the Bank specifically deals with liquidity and interest rate risk management.
- As envisaged in the ALM policy, liquidity risk is managed through 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;

- The Bank also computes and monitors the Liquidity Coverage Ratio (LCR) which helps the Bank to estimate fund requirements in the near term.
- Contingency Funding Plan (CFP), approved by the Board sets out a process to manage liquidity in the event of liquidity crunch or a run on the Bank. In the event of a liquidity crisis, the ALCO will be responsible for providing directions for managing the situation. If ALCO is not in a position to be convened at short notice, the Chief Financial Officer (CFO), Chief Risk Officer (CRO) and the Head-Treasury are mandated to evaluate the stage of the crisis and take necessary action.

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 30th September, 2023 calculated in accordance with RBI guidelines is as follows:

Sr No	Particulars	Amount
<i>(in Rs. Million)</i>		
1	Total consolidated assets as per published financial statements	1,08,564
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-1,020
3	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	1,07,544
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)	147
7	Other adjustments	-
8	Leverage ratio exposure	1,07,691

DF-18: Leverage ratio common disclosure template

Sr. No.	Leverage Ratio Framework	Amount
		(in Rs. Million)
On-balance sheet exposures		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	1,08,564
2	Asset amounts deducted in determining Basel II Tier 1 capital	-1,020
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	1,07,544
Derivative 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 exposures		
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	1,464
18	Adjustments for conversion to credit equivalent amounts	1,317
19	Off-balance sheet items (sum of lines 17 and 18)	147
Capital and total exposures		
20	Tier 1 capital	14,485
21	Total exposures (sum of lines 3,11,16 and 19)	1,07,691

22	Basel III leverage ratio	13.45%
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Action Required from the Committee: The note is submitted for Committee review and noting purpose.

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