# Suryoday Small Finance Bank Ltd

## Pillar III Disclosure : 31.12.2019

**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.

**DF-2: Capital Structure**

**I. 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 fluctuation reserve, general provisions & loss reserves.

**DF-3: Capital Adequacy**

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, Standardized Duration Approach for Market Risk and Basic Indicator Approach for Operational Risk while computing its Capital Adequacy Ratio (CAR).

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

As on Dec 21, 2019, total CAR of the Bank stood at 29.22% and Tier I ratio of the Bank stood at 28.39% well above regulatory requirement of 15% and 6% respectively.

**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

**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.

**Capital requirements for various risks**

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

| | | (Rs. In Million) |
|---|---|---|
| **SN** | **Particulars** | **31.12.2019** |
| **(a)** | Capital requirements for Credit risk: | |
| | - Portfolios subject to standardized approach | 3,953 |
| | - Securitization exposures | 6 |
| **(b)** | Capital requirements for Market risk: | |
| | Standardized duration approach | |
| | - Interest rate risk | 190 |
| | - Foreign exchange risk (including gold) | - |
| | - Equity risk | - |
| **(C)** | Capital requirements for Operational risk: | |
| | - Basic indicator approach | 701 |

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

| Ratios | 31.12.2019 |
|---|---|
| Capital Adequacy Ratios | |
| - Total Capital Adequacy Ratio (%) | 29.22% |
| - Tier -1 Capital Adequacy Ratio (%) | 28.39% |
| - Common Equity Tier - 1 Capital Adequacy Ratio (%) | 28.39% |

**DF-4: Credit Risk: General Disclosures**

"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 regards 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, 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 appraisal memorandum that takes into account business and financial risks of the proposal. The Bank has 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 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 performs 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 Board approved 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 documents the efforts made for the recovery of dues and relevant stakeholders are kept informed.
- The repayment record of borrowers is monitored both with regards 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, communications are communicated to regularise their accounts. In case the loan is secured by a guarantee (personal or corporate), steps are taken to recover dues from the guarantor.
- The Bank may use any of the following broad methods for management of problem accounts on case to case basis as it deems fit:
  - Restructuring or rephasement or rehabilitation, which ever is suitable for the case
  - Exit strategy
  - Settlements / compromise
  - Sell down Asset Reconstruction Company (ARC) / other entities
  - Invocation of SARFAESI
  - Legal Action & recovery

**a) 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) for a period of 90 days,
- 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.

**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.

**Quantitative Disclosures**

**1. Total gross credit risk exposures*, Fund based and Non-fund** based separately:**

(Rs. Million)

| Category | Credit Exposure |
|---|---|
| **Fund Based** | |
| Gross Advances | 34,414 |
| Investment | 3,984 |
| All other Assets | 3,053 |
| **Non - Fund Based** | 791 |
| **Total** | **42,242** |

*Represents book value as on 31st December 2019
** Credit Equivalent Amount

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

(Rs. Million)

| Category | 31.12.2019 | | |
|---|---|---|---|
| | Domestic | Overseas | Total |
| Fund Based | 41,451 | - | 41,451 |
| Non - Fund Based | 791 | - | 791 |
| **Total** | **42,242** | - | **42,242** |

*Represents book value as on 31st December 2019
** Credit Equivalent Amount

**3. Residual contractual maturity breakdown of assets (on-balance sheet) as at Dec 31, 2019:**

(Rs. In Million)

| Maturity bucket | Cash, balances with RBI and other banks | Investments | Loans & Advances | Other assets including Fixed Assets | Total |
|---|---|---|---|---|---|
| Day 1 | 287 | 3,930 | 204 | 233 | 4,654 |
| 2 to 7 days | 24 | 179 | 463 | 135 | 800 |
| 8 to 14 days | 410 | 78 | 582 | 195 | 1,265 |
| 15 to 30 days | 222 | 416 | 866 | 123 | 1,627 |
| 31 days to 2 months | 280 | 125 | 1,987 | 25 | 2,416 |
| 2 months to 3 months | 28 | 949 | 2,055 | 2 | 3,034 |
| 3 months to 6 months | 81 | 409 | 5,828 | 37 | 6,355 |
| 6 months to 1 year | 63 | 468 | 8,960 | 5 | 9,495 |
| 1 Year to 3 years | 416 | 2,296 | 10,080 | 111 | 12,902 |
| 3 Years to 5 years | 12 | 78 | 1,259 | 61 | 1,410 |
| Over 5 years | 3 | 1 | 1,700 | 603 | 2,308 |
| **Total** | **1,825** | **8,928** | **33,985** | **1,529** | **46,267** |

**4.Asset Quality**

- **NPA Ratios**

(Rs. In Million)

| Particulars | 31.12.2019 |
|---|---|
| Gross NPAs to gross advances | 2.78% |
| Net NPAs to net advances (Before Floating Provision) | 1.55% |
| Net NPAs to net advances | 0.52% |

- **Net NPAs**

(Rs. In Million)

| Particulars | 31.12.2019 |
|---|---|
| Gross NPAs | 956 |
| Less: Provisions | 429 |
| Net NPAs before floating provision | 527 |
| Less: Floating Provisions | 350 |
| Net NPAs | 177 |

- **Classification of gross NPAs**

(Rs. In Million)

| Particulars | 31.12.2019 |
|---|---|
| Sub-standard | 852 |
| Doubtful | |
| ▪ Doubtful 1 | 96 |
| ▪ Doubtful 2 | 7 |
| ▪ Doubtful 3 | - |
| Loss | |
| **Total Gross NPAs** | **956** |

- **Movement of Gross NPAs**

(Rs. In Million)

| Particulars | 30.09.2019 |
|---|---|
| Opening balance as on 01.04.2019 | 496 |
| Additions during the year | 876 |
| Recoveries | 76 |
| Upgradation | 20 |
| Write offs | 320 |
| **Closing balance** | **956** |

- **Movement of Provisions for NPAs**

(Rs. In Million)

| Particulars | 31.12.2019 | | |
|---|---|---|---|
| | **NPA Provision** | **Floating Provision** | **Total** |
| Opening balance as on 01.04.2019 | 287 | 323 | 610 |
| Provisions made during the year | 490 | 53 | 543 |
| Any other adjustment, including transfer between provisions | - | - | - |
| Write-back of excess provisions (including Write off – Technical and Actual) | 348 | - | 348 |
| **Closing balance** | **429** | **376** | **805** |

**5. Non-performing Investment**

(Rs. In Million)

| Particulars | 31.12.2019 |
|---|---|
| Gross Non-Performing Investment | Nil |
| Less: Provisions | Nil |
| Net Non-Performing Investment | Nil |

- **Provision for depreciation on Investment**

(Rs. In Million)

| Particulars | 31.12.2019 |
|---|---|
| Opening balance as on 01.04.2019 | Nil |
| Provisions made during the year | 15 |
| Write-Off | Nil |
| Any other adjustment, including transfer between provisions | Nil |
| Write-back of excess provisions | Nil |
| **Closing balance** | **15** |

- **Provision for Standard Asset**

(Rs. In Million)

| Particulars | 30.09.2019 |
|---|---|
| Opening balance as on 01.04.2019 | 74 |
| Provision made during the year | 25 |
| Any other adjustment, including transfer between provisions | - |
| **Closing balance** | 99 |

- **Geographic Distribution**

(Rs. In Million)

| Category | 31.12.2019 | | |
|---|---|---|---|
| | Domestic | Overseas | Total |
| Gross NPA | 956 | - | 956 |
| Provision for NPA | 429 | - | 429 |
| Floating Provisions | 376 | - | 376 |
| Provision for Standard Assets | 99 | - | 99 |

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

**Ratings used under Standardized Approach**:

The Bank reckons external ratings for risk weighting purposes, if the external rating assessment complies with the guidelines stipulated by RBI.

The Bank uses ratings assigned by RBI approved Eligible Credit Assessment Institutions (ECAI) for domestic counterparties.

**Quantitative Disclosures**

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

(Rs. In Million)

| Particulars | 31.12.2019 |
|---|---|
| - At 0% risk weight | 4,992 |
| - Greater than 0% below 100% risk weight | 31,119 |
| - 100% risk weight | 3,875 |
| - More than 100% risk weight | 243 |
| - Deducted (Intangible Assets and Deferred Tax Assets) | 291 |

**LEVERAGE RATIO**

- Leverage ratio common disclosure as of December 31, 2019

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 30$^{th}$ Sept 2019 calculated in accordance with RBI guidelines is as follows:

(Rs. In Million)

| | |
|---|---|
| Tier-1 capital (A) | 9,168 |
| Exposure measure (B) | 46,287 |
| **Leverage ratio (A/B)** | **19.81%** |

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