



Basel Pillar 3 Disclosures as on 31-12-2022

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I. Disclosure Framework (DF) – 1

Scope of Application

The framework of disclosures applies to SSFB. The Bank does not have any subsidiary nor does it have any interest in any insurance entity. All the information in this document is made as a standalone entity.

II. Capital Adequacy Framework and Capital Structure (DF)– 2

1) Qualitative Disclosure:

The Bank is subject to the capital adequacy framework as per the “Operating Guidelines for Small Finance Bank” from Reserve of India (RBI). As per capital adequacy framework, the Bank is required to maintain a minimum Capital to Risk Weighted Assets (CRAR) of 15% with minimum Tier I capital as 7.5%. As of now, capital conservation buffer and counter cyclical buffer are not applicable for Small Finance Banks (SFBs).

For the purpose of capital adequacy, only credit risk is covered since there is no separate capital charge prescribed for market risk and operational risk as per the direction of RBI. For computation of capital for credit risk of SFBs, RBI has prescribed Basel II Standardized Approach and has permitted the use of external rating-based risk weights for rated exposure and regulatory retail approach for small retail loans.

For better assessment of the capital, the Bank is having Internal Capital Assessment Process (ICAAP) with Simplified Approach, considering its nature, scope, geographic spread, complexity and quantum of operations. Our risk management practices are in line with the required degree of supervision for a Small Finance Bank.

The Bank’s ICAAP focuses to ensure that the Bank has sufficient capital to support all the risks inherent to its business and an adequate capital buffer based on the business profile to cover future unforeseen risks upto a certain degree. The change in the level of credit risk, market risk and interest rate risk along with the changes in on- balance sheet and off-balance sheet exposures are assessed under different stress scenarios by the Bank to have better assessment of the capital requirement.

Quantitative Disclosure

Capital required for Credit Risk given below is arrived at after multiplying the risk-weighted assets by 15%.

(₹ in Lakhs)

Sr. no.	Particulars	Amount as on 31 Dec 2022
(b)	Capital Requirement for Credit Risk:	
	Portfolios subject to Standardized Approach	11,327.14
	Securitization exposures	-
(c)	Capital Requirement for Market Risk:	
	i) Interest Rate Risk	NIL
	ii) Foreign exchange Risk (including Gold)	NIL
	iii) Equity Risk	NIL
(d)	Capital Requirement for Operational Risk:	
	Basic Indicator Approach	Not Applicable
(e)	Total Capital Requirement (b+c+d)	11,327.14
(f)	Total Risk Weighted Assets	75,514.30
(g)	Total Capital Fund	19,727.17
(h)	Capital Adequacy Ratio	
	Common Equity Tier-1	21.02%
	Tier-1	21.02%
	Tier-2	5.10%
(i)	Total CRAR	26.12%

2) Risk Exposure and Assessment

The Bank is exposed to certain broad risks, which are been monitored and mitigated on an ongoing basis. Credit Risk, Operational Risk, Information Security and Market & Liquidity Risk are the Risks which are been monitored based on Board Approved policies of the Bank which are reviewed at annual intervals or based on certain key ad hoc changes in between the annual frequency.

Risk Governance Model

The Bank has developed a system to manage & control various risks across the business verticals. Under this model, Business Verticals are made aware of the level of Risk to be taken, management of these Risks and taking Bankable risks. Risk Department of the Bank have a well-defined policy framework, which makes the analysis impactful for monitoring, and reporting standardized. Internal Audit team also provide an impartial assessment of

the process followed by all departments including Risk department under the Risk Control Self-Assessment exercise.

RBI Guidelines on Basel III Capital Regulations have been implemented and the Bank is adequately capitalized as per the current requirements under Basel III. An independent Risk Governance Structure, in line with best practices, has been put in place, in the context of segregation of duties and ensuring independence of Risk Measurement, Monitoring and Control functions.

Risk Governance Framework

The Bank has well defined and approved reporting structure of Risk related agenda items to the Bank' Board. The structure is as under: -

The organizational structure for Credit Risk Management is as follows:

- i. **Board of Directors**- the Board of Directors ("the Board") is the ultimate authority in the Bank to lay down the policies. The Board can however form committees to oversee the risk management processes, procedures and systems in the Bank.
- ii. **Risk Management Committee of Board (RMC)**- The Risk Management Committee of the Board will be a Board level sub-committee including MD & CEO. The primary role of the Committee is to report to the Board and provide appropriate advice and recommendations on matters relevant to Risk.

Management. The Role of RMC is enlisted as under: -

- Overseeing Credit Risk Management and obtaining assurance that the principal credit risks facing the Bank have been identified and are being appropriately managed.
- Approving and periodic review of the Bank's overall risk appetite and setting limits for individual risks as credit, market, operational and liquidity, before submission to the Board.
- Approving credit risk management and measurement policies and guidelines before submission to the Board.
- Determining prudential limits for individual, group, portfolio, or other exposures of the Bank, Within the ceilings fixed by RBI and the Board.
- Monitoring the Bank's risk profile, including risk trends and concentrations, loan impairment experience and key performance indicators for risk.
- Approval of new Credit Risk Assessment (CRA) system and classification as acceptable and unacceptable category and periodic changes needed to such classification.

- Assessing effectiveness and performance of rating system validation and approving the results before model is put to use or a part of model validation exercise.
 - Reviewing industry/sector/portfolio view of the Bank.
 - Approving product-pricing strategy for advances.
 - Ensuring balance sheet and capital adequacy management with due regard to various risks impacting the balance sheet.
 - Reviewing and approving the Internal Capital Adequacy Assessment Process (ICAAP) document at least on a yearly basis.
 - Deciding appropriate MIS system and framework for risk management.
 - Approve credit risk limits at the Bank level for various portfolios such as industry, product, geography, risk types etc., which include approval of material changes to credit risk limits.
 - Discuss the findings of the Audit Committee of the Board (ACB) and issue directions for corrective Actions.
 - Approve results of credit risk stress tests.
 - Identification, evaluation and mitigation of all the risks applicable to the Bank, including operational risk.
 - Approving the Operational Risk policies and proposed framework modifications and recommending it to the Board.
 - Overseeing the activities, annual review and independent reviews of the ORMC.
 - Ensuring coverage of Internal Audit oversight over implementation.
 - Ensure that adequate policies are in place to manage and mitigate Market Risk.
 - Evaluate the adequacy of the Bank's Market Risk management systems with management, internal and external auditors and ensure adherence to Regulatory guidelines.
- iii. **Audit Committee of the Board-** Audit shall provide an independent assurance to the Board through Audit Committee on the effectiveness of implementation of risk management framework, including the overall adequacy of the internal control system and the risk control function and compliance with internal policies and procedures.

Responsibilities of the Internal Audit Department include:

- Annual review of the processes and controls related to rating system design and operations.
- Review on an annual basis that validation processes are implemented as designed, validations are conducted in a timely and effective manner, model inventory and documentation standards are accurate and complete.

- Review the Bank's compliance with RBI guidelines and established risk related policies and Procedures.
 - Review of individual loan accounts on a sample basis based on the defined sampling process.
 - Review the adequacy of the IT infrastructure and data maintenance. For portfolios where statistical models are being used, conduct tests in order to check data input processes.
 - Provide notice to RMC through the Audit Committee of the Board of any material deviations from established policies which may impact Bank's rating system or processes; and verify that details with respect to collateral and credit risk mitigants have been captured in the Bank's systems.
- iv. **Risk Management Committee (RMC) of the Executives:** Specific responsibilities of the Risk Management Committee are to:
- Ensure implementation of credit risk management policy and strategy approved by the Board.
 - Monitor quality of loan portfolio at periodical intervals, identifying problem areas and issuing directions for rectifying deficiencies.
 - Monitor credit risk on a bank wide region wise basis and ensuring compliance with the approved risk parameters/ prudential limits and monitor risk concentrations.
 - Report any credit risk issues brought to its notice to the Risk Management Committee / Board.
 - Incorporate regulatory compliance in Bank's policies and guidelines in regard to credit risk.
 - Review and approve the use of internal risk rating for the eligible accounts for business and risk management purposes and placing before RMC.
 - Review all rating validation results to assess efficacy and effectiveness of model performance and placing recommendations before RMC.
 - Review and approve the credit risk stress testing scenarios, results and analysis.
- v. **Asset Liability Management Committee (ALCO):** Specific responsibilities of the Asset Liability Management Committee are to:
- Evaluate internal processes for identifying, assessing, monitoring and managing Market Risk.
 - Design and implement the bank's market risk management system.
 - Review Market risk policy and procedures on a periodic basis and report to the Risk Management Committee for approval.

- Monitor adherence to limits prescribed in the market risk policy and report any modifications required in the existing limits to the Risk Management Committee for approval.
- Ratification of exceptions to Market Risk Limits.
- Approve the Hedging Strategy, whenever the bank takes an open position.
- Regularly the investment portfolio.

III. Credit Risk: General Disclosures DF – 3

1. Qualitative Disclosure:

Credit Risk is defined as the possibility of losses due to outright default due to the inability or unwillingness of a customer or counterparties to meet commitments in relation to lending, trading, settlement and other financial transactions. In addition, reduction in portfolio value arising from actual or perceived deterioration in credit quality of borrowers or counterparties. Credit risk emanates from a bank's dealings with an Individual, Non-Corporate, Corporate, Bank, Financial Institution or a Sovereign. Past Due contracts are those which have missed to pay the scheduled payment on the given due date. Impaired accounts are those, which have not paid three consecutive EMIs or are irregular for period of more than 90 days or in running account facility three months interest is not serviced consecutively.

The Credit Risk Management Committee at the management level proactively assess portfolio quality, prudential limits and inherent risks. It also frames policies and sets limits to mitigate identified risk. Governance control is vested with the Risk Management Committee (RMC) of the Board, which monitors and provides guidance on the risk assessment and capital adequacy as well as ensures timely and effective implementation of policies. Policies such as the credit risk management policy, investment policy, credit risk policy, product specific credit policies, NPA policy and collection policy are defined to effectively manage credit risk.

A non-performing asset (NPA) is a loan or an advance which falls under any of the following category:

- 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 bill / cheques purchased remains overdue for a period of more than 90 days in the case of bills/ cheques 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 securitization transaction undertaken in terms of the directions issued by RBI.
- 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.
- In case of interest payments, banks shall, classify an account as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter.

Credit Risk Management Department (CRMD) shall present progress reports to the CRMC/ Board on implementation of Credit Risk Management guidelines of the Bank and also reports which are required to be submitted to the regulator on the stipulated intervals. The CRMD shall be responsible for identification, assessment, quantification, and aggregation of credit risks embedded in business operations of the Bank and shall be responsible for formulation, evaluation, and improvement of risk management /control / mitigation tools in the Bank.

The broad functions of the Credit Risk Management Department would be as follows:

- Measure, control and manage credit risk on a Bank-wide/ Zone-wise/ Product wise basis within the limits set by the Board / CRMC.
- Monitor quality of loan portfolio, identify problems and correct deficiencies.
- Undertake portfolio evaluations and comprehensive studies on the environment to test the resilience of the loan portfolio to protect the quality of loan portfolio.
- Compute and analyse the RWA and credit risk capital computation results and apprise the same to CRMC.
- Enforce compliance with the risk parameters and prudential limits set by the Board / RMC / CRMC.
- Review and document changes to the credit scoring process and criteria, including rationale for their changes. Reviewing the scoring criteria to ensure that they remain predictive of risk.
- CRMD shall be responsible for collection of data required for model development and credit risk capital calculation.
- Lay down risk assessment processes; develop MIS for reporting to senior management.
- Documenting changes to the rating process, criteria or individual rating parameters and retained for RBI to review.
- Undertake Stress testing of portfolios and provide inputs for ICAAP.

2. Quantitative Disclosure:

a) Total Gross Credit Risk Exposure by Facility as on 31-12-2022:

Facility Type	Credit Exposure (₹ in Crores)
Fund Based	1,297.85
Non-Fund Based	3.30
Total	1,301.15

b) Total Gross Credit Risk Exposure by Geography:

Category	(₹ in Crores)		
	Fund Based	Non-Fund Based	Total Credit Exposure
Domestic	1,297.85	3.30	1,301.15
Overseas	NIL	NIL	NIL
Total	1,297.85	3.30	1,301.15

c) Residual Contractual Maturity Breakdown of Assets:

Particulars	Amount as on 31 Dec 2022 (₹ in crore)					
	Loans & Advances (INR)*	Investments (INR)	Deposits (INR)	Borrowings (INR)**	Foreign currency Assets	Foreign currency Liabilities
1 day	15.03	193.81	27.27	38.27	NIL	NIL
2 to 7 days	18.77	27.27	62.60	0.00	NIL	NIL
8 to 14 days	32.44	7.64	34.29	0.00	NIL	NIL
15 to 30 Days	52.64	44.80	67.59	0.00	NIL	NIL
31 Days to 2 months	56.20	17.11	58.69	10.00	NIL	NIL
Over 2 months to 3 months	79.24	11.28	75.91	37.29	NIL	NIL
Over 3 months to 6 months	205.05	23.13	161.55	14.50	NIL	NIL
Over 6 months to 1 year	255.75	69.49	329.29	29.00	NIL	NIL
Over 1 year to 3 years	314.87	150.19	935.11	62.06	NIL	NIL
Over 3 years to 5 years	104.56	2.66	7.74	0.00	NIL	NIL
Over 5 years	123.77	4.28	1.53	30.00	NIL	NIL
Total	1,258.30	551.66	1,761.58	221.12	NIL	NIL

Classifications of Non-Performing Assets & Provisioning

Advances are classified as Performing Assets (Standard) and Non-performing Assets (NPAs) in accordance with the RBI guidelines on Income Recognition and Asset Classification (IRAC). Further, NPAs are classified into sub-standard, doubtful and loss assets based on the criteria stipulated by RBI. The advances are stated net of specific provisions made towards NPAs, unrealized interest on NPAs, if any etc. Interest on NPAs is transferred to an interest suspense account and not recognized in the Profit and Loss Account until received.

Provision for non-performing advances comprising Sub-standard, Doubtful and Loss Assets is made at a minimum in accordance with the RBI guidelines. In addition, specific loan loss provisions in respect of non-performing assets are made based on management's assessment and estimates of the degree of impairment of advances, based on past experience, evaluation of security and other related factors, the nature of product and delinquency levels. Loan loss provisions in respect of non-performing advances are charged to the Profit and Loss Account and included under Provisions and Contingencies.

Position of Non-performing Assets (NPA):

(₹ in Crores)	
Particulars	Amount as on 31 Dec 2022
Gross Advances	1,297.85
Net Advances	1,258.30
Gross NPA	39.55
Sub-standard	20.32
Doubtful 1	9.64
Doubtful 2	3.43
Doubtful 3	3.97
Loss	2.18
NPA Provision	17.28
Floating Provision	
Net NPA	22.27
Gross NPA to Gross Advances (%)	3.05%
Net NPA to Net Advances (%)	1.77%

Movement of Non-performing Assets (NPA Gross):

(₹ in Crores)

Particulars	Amount as on 31 Dec 2022
Opening Balances (As on 1st Oct 2022)	42.33
Additions	0.00
Write Offs	0.00
Reductions	2.78
Closing Balances	39.55

Movement of NPA Provisions:

Particulars	Amount as on 31 Dec 2022
Opening Balances (As on 1st Oct 2022)	16.86
Add: Provisions made during the period	0.42
Less: Write offs	0.00
Less: Write Back of excess provision	0
Closing Balances	17.28

Movement of provisions for depreciation on investments:

Particulars	Amount as on 31 Dec 2022
Opening Balance (As on 1st Oct 2022)	0.00
Add: Provisions made during the period	0.00
Less: Write offs	0.00
Less: Write Back of excess provision	0.00
Closing Balance	0.00

IV. Credit Risk- Disclosures for Portfolios Subject to Standardized Approach DF-4

In line with the RBI licensing guidelines on Small Finance Banks, Bank ensures that at least 50 per cent of its loan portfolio constitutes loans and advances of Upto ₹25 lakh.

The Bank has used the Standardized Approach under the RBI's Basel capital regulations for its credit Portfolio.

Category	Amount as on 31 Dec 2022
Below 100% Risk Weight	55,507.97
100% Risk Weight	18,131.42
More than 100% Risk Weight	1874.91
Closing Balance	75,514.30