



SURYODAY

A BANK OF SMILES

Building Strong Foundations

10TH ANNUAL REPORT | 2017-18

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Character is the firm foundation stone upon which one must build to win respect. Just as no worthy building can be erected on a weak foundation, so no lasting reputation worthy of respect can be built on a weak character.

R. C. Samuel

Building
Strong Foundations



10,00,000 SMILES

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BOARD OF DIRECTORS

Dr. (Mrs.) Sheela Bhide, Chairperson
Mr. R. Ramachandran
Mr. Mruntunjay Sahoo
Mr. Jyotin Mehta
Mr. Arun Diaz
Mr. Venkatesh Natarajan
Mr. R. Baskar Babu, MD & CEO

STATUTORY AUDITORS

BSR & ASSOCIATES, LLP
Chartered Accountants

REGISTERED OFFICE

1101, Sharda Terraces, Plot No. 65,
Sector 11, CBD Belapur,
Navi Mumbai – 400 614
Tel: +91 91 22 40435800
Website: www.suryodaybank.com

CORPORATE IDENTIFICATION NUMBER [CIN]

U65923MH2008PLC261472

REGISTRAR & TRANSFER AGENT (RTA)

Karvy Computershare Private Limited
Karvy Selenium, Tower- B, Plot No 31 & 32,
Financial district, Nanakramguda,
Serilingampally Mandal,
Hyderabad, 500032, India.
Tel: 040-67161500/ 040-2331 2454
Fax: 040-2331 1968
Email: einward.ris@karvy.com / support@karvy.com



Having serviced over a million customers as a microfinance institution, now, as a Bank, we are in a stronger position to deliver a true and a wholesome financial inclusion.

Dear Members,

This year we completed a decade of enabling our customers build sustainable livelihood. Even as the journey so far has been quite eventful, the inflection came during this financial year. This year, we completed one full year as a Small Finance Bank at the end of which, we had a total of 215 doorstep centres and 26 Bank branches operational across seven States. Having serviced over a million customers as a microfinance institution, now, as a Bank, we are in a stronger position to deliver a true and a wholesome financial inclusion. We have spent the last one year putting some of the building blocks in place – products that serve our chosen customer segments, mobile and net banking service, a fully functional call center, doorstep service to our customers with whom we have had a long-standing relationship and more importantly, an experienced team which shares the same values. We are now a team of over 3000 employees that is quite passionate about building a world class institution.

During the FY 2018-19, we prepare ourselves for delivering our value proposition – bring banking to the unbanked and under-banked, delivering products and services which are meaningful to them and help them in creating wealth. Towards this objective, we endeavour to build on these pillars of delivery:

Digital Inclusion

To introduce banking to this segment, it is essential to build scalable yet low cost models. Considering the access to technology available with them, the design of our products and processes must be kept simple – both for our customers as well as for our employees engaged in delivering that experience. Therefore, the focus will be to look within and digitise most of our processes internally and externally.

Deepening Customer Relationship

Becoming a Bank gives us the unique opportunity to bring banking to over a million of our existing customers. Together with doorstep service and digital platform, the intention this year is to deepen our customer relationship and offer the full suite of banking products to our customers. We will be converting all our 215 Inclusive Branch outlets into banking outlets.

Robust Risk Management; Good Governance and Compliance

Needless to say, the process of transitioning from a microfinance institution to a Bank is quite challenging. While one big challenge we face as a new and a Small Finance Bank is discovering what our challenges are, we are focussed on building a strong compliance culture, both in letter and spirit.

We have spent a significant part of the last year in building robust risk management across products, functions and processes and will continue to further build upon this.

Culture

“Culture eats strategy for breakfast” – Peter F. Drucker.

A performance culture which drives innovation, responsiveness and simplicity is the bedrock of Suryoday. A continued investment into training and developing people will help us deliver a differentiated experience to our customers in a dynamic and a competitive space. True to our tagline, “A Bank of Smiles”, our mission remains quite simple – build a motivated team delivering banking to the unbanked and under-banked backed by compliant and robust processes.

We are ever grateful to our valued investors, customers, employees and other stakeholders. Every significant achievement thus far is a reflection of your trust in us. Your steadfastness has not only helped us grow in strength but also has given us the confidence to move forward and strive to achieve the dreams.

We look forward to your continued support in building a world class financial services organization..

R. Baskar Babu

MD & CEO

A performance culture which drives innovation, responsiveness and simplicity is the bedrock of Suryoday.

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FINANCIAL INCLUSION, CSR & CUSTOMER EXPERIENCE

Building
Strong Foundations



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Financial inclusion as a new socio-economic dynamic is emerging as a new paradigm of economic growth for India.

An inclusive financial ecosystem is quintessential to the social contract. It surmounts both physical and, more importantly, psychological barriers, and helps achieve sustainable economic growth.

In the current era, a significant revolution has been happening in the country. Financial inclusion as a socio-economic dynamic is emerging as a new paradigm of economic growth for India. It refers to the delivery of banking services to the masses including the disadvantaged people at affordable terms and conditions.

It is gratifying that our policymakers have seized this imperative and have been working along multiple avenues to address this. Appropriate frameworks have been, and are being, designed. And, complementing the focused efforts of the government, the Reserve Bank of India (RBI) is propagating financial literacy, which lends sustainability to the inclusion process. Government of India landmark schemes including Pradhan Mantri Jan Dhan Yojana (PMJDY), Pradhan Mantri Jeevan Jyoti Yojana (PMJJBY), Pradhan Mantri Suraksha Bima Yojana (PMSBY), Sukanya Samridhi Yojana (SSY) and Atal Pension Yojana (APY) looks at providing a holistic financial coverage for low income households and has tremendous potential to impact lives of the unbanked and under-banked. Approval of differentiated banks including Small Finance & Payment Banks as well as approval of revised guidelines on 'Business Correspondents' are ushering reforms aimed at increasing access and quality of services to the unbanked & under-banked segment. Various digital initiatives such as Aadhaar & emphasis on cash-less economy would be game changers in the long run.

The objective of Small Finance Banks is the provision of savings and credit to unserved and under-served sections of the society. These include small business units, small and marginal farmers, micro and small industries and other unorganised sector entities. Endeavour of small finance banks would be to provide access and services by leveraging technology and lowering cost of operations. Traditionally banks have not lent to these entities as they lack credit information, collateral or have had absence of financial history. Small Finance banks are primarily meant to cater to these marginalised groups who have been kept out of the system of the formal sources of finance.

Suryoday Small Finance Bank is a new entrant to the Indian banking industry but not financial inclusion. We started in 2008 as a micro finance institution with a vision of "enabling dreams and empowering lives" of the under-served and the under-banked. We have been at the helm of financial inclusion and have traversed a decade on the path of building financial capabilities for the said segment. We have done so keeping simplicity and customer centricity at the heart of our operations, at the same time adhering to highest standards of compliance and governance.

Through technology enabled processes built on customer insights, we are set to create holistic financial services for our customers. We have designed simple savings account product which are easy for customers to understand and operate, Recurring deposits that allow customers to save small amounts every month. The government insurance schemes like PMJJBY and PMBSY are offered to customers to strengthen their resilience in case of unfortunate events at household level. We have worked closely with an insurance provider to design medical insurance specially for our customers.



We are committed to build a supportive ecosystem to enhance financial inclusion. Our micro credit customers need not visit our branches. Realising that the customer might be busy in economic activities at her home, we have enabled TAB banking where the bank's staff visits the customers at their place and carries out basic banking services such as account opening, cash deposit, EMI payment etc. We are leveraging technology for enhancing customer experience. Our Financial Literacy programmes are aimed at building financial discipline and capabilities for the customers.

Going forward our future is full of opportunities and excitement. Furthering the financial inclusion is our core agenda and we are adding new segments and new products. We are introducing a whole lot of products focussed on the traditionally excluded segments. Traditionally microfinance institutions have focussed on customers within the Rs. 1 lakh income segment and women borrowers. There remains a "missing middle" segment in the income range between the Rs. 1 lakh to Rs. 10 lakhs which is a tremendous potential to be served. Our new products focus on this segment thus enabling them to access formal sources of credit and other banking services. We have diversified into other lending activities such as affordable housing and loans against properties. Our commercial vehicle loans enable small entrepreneurs give wing to their dreams by having a vehicle of their own.

We endeavour to meet the varying financial needs of our customers at every stage of their lives. We offer group loans, individual loans, small business loans, housing loans, personal loans, insurance, investments, deposits and the full suite of banking products. We offer attractive rates on deposits and savings and are probably the first to credit interest on savings accounts on a monthly basis. This is just the beginning. We will continue to innovate and better our offerings backed by strong client insights and analytics to proactively meet the life cycle needs of our customers.

Our endeavour is to consistently deliver an unparalleled banking experience to our customers through simple processes, right products and best in class customer service.

Corporate Social Responsibility

The World Bank and the International Monetary Fund project India to be the world's fastest growing large economy for the next decade. In terms of purchasing power parity, it already is the third largest economy in the world. While these statistics may appear impressive at first glance, as a nation, we are still solving for complex socioeconomic challenges - poverty, income inequality, human rights violations and gaps in delivery of basic needs in healthcare, education and nutrition.

In 2013, the government of India passed Section 135, mandating companies with a certain turnover to spend 2% of their average profit for the past three years on corporate social responsibility (CSR). Driving the passage of the law was the intent to have the country's businesses actively participate in the social development of the country.

Five years have passed since the law came into effect and CSR has emerged as an active participant in shaping India's development history: while India surges forward economically on one hand, it also confronts developmental challenges that affect the length and breadth of the country. For a country of 1.3 billion, out of which approximately 23% live below the poverty line, urgency marks the need.

Suryoday Small Finance Bank has been at the helm of financial inclusion since 2008. As a microfinance institution in its earlier avatar, it was able to create an outreach of over 7 lakh micro borrowers. As a responsible lender, it has always deemed financial literacy important. The bank's Corporate social responsibility (CSR) initiatives are majorly focused on financial literacy initiatives. Infact, over the period of time the programs have been strengthened to keep pace with central government initiatives such as Jan Dhan, Aadhaar and Mobile (JAM) framework and digital financial literacy drives.

Financial Literacy Programs

Financial literacy is a key step toward achieving full financial inclusion. Our financial literacy programs aim to educate women from low-income households to improve their ability to manage their personal and household finances and empowers them to become informed consumers of financial services. The financial literacy programs cover financial planning, cash flow and budgeting, savings, debt, insurance, investment and banking. We have adequately captured the recent developments in the payment space in the country through our digital financial literacy modules. The training programs are adapted keeping the audience in mind and are delivered in vernacular languages

In FY 18, 3500 plus programs were conducted covering 65000 plus beneficiaries on various aspects of financial literacy.

The bank also conducts financial literacy programs through its URC branches (Unbanked Rural Centers)

Apart from Financial Literacy Programs, the bank's CSR teams also focusses on preventive health camps. The team conducted 241 health camps and more than 25000 community members benefitted from these camps.

One of the initiatives with local communities on environmental protection is planting of tree saplings. Younger members of the communities are encouraged to participate in such activities. This year close to 3000 saplings were planted.

This year also marked celebrations of Financial Literacy Week – an initiative by RBI, Children's day, Women's Day, World Environment day and Global Handwashing day along with members of community.





Up until 2016, as a microfinance institution, Suryoday catered exclusively to the Inclusive Finance segment. Thereafter, the conversion to a Small Finance Bank added a new dimension to our business, along with the addition of large number of retail banking customers across our 26 branches. Whether Inclusive Finance or Retail Banking, we at Suryoday believe in putting our customer's needs and wants at the centre of our business strategy.

At Suryoday we truly believe that Customer Experience is going to be the key differentiator. Customer experience goes to the heart of how we think and manage our business and our relationship with the customer. It is about how we design our products and how we build our internal systems and processes, how we deliver our offerings and finally how we service our customers. We also emphasise on building a long-term relationship with customers based on trust and fair practices, ensuring the customer only buys products and services he or she requires, in a simple and transparent manner. Great customer interaction transcends experience and becomes a memory, which clients associate with a brand. If we are able to provide each customer of Suryoday a worthwhile experience that translates into a happy memory, we have the potential to turn our customers into brand ambassadors.

Our focus is creating an omnichannel, seamless, positive and consistent customer experience at every point of sale, through the call center, website, netbanking, mobile banking and via all communications, including sms, email etc., leveraging digital technology wherever we can. We aim to deliver consistent level of service, benefits and customer care to each segment of the customer base. In designing the website and mobile app, our core objective was to make it convenient, multifunctional, intuitive and easy to use with just a few taps or clicks.

Customer Experience is a way of life at Suryoday. It is the core of everything we do internally and externally, living up to our promise of being A Bank of Smiles!



From left to right: Mr. Jyotin Mehta, Mr. Venkatesh Natarajan, Mr. R. Baskar Babu, Dr. (Mrs.) Sheela Bhide, Mr. R. Ramachandran, Mr. Mrutyunjay Sahoo, Mr. Arun Diaz

Dr. Mrs. Sheela Bhide (Chairperson - Independent Director)

Served as IAS officer with the Govt. of India for 36 years across Ministry of External Affairs, Ministry of Defence & Ministry of Corporate Affairs, Ex-Chairman and Managing Director, ITPO.

Mr. R. Ramachandran (Independent Director)

Over 35 years of experience in the banking industry. Ex-Chairman & Managing Director - Andhra Bank. Ex-Executive Director - Syndicate Bank, Ex-Director - SIDBI.

Mr. Mrutyunjay Sahoo (Independent Director)

Ex-Special Chief Secretary to the Government of Andhra Pradesh. Ex-Director as government nominee in Navratna and Miniratna PSUs.

Mr. Jyotin Mehta (Independent Director)

Finance and Compliance professional with over 36 years of experience. Ex-General Manager and Company Secretary of ICICI Bank Ltd. Retired Chief Internal Auditor of Voltas Limited.

Mr. Arun Diaz (Nominee Director)

An Entrepreneur / Consultant and also Trustee/Member of the Investment Committee of Aavishkaar Goodwill. Earlier he was Head of Reuters Consulting for South Asia and with Standard Chartered Bank for over 25 years in various positions.

Mr. Venkatesh Natarajan (Nominee Director)

Over 14 years of experience in product development and venture capital at Intel. Led several equity deals in design software, computing and wireless technology. Operational consultant to various MFIs in India.

Mr. R. Baskar Babu (MD & CEO)

MD & CEO of Suryoday Small Finance Bank Ltd. Over 25 years of experience in financial services. He has held leadership roles in Cholamandalam, HDFC Bank, GE Capital.

Key Investors



2008-2009

- Suryoday Micro Finance was incorporated under the Companies Act
- Received RBI license for NBFC Operations
- Partnered with Aavishkaar Goodwell for Private Equity Funding
- Opened 10 branches across Pune and Solapur in Maharashtra and Chittoor in Andhra Pradesh

2009-2014

- Expanded operations across Maharashtra, Andhra Pradesh, Odisha, Tamil Nadu, Karnataka, Gujarat and Rajasthan bringing the network to 70 branches with 274,000 active customers
- CRISIL rating steadily upgraded to mfR3
- New products launched
- Received Equity Infusion from Lok Capital, HDFC Holdings, HDFC Life and IFC in addition to Aavishkar Goodwell
- Received RBI approval for NBFC-MFI Status
- Received ICRA rating of BBB for debt instruments

2014-2015

- Received Bank Line rating of BBB
- Received ICRA rating of M2+
- Network expanded to include Madhya Pradesh bringing the total number of branches to 145 with 562,000 active customers
- Issued debt securities and obtained listing permission from the BSE Ltd. in the Wholesale Debt segment

2015-2017

- Received grading of MFI-1
- Received in-principle approval from RBI for setting up Small Finance Bank (September 2015)
- Received final license from RBI to operationalise Small Finance Bank (August 2016)
- Rating from ICRA A(-) and A1 received in August, 2016
- Received approval for change of name to Suryoday Small Finance Bank Limited
- Launched Small Finance Bank Operations (January 23, 2017)
- Set up four bank branches in Mumbai and Pune within a short span of 67 days

2017-2018

- Received 'Scheduled Commercial Bank' Status
- Launched Partnership Led Outlets-First in this space
- Became Member of CGTMSE - Credit Guarantee Fund Trust for Micro & Small Enterprises

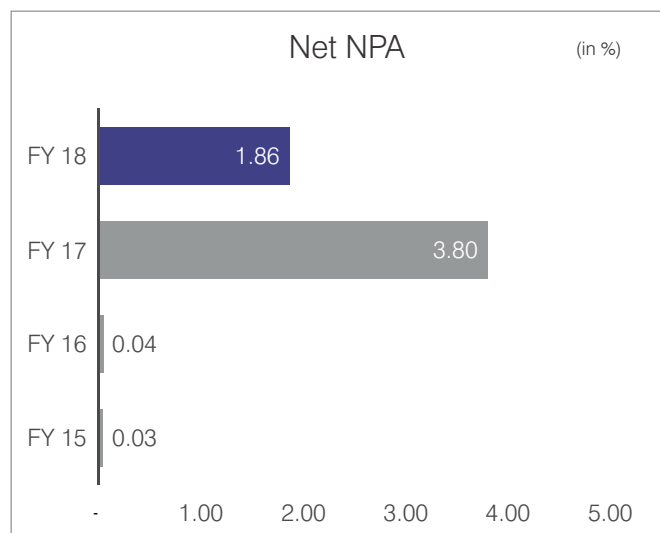
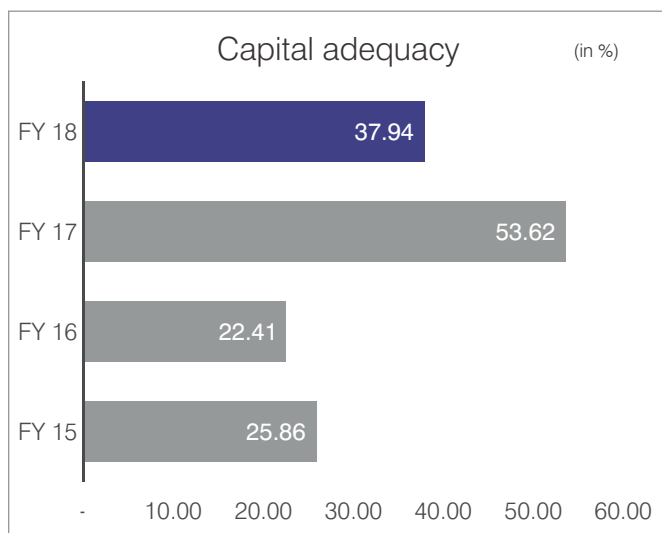
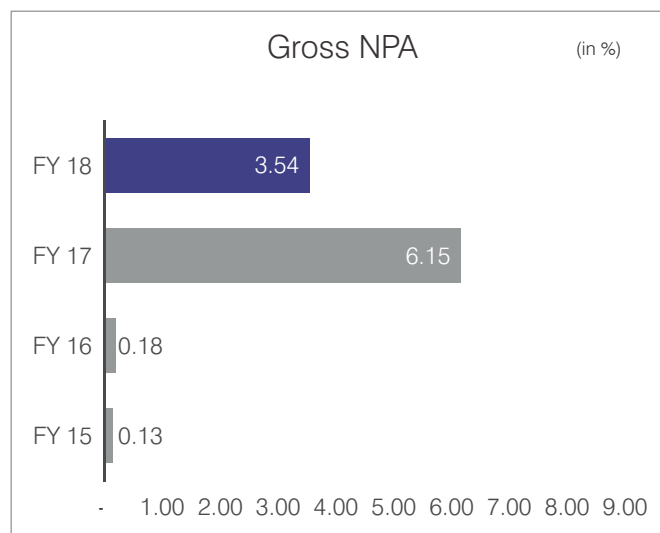
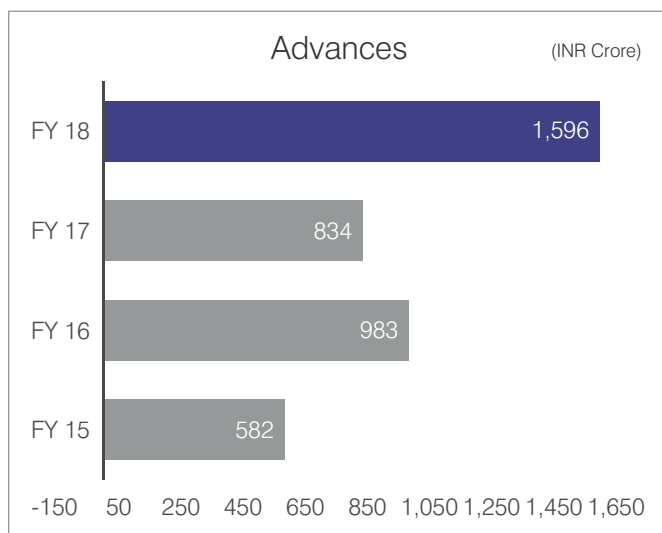
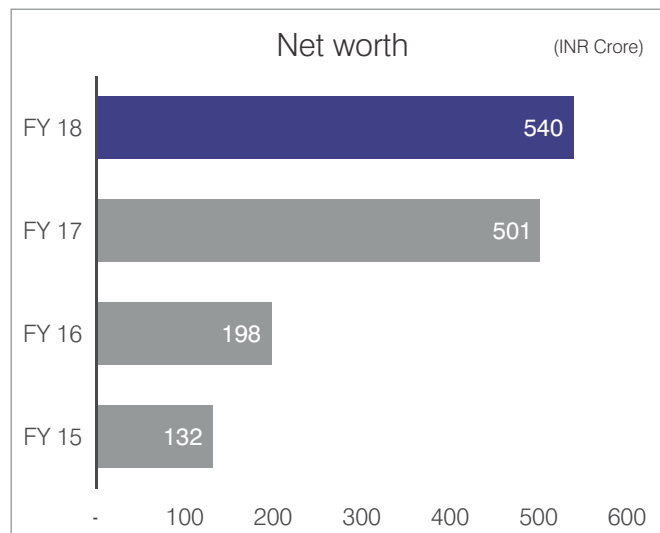
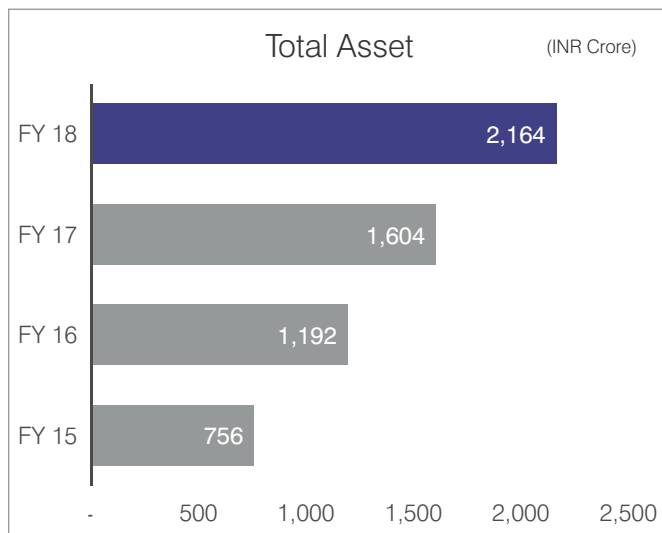
FINANCIAL HIGHLIGHTS

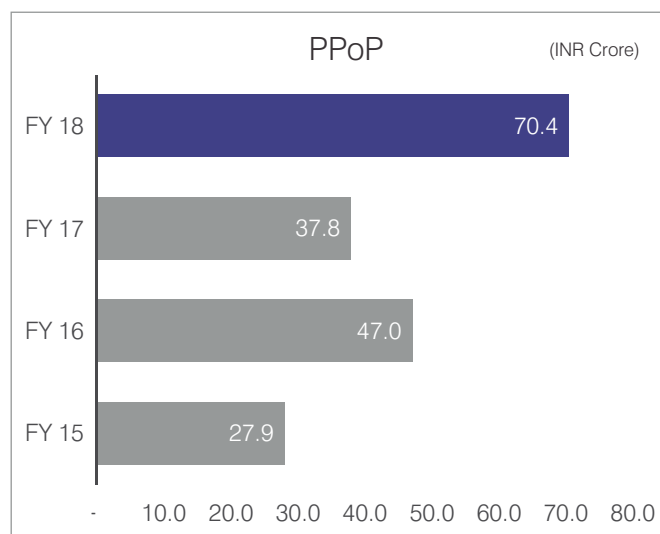
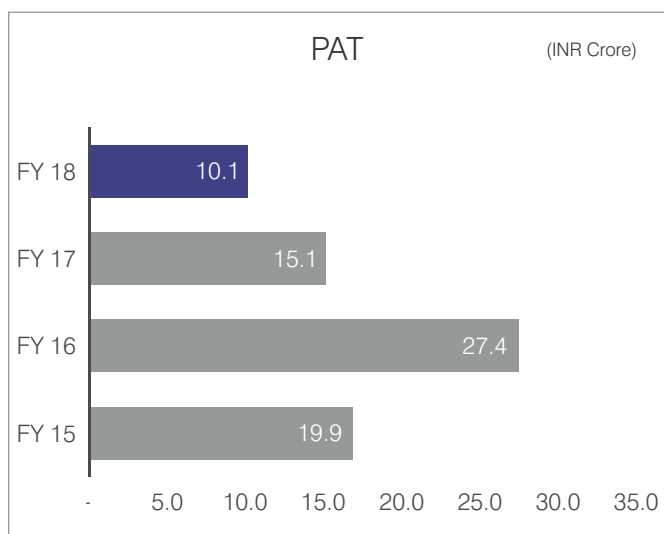
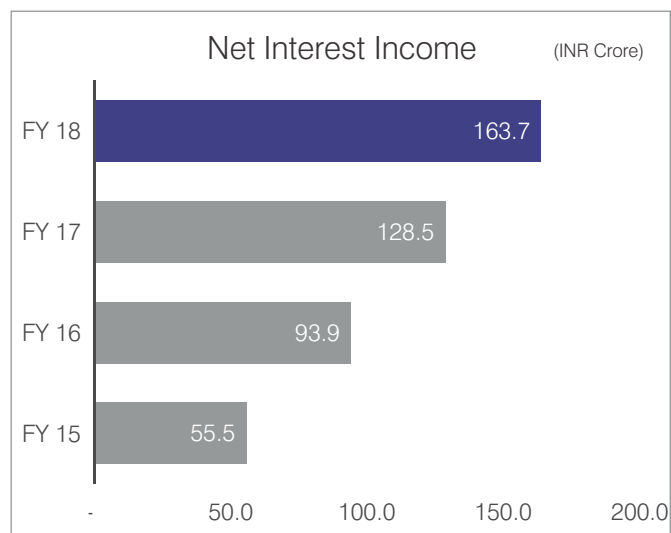
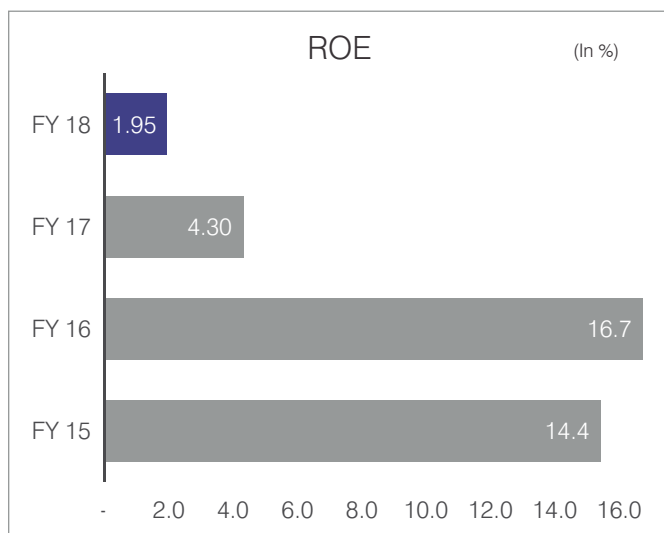
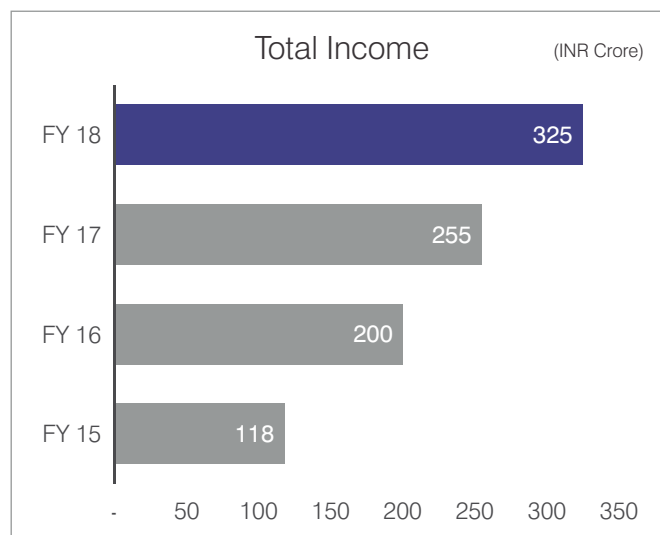
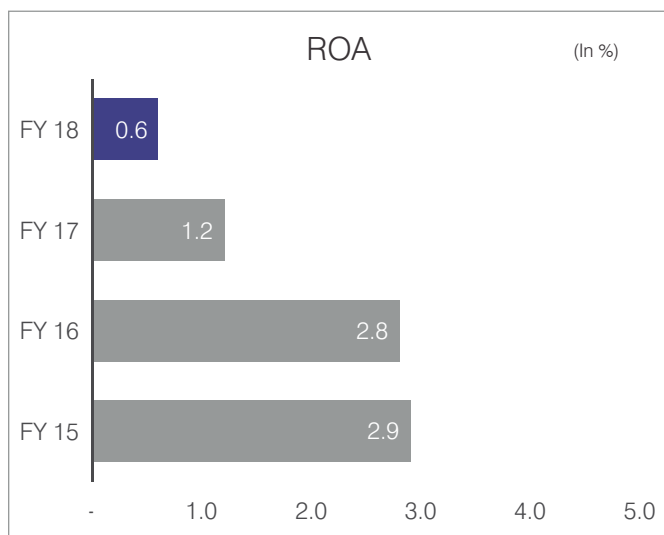
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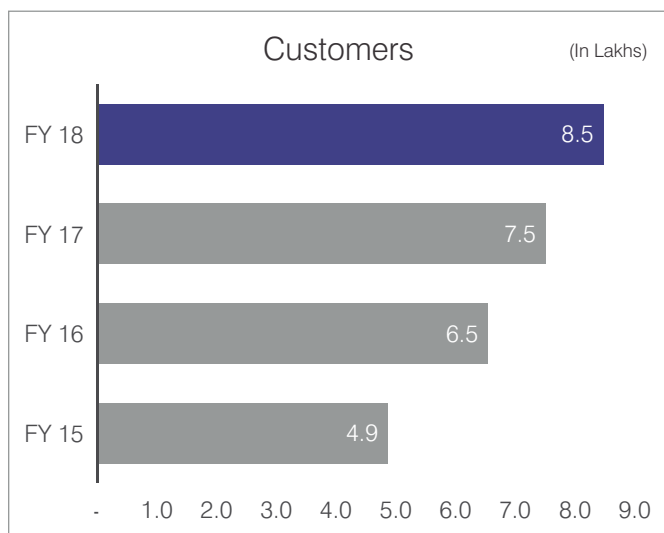
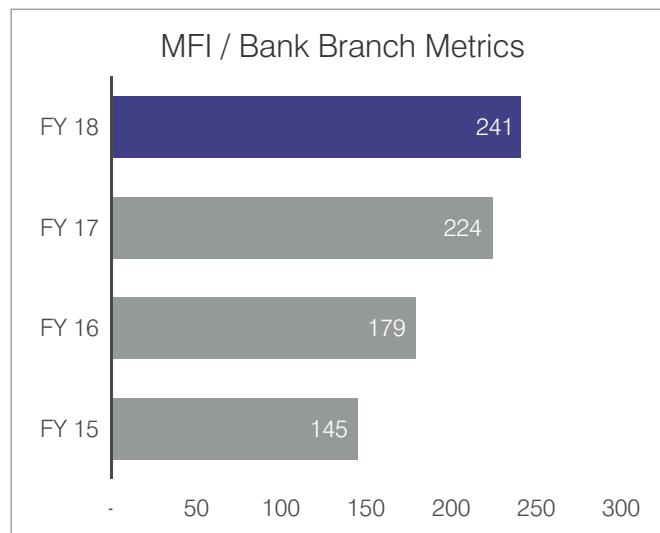
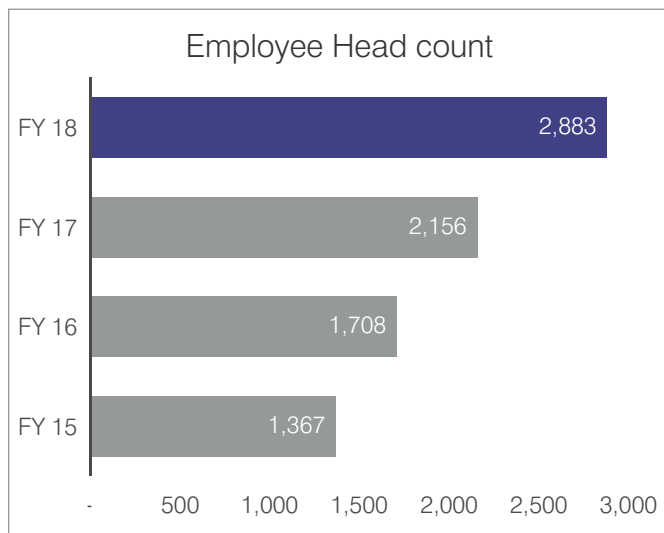


10,00,000 SMILES

Financial Highlights





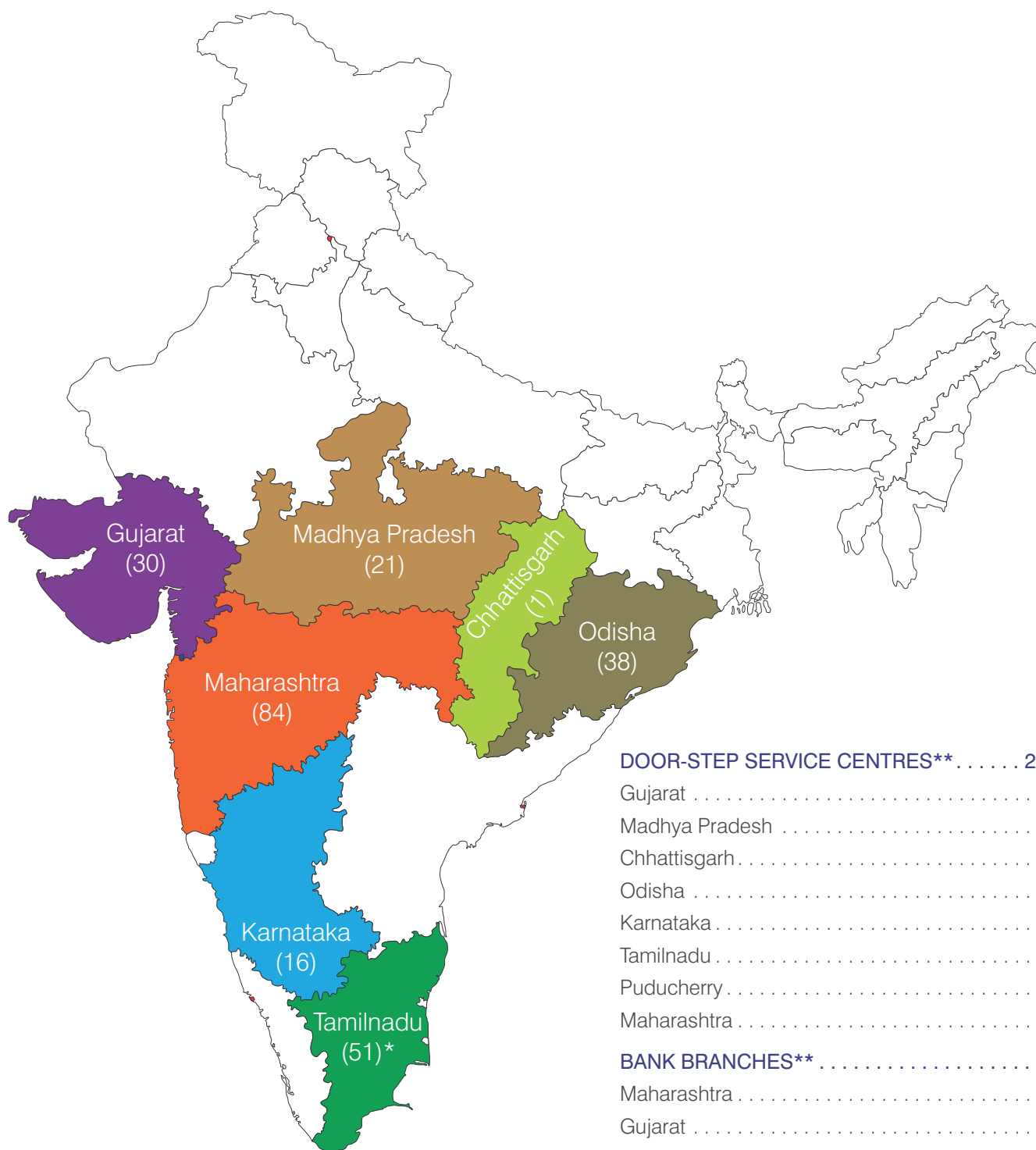


OUR NETWORK

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10,00,000 SMILES



*Puducherry is included in Tamilnadu

Figures in States indicate the number of Micro Finance branches & Bank branches

**As on March 31, 2018

DOOR-STEP SERVICE CENTRES** 215

Gujarat	29
Madhya Pradesh	20
Chhattisgarh	1
Odisha	37
Karnataka	16
Tamilnadu	44
Puducherry	1
Maharashtra	67

BANK BRANCHES** 26

Maharashtra	17
Gujarat	1
Madhya Pradesh	1
Tamilnadu	5
Puducherry	1
Odisha	1

DIRECTORS' REPORT

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YRS

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Directors' Report

Dear Members,

Your Directors take great pleasure in presenting the Tenth Annual Report of the Company and the Second Annual Report of **Suryoday Small Finance Bank Limited** together with the Financial Statements for the year ended 31st March, 2018.

Overview of Operations

Our focus in the last year has been to lay a strong foundation to build a best-in-class small finance bank with the highest standards of compliance and governance while delivering superior customer experience.

During the year under review, which was our first full year of operations, we successfully managed the challenges of higher delinquencies witnessed post demonetization. The year also saw various reforms being implemented by the government like GST. While these caused some temporary disruptions and affected our customer segment, in the long-term these would have a huge positive impact for our customer's businesses and the economy in general.

We ended FY 2017-18 with deposits of Rs. 749.52 crores and advances of Rs. 1574.95 crores.

On Asset products, in addition to our Microfinance Loans, we made a foray into other Retail Asset products like MSME Loans, Home Loans, Loan Against Property and Commercial Vehicle Loans. On Liability products, we introduced Savings Accounts, Current Accounts, Recurring Deposits, Fixed Deposits including Tax Saver Deposits and are in the process of introducing NRE/NRO Accounts during FY 18-19.

We have successfully implemented latest technology solutions across Core Banking, Internet Banking, Mobile Banking, Customer Relationship Management, Loan Origination Systems, Loan Management System and Compliance Tracking / Monitoring Solutions.

Small Finance Banks serve a customer segment that requires doorstep services and hence, have a higher cost of operations. However, this is being mitigated with the adoption of digital and other technology solutions that improve the productivity, efficiencies and turnaround time.

Your Bank is now on the path of consistent qualitative growth with opening of additional Banking Outlets and introducing a variety of products during the current fiscal.

Financial Highlights

The Bank's performance during the year ended 31st March, 2018 as compared to the previous financial year, is summarized below:

(Rs. in crores)

Particulars	For the year ended/ as on	
	FY 2017-2018	FY 2016-2017
Advances	1574.95	819.65
Deposits and borrowings	1467.35	1043.64
Total Income	324.92	254.79
Operating Expenses (including interest expenses)	254.53	216.99
Operating Profit	70.39	37.80
Provisions and contingencies (including tax)	60.27	22.70
Profit for the year	10.12	15.10
Add: surplus brought forward from previous year	55.59	44.27
Amount available for appropriation	65.71	59.37

Appropriations:

Statutory Reserve under section 17 of the Banking Regulation Act, 1949	2.53	3.78
Investment Reserve	0.05	-
Surplus carried to Balance Sheet	63.13	55.59
EPS (Basic)	1.55	3.01
EPS(Diluted)	1.55	2.90

Dividend

Your Directors do not recommend any dividend for the financial year under review.

Issuance of capital

During the year under review, 31,00,000 equity shares of Rs. 10/- each were allotted by way of preferential issue and 3,31,982 equity shares of Rs. 10/- each were allotted to employees under Equity Stock Options exercised under the prevalent Employee Stock Option Schemes bringing in a total inflow of Rs. 25.59 crores.

As on 31st March, 2018, the paid up share capital of the Bank stood at Rs. 67.50 crores divided into 6,74,96,672 equity shares of Rs. 10 each.

Credit Ratings

The ratings assigned by ICRA/ CARE for various instruments are:

Instrument	Rating	Rating agency
Long term borrowings including NCDs and Subordinated Debt	A -	ICRA
Fixed Deposit	MA	ICRA
Certificate of Deposits	A1	ICRA
NCDs and Bank facilities	A -	CARE Ratings

Capital Adequacy

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

As on March 31, 2018, the Capital Adequacy Ratio of the Bank stood at 37.94%, well above regulatory minimum requirement of 15%. Tier I ratio of the Bank stood at 34.80% well above regulatory requirement of 6%.

Subsidiary, Associate and Joint Venture Companies

The Bank does not have any Subsidiary, Associate or Joint Venture as on 31st March, 2018.

Extract of Annual Return

In accordance with Section 92 (3) of the Companies Act, 2013, the extract of the Annual Return is attached as **Annexure-1** to this Report.

Directors and Key Managerial Personnel

Both the Investor Directors, Mr. Arun Diaz and Mr. Venkatesh Natarajan are retiring by rotation at the ensuing Annual General Meeting. Being eligible, Mr. Venkatesh Natarajan has offered himself for re-appointment. Mr. Arun Diaz, although eligible, has expressed his desire not to be re-appointed as Director.

During the year under review, there was no change in the composition of the Board of Directors or of any Committee thereof.

Mr. Baskar Babu's appointment as Managing Director and Chief Executive Officer (MD & CEO) of the Bank was approved by the Reserve Bank of India in January, 2017 for a period of three years from 23rd January, 2017 at a remuneration of Rs. 85.68 lakhs per annum (exclusive of retiral, perquisites and performance incentive). On the recommendation of the Nomination and Remuneration Committee, the Board approved increase in his remuneration to Rs. 100 lakhs per annum (exclusive of retiral, perquisites and performance incentive) with effect from April 1, 2018 subject to RBI approval. Since this entails a variation in the terms of the appointment of the MD & CEO, the same is being placed for members' approval at the ensuing Annual General Meeting.

There have been no changes in the Key Managerial Personnel of the Bank.

In terms of our Articles of Association, the Board strength was to be increased to nine directors by July 22, 2018 by appointment of one Independent Director and one Investor Director. Requisite action had been initiated in this regard in terms of identifying the persons and obtaining their consent. However, in view of certain regulatory clearances not having been received by July 22, 2018, the appointments of both these directors could not be completed. Members' approval is being sought for extension of time upto 31st December, 2018 to complete the process.

Meetings of the Board of Directors

During the year under review, five Board Meetings were held and the gap between any two meetings were well within the statutorily permissible limits. The dates of meetings together with the attendance are detailed in the Corporate Governance Report.

Declaration by Independent Directors

All Independent Directors have given declaration that they meet the criteria of Independence as laid down under Section 149 (6) of the Companies Act, 2013.

Policy on appointment and remuneration of Directors, KMPs and senior management

The Bank has a Board - approved Policy on Appointment and Remuneration of Directors, KMPs and Senior management personnel. This Policy has been disclosed on the Bank's website. (www.suryodaybank.com/regulatory-disclosure)

The disclosure pursuant to the Policy and section 197 of the Companies Act, 2013 read with Rule 5(1) of Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 is attached as **Annexure 2** to this Report.

Board Evaluation

Pursuant to the provisions of section 178(2) of the Companies Act, 2013, the Board carried out annual evaluation of its own performance and that of its Committees and individual directors. Assessment questionnaires with respect to self-evaluation, evaluation of Board performance and performance of each of the Board Committees covering various aspects including composition, competency, Board procedures, processes, functioning and effectiveness were circulated to each of the Directors. The assessment of the Nomination & Remuneration Committee (NRC) on the performance of Directors and Committees was discussed subsequently by the Board. The consensus of NRC's evaluation was placed before the Board. The Board assessed the performance of the Independent Directors including that of the Chairperson. At a separate meeting of Independent Directors, the performance of non-independent Directors and the performance of the Board as a whole was reviewed.

The performance of all Directors, the Board and Committees of the Board were found to be satisfactory.

Employees Stock Option Scheme

The applicable disclosure with regard to Employee Stock Option Scheme is provided in **Annexure 3** to this report.

Particulars of Loans, Guarantees or Investments

Pursuant to Section 186(11) of the Companies Act, 2013, loans made, guarantees given, securities provided or acquisition of

securities by a banking company in the ordinary course of its business are exempted from the disclosure requirement under Section 134(3)(g) of the said Act. Details of Investments are given in Schedule 8 to the Financial Statements forming part of the Annual Report.

Related Party Transactions

Details of transactions with related parties during the year under review are given in **Annexure 4** to this Report .

Risk Management Framework

The Bank is exposed to various risks as a banking entity, more particularly, Credit Risk, Market Risk, Liquidity Risk and Operational Risk .

The Bank has Board- approved Policies on each of the aforesaid risks with the Risk Management Committee of the Board (RMCB) over viewing the nature of the relevant risks, impact thereof on the business of the Bank, implementation of the risk management policies and processes and reviewing of these Policies. As a Bank, it is incumbent on us to be conservative and prudent in our approach towards risk recognition and risk mitigation. The Bank has a robust framework for risk management in the form of regular review by the Compliance team of products and processes, regular review of risk policies and periodic reporting to the RMCB and the Board.

Details of identification, assessment, mitigations, monitoring and the management of these risks are given in the Management Discussion and Analysis Report which forms part of this Annual Report.

Internal Financial Controls (IFC) with reference to the Financial Statements

The Board of Directors confirms that your Bank has laid down set of standards, processes and structure which enables to implement Internal Financial controls across the organization with reference to Financial Statements and that such controls are adequate and are operating effectively. During the year under review, no material or serious observation has been observed for inefficiency or inadequacy of such controls.

Director's Responsibility Statement

Pursuant to section 134(3)(c) read with section 134(5) of the Companies Act, 2013 (the Act), the Board of Directors of the Bank hereby confirms that:

- a. in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- b. we have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Bank as on March 31, 2018 and of the profit of the Bank for the year ended on that date ;
- c. we have taken sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Bank and for preventing and detecting fraud and other irregularities;
- d. we have prepared the annual accounts on a going concern basis;
- e. we have laid down internal financial controls to be followed by the Bank and that such internal financial controls are adequate and were operating effectively;
- f. we have devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and were operating effectively.

Corporate Governance

A Report on Corporate Governance forms part of this Annual Report.

Corporate Social Responsibility (CSR) Initiatives

The Corporate Social Responsibility (CSR) Committee constituted in accordance with Section 135 of the Companies Act,

2013 comprises of four directors including two Independent Directors. The CSR Policy of the Bank and CSR initiatives taken by the Bank are in accordance with the Companies (Corporate Social Responsibility Policy) Rules, 2014. The requisite details are attached as **Annexure 5** to this Report.

Statutory Auditors

The report of the Statutory Auditors on the Financial Statements for the year 2017-2018 forms part of the Annual Report. The said Report does not contain any qualification, reservation, adverse mark or disclaimer. Further, no frauds have been reported by the Auditors under section 143(12) of the Companies Act, 2013.

M/s. BSR & Associates, LLP, Chartered Accountants, Mumbai were appointed as Statutory Auditors of the Bank at the Annual General Meeting held on 31st August, 2018 with the approval of the Reserve Bank of India.

The Audit Committee and the Board have recommended their re-appointment as Statutory Auditors for FY 2018-2019, subject to RBI approval. The resolution for their appointment is being put up for members' approval at the ensuing Annual General Meeting.

Secretarial Audit

The report of the Secretarial Auditors, M/s Aabid & Co., Practicing Company Secretaries, Mumbai for FY 2017-18 is attached as **Annexure 6** to this Report. The Secretarial Audit Report does not contain any qualification, reservation or adverse remark.

Deposits

Being a banking company, the disclosures required as per Rule 8(5)(v) & (vi) of the Companies (Accounts) Rules, 2014, read with Section 73 and 74 of the Companies Act, 2013 are not applicable to the Bank.

Material changes and commitments, affecting the financial position of the Bank.

There are no material changes affecting the financial position of the Bank subsequent to the close of the financial year 2017-2018 till the date of this Report.

Vigil mechanism

The Bank has in place a Whistle Blower Policy which has been formulated as part of corporate governance norms and transparency where employees, customers and other stakeholders of the Bank including Non-Governmental Organizations (NGOs) are encouraged to refer any complaint which has not been resolved or satisfactorily resolved within the usual applicable protocols. The Policy provides a framework to promote responsible and secure whistle blowing and protects the Whistle Blower wishing to raise a concern about irregularities within the Bank.

Please refer www.suryodaybank.com/regulatory-disclosure for text of the Policy.

The functioning of the Whistle Blower mechanism is subject to review by the Audit Committee. During the year under review, no complaint was received under this Policy.

Conservation of Energy, Technology Absorption, Foreign Exchange Earnings and Outgo

The provisions of Section 134(3)(m) of the Companies Act, 2013 read with Rule 8(3) of the Companies (Accounts) Rules, 2014 are not applicable to banking companies.

Significant and Material Orders passed by the Regulators or Courts or Tribunal

There are no significant material orders passed by the Regulators or Courts or Tribunal which would impact the going concern status of the Bank and its future operations.

Particulars of Employees

The employee strength of your Bank is growing and as of 31st March 2018, the Bank had 2883 employees on its pay roll.

Acknowledgments

Your Directors would like to place on record their gratitude for all the guidance and co-operation received from the Reserve Bank of India and other government and regulatory agencies. Your Directors would like to thank all the stakeholders of the Bank including its investors, customers, bankers, and other service agencies for their continued support and also wishes to express their appreciation for the hard work and dedicated efforts put in by all the employees of the Bank at all levels and look forward to their continued contribution in building this 'Bank of Smiles' into a world class organisation.

For and on behalf of the Board

sd/-
R Ramachandran
Independent Director

sd/-
Baskar Babu
Managing Director & CEO

Date: August 3, 2018

Place: Navi Mumbai

Extract of Annual Return in Form MGT-9 as on the financial year ended on March 31, 2018

[Pursuant to section 92(3) of the Companies Act, 2013 and rule 12(1) of the Companies (Management and Administration) Rules, 2014]

I. REGISTRATION AND OTHER DETAILS

CIN	:	U65923MH2008PLC261472
Registration Date	:	November 10, 2008
Name of the Company	:	Suryoday Small Finance Bank Limited [Formerly Suryoday Micro Finance Limited]
Category / Sub-Category of the Company	:	Company limited by shares/Indian Non-Government Company
Address of the Registered office and contact details	:	1101, Sharda Terraces, Plot No.65 Sector 11, CBD Belapur, Navi Mumbai-400614
Whether listed company	:	Yes; Non-Convertible Debentures of the Bank are listed on the Wholesale Debt segment of BSE Ltd. However, Equity shares are not listed.
Name, Address and Contact details of Registrar and Transfer Agent, if any	:	Karvy Computershare Private Limited Karvy Selenium, Tower- B, Plot No 31 & 32., Financial district, Nanakramguda, Serilingampally Mandal, Hyderabad, 500032 Karvy Registry House, 8-2-596, St. No. 1, Banjara Hills, Hyderabad - 500 034 Email: einward.ris@karvy.com / support@karvy.com Contact No. Tel: +91 40 67161500

II. PRINCIPAL BUSINESS ACTIVITIES OF THE COMPANY

Sl. No.	Name and Description of main products/ services	NIC Code of the Product / service	% to total turnover of the company
1	Banking & Financial Services	64191	100%

III. PARTICULARS OF HOLDING, SUBSIDIARY AND ASSOCIATE COMPANIES

The Company does not have any holding, subsidiary or any associate company.

IV. SHARE HOLDING PATTERN (Equity Share Capital Breakup as percentage of Total Equity):**i. Category-wise Share Holding:**

Category of Shareholders	No. of Shares held at the beginning the year				No. of Shares held at the end of the year				% Change during the year
	Demat	Physical	Total	% of Total shares	Demat	Physical	Total	% of Total shares	

A. Promoters**(1) Indian**

a) Individual/HUF	15387728	1366450	16754178	26.15	18487728	1366450	19854178	29.42	3.27
b) Central Govt	-	-	-	-	-	-	-	-	-

Category of Shareholders	No. of Shares held at the beginning of the year				No. of Shares held at the end of the year				% Change during the year
	Demat	Physical	Total	% of Total shares	Demat	Physical	Total	% of Total shares	
c) State Govt(s)	-	-	-	-	-	-	-	-	-
d) Bodies Corp.	-	-	-	-	-	-	-	-	-
e) Banks / FI	-	-	-	-	-	-	-	-	-
f) Any other	-	-	-	-	-	-	-	-	-
Sub-total(A)(1):	15387728	1366450	16754178	26.15	18487728	1366450	19854178	29.42	3.27
(2) Foreign									
a) NRIs – Individuals	-	-	-	-	-	-	-	-	-
b) Other – Individuals	-	-	-	-	-	-	-	-	-
c) Bodies Corp.	-	-	-	-	-	-	-	-	-
d) Banks / FI	-	-	-	-	-	-	-	-	-
e) Any other	-	-	-	-	-	-	-	-	-
Sub-total (A)(2):	-	-	-	-	-	-	-	-	-
Total shareholding of Promoter	15387728	1366450	16754178	26.15	18487728	1366450	19854178	29.42	3.27
(A) = (A)(1) + (A)(2)									
B. Public Shareholdings									
(1) Institutions									
a) Mutual Funds	-	-	-	-	-	-	-	-	-
b) Banks / FI	4472066	1723286	6195352	9.67	2835053	1723286	4558339	6.75	-2.92
c) Central Govt	-	-	-	-	-	-	-	-	-
d) State Govt(s)	-	-	-	-	-	-	-	-	-
e) Venture Capital Funds	7629468	-	7629468	11.91	8617188	-	8617188	12.77	0.86
f) Insurance Companies	2578679	-	2578679	4.02	2578679	-	2578679	3.82	-0.20
g) FIs	610111	3777777	4387888	6.85	610111	3777777	4387888	6.50	-0.35
h) Foreign Venture Capital Funds	5641414	-	5641414	8.81	5641414	-	5641414	8.36	-0.45
i) Others (specify)	-	-	-	-	-	-	-	-	-
Sub-total (B)(1):	20931738	5501063	26432801	41.26	20282445	5501063	25783508	38.20	-3.06
(2) Non-Institutions									
a) Bodies Corp.									
i) Indian	761359	-	761359	1.19	2538049	-	2538049	3.76	2.57
ii) Overseas	10736254	6874424	17610678	27.49	12305276	4317682	16622958	24.63	-2.86

Category of Shareholders	No. of Shares held at the beginning of the year				No. of Shares held at the end of the year				% Change during the year
	Demat	Physical	Total	% of Total shares	Demat	Physical	Total	% of Total shares	
b) Individuals									
i) Individual shareholders holding nominal share capital upto Rs. 1 lakh	58196	94688	152884	0.24	534012	62761	596773	0.88	0.65
ii) Individual shareholders holding nominal share capital in excess of Rs 1 lakh	1461998	825792	2287790	3.57	2012706	-	2012706	2.98	-0.59
c) Others (NRI / NRN)	65000	-	65000	0.10	88500	-	88500	0.13	0.03
Sub-total(B)(2):	13082807	7794904	20877711	32.59	17478543	4380443	21858986	32.38	-0.21
Total Public Shareholding (B) = (B)(1) + (B)(2)	34014545	13295967	47310512	73.85	37760988	9881506	47642494	70.58	-3.27
C. Shares held by Custodian for GDRs & ADRs	-	-	-	-	-	-	-	-	-
Total (C)	-	-	-	-	-	-	-	-	-
(A+B+C)	49402273	14662417	64064690	100.00	56248716	11247956	67496672	100.00	-

ii. Shareholding of Promoters:

Sr. No.	Name of the Shareholders	Shareholding at the beginning of the year			Shareholding at the end of the year			
		No. of Shares	% of total Shares of the Company	% of Shares Pledged / encumbered to total shares	No. of Shares	% of total Shares of the Company	% of Shares Pledged / encumbered to total share	% change in share holding during the year
1	Mr. R Baskar Babu	23,33,578	3.64	1.09	5,403,578	8.01	5.63	4.37
2	Mr. P Surendra Pai	114,34,327	17.85	Nil	11,434,327	16.94	-	-0.91
3	Mr. P.S.Jagdish	26,37,823	4.12	Nil	2,667,823	3.95	-	-0.16
4	Mr. G.V. Alankara	348,450	0.54	Nil	348,450	0.52	-	-0.03
	TOTAL	167,54,178	26.15	1.09	19,854,178	29.42	5.63	3.27

iii. Change in the Promoters' shareholding (please specify, if there is no change):

Sr. No.	Name of the shareholder	Shareholding at the beginning of the year		Date	Reason	Increase/Decrease in shareholding		Cumulative Shareholding during the year	
		No. of shares	% of total shares of the Company			No. of shares	% of total shares of the Company	No. of shares	% of total shares of the Company
1	Mr. R Baskar Babu	2,333,578	3.64	10/27/2017	Transfer	-30,000	-0.047	2,303,578	3.59
				12/4/2017	Preferential Allotment	3,100,000	4.60	5,403,578	8.01
	Shareholding as at 31st March, 2018							5,403,578	8.01
2	Mr. P Surendra Pai	11,434,327	17.85%	No Change	-	-	-	11,434,327	16.94
								11,434,327	16.94
	Shareholding as at 31st March, 2018							11,434,327	16.94
3	Mr. PS.Jagdish	2,637,823	4.12	10/27/2017	Transfer	30,000	0.047	2,667,823	4.15
								2,667,823	3.95
	Shareholding as at 31st March, 2018							2,667,823	3.95
4	Mr. G.V. Alankara	348,450	0.78%	No Change	-	-	-	348,450	0.52
								348,450	0.52
	Shareholding as at 31st March, 2018							348,450	0.52

iv. Shareholding pattern of Top Ten Shareholders (Other than Directors, Promoters and holders of GDRS & ADRS):

Sl. No.	Name of Top 10 Shareholders	Date wise increase/decrease in shareholding	Shareholding at the beginning of the year		Cumulative Shareholding during the year	
			No. of shares	% of total shares of the Company	No. of shares	% of total shares of the Company
1.	Sarva Capital LLC					
	At the beginning of the year	01.04.2017	6,115,911	9.55	6,115,911	9.06
	Shareholding at the end of the year on 31 st March, 2018				6,115,911	9.06
2.	International Financial Corporation					
	At the beginning of the year	01.04.2017	4,387,888	6.85	4,387,888	6.50
	Shareholding at the end of the year on 31 st March, 2018				4,387,888	6.50
3	DWM (International) Mauritius Limited					
	At the beginning of the year	01.04.2017	4,317,682	6.74	4,317,682	6.40
	Shareholding at the end of the year on 31 st March, 2018				4,317,682	6.40
4	ResponsAbility Participations Mauritius					
	At the beginning of the year	01.04.2017	3,174,033	4.95	3,174,033	4.70
	Shareholding at the end of the year on 31 st March, 2018				3,174,033	4.70
5	Gaja Capital Fund II Limited					
	At the beginning of the year	01.04.2017	3,015,332	4.71	3,015,332	4.47
	Shareholding at the end of the year on 31 st March, 2018				4.47	4.47

Sl. No.	Name of Top 10 Shareholders	Date wise increase/ decrease in shareholding	Shareholding at the beginning of the year		Cumulative Shareholding during the year	
			No. of shares	% of total shares of the Company	No. of shares	% of total shares of the Company
6	Ask Pravi Private Equity Opportunities Fund					
	At the beginning of the year	01.04.2017	2,969,656	4.64	2,969,656	4.40
	Shareholding at the end of the year on 31 st March,2018				2,969,656	4.40
7	Evolve India Fund II Limited					
	At the beginning of the year	01.04.2017	2,969,656	4.64	2,969,656	4.40
	Shareholding at the end of the year on 31 st March,2018				2,969,656	4.40
8	TVS Shriram Growth Fund					
	At the beginning of the year	01.04.2017	2,896,098	4.52	2,896,098	4.29
	Shareholding at the end of the year on 31 st March,2018				2,896,098	4.29
9	Americop Ventures Limited					
	At the beginning of the year	01.04.2017	2,671,758	4.17	2,671,758	3.96
	Shareholding at the end of the year on 31 st March,2018				2,671,758	3.96
10	HDFC Standard Life Insurance Company Limited					
	At the beginning of the year	01.04.2017	2,578,679	4.03	2,578,679	3.82
	Shareholding at the end of the year on 31 st March,2018				2,578,679	3.82

v. Shareholding Of Directors And KMPs

Sl. No.	Name of Top 10 Shareholders	Date wise increase/ decrease in shareholding	Shareholding at the beginning of the year		Cumulative Shareholding during the year	
			No. of shares	% of total shares of the Company	No. of shares	% of total shares of the Company
DIRECTORS						
1.	Mr. R Baskar Babu					
	At the beginning of the year	01.04.2017	2,333,578	3.64	2,333,578	3.64
		27.10.2017	(30,000)	(0.05)	2,303,578	3.59
		04.12.2017	3,100,000	4.60	5,403,578	8.01
	Shareholding at the end of the year on 31 st March,2018				5,403,578	8.01
KEY MANAGERIAL PERSONS						
2	Mr. Bhavin Damania (Chief Financial Officer)					
	At the beginning of the year	01.4.2017	1,200	-	1,200	-
		26.3.2018	12,500	0.02	13,700	0.02
	Shareholding at the end of the year on 31 st March,2018				13,700	0.02

V. Indebtedness:

Indebtedness of the Company including interest outstanding/accrued but not due for payment.

	Secured Loans excluding deposits	Unsecured Loans	Deposits ⁴	(Rs.in lakhs) Total Indebtedness
Indebtedness at the beginning of the financial year				
i) Principal Amount	67,865	34,293		102,158
ii) Interest due but not paid	-	-		-
iii) Interest accrued but not due	914	512		1,426
Total (i + ii + iii)	68,779	34,805		103,583
Change in Indebtedness during the financial year				
• Addition	2,000	20,000		22,000
• Reduction	-43,435	-8,939		-52,374
Net Change	-41,435	11,061		-30,374
Indebtedness at the end of the financial year				
i) Principal Amount	26,430	45,353		71,783
ii) Interest due but not paid	-	-		-
iii) Interest accrued but not due	590	807		1,397
Total (i + ii + iii)	27,020	46,161		73,181

1. Secured loans include borrowings under Term Loan, Collateralised Borrowing and Lending Obligation, and transactions under Liquidity Adjustment Facility, Marginal Standing Facility and REPO.
2. Principal amount for secured and unsecured loan consists of schedule 4 borrowing balance.
3. Movement in short-term market borrowings are being shown on net basis.
4. Section 73 (1) of the Companies Act, 2013, states that the provisions of the said Act relating to acceptance of deposits by companies do not apply to a Banking company as defined in the Reserve Bank of India Act, 1934. Accordingly, information relating to the Bank's deposits is not disclosed in the table above. As per the applicable provisions of the Banking Regulation Act, 1949, details of the Bank's deposits have been included under Schedule 3 - Deposits, in the preparation and presentation of the financial statements of the Bank.

VI. Remuneration of Directors and Key Managerial Personnel:

A. Remuneration to Managing Director & CEO - Mr. R. Baskar Babu:

		(Rs. in lakhs)
Sr. No.	Particulars of Remuneration	Amount
1	Gross salary	
	(a) Salary as per provisions contained in section 17(1) of the Income-tax Act, 1961	85.68
	(b) Value of perquisites u/s 17(2) Income-tax Act, 1961	0.51
	(c) Profits in lieu of salary under section 17(3) Income-tax Act, 1961	-

Sr. No.	Particulars of Remuneration	Amount
2	Stock Option	-
3	Sweat Equity	-
4	Commission	-
	- as % of profit	-
	- others, specify	-
5	Others, please specify(provident fund)	4.32
	Total (A)	90.51
	Ceiling as per the Act	5% of Net profit

B. Remuneration to other Directors:

(Rs. in lakhs)

Sr. No.	Particulars of Remuneration	Name of the Directors				Total Amount
1.	Independent Directors	Dr. (Mrs.) Sheela Bhide	Mr. R. Ramachandran	Mr. Mrutunjay Sahoo	Mr. Jyotin Mehta	
	Fees for attending board/ committee meetings	4.60	5.00	3.10	4.20	16.90
	Commission	Nil	Nil			Nil
	Others, please specify	Nil	Nil			Nil
	Total (1)	4.60	5.00	3.10	4.20	16.90
2.	Other Non-Executive Directors	Mr. John Arun Kumar Diaz	Mr. Venkatesh Natarajan			
	Fees for attending board/ committee meetings	4.15	2.80			6.95
	Commission	Nil				
	Others, please specify	Nil				
	Total (2)	4.15	2.80			6.95
	Total (B)= (1 +2)					23.85

Total Managerial Remuneration 114.36

Overall Ceiling as per the Act Sitting fees payable to a director for attending Board/ Committee Meeting shall not exceed ₹1,00,000/- per Meeting and the Company is well in compliance of the same Nil

C. Remuneration to Key Managerial Personnel other than MD & CEO (Rs. in lakhs)

Sr. No.	Particulars of Remuneration	Key Managerial Personnel		Total Amount
		Mr. Bhavin Damania – CFO	Ms. Geeta Krishnan – CS	
1	Gross salary			
	(a) Salary as per provisions contained in section 17(1) of the Income-tax Act, 1961	37.13	22.86	59.99
	(b) Value of perquisites u/s 17(2) Income-tax Act, 1961	2.37	0.00	2.37

Sr. No.	Particulars of Remuneration	Key Managerial Personnel		Total Amount
	(c) Profits in lieu of salary under section 17(3) Income tax Act, 1961	-		
2	Stock Option	Cost included in 1(b) above		
3	Sweat Equity	-		
4	Commission	-		
	- as % of profit	-		
	- others, specify	-		
5	Others (Provident Fund)	1.87	1.00	2.87
	Total (A)	41.37	23.86	65.23

VII. Penalties / Punishment / Compounding of Offences:

Type	Section of the Companies Act	Brief Description	Details of Penalty / Punishment / Compounding fees imposed	Authority [RD/NCLT/ COURT]	Appeal made, if any (give Details)
A. COMPANY					
Penalty	NIL	NIL	NIL	NIL	NIL
Punishment	NIL	NIL	NIL	NIL	NIL
Compounding	NIL	NIL	NIL	NIL	NIL
B. DIRECTORS					
Penalty	NIL	NIL	NIL	NIL	NIL
Punishment	NIL	NIL	NIL	NIL	NIL
Compounding	NIL	NIL	NIL	NIL	NIL
C. OTHER OFFICERS IN DEFAULT					
Penalty	NIL	NIL	NIL	NIL	NIL
Punishment	NIL	NIL	NIL	NIL	NIL
Compounding	NIL	NIL	NIL	NIL	NIL

Annexure 2

Information required under Section 197 of the Act read with rule 5(1) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014:

Sr No.	Particulars	Disclosures	
1	The ratio of the remuneration of the MD & CEO (Whole time Director) to the median remuneration of the employees of the Bank for FY 2017-2018	42.45 : 1	
2	The percentage increase in remuneration of MD & CEO, Chief Financial Officer, Chief Executive Officer, Company Secretary in FY 2017-2018	KMP MD&CEO CFO CS	% increase 0% 11% N. A
3	The percentage increase in the median remuneration of employees in FY 2017-2018	3%	
4	The number of permanent employees on the rolls of Bank as at 31st March,2018	2883	
5	Average percentage increase already made in the salaries of employees other than the managerial personnel in the last financial year and its comparison with the percentage increase in the managerial remuneration and justification thereof and point out if there are any exceptional circumstances for increase in the managerial remuneration	Average percentage increase in salaries of employees other than managerial personnel: 13% Average percentage increase in salaries of managerial personnel: Nil	
6	Affirmation that the remuneration is as per the Remuneration Policy of the Bank	Yes: The remuneration is based on the provisions of the Policy on appointment and remuneration of Directors, KMPs and senior management employees.	

Annexure 3

Employees Stock Options as on 31st March,2018.

ESOP Scheme	Opening balance of options (1.4.2017)	Options granted during the year	Options vested during the year	Options forfeited / lapsed during the year	Options exercised and shares allotted during the year	Amount Received* (Rs. in lakhs, inclusive of premium)	No. of options outstanding vested at the end of the year	No. of options at the end of the year	No. of options yet to be vested at the end of the year
ESOP Scheme 2014	1,75,950	NIL	66,750	2,400	172,350	62.05	1,200	1,200	NIL
ESOP Scheme 2016	15,10,000	8,56,950	3,09,413	4,03,160	159,632	172.40	18,04,158	1,45,704	16,58,454
Total	16,85,950	8,56,950	3,76,163	4,05,560	3,31,982	234.45	18,05,358	1,46,904	16,58,454

*Exercise Price under ESOP Scheme,2014 was Rs. 36/- per share and under ESOP Scheme,2016 was Rs. 108/- per share

Employee-wise details of options granted during the year:

1.Key Managerial Personnel:

Employee Name	Designation	Number of options
Ms. Geeta Krishnan	Company Secretary	15,000

2. Any other employee who received grant of option amounting to 5% or more of options granted during that year:

Employee Name	Designation	Number of options
Mr. Sominder Singh	Chief Business Officer- Retail Assets	1,25,000
Mr. R Sathyanarayanan	Chief Business Officer- Inclusive Finance	1,00,000
Mr. Sarabjit Singh	Sr. Vice President- Retail Assets	75,000
Mr. Narayan Rao	Chief Services Officer	60,000
Ms. Shweta Singh	Sr. Vice President- FIG & Digital Banking	60,000

3. Identified employees who were granted options, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the bank at the time of grant: Nil

Annexure 4

FORM NO. AOC - 2

(Pursuant to clause (h) of sub-section (3) of section 134 of the Act and Rule 8(2) of the Companies (Accounts) Rules, 2014.

Form for Disclosure of particulars of contracts/arrangements entered into by the company with related parties referred to in sub section (1) of section 188 of the Companies Act, 2013 including certain arms length transaction under third proviso thereto.

1.Details of contracts or arrangements or transactions not at Arm's length basis.

Sr. No.	Particulars	Details
	NOT APPLICABLE	

2.Details of contracts or arrangements or transactions at Arm's length basis.

Sr. No.	Particulars	Details
a)	Name (s) of the related party & nature of relationship	M/s. Veritas Finance Pvt. Limited Common Director
b)	Nature of contracts/arrangements/transaction	Placement of short term Fixed Deposit of Rs. 30 crores
c)	Duration of the contracts/arrangements/transaction	46 to 90 days
d)	Salient terms of the contracts or arrangements or transaction including the value, if any	Interest @ 8.10%
e)	Date of approval by the Board	Approved by the Audit Committee of the Board on 22nd March,2018 and noted by the Board on 30th May,2018.
f)	Amount paid as advances, if any	Not Applicable

Details of CSR Activities and spends

(i) Web-link to the Bank's CSR Policy and programs: (www.suryodaybank.com/regulatory-disclosure)

(ii) The Composition of the CSR Committee:

Mr. Venkatesh Natarajan (Investor Director) : Chairman

Mr. R Ramachandran (Independent Director): Member

Mr. Mrutunjay Sahoo (Independent Director): Member

Mr. Baskar Babu (MD & CEO): Member

(iii) Average net profit of the Bank for last three financial years: Rs. 3038 lakhs

(iv) Prescribed CSR Expenditure (two per cent of the amount as in item 3 above): Rs. 60.77 lakhs

(v) Details of CSR spent during the financial year:

(a) Total amount to be spent for the financial year: Rs. 66 lakhs

(b) Amount unspent, if any: Nil

(c) Manner in which the amount spent during the financial year is detailed below.

(vi) The details of CSR expenditure in FY 2017-2018 in the prescribed format is as follows:

Sr. No.	CSR Project or activity identified	Sector in which the project is covered	Project or programmes local area or other Specify the state and district where projects or programs was undertaken	Amount outlay (budget) project or programs wise	Amount spent on the projects Direct Expenditure on projects and programs was undertaken or Overheads (Rs. in lakhs)	Cumulative Expenditure up to the reporting period (Rs. in lakhs)	Amount spent Direct or Through implementing agency
1	Promoting Preventive health care	Health care, nutrition, sanitation, and safe drinking water	Limkheda, Aurangabad, Chalisgoan, Nagpur, PCMC, Chinchwad, Bhosari, Shivajinagar, Yerwada, Dattawadi, Pune City, Hadapsar, Nashik, Ghoti, Pimpalgaon, Devla, Dhule, Akkalkot, New Damani Nagar, Asara, Latur, Kolhapur, Rankala, Ichalkaranji, Sangli, Akluj, Amravati, Paratwada, Daryapur, Morshi, Dhamangaon, Arvi, Rajeandera Nagar, Vijay Nagar, Jabalpur, Madanmahal, Hosagbad, Seoni, Balaghat, Cuttack, Jajpur, Keonjhar,		18.00	18.00	Direct: Suryoday

S. No.	CSR Project or activity identified	Sector in which the project is covered	Project or programmes local area or other Specify the state and district where projects or programs was undertaken	Amount outlay (budget) project or programs wise	Amount spent on the projects Direct Expenditure on projects and programs was undertaken or Overheads (Rs. in lakhs)	Cumulative Expenditure up to the reporting period (Rs. in lakhs)	Amount spent Direct or Through implementing agency
			Lewis Road, Balangir, Titlagarh, Tambaram, Alandur, SP Koil, Palavakkam, Thirupporur, Avadi, Mint, Miniur, Thiruvallur, Kachipuram , Pondicherry, Chidambaram, Kadalur, Panruti, Viluppuram, Thiruvannamalai, Vellore, Woraiyur, Kattur, Tollgate, Madurai, Namakkal, Dindigul, Thanjavur, Mayiladuturai, Thiruvarur, Pattukottai, Pudukottai, Karaikudi, Sainganallur, Thudiyalur, Udumalpet, Erode, Edapadi, Salem, Harsthampatti, Gopichettipalayam, Tirunelveli, Tenkasi, Thuckalay, Thoothukudi, Valliyoor, Rajapalayam, Nagercoil, Kalaburagi, Bidar, Raichur, Yadgir, Vijayappur, Shahapur, Basavakalyan, Humnabad, Belgavi, Hubli, Gadag, Dharwar, Ranebennur, Athani, Gokak, Bagalkot				
2	Environmental Sustainability	Planting of Saplings	Limkheda, Nadiyad, MorvaHadaf, Kapdwanj, Himmatnagar, Talod, Aurangabad, Paithan, Chalisgoan, Pachora, Bhusawal, Jalgaon, Nagpur, Higanghat,		2.00	2.00	Direct: Suryoday

S. No.	CSR Project or activity identified	Sector in which the project is covered	Project or programmes local area or other Specify the state and district where projects or programs was undertaken	Amount outlay (budget) project or programs wise	Amount spent on the projects Direct Expenditure on projects and programs was undertaken or Overheads (Rs. in lakhs)	Cumulative Expenditure up to the reporting period (Rs. in lakhs)	Amount spent Direct or Through implementing agency
			Yevatmal, Pusad, Narayangaon, Daund, Nasik, Ghoti Pimpalgaon, Lasalgaon, Devla, Kopargaon, Akkalkot, New Damani Nagar, Asara, Kolhapur, Rankala, Ichalkaranji, Akhuj, Paratwada, Morshi, Arvi, Rajeandera Nagar, Neemuch, Madanmahal, Balaghat, Cuttack, Jajpur, Keonjhar, Dhenkanal, Narsinghpur, Rasgovindpur, Rairagpur, Baripada, Lewis Road, Daspalla, Adampur, Sakhigopal, Puri, Kalapathar, Brahmapur, Balangir, Titlagarh, Bhawanipatna, Padmapur, Dunguripalli, Boudh, Tambaram, Alandur, SP Kovil, Palavakkam, Thirupporur, Avadi, Mint, Minjur, Thiruvallur, Kanchipuram, Pondicherry, Chidambaram, Kadalur, Panruti, Viluppuram, Thiruvannamalai, Vellore, Woraiyur, Kattur, Tollgate, Madurai, Namakkal, Dindigul, Thanjavur, Kumbakonam, Thiruvarur, Tirunelveli, Tenkasi, Nagercoil, Kalaburagi, Bidar, Yadgir, Basavakalyan, Humnabad				

S. No.	CSR Project or activity identified	Sector in which the project is covered	Project or programmes local area or other Specify the state and district where projects or programs was undertaken	Amount outlay (budget) project or programs wise	Amount spent on the projects Direct Expenditure on projects and programs was undertaken or Overheads (Rs. in lakhs)	Cumulative Expenditure up to the reporting period (Rs. in lakhs)	Amount spent Direct or Through implementing agency
3	Promoting education	Imparting financial literacy trainings through Financial Literacy Centres	Godhra, Limkheda, Vadodara, Chhani, MorvaHadaf, Halol, Nadiyad, Santarpur, Lunawada, Balasinor, Modasa, Kapdwanj, Himmatnagar, Talod, Bayad, Paldi , Memco, Gota, Sarkhej, Kadi, Mehsana, Ramol, Udhna, Katargam, Navsari, Ankleshwar, Valsad, Vyara, Rajpipla, Aurangabad, Paithan, Chalisgaon, Vaijapur, Pachora, Jamner, Bhusawal, Jalgoan, Nagpur, Higanghat, Deoli, Wani, Yevatmal, Pusad, PCMC, Chinchwad, Bosari, Shivajinagar, Yerwada, Narayangaon, Dattawadi, Pune, Mundhwa, Hadapsar, Daund, Nasik, Ghoti, Pimpalgaon, Lasalgaon, Dhule, Akkalkot, New Damani Nagar, Asara, Barshi, Latur, Udgir, Ambajogai, Umarga, Thane, Ghatkopar, Dharavi, Govandi, Wadala, Kalyan, Ambernath, Titwala, Badlapur, Karjat, Kolhapur. Rankala, Ichalkaranji, Sangli,		46.00	46.00	Direct Suryoday

S. No.	CSR Project or activity identified	Sector in which the project is covered	Project or programmes local area or other Specify the state and district where projects or programs was undertaken	Amount outlay (budget) project or programs wise	Amount spent on the projects Direct Expenditure on projects and programs was undertaken or Overheads (Rs. in lakhs)	Cumulative Expenditure up to the reporting period (Rs. in lakhs)	Amount spent Direct or Through implementing agency
			Pandharpur, Akulj, Amravati, Paratwada, Daryapur, Morshi, Dhamangaon, Arvi, Rajendra Nagar, Vijay Nagar, Shujalpur, Mandsaur, Ujjain, Dhar, Neemuch, Jaora, Jabalpur, Madanmahal, Deori, Katni, Sagar, Satna, Hosangabad, Chindwad, Seoni, Betul, Obedullaganj, Balaghat, Cuttack, Jajpur, Keonjhar, Dhenkanal, Narsinghpur, Rasgovindpur, Rairagpur, Baripada, Lewis Road, Daspalla, Adaspur, Sakhigopal, Puri, Kalapathar, Brahmapur, Chatrapur, Pralakhemundi, Polasara, Bhanjanagar, Phulbani, Balangir, Titlagarh, Bhawanipatna, Padmapur, Dunguripalli, Sambalpur, Bargarh, Jharsuguda, Sundergarh, Rourkela, Jeypore, Nabrangpur, Jagdalpur, Tambaram, Aladur, SP Kovil, Palavakkam, Thiruporur, Avadi, Mint, Mimjur, Thiruvallur, Kanchipuram, Pondicherry, Chidambaram, Kadalur, Panruti, Viluppuram, Thiruannamalai, Vellore, Woraiyur, Kattur, Tollgate,				

S. No.	CSR Project or activity identified	Sector in which the project is covered	Project or programmes local area or other Specify the state and district where projects or programs was undertaken	Amount outlay (budget) project or programs wise	Amount spent on the projects Direct Expenditure on projects and programs was undertaken or Overheads (Rs. in lakhs)	Cumulative Expenditure up to the reporting period (Rs. in lakhs)	Amount spent Direct or Through implementing agency
			Madurai, Namakkal, Dindigul, Thanjavur, Kumbakonnam, Mayiladuthurai, Thiruvarur, Pattukottai, Pudukottai, Karaikudi, Singanallur, Thudiyalur, Erode, Edapadi, Salem, Harsthampatti, Gopichettipalayam, Thirunelveli, Tenkasi, Thucalay, Thoothukudi, Valliyoor, Rajapalayam, Nagercoil, Kalaburagi, Bidar, Raichur, Yadgir, Vijayappur, Shahapur, Basavakalyan, Humnabad, Belgavi, Hubli, Gadag, Dharwar, Ranebennur, Athani, Gokak, Bagalkot				
	Total				66.00	66.00	

We confirm that the implementation and monitoring of the CSR Policy is in compliance with the CSR objectives and CSR Policy of the Bank.

Sd/-
Venkatesh Natarajan
Chairman, CSR Committee
Date: 29.5.2018

sd/-
R Baskar Babu
MD & CEO

FORM NO. MR-3

SECRETARIAL AUDIT REPORT

For the Financial Year Ended 31st March 2018

[Pursuant to section 204(1) of the Companies Act, 2013 and Rule No. 9 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014]

To,

The Members,

SURYODAY SMALL FINANCE BANK LIMITED

(Formerly SURYODAY MICRO FINANCE LIMITED)

We have conducted the Secretarial Audit of the compliances of the applicable statutory provisions and the adherence to good corporate practices by Suryoday Small Finance Bank Limited (formerly Suryoday Micro Finance Limited) having CIN U65923MH2008PLC261472 (herein after called the "Company"). Secretarial Audit was conducted in a manner that provided us a reasonable basis for evaluating the corporate conducts/statutory compliances and expressing our opinion thereon.

Based on our verifications of the Company's Books, Papers, Minute Books, Forms and Returns filed and other records maintained by the Company and also the information provided by the Company, its officers, agents and authorized representatives during the conduct of Secretarial Audit, we hereby report that in our opinion, the Company has, during the audit period covering the Financial Year ended on 31st March, 2018 complied with the statutory provisions listed hereunder and also that the Company has proper board processes and compliance mechanism in place to the extent, in the manner and subject to the reporting made hereinafter:

We have examined the Books, Papers, and Minute Books, Forms and Returns filed and other records maintained by the Company as listed in ANNEXURE- I for the Financial Year ended on 31st March, 2018 according to the provisions of:

- (i) The Companies Act, 2013 (the Act) and the Rules made there under including Amendment, Circulars, Notifications and Removal of Difficulties Order issued by the Ministry of Corporate Affairs from time to time;
- (ii) The Securities Contracts (Regulation) Act, 1956 ('SCRA') and the Rules made there under to the extent applicable;
- (iii) The Depositories Act, 1996 and the Regulations and Bye-laws framed thereunder.
- (iv) Foreign Exchange Management Act, 1999 and the Rules and Regulations made there under to the extent of Foreign Direct Investment, Overseas Direct Investment and External Commercial Borrowings;
- (v) The following Regulations and Guidelines prescribed under the Securities and Exchange Board of India Act, 1992 ('SEBI Act'):-
 - a) The Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011; (was not applicable to the Company during the period under review)
 - b) The Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992;
 - c) The Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009; (was not applicable to the Company during the period under review)
 - d) The Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999; (was not applicable to the Company during the period under review)
 - e) The Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008;
 - f) The Securities and Exchange Board of India (Registrars to an Issue and Share Transfer Agents) Regulations, 1993 regarding the Companies Act and dealing with client; (was not applicable to the Company during the period under review)

- g) The Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2009; (was not applicable to the Company during the period under review)
 - h) The Securities and Exchange Board of India (Buyback of Securities) Regulations, 1998; (was not applicable to the Company during the period under review) and
 - i) The Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015.
- (vi) The following industry specific laws, rules, regulations, directions, guidelines, circulars and instructions framed there under;
- a) Reserve Bank of India Act, 1934, The Banking Regulation Act, 1949 read with the rules, regulations, directions, guidelines and circulars issued by RBI for compliance by Small Finance Bank;
 - b) Master Circulars, directions, guidelines issued to NBFCs/ Small Finance Banks by the Reserve Bank of India from time to time

(vii) The other Laws applicable specifically to the Company is Annexed with this Report as ANNEXURE- II

We have also examined Compliance with the applicable clauses of the following:

- (i) Secretarial Standards issued by the Institute of Company Secretaries of India to the extent applicable.
- (ii) The Listing Agreement entered into by the Company with BSE Limited.

During the period under review the Company has complied with the provisions of the Act, Rules, Regulations, Guidelines, Standards, etc. mentioned above.

We further report that the Board of Directors of the Company is duly constituted with proper balance of Executive Directors, Non-Executive Directors and Independent Directors including Woman Director in accordance with the provisions of the Companies Act, the Banking Regulation Act, and the applicable Rules, Regulations, Directions thereunder. There were no changes in the composition of the Board of Directors during the period under review.

Adequate notice was given to all Directors to schedule the Board Meetings, agenda and detailed notes on agenda were sent at least seven days in advance, except the board meetings convened on urgent basis and a system exists for seeking and obtaining further information and clarifications on the agenda items before the meeting and for meaningful participation at the meeting.

We further report that there are adequate systems and processes in the Company commensurate with the size and operations of the Company to monitor and ensure compliance with applicable Laws, Rules, Regulations and Guidelines. The other compliances and comments thereon are given in ANNEXURE-IV.

Place: Mumbai
Date:

For Aabid & Co.
Mohammad Aabid)
Partner
Membership No.: F6579
CoP No.: 6625

Note: This report is to be read with our letter of even date which is annexed as 'ANNEXURE-III' and forms an integral part of this report.

ANNEXURE – I

List of documents verified

1. Memorandum & Articles of Association of the Company;
2. Annual Report for the Financial Year ended 31st March, 2017;
3. Minutes of the meetings of the Board of Directors, Audit Committee, Nomination & Remuneration committee, along with Notices and Attendance Register held during the financial year under report;
4. Minutes of General Body Meetings held during the financial year under report;
5. Agenda papers submitted to all the directors/members for the Board Meetings and Committee meetings. Declarations received from the Directors of the Company pursuant to the provisions of Section 164 (2) and 184 (1) of Companies Act, 2013;
6. E-forms filed by the company, from time to time, under applicable provisions of the Companies Act, 2013 and attachments thereof during the financial year under review;
7. Statutory Registers viz;
 - Register of Directors' & Key Managerial Personnel (KMP) and their Shareholding
 - Register of Members
 - Register of Charges
 - Register of Contracts
 - Register of Employee Stock Options
 - Register of Duplicate Share Certificate

ANNEXURE – II

Registered office:

Unit No.1101, Sharda Terraces, Plot No.65, Sector 11, CBD Belapur, Navi Mumbai, Mumbai 400614, Maharashtra, India.

Corporate office:

Unit No.1101, Sharda Terraces, Plot No.65, Sector 11, CBD Belapur, Navi Mumbai, Mumbai 400614, Maharashtra, India.

List of Applicable Laws to the Company under the Major Group and Head:

1. The Payment of Bonus Act, 1965
2. The Employees Provident Fund & Miscellaneous Provisions Act, 1952
3. The Workmen's Compensation Act, 1923
4. The Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013
5. The Maternity Benefit Act, 1961
6. The Payment of Gratuity Act, 1972
7. The Employees State Insurance Act, 1948
8. The Apprenticeship Act, 1961
9. The Maharashtra Labour Welfare Fund Act, 1953
10. The Employment Exchanges (Compulsory Notification of Vacancies) Act, 1959
11. The Maharashtra Shops & Establishments Act, 1948
12. The Maharashtra State Tax on Professions, Trades, Callings and Employments Act, 1975;
13. The Equal Remuneration Act, 1976

14. The Foreign Trade (Development & Regulation) Act, 1992
15. Negotiable Instruments Act, 1881
16. The Information Technology Act, 2000
17. Micro, Small and Medium Enterprises Development Act, 2006
18. The Employees Provident Funds and Miscellaneous Provisions Act, 1952

ANNEXURE-III

To,

The Members,

Suryoday Small Finance Bank Limited

(Formerly Suryoday Micro Finance Limited)

Our report of even date is to be read with this letter.

1. Maintenance of secretarial records is the responsibility of the management of the Company. Our responsibility is to express an opinion on these secretarial records based on our audit.
2. We have followed the audit practices and processes as were appropriate to obtain reasonable assurance about the correctness of the contents of the Secretarial records.

The verification was done on a test basis to ensure that correct facts are reflected in secretarial records. We believe that the processes and practices we followed provide a reasonable basis for our opinion.

3. We have not verified the correctness and appropriateness of the financial records and Books of accounts of the Company.
4. Wherever required we have obtained Management Representation about the compliance laws, rules, regulations and happening of the events etc.
5. The compliance of the provisions of corporate and other applicable laws, rules, regulations, standards is the responsibility of the management. Our examination was limited to the verification of procedures on a test basis.
6. The Secretarial Audit Report is neither an assurance as to the future viability of the Company nor of the efficacy or effectiveness with which the management has conducted the affairs of the Company.

ANNEXURE - IV

The following are the additional points annexed separately forming part of the Secretarial Audit Report

1. The Company has issued and allotted 31,00,000 (Thirty One lakh) Equity shares of Rs 10/- (Rupees Ten only) each on the preferential basis at the issue price Rs 75/- (Rupees Seventy Five Only) per share (including premium of Rs. 65/- per share) to Mr. R. Baskar Babu during the financial year 2017-18.
2. The Company has issued and allotted 3,31,982 (Three Lacs Thirty One Thousand Nine Hundred and Eighty Two) Equity shares of Rs 10/- (Rupees Ten only) each in two tranches under the ESOP scheme during the financial year 2017-18; the details of the same are as below
 - a) 1,72,350 shares are allotted to 32 employees at the issue price of Rs 36/- (Rupees Thirty Six Only) each per share (including premium of Rs 26/- per share);
 - b) 1,59,632 shares are allotted to 174 employees at the issue price of Rs 108/- (Rupees One Hundred Eight Only) each per share (including premium of Rs 98/- per share);
3. The company has altered Articles of Association with the consent of members by passing special resolution via Postal Ballot on 22nd January, 2018.
4. During the financial year 2017-18 the Company has surrendered NBFC Certificate to Reserve Bank of India.

MANAGEMENT DISCUSSION & ANALYSIS

Building
Strong Foundations



10,00,000 SMILES

Management Discussion & Analysis

Macroeconomic environment

Global economic development

The world economic growth for 2018 was at approximately 3% with rebound in investment, manufacturing activity and trade. The global economy is expected to maintain this rough growth level through 2020. As a group, advanced economies are expected to slow in the coming years as they run up against full employment and as central bankers raise rates to contain inflation. It is expected that growth in advanced economies will slow from 2.3 per cent last year to 2.2 per cent this year and 1.7 per cent by 2020. Globally, the interest rate cycle is expected to increase due to increase in inflation and growth in advanced economies and might prove to be vulnerable to emerging market economies.

India economic development

India's Gross Domestic Product (GDP) grew by a strong 6.7% year on year(y-o-y) growth in FY 2017-18, although slower as compared to 7.1% in the last year. This GDP growth was mainly driven by strong performance of the services sector, that grew by 7.9% y-o-y as compared to 7.5% y-o-y in the last year.

Retail inflation that was measured by Consumer Price Index (CPI) stayed broadly at 2.6% in the first half of FY18. However, adverse base effect, rising crude oil prices, and 7th Central Pay Commission HRA impact propelled inflation higher in the second half. CPI inflation was higher at 4.28% in March 2018 as compared 3.89% in March 2017.

Indian economy is forecasted to grow at 7.4% in FY 19 and 7.8% in FY 2020, and inflation is projected to be around 5%. Economic activities are anticipated to gain momentum with the strengthening of investment activities, backed by consumption demand and strong credit growth.

India is emerging as the fastest growing economy in the world according to Central Statistics Organisation (CSO) and is expected to be among the top three economic powers of the world in the coming 10 to 15 years, backed by its strong partnerships and democracy.

India witnessed a number of major policy initiatives in fiscal year 2017-18:

- India's comprehensive dual Goods and Service Tax (GST) has replaced the complex multiple indirect tax structure from July 1, 2017.
- The government unveiled a massive Rs 2.11 lakh crore to recapitalization plan for NPA-hit public sector banks (PSBs).
- Union Cabinet gave its nod for an increase in the carpet area of the affordable houses eligible for interest subsidy under the Credit Linked Subsidy Scheme (CLSS) for the Middle-Income Group (MIG) under the Pradhan Mantri Awas Yojana (Urban) which will boost the government mission for housing for all by 2022.
- With the enactment of the Insolvency and Bankruptcy Code, 2016 (IBC), the RBI circulated revised framework on February 12, 2018 on resolution of stressed assets over-riding all previous guidelines on revitalization of stressed assets in the economy.
- The Government introduced Banking Regulation (Amendment) Bill, 2017 which authorizes RBI to issue directions to banks for initiating proceedings in case of a default in loan repayment.

Banking sector outlook

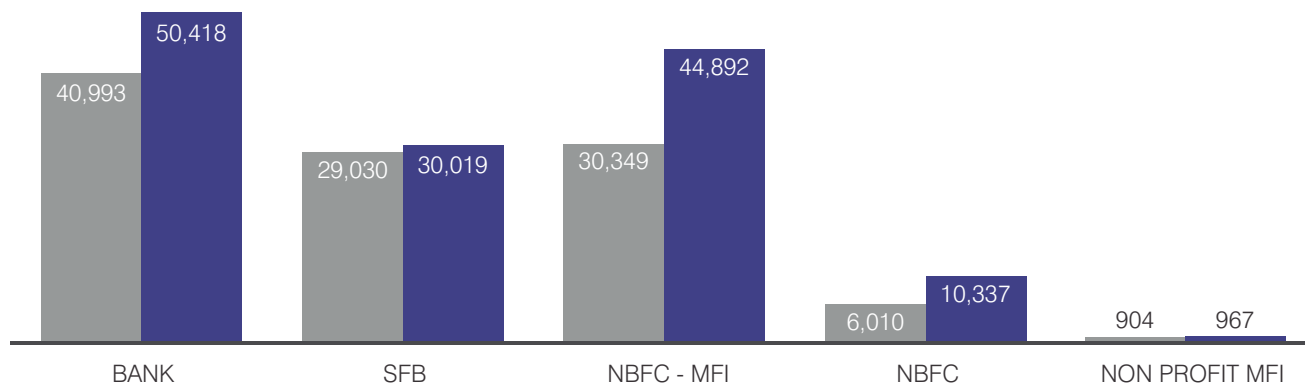
During the year, Bank credit grew at 10.32% year-on-year to Rs 86.5 Lakh Crore from Rs 78.4 Lakh Crore in FY 2017 which indicate a revival in demand for funds. There is significant increase in lending to retail loans as banks themselves are wary of funding corporate expansion plan. The deposits increased by 6.7% to Rs. 114.7 Lakh Crore from Rs. 107.5 Lakh crore in the year-ago period. The growth in deposits was lower than credit growth due to more attractive investment avenues such as mutual funds. Gross non-performing assets ratio for scheduled commercial banks increased from 9.6% in March 2017 to 11.6% in March 2018 and are likely to increase further as per financial stability report (FSR) published by RBI in June 2018. As per FSR, increase is primarily driven by public sector banks with GNPA ratio of 15.6% followed by private sector banks at 4% and foreign banks at 3.8%.

Small Finance Bank (SFB) & Microfinance Industry Overview

As at 31 March, 2018, microfinance industry has total loan portfolio (i.e. loan amount outstanding) of Rs. 1,36,633 Crore. This represents a growth of 27% over the previous year and signifies that the impact on portfolio quality post announcement of demonetisation in November 2016 is slowly fading away.

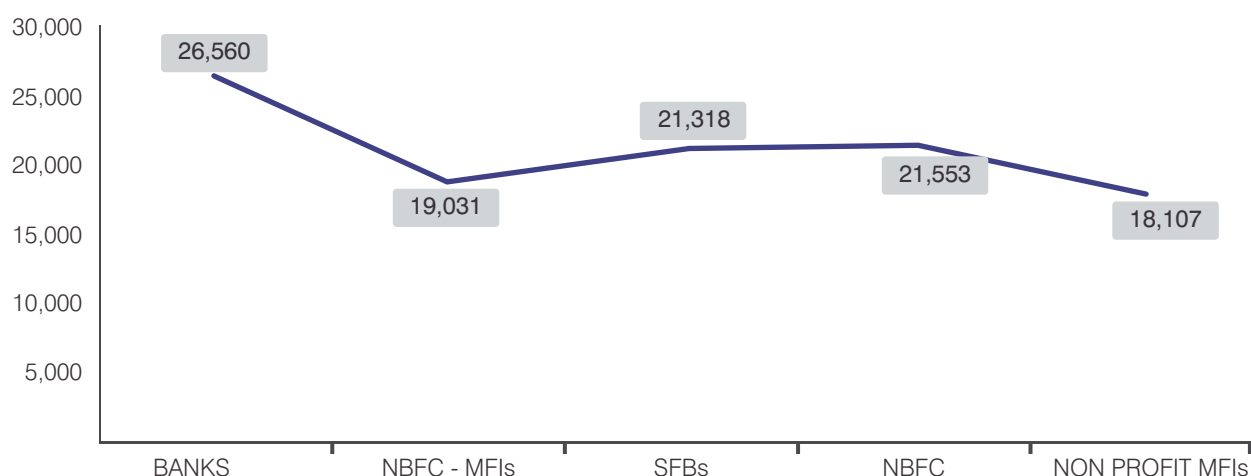
Compared to FY 16-17, Banks' portfolio grew by 23%, SFBs' by 3%, NBFC-MFIs' (excluding BC) by 48%, NBFCs' by 72% and Non-profit MFIs' by 7%.

Loan amount outstanding under Micro-Credit YoY (Rupees)



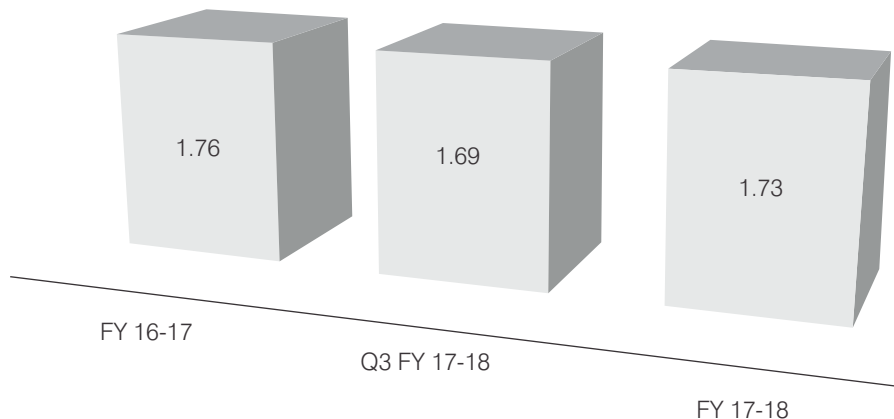
Average loan amount outstanding per borrower account has increased due to concentration on lending and retaining existing customers post announcement of demonetisation.

Average Loan Outstanding per Account (Rupees)



Eight SFBs have 1.73 Crore loan accounts with a total loan amount outstanding of Rs. 30,019 Crore under micro credit. Compared to previous financial year, loan amount outstanding and number of borrowers have increased moderately by 3%.

Number of Loan Accounts in SFBs [in Crores]



Post-demonetisation, SFBs have strengthened their risk management systems by balancing-check of overleveraging borrowers and disbursing funds on more prudent basis. Impact on portfolio quality observed in FY 2017 and FY 2018 have led SFBs to lend more cautiously and concentration was more on retaining existing customers. Delinquency levels were significantly higher during the year for all SFBs which led to slower disbursement growth compared to previous year. Importantly, delinquency levels for disbursements made from January 2017 have been around 1% across micro finance industry.

Suryoday SFB - First Full Year as a Bank

The Bank achieved successful milestone of completion of one full year of banking operation and have successfully been able to transform itself from NBFC-MFI to a Bank. The Bank has also been granted 'scheduled' bank status by RBI in FY 2018. Glimpses of significant achievements and developments in FY 2018 and during FY 2019 are listed below:

- **Information technology (IT):** Significant challenge was to implement IT systems to operationalize banking operations especially core banking system (CBS) and this was successfully implemented during the year. All bank branches, excluding microfinance lending focused outlets, were successfully integrated into CBS. Further, during the year, the Bank has successfully implemented treasury systems, CRM module, compliance monitoring systems, AML system, loan management system etc. The Bank is in the process of implementing mobility devices - handheld solutions for sourcing JLG and non-JLG loans to ensure efficient and quicker processing of loans.
- **Digital offerings:** Successful launch of mobile banking and internet banking along with superior customer experience has been the key milestone for the year. The Bank has successfully piloted online account opening with e-KYC and will go live across all branches and internet banking channels in the current year. All bank branches will be operating on tablets to ensure convenience and mobility of the branch staff and door step service for customers.
- **Compliance and process management:** Successful implementation of all relevant policies, processes and compliance requirements across all functions. The Bank has also implemented a system for monitoring of compliance and regulatory submissions. The Bank is committed to being fully compliant with all regulatory guidelines with no tolerance on non-compliance.
- **Network expansion:** The Bank has 28 fully operational bank branches as of June 2018 including conversion of 2 micro finance lending outlets into banking outlets in addition to 213 micro finance lending focused outlets. The Bank is in the process of converting existing micro finance focused outlets to banking outlets in the current financial year in addition to opening of new branches. The Bank also has onsite ATMs at almost all branches.
- **Business correspondent (BC) led banking outlet:** The Bank has launched its first BC led banking outlet managed by an experienced BC partner with its own staff. BC partner selection is based on his/ her past branch banking experience and after detailed due diligence by the Bank. The unique concept is introduced with aim to reduce cost of operations of bank branches while not diluting the business growth and compliance focus with experience of the BC partner.

- **Diversification of lending book:** The Bank has launched several new lending products during the year such as secured and unsecured term loans for micro and small enterprises (MSME), housing loans, commercial vehicle loans and secured lending to NBFCs. Secured loans forms approximately 5% of the total loan book as on 31 March, 2018 compared to less than 1% during previous year. Key focus will be on MSME loans especially to financially excluded population.
- **Liability franchise:** The Bank has successfully mobilized deposits of more than Rs. 800 Crore during the year and has repaid significant amount of grandfathered borrowings. Key focus was on building up retail deposit franchise and mobilizing institutional deposits to support business growth. Notably, most of the institutional deposits were 'non-premature' in nature to control liquidity outflow and ALM management.

Fading impact of delinquency post announcement of demonetization:

The Bank in FY 2017 and FY 2018 faced significant delinquency post announcement of demonetization in November 2016. GNPA of the Bank increased to more than 6% during the year which resulted in provision of approximately Rs. 70 Crore as at March 2018 out of which the Bank has written of Rs. 43 Crore. Notably, the delinquency for loans disbursed from January 2017 is below 0.2% as at March 2018 hence the delinquency was primarily out of loans disbursed before January 2017. The Bank has taken several measures to contain the delinquency such as deploying separate collection team to recover from delinquent customers, incentivizing branch staff for collection, setting up senior management task force to analyze impacted regions, restructuring of delinquent loans with Board approval etc. The Bank has been able to contain the overall delinquent portfolio at same level as of March 2017 however rollovers into higher DPD buckets resulted into NPAs during the year. Significant improvement in market environment and business confidence noticed in second half of the year when the business came back to normalcy and disbursement growth started picking up in non-delinquent regions. The Bank expects healthy business environment and growth for inclusive finance business during the year.

Products strategy of the Bank

Micro Finance - Micro finance loans are for financially excluded borrowers with a ticket size ranging between Rs. 10,000 to Rs. 40,000. These loans are primarily given to women borrowers in the joint liability format. These are templated products which are dependent on the parameterised credit review to ensure appropriate evaluation of the borrower and better health of the portfolio. Micro finance continued to be significant portfolio for the Bank in FY 18 and will continue to remain for FY 19; however asset diversification will remain the key focus.

Loan Against Property (LAP) & Housing Loan - LAP is divided in M-LAP and LAP. M-LAP ranges from Rs. 1.5 lacs to Rs. 5 lacs and is collateral based lending primarily for business purpose. LAP is in the range of Rs. 10 lacs and upwards. Housing loans are given to salaried as well as credible self-employed borrowers including to financially excluded borrowers. The Bank has centralised loan processing and credit approval process based on Board approved policies and processes. Key focus in the current year is to build stable and sustainable book with strong credit underwriting.

MSME loans - MSME loans are provided as unsecured loans to retail borrowers such as shopkeepers and grocers. These are templated products with the ticket sizes in the range of Rs. 1.5 lakhs to 5 lakhs. These are unsecured loans and backed by post-dated cheques. During the year, the Bank introduced a micro loan for shopkeepers with ticket size of approximately Rs. 1 Lakh including customers having good track record with the Bank and are in the need for higher loan amount. Accordingly, the Bank has segregated its sourcing strategy based on customer profile. Micro loans with ticket size of Rs. 1 lakh is sourced by inclusive finance cluster while retail asset cluster (non-inclusive finance) will source customers with ticket size upwards of Rs. 5 Lakh. Notably, the Bank has witnessed excellent portfolio quality for micro loans with ticket size of approximately Rs. 1 lakh.

Commercial Vehicle loans - The Bank introduced CV loans in later part of the year and includes primarily new commercial vehicles. The ticket sizes are in the range of Rs. 15 lakhs to Rs. 35 lakhs. Key focus will be to fund credible borrowers and to build stable portfolio.

Financial Intermediary Group (FIG) Loans - FIG loans are introduced for on-lending to NBFCs including microfinance companies. The Bank has separate vertical to focus on FIG lending having significant experience in lending to financial institutions.

SME lending - The Bank has started lending to SME borrowers with excellent credit history. SME borrowers are primarily small and medium private and public limited companies, partnership firms etc. The Bank has centralised sourcing, credit underwriting and loan processing to keep strong control over the sourcing profile of the customer and portfolio monitoring.

Functional Update

Information Technology (IT) and digital offering

The Bank has invested in IT infrastructure to ensure seamless service delivery across a multi-channel network. The Bank believes that technology will be the driving factor for growth in the future and is making an effort to ensure that it has robust, scalable systems in place with strong support systems for all the services and products it offers to its customers.

- a) The Bank has implemented Group loan operation work flow and Trucell application (collection monitoring system) in order to scale up the operations and to have strong control over collection in the branches.
- b) Fully fledged Internet Banking and Mobile Banking facilities for all customers.
- c) The Bank has introduced Insta-Kits, Insta-Debit Cards, ATMs, 24/7 customer care center to facilitate its customers with latest technologies and best service in the industry.
- d) The Bank is in the process of deploying tablets across all branches including micro finance lending focused outlets to ensure mobility and door step service. Further, the tablets will be enabled for online account opening through e-KYC which will enable real time sourcing of loans as well as deposits including for micro finance customers.

Treasury Operations

The Bank has set up its treasury function segregated into Front Office (Dealing), middle office and back office: while the risk is being monitored independently by the market risk department which reports to the Chief Risk Officer (CRO). The treasury is primarily responsible for compliance of Statutory Reserve requirement, assets liability management (ALM), interest rate risk management and fund raising through various channels. The Bank aims to establish a strong treasury management team to support the liquidity at lower cost. The Bank has dealt in fixed income products and money market instruments during the year primarily to manage its excess liquidity and to enhance yield on such investments.

Risk Management

The Bank has an independent risk management team reporting to the Chief Risk Officer (CRO). The Bank has Board approved risk management and governance policies and manages the risk under enterprise wide risk management framework. The Bank has Risk Management Committee of the Board which reports to the Board and has sub-committees at management level. Broadly, the risk team is divided into credit risk, market risk and operational risk and works in close consultation with business teams. Prime focus of risk team is to independently analyse and provides guidance on managing the risk at regular intervals. The Bank continuously endeavours to build strong risk management culture within the Bank.

Product

The Bank has a Product team which is responsible for designing and execution of new products for both Assets and Liabilities. This team is responsible for implementing strategy, roadmap, and feature definition for products or product lines. This team is also responsible for market and competitive analysis of new products and designing its feasibility, effectiveness and compatibility with the business.

Compliance

The Bank has an independent compliance function and is responsible for maintaining highest level of compliance monitoring and reporting. Compliance function is responsible for providing compliance related training to employees, framing and providing necessary guidance on various policies, updating management on new compliance requirements and ensuring compliance standards are followed at all levels. The Compliance team monitors adherence to each of the licence conditions and the operating guidelines for Small Finance Banks.

Internal Audit

The Bank has an independent internal audit function reporting to the Audit Committee of the Board. The function is responsible for the quality and effectiveness of its internal control, risk management, governance system and process and reporting any deviation to the Committee for necessary remedial action. The function is responsible for ensuring strong control environment across the Bank including compliance requirements.

Outlook

Completion of first year of banking operations has given significant confidence to run a successful banking franchise while fully committed to serve unserved and underserved population which continue to remain untapped by private and public sector banks. The Bank is focused on the objective of supply of credit to small business units, small and marginal borrowers, micro and small industrial and unorganised sector borrowers. The Bank is committed on delivering liabilities products with a best-in-class customer experience at door step including to micro finance customers. The Bank is excited to deliver in the era of digital transformation and disruptions and high regulation to leverage on the new setup and technologies to deliver the best experience at optimal cost to the customers. The Bank endeavours to provide best in class performance and customer experience.

Financial Summary

Suryoday Small Finance Bank completed its first full year of banking operations as on March 31, 2018. Total customer base of 8.5 lakhs was achieved with 5 Year CAGR of approximately 25%. Gross Loan Book stands at Rs. 1,759 Crores as on March 31, 2018 with YoY growth of 83%. The Bank mobilised deposits of more than Rs. 800 Crore in a span of about 14 months. During the year, the Bank opened 22 banking outlets including its first Business Correspondent led outlet. As at 30 June, 2018, the Bank had 28 banking outlets including 2 micro finance lending outlets converted into banking outlets and more than 240 total outlets. The geographical spread of branches is as under:

Banking outlet / DSSC	June 30, 2018
Gujarat	30
Karnataka	16
Madhya Pradesh	22
Maharashtra	83
Odisha	38
Tamil Nadu	49
Chhattisgarh	1
Pondicherry	2
Total	241

The Bank's networth as at March 2018 stood at Rs. 540 Crore including share subscription of Rs. 23 Crore by way preferential allotment and Rs. 3 Crore under employee stock options. Net interest income has increased by 27.4%, while operating expenses increased by 27.2% primarily owing to an increase in the employee strength from 2173 to 2883 as at year end. Interest expense also spiked up moderately by 6.9% due to repayment of high cost grandfathered borrowings compensated by interest expense on deposits. The Bank made provision for non-performing advances of Rs. 50 Crore and write-off of advances of Rs. 42.8 Crore. Post write off, the Bank's Gross NPA ratio stood at 3.54% as compared to 6.15% in the previous year. The Bank witnessed increase in delinquency primarily post announcement of demonetisation in November 2016 and the impact was felt over the period of 2 years in FY 2017 and FY 2018. Delinquency ratio has declined significantly to around 0.2% for disbursements made from January 2017 onwards due to improvement in business environment and fading impact of demonetisation.

The capital adequacy ratio of the Bank at March 31, 2018 is 37.9% with a Tier-1 capital adequacy ratio of 34.8% as compared to a 53.6% and 47.9% respectively as at March 31, 2017.

Wherever applicable, prior year numbers may not be directly comparable to current year since the Bank was operating as a NBFC-MFI and started its banking operations in last quarter of the FY 2017 while FY 2018 was the first full year of operation as a bank.

Operating results

The Bank posted the operating profit (before depreciation/ amortisation and provisions) of Rs. 75.1 crores during the year and was higher by 88% as compared to the previous year. Increase in NPA provisioning from Rs. 13.9 crores in FY 2016-17 to Rs. 50.0 crores in FY 2017-18 resulted in decrease of PAT by 33%.

Particulars (INR in Crores)	FY 2016-17	FY 2017-18	ΔYoY%
Interest income	243.7	286.9	17.7%
Interest on advances	226.9	258.3	13.8%
Income on investments	8.8	22.4	153.5%
Other interest income	8.0	6.2	-21.3%
Total Interest expense	115.2	123.2	6.9%
Interest on Deposits	0.1	24.4	-
Interest on Borrowings	115.1	98.8	-14.2%
Net Interest Income	128.5	163.7	27.4%
Processing Fees	9.9	23.1	132.7%
Other Income	1.2	15.0	1,196.7%
Net Total Income	139.6	201.8	44.5%
Employee Expense	62.1	87.2	40.4%
Other operating expenses	37.5	39.5	5.3%
Operating Expenses	99.6	126.7	27.2%
Operating Profit	40.0	75.1	87.9%
Depreciation	2.2	4.7	116.7%
Provisions, net of write-backs	13.9	54.7	291.9%
Profit before tax	23.9	15.7	-34.0%
Income tax, including deferred tax	8.8	5.6	-35.9%
Profit after tax	15.1	10.1	-32.9%

Interest income

Interest income on advances increased by 14% primarily because of increase in average advances by 23% during the year to Rs. 1,145 Crore from approximately Rs. 926 Crore in previous financial year compensated by reversal/ non-booking of interest income on non-performing advances as per RBI guidelines. Net Interest margin (NIM) has remained stagnant compared to previous year primarily due to negative carry on investment in SLR securities, including deployment of excess liquidity from grand fathered borrowings, for entire current financial year compared to part of the previous financial year, interest income reversal on NPA, introduction of low yield products such as housing loans, loan against property etc.; compensated by reduction in cost of funding by more than 200 basis points during the year.

Income on investment of Rs. 22.4 Crore comprised of interest on SLR investments required to be maintained by the Bank as per RBI guidelines and non-SLR investments such as Commercial Paper and Certificate of deposits. In the previous financial year, interest income was lower since the Bank started investing in SLR investments in later part of the year just before conversion into a Bank compared to full year of operation in the current financial year.

Other interest income comprises interest on fixed deposits placed as a collateral against grand fathered borrowings. Reduction in other interest income is primarily due to maturity of fixed deposits during the year.

Finance cost

Moderate increase in finance cost is attributed to decline in cost of borrowings by more than 200 basis points due to repayment of high cost grand fathered borrowing offset by significant increase in interest expense on higher deposit base during the year.

Other income

Other income earned during FY 2018 primarily consists of fees earned on sale of Priority Sector Lending certificate (PSLC) of Rs. 9.4 Crore, profit on sale of investments, income from banking transactions etc. The Bank has not earned PSLC fees in the previous year since the Bank started its operations in the last quarter of the FY 2017.

Operating expenses

Operating expenses increased by 27.2% primarily due to increase in employee cost. Number of employees increased from 2,173 at March 2017 to 2,883 as at March 2018.

Other operating expenses increased moderately due to increase in technology expenses, rental and depreciation on Bank's property as compared to previous year. The Bank had incurred significant one-time cost in the previous year for conversion to a small finance bank and is offset by increase in other expenditure during the current year as mentioned above.

Provisions and contingencies

Provisions and contingencies (excluding provision for tax) increased significantly from Rs. 13.9 Crore in FY 2017 to Rs. 54.7 crore in FY 2018. Increase is primarily due to an increase in provisions on non-performing advances and credit enhancement exposure on securitisation transactions. The Bank has written-off non-performing advances of Rs. 42.8 Crore during the year out of provisions made towards NPA.

The income tax expense decreased by 35.9% from Rs. 8.8 crore in FY 2017 to Rs. 5.6 crore in FY 2018 due to reduction in profit before tax.

Balance sheet

(Rs. in crores)

Particulars	FY 2016-17	FY 2017-18	% change
Capital & Liabilities	1,604.2	2,163.5	34.9
Equity Share Capital	64.1	67.5	5.4
Reserves	436.5	472.3	8.2
Deposits*	22.1	749.5	3297.2
Borrowings	1,021.6	717.8	-29.7
Other Liabilities and Provisions	59.9	156.4	160.7
Assets	1,604.2	2,163.5	34.9
Cash and Balances with Reserve Bank of India	26.7	30.8	15.6
Balances with Banks and Money at Call and Short Notice	107.3	176.3	64.0

(Rs. in crores)

Particulars	FY 2016-17	FY 2017-18	% change
Investments	593.9	311.3	-47.6
Advances	819.7	1,575.0	92.1
Fixed Assets	7.7	13.6	74.0
Other Assets	48.9	56.5	15.5

* Excludes deposits sourced of approximately Rs. 80 Crore however not booked due to pending documentation and are included in other liabilities

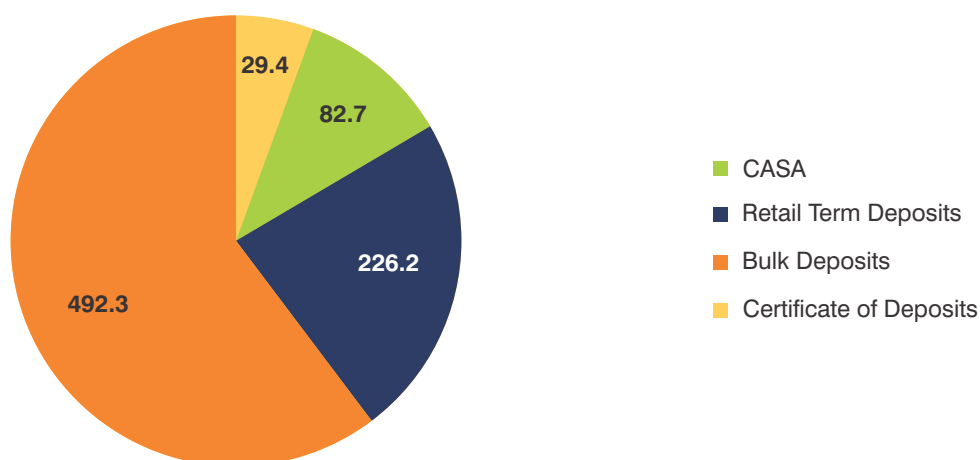
Equity share capital and Reserve

The Net Worth as at 31st March 2018 was Rs. 540 crores including Rs. 23 crores brought in by way preferential share issuance and ESOP allotment of Rs. 3 Crore.

Deposits

The Bank has mobilised deposits of more than Rs. 800 Crore with 11% share of CASA during the year. Retail deposits forms 37% of total deposits and balance is mobilised through institutional deposits and issuance of a certificate of deposit. Notably, the Bank pays interest on savings deposits on monthly basis and is one of the very few which offers monthly payment of interest. The Bank is planning to convert all door step service centres (micro finance focused lending outlets) to banking outlets to offer basic banking services to the underserved and financially excluded population.

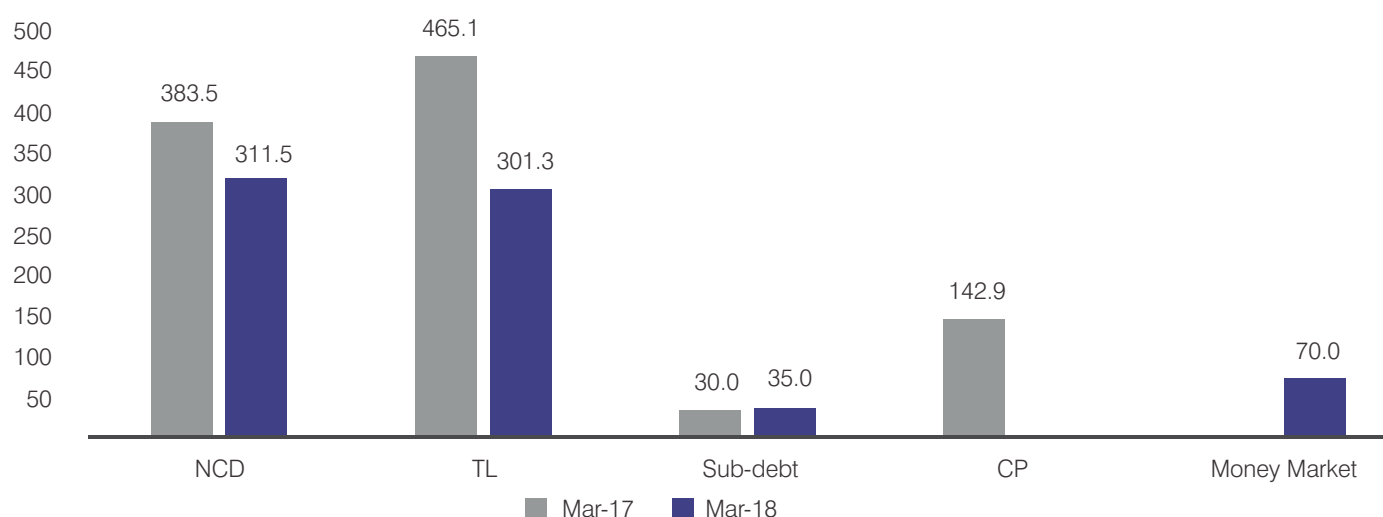
Deposit Mix [Rs. in Crores]



Borrowings

During the year, the Bank repaid significant portion of its grandfathered borrowings which has resulted in reduction in cost of funds by more than 200 bps. Post getting schedule bank status from RBI, the Bank has been able to access money market lines from other banks such as call money, term money, collateralised borrowing and lending obligation (CBLO), repurchase transactions etc. During the year, the Bank borrowed from refinance agency which has increased the overall term loan (TL) borrowing outstanding as at year end.

Borrowing Mix [Rs. in Crores]



Other Liabilities and provisions

Other liabilities and provision increased by 161% primarily on account of deposits mobilised during the year however not booked due to pending documentation from customers. The amount of deposits mobilised and not booked is included in the deposit numbers mentioned elsewhere in the document.

Cash equivalents and Money at call and Short Notice

Cash equivalents includes cash in hand, Balance with RBI and in the RTGS Settlement Account and includes balance with other banks. During the year, the Bank started dealing in money market instruments and had approximately Rs. 115 Crore outstanding under reverse repo and CBLO.

Investments

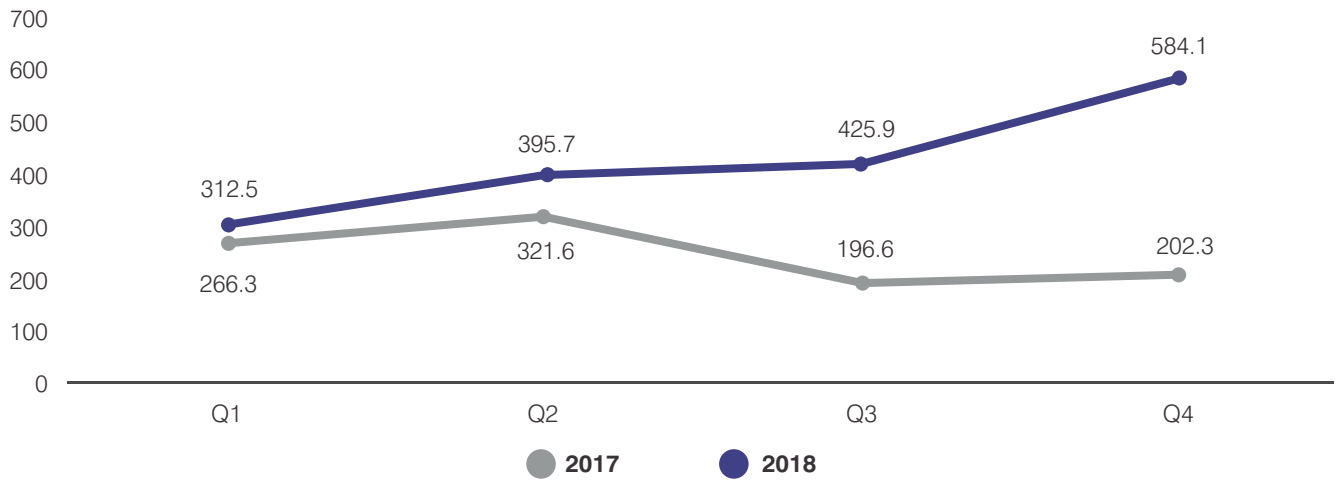
Total investments declined from Rs. 593.9 crore as at 31 March, 2017 to Rs. 311.3 crores at 31 March, 2018 primarily due to reduction in excess liquidity invested in SLR and non-SLR investments and subsequently deployed in business. The Bank raised significant debt before conversion into the Bank and hence the excess funds were invested in liquid investments.

The Bank's SLR investments stood at Rs. 286.8 Crore which includes investment in long dated Government securities, treasury bills and cash management bills. Investment in non-SLR securities includes commercial paper.

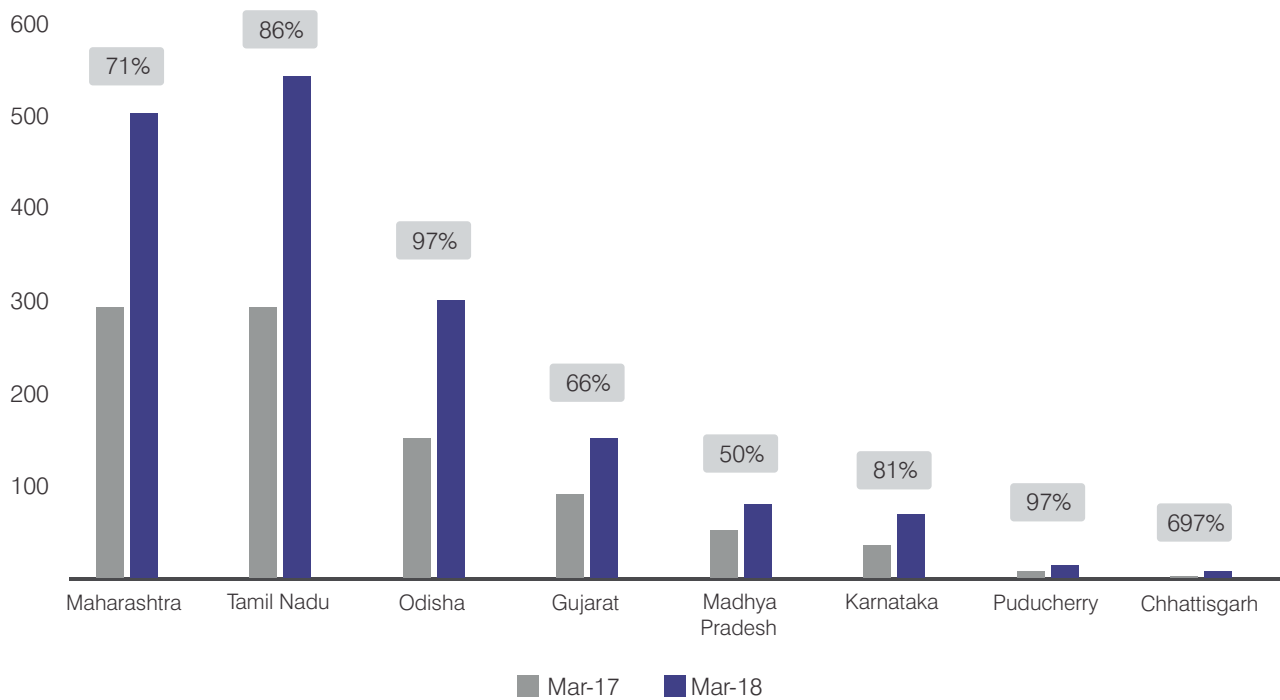
Advances

Advances increased by 92% mainly due to increase in disbursement during the financial year. Disbursement increased by 74.1% on an overall basis to Rs. 1,718 Crore in FY 2018 compared to Rs. 987 Crore in FY 2017 with JLG contributing to 86.5% of the total disbursement. Outstanding balance of securitisation/ IBPC transaction stood at Rs 119 crore as compared to previous year of Rs 132 crore.

Disbursement [Rs. in Crores]



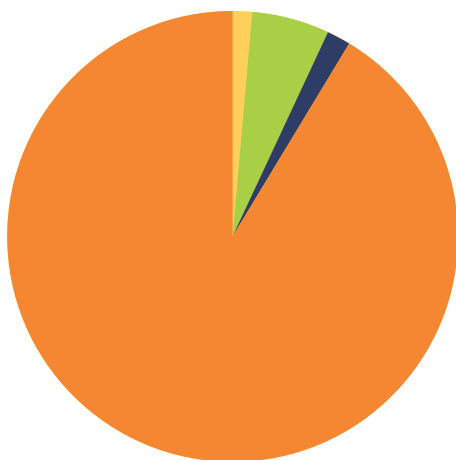
Statewise Gross Loan Portfolio (Rs. in Crores)



Product wise summary

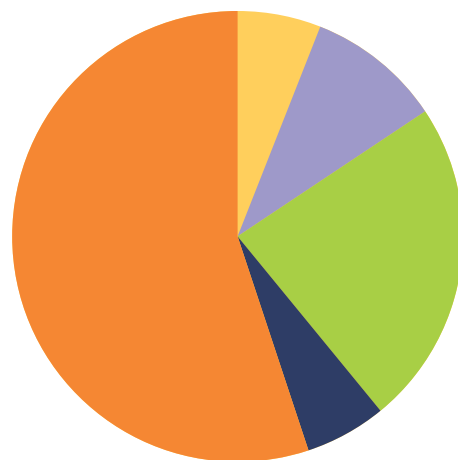
During the year, the Bank introduced new products such as MSME, housing loans, loan against property, commercial vehicles, SME lending, overdraft against fixed deposit, and lending to NBFCs.

Table below depicts portfolio distribution in the inclusive finance segment:



■ JLG (95%) ■ IL / IBL (1%)
■ VL (3%) ■ MSME (Micro Loans) (1%)

Below table provides summary of portfolio distribution in the retail asset and FIG segment (other than inclusive finance):



■ HL (13%) ■ LAP (21%) ■ CV (5%)
■ FIG (6%) ■ SME / OD (55%)

Details of Gross Non-performing assets (NPAs), Net NPAs and Provision:

Particular	2017	2018
Net NPA to Net Advances (%)	3.80%	1.86%
Gross NPA as at 31 March (excl. write off)	51.25	56.57
Provision as at 31 March	13.85	21.08
Net NPA as at 31 March	31.14	29.23
Gross NPA to Gross Advances	6.15%	3.54%

As mentioned above, the Bank faced significant delinquency post announcement of demonetisation in November 2016 and the resultant delinquency has been provided for as per RBI guidelines. The Bank's Provision Coverage Ratio (PCR), without considering write off, stood at approximately 70%.

Priority sector lending (PSL)

The Bank is required to maintain 75% of its total lending into priority sector advances as per operational guidelines applicable to SFBs. The Bank has achieved the PSL target for the current year.

Fixed assets

Increase in fixed assets is primarily due to increase in capital expenditure incurred for new banking outlets opened during the year.

Other assets

Other assets comprises of interest accrued on advances, interest accrued on investments, advance tax, deferred tax, security deposits for branches etc.

Segment information

The Bank is required to furnish operating results as per reportable segments defined in RBI guidelines applicable for banks and Accounting Standard 17 'Segment Reporting'. Accordingly, the Bank classified its business segments into Treasury, Retail banking, Wholesale banking and other banking operations. Treasury segment comprises of investment portfolio of the Bank; retail segment comprises of retail advances, deposits portfolio and borrowings portfolio of the Bank; Corporate segment comprise of all advances to companies and statutory bodies, which are not included under Retail banking and other banking portfolio comprise of residual portfolio which cannot be classified into any other business segment.

Particulars	Treasury	Retail banking	Corporate	Other banking operations	Total
Segment Revenue	26.33	320.24	0.12	2.25	348.94
Segment Result	0.59	14.24	(0.15)	1.94	16.62
Unallocated expenses					(0.89)
Operating Profit					15.73
Income taxes					(5.60)
Extraordinary profit/loss			-		-
Net Profit					10.13
Other information:					
Segment assets	464.84	1,664.79	18.83	1.19	2,149.65
Unallocated assets					13.85
Total assets					2,163.50
Segment Liabilities	19.98	1,593.57	9.51	0.30	1,623.36
Unallocated liabilities					0.38
Total liabilities					1,623.74
Capital employed					539.76
Capital expenditure					11.64
Depreciation					4.66

Result for the retail banking segment has declined primarily due to provision for NPA on JLG loans. Corporate banking segment was started in the later part of the year hence the results are not positive due to cost incurred to set up the corporate banking cluster. Other banking operations primarily includes commission income from sale of insurance policies to customers.

Capital Adequacy

Particulars	March 31, 2017	March 31, 2018
Risk Weighted Assets	1011.7	1500.9
Tier I Capital	484.7	522.2
Tier II Capital	57.2	47.3
Total Capital	541.9	569.5

Particulars	March 31, 2017	March 31, 2018
Tier I Capital Ratio	47.9%	34.8%
Tier II Capital Ratio	5.7%	3.1%
Capital Adequacy	53.6%	37.9%

The Bank maintained healthy capital adequacy ratio of 37.94% as compared to RBI requirement of 15%. Tier I capital ratio comprised of equity capital and accounts for 34.79% of the capital adequacy ratio. Tier II capital comprise of subordinated debt of Rs. 37 crore and standard assets and floating provision of provision of Rs. 10.2 crore. The Bank has applied 100% risk weight on advances charged as security against grandfathered borrowing on the date of conversion in to a small finance bank. The Bank has applied to RBI for approval of capital risk charge on advances secured against grandfathered borrowings.

Migration to Indian Accounting Standards (Ind AS)

Banks in India currently prepare their financial statements as per the guidelines issued by RBI, the Accounting Standards notified under section 133 of the Companies Act, 2013 and generally accepted accounting principles in India (Indian GAAP). In January 2016, the Ministry of Corporate Affairs issued the roadmap for implementation of new Indian Accounting Standards (Ind AS), converged with International Financial Reporting Standards (IFRS) for scheduled commercial banks, insurance companies and non-banking financial companies (NBFCs). The roadmap requires banks to migrate to Ind AS for accounting periods beginning from April 1, 2018 onwards, with comparatives for the periods ending March 31, 2018 or thereafter. In April 2018, RBI decided to defer the implementation of Ind AS by one year.

The Bank has accordingly started the process of migrating to Ind AS based financial statements. The key impact areas for the Bank include loan loss provision, accounting of financial instruments, employee stock options, deferred tax and implementation of technology systems. Of these, the accounting of financial assets differs significantly from Indian GAAP in many areas, which include classification, fair valuation, expected credit losses, effective interest rate accounting and derecognition. The Bank's Ind AS implementation project also focuses on technical evaluation of GAAP differences, selection of accounting policies and choices, evaluation of data requirements, business impact analysis and skill development in the Bank through regular trainings and workshops. Roadmap includes evaluation of technological changes required which will be implemented during the year.

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CORPORATE GOVERNANCE REPORT

Building
Strong Foundations



10,00,000 SMILES

Corporate Governance Report

SURYODAY SMALL FINANCE BANK LIMITED (SSFB) is committed to ensuring the highest corporate governance standards by implementing good governance practices that follow the spirit of law by being accountable and transparent besides being equitable.

We believe that good corporate governance practices are essential to achieve and maintain public trust and confidence in the banking system, as also to fulfill the Bank's fiduciary role and responsibility towards its stakeholders in terms of enhancing long term values.

SSFB aims to achieve the above through a democratic management process which adopts best practices and transparency in line with the Directions of the Reserve Bank of India (RBI) on Corporate Governance.

1. BOARD OF DIRECTORS:

The composition of the Board of Directors of the Bank ("Board") is governed by the provisions of the Companies Act, 2013, the Banking Regulation Act, 1949 and the Directions issued by the Reserve Bank of India (RBI) for small finance banks.

As on 31st March 2018, the Bank's Board comprised of seven Directors as follows:

Independent Directors: Dr. (Mrs) Sheela Bhide (Part-time Chairperson) Mr. R. Ramachandran, Mr. Mrutunjay Sahoo and Mr. Jyotin Mehta

Investor Directors: Mr. Arun Diaz and Mr. Venkatesh Natarajan.

Executive Director: Mr. R. Baskar Babu, Managing Director & Chief Executive Officer.

During the year under review, the Board met 5 (five times) viz. on May 25, 2017, July 28, 2017, October 24, 2017, November 29, 2017 and February 21, 2018. The gap between any two meetings did not exceed one hundred and twenty days.

The number of Board meetings attended by the Directors is as follows:

Name of the Director	No. of Board Meetings held during their tenure	No. of meetings attended
Dr.(Mrs) Sheela Bhide	5	5
Mr. R. Ramachandran	5	5
Mr. Arun Diaz	5	5
Mr. Venkatesh Natarajan	5	4
Mr. Mrutunjay Sahoo	5	5
Mr. Jyotin Mehta	5	5
Mr. R. Baskar Babu	5	5

2. COMMITTEES OF THE BOARD

The Board has constituted various Committees of Directors as required under the provisions of the Companies Act, 2013 and the RBI Directions

a) Audit Committee

The Audit Committee, constituted as per the provisions of Section 177 of the Companies Act, 2013 and the RBI directions, comprises of the following Directors:

1. Mr. Jyotin Mehta (Independent Director): Chairman
2. Dr.(Mrs.) Sheela Bhide (Independent Director): Member
3. Mr. R. Ramachandran (Independent Director): Member
4. Mr. Arun Diaz (Investor Director): Member

The Managing Director & Chief Executive Officer, the Chief Financial Officer, the Head-Compliance and the Head-Internal Audit attend all Audit Committee meetings as Invitees; Statutory Auditors attend meetings in which Financial results are discussed and approved. The Company Secretary acts as the Secretary to the Committee.

The functions of the Audit Committee, inter alia, include the following:

- (i) Review the annual financial statements and auditors' report with the management with particular reference to the following:
 - a. Matters to be included in the directors' responsibility statement;
 - b. Change in the accounting policies and practices, if any, with reasons for the same;
 - c. Major accounting entries involving estimates based on the exercise of judgment by management;
 - d. Significant adjustments made in the financial statements arising out of audit findings;
 - e. Compliance with listing and other legal and regulatory requirements relating to financial statements;
 - f. Disclosure of related party transactions;
 - g. Modified opinions in the draft audit report.
- (ii) Review the accounting policies and practices and financial reporting process from time to time and review the Bank's internal financial controls with respect to financial statements.
- (iii) Approve internal audit plans, monitor the reporting of issues identified by internal auditors to the management, review the effectiveness of the internal audit function and ensure that corrective actions are being taken in a timely manner.
- (iv) Ensure that any concerns raised by the statutory auditors are addressed by the management, bring unaddressed concerns to the notice of the management, review management letter(s) and other submissions by the statutory auditors and management response to the findings and recommendations of the statutory auditors and study the issues raised by statutory auditors and raise appropriate flags to the management in case of repeated issues.
- (v) Review effectiveness of compliance monitoring systems, and review observations, if any, of the regulatory authorities with respect to compliance.
- (vi) Review matters related to transactions with related parties and valuation of shares and other properties.
- (vii) Review the vigilance mechanism in the Bank and its implementation.

During the year under review, the Committee met 6 (six) times i.e. on May 24, 2017; July 27, 2017; October 23, 2017; November 29, 2017; January 23, 2018 and February 20, 2018.

Details of attendance of each member at the Audit Committee Meetings are as follows:

Name of the Director	No. of Audit Committee Meetings held during the year	No. of meetings attended
Mr. Jyotin Mehta	6	6
Dr.(Mrs.) Sheela Bhide	6	6
Mr. R. Ramachandran	6	6
Mr. Arun Diaz	6	5

Vigil Mechanism/ Whistle Blower Policy

The Bank believes in the conduct of its affairs in a fair and transparent manner by adopting highest standards of professionalism, honesty, integrity and ethical behaviour.

Towards this objective, the Whistle Blower Policy has been formulated as part of corporate governance norms and transparency where the employees, customers, stakeholders or Non-Governmental Organizations (NGOs) are

encouraged to prefer any complaints which have not been resolved or satisfactorily resolved within the usual applicable protocols. The employees may refer any complaints covering areas such as corruption, misuse of office, criminal offences, suspected / actual fraud, failure to comply with existing rules and regulations and acts resulting in financial loss/ operational risk, loss of reputation, etc. detrimental to depositors' interest/ public interest.

The Policy provides for referring complaints under Protected Disclosures to the Vigilance Officer

During the year under review, no complaints were received under the Whistle Blower Policy.

b) Nomination and Remuneration Committee:

The Nomination and Remuneration Committee of the Board has been constituted in accordance with requirements of Section 178 of the Companies Act, 2013 and the RBI Directions.

The composition of the Committee is as under:

1. Mr. Mrutunjay Sahoo (Independent Director): Chairman
2. Dr. (Mrs.) Sheela Bhide (Independent Director): Member
3. Mr. Venkatesh Natarajan (Investor Director): Member

The terms of reference include formulating the policy setting out the criteria for determining qualifications, positive attributes, independence of a Director and policy relating to remuneration for Directors, Key Managerial Personnel and other senior employees, and evaluation of performance of the Board, its Committees and individual Directors. The Committee also evaluates the performance of the key managerial personnel of the Bank.

Further, the Committee oversees the implementation of the ESOP Scheme of the Bank under the broad framework laid down by the Bank.

During the year under review, the Committee met two (2) times on 27th July, 2017 and 23rd January, 2018.

Details of attendance of each member at the Nomination & Remuneration Committee (NRC) meetings are as follows

Name of the Director	No. of NRC meetings held during the year	No. of meetings attended
Mr. Mrutunjay Sahoo	2	2
Dr. (Mrs.) Sheela Bhide	2	2
Mr. Venkatesh Natarajan	2	2

Remuneration Policy:

The Board has, in accordance with the provisions of sub-section (3) of Section 178 of the Companies Act, 2013, formulated the Policy on appointment and remuneration of directors, key managerial personnel and senior management employees. This Policy seeks to formulate criteria for determining qualifications, attributes and independence of a Director, formulation of comprehensive Compensation Policy and instituting a mechanism for alignment of compensation of Whole time directors, Chief Executive Officer, risk takers and other senior managerial personnel with the extent of risks taken. The Policy also establishes standards on compensation including fixed and variable, which are in alignment with the applicable rules and regulations including the RBI guidelines in this regard and which is based on the trends and practices of remuneration prevailing in the banking industry.

(i) Remuneration paid to Executive Director:

Remuneration of the Managing Director comprises of basic salary, special allowance, perquisites and retiral benefits and performance linked incentive as may be approved by the Board, the shareholders and the RBI, subject to the overall limits of remuneration governed by the Companies Act, 2013 read with the shareholders' approval.

Details of remuneration paid to the MD & CEO in the Financial Year 2017-2018:

Rs. in lakhs

Name of Director	Salary (including allowances) & other Funds	Contribution to Provident	Perquisites in cash or kind
Mr.R.Baskar Babu	85.68	4.32	0.51

Mr. R Baskar Babu holds 54,03,578 equity shares in the Bank as on 31st March,2018.

(ii) Remuneration to Non- Executive Directors:

The Non-Executive Directors do not draw any remuneration from the Bank other than sitting fees. Details of sitting fees paid to Non-Executive Directors during the year 2017-2018 are given below:

Name of Director	Sitting fees paid for Meetings attended (Rs.)	Total no. of Shares held in the Bank as on 31st March, 2018
Dr. (Mrs) Sheela Bhide	460,000	Nil
Mr R Ramachandran	5,00,000	Nil
Mr Mrutunjay Sahoo	3,10,000	Nil
Mr. Arun Diaz	4,15,000	Nil
Mr. Venkatesh Natarajan	2,80,000	Nil
Mr Jyotin Mehta	4,20,000	Nil

Board Evaluation:

Pursuant to the provisions of the Companies Act, 2013 ("Act") and the Corporate Governance Policy of the Bank, the Board of Directors ("Board") has reviewed the annual evaluation carried out by the Nomination & Remuneration Committee (NRC) and the Independent Directors of the performance of the Board, its Committees and the individual directors.

The performance of the Board was evaluated by seeking inputs from all the Directors and the performance of the Committees was evaluated by seeking inputs from the respective Committee members. A separate meeting of Independent Directors was held to review the performance of non-independent Directors and performance of the Board as a whole. Subsequently, the Board reviewed and discussed the performance of the Board and its Committees and found it to be satisfactory.

c) Corporate Social Responsibility (CSR) Committee:

The CSR Committee which has been constituted under the provisions of Section 135 of the Companies Act, 2013 comprises of the following Directors:

1. Mr. Venkatesh Natarajan (Investor Director): Chairman
2. Mr. R. Ramachandran (Independent Director): Member
3. Mr. Mrutunjay Sahoo (Independent Director): Member
4. Mr. R. Baskar Babu (MD & CEO): Member

The terms of reference of the Committee include formulating & reviewing the CSR Policy, monitoring the implementation of CSR objectives of the Bank, recommending the amount of expenditure to be incurred on CSR activities and monitoring and overseeing CSR spend.

During the year under review, the Committee met twice on May 24, 2017 and February 21, 2018.

Name of the Director	No. of CSR meetings held during the year	No. of meetings attended
Mr. Venkatesh Natarajan	2	-
Mr. R Ramachandran	2	2
Mr Mrutunjay Sahoo	2	2
Mr. R Baskar Babu	2	2

d) Risk Management Committee:

The Risk Management Committee of the Bank consists of the following Directors:

1. Mr. R. Ramachandran (Independent Director): Chairman
2. Mr. Venkatesh Natarajan (Investor Director): Member
3. Mr. R. Baskar Babu (Managing Director & CEO): Member

The terms of reference of the Committee includes review and approval of policies, products, processes, systems & procedures etc. involving Operational Risk & Fraud Risk from time to time, reviewing the risk profile, development and implementation of risk methodologies and tools, introduce a system of documented approvals and authorizations to ensure accountability at every level of management, define the risk tolerance level for the Bank and reviewing & approving suitable controls and mitigation measures for various risks.

During the year under review, the Committee met 5 times viz. May 24, 2017, July 27, 2017, October 7, 2017, October 23, 2017 and February 20, 2018.

Name of the Director	No. of RMCB meetings held during the year	No. of meetings attended
Mr. R Ramachandran	5	5
Mr. Venkatesh Natarajan	5	3
Mr. R Baskar Babu	5	5

e) Committee for review of wilful defaulters and monitoring high value frauds:

This Committee reviews the status of wilful defaulters, if any, and monitors high value frauds. This Committee comprises of :

1. Mr. Mrutunjay Sahoo (Independent Director): Chairman
2. Mr. R. Ramachandran (Independent Director): Member
3. Mr. Jyotin Mehta (Independent Director): Member
4. Mr. Venkatesh Natarajan (Investor Director): Member
5. Mr. R. Baskar Babu (MD & CEO): Member

This Committee met once during the year on October 23, 2017 which was attended by all members of the Committee.

f) Customer Service Committee:

This Committee comprises of :

1. Mr. Arun Diaz (Investor Director): Chairman
2. Dr.(Mrs.) Sheela Bhide (Independent Director): Member
3. Mr. R. Ramachandran (Independent Director): Member
4. Mr. Jyotin Mehta (Independent Director): Member
5. Mr. R. Baskar Babu (Managing Director & CEO): Member

The terms of reference of this Committee include assessing and reviewing the overall implementation of customer service policies and initiatives, reviewing product approval process with respect to suitability and appropriateness for the customers, reviewing the audit findings of the services rendered to the customers, customer satisfaction, improvement in quality of customer service.

This Committee met twice during the year on July 27, 2017 and February 21, 2018 and both meetings were attended by all members of the Committee.

g) IT Strategy Committee:

This Committee comprises of :

1. Mr. Jyotin Mehta (Independent Director): Chairman
2. Dr.(Mrs) Sheela Bhide (Independent Director): Member
3. Mr. Arun Diaz (Investor Director): Member
4. Mr. Venkatesh Natarajan (Investor Director): Member

The terms of reference of this Committee include approving the Information Technology (IT) strategy, reviewing whether business strategy is aligned with IT strategy, monitoring the management's requirement of IT resources, reviewing the implementation of IT strategies, processes and practices and reviewing IT performance measurement etc.

This Committee met twice during the year under review on October 23, 2017 and February 20, 2018 and both meetings were attended by all members of the Committee.

h) Credit Committee:

This Committee was constituted as per RBI Directions and comprises of :

1. Mr. Arun Diaz (Investor Director): Chairman
2. Mr. Mrutunjay Sahoo, Independent Director: Member
3. Mr. Jyotin Mehta (Independent Director): Member
4. Mr. R. Baskar Babu (Managing Director & CEO): Member

The terms of reference of the Credit Committee includes consideration of proposals for approval, renewal of various credit facilities as delegated to it by the Board and as envisaged in the Credit Policy adopted by the Board.

This Committee met once during the year under review on July 27, 2017 which was attended by all members of the Committee.

i) Stakeholder's Relationship and Investors' Grievance Committee:

This Committee comprises of :

1. Dr.(Mrs.) Sheela Bhide (Independent Director): Chairperson
2. Mr. Mrutunjay Sahoo (Independent Director): Member
3. Mr.Arun Diaz (Investor Director): Member

This Committee oversees redressal of shareholders' / debenture holders' grievances and other related matters.

This Committee met twice during the year under review on October 23, 2017 and February 20, 2018 and both meetings were attended by all members of the Committee.

3. GENERAL BODY MEETINGS:

a) Information regarding General Body Meetings held during the three previous years and the Special Resolutions passed thereat:

Date and time of General Meetings	Venue	Brief description of Special resolutions passed
1 EGM held on 14.5.2015 at 11.00 am	Regd. Office	For Conversion from Private Limited Company to Public Limited Company.
2 AGM held on 24.9.2015 at 11.00 am	Regd. Office	For increase in borrowing powers, creating charges on assets ,issue of NCDs on private placement basis.
3 EGM held on 24.12.2015 at 11.00 am	Regd. Office	For alteration of Articles of Association and issue of shares on preferential basis.
4 EGM held on 15.4.2016 at 11.00 am	Regd. Office	For increase in Authorised Share Capital from Rs. 50 crores to Rs. 75 crores, consequent changes in Memorandum & Articles of Association , issue of shares to Promoters on preferential basis.
5 EGM held on 6.6.2016 at 11.00 am	Regd. Office	For issue of securities on private placement basis.
6 AGM held on 22.9.2016 at 10.30 am	Regd. Office	For issue of NCDs on private placement, change of name of Company from 'Suryoday Micro Finance Limited' to 'Suryoday Small Finance Bank Limited', alteration of Memorandum and Articles of Association, re-appointment of MD & CEO.
7 EGM held on 22.12.2016 at 11.00 am	Regd. Office	Approval of ESOP Scheme, 2016, and issue of shares on preferential basis.
8 EGM held on 20.2.2017 at 11.00 am	Regd. Office	Appointment of Statutory Auditors, issue of shares to promoters by way of preferential allotment and private placement.
9 AGM held on 31.08.2017 at 3.30 p.m.	At The Park Hotel, CBD Belapur, Navi Mumbai-400614	Variation in term of appointment of Part-time Chairman and Variation in term of appointment of Managing Director & Chief Executive Officer of the Bank.

b) Whether any Special Resolutions were passed last year through postal ballot: Yes; for alteration of Articles of Association. The results of Postal Ballot were declared on 22nd January, 2018.

c) Whether any Special Resolution is proposed to be passed through postal ballot this year: Currently, there is no proposal to pass any Special resolution through Postal Ballot. Special resolutions by way of Postal Ballot, if required to be passed in the future, will be decided at the relevant time.

4 Compliance of Sexual Harassment of Women at Workplace (Prevention, Prohibition, And Redressal) Act, 2013:

The Bank is in compliance with the provisions of the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 and has in place a Policy for Prevention of Sexual Harassment. During the year under review, there was no complaint under this Act and Rules made thereunder.

5. GENERAL SHAREHOLDER INFORMATION:

(a) Company Registration Details:

The Bank is registered with the Registrar of Companies, Maharashtra as a banking company under CIN U65923MH2008PLC261472

(b) AGM Date, Time and Venue:

Thursday, 30th August, 2018 at 3.30 p.m at Park Hotel, CBD Belapur, Navi Mumbai 400614

Book Closure dates: 27th August, 2018 to 30th August, 2018 (both days inclusive)

(c) Financial Calendar (tentative):

Financial reporting for the quarter ended June, 2018: By 15th August, 2018

Financial reporting for the quarter / half year ending September, 2018: By 15th November, 2018.

Financial reporting for the quarter / 9 months' ending December, 2018: By 15th February, 2019

Financial reporting for the year ending 31st March, 2019: By 30th May, 2019

Annual General Meeting for the year ending 31st March, 2019: on or before 30th September, 2019.

(d) Listing on Stock Exchanges:

The Equity shares of the Bank are unlisted. However, the debt securities of the Bank (Non - Convertible Debentures) are listed on the Wholesale Debt Segment of the BSE Ltd. , the scrip Code being 950240

(e) Names of Debenture Trustees:

1. IDBI Trusteeship Services Limited, Asian Building, Grd Floor, R. Kamani Marg, Mumbai - 400 001
2. CATALYST Trusteeship Limited [Formerly GDA Trusteeship Limited] Office No. 1, 2 & 3, 4th Floor, Rehematoola House, 7th Homji Street, Off P.M. Road, Fort, Mumbai-400 002
3. Axis Trustee Services Limited, Axis House, 2nd Floor, Wadia International Centre, Pandurang Budhkar Marg, Worli, Mumbai - 400 025

(f) Dematerialization of shares:

The equity shares of the Bank can be held in demat form. We are registered with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL)

ISIN: INE428Q01011

(g) SEBI Complaints redressal systems (SCORES):

The Company, being debt listed company, is registered with SEBI Complaints redressal systems (SCORES).

(h) Registrar And Share Transfer Agent For Equity Shares And Non-Convertible Debentures:

Karvy Computershare Private Limited

Karvy Selenium, Tower- B, Plot No 31 & 32., Financial district, Nanakramguda, Serilingampally Mandal, Hyderabad, 500032, India.

Tel: 040-67161500/ 040-2331 2454 Fax: 040-2331 1968 Email: einward.ris@karvy.com/support@karvy.com

(i) Means of Communication:

The half-yearly unaudited /annual audited financial results are published in Business Standard. The results are also displayed on the Bank's web-site at www.suryodaybank.com

The shareholders can visit the Bank's website www.suryodaybank.com for all relevant information.

(j) Shareholders' and Investors's Helpdesk:

Dedicated email id for Shareholders' queries/grievances: shr.relations@suryodaybank.com

Dedicated email id for Investors' queries/grievances: inv.relations@suryodaybank.com

(k) Banking Customer Helpdesk:

In the event of any queries/complaints, banking customers can directly approach to the Branches or can call/write to the Bank using the following contact details of Smile Centre

Call at: Our Customer care (Phone Banking) Numbers: 1800 266 7711

Write to smile@suryodaybank.com

(l) Distribution of shareholdings as on 31st March, 2018:

Group of shares	No. of shareholders	No. of shares held	% of total share capital
1- 5000.	435	393605	0.58
5001-10000	31	250845	0.37
10001 - 20000	8	114865	0.17
20001 - 50000	3	101500	0.15
50001 - 100000	4	329210	0.49
100001 and above	34	66306647	98.24
TOTAL	515	6,74,96,672	100.00

(m) Shareholding pattern as on 31st March, 2018:

Particulars	No. of shares held	% of total share capital
Promoters	1,98,54,178	29.42
Banks, Financial Institutions	45,58,339	6.75
Domestic Corporate bodies	1,37,33,916	20.35
FIs	43,87,888	6.50
Foreign Corporate bodies	2,22,64,372	32.99
Others	26,97,979	4.00
TOTAL	6,74,96,672	100.00

AUDITORS' REPORT & FINANCIAL STATEMENTS

Building
Strong Foundations



10,00,000 SMILES

Independent Auditors' Report

To the Members of Suryoday Small Finance Bank Limited
(formerly known as Suryoday Micro Finance Limited)

Report on the Audit of Financial Statements

We have audited the accompanying financial statements of Suryoday Small Finance Bank Limited (formerly known as "Suryoday Micro Finance Limited") ('the Bank'), which comprise the Balance Sheet as at 31 March 2017, the Profit and Loss Account, the Cash Flow Statement for the year then ended, and a summary of the significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

The Bank's Board of Directors is responsible for the matters stated in Section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Bank in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014, provisions of Section 29 of the Banking Regulation Act, 1949 and the circulars, guidelines and directions issued by the Reserve Bank of India ('RBI') from time to time.

This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Bank and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and the design, implementation and maintenance of internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit.

We have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made there under.

We conducted our audit of the Bank in accordance with the Standards on Auditing ('the Standards') specified under Section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Bank's Directors, as well as evaluating the overall presentation of the financial statements.

We are also responsible to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's

Independent Auditors' Report

report. However, future events or conditions may cause an entity to cease to continue as a going concern.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the financial statements.

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid financial statements give the information required by the Banking Regulation Act, 1949 as well as the relevant requirements of the Companies Act, 2013, in the manner so required for banking companies and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Bank as at 31 March 2017, its profit and its cash flows for the year then ended on that date.

Report on Other Legal and Regulatory Requirements

The Balance Sheet and the Profit and Loss Account have been drawn up in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949 read with Section 133 of the Act.

As required by sub-section (3) of Section 30 of the Banking Regulation Act, 1949, we report that:

- (a) We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit and have found them to be satisfactory;
- (b) The transactions of the Bank, which have come to our notice, have been within the powers of the Bank; and
- (c) Since the key operations of the Bank are automated with the key applications integrated to the core banking systems, the audit is carried out centrally as all the necessary records and data required for the purposes of our audit are available therein. However, during the course of our audit we have visited 16 branches.

Further, as required by Section 143 (3) of the Act, we report that:

- (a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
- (b) In our opinion, proper books of account as required by law have been kept by the Bank so far as it appears from our examination of those books;
- (c) The Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report are in agreement with the books of account;
- (d) In our opinion, the aforesaid financial statements comply with the Accounting Standards specified under Section 133 of the Act, to the extent they are not inconsistent with the accounting policies prescribed by RBI;
- (e) On the basis of the written representations received from the directors as on 31 March 2018 taken on record by the Board of Directors, none of the directors is disqualified as on 31 March 2018 from being appointed as a director in terms of Section 164 (2) of the Act;
- (f) With respect to the adequacy of the internal financial controls with reference to the financial statements of the Bank and the operating effectiveness of such controls, refer to our separate Report in 'Annexure A';
- (g) With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:
 - (i) The Bank has disclosed the impact of pending litigations on its financial position in its financial statements - Refer Note 18 (13) and 18 (15) to the financial statements;
 - (ii) The Bank has made provision, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts - Refer Note 18 (13) and 18 (15) to the financial statements;
 - (iii) There were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Bank; and

Independent Auditors' Report

- (iv) The disclosures required on holdings as well as dealing in Specified bank notes during the period from 8 November 2016 to 30 December 2016 as envisaged in notification G.S.R. 308(E) dated 30 March 2017 issued by the Ministry of Corporate Affairs is not applicable to the Bank.

For B S R & Associates LLP

Chartered Accountants

Firm's Registration No: 116231W/W-100024

Ashwin Suvarna

Partner

Membership No:109503

Mumbai
30 May 2018

Annexure A to the Independent Auditor's Report of even date on the financial statements of
Suryoday Small Finance Bank Limited
(formerly known as Suryoday Micro Finance Limited)

Report on the Internal Financial Controls under clause (i) of sub-section 3 of Section 143 of the Companies Act, 2013

We have audited the internal financial controls over financial reporting of Suryoday Small Finance Bank Limited (formerly known as Suryoday Micro Finance Limited) ('the Bank') as at 31 March 2018 in conjunction with our audit of the financial statements of the Bank for the year ended on that date.

Management's Responsibility for Internal Financial Controls

The Bank's Board of Directors is responsible for establishing and maintaining internal financial controls based on the internal control over financial reporting criteria established by the Bank considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting ('the Guidance Note') issued by the Institute of Chartered Accountants of India ('the ICAI'). These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to Bank's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Companies Act, 2013 ('the Act').

Auditor's Responsibility

Our responsibility is to express an opinion on the Bank's internal financial controls over financial reporting based on our audit. We conducted our audit in accordance with the Guidance Note and the Standards on Auditing ('the Standards'), issued by the ICAI and deemed to be prescribed under section 143(10) of the Act, to the extent applicable to an audit of internal financial controls, both issued by the ICAI. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls over financial reporting was established and maintained and if such controls operated effectively in all material respects.

Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls system over financial reporting and their operating effectiveness. Our audit of internal financial controls over financial reporting included obtaining an understanding of internal financial controls over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

Independent Auditors' Report

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Bank's internal financial controls system over financial reporting.

Meaning of Internal Financial Controls over Financial Reporting

A Bank's internal financial control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A Bank's internal financial control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the bank; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the bank are being made only in accordance with authorizations of management and directors of the bank; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the bank's assets that could have a material effect on the financial statements.

Inherent Limitations of Internal Financial Controls over Financial Reporting

Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls over financial reporting to future periods are subject to the risk that the internal financial control over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

In our opinion, the Bank has, in all material respects, an adequate internal financial controls system over financial reporting and such internal financial controls over financial reporting were operating effectively as at 31 March 2018, based on the internal control over financial reporting criteria established by the Bank considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the ICAI.

For B S R & Associates LLP

Chartered Accountants

Firm's Registration No: 116231W/W-100024

Ashwin Suvarna

Partner

Membership No: 109503

Mumbai
30 May 2018

Financial Statements

Suryoday Small Finance Bank Limited
[Formerly known as Suryoday Micro Finance Limited]

Balance Sheet as at March 31, 2018

	Schedule	As at March 31, 2018	As at March 31, 2017
₹ in '000			
CAPITAL AND LIABILITIES			
Capital	1	674,967	640,647
Reserves and Surplus	2	4,722,647	4,365,073
Deposits	3	7,495,200	220,627
Borrowings	4	7,178,324	10,215,757
Other Liabilities and Provisions	5	1,563,870	599,968
TOTAL		21,635,008	16,042,072
ASSETS			
Cash and Balances with Reserve Bank of India	6	308,210	266,692
Balances with Banks and Money at Call and Short Notice	7	1,763,401	1,072,516
Investments	8	3,113,436	5,939,291
Advances	9	15,749,472	8,196,548
Fixed Assets	10	135,407	77,798
Other Assets	11	565,082	489,227
TOTAL		21,635,008	16,042,072
Contingent Liability	12	77,920	87,787
Bills for Collection		-	-
Significant Accounting Policies and Notes to the financial statements 17 & 18			
The schedules referred to above form an integral part of the Balance sheet			

As per our report of even date

For and on behalf of the Board of Directors

For B S R & Associates LLP

Chartered Accountants

Firm's Registration No: 116231W/W-100024

Ashwin Suvarna

Partner

Membership No: 109503

R. Baskar Babu

Managing Director and
Chief Executive Officer

Sheela Bhide

Chairperson

Bhavin Damania

Chief Financial Officer

Geeta Krishnan

Company Secretary

Place: Mumbai

Date: May 30, 2018

Place: Mumbai

Date: May 30, 2018



Financial Statements

Suryoday Small Finance Bank Limited
[Formerly known as Suryoday Micro Finance Limited]

Profit and Loss Account for the year ended March 31, 2018

		Year ended March 31, 2018	Year ended March 31, 2017
	Schedule		
I. INCOME			
Interest earned	13	2,868,815	2,437,045
Other income	14	380,443	110,889
TOTAL		3,249,258	2,547,934
II. EXPENDITURE			
Interest expended	15	1,231,546	1,152,060
Operating expenses	16	1,313,764	1,017,872
Provisions and contingencies		602,696	226,998
TOTAL		3,148,006	2,396,930
III. PROFIT			
Net profit for the year		101,252	151,004
Balance in Profit and Loss account brought forward		555,936	442,683
IV. APPROPRIATIONS			
Transfer to Statutory reserve		(25,313)	(37,751)
Transfer to Investment Reserve		(549)	-
Balance carried over to Balance Sheet		631,326	555,936
V. EARNING PER EQUITY SHARE (Face Value ₹10 per Share)			
Basic	18 (2)	1.55	3.01
Diluted	18 (2)	1.55	2.90

Significant Accounting Policies and Notes to the financial statements 17 & 18

The schedules referred to above form an integral part of the Profit and Loss account

As per our report of even date

For and on behalf of the Board of Directors

For B S R & Associates LLP

Chartered Accountants

Firm's Registration No: 116231W/W-100024

Ashwin Suvarna

Partner

Membership No: 109503

R. Baskar Babu

Managing Director and

Chief Executive Officer

Sheela Bhide

Chairperson

Bhavin Damania

Chief Financial Officer

Geeta Krishnan

Company Secretary

Place: Mumbai

Date: May 30, 2018

Place: Mumbai

Date: May 30, 2018

Financial Statements

Suryoday Small Finance Bank Limited
[Formerly known as Suryoday Micro Finance Limited]

Cash Flow Statement for the year ended March 31, 2018

₹ in '000

	Year ended March 31, 2018	Year ended March 31, 2017
Cash flows from / (used in) operating activities		
Profit before tax	157,336	238,511
Adjustments for:		
Depreciation on fixed assets	46,644	21,525
Amortisation of premium on held to maturity investment	16,047	4,586
(Profit) / Loss on sale of fixed assets	(210)	9
Provision for non performing assets	72,330	138,500
Provision for diminution in value of investment	(1,120)	1,120
Floating provision	-	62,585
Provision for standard assets	19,878	(78,485)
Employee stock option expenses	35,047	5,528
Interest on amortisation of short term borrowing	70,719	31,293
Bad debts written off	427,931	-
	844,602	425,172
Adjustments for:		
Decrease/(Increase) in investment	3,697,382	(4,440,156)
(Increase)/Decrease in advances	(8,053,185)	1,490,292
Increase in deposit	7,274,573	220,627
(Increase) in others assets	(53,358)	(75,950)
Increase in other liabilities	944,024	226,433
	3,809,436	(2,578,754)
Direct tax paid (net of refunds)	(78,581)	(152,256)
Net cash flow from/(used in) operating activities	4,575,457	(2,305,839)
Cash flow used in investing activities		
Purchase of fixed assets	(116,371)	(55,833)
Proceeds from sale of fixed assets	1,381	45
Increase/decrease in capital work in progress	10,948	(19,271)
Net decrease in fixed deposit (under lien)	147,139	377,786
Net Investment in banking book	(886,455)	(1,503,596)
Net cash used in investment activities	(843,358)	(1,200,869)

Financial Statements

Suryoday Small Finance Bank Limited
[Formerly known as Suryoday Micro Finance Limited]

Cash Flow Statement for the year ended March 31, 2018

	Year ended March 31, 2018	Year ended March 31, 2017
₹ in '000		
Cash flow from financing activities		
Proceeds from issue of share capital	34,320	257,295
Proceeds from share premium (net off issue expenses)	221,275	2,616,578
Proceeds from Borrowings	2,200,007	5,012,989
Repayment of Borrowings	(5,308,158)	(4,388,955)
Net cash (used in)/generated from financing activities	(2,852,556)	3,497,907
Net increase or (decrease) in cash and cash equivalents	879,543	(8,801)
Cash and cash equivalents as at April 1, 2017	809,117	817,917
Cash and cash equivalents as at March 31, 2018	1,688,660	809,117

As per our report of even date

For B S R & Associates LLP

Chartered Accountants

Firm's Registration No: 116231W/W-100024

Ashwin Suvarna

Partner

Membership No: 109503

For and on behalf of the Board of Directors

R. Baskar Babu

Managing Director and

Chief Executive Officer

Sheela Bhide

Chairperson

Bhavin Damania

Chief Financial Officer

Geeta Krishnan

Company Secretary

Place: Mumbai

Date: May 30, 2018

Place: Mumbai

Date: May 30, 2018

Financial Statements

Suryoday Small Finance Bank Limited
[Formerly known as Suryoday Micro Finance Limited]

Schedules to the Financial Statements as at March 31, 2018

₹ in '000

	As at March 31, 2018	As at March 31, 2017
SCHEDULE 1 - CAPITAL		
Authorised capital		
75,000,000 (March 31, 2017: 75,000,000) equity shares of ₹ 10 each	750,000	750,000
Issued, Subscribed and Paid-up Capital *		
67,496,672 (March 31, 2017: 64,064,690) equity shares of ₹ 10 each fully paid up	674,967	640,647
Total	674,967	640,647
* refer note 18 (1.2) (Capital infusion)		
SCHEDULE 2 - RESERVES AND SURPLUS		
I. Statutory Reserve		
[Created pursuant to Section 17(2) of Banking Regulation Act, 1949]		
Opening Balance	150,839	-
Transfer from Statutory Reserve [refer Schedule 2(II)]	-	113,088
Addition during the year	25,313	37,751
Total	176,152	150,839
II. Statutory Reserve		
[Created pursuant to Section 45 IC of Reserve Bank of India Act, 1934 as amended by RBI (Amendment) Act 1997]		
Opening Balance	-	113,088
Addition during the year	-	-
Transfer to Statutory Reserve [Section 17(2) of Banking Regulation Act, 1949] [refer Schedule 2(I)]	-	(113,088)
Total	-	-
III. Share Premium Account		
Opening Balance	3,648,223	1,028,213
Addition during the year	232,182	2,644,902
Amounts utilized toward share issue expenses	(350)	(24,892)
Total	3,880,055	3,648,223
IV. General Reserve		
Opening Balance	419	419
Addition during the year	57	-
Total	476	419

Financial Statements

Suryoday Small Finance Bank Limited
[Formerly known as Suryoday Micro Finance Limited]

Schedules to the Financial Statements as at March 31, 2018

	₹ in '000	
	As at March 31, 2018	As at March 31, 2017
V. Employee Stock Options Outstanding Account (ESOP)		
Opening Balance	9,656	7,558
Employee compensation expense for the year	35,047	5,528
Transfer to Securities Premium Account/Share Capital on exercise of stock options	(10,557)	(3,430)
Transfer to General Reserve on forfeiture of ESOP's	(57)	-
Total	34,089	9,656
VI. Revenue and other Reserve		
Investment Reserve		
Opening Balance	-	-
Addition during the year *	549	-
Total	549	-
VII. Balance in Profit and Loss Account	631,326	555,936
Total	4,722,647	4,365,073

* refer note 18 (3.4) (Investment Reserve)

SCHEDULE 3 - DEPOSITS

A. I. Demand Deposits		
i) From banks	3,098	-
ii) From others	143,001	2,023
Total	146,099	2,023
II Savings Bank Deposits	680,526	16,300
III. Term Deposits		
i) From banks	4,016,000	100,033
ii) From others	2,652,575	102,271
Total	6,668,575	202,304
Total	7,495,200	220,627
B. I. Deposits of branches in India	7,495,200	220,627
II. Deposits of branches outside India	-	-
Total	7,495,200	220,627

Financial Statements

Suryoday Small Finance Bank Limited
[Formerly known as Suryoday Micro Finance Limited]

Schedules to the Financial Statements as at March 31, 2018

₹ in '000

	As at March 31, 2018	As at March 31, 2017
SCHEDULE 4 - BORROWINGS		
I. Borrowings in India*		
i) Reserve Bank of India	200,000	-
ii) Other banks	1,298,939	4,432,375
iii) Other institutions and agencies	2,214,385	1,648,382
iv) Unsecured redemnable debentures and term loan (Subordinate debts included in Tier 2 capital)	600,000	600,000
v) Non Convertible Debenture	1,350,000	1,350,000
Total	5,663,324	8,030,757
II. Borrowings outside India*	1,515,000	2,185,000
Total	7,178,324	10,215,757

* Includes secured borrowings of ₹ 436.50 crores (previous year: ₹ 653.42 crore) except for transaction under Liquidity Adjustment Facility (LAF).

SCHEDULE 5 - OTHER LIABILITIES AND PROVISIONS

I. Bills payable	472	-
II. Inter - office adjustments (net)	-	-
III. Interest accrued	140,767	142,576
IV. Others		
(i) Contingent provisions against standard assets*	39,698	19,820
(ii) Other Liabilities (including provisions)	1,382,933	437,572
Total	1,563,870	599,968

*refer note 18 (14) (Provision on Standard Assets)

SCHEDULE 6 - CASH AND BALANCES WITH RESERVE BANK OF INDIA

I. Cash in hand	31,505	14,216
II. Balances with Reserve Bank of India		
i) in Current accounts	276,705	252,476
ii) in Other accounts	-	-
Total	308,210	266,692

Financial Statements

Suryoday Small Finance Bank Limited
[Formerly known as Suryoday Micro Finance Limited]

Schedules to the Financial Statements as at March 31, 2018

₹ in '000

	As at March 31, 2018	As at March 31, 2017
SCHEDULE 7 - BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE		
I. In India		
i) Balances with banks		
a) In Current accounts	153,258	228,237
b) In Other deposit accounts*	410,319	844,279
Total	563,577	1,072,516
ii) Money at call and short notice		
a) With banks	850,000	-
b) With other institutions	349,824	-
Total	1,199,824	-
Total	1,763,401	1,072,516
II. Outside India		
i) In Current account	-	-
ii) In Deposit account	-	-
iii) Money at call and short notice	-	-
Total	-	-
Total	1,763,401	1,072,516

* Deposit with banks include ₹ 38.30 crore (previous year: ₹ 53.01 crore) under lien marked towards term loans availed from banks and financial institutions, security deposit, and cash collateral placed in connection with assignment/ securitisation of receivables.

SCHEDULE 8 - INVESTMENTS

A. Investments in India		
i) Government securities	2,868,144	4,603,447
ii) Other approved securities	-	-
iii) Shares	-	-
iv) Debentures and bonds	-	-
v) Subsidiaries / joint ventures/ associates	-	-
vi) Others (commercial papers and certificate of deposits)	245,292	1,335,844
Total	3,113,436	5,939,291

Financial Statements

Suryoday Small Finance Bank Limited
[Formerly known as Suryoday Micro Finance Limited]

Schedules to the Financial Statements as at March 31, 2018

	₹ in '000	
	As at March 31, 2018	As at March 31, 2017
B. Investments outside India		
i) Government securities	-	-
ii) Subsidiaries / joint ventures outside India	-	-
iii) Others (equity shares and bonds)	-	-
Total	-	-
Total	3,113,436	5,939,291
C. Investments		
i) Gross value of investments		
a) In India	3,113,436	5,940,411
b) Outside India	-	-
Total	3,113,436	5,940,411
ii) Provision for depreciation		
a) In India	-	1,120
b) Outside India	-	-
Total	-	1,120
iii) Net value of investments		
a) In India	3,113,436	5,939,291
b) Outside India	-	-
Total	3,113,436	5,939,291
SCHEDULE 9 - ADVANCES		
A. i) Bills purchased and discounted	-	-
ii) Cash credits, overdrafts and loans repayable on demand	87,296	-
iii) Term loans	15,662,176	8,196,548
Total	15,749,472	8,196,548
B. i) Secured by tangible assets	813,502	41,834
ii) Covered by Bank / Government guarantees	-	-
iii) Unsecured	14,935,970	8,154,714
Total	15,749,472	8,196,548

Financial Statements

Suryoday Small Finance Bank Limited
[Formerly known as Suryoday Micro Finance Limited]

Schedules to the Financial Statements as at March 31, 2018

	₹ in '000	
	As at March 31, 2018	As at March 31, 2017
C. I. Advances in India		
i) Priority sectors	2,165,444	8,185,409
ii) Public sector	-	-
iii) Banks	-	-
iv) Others	13,584,028	11,139
Total	15,749,472	8,196,548
C. II. Advances outside India		
i) Due from banks	-	-
ii) Due from others	-	-
(a) Bills purchased and discounted	-	-
(b) Syndicated loans	-	-
(c) Others	-	-
Total	-	-
(Advances are net of provisions)		

SCHEDULE 10 - FIXED ASSETS

A. Premises		
At cost on March 31 of preceding year	-	-
Additions during the year	31,872	-
Deductions during the year	-	-
Total	31,872	-
Depreciation		
As at March 31 of the preceding year	-	-
Charge for the year	2,580	-
Deductions during the year	-	-
Total	2,580	-
Add: Premises revaluation	-	-
Net Block	29,292	

Financial Statements

Suryoday Small Finance Bank Limited
[Formerly known as Suryoday Micro Finance Limited]

Schedules to the Financial Statements as at March 31, 2018

	₹ in '000	
	As at March 31, 2018	As at March 31, 2017
B. Other Fixed assets (including furniture and fixtures)		
Gross Block		
At cost on March 31 of the preceding year	115,642	59,977
Additions during the year	84,499	55,833
Deductions during the year	(2,228)	(168)
Total	197,913	115,642
Depreciation		
As at March 31 of the preceding year	57,115	35,704
Charge for the year	44,064	21,525
Deductions during the year	(1,058)	(114)
Total	100,121	57,115
Net Block	97,792	58,527
C. Assets given on lease	-	-
D. Capital work in progress	8,323	19,271
Total	135,407	77,798

SCHEDULE 11 - OTHER ASSETS

I. Inter - office adjustments (net)	-	-
II. Interest accrued	270,224	173,497
III. Tax paid in advance/tax deducted at source (net of provision for tax)	6,840	35,487
IV. Stationery and stamps	263	-
V. Non-banking assets acquired in satisfaction of claims	-	-
VI. Others*	287,755	280,243
Total	565,082	489,227

* Includes deferred tax assets of ₹ 13.17 crores (previous year: ₹ 8.05 crores)

SCHEDULE 12 - CONTINGENT LIABILITIES

I. Claims against the bank not acknowledged as debts	31,071	29,604
II. Liability on account of outstanding forward exchange contracts	-	-
III. Liability on account of outstanding derivative contracts	-	-
IV. Guarantees given on behalf of constituents :		
- In India	-	-
- Outside India	-	-

Financial Statements

Suryoday Small Finance Bank Limited
[Formerly known as Suryoday Micro Finance Limited]

Schedules to the Financial Statements as at March 31, 2018

₹ in '000

	As at March 31, 2018	As at March 31, 2017
V. Acceptances, endorsements and other obligations	-	-
VI. Other items for which the Bank is contingently liable	46,849	58,183
Total	77,920	87,787

SCHEDULE 13 - INTEREST EARNED

I Interest/discount on advances/bills	2,582,569	2,269,381
II Income on investments	223,799	88,287
III Interest on balances with Reserve Bank of India and other inter-bank funds	62,447	78,304
IV Others	-	1,073
Total	2,868,815	2,437,045

SCHEDULE 14 - OTHER INCOME

I Commission, exchange and brokerage	260,614	100,530
II Profit on sale of investments (net)	25,000	7,037
III Profit/(Loss) on revaluation of investments (net)	-	-
IV Profit/(Loss) on sale of land, building and others assets (net)	210	(9)
V Profit/(Loss) on exchange transactions (net)	-	-
VI Income earned by way of dividends from Subsidiaries / Associates and /or Joint Venture abroad / in India	-	-
VII Miscellaneous income	94,619	3,331
Total	380,443	110,889

SCHEDULE 15 - INTEREST EXPENDED

I Interest on deposits	244,275	858
II Interest on Reserve Bank of India/ inter-bank borrowings	299,989	588,951
III Other interest	687,282	562,251
Total	1,231,546	1,152,060

Financial Statements

Suryoday Small Finance Bank Limited
[Formerly known as Suryoday Micro Finance Limited]

Schedules to the Financial Statements as at March 31, 2018

₹ in '000

	As at March 31, 2018	As at March 31, 2017
SCHEDULE 16 - OPERATING EXPENSES		
I Payments to and provisions for employees*	872,244	621,303
II Rent, taxes and lighting	74,282	49,837
III Printing and stationery	15,578	18,679
IV Advertisement and publicity	2,228	27,494
V Depreciation on Bank's property	46,644	21,525
VI Director's fees/remuneration, allowances and expenses	2,648	1,874
VII Auditors' fees and expenses	4,218	3,386
VIII Law charges	3,973	8,559
IX Postage, telegrams, telephones, etc.	19,789	14,673
X Repairs and maintenance	122,758	78,612
XI Insurance	16,062	14,847
XII Other expenditure (includes professional fees)	133,340	157,083
Total	1,313,764	1,017,872

* refer note 18 (4) (Employees Stock Option Scheme)

Suryoday Small Finance Bank Limited
[Formerly known as Suryoday Micro Finance Limited]

Schedules to the Financial Statements For the year ended March 31, 2018

Schedule 17 - Significant accounting policies appended to and forming part of the financial statements for the year ended March 31, 2018

1. Background and nature of operations

Pursuant to the resolution passed by the shareholders at the Annual General Meeting held on September 22, 2016 and the issue of small finance bank license by Reserve Bank of India (RBI) on August 26, 2016, Suryoday Micro Finance Limited (the 'Company') converted itself into a small finance bank with effect from January 23, 2017. Accordingly, the name of the Company was changed to Suryoday Small Finance Bank Limited (the 'Bank').

The Bank is primarily engaged in extending micro credit to economically weaker women who are otherwise unable to access finance from the mainstream banking channels. The Bank broadly follows the Grameen model with suitable adaptations using the Joint Liability Groups (JLG) framework, where each member of the group guarantees the loan repayment of the other members of the group.

2. Basis of preparation of financial statements

The financial statements have been prepared and presented under the historical cost convention and accrual basis of accounting, unless otherwise stated and are in accordance with Generally Accepted Accounting Principles in India ('GAAP'), statutory requirements prescribed under the Banking Regulation Act, 1949, circulars and guidelines issued by the Reserve Bank of India ('RBI') from time to time, Accounting Standards ('AS') specified under Section 133 of the Companies Act, 2013 to the extent applicable, in so far as they apply to banks and current practices prevailing within the banking industry in India.

Use of estimates

The preparation of financial statements in conformity with GAAP requires the management to make estimates and assumptions considered in the reported amounts of assets and liabilities (including contingent liabilities) as of the date of the financial statements and the reported income and expenses for the reporting period. Management believes that the estimates used in the preparation of the financial statements are prudent and reasonable. Actual results could differ from these estimates. Any revision in the accounting estimates is recognised prospectively in the current and future periods.

3. Significant Accounting Policies

A. Investments

Classification:

In accordance with the RBI guidelines on investment classification and valuation, investments are classified on the date of purchase into "Held for Trading" ('HFT'), "Available for Sale" ('AFS') and "Held to Maturity" ('HTM' or "Banking book") categories (hereinafter called "categories"). Subsequent shifting amongst the categories is done in accordance with the RBI guidelines.

Under each of these categories, investments are further classified under six groups (hereinafter called "groups") – Government Securities, Other Approved Securities, Shares, Debentures and Bonds, Investments in Subsidiaries / Joint Ventures and Other Investments.

The Bank follows trade date accounting for purchase and sale of investments except for Central & State government securities where settlement date method of accounting is followed in accordance with RBI Guidelines.

Basis of classification:

Investments that are held principally for resale within 90 days from the date of purchase are classified under HFT category.

Suryoday Small Finance Bank Limited [Formerly known as Suryoday Micro Finance Limited]

Schedules to the Financial Statements For the year ended March 31, 2018

Investments which the Bank intends to hold till maturity are classified as HTM securities. Investments which are not classified in either of the above categories are classified under AFS category.

Acquisition cost

Brokerage, commission and broken period interest on debts instruments are recognised in Profit and Loss Account and are not included in the cost of acquisition.

Disposal of investments

Profit/loss on sale of investments under the aforesaid three categories is recognised in the Profit and Loss Account. Cost of investments is based on the weighted average cost method. The profit from sale of investment under HTM category, net of taxes and transfer to statutory reserve is appropriated from Profit and Loss Account to "Capital Reserve" in accordance with the RBI Guidelines.

Short Sale

The Bank undertakes short sale transactions in Central Government dated securities in accordance with RBI guidelines. The short position is reflected as the amount received on sale and is classified under 'Other Liabilities'. The short position is marked to market and loss, if any, is charged to Profit and Loss account while gain, if any, is ignored. Profit / loss on settlement of the short position is recognised in the Profit and Loss account.

Valuation

Investments classified under AFS and HFT categories are marked to market as per the RBI guidelines.

Traded investments are valued based on the trades / quotes on the recognised stock exchanges, price list of RBI or prices declared by Primary Dealers Association of India ('PDAI') jointly with Fixed

Income Money Market and Derivatives Association ('FIMMDA')/ Financial Benchmark India Private Limited (FBIL), periodically.

The market value of unquoted government securities which qualify for determining the Statutory Liquidity Ratio ('SLR'), included in the AFS and HFT categories, is computed as per the Yield-to-Maturity ('YTM') rates published by FIMMDA/FBIL.

The valuation of other unquoted fixed income securities (viz. State Government securities, other approved securities, bonds and debentures) and preference shares, is done with a mark-up (reflecting associated credit and liquidity risk) over the YTM rates for government securities published by FIMMDA/FBIL.

Units of mutual funds are valued at the latest repurchase price / net asset value declared by the mutual fund. Treasury bills, commercial papers and certificate of deposits being discounted instruments, are valued at carrying cost.

Net depreciation in the value, if any, compared to the acquisition cost, in any of the groups, is charged to the Profit and Loss Account. The net appreciation, if any, in any of the groups is not recognised except to the extent of depreciation already provided.

Investments classified under HTM category are carried at their acquisition cost and not marked to market. Any premium on acquisition is amortised over the remaining maturity period of the security on a constant yield-to-maturity basis. Such amortisation of premium is adjusted against interest income under the head "Income from investments" as per the RBI guidelines.

Non-performing investments are identified, and depreciation / provision are made thereon based on the RBI guidelines.

Suryoday Small Finance Bank Limited [Formerly known as Suryoday Micro Finance Limited]

Schedules to the Financial Statements For the year ended March 31, 2018

The depreciation / provision on such non-performing investments are not set off against the appreciation in respect of other performing securities. Interest on non-performing investments is not recognised in the Profit and Loss Account until received.

Repo and reverse repo transactions

In accordance with the RBI guidelines, repurchase and reverse repurchase transactions in government securities and corporate debt securities are reflected as borrowing and lending transactions respectively.

Borrowing cost on repo transactions is accounted for as interest expense and revenue on reverse repo transactions is accounted for as interest income

B. Advances

Advances are classified as performing and non-performing advances ('NPAs') as per the RBI guidelines and are stated net of specific provisions made towards NPAs, inter-bank participation with risk. Further, NPAs are classified into sub-standard, doubtful and loss assets based on the criteria stipulated by the RBI. Provisions for NPAs are made for sub-standard and doubtful assets at rates as prescribed by the RBI. NPAs are identified by periodic appraisals of the loan portfolio by management.

Loss assets and unsecured portion of doubtful assets are provided as per the extant RBI guidelines. NPA accounts are written off in accordance with RBI guidelines and Bank's Policy and accounts are written off post approved from Board of Director. Amounts recovered against debts written-off are recognised in the Profit and Loss account.

For restructured/rescheduled assets, provision is made in accordance with guidelines issued by RBI. The restructured accounts are classified in accordance with RBI guidelines.

The Bank maintains a general provision on standard advances at the rates prescribed by RBI. Provision made against standard assets is included in "Other liabilities & provisions".

Provisions made in excess of the Bank's policy for specific loan provisions for non-performing assets and regulatory general provisions are categorised as floating provisions. Creation of floating provisions is considered by the Bank up to a level approved by the Board of Directors. In accordance with the RBI guidelines, floating provisions are used up to a level approved by the Board only for contingencies under extraordinary circumstances and for making specific provisions for impaired accounts as per these guidelines or any other regulatory guidelines as applicable. Floating provisions have been included under "Other liabilities and provisions".

The Bank recognises the provision for unhedged foreign currency exposure of its borrowers as per regulatory guidelines stipulated by the RBI from time to time and as per methodology prescribed. The provisions are included in provision for standard assets and reported under other liabilities.

C. Transfer and servicing of assets

The Bank transfers loans through securitisation transactions. The transferred loans are de-recognised, and gains/losses are accounted for, only if the Bank surrenders the rights to benefits specified in the underlying securitised loan contract.

In accordance with the RBI guidelines for securitisation of standard assets, the profit/premium arising from sell down/securitisation to be amortised over the life of the transaction based on the method prescribed in the guidelines and the loss, if any, arises in the sell down/securitisation transaction, is recognised upfront in the Profit or Loss Account.

The Bank enters into transactions for the sale or purchase of Priority Sector Lending Certificates (PSLCs). In the case of a sale transaction, the Bank sells the fulfilment of priority sector obligation and in the case of a purchase transaction the Bank buys the fulfilment of priority sector obligation through the RBI trading platform. There is no transfer of risks or loan

Suryoday Small Finance Bank Limited [Formerly known as Suryoday Micro Finance Limited]

Schedules to the Financial Statements For the year ended March 31, 2018

assets. The fee received for the sale of PSLCs is recorded as 'Miscellaneous Income' and the fee paid for purchase of the PSLCs is recorded as 'Other Expenditure' in Profit and Loss account.

The Bank transfers advances through inter-bank participation with risk. In accordance with the RBI guidelines, for participation with risk, the aggregate amount of the participation issued by the Bank is reduced from advances.

D. Foreign Currency Transactions

- (i) Foreign currency transactions are recorded in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction.
- (ii) Foreign currency monetary items are reported using the closing rate. Non-monetary items which are carried in terms of historical cost denominated in a foreign currency are reported using the exchange rate at the date of the transaction.

All exchange differences are recognized as income or as expenses in the period in which they arise.

E. Revenue Recognition

- (i) Interest income is recognised in the Profit and Loss Account on an accrual basis, except in the case of non-performing assets where it is recognised upon realisation as per income recognition and asset classification norms of RBI.
- (ii) Income on non-coupon bearing discounted instruments is recognised over the tenor of the instrument on a constant effective yield basis.
- (iii) Loan processing fees is accounted for upfront when it becomes due.
- (iv) Interest income on deposits with banks and financial institutions is recognized on a time proportion basis taking into account the amount outstanding and the implicit rate of interest.
- (v) Dividend is recognised as income when the right to receive the dividend is established.
- (vi) Profit or loss on sale of mutual fund units is recognised on trade date
- (vii) All other fees are accounted for as and when they become due.

F. Fixed Assets and Depreciation

Tangible Assets

Fixed assets are stated at cost less accumulated depreciation / amortization and impairment loss, if any. The cost comprises purchase price and any attributable cost of bringing the asset to its working condition for its intended use. Any trade discounts and rebates are deducted in arriving at the purchase price.

Depreciation is charged over the estimated useful life of the fixed asset on written down value basis from the date asset is put to use considering residual value of 5% of the cost.

The details of useful life are as under:

Class of Assets	Estimated useful life
Computers & Accessories	3 years
Office equipment	5 years
Premises	30 years
Furniture and fittings	10 years
Vehicle	8 years

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Leasehold Improvements: Improvements to leasehold premises are amortised over the primary period of lease or estimated useful life, whichever is lower.

G. Intangible Assets

Intangible assets such as software are amortized over a period of 36 months or license period whichever is lower on a straight-line basis with zero residual value.

Assets individually costing Rs. 5,000 or less are fully depreciated in the year of purchase.

Assets purchased / sold during the year are depreciated on a pro-rata basis for the actual number of days the assets have been put to use.

H. Leases

Operating Lease

Leases, where the lessor effectively retains substantially all the risks and benefits of ownership of the leased term are classified as operating leases in accordance with Accounting Standard 19, Leases. The office premises are generally rented on cancellable terms or renewable at the option of both the parties.

I. Impairment

The carrying amounts of assets are reviewed at each balance sheet date if there is any indication of impairment based on internal / external factors. An impairment loss is recognized wherever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the asset's net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

After impairment, depreciation is provided on the revised carrying amount of the asset over its remaining useful life.

J. Taxation

Tax expense comprises current and deferred tax. Current income tax is measured at the amount expected to be paid to the tax authorities in accordance with the Income Tax Act, 1961 enacted in India. Deferred taxes reflect the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years.

Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. In situations where the Bank has unabsorbed depreciation or carry forward tax losses, all deferred tax assets are recognised only if there is virtual certainty supported by convincing evidence that they can be realised against future taxable profits.

The carrying amount of deferred tax assets are reviewed at each balance sheet date. The Bank writes-down the carrying amount of a deferred tax asset to the extent that it is no longer reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available against which deferred tax asset can be realised.

K. Earnings Per Share

Basic and diluted earnings per share are computed in accordance with Accounting Standard 20 – Earnings per share.

Basic earnings per share are calculated by dividing the net profit or loss for the period attributable to equity shareholders by the weighted average number of equity shares outstanding during the period.

Diluted earnings per equity share reflect the potential dilution that could occur if securities or other contracts to issue

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equity shares were exercised or converted to equity during the year. Diluted earnings per equity share are computed using the weighted average number of equity shares and potential dilutive equity shares outstanding during the period except where the results are anti-dilutive.

L. Provisions, contingent liabilities and contingent assets

In accordance with AS 29, Provision, Contingent liabilities and Contingent Assets, the provision is recognised when the Bank has a present obligation as a result of past event, where it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the Balance Sheet date. These are reviewed at each Balance Sheet date and adjusted to reflect the current best estimates.

A disclosure of contingent liability is made when there is:

- a possible obligation arising from a past event, the existence of which will be confirmed by occurrence or non-occurrence of one or more uncertain future events not within the control of the Bank; or
- a present obligation arising from a past event which is not recognised as it is not probable that an outflow of resources will be required to settle the obligation or a reliable estimate of the amount of the obligation cannot be made.

When there is a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

M. Cash and cash equivalents

Cash and cash equivalents include cash in hand, balances with RBI, balances with other banks and money at call and short notice.

N. Borrowing cost

Borrowing cost includes arranger fees, processing fees, stamp duty on issuance of debenture certificates and other associated transaction cost related to borrowing from banks and other financial institutions.

In accordance with Accounting Standard 16, borrowing costs are recognised over the tenor of the borrowings.

O. Retirement and other employee benefits

(i) Defined Contribution Plans

Retirement benefits in the form of provident fund and employee state insurance scheme are defined contribution schemes and the contributions are charged to the Profit and Loss Account of the year when the contributions to the respective funds are due. There are no other obligations other than the contribution payable to the respective funds.

(ii) Defined Benefit Plan

The Bank operates a defined benefit scheme for its employees, viz., gratuity scheme. The costs of providing benefits under this plan is determined on the basis of actuarial valuation at each year-end. Separate actuarial valuation is carried out for each plan using the projected unit credit method. In accordance with the gratuity fund's rules actuarial valuation of gratuity liabilities is calculated based on certain assumptions regarding rate of interest, salary growth, mortality and staff alteration as per projected unit credit method.

Gratuity liability is a defined benefit obligation and is provided for on the basis of an actuarial valuation on projected unit

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credit method made at the end of each financial year. Actuarial gains/losses are immediately taken to profit and loss account and are not deferred.

(iii) Provision for Leave availment is made in accordance with Accounting Standard 15 "Employee benefits".

P. Employee Stock Compensation Cost

Employees (including senior executives) of the Bank receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions).

In accordance with the Guidance Note on Accounting for Employee Share-based Payments, issued by the ICAI, the cost of equity-settled transactions is measured using the fair value method and recognized, together with a corresponding increase in the "Employees Stock options outstanding account" in reserves. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Bank's best estimate of the number of equity instruments that will ultimately vest. The expense or credit recognized in the Profit and Loss Account for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and is recognized in employee benefits expense.

Q. Investment Reserve Account

In accordance with the aforesaid Master Circular, in case the provision on account of depreciation in the HFT and AFS categories is found to be in excess of the required amount, the excess is credited to the Profit and Loss Account and an equivalent amount net of taxes, if any, adjusted for transfer to Statutory Reserve as applicable to such excess provision is appropriated to the Investment Reserve Account.

R. Share issue expenses

Share issue expenses are adjusted from Share Premium Account in terms of Section 52 of the Companies Act, 2013.

S. Segment information

The disclosure relating to segment information is in accordance with AS-17, Segment Reporting and as per guidelines issued by RBI.

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SCHEDULE 18 - NOTES TO THE FINANCIAL STATEMENTS

1. Capital

1.1 Capital to Risk Weighted Assets Ratio (CRAR)

The following table sets forth, for the year indicated, computation of capital adequacy as per operating guidelines.

Particulars	As at March 31, 2018	As at March 31, 2017
Common equity tier I Capital ratio (%)	34.79%	47.95%
Tier 1 capital ratio (%)	34.79%	47.95%
Tier 2 capital ratio (%)	3.15%	5.67%
Total capital ratio (CRAR) (%)	37.94%	53.62%
Amount of Tier 2 Capital raised through; Debt capital instruments	-	25

Subordinated debt (Tier II capital) outstanding as at March 31, 2018 is ₹ 60 crore (March 31, 2017 : ₹ 60 crores).

The Bank has applied 100% risk weight on advances charged as security against grandfathered borrowing on the date of conversion in to a small finance bank. The Bank has applied to RBI for approval of capital risk charge on advances secured against grandfathered borrowings.

1.2 Capital Infusion

During the year ended March 31, 2018, the Bank allotted 331,982 (March 31, 2017: 169,000) equity shares having face value of ₹ 10 each aggregating to ₹ 2.34 crores including share premium (March 31, 2017: ₹ 0.61 crores) in respect of stock option exercised.

Pursuant to Shareholders' approvals, the Bank has issued 3,100,000 (March 31, 2017: 25,560,469) equity shares having face value of ₹ 10 each aggregating to ₹ 23.25 crores including share premium (March 31, 2017: ₹ 289.27 crores).

Details of movement in the paid up equity share capital are as below:

Particular	March 31, 2018		March 31, 2017	
	Equity shares	Amount	Equity shares	Amount
Equity shares at the beginning of the year	64,064,690	64.06	38,335,221	38.34
Addition pursuant to stock options exercised	331,982	0.34	169,000	0.17
Addition pursuant to equity shares issued during the year	3,100,000	3.10	25,560,469	25.55
Equity shares outstanding at the end of the year	67,496,672	67.50	64,064,690	64.06

2. Earnings per equity share

Particulars	March 31, 2018	March 31, 2017
Net profit after tax (in crore)	10.13	15.10
Weighted average number of equity shares in computing the basic earnings per share	65,163,944	50,091,865

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Particulars	March 31, 2018	March 31, 2017
Basic earnings per share	1.55	3.01
Weighted average number of equity shares in computing the diluted earnings per share	65,302,594	51,990,235
Diluted earnings per share	1.55	2.90
Nominal value per Share (₹)	10.00	10.00

2.1 Reconciliation of weighted average number of equity shares used in the computation of basic and diluted earnings per share:

Particulars	March 31, 2018	March 31, 2017
Weighted average number of equity shares in computing the basic earnings per share	65,163,944	50,091,865
Effect of potential equity shares outstanding	138,650	1,898,370
Weighted average number of equity shares in computing the diluted earnings per share	65,302,594	51,990,235

Basic earnings per share is calculated by dividing the net profit or loss after tax for the year attributable to equity shareholders by the weighted average number of equity shares outstanding during the year.

Diluted earnings per equity share is computed by dividing the net profit or loss after tax for the year attributable to equity shareholder by weighted average number of equity shares including potential equity shares outstanding as at the end of the year, except when results are anti dilutive.

3. Reserves

3.1 Share premium account

Share issue expenses amounting to ₹ 0.04 crores (March 31, 2017: ₹ 2.49 crores) are adjusted from share premium account in terms of section 52 (2) (c) of the Companies Act, 2013.

3.2 Drawdown of Reserves

During the year ended March 31, 2018; there were no drawdown from reserves (March 31, 2017 : Nil).

3.3 Statutory Reserve

The Bank has made an appropriation of ₹ 2.53 crore (March 31, 2017: ₹ 3.74 crore) out of profits for the year ended March 31, 2018 to Statutory Reserve pursuant to the requirements of Section 17 of the Banking Regulation Act, 1949 and RBI circular DBOD.No.BPBC.24/21.04.018/2000-2001 dated September 23, 2000.

3.4 Investment Reserve

During the year ended March 31, 2018, the Bank has appropriated ₹ 0.05 crore (net of taxes) from Profit and Loss Account to Investment Reserve as per RBI guidelines.

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4. Employees Stock Option Scheme

The Bank has share- based payment schemes for it's employees. Schemes in operation during the year ended March 31, 2018 are Employee Stock Option Scheme 2014 and Employee Stock Option Scheme 2016.

During the year-ended March 31, 2018, the Bank has issued 856,950 options under the Employee Stock Option Scheme 2016.

The details of the Employee Stock Option Scheme are as under:

Particulars	Employee stock option scheme 2014	Employee stock option scheme 2016		
Grant Date	June 26, 2014	January 19, 2017	July 27, 2017	March 1, 2018
Number of Options granted	521,500	1,510,000	550,000	306,950
Method of Settlement	Equity	Equity		
Vesting	40% after one year from the date of grant i.e. July 1, 2015 30% after two years from the date of grant i.e. July 1, 2016 Balance 30% after three years from the date of grant i.e. July 1, 2017	25% after one year from the date of grant and every year thereafter.		
Exercisable period	3 years from the Vesting date	3 years from the Vesting date		
Vesting Conditions	No vesting conditions has been prescribed	From second vesting tranche onwards, based on performance rating of the employee		
Exercise Price Per Option (Rs)	₹ 36/-	₹ 108/-	₹ 125/-	₹ 127/-

The following are the outstanding options as at year end:

Particulars	Employee stock option scheme 2014		Employee stock option scheme 2016	
	As at March 31, 2018	As at March 31, 2017	As at March 31, 2018	As at March 31, 2017
Total Options granted and outstanding at the beginning of the year	175,950	445,700	1,510,000	-
Add: Options granted during the year	-	-	856,950	1,510,000
Less: Options forfeited / lapsed during the year	(2,400)	(100,750)	(403,160)	-
Less : Options exercised during the year	(172,350)	(169,000)	(159,632)	-

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Particulars	Employee stock option scheme 2014		Employee stock option scheme 2016	
	As at March 31, 2018	As at March 31, 2017	As at March 31, 2018	As at March 31, 2017
Options Outstanding as at end of the year	1,200	175,950	1,804,158	1,510,000
- Vested	1,200	109,200	145,704	-
- Yet to Vest	-	66,750	1,658,454	1,510,000

The value of options have been estimated on the date of the grant using Black-Scholes model.

The key assumptions used in Black Scholes model for calculating value of options as on the date of the grant are:

Variables	Employee stock option scheme 2014		
	Tranche 1	Tranche 2	Tranche 3
1. Risk Free Interest Rate	8.65%	8.65%	8.65%
2. Expected Life (in years)	2.56	3.56	4.56
3. Expected Volatility	0.38	0.39	0.37
4. Dividend Yield	0.00%	0.00%	0.00%
5. Fair value of the option on the grant date (Rs.)	18.99	21.91	23.80

Variables	Employee stock option scheme 2016 - Grant 1			
	Tranche 1	Tranche 2	Tranche 3	Tranche 4
1. Risk Free Interest Rate	5.50%	5.50%	5.50%	5.50%
2. Expected Life (in years)	2.56	3.56	4.56	5.56
3. Expected Volatility	0.42	0.40	0.38	0.41
4. Dividend Yield	0.00%	0.00%	0.00%	0.00%
5. Fair value of the option on the grant date (Rs.)	42.82	48.32	53.26	60.00

Variables	Employee stock option scheme 2016 - Grant 2			
	Tranche 1	Tranche 2	Tranche 3	Tranche 4
1. Risk Free Interest Rate	5.50%	5.50%	5.50%	5.50%
2. Expected Life (in years)	2.56	3.56	4.56	5.56
3. Expected Volatility	0.39	0.39	0.37	0.39
4. Dividend Yield	0.00%	0.00%	0.00%	0.00%
5. Fair value of the option on the grant date (Rs.)	37.43	44.74	49.95	57.16

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Variables	Employee stock option scheme 2016 - Grant 3			
	Tranche 1	Tranche 2	Tranche 3	Tranche 4
1. Risk Free Interest Rate	6.50%	6.50%	6.50%	6.50%
2. Expected Life (in years)	2.56	3.56	4.56	5.56
3. Expected Volatility	0.39	0.39	0.38	0.37
4. Dividend Yield	0.00%	0.00%	0.00%	0.00%
5. Fair value of the option on the grant date (Rs.)	39.68	47.58	53.37	58.52

Effect of the share based payment plans on the Profit and Loss Account and on its financial position:

Particulars	For the year ended March 31, 2018	For the year ended March 31, 2017
Employee stock option expenditure [included in schedule 16 (I)]	3.50	0.56

Particulars	As at March 31, 2017	As at March 31, 2016
Employee stock options outstanding account [included in schedule 2 (V)]	3.41	0.97

The Expected life of the stock option is based on historical data and current expectation and is not necessarily indicative of the pattern that may occur.

The expected volatility reflects the assumption that the historical volatility of a comparable listed entity for 5 years period ended on the date of the grant is indication of future trends which may not necessarily be the actual outcome.

5. Investments

5.1 Particulars of Investments and movement in provision held towards depreciation on Investments

Particulars	March 31, 2018	March 31, 2017
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(1) Value of Investments

i) Gross value of investments		
- In India	311.34	594.04
- Outside India	-	-
(ii) Provisions for depreciation on investments		
- in India	-	0.11
- Outside India	-	-
(iii) Net value of investments		
- In India	311.34	593.93
- Outside India	-	-

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Particulars	March 31, 2018	March 31, 2017
2) Movement of provisions held towards depreciation on investments:		
i) Opening balance	0.11	-
ii) Add: Provision made during the year	0.04	0.11
iii) Less: Write-off /write back of excess provision during the year	(0.15)	-
iv) Closing balance	0.00	0.11

5.2 Repo / Reverse Repo Transactions

During the year ended March 31, 2018, the Bank has undertaken the below Repo / Reverse Repo Transaction. (March 31, 2017 - Nil)

The Details relating to repo/reverse repo transactions (face value) during the year ended 31 March 2018 are as follows:

	Minimum outstanding	Maximum outstanding	Daily average outstanding	As at March 31, 2018 Outstanding
Securities sold under repos	10.83	20.86	19.17	20.86
Government Securities	10.83	20.86	19.17	20.86
Corporate Debt Securities	NIL	NIL	NIL	NIL
Securities purchased under reverse repos	1.89	81.48	18.67	81.48
Government Securities	1.89	81.48	18.67	81.48
Corporate Debt Securities	NIL	NIL	NIL	NIL

5.3 Sale and Transfer to/from HTM Category

During the year ended March 31, 2018, there was no sale and transfer to/from HTM category. (March 31, 2017 - Nil)

5.4 Issuer-wise composition of non-SLR investments

Balance as at March 31, 2018

Issuer	Amount	Extent of private placement [#]	Extent of "below investment grade" securities [#]	Extent of "unrated" securities [#]	Extent of "unlisted" securities ^{##}
1. Public sector undertakings	-	-	-	-	-
2. Financial institutions	24.53	-	-	-	-
3. Banks	-	-	-	-	-
4. Private corporate	-	-	-	-	-
5. Subsidiaries / Joint ventures	-	-	-	-	-

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Issuer	Amount	Extent of private placement#	Extent of "below investment grade" securities#	Extent of "unrated" securities#	Extent of "unlisted" securities#*
6. Others	-	-	-	-	-
7. Provision held towards depreciation	-	-	-	-	-
Total	24.53	-	-	-	-

Balance as at March 31, 2017

1. Public sector undertakings	-	-	-	-	-
2. Financial institutions	49.18	-	-	-	-
3. Banks	84.40	-	-	-	-
4. Private corporate	-	-	-	-	-
5. Subsidiaries / Joint ventures	-	-	-	-	-
6. Others	-	-	-	-	-
7. Provision held towards depreciation	-	-	-	-	-
Total	133.58	-	-	-	-

Amounts reported under these columns above are not mutually exclusive

* Excludes investments in commercial paper and certificate of deposits in line with extant RBI guidelines.

5.5 Non performing Non-SLR investments

During the year ended March 31, 2018; there are no non performing Non - SLR investments. (March 31, 2017 - Nil)

6. Derivatives

During the year ended March 31, 2018; the Bank has not undertaken any derivative transaction and there is no outstanding position as at the year end.

Hence, disclosure related to Forward Rate Agreement / Interest Rate Swap/ Credit default Swap and Exchange Traded Interest Rate Derivatives are not provided.

7. Asset quality

7.1 Non Performing Assets (NPAs)

The following table sets forth, for the periods indicated, the details of movement of gross non-performing assets (NPAs), net NPAs and provisions.

Particulars	As at March 31, 2018	As at March 31, 2017
(i) Net NPAs to Net Advances (%)	1.86%	3.80%
(ii) Movement of NPAs (Gross)		
Gross NPA's as on April 1 of particular year	51.25	1.61

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Particulars	As at March 31, 2018	As at March 31, 2017
Additions (fresh NPAs) during the year	51.79	50.07
Sub Total (A)	103.04	51.68
Less :-		
- Upgradation	-	-
- Recoveries (excluding Recoveries made from upgraded accounts)	3.68	0.43
- Write offs	42.79	0
Sub Total (B)	46.47	0.43
Gross NPAs as on 31st March of the following year (A-B)	56.57	51.25
(iii) Movement of Net NPAs		
(a) Opening balance	37.40	0.25
(b) Additions during the year	1.20	37.58
(c) Reductions during the year	3.11	0.43
(d) Closing balance	35.49	37.40
(iv) Movement of provisions for NPAs (excluding provision on standard assets and floating provision)		
(a) Opening balance	13.85	1.36
(b) Provision made during the year	50.60	12.49
(c) Write off/ write back of excess provision	43.37	-
(d) Closing balance	21.08	13.85

7.2 Technical or prudential write-offs

Technical or prudential write-offs refer to the amount of non-performing assets which are outstanding in the books of the branches, but have been written-off (fully or partially) at the head office level. The financial accounting systems of the Bank are integrated and there are no write-offs done by the Bank which remain outstanding in the books of the branches.

There are no Technical or Prudential write off during the year. (March 31, 2017 : Nil)

7.3 Details of Non Performing Financial Assets Purchased / Sold

The Bank has not purchased or sold any non performing financial assets during the year ended March 31, 2018. (March 31, 2017 : Nil)

7.4 Floating provision

Particulars	March 31, 2018	March 31, 2017*
Opening balance in the floating provision account	6.26	-
Floating provision made in the accounting year	-	6.26
Amount of drawdown made during the accounting year	-	-
Closing balance in the floating provision account	6.26	6.26

*Floating provision is included under "Provision and Contingencies"

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7.5 Disclosure of Restructured Assets

The Bank has restructured the following accounts during the year ended March 31, 2018. (March 31, 2017 - No Accounts Restructured)

Sl No.	Type of Restructuring Assets Classification Details	Under CDR Mechanism				Under SME Debt Restructuring Mechanism				Others				Total			
		Standard	Sub-standard	Doubtful	Loss	Total	Standard	Sub-standard	Doubtful	Loss	Total	Standard	Sub-standard	Doubtful	Loss	Total	
1)	Restructured Accounts as on April 1 of the FY (opening figures)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	No. of borrowers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	Amount outstanding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	Provision there-on	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	No. of borrowers	-	-	-	-	-	19	11	-	30	19	11	-	-	30	-	
	Amount outstanding	-	-	-	-	-	0.02	0.01	-	0.03	0.02	0.01	-	-	0.03	-	
	Provision there-on	-	-	-	-	-	0.00	0.00	-	0.00	0.00	0.00	-	-	0.00	-	
	No. of borrowers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	Amount outstanding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	Provision there-on	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	No. of borrowers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	Amount outstanding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	Provision there-on	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	No. of borrowers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	Amount outstanding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	Provision there-on	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	No. of borrowers	-	-	-	-	-	-1	-1	-	0	-1	-1	-	-	0	-	
	Amount outstanding	-	-	-	-	-	0.00	0.00	-	0.00	0.00	0.00	-	-	0.00	-	
	Provision there-on	-	-	-	-	-	0.00	0.00	-	0.00	0.00	0.00	-	-	0.00	-	
	No. of borrowers	-	-	-	-	-	3	2	-	5	3	2	-	-	5	-	
	Amount outstanding	-	-	-	-	-	0.00	0.01	-	0.01	0.00	0.01	-	-	0.01	-	
	Provision there-on	-	-	-	-	-	0.00	0.00	-	0.00	0.00	0.00	-	-	0.00	-	
	No. of borrowers	-	-	-	-	-	15	10	-	25	15	10	-	-	25	-	
	Amount outstanding	-	-	-	-	-	0.02	0.00	-	0.02	0.02	0.00	-	-	0.02	-	
	Provision there-on	-	-	-	-	-	0.00	0.00	-	0.00	0.00	0.00	-	-	0.00	-	
	No. of borrowers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	Amount outstanding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	Provision there-on	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	No. of borrowers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	Amount outstanding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	

Provision include NPA provision in case of NPA accounts, whenever applicable, in addition to diminution in fair value provision held. Sr.no 2 include ₹ 0.02 crore of fresh sanction (provision of 0.00 crore), Sr.no 6 include ₹ 73,456 of recovery

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7.6 Disclosures on the scheme for sustainable Structuring of Stressed Assets (S4A), as at March 31, 2018

There were no accounts during the year where S4A has been applied.

7.7 Disclosures on Flexible Structuring of Existing Loans

There were no borrowers taken up for flexibility structuring during the year.

7.8 Disclosures on Strategic Debt Restructuring (SDR) Scheme (accounts which are currently under the stand-still period)

There were no accounts during the year where SDR scheme has been applied.

7.9 Disclosures on change in Ownership outside SDR Scheme (accounts which are currently under the stand-still period)

There were no accounts during the year where change in ownership outside SDR Scheme was made.

7.10 Disclosures on Change in Ownership of Projects Under Implementation (accounts which are currently under the stand-still period)

There were no accounts during the year where change in ownership of projects under implementation was made.

8. Securitisation and related disclosures

8.1 Details of Sales

The Bank has sold certain standard assets to Securitisation company in accordance with the guidelines issued by RBI. Details of the assets sold are given in the table below :

Particulars	March 31, 2018	March 31, 2017
(i) No. of accounts	-	36,144
(ii) Aggregate value (net of provision) of accounts sold to SC	-	48.61
(iii) Aggregate Consideration	-	46.18
(iv) Additional Consideration realised in respect of account transferred in earlier years	-	-
(v) Aggregate gain / (loss) over net book value	-	4.55

8.2 Details of direct assignment transactions

Particulars	March 31, 2018	March 31, 2017
(i) No. of accounts	-	179,976
(ii) Aggregate value (net of provision) of accounts sold to SC/RC	-	226.42
(iii) Aggregate Consideration	-	215.10
(iv) Aggregate gain / loss over net book Value	-	19.21

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9. Exposure

9.1 Exposure to Real Estate Sector

Category	March 31, 2018	March 31, 2017
A) Direct exposure		
(i) Residential mortgages	45.59	2.04
(of which housing loans eligible for inclusion in priority sector advances)	43.89	2.04
(ii) Commercial real estate	-	-
(ii) Investments in mortgage backed securities (MBS) and other securitised	-	-
a) Residential		
b) Commercial real estate		
B) Indirect exposure	-	-
Fund based and non-fund based exposures on National Housing Bank and housing finance Company (HFCs).	-	-
Total Exposure to Real Estate Sector	45.59	2.04

9.2 Capital Market Exposure

As at March 31, 2018, the Bank does not have any Capital Market Exposure. (March 31, 2017 : Nil)

9.3 Risk Category wise Country Exposure

The Bank's exposures are concentrated in India, Hence country risk exposure as at March 31, 2018 is Nil. (March 31, 2017 : Nil)

9.4 Intra Group Exposure

The Bank does not have any group entities, hence intra group exposure as at March 31, 2018 is Nil. (March 31, 2017 : Nil)

9.5 Unsecured Advances

Advances for which intangible collaterals such as rights, licenses, authority etc. are charged in favour of the Bank in respect of projects financed by the Bank, are reckoned as unsecured advances under Schedule 9 of the Balance Sheet in line with extant RBI guidelines. There are no such advances given during the year and outstanding as on March 31, 2018 (March 31, 2017 : Nil).

9.6 Details of Single Borrower Limit (SBL), Group Borrower Limit (GBL) exceeded by the Bank

During the year ended March 31, 2018, the Bank's credit exposures to single borrowers and group borrowers were within the limits prescribed under extant RBI guidelines. (March 31, 2017 : Nil)

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10. Concentration of Deposits, Advances, Exposure and NPA's

10.1 Concentration of deposits

Particulars	March 31, 2018	March 31, 2017
Total deposits of twenty largest depositors	443.40	15.15
Percentage of deposits of twenty largest depositors to total deposits of the Bank	59.16%	68.65%

10.2 Concentration of advances

Particulars	March 31, 2018	March 31, 2017
Total advances to twenty largest borrowers	28.99	1.97
Percentage of advances of twenty largest borrowers to total advances of the Bank	1.82%	0.24%

10.3 Concentration of exposure

Particulars	March 31, 2018	March 31, 2017
Total exposure to twenty largest borrowers / customers*	96.95	236.26
Percentage of exposure of twenty largest borrowers / customers to total exposure of the Bank on borrowers / customers	5.78%	22.28%

*Represents credit and investment exposures as per RBI guidelines on exposure norms

10.4 Concentration of NPAs

Particulars	March 31, 2018	March 31, 2017
Total gross exposure to top four NPA accounts	0.17	0.04

11. Sector-wise advances

	March 31, 2018		
	Outstanding total gross advances	Gross NPAs	Percentage of gross NPAs to Total advances in that sector
A . Priority Sector			
1. Agriculture and allied activities	103.47	1.26	1.22%
2. Advances to industries sector eligible as priority sector lending	0.53	0.02	3.07%
3. Services	68.52	2.99	4.36%
4. Personal loans	45.65	0.09	0.20%
Sub total (A)	218.17	4.36	2.00%

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	Outstanding total gross advances	Gross NPAs	Percentage of gross NPAs to Total advances in that sector
B. Non Priority Sector			
1. Agriculture and allied activities	506.08	8.32	1.64%
2. Industry	6.09	0.19	3.07%
3. Services	832.67	43.60	5.24%
4. Personal Loans	33.02	0.10	0.32%
Sub total (B)	1,377.86	52.21	3.79%
Total (A+B)	1,596.03	56.57	3.54%

March 31, 2017

	Outstanding total gross advances	Gross NPAs	Percentage of gross NPAs to Total advances in that sector
--	-------------------------------------	------------	--

A . Priority Sector

1. Agriculture and allied activities	207.69	8.62	4.15%
2. Advances to industries sector eligible as priority sector lending	0.11	-	-
3. Services	622.05	42.57	6.84%
4. Personal loans	2.54	0.06	2.55%
Sub total (A)	832.39	51.25	6.16%

B. Non Priority Sector

1. Agriculture and allied activities	-	-	-
2. Industry	-	-	-
3. Services	-	-	-
4. Personal Loans	1.11	0.00	0.14%
Sub total (B)	1.11	0.00	0.14%
Total (A+B)	833.50	51.25	6.15%

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12. Asset Liability Management (ALM)

Assets and liabilities are classified in the maturity buckets as per the guidelines issued by the RBI.

	Day - 1	2-7 Days	8-14 Days	15-30 Days	31 Days and upto 2 months	More than 2 months and upto 3 months	Over 3 Months and upto 6 months	Over 6 Months and upto 1 year	Over 1 Year and upto 3 years	Over 3 Years and upto 5 years	Total
As at March 31, 2018											
Deposits	0.78	15.35	5.02	1.34	33.97	39.15	86.71	230.90	335.59	0.68	749.52
Advances	3.70	17.58	26.29	35.84	89.88	94.02	264.62	451.56	512.51	26.80	1,574.95
Investments	33.69	20.56	7.70	3.55	14.06	25.95	26.41	21.08	143.42	14.91	311.34
Borrowings		20.00	13.66	2.41	40.34	104.42	175.09	151.49	168.39	42.03	717.83
Foreign currency assets	-	-	-	-	-	-	-	-	-	-	-
Foreign currency liabilities	-	-	-	-	-	-	-	-	-	-	-
As at March 31, 2017											
Deposits	0.01	0.08	0.10	-	0.00	-	0.34	2.84	18.68	0.00	22.06
Advances	0.00	13.69	16.53	22.67	53.35	63.71	145.06	241.85	223.44	39.24	819.65
Investments	253.74	0.05	0.96	14.18	5.74	137.44	20.96	14.25	119.42	14.94	593.92
Borrowings	2.23	0.00	9.97	44.16	23.08	35.47	202.11	207.49	428.64	42.74	1,021.58
Foreign currency assets	-	-	-	-	-	-	-	-	-	-	-
Foreign currency liabilities	-	-	-	-	-	-	-	-	-	-	-

Classification of assets and liabilities under the different maturity buckets is based on the same estimates and assumptions as used by the Bank for compiling the return submitted to the RBI.

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13. Contingent liabilities

Contingent liabilities	March 31, 2018	March 31, 2017
The Bank is contingently liable to financial institutions with respect to securitisation of loans and advances to the extent of cash collateral deposits and credit enhancements	-	5.82
Service tax liability	0.52	0.49
Income tax liability	2.59	2.46
Guarantee given for Business Correspondent Model	4.68	-

14. Provision on Standard Assets

Particulars	March 31, 2018	March 31, 2017
Provision towards standard assets	3.97	1.98

The Bank has reversed excess standard assets provision of ₹ 0.0 crore (March 31, 2017 : ₹ 7.85 crore) applying standard asset provisioning percentage as per RBI guidelines applicable to a banking company. Before conversion into a small finance bank, standard assets provision was created as per RBI guidelines applicable to NBFC - MFI.

15. Break up of 'Provisions and Contingencies' shown under the head 'Expenditure' in Profit and Loss Account

The following table sets forth, for the periods indicated, the break-up of provisions and contingencies included in Profit and Loss Account:

Particulars	March 31, 2018	March 31, 2017
Provision for depreciation on Investment	(0.11)	0.11
Provision towards NPA	7.23	13.85
Provision towards Income tax	10.72	12.51
Deferred Tax Benefit	(5.11)	(3.76)
Provision for Standard Assets	1.99	(7.85)
Write off of advances	42.79	-
Other provision and contingencies *	2.76	7.84
Total	60.27	22.70

*Includes floating provision of ₹ 0.00 crore (March 31, 2017: ₹ 6.26 crore) and provision towards securitisation transaction of ₹ 2.76 crore (March 31, 2017 : ₹ 1.58 crore).

The Bank has assessed its obligations arising in the normal course of business, including pending litigations, proceedings pending with tax authorities and other contracts. In accordance with the provisions of Accounting Standard - 29 on 'Provisions, Contingent Liabilities and Contingent Assets', the Bank recognizes a provision for material foreseeable losses when it has a present obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. In cases where it is not probable that an outflow of resources will be required to settle the obligation, disclosure to this effect is made as contingent liabilities in the financial statements.

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16. Business ratio

Particulars	March 31, 2018	March 31, 2017
Interest income as a percentage to working funds ^{1 2}	16.51%	19.63%
Non-interest income as a percentage to working funds ^{1 2}	2.19%	0.09%
Operating profit ³ as a percentage to working funds ^{1 2}	4.05%	2.93%
Return on assets (average)	0.58%	1.17%
Business ⁴ (deposit plus net advances) per employee ⁵ (₹ in crore)	0.77	0.43
Profit per employee ⁵ (₹ in crore)	0.00	0.01
Provision coverage ratio ⁶ (including floating provision)	48.33%	39.24%

1. Working funds represent the monthly average of total assets computed for reporting dates of Form X submitted to RBI under Section 27 of the Banking Regulation Act, 1949 for the current year
2. Working funds is the monthly average of total assets during the previous year.
3. Operating profit is net profit for the year before provisions and contingencies.
4. "Business" is the total of net advances and deposits (net of inter-bank deposits).
5. Productivity ratios are based on average monthly employee number.
6. Provision coverage ratio does not include write off.

17. Employee benefits

Employment benefits - Gratuity

The Bank has non-contributory defined benefit arrangement providing gratuity benefits expressed in terms of final monthly salary and years of service. Every employee who has completed five years or more of service gets a gratuity on cessation of employment at 15 days salary (last drawn basic salary) for each completed year of service, subject to a maximum of ₹ 20 lakhs (March 31, 2017: ₹ 10 Lakhs). The scheme is funded with LIC of India and HDFC Standard Life Insurance Company Ltd. The following tables summarise the components of net benefit expense recognised in the Profit and Loss Account and the funded status and amounts recognised in the Balance Sheet.

Expenses recognised in the Profit and Loss Account

	March 31, 2018	March 31, 2017
Current service cost	0.79	0.65
Interest cost on benefit obligation	0.13	0.10
Past Service Cost	0.05	-
Expected return on plan assets*	(0.07)	(0.08)
Net actuarial (gain)/loss recognized in the year	(0.14)	0.03
Employer Expenses	0.76	0.70

* Represents expected returns determined by the actuary

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Net Liability/ (Asset) recognised in the Balance Sheet

	March 31, 2018	March 31, 2017
Present value of Defined Benefit Obligation	2.62	2.07
Fair value of plan assets	0.87	1.08
Net liability recognized in balance sheet	1.75	0.99
Less: Unrecognised Past Service Cost	-	-
Liability recognized in balance sheet	1.75	0.99

Reconciliation of Defined Benefit Obligation (DBO)

	March 31, 2018	March 31, 2017
Present Value of DBO at start of year	2.07	1.40
Interest cost	0.13	0.10
Current service cost	0.79	0.64
Past Service Cost	0.05	-
Benefits paid	(0.27)	(0.13)
Actuarial (gain)/loss	(0.15)	0.05
Present Value of DBO at end of year	2.62	2.07

Reconciliation of Fair Value of Plan Assets

	March 31, 2018	March 31, 2017
Fair Value of Plan Assets at start of year	1.08	1.11
Expected return on plan assets	0.07	0.08
Contributions by employer	-	-
Benefits paid	(0.27)	(0.13)
Actuarial (loss) / gain	(0.01)	0.01
Fair value of plan assets at end of year	0.87	1.08
Estimated employer contributions for the next year	0.50	0.50
Actual return on plan assets	0.06	0.09

The principal assumptions used in determining gratuity obligations for the Bank's plan are shown below:

	March 31, 2018	March 31, 2017
Discount rate	7.00%	6.50%
Expected rate of return on assets	6.50%	7.30%
Employee turnover	25.00%	25.00%
Salary growth rate	7.50%	7.50%
Mortality Rate	IALM 2006-08ULT.	IALM 2006-08ULT.
Expected average remaining working lives of employees	3 Years	3 Years

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Percentage break-down of total plan assets

	March 31, 2018	March 31, 2017
Insurer Managed Funds (non unit-linked)	55.50%	65.60%
Insurer Managed Funds (unit-linked)	44.50%	34.40%
Total	100.00%	100.00%

Planned Asset Break up for Unit Linked Fund

Debentures and Bonds	59.85%	59.84%
Government Securities	33.30%	33.58%
Deposits, Money market instruments and net current assets	6.85%	6.58%
Total	100.00%	100.00%

Planned Asset Break up for Non Linked Fund

Government Securities	25.53%	27.81%
Corporate Bonds	67.86%	57.41%
Cash and Deposit	6.61%	14.78%
Total	100.00%	100.00%

Experience Adjustments

Experience Adjustments	March 31, 2018	March 31, 2017	March 31, 2016	March 31, 2015	March 31, 2014
Present Value of DBO	2.62	2.07	1.40	0.88	0.45
Fair Valuation of Plan Assets	0.87	1.08	1.11	0.47	0.36
Funded Status [Surplus/(Deficit)]	(1.75)	(0.99)	(0.29)	(0.41)	(0.09)
Experience adjustment on plan liabilities: (Gain) / Loss	(0.16)	(0.02)	-	0.08	0.04
Experience adjustment on plan Assets: Gain / (Loss)	0.01	0.01	(0.03)	(0.02)	-

Employment benefits - Leave Availment

The actuarial liability in respect of privilege leave granted to employees of the Bank and outstanding as at March 31, 2018 is ₹ 0.36 Crores (March 31, 2017: ₹ 0.29 Crores).

Assumption used:

Discount rate: 7.0%

Salary escalation rate: 7.5%

All the assets consist of unit-linked and traditional insurer managed debt instruments, the expected rate of return on assets is drawn from the Indian Government bond yields at the start of the year.

The estimates of future salary growth considered in the actuarial valuation take into account inflation, seniority, promotion

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and other relevant factors such as demand and supply in the employment market.

18. Disclosure on Remuneration

A) Qualitative Disclosures

(a) Information relating to the bodies that oversee remuneration.

Name, composition and mandate of the main body overseeing remuneration

The Nomination and Remuneration Committee (NRC) of the Board oversees the appointment and remuneration of directors and key management personnel. As on March 31, 2018, the NRC had three members of which two are Independent Directors. The functions of the Committee include recommendation of appointment of Directors to the Board, evaluation of performance of the Board, its Committees and directors including the Managing Director & CEO, overseeing the grant of options under the Employees Stock Option Scheme

External consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process

Not Applicable

Scope of the Bank's remuneration policy (e.g. by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches

The Compensation Policy of the Bank, approved by the Board on January 23, 2017, pursuant to the guidelines issued by RBI, to cover all employees of the Bank.

Type of employees covered and number of such employees

All permanent employees of the Bank are covered. The total number of permanent employees of the Bank at March 31, 2018 was 2,883.

b) Information relating to the design and structure of remuneration processes.

Key features and objectives of remuneration policy: The Bank has, under the guidance of the Board and the NRC, followed remuneration practices intended to drive meritocracy and performance based on a prudent risk management framework.

Effective governance of compensation: The NRC has oversight over compensation to senior management personnel and also provides overall guidance to the compensation paid to other employees.

Alignment of compensation philosophy with prudent risk taking: While the Bank seeks to achieve a mix of fixed and variable remuneration that is prudent, it currently has predominantly a fixed remuneration structure with no guaranteed bonuses. Also, the remuneration of employees in financial and risk control functions is not linked to business outcomes and solely depends on their performance. The Bank seeks to align remuneration with financial and non-financial performance indicators. Further, the Bank has an Employee Stock Option Scheme for eligible employees aimed at aligning compensation to long term performance through stock options that vest over a period of time.

Whether the remuneration committee reviewed the firm's remuneration policy during the past year, and if so, an overview of any changes that were made: The Board/NRC has been appraised of the Bank's remuneration practices.

Discussion of how the Bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee: The remuneration of employees in control functions such as Risk and Compliance

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depends solely on their performance and is not linked to any business outcomes.

c) Description of the ways in which current and future risks are taken into account in the remuneration processes.

Overview of the key risks that the Bank takes into account when implementing remuneration measures: The Board approves the overall risk management policy including risk framework, limits, etc. The Bank conducts all its business activities within this framework. The NRC while assessing the performance of the Bank and senior management, shall consider adherence to the policies and accordingly make its recommendations to the Board.

Overview of the nature and type of key measures used to take account of these risks, including risk difficult to measure: The evaluation process shall incorporate both qualitative and quantitative aspects including asset quality, provisioning, increase in stable funding sources, refinement/improvement of the risk management framework, effective management of stakeholder relationships and mentoring key members of the top and senior management.

Discussion of the ways in which these measures affect remuneration: In order to ensure alignment of remuneration with prudent practices, the NRC takes into account adherence to the risk framework in addition to business performance.

Discussion of how the nature and type of these measures have changed over the past year and reasons for the changes, as well as the impact of changes on remuneration: The Nature and type of these measures have not changed over the past years and hence there is no impact on remuneration.

d) Description of the ways in which the Bank seeks to link performance during a performance measurement period with levels of remuneration

Overview of main performance metrics for the Bank, top level business lines and individuals: The main performance metrics include profitability, business growth, asset quality, compliance, and customer service.

Discussion of how amounts of individual remuneration are linked to the Bank-wide and individual performance: The assessment of employees shall be based on their performance with respect to their result areas and shall include the metrics mentioned above.

Discussion of the measures the Bank will in general implement to adjust remuneration in the event that performance metrics are weak, including the Bank's criteria for determining 'weak' performance metrics: In case such an event should occur, the Board/NRC shall review and provide overall guidance on the corrective measures to be taken.

e) Description of the ways in which the Bank seeks to adjust remuneration to take account of the longer term performance

Discussion of the Bank's policy on deferral and vesting of variable remuneration and, if the fraction of variable remuneration that is deferred differs across employees or groups of employees, a description of the factors that determine the fraction and their relative importance: Not Applicable.

Discussion of the Bank's policy and criteria for adjusting deferred remuneration before vesting and (if permitted by national law) after vesting through claw back arrangements: Not Applicable.

f) Description of the different forms of variable remuneration that the Bank utilises and the rationale for using these different forms

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Overview of the forms of variable remuneration offered. A discussion of the use of different forms of variable remuneration and, if the mix of different forms of variable remuneration differs across employees or group of employees, a description of the factors that determine the mix and their relative importance: Not Applicable.

B) Quantitative Disclosure

Sr. No	Subject	March 31, 2018	March 31, 2017
(a)	Number of meetings held by the NRC during the financial year and remuneration paid to its members	Number of meetings: 2 Remuneration paid: ₹ 0.01 crores	Number of meetings: 5 Remuneration paid: ₹ 0.03 crores
(b) (i)	Number of employees having received a variable remuneration award during the financial year.	None	1 employee
(b) (ii)	Number and total amount of sign on awards made during the financial year	None	None
(b) (iii)	Details of guaranteed bonus, if any, paid as joining /sign on bonus	None	None
(b) (iv)	Details of severance pay, in addition to accrued benefits, if any	None	None
(c) (i)	Total amount of outstanding deferred remuneration, split into cash, shares and share linked instruments and other forms	None	None
(c) (ii)	Total amount of deferred remuneration paid out in the financial year	None	None
(d) (i)	Breakdown of amount of remuneration awards for the financial year to show fixed and variable, deferred and non deferred.	Fixed Pay* : ₹ 0.90 crores Variable pay : ₹ 0.00 crores	Fixed Pay* : ₹ 0.90 crores Variable pay : ₹ 0.16 crores
(e) (i)	Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and / or implicit adjustments.	None	None
(e) (ii)	Total amount of reductions during the financial year due to ex post explicit adjustments.	None	None
(e) (iii)	Total amount of reductions during the financial year due to ex post implicit adjustments	None	None

* Fixed pay includes basic salary, contribution to provident fund and reimbursements

19. Segment Reporting

Business segments have been identified and reported taking into account, the customer profile, the nature of products and services, the differing risks and returns, the organisation structure and the guidelines prescribed by RBI. The Bank operates in the following segments:

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a) Treasury

Treasury performs liquidity management activities for excess funds available with various business segments. Transfer pricing is based on internal benchmark rate linked to yield on SLR investment/Money market rate.

b) Retail banking

The retail banking segment serves retail customers through a branch network. Exposures are classified under retail banking taking into account the status of the borrower (orientation criterion), the nature of product, granularity of the exposure and the quantum thereof.

Revenues of the retail banking segment are primarily derived from interest and fees earned on retail loans, interest on deposits placed as collateral with banks and financial institutions. Expenses of this segment primarily comprise interest expense on borrowings, deposits, infrastructure and premises expenses for operating the branch network, personnel costs and other direct overheads.

c) Wholesale banking

Wholesale banking includes all advances to companies and statutory bodies, which are not included under Retail banking. Revenues of the wholesale banking segment consist of interest earned on loans made to customers.

d) Other Banking Operation

Other Banking includes other items not attributable to any particular business segment. This segment includes income from para banking activities such as distribution of third party product and the associated costs.

e) Unallocated

All items which are reckoned at an enterprise level are classified under this segment. This includes other unallocable assets and liabilities such as deferred tax etc.

Geographical segments

The business operations of the Bank are concentrated in India hence the Bank is considered to operate only in domestic segment.

Particulars	Treasury	Retail banking	Corporate	Other banking operations	Total
Segment Revenue	26.33	320.24	0.12	2.25	348.94
Segment Result	0.59	14.24	(0.15)	1.94	16.62
Unallocated expenses					(0.89)
Operating Profit					15.73
Income taxes					(5.60)
Extraordinary profit/loss					-
Net Profit					10.13
Other information:					
Segment assets	464.84	1,664.79	18.83	1.19	2,149.65
Unallocated assets					13.85
Total assets					2,163.50

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Particulars	Treasury	Retail banking	Corporate	Other banking operations	Total
Segment Liabilities	19.98	1,593.57	9.51	0.30	1,623.36
Unallocated liabilities					0.38
Total liabilities					1,623.74
Capital employed					539.76
Capital expenditure					11.64
Depreciation					4.66

Segment reporting for the year ended March 31, 2017 is given below:

Particulars [#]	Treasury	Retail banking	Other banking operations	Total
Segment Revenue	7.30	247.39	0.11	254.80
Segment Result	6.12	18.77	0.11	25.00
Unallocated expenses				(1.15)
Operating Profit				23.85
Income taxes				(8.75)
Extraordinary profit/loss				
Net Profit				15.10
Other information:				
Segment assets	628.98	963.63	-	1,592.61
Unallocated assets				11.60
Total assets				1,604.21
Segment Liabilities	-	1,103.16	0.15	1,103.31
Unallocated liabilities				0.33
Total liabilities				1,103.64
Capital employed				500.57
Capital expenditure				5.58
Depreciation				2.15

[#]The Bank does not have any operations in Wholesale Banking during the year. Accordingly wholesale banking segment is not disclosed in the table above.

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20. Liquidity Coverage Ratio

Quantitative information on Liquidity coverage ratio (LCR) is given below:

Particulars *	Quarter ended June 30, 2017			Quarter ended September 30, 2017			Quarter ended December 31, 2017			Quarter ended March 31, 2018		
	Total unweighted value (average)*	Total weighted value (average)*	Total unweighted value (average)*	Total unweighted value (average)*	Total weighted value (average)*	Total unweighted value (average)*	Total unweighted value (average)*	Total weighted value (average)*	Total unweighted value (average)*	Total weighted value (average)*	Total unweighted value (average)*	Total weighted value (average)*
1) Total High Quality Liquid Assets (HQLA)		277.81			198.87			163.03				195.32
Cash Outflows												
2) Retail deposits and deposits from small business customers, of which:	33.94	3.39	94.89	94.89	9.49	150.83	15.08	215.08	21.51			
(i) Stable deposits	-	-	-	-	-	-	-	-	-	-	-	-
(ii) Less stable deposits	33.94	3.39	94.89	94.89	9.49	150.83	15.08	215.08	21.51			
3) Unsecured wholesale funding, of which:	14.11	12.37	43.38	43.38	29.86	84.84	66.30	92.60	41.36			
(i) Operational deposits (all counterparties)	-	-	-	-	-	-	-	-	-	-	-	-
(ii) Non-operational deposits (all counterparties)	1.94	0.19	15.03	15.03	1.50	20.60	2.06	51.38	5.14			
(iii) Unsecured debt	12.17	12.17	28.35	28.35	28.35	64.24	64.24	41.22	36.22			
4) Secured wholesale funding		30.19			24.68		22.17		35.85			
5) Additional requirements, of which	36.55	36.55	30.45	30.45	30.45	26.35	26.35	23.49	23.49			
(i) Outflows related to derivative exposures and other collateral requirement	36.55	36.55	30.45	30.45	30.45	26.35	26.35	23.49	23.49			
(ii) Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-	-	-	-	-
(iii) Credit and liquidity facilities	-	-	-	-	-	-	-	-	-	-	-	-

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(All amounts are in Indian Rupees in crores unless otherwise stated)

Particulars *	Quarter ended June 30, 2017			Quarter ended September 30, 2017			Quarter ended December 31, 2017			Quarter ended March 31, 2018		
	Total unweighted value (average)*	Total weighted value (average)*	Total unweighted value (average)*	Total unweighted value (average)*	Total weighted value (average)*	Total unweighted value (average)*	Total unweighted value (average)*	Total weighted value (average)*	Total unweighted value (average)*	Total weighted value (average)*	Total unweighted value (average)*	Total weighted value (average)*
6) Other contractual funding obligation	25.60	25.60	26.34	26.34	26.34	70.73	70.73	70.73	86.90	86.90	82.90	82.90
7) Other contingent funding obligations	-	-	-	-	-	-	-	-	-	-	-	-
8) Total cash outflows	-	108.10	-	-	120.82	-	200.63	200.63	-	205.11	-	205.11
Cash Inflows												
9) Secured lending (e.g. reverse repo)	-	-	-	-	-	-	-	-	30.00	-	-	-
10) Inflows from fully performing exposures	70.77	35.39	79.80	39.90	84.96	131.63	84.96	168.40	116.07	116.07	116.07	116.07
11) Other cash inflows	58.98	58.25	27.99	27.38	63.74	64.91	63.74	28.90	28.07	28.07	28.07	28.07
12) Total cash inflows	129.75	93.63	107.79	67.28	148.70	196.50	148.70	227.30	144.14	144.14	144.14	144.14
13) Total HQLA	-	277.81	-	198.87	163.03	-	163.03	195.32	-	195.32	-	195.32
14) Total Net Cash Outflows	-	27.04	-	53.53	51.94	-	51.94	60.97	-	60.97	-	60.97
15) Liquidity Coverage Ratio (%)	-	1028%	-	372%	314%	-	314%	320%	-	320%	-	320%

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Quantitative information on Liquidity coverage ratio (LCR) is given below:

Particulars	Quarter ended March 31, 2017	
	Total unweighted value (average)*	Total weighted value (average)*
1 Total High Quality Liquid Assets (HQLA)		375.89
Cash Outflows		
2 Retail deposits and deposits from small business customers, of which:	7.94	0.79
(i) Stable deposits	-	-
(ii) Less stable deposits	7.94	0.79
3 Unsecured wholesale funding, of which:	1.50	0.96
(i) Operational deposits (all counterparties)	-	-
(ii) Non-operational deposits (all counterparties)	0.59	0.06
(iii) Unsecured debt	0.91	0.90
4 Secured wholesale funding		58.53
5 Additional requirements, of which	42.05	42.05
(i) Outflows related to derivative exposures and other collateral requirement	42.05	42.05
(ii) Outflows related to loss of funding on debt products	-	-
(iii) Credit and liquidity facilities	-	-
6 Other contractual funding obligation	35.13	35.13
7 Other contingent funding obligations	-	-
8 Total cash outflows	-	137.47
Cash Inflows		
9 Secured lending (e.g. reverse repo)	-	-
10 Inflows from fully performing exposures	69.71	34.85
11 Other cash inflows	114.68	114.35
12 Total cash inflows	184.39	149.20
21 Total HQLA	-	375.89
22 Total Net Cash Outflows	-	34.37
23 Liquidity Coverage Ratio (%)	-	1094%

*The weighted value and unweighted value are calculated by monthly simple average.

*The weighted value and unweighted value are calculated by monthly simple average of February 2017 and March 2017

The objective of LCR is to ensure that the Bank maintains an adequate stock of unencumbered HQLA that can be converted

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into cash to meet its liquidity needs for a 30 calendar day under a significant severe liquidity stress scenario. At a minimum, the stock of liquid assets should enable the Bank to survive until day 30 of the stress scenario, by which time it is assumed that appropriate corrective actions can be taken.

The LCR is calculated by dividing the amount of High Quality Liquid unencumbered Assets (HQLA) by the estimated net cash outflows over a stressed 30 calendar day period as per RBI Guidelines. Minimum LCR requirement for small finance banks is 60% up to 31 December 2017 and reaching the minimum requirement of 100% by 1 January 2021. The LCR requirement effective January 1, 2018 is 70%.

HQLA comprises of cash in hand, excess CRR, excess SLR securities, maximum liquidity facility allowed by RBI under marginal standing facility (MSF) and Facility to Avail Liquidity for Liquidity Coverage Ratio (FALLCR). HQLA comprise of Government securities primarily on account of excess liquidity from grandfathered borrowings invested into Central and State Government securities.

The net cash outflows are calculated by applying RBI prescribed outflow factors to the various categories of liabilities (deposits, borrowings), as well as to undrawn commitments and other miscellaneous liabilities, partially offset by inflows from assets maturing within 30 days.

Reason for LCR in excess of minimum regulatory requirement are as follows:

1. Excess liquidity arising from borrowings done prior to conversion into a small finance bank invested into level 1 securities - Central and State Government securities.
2. Lower cash outflow due to higher concentration of fixed tenor grandfather borrowings for the first half year of the financial year.

Reason for decline in LCR during the year:

1. Gradually decline in HQLA during the year.

The major sources of funding are deposits, inter-banks borrowing, refinance from Financial Institution and certificate of deposit.

The liquidity management of the Bank is centralised at Treasury. Treasury Front Office shall, depending upon the expected outflows

and inflows for the day, decide to borrow or lend to maintain optimal liquidity.

21. Deferred Tax Assets

As at March 31, 2018, the Bank has recorded net deferred tax asset of ₹ 13.17 crore (March 31, 2017 : ₹ 8.05 crore), included in other assets.

The composition of Deferred Tax Assets (DTA) is as under:

Particulars	March 31, 2018	March 31, 2017
Loan loss provision	11.45	7.16
Employee benefits	0.74	0.44
Depreciation	0.97	0.45
Others	0.01	-
Deferred tax asset	13.17	8.05

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22. Priority Sector Lending Certificate (PSLC)

Type of PSLCs	PSLC sold during the year
Agriculture	-
Small and Marginal Farmers	490.00
Micro Enterprises	795.25
General	-
Total	1,285.25

PSLC sold have been netted under priority sector category in schedule 9 and classified under Non- priority sector. (March 31, 2017: Nil)

23. Unhedged Foreign currency Exposure

The Bank doesn't have any provision on account of unhedged foreign currency exposure as at March 31, 2018 (March 31, 2017: Nil).

24. Leases

Operating lease primarily comprises of office premises, vehicle and computers, which are renewable at the option of the Bank. The following table sets forth the details of future rentals payable on operating leases :

Particulars	March 31, 2018	March 31, 2017
Not less than one year	0.93	0.73
Later than one year but not later than five years	2.54	2.67
Later than five years	0.33	-
Total	3.80	3.40
The total of minimum lease payments recognised in the Statement of Profit and Loss for the year	6.46	4.41

The terms of renewal and escalation clauses are those normally prevalent in similar agreements. There are no undue restrictions or onerous clauses in the agreement.

25. Customer Complaints

Particulars	March 31, 2018	March 31, 2017
(a) No. of complaints pending at the beginning of the year	-	-
(b) No. of complaints received during the year	109	49
(c) No. of complaints redressed during the year	109	49
(d) No. of complaints pending at the end of the year	-	-

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26. Award passed by the Banking Ombudsman

Particulars	March 31, 2018	March 31, 2017
(a) No. of unimplemented Awards at the beginning of the year	-	-
(b) No. of Awards passed by the Banking Ombudsmen during the year	-	-
(c) No. of Awards implemented during the year	-	-
(d) No. of unimplemented Awards at the end of the year	-	-

27. Corporate Social Responsibility (CSR)

a) Gross amount required to be spent by the company during the year ended March 31, 2018 is ₹ 0.61 crore (March 31, 2017 ₹ 0.53 crore) under section 135 of the Companies Act, 2013

b) Amount spent during the year on:

Particulars	In Cash	Yet to be paid in cash	Total
i) Construction /acquisition of asset	-	-	-
ii) on purpose other than (i) above	0.66	-	0.66
Total	0.66	-	0.66

Amount spent during the previous year on:

Particulars	In Cash	Yet to be paid in cash	Total
i) Construction /acquisition of asset	-	-	-
ii) on purpose other than (i) above	0.86	-	0.86
Total	0.86	-	0.86

c) Break-up of amount spent on CSR activities

Particulars	Included in expenses head	March 31,2018	March 31,2017
Cost of employees engaged for social activities	Payments to and provisions for employees (Schedule 16 - I)	0.64	0.85
Other social initiative expenditure	Other expenditure (Schedule 16 - IV)	0.02	0.01
Total		0.66	0.86

28. Related party disclosure

The Bank has only one related party i.e Mr. R Baskar Babu, Managing Director (MD) and Chief Executive Officer. Hence, related party transactions are not disclosed as per the exemption provided in the RBI Master circular on 'Disclosure in Financial Statements' Notes to Accounts dated 1 July 2015.

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29. Off balance sheet SPV

There are no off balance sheet SPVs sponsored by the Bank, which needs to be consolidated as per accounting norms.

30. Small and micro industries

Under the Micro, Small and Medium Enterprises Development Act, 2006 which came into force from October 2, 2006, certain disclosures are required to be made relating to Micro, Small and Medium enterprises. There have been no reported cases of delays in payments to micro and small enterprises or of interest payments due to delays in such payments. (March 31, 2017: Nil)

31. Depositor Education and Awareness Fund

During the year ended March 31, 2018, no amount has been transferred to Depositor Education and Awareness Fund. (March 31, 2017: Nil)

32. Para banking Activities

The details of fees / brokerage earned in respect of insurance broking undertaken by the Bank are as under:

Nature of income	March 31, 2018	March 31, 2017
For selling life insurance policies	1.33	-
For selling non-life insurance policies	0.90	-
For selling mutual insurance products	-	-
Total	2.23	-

33. Overseas Assets, NPAs and Revenue

The Bank does not hold any overseas assets / NPA as at March 31, 2018 and no overseas operations were undertaken during the year ended March 31, 2018 hence revenue from overseas operation in 'nil'. (March 31, 2017: Nil)

34. Fraud cases reported

During the year ended March 31, 2018, the Bank has reported 84 cases of fraud amounting to ₹ 0.36 crores against which the Bank has made a provision of ₹ 0.03 crores, adjusted for recovery.

35. Penalties levied by the RBI

During the year ended March 31, 2018, no penalty was imposed by RBI on the Bank. (March 31, 2017: Nil)

36. Letter of Comfort

The Bank has not issued letter of comfort during the year ended March 31, 2018. (March 31, 2017: Nil).

37. Disclosure on specified bank notes (SBNs)

The Bank believes that the MCA notification G.S.R. 308(E) dated March 30, 2017 regarding holdings as well as dealings in Specified Bank Notes during the period from 8th November, 2016 to 30th December, 2016 is not applicable to banking companies.

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38. Comparatives:

Figures for the previous year have been regrouped wherever necessary to conform with the current year's presentation.

As per our report of even date

For and on behalf of the Board of Directors

For **B S R & Associates LLP**

Chartered Accountants

Firm's Registration No: 116231W/W-100024

Ashwin Suvarna

Partner

Membership No: 109503

R. Baskar Babu

Managing Director and
Chief Executive Officer

Sheela Bhide

Chairperson

Bhavin Damania

Chief Financial Officer

Geeta Krishnan

Company Secretary

Place: Mumbai

Date: May 30, 2018

Place: Mumbai

Date: May 30, 2018

PILLAR III DISCLOSURE

Building
Strong Foundations



10,00,000 SMILES

Pillar III Disclosure

DF-1: Scope of Application

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.

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 reserve, general provisions & loss reserves.

Equity Capital:

The Bank has authorized share capital of Rs. 750.00 million, comprising of 75,000,000 equity shares of Rs. 10 each. As on March 31, 2018, the Bank has subscribed and paid up capital of Rs. 674.97 million comprising of fully paid up 67,496,672 shares of Rs.10 each. During the year 2017-18, the Bank raised equity capital by around Rs. 255.90 million by way of preferential allotment and allotment of equity shares against vested and exercised options to employees under the Employee Stock Option Plan (ESOP).

Capital Funds:

(Rs. In million)

Sr. No.	Particulars	31.03.2018
(a)	Tier I Capital	
	- Paid up Capital	675
	- Reserves	
	Statutory Reserve	176
	Employee Stock Option Outstanding account	34
	Share Premium	3,880
	- General Reserve	0
	- Balance in Profit	631
	- Less: Intangible & Deferred Tax Assets	(175)
	Total Tier I Capital	5,222
(b)	The total amount of Tier II capital (net of deductions from Tier II capital)	
	General Provision	102
(c)	Subordinated debt eligible for inclusion in Tier II capital	
	- Total amount outstanding	600
	- Of which amount raised during the current year	0
	- Amount eligible to be reckoned as capital funds	370
(d)	Other deductions from capital, if any	0
(e)	Total Eligible Capital	5,695

DF-2: Capital Adequacy

Applicable Regulations:

The RBI guideline on 'Basel II Capital Regulation' was issued on July 1, 2008 for implementation in India with effect from March 31, 2008. Suryoday Small Finance Bank Limited (hereinafter referred to as the Bank) is subject to the RBI Master Circular on Basel-II Capital Regulations, July 2008 and amendments thereto issued on time to time basis by RBI.

The Basel II framework consists of three-mutually reinforcing pillars:

Pillar 1 - Minimum capital requirements for credit risk, market risk and operational risk

Pillar 2 - Supervisory review of capital adequacy

Pillar 3 - Market discipline

Market discipline (Pillar 3) comprises a set of disclosures on the Capital Adequacy and Risk Management framework of the Bank. Pillar 3 disclosures as per RBI master circular on Basel-II Capital Regulations are set out in the following sections for information.

Regulatory capital assessment:

The Bank is subjected to Capital Adequacy guidelines stipulated by Reserve Bank of India (RBI). In line with RBI guidelines under Basel II, the Bank has adopted Standardized Approach for Credit Risk, Standardized Duration Approach for Market Risk and Basic Indicator Approach for Operational Risk while computing its Capital Adequacy Ratio (CAR).

Minimum Capital requirements:

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

As on March 31, 2018, total CAR of the Bank stood at 37.94%, well above regulatory minimum requirement of 15%. Tier I ratio of the Bank stood at 34.79% well above regulatory requirement of 6%.

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 III on capital and risk management as stipulated by RBI, are reported to the Board.

Capital requirements for various risks

A summary of Bank's capital requirement for credit, market and operational risk on March 31, 2018 is presented below:

		(Rs. In Million)
SN	Particulars	31.03.2018
(a)	Capital requirements for Credit risk:	
	- Portfolios subject to standardized approach	1,950
	- Securitization exposures	-
(b)	Capital requirements for Market risk:	
	Standardized duration approach	
	- Interest rate risk	14
	- Foreign exchange risk (including gold)	-
	- Equity risk	-
(c)	Capital requirements for Operational risk:	
	- Basic indicator approach	287

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

Ratios	31.03.2018
Capital Adequacy Ratios	
- Total Capital Adequacy Ratio (%)	37.94%
- Tier -1 Capital Adequacy Ratio (%)	34.79%
- Common Equity Tier - 1 Capital Adequacy Ratio (%)	34.79%

DF-3: 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.

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, Investment Policy and Risk Management Policy duly approved by the Board 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 prescribe various methods for credit risk identification, measurement, grading, monitoring, reporting, risk control/mitigation techniques and management of problem loans/ credit.

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, business segments, credit assessment and approval system, margin and collateral management, credit documentation, credit pricing framework, credit administration and monitoring system, non-performing assets management policy, 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.

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. 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 detailed appraisal memorandum that takes into account business and financial risks of the proposal. The JLG segment, on the other hand, relies largely on standardized product programs for credit risk assessment and approvals.

2. Credit Rating Framework

The Bank developed a Credit Scoring Model which is currently under process of validation through back testing on a sample of cases approved in the past. The Bank has initiated scoring of all cases above Rs 10 lakh with effect from 1 August 2017 and has initiated the scoring for cases above Rs 5 lakh from 1 September 2017.

The minimum threshold for approval of cases is expected to evolve and get fine-tuned based on actual sanction of cases through detailed appraisal. While credit scoring would be one of the important parameters for deciding pricing of loans, it will be pertinent for the Bank to consider the expectations of the customers as regards rate of interest to remain competitive at this stage when it is stepping into new segments.

3. 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.

4. Delegation of powers

The Bank has adopted 'Four Eyes' principle for credit approval which reduces risk from errors and ensure compliance. The principle dictates that generally at least two people must create, examine and approve any credit proposal. The Bank has also adopted Committee Approach for sanctioning high value credit proposals.

5. 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 accords special emphasis on credit monitoring at all times.

6. Review / Monitoring / Supervision:

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 components 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 accords special emphasis on credit monitoring at all times.

7. Security monitoring:

The value of the collateral is reassessed at periodic intervals. Collateral valuations is updated at a frequency appropriate to the value and nature of the collateral and the ease and costs of valuation.

8. Monitoring Standards - Portfolio level:

The Bank is performing portfolio monitoring on a monthly basis with specific focus on the following key aspects:

- Portfolio origination performance - Number of applications, approval/rejection rate, Priority Sector Lending (PSL) compliant loans etc.
- 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 risk unit is responsible for conducting portfolio level monitoring and publishing relevant MIS reports.

9. 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

10. Recovery Policy:

- The Bank has a Collection and Recovery Policy. This policy is formulated within the framework of various regulatory requirements and was reviewed by Board of Directors on 24th Oct 2017.
- The recovery process is required to be started as soon as a borrower account shows symptoms of weakness / default and the Bank does not wait till the borrower account is classified as NPA.
- The Bank documents the efforts made for the recovery of dues and relevant stakeholders are kept informed.
- The repayment record of borrowers is monitored both with regard to payment of interest and repayment of principal. The mode of recovery is decided after conducting a root cause analysis of the reason for default.
- Whenever a borrower defaults or is likely to default, rigorous follow-up is made for the collection of dues / arrears. When default occurs, oral and written communication is sent to the borrowers 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

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', 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 during any quarter 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* as on 31st March, 2018

(Rs. In Million)	
Category	Credit Exposure
Fund Based	
Gross Advances	15,960
Investment #	-

All other Assets	2,602
Non - Fund Based**	260
Total Exposures	18,822

*Represents book value as on 31st March 2018

** Credit Equivalent Amount

Investment includes Central Government Securities – Rs. 1,844 Million, State Government Securities – Rs. 1,024 Million, Commercial Papers – Rs. 245 Million.

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

(Rs. In Million)

Category	31.03.2018		Total
	Domestic	Overseas	
Fund Based	18,562	-	18,562
Non - Fund Based	260	-	260
Total	18,822	-	18,822

*Represents book value as on 31st March 2018

** Credit Equivalent Amount

3. Residual contractual maturity breakdown of assets

(Rs. In Million)

Maturity bucket	Cash, balances with RBI and other banks	Investments	Loans & Advances	Other assets including Fixed Assets	Total
Day 1	60	337	37	53	487
2 to 7 days	1258	206	176	69	1708
8 to 14 days	9	77	263	67	416
15 to 30 days	39	36	358	58	491
31 days to 2 months	65	141	899	24	1128
2 months to 3 months	54	260	940	29	1283
3 months to 6 months	71	264	2646	18	2999
6 months to 1 year	155	211	4516	14	4896
1 Year to 3 years	343	1434	5126	25	6928
3 Years to 5 years	17	149	520	18	705
Over 5 years	-	0	268	325	593
Total	2072	3113	15749	700	21634

5. Asset Quality

• NPA Ratios

(Rs. In Million)

Particulars	31.03.2018
Gross NPAs to gross advances*	3.54%
Net NPAs to net advances	1.86%

* Subject to write off approval by Board of Directors

- Net NPAs**

	(Rs. In Million)
Particulars	31.03.2018
Gross NPAs	566
Less: Provisions	211
Less: Floating Provisions	63
Net NPAs	292

- Classification of gross NPAs**

	(Rs. In Million)
Particulars	31.03.2018
Sub-standard	510
Doubtful	56
Doubtful 1	-
Doubtful 2	-
Doubtful 3	-
Loss	-
Total Gross NPAs	566

- Movement of Gross NPAs**

	(Rs. In Million)
Particulars	31.03.2018
Opening balance as on 01.04.2017	513
Additions during the year	518
Recoveries (excluding Recoveries made from upgraded accounts)	37
Write offs	428
Closing balance	566

- Movement of Provisions for NPAs**

	(Rs. In Million)		
Particulars	31.03.2018		
	NPA Provision	Floating Provision	Total
Opening balance as on 01.04.2017	139	63	202
Provisions made during the year	506	-	506
Write-Off	428	-	428
Any other adjustment, including transfer between provisions	-	-	-
Write-back of excess provisions	6	-	6
Closing balance	211	63	274

6. Non-performing Investment

(Rs. In Million)

Particulars	31.03.2018
Gross Non-Performing Investment	Nil
Less: Provisions	Nil
Net Non-Performing Investment	Nil

- Provision for depreciation on Investment**

(Rs. In Million)

Particulars	31.03.2018
Opening balance as on 01.04.2017	1
Provisions made during the year	-
Write-Off	-
Any other adjustment, including transfer between provisions	-
Write-back of excess provisions	1
Closing balance	-

- Provision for Standard Asset**

(Rs. In Million)

Particulars	31.03.2018
Opening balance as on 01.04.2017	20
Provision made/reversed during the year	20
Any other adjustment, including transfer between provisions	-
Closing balance	40

- Geographic Distribution**

(Rs. In Million)

	31.03.2018		
Category	Domestic	Overseas	Total
Gross NPA	566	-	566
Provision for NPA	211	-	211
Provision for Standard Assets	40	-	40

DF-4: 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 three major risk buckets as well as those that are deducted:

(Rs. In Million)

Particulars	31.03.2018
At 0% risk weight	2797
Below 100% risk weight	13460
100% risk weight	3568
More than 100% risk weight	39
Deducted (Intangible Assets and Deferred Tax Assets)	175

DF-5: Credit Risk Mitigation: Disclosure for Standardized Approach

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.

Collateral management

Overview

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

Types of collateral taken by the Bank

- Cash (including deposits)
- Gold (including bullion and jewellery of 99.9 % purity)
- Securities issued by Central & State Governments, Kisan Vikas Patra
- National Savings Certificates
- Life Insurance Policies with a declared surrender value of an Insurance Company which is regulated by IRDA
- Debt securities rated by a chosen Credit rating agency in which the Bank is sufficiently confident about market liquidity
- Other Corporate Debt Securities of which the Bank is sufficiently confident about market liquidity
- Units of Mutual Funds etc.

Main type of guarantor counterparties

For guarantees to be recognized as per Basel II requirements for capital computation, they should meet the following criteria as prescribed by the RBI:

- The guarantee shall represent a direct claim on the guarantor
- The guarantee shall be unconditional and irrevocable
- The guarantee shall be properly documented and legally enforceable
- The guarantee shall remain continuously effective until the facility covered by the guarantee is fully repaid or settled
- The guarantee shall be from the Export Credit Guarantee Corporation (ECGC) or the Credit Guarantee Fund Trust for Micro and Small Exposures (CGTMSE).

If a guarantee is used as an eligible credit risk mitigant, a substitution approach is applied. The Bank does not use guarantee as credit risk mitigant.

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 III 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.

Portfolio covered by eligible financial collateral as on March 31, 2018

(Rs. In Million)	
Particulars	Amount
Exposures fully covered by eligible financial collateral, after application of haircut	917*
Exposure that is covered by guarantees/credit derivatives	-

*Collateral towards reverse Repo - Rs. 830 million

DF-6: Securitization Exposure: Disclosure for Standardized Approach

The Bank undertakes securitisation / loan assignment transactions with the objective of maximising return on capital employed, managing liquidity, maximising yield on asset opportunities.

The RBI issued "Revised Securitisation Guidelines" on May 7, 2012 (hereinafter, the "revised securitisation guidelines") covering both Securitisation and Loan Assignment transactions separately. The said guidelines define minimum holding period, minimum retention requirements, due diligence, credit monitoring, stress testing requirements etc. For loan assignment transactions, credit enhancement has been disallowed under the revised guidelines.

The Bank undertakes sale transactions through both securitisation and loan assignment routes.

The Bank participates in Securitisation and Loan Assignment transactions in the following roles:

- **Originator / Seller:** The Bank originates assets in its book and subsequently down sells them through the securitisation or assignment route.
- **Servicing and Collection Agent for sold assets:** the Bank undertakes the activity of collections and other servicing activities including preparation of monthly pay-out reports.
- **Liquidity facility provider:** In case of sale transaction undertaken through the securitisation route, the Bank may also provide liquidity facility. This is a type of credit support used to meet temporary collection mismatches on account of timing differences between the receipt of cash flows from the underlying performing assets and the fulfilment of obligations to the beneficiaries.
- **Credit enhancement provider:** Under the revised securitisation guidelines, the Bank may provide credit enhancement on Securitisation 'sale' transactions undertaken by the Bank / a third party for meeting shortfalls arising on account of delinquencies and prepayment losses in the underlying pool sold.
- **Credit Risk:** In case of Securitisation transactions, where credit enhancement is provided by the originator or any third party as permitted under the revised guidelines, the investor bears the loss in case the shortfalls in collections exceed the credit enhancement provided if credit enhancement is provided in the form of a corporate guarantee, the investor bears the loss that could arise due to default by the guarantor which is also reflected in the rating downgrade of the corporate guarantor. In case of Loan Assignment transactions, the assignee bears the loss arising from defaults/delinquencies by the underlying obligors.

- **Market Risk:** Liquidity Risk: This is the risk arising on account of absence of a secondary market, which provides exit options to the investor/participant. This risk would be applicable only in case of securitisation transactions.
- **Servicer Risk:** Servicer risk is the risk arising on account of the inability of a collection and processing agent to collect monies from the underlying obligors and operational difficulties in processing the payments. In long tenor pools, the investor is exposed to the risk of servicer defaulting or discontinuing its operations in totality.
- **Regulatory and Legal Risk:** These are risks arising on account of non-compliance of transaction structures with the extant regulatory guidelines which may result in higher risk weight and hence higher capital charge being applied on the transaction or the Bank not being able to classify the transactions as priority sector lending. These risks also arise when transactions are not compliant with applicable laws which may result in the transaction being rendered invalid. Conflict between the provisions of the transaction documents and those of the underlying financial facility agreement or non-enforceability of security/claims due to imperfection in execution of the underlying facility agreements with the borrowers could also lead to an increase in legal risk. Risk could also arise due to issues on interpretation of tax laws leading to changes in scheduled transaction cash flows

Accounting policy on Transfer and servicing of assets

The Bank transfer loans through securitisation transactions. The transferred loans are de-recognised, and gains/losses are accounted for, only if the Bank surrenders the rights to benefits specified in the underlying securitised loan contract.

In accordance with the RBI guidelines for securitisation of standard assets, the profit / premium arising from sell down / securitisation to be amortised over the life of the transaction based on the method prescribed in the guidelines and the loss, if any, arises in the sell down / securitisation transaction, is recognised upfront in the statement of profit or loss.

DF-7: Market Risk in Trading Book

Policy and Strategy for Market Risk Management

The Bank takes market risk as a part of its trading activity (i.e. HFT portfolio), e.g. Fixed Income securities, Equities and Mutual Funds. Market Risk is managed in accordance to the Board approved Investment Policy, Asset Liability Management (ALM) and Market Risk Management (MRM) Policy.

These policies cover liquidity risk, Interest rate risk (Banking and Trading book) and Market Risk framework of the Bank.

Scope and nature of risk reporting and measurement systems:

Reporting

Board of Directors have laid down broad guidelines for ALM & MRM and monitor the same through Risk Management Committee of Board (RMCB) / Asset Liability Management Committee (ALCO). RMCB has the primary responsibility of evaluating overall risks faced by the Bank including liquidity risk and interest rate risk. RMCB provides necessary guidance to ALCO, periodically. ALCO is the primary and sole responsibility of ALM and managing market, liquidity and interest rate risk. ALCO is taking all such decisions as are necessary to implement this policy and take day to day decisions within the overall objectives.

Measurement

The Bank has defined various risk matrix for different products and investments. Risk limits are control measures which seek to limit risk within or across the desks. The objective of a limit is to ensure that the negative earnings impact of price risks is within the risk-taking appetite of the Bank. The nature of limits includes position limits, gap limits, tenor & duration limits, stop-loss trigger level and Value at Risk (VaR) limits. These limits are appropriately selected for the relevant portfolios. The risk limits are monitored across different levels of the Bank on an ongoing basis.

Liquidity Risk Management

Liquidity Risk is managed in the following manner:

- Asset Liability Management (ALM) Policy of the Bank specifically deals with liquidity and interest rate risk management.

- As envisaged in the ALM policy, liquidity risk is managed through Traditional Gap Analysis based on the residual maturity / behavioural pattern of assets and liabilities as prescribed by RBI.
- Monitoring of prudential (tolerance) limits set for different residual maturity time buckets, large deposits, loans, various liquidity ratios for efficient asset liability management;
- Contingency Funding Plan (CFP), approved by the Board sets process to take care of crisis in the event of liquidity crunch or a run on the Bank. The constitution of Crisis management team has been provided in policy to provide direction for handling any crisis.

Portfolios covered by Standardized Approach

The Bank has adopted Standardized Duration Approach (SDA) as prescribed by RBI for computation of capital charge for market risk for:

- Securities included under the Held for Trading (HFT) category,
- Securities included under the Available for Sale (AFS) category,

Capital requirement for:

(Rs. In Million)	
Particulars	31.03.2018
Interest Rate Risk	8

DF-8: Operational Risk

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.

The Bank has a well-documented Operational Risk Management Policy to mitigate and manage Operational Risk.

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.

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.

Approach for Operational Risk capital assessment

In accordance with RBI guidelines, the Bank has adopted Basic Indicator Approach (BIA) for computation of capital charge for operational risk.

	(Rs. In Million)
Particulars	31.03.2018
Operational Risk	287

DF-9: Interest Rate Risk in the Banking Book (IRRBB)

Policy and Strategy for Interest Rate Risk Management

Interest rate risk in banking book represents the Bank's exposure to adverse movements in interest rates about its non-trading exposures. Interest rate risk is measured by doing a gap analysis as well as sensitivity analysis. The Bank holds assets, liabilities with different maturity and linked to different benchmark rates, thus creating exposure to unexpected changes in the level of interest rates in such markets.

Interest Rate Risk is managed in accordance to the Board Approved Asset Liability Management (ALM) Policy, Investment Policy. The policies lay down well-defined organization structure for interest rate risk management functions and processes whereby the interest rate risks carried by the Bank are identified, measured, monitored and controlled.

Organization Structure for Interest Rate Risk Management function

The organizational structure of the Bank for Interest Rate Risk Management function has the Board of Directors at the apex level that maintains overall oversight of management of risks. The Risk Management Committee of Board (RMCB) devises policy and strategy for integrated risk management which includes interest rate risk. At operational level, Asset Liability Management Committee (ALCO) monitors management of interest rate risk. The main functions of ALCO include balance sheet planning from a risk return perspective including the strategic management of interest rates and liquidity risks.

Risk Reporting, Measurement, Mitigation & Monitoring systems

The total portfolio is monitored and reported to the senior management daily for risk parameters like Modified Duration Limits, PV01 limits and Stop Loss limits on the AFS/HFT portfolio. Any deviations or violations in the limits are immediately reported to the MD & CEO and the Head-Risk.

Level of interest rate risk

The following table sets forth one possible prediction of the impact on the net interest income of changes in interest rates on interest sensitive positions at March 31, 2018 assuming a parallel shift in the yield curve:

	(Rs. In Million)	
	Change in Interest rates	
Currency	-100 basis points	+ 100 basis points
INR	(18)	18

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

LEVERAGE RATIO

The leverage ratio acts as a credible supplementary measure to the risk-based capital requirement. The Bank is required to maintain a minimum leverage ratio of 4.5%. The Bank's leverage ratio as on 31st March, 2018 calculated in accordance with RBI guidelines is as follows:

(Rs. In Million)

Sr. No.	Particulars	Amount
1	Total consolidated assets as per published financial statements	21635
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	175
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)	260
7	Other adjustments	-
8	Leverage ratio exposure	24.04%

DF-18: Leverage ratio common disclosure template

(Rs. In Million)

Sr. No.	Leverage Ratio Framework	Amount
On Balance Sheet exposures		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	21635
2	(Asset amounts deducted in determining Basel II Tier 1 capital)	175
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	21460
Derivatives Exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	-
5	Add-on amounts for PFE associated with all derivatives transactions	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	Total derivative exposures (sum of lines 4 to 10)	-
Securities financing transaction exposure		
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	CCR exposure for SFT assets	-

15	Agent transaction exposures	-
16	Total securities financing transaction exposures (sum of lines 12 to 15)	-
Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	255
18	(Adjustments for conversion to credit equivalent amounts)	5
19	Off-balance sheet items (sum of lines 17 and 18)	260
Capital and total exposures		
20	Tier 1 capital	5222
21	Total exposures (sum of lines 3, 11, 16 and 19)	21720
22	Basel III leverage ratio	24.04%

*Our Journey: From an **MFI** to a **Bank***



As told by Sand Artist, Nitish Bharti



▲ Financial literacy awareness
Solapur



▲ Women's Day Celebration | Kolhapur



◀ Tree Plantation
Kalaburagi

▼ Upskilling Program | Bhubaneswar



◀ Health Camp | Amaravati



▲ Financial Literacy Awareness | Kalyan



▲ Tree Plantation | Chennai



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(Formerly Suryoday Micro Finance Limited)

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