

## **BASEL II – PILLAR 3 DISCLOSURES AT SEPTEMBER 30, 2021**

AU Small Finance Bank Limited is subject to the BASEL II (NCAF) framework as stipulated by Reserve bank of India (RBI) under operating guidelines issued on October 6, 2016 for Small Finance Banks (SFB).

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

- (i) Pillar 1: Minimum capital requirements for credit risk.
- (ii) Pillar 2: Supervisory review of capital adequacy.
- (iii) Pillar 3: Market discipline.

As defined by RBI in its operating guidelines to Small Finance Banks (DBR.NBD. No.26/16.13.218/2016-17 dated October 6, 2016) SFBs are required to adopt the Standardised approach for credit risk.

The Guidelines state that the prudential framework for market risk and operational risk are being examined and the instructions in this regard will be issued separately. (In a separate communication dated November 8, 2017 marked DBR. NBD. No. 4502/16.13.218/2017-18, RBI has advised that no separate capital charge for market risk and operational risk for SFBs is prescribed for the time being). Accordingly, bank doesn't consider Market Risk and Operation risk for capital adequacy purpose under Basel II (NCAF) framework.

Market discipline (Pillar 3) comprises set of disclosures on the capital adequacy and risk management framework of the Bank. These disclosures have been set out in the following sections.

### **I. SCOPE OF APPLICATION**

AU Small Finance Bank Limited (hereinafter referred to as the 'Bank' or 'AUSFB') is a private sector bank domiciled in India. The Company commenced its operations as a Small Finance Bank from April 19, 2017 pursuant to the approval received from the Reserve Bank of India dated December 20, 2016. It provides retail banking, small & mid corporate banking services and a wide range of financial services in urban, semi urban and rural areas. There is no foreign operation of the Bank and the bank does not have any subsidiary, associate, or joint venture for consolidation purpose.

### **II. CAPITAL STRUCTURE**

<b>₹ In Lacs</b>		
<b>CAPITAL FUNDS POSITION AS ON SEPTEMBER 30, 2021</b>		
<b>S. No.</b>	<b>Particulars</b>	<b>Amount</b>
<b>(A)</b>	<b>Tier I Capital</b>	
A.1	Paid up equity share capital	31,311.04
A.2	Reserves*	5,89,587.02
<b>(B)</b>	<b>Deductions</b>	
B.1	Deferred Tax Assets	14,626.49
B.2	Securitization exposure including Credit Enhancement	6,751.72
<b>(C)</b>	<b>Net Tier I Capital (A-B)</b>	<b>5,99,519.85</b>
<b>(D)</b>	<b>Tier II Capital</b>	
D.1	Subordinated Debt	30,000.00
D.2	General Provision	10,445.16
D.3	Investment Fluctuation Reserve	8,090.96
<b>(E)</b>	<b>Deductions</b>	
E.1	Securitization exposure including Credit Enhancement	6,751.72
<b>(F)</b>	<b>Net Tier II Capital (D-E)</b>	<b>41,784.40</b>
<b>(G)</b>	<b>Total Capital Funds (C+F)</b>	<b>6,41,304.25</b>

\*Reserves includes statutory reserve, security premium, ESOP reserve, special reserve u/s 36 (i) (viii), capital reserve and balance in profit & loss a/c.

### Subordinated Debt eligible for inclusion in Lower Tier – II capital

₹ In Lacs

Particulars	Amount
Total amount outstanding as on September 30, 2021	50,000.00
Of which, amount raised during the year	-
Amount eligible to be reckoned as capital funds as on September 30, 2021	30,000.00
<b>Total Eligible Amount</b>	<b>30,000.00</b>

### Total Eligible Capital Fund as on September 30, 2021

₹ In Lacs

Particulars	Amount
Tier I Capital	5,99,519.85
Tier II Capital	41,784.40
<b>Total Eligible Capital</b>	<b>6,41,304.25</b>

### III. CAPITAL ADEQUACY

#### a. Capital requirement

₹ In Lacs

Capital Requirements for Various Risks		
S. No.	Particulars	Amount
A	<b>Credit Risk</b>	<b>4,38,218.12</b>
A.1	For non-securitised portfolio	4,34,292.93
A.2	For securitised portfolio	3,925.19
B	<b>Market Risk</b>	-
C	<b>Operational Risk</b>	-
D	<b>Total Capital Requirement (A+B+C)</b>	<b>4,38,218.12</b>
E	<b>Total Risk Weighted Assets (Credit)</b>	<b>29,21,454.16</b>
F	<b>Total capital funds of the bank</b>	<b>6,41,304.25</b>

#### Total and Tier I Capital Ratio

Particulars	Capital Adequacy Ratio
Tier I Ratio	20.52%
Tier II Ratio	1.43%
<b>Total Capital Adequacy Ratio</b>	<b>21.95%</b>

### IV. CREDIT RISK

#### Distribution of exposures

₹ In Lacs

S. No.	Exposure Type	Amount
1	Fund Based	41,19,593.73
2	Non- Fund Based	2,48,682.12
	<b>Total</b>	<b>43,68,275.85</b>

### Geographic distribution of exposures

₹ In Lacs

Exposure Distribution by Geography		
Category	Fund based facilities	Non fund based facilities
Domestic	41,19,593.73	2,48,682.12
Overseas	-	-
<b>Total</b>	<b>41,19,593.73</b>	<b>2,48,682.12</b>

### Industry wise distribution of exposure

₹ In Lacs

S. No.	Industry Classification	Fund Based	Non-Fund Based
1	Trade	9,25,773.17	15,181.33
2	Services-Others	6,55,255.25	1,82,486.38
3	Agriculture and Allied Activities	7,14,708.95	952.02
4	Transport Operators	3,30,453.77	11,134.35
5	NBFCs	2,15,907.07	-
6	Vehicle/Auto Loans	1,78,545.21	-
7	Retail Loans-Other	1,65,869.98	12,008.72
8	Advances against Fixed Deposits	1,54,405.20	-
9	Housing Loans	1,51,275.38	-
10	Tourism, Hotel and Restaurants	1,12,554.68	-
11	Commercial Real Estate	1,06,548.66	1,091.03
12	Electronics & Engineering	62,685.28	4,324.07
13	Gems and Jewellery	56,731.99	-
14	Credit Card	47,815.47	-
15	Infrastructure	41,857.04	119.00
16	Industries-Other	20,814.66	20,624.61
17	Wood and Wood Products	37,435.28	-
18	Textiles	25,517.90	-
19	Metal, Iron And Steel	23,303.65	760.61
20	Rubber and Plastic Products	19,559.80	-
21	Mining and Quarrying	14,597.87	-
22	Chemicals and Chemical Products	10,935.46	-
23	Cement and Cement Products	9,865.02	-
24	Vehicles, Vehicle Parts and Transport Equipments	8,229.48	-
25	Food Processing	7,286.22	-
26	Beverages and Tobacco	7,004.61	-
27	Computer Software	4,797.08	-
28	Paper and Paper Products	3,899.34	-
29	Professional Services	3,576.44	-
30	Glass & Glassware	1,572.29	-
31	Leather and Leather products	437.66	-
32	Education Loans	255.59	-
33	Consumer Durables	118.28	-
<b>Total</b>		<b>41,19,593.73</b>	<b>2,48,682.12</b>

As on September 30, 2021, Bank's exposure to the segments stated below was more than 5% of the total credit exposure:

S. No.	Industry Classification	Percentage of total gross credit exposure
1	Trade	21.54%
2	Service-Others	19.18%
3	Agriculture and Allied Activities	16.38%
4	Transport Operators	7.82%

### Maturity pattern of assets

The maturity pattern of assets as on September 30, 2021 is detailed in the table below:

₹ In Lacs

Maturity Bucket	Cash, balances with RBI	Balances with banks and money at call & short notice	Investments	Loans & Advances	Fixed Assets	Other Assets	Total
Day 1	45,535.61	71,350.56	2,50,591.37	21,840.01	-	11,113.83	4,00,431.38
2-7 Days	2,454.07	50,000.00	10,274.97	50,889.76	-	8,335.22	1,21,954.02
8-14 Days	2,734.08	1,10,000.00	11,472.58	58,635.49	-	16,770.91	1,99,613.06
15-30 Days	4,030.23	5,001.00	27,242.15	39,203.41	-	8,557.22	84,034.01
31 Days to 2 months	5,449.77	0.37	33,170.45	96,257.88	-	6,831.56	1,41,710.03
More than 2 months and up to 3 months	7,469.77	1.00	39,707.32	1,03,576.32	-	6,648.35	1,57,402.76
Over 3 Months and up to 6 months	21,004.85	211.39	1,02,000.42	2,67,079.94	-	13,756.04	4,04,052.64
Over 6 Months and up to 1 year	32,868.98	25.73	2,68,379.37	4,43,689.33	-	2,603.11	7,47,566.52
Over 1 Year and up to 3 years	54,333.92	33.02	3,96,759.66	13,58,861.39	-	14,674.20	18,24,662.19
Over 3 Years and up to 5 years	3,141.22	0.00	18,181.38	5,64,739.54	-	47.58	5,86,109.72
Over 5 years	973.76	2,530.33	10,126.72	5,79,735.11	50,769.72	11,917.18	6,56,052.82
<b>Total</b>	<b>1,79,996.26</b>	<b>2,39,153.40</b>	<b>11,67,906.39</b>	<b>35,84,508.18</b>	<b>50,769.72</b>	<b>1,01,255.20</b>	<b>53,23,589.15</b>

### Amount of Non-Performing Advances (NPAs)

₹ In Lacs

NPA Classification		
S. No.	Category	Amount
<b>A</b>	<b>Amount of NPAs (Gross)</b>	<b>1,15,144.78</b>
A.1	Substandard	90,074.18
A.2	Doubtful1	12,004.34
A.3	Doubtful2	9,830.24
A.4	Doubtful3	1,397.17
A.5	Loss	1,838.85
<b>B</b>	<b>Net NPAs</b>	<b>59,147.73</b>
C	Advances	
<b>C.1</b>	<b>Gross Advances</b>	<b>36,40,505.24</b>
<b>C.2</b>	<b>Net Advances</b>	<b>35,84,508.18</b>
C	NPA Ratios	
<b>C.1</b>	<b>Gross NPAs to gross advances (%)</b>	<b>3.16%</b>
<b>C.2</b>	<b>Net NPAs to net advances (%)</b>	<b>1.65%</b>

### Movement of NPAs

₹ In Lacs

Particulars	Gross NPA	Net NPA
Opening balance as on April 1, 2021	1,50,282.91	75,545.47
Addition during the period	82,976.38	64,223.76
Reduction/write-off during the period	(1,18,114.51)	(80,621.50)
<b>Closing balance as on September 30, 2021</b>	<b>1,15,144.78</b>	<b>59,147.73</b>

### Movement of Provisions

₹ In Lacs

Particulars	Specific Provision
Opening balance as on April 1, 2021	74,737.44
Provision made during the period	18,752.62
Write-off/Loss on sale of repossessed assets	(34,356.83)
Write-back of excess provisions	(3,136.18)
<b>Closing balance as on September 30, 2021</b>	<b>55,997.05</b>

Particulars	General/Standard Provision
Opening balance as on April 1, 2021 <sup>#</sup>	18,812.93
Provision made during the period	15,700.65
Write-back of excess provisions	8,431.27
<b>Closing balance as on September 30, 2021<sup>#</sup></b>	<b>26,082.31</b>

<sup>#</sup> Excluding contingency provisions of ₹ 10,187.52 Lacs and ₹ 36,249.31 Lacs as at March 31, 2021 and September 30, 2021 respectively, for the accounts restructured under RBI Resolution framework and against any further potential impact of COVID-19

### Movement of Provisions for depreciation on investments

Particulars	Amount	₹ In Lacs
Opening balance as on April 1, 2021		3,062.99
Provision made during the period		9.32
Write-back of excess provisions during the period		3,072.31
<b>Closing balance as on September 30, 2021</b>		<b>-</b>

### V. CREDIT RISK – DISCLOSURE FOR PORTFOLIOS SUBJECT TO THE STANDARDIZED APPROACH

#### Credit exposures by risk weights

As on September 30, 2021 the credit exposures subject to the Standardized approach after adjusting for credit risk mitigation by risk weights were as follows:

Details of Credit Risk Exposure Based on Risk-Weight			₹ In Lacs
S. No.	Risk Weight	Total*	
1	Below 100% risk weight		38,17,780.59
2	100% risk weight		5,91,520.97
3	More than 100% risk weight		1,78,705.30
	<b>Total</b>		<b>45,88,006.86</b>

\*Credit risk exposures include all outstanding exposures subject to credit risk (after credit risk mitigation and credit conversion factor), including investments in PTC, security receipts, government securities held-to-maturity category and investment in capital eligible securities except cash in hand.

### VI. CREDIT RISK MITIGATION – DISCLOSURE FOR STANDRADISED APPROACH

Portfolio cover by Eligible Financial Collateral are as below:

Particulars	Amount	Credit Risk Mitigate (CRM)	Net Exposure	₹ In Lacs
Gold Loan*	10,684.14	10,529.90	154.24	
Loan against FD	1,28,866.95	1,23,852.45	5,014.50	
Bank Guarantee/ LC	1,01,754.41	45,645.12	56,109.30	
<b>Total</b>	<b>2,41,305.50</b>	<b>1,80,027.47</b>	<b>61,278.04</b>	

\*Amount is after hair cut appropriate to the exposure.

#Amount is after credit conversion factor (CCF).

Portfolio covered by guarantees:

Particulars	Amount	Credit Risk Mitigate (CRM)	Net Exposure	₹ In Lacs
CGTMSE	3,220.76	2,249.89	970.87	
ECLGS	87,655.91	87,655.91	-	
<b>Total</b>	<b>90,876.67</b>	<b>89,905.80</b>	<b>970.87</b>	

## **VII. SECURITISATION EXPOSURE: DISCLOSURE FOR STANDARDISED APPROACH**

### **Details of securitisation exposures in the banking book**

₹ In Lacs

<b>Total exposures securitised by the bank*</b>	<b>42,284.12</b>
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\*Represents total outstanding principal as on September 30, 2021 for direct assignment deals as originator.

### **For exposures securitised losses recognised by the bank during the current period broken by the exposure type**

₹ In Lacs

<b>Exposure Type</b>	<b>Losses</b>
Business Loans	-
Wheels Loans	-
<b>Total</b>	<b>-</b>

### **Assets to be securitised within a year as on September 30,2021**

₹ In Lacs

<b>Exposure Type</b>	<b>Amount</b>
Amount of assets intended to be securitized within a year	-
Of which amount of assets originated within a year before Securitization	-

### **Total outstanding exposures securitised by the Bank and the related unrecognised gains/(losses)**

₹ In Lacs

<b>Exposure Type</b>	<b>Outstanding*</b>	<b>Unrecognized gains/(losses)</b>
Business Loans	40,698.71	-
Wheels Loans	1,585.41	-
<b>Total</b>	<b>42,284.12</b>	<b>-</b>

\*The amount represents the total principal outstanding as on September 30, 2021 for direct assignment sell-down deals.

### **Securitisation exposures retained or purchased**

₹ In Lacs

<b>Exposure Type</b>	<b>On-balance Sheet*</b>	<b>Off-balance sheet</b>	<b>Total</b>
Business Loans	5,146.94	-	5,146.94
Wheels Loans	149.06	-	149.06
<b>Total</b>	<b>5,296.00</b>	<b>-</b>	<b>5,296.00</b>

\*The amount represents the total principal outstanding at September 30, 2021 for direct assignment deals.

### **Risk weight bands break-up of securitisation exposures retained or purchased**

₹ In Lacs

<b>Exposure Type</b>	<b>50% risk weight</b>	<b>75% risk weight</b>	<b>100% risk weight</b>	<b>125% risk weight</b>	<b>150% risk weight</b>	<b>Total</b>
Business Loans	350.64	4,070.84	273.02	383.51	68.93	5,146.94
Wheels Loans	121.93	8.75	9.35	8.03	1.00	149.06
<b>Total</b>	<b>472.57</b>	<b>4,079.59</b>	<b>282.38</b>	<b>391.54</b>	<b>69.93</b>	<b>5,296.00</b>

### Securitisation exposures deducted from capital

₹ In Lacs

Exposure Type	Exposure deducted entirely from Tier-1 capital	Credit enhancing interest-only strips deducted from total capital	Other exposures deducted from total capital
Business Loans	-	-	-
Wheels Loans	-	-	-
Micro-Finance	-	-	-
<b>Total</b>	-	-	-

### Details of securitisation exposures in the Trading Book

#### Aggregate amount of exposure securitised for which the Bank has retained some exposure subject to market risk

₹ In Lacs

Exposure Type	Outstanding*
Business Loans	2,303.93
Wheels Loans	1,34,403.37
<b>Total</b>	<b>1,36,707.30</b>

\*The amount represents the total principal outstanding at September 30, 2021 for securitisation deals in the nature of PTC.

### Securitisation exposures retained or purchased

₹ In Lacs

Exposure Type	On-balance Sheet	Off-balance sheet*	Total
Business Loans	158.88	447.68	606.56
Wheels Loans	8,507.05	23,971.09	32,478.14
<b>Total</b>	<b>8,665.93</b>	<b>24,418.77</b>	<b>33,084.70</b>

\*This represents BG issued to the Bank's as counter guarantee for second loss and liquidity facility in securitisation transactions. Credit enhancement for first loss in form of fixed deposit of ₹ 2,175.63 Lacs and bank Guarantee of ₹ 11,327.81 Lacs is not included.

### Risk weight bands break-up of securitisation exposures retained or purchased

₹ In Lacs

Exposure Type	20% risk weight	30% risk weight	Total
Business Loans	-	158.88	158.88
Wheels Loans	8,505.88	1.17	8,507.05
<b>Total</b>	<b>8,505.88</b>	<b>160.05</b>	<b>8,665.93</b>

100% RWA is applied on Off-balance sheet securitisation exposure.

### Securitisation exposures deducted from capital

₹ In Lacs

Exposure Type	Exposure deducted entirely from Tier-1 capital	Credit enhancing interest-only strips deducted from total capital	Other exposures deducted from total capital
Business Loans	-	-	-
Wheels Loans	-	-	-
<b>Total</b>	-	-	-



### **VIII. MARKET RISK IN TRADING BOOK**

As per RBI communication marked DBR. NBD. No. 4502/16.13.218/2017-18 dated November 8, 2017, the Market Risk is not applicable for Small Finance Banks.

### **IX. OPERATIONAL RISK**

As per RBI communication marked DBR. NBD. No. 4502/16.13.218/2017-18 dated November 8, 2017, the Operational Risk is not applicable for Small Finance Banks.

### **X. INTEREST RATE RISK IN BANKING BOO**

Details of Parallel Rate shock on Earnings and Market value of equity as on September 30, 2021 are given below:

<b>₹ In Lacs</b>		
<b>Interest Rate Risk</b>	<b>+200bps</b>	<b>-200bps</b>
Earnings at Risk (EAR)	2,835.76	(2,835.76)
Impact on Market Value of Equity	(90,698.26)	90,698.26

\*Includes trading book.

### **XI. LEVERAGE RATIO**

Leverage ratio is defined as the capital measure (Tier-1 capital of the risk-based capital framework) divided by the exposure measure, with this ratio expressed as a percentage. As per RBI guidelines, the Basel III leverage for the Bank at the consolidated level as on September 30, 2021 is as follows.

<b>₹ In Lacs</b>	
<b>Leverage Ratio Position as on September 30, 2021</b>	
<b>Particulars</b>	<b>Amount</b>
Tier-1 Capital <sup>1</sup> (A)	5,99,519.85
Exposure measure <sup>2</sup> (B)	55,82,717.68
<b>Leverage ratio<sup>3</sup> (A/B)</b>	<b>10.74%</b>

1. Tier 1 capital at June 30, 2021, March 31, 2021 and December 31, 2020 was ₹ 5,97,535.46 Lacs, ₹ 6,02,436.15 Lacs and ₹ 4,09,802.50 Lacs, respectively.

2. Total exposures at June 30, 2021, March 31, 2021 and December 31, 2020 were ₹ 54,15,246.49 Lacs, ₹ 53,82,399.13 Lacs and ₹ 49,56,687.28 Lacs, respectively.

3. Leverage ratio at June 30, 2021, March 31, 2021 and December 31, 2020 was 11.03%, 11.19% and 8.27%, respectively.

### **Summary comparison of accounting assets and leverage ratio exposure measure**

<b>₹ In Lacs</b>		
<b>S. No.</b>	<b>Particulars</b>	<b>Amount</b>
1	Total consolidated assets as per published financial statements	53,23,589.15
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 recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
4	Adjustments for derivative financial instruments	-
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	-

S. No.	Particulars	Amount
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off- balance sheet exposures)	2,74,842.85
7	Other adjustments	(15,714.32)
<b>8</b>	<b>Leverage ratio exposure</b>	<b>55,82,717.68</b>

### Leverage ratio common disclosure template

₹ In Lacs

S. No.	Leverage ratio framework	Amount
<b>On-balance sheet exposures</b>		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	53,23,589.15
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(15,714.32)
<b>3</b>	<b>Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)</b>	<b>53,07,874.83</b>
<b>Derivative exposures</b>		
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)	-
<b>11</b>	<b>Total derivative exposures (sum of lines 4 to 10)</b>	<b>-</b>
<b>Securities financing transaction exposures</b>		
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	-
<b>16</b>	<b>Total securities financing transaction exposures (sum of lines 12 to 15)</b>	<b>-</b>
<b>Other off-balance sheet exposures</b>		
17	Off-balance sheet exposure at gross notional amount	5,86,679.27
18	(Adjustments for conversion to credit equivalent amounts)	(3,11,836.42)
<b>19</b>	<b>Off-balance sheet items (sum of lines 17 and 18)</b>	<b>2,74,842.85</b>
<b>Capital and total exposures</b>		
<b>20</b>	<b>Tier 1 capital</b>	<b>599,519.85</b>
<b>21</b>	<b>Total exposures (sum of lines 3, 11, 16 and 19)</b>	<b>55,82,717.68</b>
<b>Leverage ratio</b>		
<b>22</b>	<b>Basel III leverage ratio</b>	<b>10.74%</b>

**Reconciliation of total published balance sheet size and on-balance sheet exposure**

₹ In Lacs

S. No.	Particulars	Amount
1	Total consolidated assets as per published financial statements	5,323,589.15
2	Deductions from Tier 1 capital	(15,714.32)
3	<b>On-balance sheet exposure under leverage ratio (excluding derivatives and SFTs)</b>	<b>5,307,874.83</b>