

BASEL II – PILLAR 3 DISCLOSURES AT MARCH 31, 2024

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.

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 Bank 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. The Bank operates a sustainable business model that facilitates credit to the unserved and underserved retail and MSME customer segments while providing complete banking solutions to its deposit and branch banking customers. As a tech-led Bank, AU has a strong digital presence with innovative products and services like 24x7 video banking, credit card, personal loan, UPI QRs, payments, merchant lending, WhatsApp Banking, Chatbot etc. and its digital bank application AU0101 remains among the highest rated banking apps in India. The bank does not have any subsidiary, associate, or joint venture for consolidation purpose.

II. CAPITAL STRUCTURE

As per the RBI capital adequacy norms, bank's regulatory capital is classified into Tier – I and Tier – II capital.

Tier - I capital includes paid up equity share capital, statutory reserves, other disclosed free reserves eligible for inclusion in Tier - I capital that comply with requirement specified by RBI.

Tier - II capital includes general provision, investment fluctuation reserve and subordinate debt instruments (lower Tier – II bonds) eligible for inclusion in Tier – II capital.

The Bank has an authorized capital of ₹ 1,20,000 Lacs in the form of Common Equity Tier - I capital under the guidelines of RBI. The Bank has issued, subscribed and paid-up equity capital of ₹ 66,916.25 Lacs, constituting numbers of shares of ₹10 each.

Bank has Tier - II bonds (subordinated debt) having original maturity between 5 to 15 years.

Main features of capital instruments are detailed in annexure 1

Breakup of capital funds as below.

₹ In Lacs

CAPITAL FUNDS POSITION AS ON MARCH 31, 2024		
S. No.	Particulars	Amount
(A)	Tier I Capital	12,37,991.62
A.1	Paid up equity share capital	66,916.25
A.2	Reserves*	11,71,075.37
(B)	Deductions	40,754.60

CAPITAL FUNDS POSITION AS ON MARCH 31, 2024

S. No.	Particulars	Amount
B.1	Deferred Tax Assets	11,606.76
B.2	Proposed Dividend (Including Tax)	7,426.88
B.3	Securitization exposure including Credit Enhancement	21,720.96
(C)	Net Tier I Capital (A-B)	11,97,237.02
(D)	Tier II Capital	1,01,801.45
D.1	Subordinated Debt	60,000
D.2	General Provision	23,839.93
D.3	Investment Reserve and Investment Fluctuation Reserve	17,961.52
(E)	Deductions	21,720.96
E.1	Securitization exposure including Credit Enhancement	21,720.96
(F)	Net Tier II Capital (D-E)	80,080.48
(G)	Total Capital Funds (C+F)	12,77,317.50

*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 at March 31, 2024	100,000.00
Of which, amount raised during the year	-
Amount eligible to be reckoned as capital funds at March 31, 2024	60,000.00
Total Eligible Amount	60,000.00

Total Eligible Capital Fund as on March 31, 2024
₹ In Lacs

Particulars	Amount
Tier I Capital	11,97,237.02
Tier II Capital	80,080.48
Total Eligible Capital	12,77,317.50

III. CAPITAL ADEQUACY
a. Capital Management
Objective

The Bank actively manages its capital to meet regulatory norms and current and future business needs considering the risks in its businesses, expectation of shareholders and investors, and the available options of raising capital.

Organisational set - up

The capital management framework of the Bank is administered by the Finance & Accounts Department and the Risk Management Department under the supervision of the Board and the Risk Management Committee of the Board.

Internal Assessment of Capital

The Bank's capital management framework includes an Internal Capital Adequacy Assessment Process (ICAAP) which determines the adequate level of capital for the bank to meet the regulatory norms and current and future business needs, Bank also periodically undertakes stress testing to assess the impact on capital and risk weighted under various plausible stressed scenario.

Stress testing which is a key aspect of the ICAAP and the risk management framework provides an insight on the impact of extreme but plausible scenarios on the Banks' risk profile and capital position, the bank conducts stress tests on its various portfolios as prescribe by the RBI and assesses the impact on its capital ratios and the adequacy of capital for current and future periods.

Regulatory Capital

The Bank is subject to the Basel II Capital Adequacy guidelines (NCAF) stipulated by RBI. The Capital Adequacy ratio (CRAR) of the Bank is calculated as per the Standardized approach for Credit Risk.

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 Standardized approach for credit risk and 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 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.

The total Capital Adequacy ratio of the Bank at March 31, 2024 is 20.06% against the regulatory requirement of 15.00% prescribed by RBI.

No Capital Conservation Buffer and Counter - Cyclical Capital Buffer is applicable on Small Finance Bank (SFB) as per operating guidelines issued on SFB by RBI.

Capital adequacy ratio as on March 31, 2024 is as below:

b. Capital Requirement

₹ In Lacs

Capital Requirements for Various Risks		
S. No.	Particulars	Amount
A	Credit Risk	9,55,272.47
A.1	For non-securitised portfolio	9,47,115.36
A.2	For securitised portfolio	8,157.11
B	Market Risk	-
C	Operational Risk	-
D	Total Capital Requirement (A+B+C)	9,55,272.47
E	Total Risk Weighted Assets (Credit)	63,68,483.10
F	Total capital funds of the bank	12,77,317.50

Total and Tier I Capital Ratio

Particulars	Capital Adequacy Ratio
Tier I Ratio	18.80%
Tier II Ratio	1.26%
Total Capital Adequacy Ratio	20.06%

RISK EXPOSURE AND ASSESSMENT

The Bank aims to operate within an effective risk management framework to actively manage all the risks including credit, market, liquidity, operational, legal, compliance and reputation, strategic, technology, interest rate risk in banking book, credit concentration risks etc. faced by the Bank, in a manner consistent with its risk appetite. The objective of the risk management framework of the Bank is to ensure that various risks are understood, measured, and monitored and that the policies and procedures established to address these risks are strictly adhered to.

The key principles underlying the risk management framework at the Bank are as follows:

- i. Promotion of a robust risk culture by ensuring that risks are clearly understood, measurable and manageable.
- ii. Accountability of risk by individual business verticals.
- iii. Senior Management engagement with each business vertical.
- iv. Diversification of risk across business lines, geographies, and customer segments.
- v. Objective matrix helps to gauge the risk and articulate the company's risk appetite. These measures include capital and earnings ratios, market and liquidity risk limits and credit and operational risk targets.
- vi. Risk-taking shall be within a clearly defined risk appetite. The alignment of risk appetite and business strategy would be a combined process between Risk and Business Units¹. Risk-taking units are aware of the risks related to the origination of respective businesses and the risk managing units ensure that adequate processes are implemented to identify, measure, monitor, report and mitigate these risks.
- vii. Risk managers are empowered to take decisions and it is ensured that they escalate issues where appropriate.
- viii. Expertise and independence of Risk managers are ensured.

The Board has the ultimate responsibility for the Bank's risk management framework. The Board is principally responsible for approving the Bank's risk appetite, risk tolerance and related strategies and policies. To ensure that the Bank has a sound system of risk management and internal controls in place, the Board has established the Risk Management Committee of the Board. The 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.

Measurement of Risks for Capital Adequacy Purposes

Risk Profile assessment involves assessing the level and extent of all material risks that the Bank is exposed to. The risk assessment would cover:

Category	Risk	Assessment methodology
Risks captured under Pillar 1 but excluding exempted risks	Credit Risk	The Standardised Approach
Risk types not covered by Pillar 1	Market Risk Operational Risk	Separate capital charge is not prescribed for Small Finance Banks by RBI

¹ Risk units refer to the risk managing units that monitor and manage the risk exposures under the second line of defense, while Business units refer to the risk-taking units that originate the exposures.

IV. CREDIT RISK

The Bank is exposed to credit risk in its lending operations. Credit risk is the risk of loss that may occur from the failure of any counterparty to abide by the terms and conditions of any financial contract with the Bank, principally the failure to make required payments as per the terms and conditions of the contracts.

The Bank's Retail Loan offerings include Wheels Loan, Micro Business Loans, Home Loan etc. The Bank also offers credit facilities to NBFCs, Real Estate Group Funding, Business Banking Loans and Agri Banking Loans as part of Commercial Banking. Bank also offers credit card, personal loan, gold loan and merchant lending.

Policies and Processes

All credit risk related aspects are governed by Board approved Credit Risk Management Policy (CRMP) and Credit Policy. These Policies has been designed to provide a transparent and clear set of guidelines to the Directors, Management and Employees for sanctioning, managing, and monitoring of credit exposures of the Bank. These policies cover all customers and products of the Bank which possess credit risk.

The key principles underlying the Policy framework at the Bank are as follows: -

- i. The Bank constantly reviews and updates the scheme of delegation of powers to accommodate for organizational restructuring, changing regulatory environment, competitive scenario etc. Underwriting authorities are delegated to credit underwriters depending on product, vertical, experience of credit officer. Any exposure greater than specified threshold follows Credit Committee approach.
- ii. New products proposed to be offered by the Bank are approved as per the New Product Approval Policy.
- iii. Credit exposure is always taken on OSUC basis (i.e., Outstanding and Un-Used Commitments). However, in the case of fully drawn term loans, where there is no scope for re-drawl of any portion of the sanctioned limit, the Bank will reckon the outstanding as the exposure.

Credit Risk Assessment Process

Credit Assessment is a process to ascertain the risks associated with the extension of credit facility. Credit risk is a risk related to non-repayment of the credit obtained by the customer. Thus, it is necessary to appraise the credit worthiness of the customer to mitigate the credit risk.

Board approved credit policy and procedures enable the Bank to manage credit risk expansively. A well-defined approval & deviation matrix authorizes personnel in the hierarchy to approve loans categorized on various risk elements.

The relationship managers and other contact point mechanisms ensures compliance and implementation of various policies & processes in the Bank through strong customer centric approach, by understanding about the customer beyond the documents and assessing the customer's willingness to pay, ability to pay, potential to grow and potential risk factors in customer's job industry/business.

Credit Risk Governance Framework

The credit risk governance ensures segregation of duties across the three lines of defence: -

Business and Credit units, which take risk and are responsible for implementing corrective actions to address process and control deficiencies. As the first line of defence, business units retain accountability for managing the credit risks. This responsibility cannot be transferred to the next line of defence.

Credit risk function, that independently manages risk, provides policy guidance, recommendations, risk reporting and analysis is the second line of defence.

Internal Audit unit, which independently assesses the design and operational effectiveness of the entire risk management framework is the third line of defence.

The Credit Risk Governance Framework of AU SFB comprises of the Board of Directors (BOD), Risk Management Committee of the Board (RMCB), Credit Risk & NPA Management Committee (CRNPAC), Chief Risk Officer, Head of Risk Credit, Business Units (BUs) & Internal Audit Department (IAD).

Credit Risk Monitoring Process

For effective monitoring of credit facilities, the Bank has laid down a credit supervision mechanism which includes credit risk monitoring at a portfolio and account level for Business Banking, Agri Banking, Real Estate Group and NBFC, and at a portfolio level for retail loans. Portfolio level monitoring includes concentration risk monitoring such as collateral concentration, borrower concentration, activity-wise concentration, geography-wise concentration & product-wise concentration. Account level monitoring includes monitoring of account conduct and borrower's performance post disbursement.

Effective credit risk monitoring allows for the managing and monitoring of assets in a pro-active manner and mitigates them from turning into NPAs. AU SFB has sufficient expertise for monitoring, tracking and reporting of credit risk and it has invested in developing proper collection methodologies, identifying appropriate people to contain all the material credit risks.

Credit risk monitoring is broadly done at two levels as described in the grid below:

S. No.	Level of Monitoring	Portfolio Applicability
1	Account Level	Business Banking, Agri Banking, Real Estate Group and NBFC
2	Portfolio Level / Program Level	All portfolios

While account-level monitoring aims to identify weak accounts at an incipient stage to facilitate corrective actions, portfolio-level monitoring aims towards managing risk concentrations in the portfolio as well as identifying stress in specific sectors while Program-level monitoring focuses on reviewing aspects and features that are relevant to specific credit programs.

A separate team undertakes review and audits of credit quality and processes across different products.

Reporting and Measurement

The Bank follows the exposure norms stipulated by RBI. However, keeping in view the Bank's credit portfolio, strategy and risk appetite, the Bank may set lower exposure limits than those prescribed by RBI for certain industrial and sectorial segments, after due approval from the Board.

Credit Concentration Risk

Credit risk concentration is defined as any single exposure or group of exposures with the potential to produce losses large enough (relative to the Bank's capital, total assets) to threaten the Bank's health or ability to maintain its core operations. Concentration risk in credit portfolios occurs through an uneven distribution of loans, investments, and other exposures such as activity-wise concentration (depending on the activity performed by the borrower), geographical regions (regional concentration), or across other dimensions. Concentration risk can result in significant losses because these exposures are affected by changes in similar risk factors and any adverse movement in underlying factors would impact a large portfolio. The effective monitoring, measurement, and management of concentration risk by the Bank is, therefore, of fundamental importance.

Definition and Classification of Non-Performing Assets (NPAs)

The Bank classifies its loans and advances into performing and non-performing loans in accordance with, Master Circular - Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances dated April 1, 2023. An NPA is defined as a loan or an advance where: -

- i. Interest and/or installment of principal remain overdue for more than 90 days in respect of a term loan. Any amount due to the bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the Bank. It is further clarified that borrower accounts shall be flagged as overdue by the lending institutions as part of their day-end processes for the due date, irrespective of the time of running such processes.
- ii. The account remains 'out of order' in respect of an overdraft/cash credit facility. An account is treated as 'out of order' if: -
 - a) the outstanding balance remains continuously in excess of the sanctioned limit/drawing power for 90 days or
 - b) where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for 90 days or
 - c) credits in the account are not enough to cover the interest debited during the previous 90 days period or
 - d) drawings have been permitted in the account for a continuous period of 90 days based on drawing power computed on the basis of stock statements that are more than three months old even though the unit may be working, or the borrower's financial position is satisfactory or
 - e) the regular/ad hoc credit limits have not been reviewed/ renewed within 180 days from the due date/date of ad hoc sanction.
- iii. Interest and/or installment of principal in respect of an agricultural loan remains overdue for two crop seasons for short duration crops and one crop season for long duration crops.
- iv. In respect of a securitization transaction undertaken in terms of the RBI guidelines on securitization, the amount of liquidity facility remains outstanding for more than 90 days.
- v. a bill purchased/discounted by the Bank remains overdue for a period of more than 90 days.

Further, NPAs are classified into sub-standard, doubtful and loss assets based on the criteria stipulated by RBI. A sub-standard asset is one, which has remained a NPA for a period less than or equal to twelve months. An asset is classified as doubtful if it has remained in the sub-standard category for more than 12 months. A loss asset is one where loss has been identified by the Bank or internal or external auditors or during RBI inspection, but the amount has not been written off fully.

Further, the account may also be classified as NPA due to DCCO criteria as per para 4.2.15 Projects under implementation of Master circular on IRACP dated April 1, 2023.

Non-Performing Investments (NPI) provision will be governed by RBI Master circular - Classification, Valuation and Operation of Investment Portfolio of Commercial Banks (Directions), 2021.

- (i) An NPI is one where interest/ instalment (including maturity proceeds) is due and remains unpaid for more than 90 days.
- (ii) The above shall apply, mutatis mutandis to preference shares where the fixed dividend is not paid. If the dividend on preference shares (cumulative or non-cumulative) is not declared/paid in any year it shall be treated as due/unpaid in arrears and the date of balance sheet of the issuer for that particular year shall be reckoned as due date for the purpose of asset classification.

- (iii) In the case of equity shares, in the event the investment in the shares of any company is valued at Re.1 per company on account of the non-availability of the latest balance sheet, those equity shares shall be reckoned as NPI.
- (iv) if any credit facility availed by the issuer is NPA in the books of the bank, investment in any of the securities, including preference shares issued by the same issuer shall also be treated as NPI and vice versa.
- (v) In case of conversion of principal and/or interest into equity, debentures, bonds, etc., such instruments shall be treated as NPA ab initio in the same asset classification category as the loan, if the loan's classification is substandard or doubtful on implementation of the restructuring package and provision shall be made as per the norms
- (vi) Government guaranteed investment
- Investment in State Government Guaranteed securities, shall attract prudential norms for identification of NPI and provisioning, when interest/ instalment of principal (including maturity proceeds) or any other amount due to the bank remains unpaid for more than 90 days.
 - Bank's investments in bonds guaranteed by Central Government shall not be classified as NPI until the Central Government has repudiated the guarantee when invoked. However, this exemption from classification as NPI is not for the purpose of recognition of income.

The Bank follows extant RBI guidelines for resolution of stressed assets, including classification and upgradation of restructured loans.

Credit Risk Exposures

Credit risk exposures represents gross credit risk exposures without taking into account the effects of credit risk mitigation i.e., Fixed Deposits and Gold.

Distribution of Exposures

₹ In Lacs		
S. No.	Exposure type	Amount
1	Fund Based	98,73,846.91
2	Non-Fund Based	7,03,306.41
Total		1,05,77,153.32

Geographic Distribution of Exposures

₹ In Lacs		
Exposure Distribution by Geography		
Category	Fund based facilities	Non-Fund based facilities
Domestic	98,73,846.91	7,03,306.41
Overseas	-	-
Total	98,73,846.91	7,03,306.41

Industry Wise Distribution of Gross Credit Exposure

₹ In Lacs

S. No.	Industry Classification	Fund Based	Non-Fund Based
1	Trade	17,48,442.74	31,729.59
2	Credit Card Receivables	16,73,418.03	-
3	Agriculture and Allied Activities	10,26,100.70	28,211.57
4	Transport Operator	6,03,594.46	4,239.05
5	Housing Loans	5,03,317.95	-
6	Advances against Fixed Deposits	4,92,461.27	5,920.34
7	Vehicle/Auto Loans	4,95,908.74	-
8	Commercial Real Estate	4,44,841.55	4,907.22
9	NBFCs	3,77,553.21	3,722.00
10	Tourism, Hotel and Restaurants	1,66,455.29	9.47
11	Electronics & engineering	1,23,345.83	8,829.88
12	Banking	1,27,638.57	9.98
13	Gems and Jewellery	76,442.67	0.50
14	Metal, Iron and Steel	49,324.35	21,585.38
15	Infrastructure	45,761.23	24,630.76
16	Wood & Wood products	58,711.51	828.53
17	Textile	57,311.91	60.82
18	Professional Services	43,045.95	10,657.61
19	Chemical & Chemical products	38,050.82	1,500.64
20	Rubber and plastic products	36,554.75	1,316.26
21	Paper & Paper products	31,982.34	53.20
22	Mining and Quarrying	21,421.27	5,915.95
23	Cement & Cement products	21,953.85	1,569.30
24	Food Processing	22,591.63	-
25	Vehicles, Vehicle Parts and Transport Equipment's	18,342.36	30.50
26	Computer and Related Activities	13,894.80	1,796.53
27	Leather & Leather products	7,346.91	-
28	Post and Telecommunication Services	6,068.50	65.00
29	Glass & Glassware	4,342.89	2.20
30	Beverages and Tobacco	2,869.35	-
31	Education Loans	39.15	-
32	Consumer Durables	0.30	-
33	Services- Other	11,69,007.21	4,78,308.86
34	Industries – Other	54,539.31	11,411.24
35	Retail Loans – Other	3,11,165.51	55,994.02
Total		98,73,846.91	7,03,306.41

As on March 31, 2024, Bank's exposure to the segments stated below was more than 5% of the total Gross credit exposure:

S. No.	Industry Classification	Percentage of total credit exposure
1	Trade	16.83%
2	Credit Card Receivables	15.82%
3	Agriculture and Allied Activities	9.97%
4	Transport Operator	5.75%

Maturity Pattern of Assets

The maturity pattern of assets at March 31, 2024 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	1,11,024.42	9,556.92	7,71,415.94	2,026.20	-	27,209.67	9,21,233.15
2-7 Days	12,481.92	1,34,099.83	1,10,088.37	23,942.24	-	16,649.56	2,97,261.92
8-14 Days	5,714.23	-	22,498.64	75,917.64	-	37,478.85	1,41,609.36
15-30 Days	21,676.46	3.16	95,961.31	65,362.61	-	31,076.67	2,14,080.21
31 to 2 months	20,084.37	100.57	1,59,844.91	1,85,970.50	-	14,278.32	3,80,278.67
More than 2 months and up to 3 months	10,187.05	-	1,04,871.79	2,01,848.45	-	14,906.46	3,31,813.75
Over 3 Months and up to 6 months	32,699.70	-	2,13,847.16	4,41,413.75	-	17,648.64	7,05,609.25
Over 6 Months and up to 1 year	71,913.40	12.84	4,41,211.24	8,39,174.95	-	3,924.40	13,56,236.83
Over 1 Year and up to 3 years	1,71,989.68	100.79	7,40,611.97	32,61,066.56	-	20,299.71	41,94,068.71
Over 3 Years and up to 5 years	2,852.33	17,194.75	31,706.87	11,40,733.20	-	1,109.80	11,93,596.95
Over 5 years	3,177.39	12,763.63	21,278.33	10,78,809.37	85,159.24	5,590.23	12,06,778.19
Total	4,63,800.95	1,73,832.49	27,13,336.53	73,16,265.47	85,159.24	1,90,172.31	1,09,42,566.99

Amount of Non-Performing Advances (NPAs)
₹ In Lacs

NPA Classification		
S. No.	Category	Amount
A	Amount of NPAs (Gross)	123,740.04
A.1	Substandard	84,453.56
A.2	Doubtful1	27,523.37
A.3	Doubtful2	10,364.23
A.4	Doubtful3	888.94
A.5	Loss	509.94
B	Net NPAs	40,098.97
C	Advances	
C.1	Gross Advances	7,399,906.53
C.2	Net Advances	7,316,265.47
C	NPA Ratios	
C.1	Gross NPAs to gross advances (%)	1.67%
C.2	Net NPAs to net advances (%)	0.55%

Movement of NPAs
₹ In Lacs

Particulars	Gross NPA	Net NPA
Opening balance at April 1, 2023	98,131.26	28,615.88*
Additions during the period	169,819.29	73,321.89
Reductions during the period	144,210.51	57,738.80
Closing balance at March 31, 2024	123,740.04	44,198.97

*Includes floating provision of Rs. 4,100.00 lacs

Movement of Provisions for NPAs
₹ In Lacs

Particulars	Amount
Opening balance as on April 1, 2023	69,515.39*
Provision made during the period	96,497.39
Write-off/Loss on sale of repossessed assets during the period	-38,966.67
Write-back of excess provisions during the period	-47,505.04
Closing balance as on March 31, 2024	79,541.07

*Excludes floating provision of Rs. 4,100.00 lacs

Movement of Provisions for Standard Assets
₹ In Lacs

Particulars	Amount
Opening balance as on April 1, 2023	27,096.15
Provision made during the period	22,680.62
Provision reversed during the period	-20,999.43
Closing balance as on March 31, 2024[#]	28,777.34

[#]Excluding contingency provision of Rs 2,117.83 Lacs and Rs 12,572.87 Lacs as at March 31, 2024 and March 31, 2023 respectively, which includes the additional provision for the accounts restructured under RBI Resolution framework

Company does not have any Non – performing Investments as on March 31, 2024.

Movement of Provisions for depreciation on investments

Particulars	₹ In Lacs
	Amount
Opening balance at April 1, 2023	2,005.09
Provision made during the period	3,005.17
Write-off / Write-back of excess provisions during the period	-4,567.32
Closing balance at March 31, 2024	442.94

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

External Ratings

The Bank uses the standardized approach to measure the capital requirements for credit risk. As per the standardized approach, regulatory capital requirements for credit risk on corporate exposures is measured based on external credit ratings assigned by External Credit Assessment Institutions (ECAI) specified by RBI in its guidelines on Basel II. As stipulated by RBI, the risk weights for resident corporate exposures are assessed based on the external ratings assigned by domestic ECAI and the risk weights for non-resident corporate exposures are assessed based on the external ratings assigned by international ECAI. For this purpose, the domestic ECAI specified by RBI were CRISIL Ratings Limited, Credit Analysis & Research Limited (CARE), India Ratings and Research Private Limited (India Ratings), ICRA Limited, Acuite Ratings and Research (formerly known as SME Rating Agency of India Limited), Brickwork Ratings India Private Limited and INFOMERICS Valuation and Rating Pvt Ltd. (IVRPL) and the international ECAI specified by RBI were Standard & Poor’s, Moody’s and Fitch. Further, RBI has issued advisory that no fresh rating/ evaluations shall be obtained from Brickwork Ratings India Pvt Limited with effect from October 6, 2022. The RBI’s Basel II framework stipulates guidelines on the scope and eligibility of application of external ratings. In addition, RBI with its circular on “Review of Prudential Norms – Risk Weights for Exposures to Corporates and NBFCs” dated October 10, 2022, advised that a bank loan rating without lenders details disclosure shall not be eligible for being reckoned for capital computation by banks. The Bank reckons the external rating on the exposure for risk weighting purposes, if the external rating assessment complies with the guidelines stipulated by RBI.

The key aspects of the Bank’s external ratings application framework are as follows: -

- i. The Bank uses only those ratings that have been solicited by the counterparty.
- ii. The risk-weighting of corporate exposures based on the external credit ratings includes the following:
 - a) The Bank reckons external ratings of corporates either at the credit facility level or at the borrower (issuer) level.
 - b) The Bank ensures that the external rating of the facility/borrower has been reviewed at least once by the ECAI during the previous 15 months and is in force on the date of its application.
 - c) When a borrower is assigned a rating that maps to a risk weight of 150%, then this rating is applied on all the unrated facilities of the borrower and risk weighted at 150%.
- iii. The RBI guidelines outline specific conditions for facilities that have multiple ratings. In this context, the lower rating, where there are two ratings and the second-lowest rating where there are three or more ratings are used for a given facility.

Credit Exposures by Risk Weights

At March 31, 2024 the credit exposures subject to the Standardized approach after adjusting for credit risk mitigation i.e. Fixed Deposits and Gold, by risk weights were as follows:

₹ In Lacs

Details of Credit Risk Exposure Based on Risk-Weight		
S. No.	Risk Weight	Total*
1	Below 100% risk weight	7,563,860.41
2	100% risk weight	1,632,471.10
3	More than 100% risk weight	405,162.65
	Total	9,601,494.16

*Credit risk exposures include fund based and non-fund-based exposures after adjusting for credit risk mitigation i.e. Fixed Deposits and Gold.

VI. CREDIT RISK MITIGATION – DISCLOSURE FOR STANDARDISED APPROACH

Collateral Management and Credit Risk Mitigation

Types of Collaterals accepted by AUSFB

The acceptable collateral Should have the following features:

- i. **Specifically, itemized, and identifiable:** The underlying collateral of the credit facility should be clearly identifiable and itemized in the Credit appraisal memo/ valuation report.
- ii. **Lien created:** The Bank should have a security interest or specific lien on the collateral and the requirements of legal certainty should be met.
- iii. **Liquidity:** The collateral should be in a form that can be liquidated in the event of default or bankruptcy of the borrower
- iv. **Repossession:** The Bank should have the legal right to repossess the security in case the borrower defaults and the collateral should be easy to repossess as per the provisions of law.
- v. **Value discoverable in the market:** The collateral should be periodically revalued according to the changing market conditions and therefore the current value of the collateral should be easily discoverable in market.

Policies and Processes for Collateral Valuation and Management

The Bank defines collateral as the assets or rights provided to the Bank by the borrower or a third party in order to secure a credit facility. The Bank's "Policy on Valuation of Assets" include the valuation process of acceptable collateral. The policy covers different aspects of valuation requirement, valuation approach, valuator selection, valuation periodicity etc.

Eligible Financial Collaterals accepted by the Bank:

- i. Cash (including deposits).
- ii. Gold (including bullion and jewellery; the value of said jewellery accepted as collateral shall be arrived at after notionally converting these to 99.99 purity).
- iii. Securities issued by Central & State Governments, Kisan Vikas Patra
- iv. National Savings Certificates

- v. Life Insurance Policies with a declared surrender value of an Insurance Company which is regulated by IRDA.
- vi. Debt securities rated by a chosen Credit rating agency in which the Bank is sufficiently confident about market liquidity.
- vii. Other Corporate Debt Securities of which the Bank is sufficiently confident about market liquidity.
- viii. Units of Mutual Funds, shares, bonds etc.

The credit risk mitigation taken is largely in the form of gold and fixed deposit (lien marked) with the Bank against advances, thus the concentration risk of the mitigants is low.

Exposure cover by Eligible Financial Collateral are as below:

Particulars	₹ In Lacs
Total exposure covered by eligible financial collateral	975,659.17
Total	975,659.17

Portfolio covered by guarantees:

Particulars	₹ In Lacs
Total portfolio covered by guarantees	46,797.45
Total	46,797.45

Eligible non-financial collaterals accepted by the Bank:

- i. Commercial / Residential Real Estate
- ii. Agriculture Land

Other collaterals accepted by the Bank:

- i. Raw materials, stock in trade, produce and other goods
- ii. Book debts/receivables
- iii. Movable assets such as machineries, vehicles, animal husbandry
- iv. Documents of title to goods
- v. Goodwill, brand etc.

No allowance has been made in the computation of capital charge for collateral considered other than eligible as per RBI guidelines.

Collateral Valuation

All collateral (where applicable) is to be valued by either the in-house or empanelled valuer with respect to collateral valuation, the following principles are complied with:

- i. Collateral valuation activity is de-centralised.
- ii. The collateral valuation represents the current fair value under which the collateral could be sold under an arm's length contract on the date of valuation.
- iii. The Bank has not accepted second or lesser priority rights. However, if the collateral is established on a pari-passu charge basis with other parties, the pro-rata part of the value of the collateral to be taken.

- iv. Collateral valuations are updated at a frequency appropriate to the value and nature of the collateral and the ease and costs of valuation as described in "Policy on Valuation of Assets" approved by Board.
- v. The value of the collateral pledged shall not be materially dependent on the performance of the borrower.

Credit Risk Mitigation

The Bank adopts the standardized approach for credit risk mitigation which substitutes the risk weighting of the collateral for the risk weighting of the borrower for the collateralised portion of the exposure subject to the following conditions:

- i. The Bank have the right to liquidate or take legal possession of the collateral, in a timely manner, in the event of default, insolvency or bankruptcy of the borrower.
- ii. The credit quality of the counterparty and the value of the collateral must not have a material positive correlation, for example, securities issued by the borrower.
- iii. Where the collateral is held by a custodian, suitable steps is taken to ensure that the custodian segregates the collateral from its own assets.
- iv. Suitable processes are in place to ensure that any legal conditions required for declaring the default of the borrower and liquidating the collateral are observed.
- v. Cross-collateralization clause applies to all the collateral posted by the borrower. In case of default of one of the credit facilities by the borrower, the Bank must have the legal right to seize any or all assets pledged by the borrower.

Risk Mitigation for Corporate Portfolio

Director identification number (DIN)

The Bank will include DIN in the data submitted to RBI/Credit Information Companies to ensure that none of the Directors of the borrowing company appear on the list of defaulters/wilful defaulters.

Covenants

Depending upon the financial situation of the borrower, the Bank may stipulate some covenants into the loan agreements requiring the borrower to:

- i. Periodically report its financial condition.
- ii. Refrain from paying dividends, repurchasing shares, borrowing further, or other specific, voluntary actions that negatively affect the company's financial position.
- iii. Repay the loan in the full, at the Bank's request, in certain events such as changes in the borrower's debt-to-equity ratio or interest coverage ratio.
- iv. With a view to monitoring the end-use of funds, the Bank may ask the borrowers to present a specific certification from the auditors regarding usage of funds by the borrower under a separate mandate.

Guarantees

The Bank may opt for guarantees that are direct, explicit, irrevocable, and unconditional. This will also provide protection in calculating capital requirements.

Risk Mitigation for Retail Portfolio

Operations / systems

The Bank have in place well defined processes for credit administration, credit risk measurement and monitoring. Credit administration consists of relationship management phase, transaction management phase and portfolio management phase. The Bank has in place systems for monitoring risks for various products and borrower segments which raises an alert whenever the exposure exceeds the substantial exposure levels. The Bank conducts regular studies of the various industries and geographical locations to identify any emerging problems that may result in the inability of borrowers to pay back.

Diversification

The Bank maintains a diversified portfolio of credit facilities granted to borrowers as well as a diversified pool of borrowers. The Bank also observes the prudential exposure norms set by RBI as well as its own internal exposure limits. The Bank will pursue diversification across the following dimensions:

- i. Obligor diversification
- ii. Diversification by tenor of exposure
- iii. Collateral / support diversification

VII. SECURITISATION OF STANDARD ASSETS AND TRANSFER OF LOAN EXPOSURES: DISCLOSURE FOR STANDARDISED APPROACH

Objectives, Roles Played by the Bank and the Risks

Objectives

The Bank's primary objective of securitisation of standard assets and Transfer of Loan Exposures activities is to increase the efficiency of capital and enhance the return on capital employed by diversifying sources of funding at relatively lower cost with better asset liability management.

The Bank undertakes sale transactions through both securitisation of Standard assets and Transfers of Loan Exposures routes and has Board approved policies. However, for purchase transactions, Bank can execute securitization of standard assets only when there is any shortfall in sub-targets of Priority Sector Lending (PSL).

Roles played by the Bank

In securitisation transactions backed by assets either originated by the Bank or third parties, the Bank plays the following major roles:

- i. **Structurer:** structuring appropriately in a form and manner suitably tailored to meet investor requirements, while being compliant with extant regulations.
- ii. **Provider of liquidity facilities:** addressing temporary mismatches on account of the timing differences between the receipt of cash flows from the underlying performing assets and the fulfilment of Originator's enhancement obligations to the beneficiaries.
- iii. **Provider of credit enhancement facilities:** addressing delinquencies associated with the underlying assets, i.e. bridging the gaps arising out of credit considerations between cash flows received/collected from the underlying assets and the fulfilment of repayment obligations to the investors in the capacity of originator.

- iv. **Provider of collection and processing services:** collecting and/or managing receivables from underlying obligors, making payments to investors, reporting the collection efficiency and other performance parameters, and providing other services relating to collections and payments as may be required for the purpose of the transactions.
- v. **Investor:** - The Bank invests in Special purpose entity (SPE) backed by financial assets originated by third parties for the purposes of holding/trading/maximizing yield opportunities and meeting priority sector lending requirements.
- vi. **Assignee:** - The Bank purchases loans through the direct assignment route for purposes of book building, meeting priority sector lending requirements and yield optimisation.

Risks in Securitisation of Standard Assets and Transfer of Loan Exposures

The major risks inherent in the securitised transactions are:

- i. **Credit risk:** Risk arising on account of payment delinquencies from underlying borrowers in the securitised pool.
- ii. **Market risk:** Mark-to-market risks arising on account of interest rate fluctuations.
- iii. **Operational risk:**
 - a) **Co-mingling risk:** Risk arising on account of co-mingling of funds belonging to investor(s) with that of the originator and/or collection and processing servicer. This happens when there exists a time lag between collection of amount due from the obligors and payment made to the investors
 - b) **Performance risk:** Risk arising on account of the inability of a Collection and Processing Agent to collect monies from the underlying obligors as well as operational difficulties in processing the payments.
 - c) **Regulatory and legal risk:** Risk arising on account of
 - non-compliance of the transaction structures with the extant applicable laws which may result in the transaction(s) being rendered invalid;
 - conflict between the provisions of the transaction documents with those of the underlying financial facility agreements; and
 - Non-enforceability of security/claims due to imperfection in execution of the underlying facility agreements with the borrower(s).
- iv. **Reputation risk:** Risk arising on account of
 - a) rating downgrade of a securitised instrument due to unsatisfactory performance of the underlying asset pool; and
 - b) Inappropriate practices followed by the collection and processing agent.

In addition to the above, such assets are exposed to prepayment risks. Prepayment risk arises on account of prepayment of dues by obligors/borrowers in the assigned pool either in part or full. Further, the Bank is not involved in sponsoring off-balance sheet Special purpose entity (SPE).

Processes in Place to Monitor Change in Risks of Securitisation Exposure

The Bank has established appropriate risk management processes to monitor the risks on securitisation of standard assets and Transfer of Loan Exposures, which include:

Monitoring credit risk

The Bank in the capacity of collection and processing agent prepares monthly performance reports which are circulated to investors/ rating agencies. The securitised pools are continuously monitored and those requiring attention are subjected to specific interventions (e.g. focused collection efforts in affected geographies) to improve their performance.

The risk assessment of the pools is done continuously by the rating agencies based on amortisation level, collection efficiency, credit enhancement utilisation levels and credit cover available for balance deal tenor.

Monitoring market risk

The Bank ascertains market value of the securitisation exposures based on extant norms, which is compared with their book value to assess the marked to market impact of these exposures monthly.

Bank's policy governs the use of credit risk mitigation to mitigate the risks retained through securitisation exposures.

Bank's accounting policies for securitisation activities

For assignment transactions done prior to RBI circular no. DBOD. No. BP. BC-103/21.04.177/2011-12 May 07, 2012

In case of assignment of loan assets and related receivables "at par", income will be accounted for by applying the interest rate implicit in such assigned contracts as reduced by Internal Rate of Return (IRR) committed to the purchaser of loan assets.

For transactions done after issuance of RBI circular no. DBOD. No. BP. BC-103/21.04.177/2011-12 May 07, 2012

Gains arising on securitisation of assets will be recognised over the tenure of securities issued by SPV as per guidelines on securitisation of standard assets issued by RBI. Income from excess interest spread will be accounted for net of losses when redeemed in cash. Expenditure in respect of securitisation (except bank guarantee fees for credit enhancement) will be recognised upfront. Bank guarantee fees for credit enhancement will be amortised over the tenure of the agreements. Income arising on direct assignment will be recognised over the tenure of agreement on accrual basis.

The Bank invests in PTCs issued by other SPEs. These are accounted for at the deal value and are classified as investments. The Bank also buys Standard loans (PSL) which are classified as advances. These are carried at acquisition cost unless it is more than the face value, in which case the premium is amortised over the tenor of the loans.

In September 2021, the Reserve Bank of India (RBI), vide its circular no. RBI/DOR/2021-22/85 DOR.STR.REC.53/21.04.177/2021-22, has issued Master Direction (with immediate effect from September 24, 2021), further updated on December 05, 2022 differentiating between Transfer of Loans and Securitisation.

The accounting treatment for realised and unrealised gains, if any, shall be in line with the applicable guidelines and regulations as amended from time to time. However, at the minimum, the Bank would ensure the following:

AU Bank as Originators will sell assets to SPE only on cash basis and the sell consideration should be received not later than the transfer of the asset to the SPE.

Further, there should not be gap of more than 30 days between transfer of the assets and the issuance of securitisation notes.

Rating of securitisation exposures

Ratings obtained from ECRAs stipulated by RBI are used for computing capital requirements for such exposures and based on rating, capital charge is computed.

Details of Securitisation Exposures in the Banking Book

₹ In Lacs

Total exposures securitised by the bank*	31,730.93
---	------------------

*Represents total outstanding principal as on March 31, 2024, 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

Exposure Type	Losses
Business Loans	-
Wheels Loans	-
Total	-

Assets to be securitised within a year as on March 31, 2024

₹ In Lacs

Exposure Type	Amount
Amount of assets intended to be securitized within a year	800,000
Of which amount of assets originated within a year before Securitization	400,000

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

₹ In Lacs

Exposure Type	Amount*	Unrecognized gains/(losses)
Business Loans	30,798.45	-
Wheels Loans	932.48	-
Total	31,730.93	-

*The amount represents the total principal outstanding as on March 31, 2024 for direct assignment sell-down deals.

Securitisation exposures retained or purchased

₹ In Lacs

Exposure Type	On-balance Sheet*	Off-balance sheet	Total
Business Loans	3,276.04	-	3,276.04
Wheels Loans	81.70	-	81.70
Total	3,357.74	-	3,357.74

*The amount represents the total principal outstanding at March 31, 2024 for direct assignment deals.

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

₹ In Lacs

Exposure Type	35% risk weight	50% risk weight	75% risk weight	100% risk weight	125% risk weight	Total
Business Loans	1602.27	281.46	1,196.50	14.80	181.01	3,276.04
Wheels Loans	0	81.64	0.01	0.05	-	81.70
Total	1,602.27	363.10	1,196.51	14.85	181.01	3,357.74
Total capital charge	84.12	1.42	136.15	1.67	33.94	257.29

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	-	-	-
Total	-	-	-

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	Amount*
Business Loans	150,928.69
Wheels Loans	625,001.05
Total	775,929.74

*The amount represents the total principal outstanding at March 31, 2024 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	10,504.38	6,866.80	17,371.19
Wheels Loans	39,686.48	29,517.00	69,203.47
Total	50,190.86	36,383.80	86,574.66

*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 ₹ 15,834.83 Lacs and bank Guarantee of ₹ 27,607.10 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	50% risk weight	Total
Business Loans	318.17	10,186.21	-	10,504.38
Wheels Loans	29,031.57	10,654.91	-	39,686.48
Total	29,349.74	20,841.12	-	50,190.86
Total capital charge	1,025.56	1,189.42	-	2,214.98

100% RWA is applied on Off-balance sheet securitisation exposure and capital charge thereon ₹ 5519.74.

Securitisation exposures deducted from capital

₹ In Lacs

Exposure Type	Exposure deducted entirely from Tier-I capital	Credit enhancing interest-only strips deducted from total capital	Other exposures deducted from total capital
Business Loans	-	-	-
Wheels Loans	-	-	-
Total	-	-	-

VIII. MARKET RISK IN TRADING BOOK

Market Risk Management Objectives

Bank's main objectives in managing Market Risk are,

- To ensure that a transparent and consistent methodology for measuring market risk is implemented across the SFB (e.g. Stress Testing, modified duration, PV01, Stop Loss etc.).
- To comply with Board approved internal limits and with regulatory requirements.
- Proper classification and valuation of Investments as per FIMMDA guidelines.
- To specify the quantitative and qualitative criteria, which the SFB intends to use while implementing any market risk measurement methodology & models.
- To have an integrated risk measurement framework that captures all components of market risks. This ensures that for a given risk factor category (interest rates, credit spreads, equity prices, foreign exchange risk etc.); the risk must be measured using a single approach for that risk category.
- Risk Measurement will be undertaken both, at individual asset level as well as at portfolio level. The portfolio risk assessment gives understanding for diversified as well as un-diversified risks.

Market Risk Management Policies

Market Risk is the possibility of loss arising from changes in the value of a financial instrument due to changes in the market variables. The main sources of Market Risk due to Bank's investments are,

- Interest Rate Risk:** The risk that changes in market interest rates may adversely affect the SFB's financial condition. This will affect the SFB's Net Interest Income (NII) as well as the value of investments.
- Credit Spread Risk:** The risk that the SFB may suffer losses as result of adverse credit spread movement in its investment (corporate bonds, subordinate debt, Pass Through Certificate (PTC) etc.).
- Price Risk:** The risk that the SFB may suffer losses due to adverse movements in prices of the mutual funds/equities held in its portfolio.
- Foreign Exchange Risk:** The risk that the SFB may suffer losses due adverse movement in Foreign currencies price and as result may impact the Bank's outstanding open position.

Bank is investing in various financial instruments issued by Central and State govt. mainly to maintain its SLR/LCR requirements as prescribed by RBI for Scheduled Commercial Banks and to some extent for trading activities. In addition to that, Bank invests in various N-SLR instruments in form of Certificate of Deposits (CD), Commercial Papers (CP), Non-Convertible Debentures (NCD), Corporate Bonds, Equity IPO and Private Placement, Liquid debt Mutual Fund Units to earn optimal return with minimal risk. Further Bank is occasionally selling NPA assets from its Balance Sheet to some Asset Reconstruction Companies (ARC) to receive Security Receipts (SR) which is valued as per latest NAV. Bank also engaged in investment in priority PTC along with issuance of PTC to various investors in terms of securitization transaction within RBI guidelines. To comply with the regulator's guidelines, it has maintained Minimum Retention Requirement (MRR) in the form of investments. The MRR portion of the securitization issued is valued as per FIMMDA/FBIL guidelines and Bank's investments and forex segment are monitored as per internal Board approved policies i.e. 1) Treasury Investment Policy 2) Market Risk & ALM Policy 3) Transfer of Loan Exposure 4) Securitization of Standard Assets 5) Counterparty Bank Risk Management Policy (CRMP) 6) Forex policy. The policies ensure that the Bank's Investment is in accordance with Bank's risk appetite, acceptable business standards and fully complied with regulatory guidelines. Treasury Investment exposure including NSLR investments are presented before competent committee/Board to get reviewed periodically.

Strategies and Processes

To run its Treasury business activities effectively as described here under, Bank has defined its Internal Control System and Limit Governance Structure to be guided with and adherence to the following:

Internal Control System

- i. Internal checks and procedures as explained in operating manual and Board Approved Policies.
- ii. Concurrent audit and review of Investment & FX transactions.
- iii. Management Information Systems and Exception Reporting.
- iv. Guidelines laid down by RBI/FIMMDA/FBIL/FEDAI/SEBI, Board/RMCB, ALCO and Investment Committee (IC).
- v. Code of conduct as prescribed by FIMMDA/FEDAI for dealers.
- vi. Powers delegated to functionaries.
- vii. Limits as specified by RBI and defined internally.
- viii. Deals/Transaction with the approved counterparties for investments/lending as per the SFB's defined KYC Policy.
- ix. Broker Empanelment note having approved broker list along with brokerage structure.

Limit Governance Structure

- i. **New Limit Proposal:** Treasury shall place a proposal incorporating the investment limits before IC. The proposal shall be vetted by Market Risk and to ensure compliance with Investment policy and RBI regulations.
- ii. **Limit approval procedure:** The limit proposal shall be put across by IC to the Board, which shall be the approving authority. The new limit shall become part of the Policy post Board approval.
- iii. **Modification procedure:** A modification process for change in limits may be initiated by the Market risk & TMO in conjunction with Treasury Business (TFO/DCM/FIG) to put across by IC to the Board, which shall be the approving authority.
- iv. **Monitoring and notification procedure:** The Market risk & TMO shall have the responsibility of monitoring the investment limits utilization by Front office on a daily basis. This team shall report the limit utilization levels to the senior management and other relevant recipients.

- v. **Breach Notification:** In addition to the limits mentioned above, Market Risk also established Management Alert Triggers (MAT) to notify IC the early warning indicator prior to approaching stop loss limit for management decision either to cut down or continue the investment exposure. The total breaches in a quarter shall be collated by the Market risk & TMO along with the reasons for the breach and action taken which shall be reported to IC and further reported to the board for status notification and approval.
- vi. **Limit Review Frequency:** All the limits shall be reviewed on annual basis (or earlier if required) and changes shall be proposed through the IC to the Board for approval

Structure and organization of the market risk management function

The Market Risk management is an independent function which reports to CRO and the CRO is directly reporting to MD & CEO of the Bank. There is a clear functional separation in Treasury between Front office, Mid office and Back-office activities.

The scope and nature of risk reporting and/or measurement systems

Bank has defined in its internal Board approved policies i.e. Treasury Investment policy, Counterparty Risk Management Policy (CRMP), Forex policy, Counter risk policy and Market Risk & ALM policy about approach to risk reporting and measurement system. Market Risk & TMO group is measuring the outstanding Investment exposures and FX position, computes the associated Risk factors, conducts Stress testing and reports regularly to various stakeholders including the senior management of the Bank.

Policies for hedging and/or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/ mitigates.

Complied with the prudential guidelines for Small Finance Bank (SFB), Bank formulate the Forex policy contains the various limits such NOOP Limit, Individual gap limit (IGL), Aggregate gap limit (AGL), Peak day limit, Counterparty limit, VaR, Rate scan, Stop loss limit, Deal size limit, Country Risk Limit etc. Policies also guided the approval matrix in case of breaches and reportings.

IX. OPERATIONAL RISK

Operation Risk Management

Operational risk has been defined by the Basel Committee on Banking Supervision as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The purpose of creating an Operational Risk Management Framework is to identify, assess, measure, monitor, manage and report Operational Risk in a consistent fashion and on a timely basis. Major emphasis is at aligning the business control environment with the bank strategy by measuring and mitigating risk exposure contributing to optimum return for stakeholders.

The bank has in place a board approved Operational Risk Management Policy to ensure following in the Bank:

- i. Develop a common understanding of Operational Risks across the Bank, to assess exposure with respect to Operational Risks and take appropriate actions to mitigate the risk.
- ii. Develop and strengthen the internal control environment throughout the Bank thereby reducing the probability and potential impact of Operational Risk losses by formulation and adoption of various risk identification and management frameworks.
- iii. Assign clear accountability and responsibility for management and mitigation of Operational Risk.
- iv. Computation and management of adequate capital as per regulatory guidelines.
- v. Assist Business and operations in process improvements thereby reducing potential operational losses

The Bank has put in place a robust governance and organizational structure that specifies roles and responsibilities of senior management and other stakeholders towards Operational risk management. Bank has duly formed Operational Risk Management Committee (ORMC) which reports to Risk Management Committee (RMC) of the Board, is responsible for the management and mitigation of operational risk in the bank. The bank has framed Operational Risk Management Policy duly approved by the Board. This policy provides detailed framework for operational risk management process.

Strategies and Process for Mitigation of Operational Risk

The Bank acknowledges that Operational Risk exposure occurs during the normal conduct of business activities. To meet such unforeseen and unavoidable losses, the bank has a robust set of assessment tools and framework to identify, measure, monitor and mitigate the risk associated with the banking business as listed below:

- i. The Bank along with identification and assessments for Operational Risks during introduction of new products / process /activities or systems, would primarily focus on the Risk and Control Self-Assessment (RCSA) to identify, evaluate, monitor and mitigate key operational Risks within the Bank.
- ii. Implementation of OR Framework for on-going monitoring of risks through Key Risk Indicators (KRIs), RCSA, incident management.
- iii. The Bank has institutionalized a Product Approval Committee (PAC) to act as a central forum for approval of new products, including any modifications thereto. PAC assesses the proposed product offering from operational perspective, examines the feasibility of the system requirements for supporting the product and ensures that adequate risk mitigation measures, have been taken care of in detail and documented.
- iv. The Bank has board approved Business continuity management policy to respond to a significant business disruption by safeguarding employee's life, bank's property, quickly recovering and resuming operations, protecting Bank's records, and allowing customers to transact business with no hindrance. Creating and maintaining a BCP help bank to ensure that the bank has the resources and information needed to deal in crisis event.
- v. The bank has board approved outsourcing policy which specifies roles and responsibilities of outsourcing committee.

Operational risk losses and incident are submitted to the ORMC. Operational Risk Incident reporting including a detailed risk analysis for material incidents for strengthening controls through loss and near miss data. Incident reporting is used to capture operational risk incidents in a systematic manner. This is followed by a Root Cause Analysis (RCA) of each reported incident and to book losses on identified operational risk events

X. INTEREST RATE RISK IN BANKING BOOK

Interest rate risk in Banking Book (IRRBB) is defined as an adverse impact on financials of Bank, due to change in the interest rates. As Financial Intermediary, Interest Rate Risk is an inherent part of the Banking Business. Mismanagement of IRR poses a significant threat to Bank's earnings and Capital. Impact of change in interest rates would be on Net Interest Income ('NII') on immediate term and would be on the Bank's Capital in long term as the economic value of the assets, liabilities and off-balance sheet positions get affected due to variation in market interest rates.

The ALCO of Bank is guiding body for management of IRRBB, sets the overall framework and risk limits with approval of Board. Treasury is entrusted with the responsibility of IRRBB and works out appropriate strategies in consultation with ALCO to mitigate the interest rate risk. ALM Risk unit, which is a part of risk management independently measures, monitors & report the interest rate risk as defined by policy.

Bucketing of non-maturing deposits is based on behavioural study for identification of core and non-core components. Behavioural Study and bucketing of core and non-core portion of non-maturing deposits and

foreclosure percentages are laid out in ALM policy. The finding of various IRRBB measures are submitted to the ALCO, the committee for providing strategic guidance and direction for the ALM measures. Non-rate sensitive liabilities and assets primarily comprise of capital, reserves and surplus, other liabilities, cash and balances with RBI, current account balances with banks, fixed assets and other assets.

Earning at Risk (Ear) is a short-term interest rate risk measure which assesses the change in NII by estimating the impact on interest income from rate sensitive assets and interest expense on rate sensitive liabilities including off-balance sheet items. Market Value of Equity (MVE), which is a long-term risk measure to assess the change in value of equity due to change in economic value of asset and liabilities by using Duration Gap Approach.

Bank uses below approaches to compute the impact of change in interest rate as per regulatory/internal guidelines:

- i. IRST (Traditional Gap Approach) - To computed Earnings at Risk (Ear) i.e., to assess impact on NII.
- ii. IRSD (Duration Gap Approach) – To compute impact on Bank’s Market Value of Equity (MVE), due to change in economic value of Asset & Liabilities.

Details of Parallel Rate shock on Earnings and Market value of equity as on March 31, 2024 are given below:

₹ In Lacs		
Interest Rate Risk	+ 200bps	-200bps
Earnings at Risk (EAR)	25,292	-25,292
Impact on Market Value of Equity	-123,368	123,368

*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 March 31, 2024 is as follows.

₹ In Lacs	
Leverage Ratio Position as on March 31, 2024	
Particulars	Amount
Tier-1 Capital ¹ (A)	1,197,237.02
Exposure measure ² (B)	11,649,043.17
Leverage ratio³ (A/B)	10.28%

1. Tier 1 capital at June 30, 2023, September 30, 2023 and December 31, 2023 was ₹ 10,58,319.70 Lacs, ₹ 11,38,718.49 Lacs and ₹ 11,32,180.06 Lacs, respectively.

2. Total exposures at June 30, 2023, September 30, 2023 and December 31, 2023 were ₹ 98,88,990.16 Lacs, ₹ 1,01,55,520.45 Lacs and ₹ 1,07,31,199.85 Lacs, respectively.

3. Leverage ratio at June 30, 2023, September 30, 2023 and December 31, 2023 was 10.70%, 11.21% and 10.55%, respectively.

Summary comparison of accounting assets and leverage ratio exposure measure

₹ In Lacs

S. No.	Particulars	Amount
1	Total consolidated assets as per published financial statements	10,942,566.99
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)	-
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off- balance sheet exposures)	726,000.36
7	Other adjustments	-19,524.18
8	Leverage ratio exposure	11,649,043.17

Leverage ratio common disclosure template

₹ In Lacs

S. No.	Leverage ratio framework	Amount
On-balance sheet exposures		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	10,942,566.99
2	(Asset amounts deducted in determining Basel II Tier 1 capital)	-19,524.18
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	10,923,042.81
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	-
5	Add-on amounts for PFE associated with all derivatives transactions	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	Total derivative exposures (sum of lines 4 to 10)	-
Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	CCR exposure for SFT assets	-
15	Agent transaction exposures	-
16	Total securities financing transaction exposures (sum of lines 12 to 15)	-

S. No.	Leverage ratio framework	Amount
Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	3,307,814.15
18	(Adjustments for conversion to credit equivalent amounts)	-2,581,813.79
19	Off-balance sheet items (sum of lines 17 and 18)	726,000.36
Capital and total exposures		
20	Tier 1 capital	1,197,237.02
21	Total exposures (sum of lines 3, 11, 16 and 19)	11,649,043.17
Leverage ratio		
22	Basel III leverage ratio	10.28%

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	10,942,566.99
2	Deductions from Tier 1 capital	-19,524.18
3	On-balance sheet exposure under leverage ratio (excluding derivatives and SFTs)	10,923,042.81

Annexure -1

Main features of capital instruments

S. No.	Particulars	Equity
1	Issuer	AU Small Finance Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	INE949L01017
3	Governing law(s) of the instrument	Indian Laws
Regulatory treatment		
4	Transitional Basel III rules	-
5	Post-transitional Basel III rules	-
6	Eligible at solo/ group/ group & solo	Solo
7	Instrument type	Common Shares
8	Amount recognised in regulatory capital (₹ as March 31, 2024)	66,916.25 Lacs
9	Par value of instrument	₹10 per share
10	Accounting classification	Shareholder's Equity
11	Original date of issuance	Various
12	Perpetual or dated	Perpetual
13	Original maturity date	No Maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable	NA
Coupons / dividends		
17	Fixed or floating dividend/coupon	NA
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	NA
24	If convertible, conversion trigger (s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	No
31	If write-down, write-down trigger(s)	NA
32	If write-down, full or partial	NA
33	If write-down, permanent or temporary	NA
34	If temporary write-down, description of write-up mechanism	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Perpetual Debt Instruments
36	Non-compliant transitioned features	-
37	If yes, specify non-compliant features	-

Sr. No.	Particular	INE949L08418 - Sub-Ord NCD - 500 Cr. -30-11-18	INE949L08442 - Sub-Ord NCD - 350 Cr. - 9.30 PC -03-08-22	INE949L08434 - Sub-Ord NCD - 100 Cr. - 9.30 PC -03-08-22	INE949L08426 - Sub-Ord NCD - 50 Cr. - 9.30 PC - 03-08-22
1	Issuer	AU Small Finance Bank Limited	AU Small Finance Bank Limited	AU Small Finance Bank Limited	AU Small Finance Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	INE949L08418	INE949L08442	INE949L08434	INE949L08426
3	Governing law(s) of the instrument	Indian Laws	Indian Laws	Indian Laws	Indian Laws
Regulatory treatment					
4	Transitional Basel III rules	-	-	-	-
5	Post-transitional Basel III rules	-	-	-	-
6	Eligible at solo/ group/ group & solo	Solo	Solo	Solo	Solo
7	Instrument type	Tier II Debt Instruments	Tier II Debt Instruments	Tier II Debt Instruments	Tier II Debt Instruments
8	Amount recognised in regulatory capital (₹ as March 31 2024)	10,000 Lacs	35,000 Lacs	10,000 Lacs	5,000 Lacs
9	Par value of instrument	50,000 Lacs	35,000 Lacs	10,000 Lacs	5,000 Lacs
10	Accounting classification	Borrowings	Borrowings	Borrowings	Borrowings
11	Original date of issuance	30-Nov-18	03-Aug-22	03-Aug-22	03-Aug-22
12	Perpetual or dated	Dated	Dated	Dated	Dated
13	Original maturity date	30-May-25	03-Aug-32	13-Aug-32	23-Aug-32
14	Issuer call subject to prior supervisory approval	NA	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	NA	NA	NA	NA
16	Subsequent call dates, if applicable	NA	NA	NA	NA
Coupons / dividends					
17	Fixed or floating dividend/coupon	Fixed	Fixed	Fixed	Fixed
18	Coupon rate and any related index	10.90%	9.30%	9.30%	9.30%
19	Existence of a dividend stopper	No	No	No	No
20	Fully discretionary, partially discretionary or mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	NA	NA	NA	NA
22	Noncumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	NA	NA	NA	NA
25	If convertible, fully or partially	NA	NA	NA	NA
26	If convertible, conversion rate	NA	NA	NA	NA
27	If convertible, mandatory or optional conversion	NA	NA	NA	NA
28	If convertible, specify instrument type convertible into	NA	NA	NA	NA
29	If convertible, specify issuer of instrument it converts into	NA	NA	NA	NA
30	Write-down feature	No	Yes	Yes	Yes
31	If write-down, write-down trigger(s)	NA	Loss Absorption at the Point of non-Viability	Loss Absorption at the Point of Non-Viability	Loss Absorption at the Point of Non-Viability
32	If write-down, full or partial	NA	Fully or partially	Fully or Partially	Fully or Partially
33	If write-down, permanent or temporary	NA	Permanent	Permanent	Permanent

Sr. No.	Particular	INE949L084 18 - Sub-Ord NCD - 500 Cr. -30-11-18	INE949L084 42 - Sub-Ord NCD - 350 Cr. - 9.30 PC -03-08-22	INE949L084 34 - Sub-Ord NCD - 100 Cr. - 9.30 PC -03-08-22	INE949L084 26 - Sub-Ord NCD - 50 Cr. - 9.30 PC - 03-08-22
34	If temporary write-down, description of write-up mechanism	NA	NA	NA	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	All other depositors and creditors of the Bank	All other depositors and creditors of the Bank	All other depositors and creditors of the Bank	All other depositors and creditors of the Bank
36	Non-compliant transitioned features	-	-	-	-
37	If yes, specify non-compliant features	-	-	-	-